China - Farmers Professional Associations

Review and Policy Recommendations

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Acronyms and Abbreviations

ACFSMC  All China Federation of Supply and Marketing Cooperatives
CAU     China Agriculture University
CAUMBA  China Agriculture University MBA Center
CIDA    Canadian International Development Agency
CSO     Civil Society Organization
DRC     Development Research Center of the State Council
ESSDTF  Trust Fund for Environmentally and Socially Sustainable Development
FCEO    Farmers’ Cooperative Economic Organizations
FPA     Farmer Professional Association
FPC     Farmer Professional Cooperative
ICT     Information and Communication Technology
ICCIC   Inter. Committee for the Promotion of Chinese Industrial Cooperatives
IRE     Institute of Rural Economy
LE      Leading Enterprises
NGO     Non-governmental Organization
NPC     National People’s Congress
MOA     Ministry of Agriculture
RCC     Rural Credit Cooperative
SASS    Sichuan Academy of Social Sciences
SMC     Supply and Marketing Cooperative
SWOT    Strengths, Weaknesses, Opportunities, Threats
TVE     Township and Village Enterprise
WUA     Water User Association

Chinese Terms Used

hezuoshe            cooperative
nongcun zhuanye jishu xiehui rural specialized technical associations
nongmin hezuo xiehui farmers cooperative associations
zhuanye yanjiuhui    specialized research associations
nongmin xiehui       farmer association
nongmin zuzhi        farmer organization
nongmin zhuanye hezuoshe farmer professional cooperative
xiehui               association
zhuanye             ‘professional’ or ‘specialized’
Executive Summary

This report is the culmination of a series of research, piloting activities and policy discussions on the development of farmer professional associations (FPAs). Its objective is to synthesize information and experience on the development, operation and support of FPAs, and to present policy recommendations on ways in which effective farmer associations in China can be better supported and developed.

There is a strong rationale for the development of FPAs in China and it is further gaining momentum. China's accession to the WTO, the restructuring and marketization of the economy in general and agriculture in particular, changing consumer demands due to increasing incomes in urban areas, and a shift to integrated market chains are all forces driving a rapid and profound change of the agricultural sector. The opportunities for China’s agriculture and its rural areas to make use of this new environment are substantial. However, enormous challenges exist for the hundred millions of small-scale farming households to effectively participate in, and benefit from these transformations.

Farmers taking collective action to form their own groups or associations that assist them in meeting these challenges are closely associated with the spreading of commercial agriculture in market economies. In fact, the vast majority of farmers around the World are organized in farmer cooperatives or other forms of farmer associations, with substantial benefits for the farmers themselves. However, although China's transition to a market economy is approaching a more mature stage, the development of FPAs is still in its infancy. In 2003 only about 7 percent of villages in China had functioning FPAs and only about 2 percent of farmers in China were members of such FPAs.

The Government has recognized farmer organizations as a key to improve the efficiency of markets and at the same time address the growing disparities between rural and urban incomes. It has provided support ranging from new policies and regulations to direct assistance in the form of training or even financial aid. Agro-enterprises view farmer organizations as a way to ensure efficient functioning of supply chains and provide assurances of product safety and quality. In this changing policy and market environment, many FPAs have been formed over the last few years. Farmers recognize the need to work collectively in order to provide (small-scale) agricultural producers with services of quality and at cost for which the private sector or the government are unable to deliver and are not well positioned to deliver. Some of the key economic reasons for collective action of farmers include: (i) access to markets when contract sizes are larger than what individual producers can supply; (ii) economies in input purchase; (iii) the ability to get better attention from/access to public or non-public services; (iv) lumpiness in investments which result in economies at a larger scale than an individual producer can manage.

While the primary benefits of FPAs attribute to farmer members, the operation of FPAs also generates substantial direct benefits for the efficiency and effectiveness of the Government itself. For example, through better organization, farmers as the main stakeholders of many Government activities can have an effective participation. Moreover, FPAs can be contracted by the Government as cost-effective service providers of public goods and services such as new technologies, training, or TA.

The further and sustainable development of FPAs still faces substantial problems and the key to success is to empower farmers to help themselves, including them establishing farmer organizations for this purpose. For the Government this means to find its appropriate role in what is essentially a private activity. Most importantly, the government is faced with the challenge of creating a legal,
regulatory and policy framework to ensure that the objectives of the different stakeholders can be met while protecting the interests of producers, consumers and investors. Moreover, direct support from the Government needs to be designed so that it is conducive to the self-help principle of FPAs. With little thought quickly growing domestic co-operative experiences and theory to review, international practices can provide guidance for formulating laws and policies for farmer organizations. Likewise, farmer associations themselves have much that can be learned from international experience, particularly about how to ensure their own sustainable operations using experiences on group formation and fundamental cooperative principles and how to promote organizational discipline, rather than act as an indirect arm of government or agribusiness. The report makes the following key recommendations:

**Promulgation of appropriate law and regulations.** The development of farmer associations to date has taken place in a legal vacuum, with no adequate laws to rule their formation, protect the interests of their members or govern the relationship between farmer associations and other entities in the marketplace. The new law on ‘Farmers’ Cooperative Economic Organizations’ being drafted by the National People’s Congress will likely be the most important single factor for the sustained success of FPAs in China. Once promulgated, a strong information campaign and training and capacity program for the public and relevant Government staff is needed to ensure correct understanding and effective enforcement of the law.

**Establishing and coordinating policies.** There is a need to increase the consistency of policies towards farmer organizations across agencies and different levels of Government. Policy pronouncements from the highest levels of government supporting the development of farmer organizations have been made with increasing frequency and in increasingly stronger terms in recent years and this is likely a key factor for the increase in FPAs. However, there is still confusion of responsibilities between line agencies, and local Governments do not have a consistent understanding of the national policies. A better definition of the mandates of various agencies within the Government is desirable, and more ‘actionable’ policies should be developed.

**Awareness raising and dissemination of knowledge and information.** There is a need to promote a common understanding of farmer associations and farmer cooperatives, e.g. how they can be defined, how they should operate, how they are formed and governed, and what they can be expected to achieve or not to achieve. Obviously, this is closely related to ensuring that national laws and policies are well implemented. Today, misconceptions among farmers, FPAs, enterprises, local governments and other stakeholders abound, largely due to the historical legacy of collective agriculture, and stand in the way of promoting effective and sustainable types of cooperative (self-help) organizations.

**Fostering a business-friendly environment.** FPAs will thrive in an environment in which small and medium enterprises and other private business also thrive, i.e. one of business-friendly regulation, rule of law, and adequate infrastructure. Judicial reforms should be further strengthened. China should continue its increased emphasis on rural infrastructure and the new strategy of building a ‘New Socialist Countryside’ is a clear indication that doing so. Roads and ICT are important services for commercial activities in rural areas. Careful monitoring and evaluation of the rural business climate, e.g. through ‘rural investment climate surveys’ can help in identifying obstacles to the development of FPAs and other business alike and assist in the planning of infrastructure investments.

**Restricting subsidies and direct financial support to FPA.** Access to finance has been identified as one of the main constraints to the development of farmer associations. This
problem should be addressed through the provision of a conducive legal framework that will allow FPAs to raise capital, with its own members as the principle source. Legal status will also allow FPAs to access credit from financial institutions. Deepening financial sector reforms in rural areas should mitigate constraints in the supply of credit. The Government should be careful about encouraging the wide use of direct financial support such as grants, subsidized interest rates or special tax and fee concessions to support FPAs. Such subsidies have widely proven to have a deleterious effect on the development of healthy, independent and sustainable farmer organizations. If direct support is given, international experience indicates that it should target activities that are directly related to the co-operative nature of FPAs such as assistance in the dissemination of information and training on FPA management or support for business feasibility studies for start-up groups. Any financial support should be given in a transparent way and closely monitored.

Creating support structures. While direct financial support is not the most effective use of public resources and, if wrongly applied undermines the development of FPAs, there are many areas in which the Government can help FPAs through active interventions. In addition to the awareness-raising discussed above, this includes in particular training – to farmers, FPAs and local Government officials; business-services; applied research; and technical assistance, e.g. through so-called ‘promoters’ or ‘facilitators’. While the Government might partly finance these activities, a diversity of delivery mechanisms should be developed, including research institutes, private businesses, local consultants, NGOs, and existing FPAs themselves. Although the current capacity of such entities to provide support for FPAs is limited, Government support should be used in such a way as to develop that capacity over the longer term. The responsible Government entity should focus on building a strong monitoring and evaluation system and hold service providers accountable to the services they deliver. Various delivery modes such as those through vouchers can be tested to maximize the demand-responsiveness and usefulness of the services to the clients, i.e. farmers and FPAs.

Encouraging and enabling the development of organizations owned and controlled by farmers themselves. Organizations aimed at promoting the interests of farmers will be most effective when all members share common interests and aspirations, and if they come together to solve problems faced in common. When organizations are made up of members with widely disparate or even conflicting interests the purpose and focus of the organizations becomes blurred, the weaker members of the organization fail to gain their equitable share of the benefits, and the organizations become unsustainable. The development of farmer-owned and -controlled organizations might first begin within small localities but can eventually lead to federations of organizations to promote the interests of members on a larger scale and at higher levels. However, such federations should be allowed to develop bottom-up, in response to the needs of the organizations and their membership, rather than be imposed from top down.

Making FPA development inclusive, but realizing limitations in the participation of the absolute poor. The membership in FPAs can provide benefits to small-holder farmers, one of the poorest groups in China. If the primary objective of FPAs is seen as providing a means for enabling farmers to help themselves rather than for achieving objectives of agricultural restructuring, their development will help the many small-scale farmers and have a mitigating impact on the increasing disparities between small-scale farmers and other groups of the society. In its information campaign, training, technical assistance and other support activities, the Government should pay particular attention to include the poorest areas and farmers. The very nature of the organization empowers rural poor and their communities. At the same time, one has to be realistic that FPAs with a focus on commercial activities thrive best where other
businesses thrive as well, i.e. in an environment with good infrastructure and well-educated, sophisticated and ‘non-subsistence’ farmers.

**Emphasizing the gender aspect of FPA development.** The more active involvement of women is possibly one of the biggest and largely untapped potentials of FPA development. Women are very actively involved in agricultural activities and provide the majority of labor, especially in high-value production for markets such as livestock or horticultural products. Gender-sensitive policies and intervention have proven to be effective in China and around the World. The Government has many instruments to promote the involvement of women farmers in the development of FPAs, including awareness-raising; the targeting of women farmers for specific policies; the use of women trainers and promoters; the development of training material relevant for women; the inclusion of gender issues into research, monitoring, and other interventions supported by the Government.

To fully implement a strategy for the development of FPAs as outlined above throughout China is challenging. The main actors are farmers, located across a vast area and found in a tremendous diversity of socio-economic circumstances, with different levels of education and skills, different resource endowments and different opportunities available to them. The implementation of policy is also complicated by the fact that China's farmers are separated from the decision makers at the central level by several layers of administration. National policies therefore have to be general enough to allow adaptation to local circumstances, but specific enough to avoid deviation from their original intent as they are filtered through the levels of administration.

The biggest challenge for the Government is clearly that of its changing role. Farmer associations should be owned and run by their members, with the aim of serving the interests of their members. Similarly, the development of farmer organizations should be driven bottom-up by farmers and farmer organizations themselves. This requires that they have an adequate legal and regulatory framework; a good business environment; sufficient information and access to training and technical assistance; and good governance consistent with fundamental cooperative principles. On the one hand, the Government has to increase its capacity in the areas of regulation and monitoring, law enforcement, delivering of information, training services and technical assistance, but not necessarily financing. On the other hand government officials have to relinquish some of the power and authority they have become used to.

More than two-and-a-half decade after the launch of the rural reform process, many of the habits and attitudes characteristic of the command economy still prevail in rural China. However, as has become obvious through the recently approved 11th Five-Year-Plan and the call for the ‘New Socialist Countryside’, the Government is strongly committed to continue its economic reform process in a manner that improves the welfare of farmers and mitigates rural-urban disparities. An important part of this strategy is the development of member-controlled FPAs that enable China's farmers to take group action to use their energies, creativity and resources to compete successfully in a modern, open market economy, benefit from the economic growth and catch up with the well-off.
1. Introduction

Rationale

Profound and rapid changes are underway in China’s rural areas. China's accession to the WTO, the restructuring and marketization of the economy, changing consumer habits due to increasing incomes in urban areas, the development of integrated marketing chains, are all factors driving the changes. The opportunities for China’s agriculture and its rural areas to make use of this new environment are substantial.

The changes also pose substantial challenges for the agricultural sector, which is characterized by about 200 million small-scale farming households. The traditional patterns of agricultural production and marketing are becoming less and less viable. Market developments dictate a need for increasing the scale of production, which puts China's farmers with scattered, small holdings of land at a disadvantage. At the same time there is a demand for technical services and support to meet these new market imperatives, which the existing agriculture extension and services sector is not able to deliver.

Consequently, it has become imperative to develop new ways of organizing agricultural production and marketing. One way for the agriculture sector to respond to the new challenges is to consolidate agricultural production into larger units. In China, this is happening to some extent, supported by substantial migration of farmers to urban areas. However, if one contrasts the pace of the market changes with the task of increasing land holdings starting from an average farm size of only 0.4 ha it is clear that this approach to consolidation can only offer a partial solution. Moreover, lack of clarity regarding the property rights of land and absence of a functioning rural land market severely impede the progress that can be made in this respect. A voluntary process driven by individual farmers is slow; one forced upon farmers yields many negative social consequences.

Arguably the most important solution for small-scale farmers facing the challenges of a rapidly developing market is to better organize themselves and work together. This development has accelerated and gathered increasing momentum. As Fulton (2005, p.176) points out, the emergence of associations that serve their members is closely associated with the formation of market economies around the World.¹ There are strong economic reasons for collective action of farmers, including the following: (i) access to markets when contract sizes are larger than what individual producers can supply; (ii) economies in input purchase; (iii) the ability to get better attention from/access to public or non-public services; (iv) lumpiness in investments which result in economies at a larger scale than an individual producer can manage.

Although overall coverage is still low, a significant number of farmer associations have already been developed in China. It is estimated that about 3 percent of all farm households were at least nominally members of a farmer association in 2003. A large percentage of farmer associations have been created since the beginning of the decade, and the share of households organized in farmer associations has increased since 2003. Nevertheless, not all farmer associations function well and the total figures are still very small compared to almost any other country in the world. This suggests substantial potential for the future. At the same time, significant challenges have to be overcome when developing new forms of economic organization in China's vast rural areas.

¹ Fulton (2005, p.176) adds that “simply put, for profit firms and governments are often unable to provide the full range of goods and services desired or required by the population”.

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The Government is strongly committed to support farmer associations. The need to address the growing disparity between urban and rural areas and, in particular, the problems of China’s 800 million rural residents has long been recognized by the government and the emphasis on these issues has been increasing over the last few years. From recognition of the “three rural problems” at the beginning of the decade to the recent launch of the “New Socialist Countryside” program, the government is strengthening support and searching for ways to improve the incomes and living standards of rural residents. Support of farmer associations is one of the numerous policies and interventions being implemented. The Document Number One for 2006, issued by the State Council and outlining the main policy initiatives of the central government for the upcoming year, has instructions to “actively guide and support farmers to develop diversified forms of specialized cooperative economic organizations, speed up the process of legislation and strengthen support, and establish credit, financial, taxation and registration systems conducive to the development of farmers’ cooperative economic organizations.”

Support for farmer associations or ‘rural producer organizations’ is a key theme for the World Bank. The World Bank Group's Strategic Framework identifies empowering poor people to participate in development and investing in them as one of two key pillars underpinning the World Bank's efforts to reduce poverty. One of the major thrusts of its recent Rural Development Strategy (World Bank, 2003) is "integrating the needs of the rural poor in national policy dialogues", a process which must include a broad base of stakeholders, including rural producer organizations, civil society and rural development ministries.

Farmer associations have been identified as vehicles to push forward technical, economic or institutional changes. Farmer associations are potentially valuable partners, particularly when they are structured around sub-sectors (vegetables, meat, fishing, etc.). The new paradigm in agricultural services (research, extension, and agricultural and rural advisory services) is to align them with what their “clients” want. It is therefore important that the “clients” be able to express themselves, make themselves understood and hold the agents accountable to them.

Support for farmer associations is an investment in social capital and capability: (i) to fight rural poverty – improving the capacity of farmer associations will improve their bargaining power, thus contributing to a more growth-enhancing allocation of public goods at all levels (local, regional, and national); (ii) to improve the return of other types of investment – the recent interest in farmer associations displayed by certain institutions is connected with rediscovery of the importance of networks, which bridge and bind farmers together, reducing the transaction costs of development efforts, and the role of institutional capacity in taking advantage of prevailing economic opportunities and managing constraints.

While the primary benefits of FPAs attribute to farmer members, the operation of FPAs also generates substantial direct benefits for the efficiency and effectiveness of the Government itself. For example, through better organization, farmers as the main stakeholders of many Government activities can have an effective participation. They can voice their needs in social and rural development programs, especially in the implementation of the New Socialist Countryside. Dialogues between FPAs and the Government can provide important feedback mechanisms or means of engaging farmers more fully in policy-making and execution, thus establishing a strong link between the government and the civil society. Moreover, the Government can entrust or contract FPAs as service providers of public goods and services such as new technologies, training, or TA to small-scale farmers in a cost- effective way. Through appropriate legislation, FPAs can assume the role of service provider in areas such as applied research, market information, product promotion, etc. Where the Government finances such services, it traditionally provides them through its own systems. However, FPA often have a better understanding of producers and are
better at responding to the needs and demands of the market, and the contracting of these services by the Government - and the leveraging of private activities - is a more cost-effective model of Government intervention.

The recommendations in this report proceed from a perspective that farmer associations can help redress imbalances in rural incomes, between different regions of the country and between different parts of the community in any particular area. Implicit in the recommendations is the concept that properly managed farmer associations have an important social as well as economic benefit, and can help reduce the marginalization of disadvantage groups in society. The primary aim of farmer professional cooperatives is not simply to achieve an increase in aggregate rural incomes, to facilitate the commercialization of agriculture or improve the efficiency of agricultural production, although it is expected that farmer associations can and will contribute towards these goals. Opportunities are seen for farmer associations to contribute towards the creation of an inclusive, harmonious society. As a consequence the issues of internal governance and improving the ability of farmers to manage their own development are of equal importance to the economic and efficiency measures of performance for cooperatives.

International experience provides a useful reference point and a source of models and ideas, but ultimately the many unique features in China's pattern of rural development suggest that China's approach to developing farmer associations will be unique. Country specifics include: the experience of farmers and officials with collectivization from 1950's to 1980's which still shapes perceptions and expectations; the rapid progress of Chinese agriculture from production under a planning system to market oriented operation in less than a generation; and the depth of penetration of government authority into rural areas. Some researchers note that the traditional customs and attitudes in rural China are antithetical to the creation of farmer associations (Chen, 2004, pp.20-22), in particular the traditional practice of subsistence production rather than market oriented production, the low levels of education prevailing in most rural areas, the lack of a culture of cooperation on a voluntary basis and the strength of clan and family ties.

There is a growing recognition among farmers and policy makers that the creation of producer organizations may provide solutions to some of the urgent issues currently facing China's farmers. The official endorsement and encouragement given to such organizations suggests that the China will, in the phrase made famous by Deng Xiaoping, “cross the river by feeling out the stones”, and work out its own unique path towards the development of farmer associations.

Scope
Farmer associations appear in a wide variety of forms, with a variety of purposes, and under a variety of names. Hence, a discussion of farmer associations in China must start by defining the focus of attention and the type of organizations under consideration. The picture has become more complex with the appearance in recent years of associations to protect the rights of farmers, association to take care of the elderly and other associations with civic-minded functions.

The focus of this work is farmer associations with an economic function, aiming to increase the incomes of their members by enhancing their effectiveness or efficiency in agricultural production and/or marketing. Associations whose main role is the pursuit of social objectives are not covered in the scope of this report. Similarly farmer organizations with a primary political purpose, such as village committees or rights-protection groups, are not considered. The focus on primarily economically motivated associations of farmers does not imply that other types of groups are not important. To the contrary, such groups are likely to become of key importance in
China’s further transition process. However, the Government’s core interest and request for World Bank support was in the realm of primarily economically motivated groups. Moreover, the focus on organizations with an economic function arises because these organizations are seen as creating an opportunity to improve rural incomes and thus to help address the problems of rural poverty, the marginalization of certain elements of rural society, and the growing disparity between urban and rural areas. The strong interest of the central government in promoting farmer organizations is largely due to the potential for these organizations to improve the incomes of farmers.

**Nevertheless, all farmer associations have a social and political dimension.** While the impetus for supporting farmer organizations often arises from economic objectives, impacts in the social and political dimension resulting from the creation of farmer associations are important and have to be fully recognized. Guidelines from the central government on farmer associations stress that participation in these organizations should be voluntary and the organizations should be democratically controlled by their members. Chinese researchers note that “cooperatives are also a school where farmers’ democratic consciousness is fostered”.

In recognition of their social role some farmer associations often include provisions in their charter to provide insurance for members or to use part of their profits on public goods within their communities (Feng, 2004, pp.51, 105). Clearly, economic motivations have often social dimensions and can become ‘political’ even to a degree that leads to conflicts between farmer associations and local Governments. Examples might include land disputes in which farmer associations might be seen as instruments to protect farmers’ rights better than individual farmers could achieve on their own.

**The report includes consideration of farmer associations with a broadly inclusive membership.** In many contexts, and particularly in the international literature, “farmer organization” might refer to organizations whose membership is composed entirely of farmers. This may be a useful distinction in western societies with long traditions which define the spheres of action of government and citizens. However, for practical reasons it is not a useful definition in the Chinese context. Organizations comprising farmers only are a small subset of the total number of organizations currently in existence. Moreover, due to the nature of the contemporary rural society in China, the strong intervention of local government is inseparable from economic development. Indeed one of the key issues, and a matter of considerable debate in China, is the nature and extent of the role of government in the formation, development and operation of these organizations.

**The focus of this report is on farmer associations at the local level, i.e. county, township and village level, rather than provincial or national level organizations.** This focus derives from the primary interest in organizations which represent and promote the interests of members and in which the members exert some degree, even if not an absolute degree, of responsibility for decision making. Thus national level organizations such as the All China Federation of Supply and Marketing Cooperatives (ACFSMC) or the Dairy Association of China, are not covered under the scope of this report. At the same time, the value of apex type organizations representing the interests of members at higher levels is acknowledged.

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2 See, for example, Agricultural Law, 2003.
3 Cheng Shulan, Zhang Haiyang, Fan Xiaoping, “Conditions and Approaches of producing FCEO—Thinking of Agriculture Industrialization in LuoHe City”, Manuscript on Rural Economy, Sep.1999, quoted in Chen Jie p.30
4 In fact, it is one of the guiding principles of the International Co-operative Alliance (ICA), recognizing that it serves their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures (ICA, 2003). For such apex organizations to represent the interests of their members it is necessary that they be controlled by their members. Current organizations such as the ACFSMC on the other hand are funded by government, and function in a top-down manner rather than representing lower
Terms and Definitions

A variety of farmers’ groups exist in rural China under different names: Farmer Association; Farmer Professional Associations; Farmers Professional Cooperatives; Farmer Professional Cooperative Organizations; Farmers Cooperative Associations; Farmer Cooperative Economic Organization; Farmer Economic Self-help Organization; enterprises or corporation based on farmers; and “other professional organizations established with farmers as the core” – to name only a few. For the English reader the problems of definition can be exacerbated by translation of different terms. The term “zhuanye” can be interpreted as either “professional” or “specialized”. The term “association” (xie hui) is also not precise. It started to appear in the 1980’s, mostly referring to farmer organizations established to provide members with technical support and information. Over time it came to be used by organizations with an economic function, its use being dictated more by prevailing policy and expedience rather than any strict definition.

The term “cooperative” is ambiguous in China and can be misleading. To a Chinese listener the word cooperative (hezuo she) does not necessarily have the same connotations as it does in the context of other countries. For farmers it generally has negative connotations, as the rural areas of China only started to prosper with the dismantling of communes and introduction of the family responsibility system. Both the “Rural Credit Cooperatives” (RCCs) and “Supply and Marketing Cooperatives” (SMCs) were first established in the 1950’s as local organizations owned and managed by farmers, but both organizations lost any semblance of their cooperative characteristics during the period of the People's Communes, and have since become regarded as a branch of the government (in the former case) and a de facto government-owned commercial organization (in the case of the latter). Nevertheless, the term “cooperative” is beginning to dominate parts of the discussion of farmer associations which carry out economic functions. This term is used in the recent Zhejiang Law on “Farmer Professional Cooperative” (FPC) (nongmin zhuanye hezuoshe) and is likely to be used in the national legislation currently under preparation.

For the scope of the report, the term ‘farmer professional association’ or FPA is used. It includes all farmer associations which have the primary objective to increase the economic benefit of its members. It recognizes that the key form is one of co-operation between farmers and it obviously includes the FPCs as defined in the Zhejiang Law as well as other groups with ‘professional’ or ‘economic’ focus. If the term ‘farmer association’ or ‘farmer organizations’ is used in this report, it is equivalent to FPA.

Objective of Report

The aim of this report is to synthesize information and experience on the development, operation and support of FPAs, and to present policy recommendations on ways in which effective farmer level organizations. The establishment of truly representative apex organizations is dependent on the prior existence of democratically managed lower level organizations, which are still in the process of development in China – the focus of this report. At the same time, it is fully recognized that such organizations have an important role to play not only in dialogue with government policy makers and industry associations, but also representing national interests in international forums dealing with issues related to agriculture and trade in agricultural products. The need for such associations of associations or ‘co-operation among co-operatives’ is widely recognized internationally.

5 For a discussion on the confusing nomenclature see also Delman (2006). The problem of classification and multiple names is not unique to China and noted in the international context as well (Baker and Theilgaard, 2004, p.2).
6 A third type of “cooperative” are the ‘production cooperatives’ or ‘agricultural cooperative’ that correspond to the ‘production teams’. All farm households under a village committee are members of these organizations and, while they largely lost their function with the introduction of the household responsibility system, they are still existing, at least in name and in much larger number than the organizations covered in this report.
associations in China can be better supported and developed. Hence, this report is primarily addressed to those in China responsible for formulating and implementing policies which impact on FPAs. This includes not only national level tiers of government but also provincial and local level governments.

A secondary target audience includes those involved in the development and support of farmer associations, including not only domestic parties but also those in the bilateral and multilateral donor community. It is also hoped that by throwing some light on the current status and the issues confronted in the development and operation of FPAs, the report may be of value to practitioners currently involved in supporting farmer associations.

**Methodology**

This report represents the culmination of a series of World Bank activities, which began in 2002 and included the commissioning of a number of studies as well as workshops and pilot activities around the theme of ‘farmer professional associations’. The work of the World Bank has been done with the strong support of, and in close collaboration with, the Development Research Center (DRC) of the State Council. Studies commissioned by the World Bank for this activity, and which have formed the main references for this report, include:

- a study of the policies and legal environment of farmer associations in China (Chen, 2004);
- a study on the international experience of farmer associations relevant for China (Baker and Theilgaard, 2004);
- an assessment of the development of farmer associations based on a literature survey (Jiang, 2004);
- a large-sample nationally representative survey in about 2,500 sample villages in 216 townships of 36 counties in 6 provinces on the development of farmer associations in China (Shen et al., June 2004);
- a smaller-sample comprehensive survey with questionnaires for (i) 45 FPAs (ii) 136 FPA members, and (iii) non-FPA members, conducted in nine counties of three provinces (RAF, 2004);
- a series of detailed case studies on farmer associations from three provinces (Feng, 2004).

The World Bank also supported the design, implementation and evaluation of a pilot program in Renshou and Tianquan counties of Sichuan province. This included the compilation of three distinct but complementary sets of training material aimed at cooperative members, leaders of cooperatives and officials from relevant agencies of local government. In this context, substantial policy discussions were held at the workshop for launching the pilot in Chengdu/Sichuan (see SASS, 2005). Moreover, the World Bank supported an International Cooperative Law Seminar in Beijing in April 2005 (see World Bank, 2005a, 2005b, and Annex 2) that generated substantial discussion on the legal framework for farmer associations in China.

The report also draws on a number of other sources, including ongoing work being undertaken with the support of the Canadian International Development Agency (CIDA), consultation with various stakeholders to update information, and the personal experience of the authors working with farmer organizations in China's rural areas. Throughout the period of this study close contact and cooperation has been maintained with a CIDA-funded initiative under the “Small Farmers Adapting to Global Markets” and “Sustainable Agricultural Development” projects, which support the development of farmer organizations at both the research and policy level and at the practical,
grass-roots levels in selected provinces of western China. Both, this initiative and the CIDA project have involved close cooperation with DRC, through joint seminars and workshops, and including a study tour of DRC experts to Canada in September 2005. The completion of this study coincides with the completion of a study undertaken by the DRC with CIDA-support on farmer organizations.

Outline

This report is divided into four chapters. Chapter 1 has provided background information on the genesis of the report, its scope, objectives and the methodology used.

Chapter 2 is an overview of the development of farmer associations in China providing the context for the main body of the report. It describes some of the forces at work driving the creation of farmer associations and reviews the development of government policies towards farmer associations since the founding of the People's Republic of China.

Chapter 3 describes the current situation with regard to farmer associations and highlights some of the major issues confronted in their development and operation. It includes a number of examples drawn from literature, the case studies prepared as part of this initiative and personal experience, which serve to illustrate some of the issues faced in the development and promotion of farmer associations.

The concluding chapter contains recommendations on policies to promote the development of farmer associations. The recommendations are made from the perspective that the priority objective behind the promotion of farmer organizations is improving the incomes of farmers, increasing their capacity to participate more fully in agricultural markets, and reversing the marginalization of farmers which has resulted in growing disparity of urban and rural incomes.
2. Development of Farmer Associations in China

Brief History of FPA Development

Chinese farmers lack a history and culture of working together in self-managed cooperatives. Prior to the establishment of the modern China in 1949 most parts of China practiced subsistence agriculture with little marketable surplus. The need for farmers to organize themselves was limited (Chen, 2004, p.31). However, farmer organizations were not unknown, albeit for security and self-defense rather than economic purposes. Thaxton (1997) writes about farmer organizations on the north China plain during the war of resistance against Japan, and crop watching associations in Hebei have been recorded from the early 1900's (Duara, 1988 pp.198-204).

During the land reform movement of the 1950's SMCs and RCCs were formed as local, farmer-managed organizations. To address problems such as the shortage of capital and equipment, farmers organized together into mutual-aid groups, agricultural cooperatives, and “advanced agricultural collectives” (RAF, 2004, p.49). In these organizations ownership of land and capital belonged to the individual households while production and marketing were coordinated. However, these organizations were overwhelmed by the collectivization drive of the late 1950's, and subsequently subsumed into the people's communes. During the period of the collective economy their status as farmer-owned and operated organizations was lost. They came to be considered simply as another branch of government in which decision making, both as agricultural production units and providers of social services, was highly centralized and hierarchical.

The introduction of markets for agricultural inputs and products created a need for farmer organizations. Under the collective economy the supply of inputs and purchase of products was unified under a single system and managed by the production team. With the abolition of communes in the early 1980's farmers once again became responsible for their own purchasing, production and marketing decisions. The freeing up of markets was a gradual process, with markets for fruits, vegetables and livestock being opened up earlier in the reform process, and markets for products such as grain and cotton only recently opening up completely. As farmers began to take on responsibility for their own purchasing and marketing decisions, farmer organizations began to reappear in the form of professional technical associations, usually with the aim of sharing the cost of acquiring technical information on production of crops and animal husbandry practices. With the gradual opening of markets since the 1980's, these organizations, and new ones, started to take on additional roles such as joint marketing, purchasing of inputs, etc.  

The development of rural industry added further impetus to the creation of farmer organizations. As the reforms deepened and with the emergence of township and village enterprises (TVEs), opportunities appeared in local markets for processing agricultural products. The emerging TVEs had no access to land, the user-rights of which belonged to farmers under the household responsibility system. Organizations therefore began to appear in the 1990's representing combinations of enterprises and households. Whether organized in the form of technical associations, supply and marketing cooperative (in practice, even if not in name) or “company & associations”, they generally featured a strong element of government involvement, whether through direct participation of government officials, active promotion by government officials or supervision by government departments.

RAF (2004, p.49f) traces the development of farmer organizations to the process of opening up markets, noting that there are few organizations centered on grain production because these markets were among the last to be liberalized.
The pace at which farmer associations have been established has shown a rapid increase, from a very low basis. A survey on the development of farmer associations notes that up until about 1994 there were very few farmer associations to be found, and there was no systematic activity to promote them (Shen et al., 2004, pp.13f). Between 1994 and 1997 the pace of forming farmer organizations increased, particularly in the fruit and vegetable sectors. Since 1998 the pace of formation has accelerated, with 40 percent of the farmer associations surveyed being established between 1998 and 2004. This accelerated pace of development has continued to the present as farmer professional organizations have become a priority matter for government attention and support.

Changing Nature of Markets

25 years of reforms have resulted in fundamental changes to the markets for agricultural inputs and outputs. During the period of the collective economy agricultural inputs and products were subject to a system of unified supply and marketing. While markets for agricultural inputs have seen a gradual process of opening up, in some parts of the country government agencies are still the main source of seeds, fertilizers and agrochemicals for farmers under a system of government licensing and state trading. However, most agricultural markets in most parts of the country today are competitive.

The opening of markets to competitive forces has been accompanied by a simultaneous process of structural change. A consequence of many of these changes has been to increase the optimal economic scale for agricultural production. These changes in turn make it increasingly difficult for individual farmers with small, scattered land holdings to remain competitive in the market. Some of the forces behind these changes include:

- **China's entry into WTO has altered the dynamics of domestic markets.** Under the earlier policy of grain self-sufficiency many farmers survived predominantly by growing grain, with little need to diversify their production. The WTO accession process has opened China’s markets to imports of grain, and the price of grain is now influenced by international conditions. At the same time entry into WTO has created opportunities in areas where China has comparative advantage, including livestock, aquatic and horticultural products, but exports are only possible if very high and stringent quality standards can be met. Small farmers using traditional methods are unable to meet the necessary standards, provide the necessary certification to guarantee the standards are met, or deliver in the volumes which global markets demand (Chen, 2004, p.25).

- **The degree of vertical integration in the supply chain for food products is increasing rapidly,** with some sectors coming to be dominated by a few large firms. This has been intensified by the growth of chain stores and supermarkets in response to the demands of the emerging middle class. Modern supermarkets, convenience stores, hypermarkets and warehouse clubs—retail formats nearly non-existent in China in the early 1990s—have now captured an estimated 30 percent of the urban food market and are growing at rates of 30 to 40 percent annually.8 This trend is strengthened by the urbanization of the country and by the aggressive expansion of supermarket chains (Hu et al., 2004) both outwards to the central and western parts of the country and downwards towards smaller cities and county towns. Meanwhile, local governments, especially city governments, are phasing out traditional wet markets in the name of assuring food safety and improving the city image. The purchasing practices of supermarket chains, with their demand for standardized and high quality products,

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8 “China's supermarkets present export opportunity”, Asia Times Online, Jun 24, 2005
large volume purchases, and their practice of delayed payments, mitigate in favor of large-scale production by well-resourced suppliers. Small producers find themselves barred from access to the high-value market and trapped behind an insurmountable wall separating them from consumers.

- **Increased consumer sophistication means that they are no longer content with limited choice of products or seasonal availability and have a growing awareness of food safety issues.** For example, the production of high-quality off-season fruit and vegetables offers high profit opportunities for producers. However, many factors including cold-chain transportation and other infrastructure and, not the least, demand for homogeneous products of large quantities mitigate in favor of large-scale production and against small holder farming. Food safety concerns have led to the creation of a variety of certification standards, but the cost and effort involved in complying with these standards is often beyond the means of individual small scale farmers (World Bank, 2006).

A variety of ways have been found to achieve economies of scale in response to market imperatives. One has been for enterprises—generally with the support of local Governments—to contract tracts of land from farmers and manage production activities themselves. Another has been enterprises contracting individually with small-holders for production with pre-arranged contracts, the so-called “company plus farmer” and the “order book agriculture” models. A third approach has been farmers themselves acting collectively in one or more aspects of their production and/or sales so as to achieve economies of scale. Sometimes enterprises take the lead in organizing farmers as a means of reducing their transaction costs of dealing with farmers individually. This approach is known as the “company plus association plus farmer” model. There is often a high degree of local government coordination in these approaches, particularly the township level of government. But this level of government usually does not have a sufficient knowledge base and financial capacity to guarantee success of these deals.

Small-scale farmers are at a disadvantage and lack bargaining power. Rural markets, whether for inputs, products or credit, are dominated by large institutions with entrenched interests. Whether contracting out their land or signing delivery contracts, individual farmers are price takers lacking any bargaining power when dealing with large commercial enterprises. This is particularly so where the enterprises are supported as dragon-head operations by local government, intended to promote the modernization and industrialization of agriculture. There is also a possibility that an element of coercion may be involved using either of these approaches, when county and township officials seek to attract investment into their areas of jurisdiction. The aim of local government officials is often to generate higher GDP rather than improve the welfare of their constituents, particularly as local government comes to rely more and more on business-related taxes to generate their revenues.

Collective action in formal organizations offers the possibility for small scale farmers to share in the benefits of market-oriented agriculture. By acting collectively farmers can capture some of the benefits available from economies of scale, enhance their bargaining power with dragon head enterprises and integrate themselves more closely into supply chains. However when enterprises themselves provide the motivating force behind the organization of farmers, as in the “enterprise plus association plus farmer” model, there are likely to be conflicts of interest between producers and enterprises. The primary concern of the private companies is ensuring a consistent and regular supply of quality products. The creation of producer organizations which meet the demands of the market and serve the interests of small farmers as owners is the most challenging of the options for achieving economies of scale.
**Agricultural Modernization**

The commercialization of agriculture has created increased demands for improved technical services, specialized knowledge and better access to marketing and technical information. Agricultural producers are under pressure to increase yields and meet more stringent quality and safety requirements, and there is a tendency towards increasing specialization of households around economic crops (Chen, 2004, p.17). Small producers, with a habit of diversifying their production as a way of reducing their risk, tend to feel exposed to risk when specializing. At the same time the agricultural and animal husbandry extension systems, mostly financed through revenue of local government, face a shortage of funding and are increasingly unable to deliver the extension services required. This is particularly true in the poor areas of the country where the fiscal problems of local governments have been exacerbated with the elimination of the agricultural tax.

**Farmer organizations are filling the gap left by inadequate government services.** When surveyed about the benefits of farmer associations the top four priorities mentioned by both members and non-members were: technical training and adoption of new technologies; timely market information; advisory service to members; and advice on how to use inputs (RAF 2004, tables 4-19 and 5-25). When asked about technical training received in the previous year 319 respondents reported participating in training sessions organized by farmer associations, while only 32 reported receiving training from other sources (RAF, 2004, tables 4-49 and 4-51).

**Varying degrees of commercialization exist in different parts of the country.** Some researchers have suggested looking at Chinese farmers in terms of three different types of farm households: (i) those still practicing self-subsistence production, (ii) those involved in a simple market economy and (iii) farmers participating in a developed market economy (Chen, 2004, p.10). In general terms the type of farming practiced can largely be related to distances from markets and the intensity of commercialization of agriculture. While there will be exceptions, the general pattern would be that the level of commercial intensity decreases going from east to west as well as going from peri-urban areas to more remote agricultural villages.

**The need for farmer organizations varies with different types of farmer.** In areas practicing self-subsistence production the biggest requirement is for technical information and services such as purchasing inputs and veterinary service. As the degree of commercialization increases there will be a greater need for market information, joint marketing services and perhaps basic processing of agricultural products. Those parts of the country with the highest degree of commercialization would be expected to require the most sophisticated support services, including timely advice on market prices and the most current technical advice. The more basic services required by subsistence farmers are, to a certain extent, provided by existing government systems, while the ability of existing systems to satisfy the demands of the highly commercialized farmers is much weaker. This hierarchy of needs corresponds to survey findings that the level of farmer association activity is strongly related to the proximity of markets (Shen et al., 2004, p.24).

**The role of women in agriculture is substantial, but the access for women farmer to training opportunities, market opportunities, etc. is less than for men.** In a white paper the government (State Council Information Office, 2005) states that “women account for more than 60 percent of the rural labor force and are a major force in farming activities” and emphasizes the need to “giving full play to women's role in the rural economy”. The development of farmer organizations with full participation of women, including the development of formal groups of women farmers, is a great opportunity to enforce this policy, improve the opportunities and economic contribution of women, and thereby increase rural income and living standards. In the study conducted by NDRC and UNIFEM in 2003, women were found to play a major role in the production of high-value products,
e.g. livestock and horticulture. For such commodity lines, the need for collective action is much stronger because the benefits from self-help are immediate and tangible, for example, joint purchase of inputs and marketing of products. Gender awareness should be raised when such associations are formed. The larger the economic contribution made by women to family, the higher family status they will enjoy, enabling women to take better care of their family and children.

**Legal Framework**

The earliest attempts to draft a cooperative law in China began in 1950 when Liu Shaoqi promoted the preparation of the “Law of cooperative organizations of PRC”. This first attempt was overtaken when the central government set out on new political directions, resulting in the collectivization drive of the late 1950's and ending with the dismantling of the communes after the Cultural Revolution (Chen, 2004, p.32).

Attempts to define cooperative laws were renewed following decollectivization and the initiation of the rural economic reforms. Between 1995 and 1997 the ACFSMC proposed drafting a “Law of Supply and Marketing Cooperatives”, but this attempt too was abandoned when the ACFSMC system began a process of internal reforms. However, in 1995 Jiangsu province issued local regulations on the operation of supply and marketing cooperatives, followed by Jilin and Xinjiang Uighur Autonomous Region. In 1999 the ACFSMC again submitted an application to the State Council requesting that legislation be drafted to cover supply and marketing cooperatives, and in 2002 the request was broadened to involve a more general “Law of Cooperative Economic Organizations”.

The Standing Committee of the 10th People's congress formally accepted the drafting of a “Law of Farmers Cooperative Economic Organizations” into the agenda for drafting legislation in December 2003. The law has been under preparation since 2004 and is currently expected to be submitted to the NPC for approval in late 2006 or early 2007.

In the absence to date of specific laws regulating the creation and operation of cooperatives, FPAs have been operating under a variety of relevant laws, which touch on the different types of activities undertaken by the organizations. The lack of an adequate law makes it difficult to define a co-operative and register it in a way which distinguishes it from a general profit-making company. It also results in a lack of clarity as to the rights and obligations of farmer organizations and restricts their ability to engage in many activities. The absence of a law also means that the rights and obligations of members are unclear within the organizations. Despite this, farmer associations and cooperative organizations have been appearing at an increasing rate in recent years. Different laws and different interpretations of the law have meant that the establishment and operation of farmer associations has been substantially influenced by the priorities and perspectives of the local government within whose jurisdiction they operate. Some of the relevant laws which impinge on the operation of farmer associations include:

- The “Rural Land Contracting Law” passed by the NPC in 2002 which affirms the rights of farmers to make their own decisions on production and management of tracts of land contracted to them.

- The “Agricultural Law” of 2003 which, in its first article, makes reference to “Farmers Specialized Cooperative Economic Organizations” and encourages the establishment of farmer cooperative economic organizations. But beyond the statement that such organizations should be based on the principles of voluntary participation, free withdrawal, democratic control and return of surplus earnings to members, it does not explicitly set out fundamentals of such organizations. The law does note that such organizations can have many forms, but must be
registered by law. It does not, however, provide guidance on how and with which government department registration should take place (Chen, 2004, pp.36f).

- The current “Corporate Law” applies to limited and joint-stock limited companies. To acquire the legal status necessary to enter into commercial contracts, some farmer associations have registered under this law. However the corporate law makes no provision for some of the unique characteristics of cooperative organizations, such as being users-owned, returning profits to members in proportion to patronage and use of services instead of investment and the principle of one-member one-vote in cooperative governance.

- The “Commercial Banking Law” contains no specific provisions for the operation of rural credit cooperatives and subjects them to the same regulatory structure as commercial financial institutions. The stringent regulatory requirements are an obstacle to reforming rural credit cooperatives towards something closer to their original structure of true farmer-owned and -controlled organizations. At the same time the current banking laws restrict opportunities for farmer organizations to establish new rural financial institutions in the form of credit cooperatives.

In November 2004, Zhejiang province passed the first provincial law regulating the operation of ‘farmer professional cooperative organizations’. The law, which took effect in January 2005, provides FPCs with legal status, puts them under the leadership of the Agricultural Bureau at the county level and above and requires that they register with the Industry and Commerce Bureau. The Zhejiang legislation recognizes the primary role of farmers in the organizations, stipulating that primary producers should own at least half of the shares of the cooperative. However, it does not restrict membership to farmers, and allows a single member to hold up to a maximum 20 percent of the shares in a cooperative. The law requires that cooperatives be democratically controlled by their members, and states that the general meeting of members is the supreme authority for the association. The general meeting has the right to make decisions on the business and investment plans of the associations. While noting that cooperatives “should practice one person one vote”, variation in voting practice is permitted, based on either share ownership or volume of transactions, with the restriction that one member cannot control more than 20 percent of the votes. The legislation thus leaves open the possibility that a small number of members could exercise control of the association.

Policies and Initiatives

A history of policy pronouncements advocating support for farmer associations goes back to the early years of the economic reforms. A Central Committee document Several Questions of the Current Rural Economic Policies from January 1983 proposes that various forms of cooperative economic organizations should be developed to meet the needs of agricultural production (quoted in Chen, 2004, p.39). This was further elaborated in another Central Committee document of January 1984 urging the reform of the supply and marketing cooperative system to make them into cooperative entities owned by farmers. The document Deepening Rural Reform issued by the Central Committee in January 1987 stated that supply and marketing cooperatives should organize producers to establish professional production associations on the principle of voluntary participation and set up specialized cooperatives according to the principles of cooperative business (Chen, 2004, p.40).

Through the 1990’s encouragement was given to support a variety of organizational forms. A Notice about Agriculture and Countryside Work issued by the State Council in 1991 notes that professional agricultural technical associations and specialized cooperatives are a form of
agricultural socialized service and instructs governments at all levels to support farmers to set up service organizations as individuals or jointly. This was reinforced in a document issued by the Central Committee in November 1993 stating that a service network should be formed in rural areas consisting of collective economic organizations, government technical departments and various kinds of non-governmental professional technical associations. A Central Committee document Suggestions on Agricultural and Countryside Work in 1994 recognized the existence of rural joint-stock cooperative organizations. In January 1998 the Central Committee called for encouragement, support and strengthening of different forms of cooperative economic activities, including specialized cooperatives, specialized associations and other forms of cooperative association. The same document called for an acceleration of the reform of rural credit cooperatives.

In recent years financial support has been advocated for farmer associations. In January 2003 the Central Committee Document repeated the encouragement to actively develop farmers’ specialized cooperative organizations and in 2004 these instructions were elaborated with a call for “finance departments at all levels to arrange special funding and support for farmers specialized cooperative organizations”. In 2004 a State Council document was issued stating “beginning in 2004 central and local authorities should provide financial support for Farmer Professional Cooperative Organizations to undertake information, training, quality management and certification and marketing services. Relevant financial bureaus should support farmer professional cooperative organizations to establish standardized production bases, storage facilities and processing enterprises, and to purchase transportation equipment. Finance departments may provide reasonable low interest loans.” In 2005 the State Council issued instructions to “Support the development of Farmer Professional Cooperative Organizations, and to reduce or eliminate relevant fees on their processing or transportation activities” (Zheng, 2006a). Financial support is provided by the center. For example, in July 2006 MOF issued a “Circular on Central Financial Assistance to Farmers’ Professional Cooperatives” in which it defines that central level financial support can be given to larger (more than 50 household members), well-established (2 years in operation) FPA.

Central government policies have been widely emulated by the provinces. As of the beginning of 2006, 27 provinces have issued circulars giving instructions on supporting farmer professional cooperative organizations through reducing or eliminating taxes and fees, exemption from highway tolls, rural investment, provision of land and utilities, registration procedures etc (Zheng, 2006a). The combination of policy pronouncements encouraging the establishment and promotion of farmer associations on the one hand and the absence of clear and definitive legislation governing farmer associations has resulted in a great diversity of practices in different locations and led to the problem of “non-standard” practices and organizational structures.

Role of Government
The relationship between government and individuals in rural China has changed profoundly since the beginning of the rural reforms. During the period of collective agriculture under the people's communes farmers were part of a production system in which decisions on the control and allocation of resources were centralized by government through a hierarchical system. Farmers provided a passive labor force carrying out instructions. The reform process has increasingly given farmers the autonomy to make their own decisions and manage their own resources. However, many of the structures, practices and attitudes developed under the collective economy are still being practiced today.
The initiative for the creation of farmer organizations has often been made by government agencies rather than farmers themselves. The high degree of attention and emphasis given by the central government to the development of farmer organizations has put farmer associations high on the agenda of local governments. The traditional approach of local government officials towards achieving policy objectives is to set quantitative targets, issue instructions and assign responsibilities to relevant government agencies fulfill the targets. Many commentators suggest that because farmer organizations are a relatively recent innovation, guidance and encouragement are needed to help farmers to organize, and that there is a role for government to play in nurturing new organizations. At the same time caution is urged against the practice of setting quantitative targets as a measure of success and pursuing them with “too much enthusiasm” (RAF, 2004, p.62) which often leads to the creation of organizations devoid of purpose or organizations which are simply an extension of the government.

A relationship exists between active government promotion and the creation of farmer associations. Survey results show that 84 percent of cooperatives are found in villages where local officials had issued directives, held meetings or used both measures to promote the formation of farmer organizations (Shen et al., 2004, p.20). The researchers suggest that two contradictory conclusions could be drawn from their result. On the one hand it can be taken to read that farmer organizations are only being established as a response to government injunctions and are not farmer-led organizations. Alternatively they suggest that the results may show that initiatives and support from the government, or possibly some other third party are necessary to launch the process of establishing organizations.
3. Current Status and Issues for Farmer Associations

Incidence and Type of Farmer Associations

Despite a relatively rapid development of FPAs in recent years, their coverage extends to only a small proportion of the total agricultural population. Likely the best data on the incidence of FPAs available is a large survey involving about 2,500 villages across China with data from 2003 (Shen et al., 2004, p.8). The analysis of the survey results suggests that about 7 million rural households, or 2.9 percent of the total farming households, are members of FPAs of some sort. It shows that farmer associations exist somewhat less than 10 percent of China's villages. These figures roughly correspond to data from the Ministry of Agriculture that shows about 140,000 FPAs in China as of 2004, involving more than 4 million households (Chen, 2004, p.17). Moreover, a number of studies provide evidence that the rate of creation of FPAs has been increasing rapidly in the past years (Shen et al., 2004, p.24).

Official figures are skewed by the non-reporting of informal organizations which provide services and the reporting of formal organizations which are associations in name only. There are substantial problems in interpreting the data on FPAs, largely due to the lack of standard definitions, registration procedures and absence of clear authority for monitoring the formation of farmer organizations. For example, many farmer organizations have been set up at the instigation of government or enterprises but provide little or no service to farmers. At the same time organizations exist which may not be formally registered but are providing services to members.

<table>
<thead>
<tr>
<th>Table 1: Functional and Formal Farmer Associations</th>
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<tbody>
<tr>
<td>Functional Association defined as those that meet the following criteria:</td>
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<tr>
<td>- <em>not</em> being registered as a commercial entity in Bureau of Industry and Commerce;</td>
</tr>
<tr>
<td>- <em>not</em> being mainly set up to run a commercial business; and</td>
</tr>
<tr>
<td>- <em>not</em> being dominated by a government official in major decision-making.</td>
</tr>
<tr>
<td>F o r m a l i t y defined as those which meet 3 of the 4 criteria:</td>
</tr>
<tr>
<td>- being registered</td>
</tr>
<tr>
<td>- having a charter</td>
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<tr>
<td>- having formal membership requirements,</td>
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<tr>
<td>- charging annual fees</td>
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<td></td>
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<tr>
<td>---</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Shen et al. (2004)

The number of formal and well-functioning FPAs is smaller than the total number. To assess more precisely the nature of farmer association activity an attempt was made to distinguish between those that function according to the standard definition of associations and those that are only nominally farmer associations (Shen et al., 2004, p.7; Table 1). While most associations are both formal and functional, fully 17 percent of the associations covered by the survey were not formally constituted (including 26 percent of the associations which had not formally registered with relevant government agencies). Of those not considered formal, 42 associations, or 15 percent of the total sample, were deemed to be functional associations. At the same time 29 percent of the organizations registered as associations were deemed to be not operating as associations.
Consequently, ‘functioning’ FPAs existed in only about 7 percent of villages. The share of farmers that are members of such ‘functioning’ FPAs was estimated to be about 2 percent in 2003.

Most associations are small, generally limited to the confines of a single township and based around a single product. A rough estimate based on the large village survey (Shen et al., 2004) sample suggests an average association membership of less than 50 households. Another survey using a smaller sample showed that 38 percent of associations had a membership of less than 100 households and fully half of the associations had less than 150 members (RAF, 2004, Table 3-7). Exceptions exist and RAF (2004) also found five associations with membership of over 1,000 households. Examples can also be found of a co-operative federation involved in a variety of activities such as the “Agriculture, Forestry and Husbandry League” in Yuanshi County of Hebei Province, which includes an agriculture association, a forestry and fruit association, a vegetable association, an edible fungus association, a beekeeping association and a milk cow association (Chen, 2004, p.13). However, much of the literature suggests that single-product associations are the general rule.

Table 2: Main Economic Activities of Farmer Associations

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of FPA</th>
<th>Share of Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cropping, Subtotal</strong></td>
<td>70</td>
<td>24</td>
</tr>
<tr>
<td>Grain, General Cropping</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Cash Crops¹</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Vegetables</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Specialty Crops²</td>
<td>27</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td><strong>Orchards, Subtotal</strong></td>
<td>52</td>
<td>18</td>
</tr>
<tr>
<td>Pigs</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Aquaculture</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>Beef and Dairy Cattle</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Mutton, Lamb and Wool</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Poultry</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Silk Cocoon Products</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>General and Others</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td><strong>Livestock, Subtotal</strong></td>
<td>128</td>
<td>44</td>
</tr>
<tr>
<td>General Technologies</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>Marketing</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td><strong>Technology &amp; Services Subtotal</strong></td>
<td>40</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>290</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: 1. Cotton, tobacco, peanuts etc; 2. Medicinal herbs, watermelon, mushrooms, etc.
Source: Shen et al. (2004).

FPAs are found in a wide variety of sectors, concentrated in areas with high-value products which are freely-traded. Associations related to grain production constitute only a very small portion of the total, as do associations related to cotton and tobacco, the marketing of which have traditionally been a government prerogative. Farmer associations are primarily found in the livestock sector, which may be due to the higher level of technical support, purchase of inputs and need for joint marketing required for livestock as compared to cropping and to a low standard of

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⁹ For a definition see Table 1 or Shen et al. (2004).
government service. Farmer associations based on orchard production make up 18 percent of the total number of associations, while orchards account for only 5 percent of cultivated land in China. This may be due to the need for both technical and marketing support associated with fruit production.

The role of women in the development of FPAs is underrepresented. While often not made explicit, farm households rather than individuals are considered to be the members of FPAs. In practice, the household head is generally the individual that sign-up as a member of a FPA. Given the traditional role of men and women in a household it is than almost invariable the man that becomes member, attends the meetings, receives training, etc. However, such heavy dominance of man in representing the farm household does not reflect the importance of women for the success of the farm. Not infrequently, women do more on-farm work than men, especially when men take off-farm jobs and migrate temporarily to cities, so the fact that women do not get training or other services provided through a FPA leads to substantial misallocations. Similarly, even though men are often better educated than women, this does not reflect the relative strength of women in representing the farm household in a FPA, in absorbing training and knowledge, in marketing products, etc. Consequently, the fact that far less women are directly participating in FPA than men leads to substantial inefficiencies in the development of FPAs as well as in raising farm income and rural living standards. However, little to no reflection of this problem can be found in policy documents or interventions for the development of FPAs.

Reliable data on the impact of farmer associations is not readily available. Claims are made that farmer associations help to improve the incomes of members. Definitive data to corroborate this is not available. However, the Ministry of Agriculture has reported that a survey undertaken of 111 FPAs in 2004 showed that members had an average household income of RMB25,600, representing an increase of RMB5,100 over the previous year (Zheng, 2006b). Statistics on the impact of associations are also blurred by a tendency to include a variety of relationships between associations and farmers, including “core members”, “members”, “associate members” and “farmers led by the association” (RAF, 2004, tables 3-13 to 3-15, pp.65f), in which the number of farmers “led by the association” is sometimes an order of magnitude greater than the number of regular members.

Legal and Institutional Framework

The lack of a clear legal status is one of the main constraints to the development of FPAs. There are many policy documents and decrees from various line agencies and Government levels regulating and promoting the development of farmer association in China. At least one province, Zhejiang, even has a provincial law governing cooperative-type FPAs. However, a national-level law does not yet exist. Consequently, groups of farmers have no legal status unless they register a company, a step too large for most associations and one that does not serve an objective of having services and benefits for its members, rather than shareholder value for its owners, as the primary objective. Without legal status the organizations lack access to credit, cannot enter into legally binding contracts, and there is no legal standing to the mutual obligations and responsibilities of associations and their members. The lack of legal status also acts as a deter members from committing their resources to organizations (Chen, 2004, p.64). Legislation confirming the independence of FPAs is also necessary to protect them from undue interference in their operation by local authorities, enterprises or traders with whom they do business.

International experience suggests that a cooperative law is not necessarily a prerequisite for forming cooperatives. While many countries have cooperative laws, Denmark and Britain, with their history of strong cooperative movements, have no special cooperative legislation and
cooperatives there operate within the general framework of laws (Baker and Theilgaard, 2004, p.40). However, in situations where farmers tend to be poorly educated with limited access to legal advice, the codification of cooperative legislation in a special law can be conducive to the promotion of cooperatives (Münkner, 2005).

**In any case, the legal framework should be creating an environment conducive to cooperative development.** International experience highlights three areas to be addressed in particular:

- Enabling laws which recognize and accommodate the existence of cooperatives;
- A registration system that identifies the characteristics of cooperation organizations; and
- Regulations governing the relationship between cooperative organizations and their members.

**Laws and regulations do not imply providing preferential status for cooperative organizations.** A number of commentators recommend that the regulatory environment should aim to allow cooperative organizations to compete on an equal basis with investor owned firms (Baker and Theilgaard, 2004, p.39). At the same time the regulatory environment should recognize the specific characteristics of cooperatives, particularly in respect to taxation laws and the relationships between FPAs and their members.

**In China, the healthy development of FPAs is being stifled and put at risk without a legal framework.** The lack of legal status of associations creates obstacles to associations seeking to capture new business opportunities. The case of the Flower and Tree Planting Association of Wutongqiao, described in box 1 is a case where irregular measures were taken to enable the association to benefit from a profitable market opportunity. Similar instances of unclear delineation of interests between companies and farmer organizations are not uncommon, resulting from the need to devise expedient solutions to the restrictions under which organizations operate. While such solutions may be devised with the interests of the association in mind, such practices create the risk of conflicts of interest and it is clear that protection for the rights of members is required. Not infrequently many of such blended organizational structures end up providing profit for the leading members of the associations at the expense of other members.

**Box 1: Farmer associations and companies**

After four years of operation the Flower and Tree Planting Association of Wutongqiao District in Sichuan had enjoyed success promoting the interests of its members. Nearly three quarters of its sales was to flower wholesalers, with whom it had established stable relationships, transactions were convenient and payments were made on a timely basis. However the small value of each transaction resulted in high unit costs for transactions and relatively small profits.

The association leaders identified opportunities to bid for large landscaping projects being undertaken by local government and property developers. These offered opportunities for large volume sales and, because the customer was the end user, higher profits.

However, the flower association was registered as a civic organization with the local Science and Technology Commission, and did not have the legal status to enter into commercial contracts for landscaping projects. As a result in November 2002 the Wutongqiao Baiqiang Flower and Tree Co. Ltd. was established with a registered capital of RMB300,000. In 2003 the company had signed landscaping contracts for over RMB20 million.

Publicity material for the Wutongqiao company claimed that the company was owned by the Flower and Tree Planting Association. However, the same legal restrictions which made the association ineligible to sign commercial contracts also meant that the association could not legally be an owner of the company. The company had been set up by the director and two deputy directors of the association, together with two
Despite the increasing number of policy pronouncements encouraging the promotion of farmer associations, to date no clear institutional framework exists for their operation. The lack of such a framework has resulted in a number of government agencies taking initiatives involving farmer organizations. At present, various departments such as the Ministry of Agriculture, Ministry of Civil Administration, State Administration for Industry and Commerce, Science and Technology Association and ACFSMC have all been involved in the administration and support of farmer organizations. Organizations such as the Women’s Federation have taken initiatives to establish and support farmer organizations, as have bilateral and multilateral donors. Farmer associations responsible for managing natural resources, some of which may also have economic activities, come under the jurisdiction of agencies such as the Water Resource Bureau and Forestry Bureau.10 Below the county level, the township governments are also involved in the management or supervision of FPAs. One of the case studies notes an instance in which township officials advised association leaders that it was only necessary to register at the township level, as the association had nothing to do with the county government (Feng, 2004, pp.105f). The confusion created by the absence of an institutional framework is compounded by a lack of communication and coordination between the departments and, in the words of one researcher, “each cares for the profitable matters and no one cares for the unprofitable matters” (Chen, 2004, p.59).

Table 3: Agencies at which FPAs are Registered

<table>
<thead>
<tr>
<th>At which agency is the FPA registered?</th>
<th>Total</th>
<th>Sichuan</th>
<th>Zhejiang</th>
<th>Anhui</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial and Commercial Bureau</td>
<td>10</td>
<td>3</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Civil Affairs Bureau</td>
<td>11</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Rural or Agricultural Affairs Office</td>
<td>23</td>
<td>7</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Science Association</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Supply and Marketing Cooperative</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: RAF (2004), table 3-41, p.81.
Note: Included in the data are 10 FPAs which had registered at two agencies, while 2 had registered at 3 agencies.

Registration procedures and requirements are unclear and complex. To acquire legal status associations must register with an appropriate department of local government, with different rights conferred on the organizations depending on the agency at which they register. Table 3 shows the variety of agencies in which different farmer organizations have registered. Quite often, FPAs register with more than one agency in order to qualify for support from various sources. Registration at the Civil Affairs Office provides legal status for an organization but does not give it the right to engage in trade on behalf of its members or to sign commercial contracts. The Civil Affairs Office also requires the support and approval of an official “sponsoring” government agency to supervise the work of the organization. Registration at the Industrial and Commercial Bureau entitles organizations to engage in commercial activities, but subjects them to the standard

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10 Cheng (2006a) notes the existence of 5,000 Water User Associations in China responsible for irrigation management.
provisions of corporate and taxation laws and makes no accommodation for the owner/user nature of FPAs. In some counties, the division of responsibilities is such that the Bureau of Civil Affair is in charge of registration, the Agricultural Bureau is responsible for providing technical service and consultation, and the Bureau of Science and Technology provides advisory service for organization structure and governance. Approval of an application for registration involves not only verification that the necessary requirements have been met, such as the existence of a charter of association, requisite funding and a membership list, but also involves explicit approval, by name, of the leaders of the association.

Box 2: Working without guidelines

On December 14, 2003, Mr. Du came to the registration counter of Industrial and Commercial Bureau of the county-level City with the relevant documents for registration in hand. The staff advised him to go to the Civil Affairs Bureau because registration of cooperatives was not their business. But Du said that he wanted to register the cooperative as an enterprise and, in addition, it should be a Sino-foreign joint venture. The staff was startled, said that they had never heard of a registration of this kind, and suggested Du to go to the head of the Department. The Department Chief advised Mr. Du to add a term like “company limited” after the cooperative and the problem could be settled. Du did not agree and patiently explained the difference between a cooperative and a company limited. Du was then told that since this cooperative to be registered was partially financed with an investment from Hong Kong, the county-level bureau was not authorized to handle it, and it should be handled by Municipal Industrial and Commercial Bureau.

At the Municipal Bureau, after hearing the case, the head of Foreign Capital Administration Department of the bureau said “we can understand your idea, but we have no right to break rules, so we may report this to the Provincial Industrial and Commercial Bureau to see how they will handle it”. The next day an official from the Provincial Bureau told Du that his case was a new one; this kind of cooperative was a new thing, which collided with existing laws and regulations though, they believed, might be recognized legally in the future. Nevertheless, the provincial bureau dared not to determine the case, so they had to ask for instructions from State Administration of Industry and Commerce to see if and how to handle Mr. Du’s case. Merely three days later, the Provincial Bureau got an approval reply from State Administration of Industry and Commerce in Beijing. The basic spirit of the reply was: “during the reform period, there will surely be many things that are first implemented and then recognized and normalized, so you can just do it.”


The cooperative law in Zhejiang cooperative is the basis for a significant improvement on the previous situation in this province. The law explicitly states that the Agricultural Bureau at county level or higher is responsible for the operation of cooperatives, that cooperatives should be registered at the Bureau of Industry and Commerce, and that the role of all other agencies is to provide support and service to the FPCs. The Zhejiang law also confirms the independence of cooperatives and protects their operations from interference by individuals and organizations.

Support Systems

The Government is a dominant provider of technical and financial support to FPAs in China. Recent years have seen a growing amount of government support for farmer organizations. In 2005, the Ministry of Finance and the Ministry of Agriculture at the national level allocated RMB80 million and RMB20 million respectively to support farmers’ cooperative economic organizations. At the provincial level, finance bureaus provided a total of to more than RMB140 million to support the establishment of 600 demonstration farmer organizations in 2005, up from RMB67 million in 2004 (Zheng, 2006a). In addition, many local Governments have spent financial resources and substantial time of their employees on the development of FPAs. In addition, many enterprises have
been instrumental in assisting setting-up and developing FPAs. Support from other providers such as associations of FPAs is very limited, and cannot be regarded as independent from the Government.

**There is no clear designation of responsibility for providing training and advisory support, nor are there guidelines on how such support should be provided.** The result is that the support provided varies widely with the priorities, programs, skills and resources of the local governments and agencies implementing support programs. The Ministry of Agriculture has carried out some training for government officials on farmer organizations and is in the process of finalizing the design of a training program. The critical level of support is at the “coal-face”, working directly with individual groups of farmers based on their particular circumstances, needs and aspirations. As such it is clear that if such support is to be provided by government agencies, the county and township levels of government will be have a crucial role to play.

**Box 3: Strategic planning**

In order to promote the commercialization and modernization of agriculture a considerable amount of publicity has been given to the success of certain business methods and strategies. As a result some “hot strategies” have been popularized, such as producing organic, pollution free or green foods, launching advertising and promotion campaigns, registering brand names or developing distinctive packaging. However, there are costs as well as benefits associated with each of these strategies. Technical issues which require professional assessment and economies of scale which must be taken into account. Without qualified assistance to assess the costs and potential benefits, advice on the technical feasibility of the strategies and assistance developing realistic business plans, there is a risk that individuals or groups may pursue such strategies with blind enthusiasm. In the absence of careful and realistic planning they are as likely to create losses as they are to bring benefits.

Source: Authors.

**The promotion of FPAs is hindered by confusion about the nature of farmer organizations and the lack of standard models.** The term “farmer organizations” is used in common parlance to describe a variety of types of organization and applied to different organizational arrangements, including organizations led by the government, those created by dragon head enterprises and those practicing “order form farming”. Where a company sees strategic advantage to be gained, it is not uncommon for it to adopt the title of “farmer cooperative”. When farmers themselves recognize a need to work together they have little guidance on how to organize themselves.

**Until very recently those interested in establishing farmer organizations only had recourse to learning from the experience of others on an ad hoc basis.** A case study of flower growers association notes that the model and charter of a local watermelon association was used as a reference point for their own organization (Feng, 2004), and the formation of Chestnut Association in Anhui was preceded by a visit of county and township officials to Sichuan to learn how associations could be established (Feng, 2004). The case study of the kiwifruit association notes that the charter of the American cooperative Sunkist was used as a basis for developing their own charter (Feng, 2004). Such *ad hoc* methods of learning create the risk that best practices may not be followed or, even inappropriate lessons will be studied and copied. In the instance of the Chestnut Association, it is noted that at the time the delegation of farmers went to learn from Sichuan's experience the provincial government in Sichuan was following an approach which was subsequently modified and improved, but the visiting delegation took their lessons from the earlier approach.
Box 4: Multi-tiered training for farmer associations

To support the development of farmer associations in pilot counties in Sichuan a framework for a training program was designed, coordinated and evaluated by the Institute of Rural Economy, Sichuan Academy of Social Sciences (IRE-SASS); one training and technical assistance programs were developed and delivered to Government officials, leaders of FPAs, and farmers by an NGO (ICCIC-Gungho, 2005); one training program to FPA leaders and farmers was developed and delivered by an academic institution (CAUMBA, 2005), and specific support to the pilot was provided by a policy advisor.

The organizational and institutional part of the training and technical assistance was the responsibility of the NGO. It designed three different training programs of three days each. All training programs made extensive use of participatory techniques, group discussions and facilitation techniques to guide group dynamics. In addition to modules common to each of the programs providing an introduction to cooperative principles and structures, the features of the training targeted at specific groups included:

**Training for local government officials**
- Analysis of the current state of internal governance in local farmer organizations
- Relations between local government and farmer organizations
- Creation of a policy framework favorable for farmer organizations
- Communications issues between government and farmer organizations

**Training for Association (Cooperative) Leaders**
- Stakeholder analysis
- Improving internal decision making mechanisms
- Promoting economic participation and democratic control of members
- Writing by-laws and establishing cooperatives

**Training for Association (Cooperative) Members**
- SWOT analysis of poverty situation
- Governance and decision making in cooperatives
- Exercising democratic control
- Relations between members and management boards

Source: ICCIC Gung-Ho Training Manuals, May 2005; see also Annex 4.

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Model training material and FPC model charters have been prepared by various agencies as reference documents for establishing FPCs. The Zhejiang cooperative law notes that the Agriculture Department should develop a model charter in consultation with the Industry and Commerce Department. A 2005 guidebook prepared by the Agriculture Bureau of the Inner Mongolia Autonomous Region (Di, 2005) provides a helpful reference and includes as an appendix a model charter with seven chapters and 44 clauses. Training material currently being drafted by the Ministry of Agriculture includes a model charter with six chapters and 61 clauses. While the preparation and dissemination of such materials will be of great value for FPAs in the process of formation they cannot substitute for a fully developed program of training and promotion. Under the World Bank activity on FPAs such training program has been developed in partnership with the provincial Government of Sichuan and the Governments of Renshou and Tianquan County (see box 4). A key drawback of the program was the limited time available for its implementation. Moreover, the role of a 'promoter' providing technical assistance on a more long-term basis could be strengthened. The China-Canada Agricultural Development Program has partly built on this and other experiences to develop a staged approach to the development of FPAs (see box 11 below). These and other materials can be used for wider dissemination and implementation of training materials.
Dynamics of Farmer Associations

The creation of farmer organizations is being motivated by a variety of forces that are not necessarily aligned. The dynamics of commercialized agricultural are impelling farmers towards establishing cooperative organizations in pursuit of better returns for their purchasing, production and marketing activities and to get access to technical and market information. National and provincial policy statements are made with increasing frequency promoting the establishment of farmer associations, but mixed signals are given as to the rationale for the priority. On the one hand a concern for the well-being of the rural population is cited as the reason for promoting organizations; at the same time they are promoted as vehicles to drive agricultural commercialization and modernization. Financial incentives in terms of grants, preferential loans and tax exemptions create a pecuniary incentive for a variety of actors. The persistence of government run organizations using the cooperative label serves to add to the confusion. In the absence of legal and regulatory frameworks and with the lack of clarity regarding organizational structures, these forces combine to create a fluid situation where pragmatic solutions are being improvised at local levels.

The establishment of co-operative organizations has the appearance of a pragmatic response to prevailing conditions. This compares with the international cooperative movement, which characterized by a strong commitment to principles of equal, democratic participation of cooperative members. Examples of where this pragmatic approach run contrary to practice elsewhere in the world can be seen in the heterogeneous composition of associations where government officials and enterprise representatives participate in the management of organizations; instances where association executives are required to make larger financial contributions than ordinary members as a way of demonstrating their commitment to the success of the association; returning surplus based on a combination of share holdings and transactions; and the existence of “core members”, “associated households” and “supported households” in cooperative organizations.

The initiative for creating many organizations frequently originates from government or local enterprises. In a survey of farmer organizations asking where the incentive originated to establish the organizations it was found that in twenty four cases they were started by a "leading specialized farmer or local technician" and in sixteen instances the initiative for creating the organization came from government or enterprises. Only one instance was reported were the organization was initiated by "common small farmers".

Table 4: Initiative for Starting FPA

<table>
<thead>
<tr>
<th>Whose idea was it to start the FA?</th>
<th>Number</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialized farmer or local technician</td>
<td>24</td>
<td>55</td>
</tr>
<tr>
<td>Dragon-head enterprise or processing factory</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Local government</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Social organization such as Science Association</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Common small farmers</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44</td>
<td>100</td>
</tr>
</tbody>
</table>


A large gap exists between the design and implementation of policy. Most national-level policies are devised by an educated and well informed group at the central level with exposure to international concepts of cooperatives. Policy pronouncements often cite internationally

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11 Feng (2004, p.82) as well as Zachernuk, personal experience
recognized principles of cooperative organization as a guide, expressing an intention to establish Chinese cooperatives in accordance with international norms. At the local level, however, officials responsible for policy implementation are often working with a limited understanding of the principles of cooperatives and generally work within traditional government structures where “instructing farmers what to do” is the norm. Frequently they are also skeptical and cautious about the risks of allowing farmers to organize independently (RAF, 2004, p.59). At the same time entrepreneurs seeking profitable opportunities for processing or marketing of local agricultural products devise organizational arrangements to ensure a reliable supply of adequate quantities and quality of raw materials, and adopt the title of “farmer cooperative” as a “flag of convenience”. Farmers, with no tradition of participatory and democratic decision making, limited education and a habit of submissively complying with instructions issued by the government, often become passive participants in the process of creating “farmer organizations”. Under these conditions, and particularly when financial incentives by way of grants or tax exemptions are available, it can be expected that innovative and pragmatic designs for farmer organizations will be devised.

Box 5: Supervision and control versus autonomy

An often discussed issue facing FPAs at the local level is how to ensure that people selected as heads of FPAs carry sufficient authority within their communities to be assured of compliance of association members with decisions of the FPA management. By virtue of being elected by association members, it might be argued that a leader should expect the members to recognize their authority and abide by decisions of the executive. Local government officials on the other hand might suggest that association leaders should be Party members. They argue that, in this way they would be expected to be people with authority within their communities. The additional point was made that, if association leaders were Party members, there would be Party channels through which their work could be appropriately supervised and controlled. The dilemma from such conflicting views is shown in the case of the Piyuan Canal Water User Association (WUA) described in box 8 below. Situations such as this arise because, in the absence of clear legislation or guidelines for the operation and oversight of farmer organizations, in each instance innovative ways are being devised locally to strike a balance between autonomy and supervision.

Source: Zachernuk, personal experience

The dynamics of farmer associations result in organizations which are correlated to administrative boundaries. The close relationship between local government and FPAs on the one hand, and between local government and the local economy on the other, has resulted in a tendency for the membership of most FPAs to be confined within a single administrative unit, generally a village, township or county. For organizations which register with the Civil Affairs Bureau this situation is reinforced by regulations which restrict them to operating within the boundaries of the administrative level at which they have registered. Thus to operate in more than one township of a county an organization must register at a county level, but its activities cannot be expanded to other counties without re-registering at a higher level of administration (usually prefecture or municipality). While some organizations are registered at a county level, very few have members drawn from more than one county. This has implications for the viability of farmer organizations, particularly considering that in many sectors the minimum viable size of associations will be determined by the economies of scale which may exceed the capacity of the administrative jurisdiction.

The co-location of administrative unit and organization scale is often detrimental to organizational effectiveness. The close affinity of organizational structures and administrative boundaries is demonstrated by the case of water user associations (WUAs). When setting up organizational systems for farmers to take control of the operation and maintenance of irrigation
infrastructure there is an obvious logic and advantage to organizing management within discrete irrigation areas as delimited by natural geography. However there is still a tendency to design WUAs on the basis of administrative boundaries (townships or villages) (Ou et al., 2004). In many cases the inseparability of rural affairs from the operation of local government is institutionally embedded, and a paradigm shift is necessary before the logic of markets, agricultural production and economies of scale can overcome these habits.

**Without a legal framework and in the absence of a body of accepted practice, ensuring that good practices are followed in the management of farmer organizations is a major challenge.** There are a number of governance issues confronting FPAs, including ensuring that the interests of members are being served by the organization, that there is an equitable sharing of benefits and burden between members, that transparency and accountability are practiced in management and that democratic management practices are upheld. There is trade off between efficiency and participation. While the marketplace requires efficiency and centralization of decision-making democratic control needs participation and involvement, which are time-consuming and costly. Establishing effective leadership and holding it accountable to the members is a major challenge to China’s cooperative sector. The transaction costs associated with it may be greater than the potential benefits generated from group actions thanks to the prevailing small-holder production.

**Practice in China has been to countenance the creation of organizations with very heterogeneous memberships.** It is common for members of organizations to include individual farmers, representatives from enterprises, government agencies, people from research institutes, traders and others within a single cooperative or association. Indeed it is not uncommon for non-farmers to take the leadership of farmer organizations (Table 5). While some Chinese commentators note that the interests of farmer-members should be at the heart of FPAs and that their aim is to promote the principles of democratic control, equal economic participation and redistribution of benefits in proportion to use of service and patronage, they also suggest the need for a variety of organizational structures, suggesting that a one-size-fits-all approach should not be followed during a period of transition (Zheng, 2006a). In fact it is common that local enterprises take the initiatives for the creation of many farmer organizations, with either the enterprise managers or company staff sitting on the management board of the farmer organization.

**Table 5: Leadership of FPAs**

<table>
<thead>
<tr>
<th>FPA Leaders</th>
<th>Number of FPAs</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialized big farmer</td>
<td>17</td>
<td>35</td>
</tr>
<tr>
<td>Local technician or technical farmer</td>
<td>13</td>
<td>27</td>
</tr>
<tr>
<td>Representative of business or processing enterprise</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Local government official</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Representative of Science Association or other social organization</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Common small farmer</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: RAF (2004), table 3-6 page 62
Note: More than one answer is possible.

**Internal governance and ensuring the transparency and accountability of association affairs is essential to protect the rights of members.** Survey results show that 73 percent of farmer organizations do not practice external auditing and 11 percent do not make it a standard practice to

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12 The approach is reflected in comments such as “Though members in FPCs can be some non-farmers such as local governments, Supply and Marketing Cooperative (SMC) or even Leading Enterprises (LE) etc, farmers should be its basic members.” (Jiang, 2004, p.2)
provide members with information on the financial affairs of the organizations (RAF, 2004, p.41). The Zhejiang law offers some basic standards for protecting the rights of members, stipulating that financial reports must be provided to the members, that standard accounting procedures should be adopted and ensuring the existence of a supervisory committee within the organizations.

**International experience highlights the importance of good leadership to the successful operation of cooperative groups.** Successful leaders are characterized as those with both entrepreneurship and production skills, dedicated and dynamic, with an interest in serving their community and being able to motivate people rather than just “tell them what to do” (Baker and Theilgaard, 2004, p.107). The emergence of such leaders in China is hindered by relatively low levels of education in rural areas, particularly in the poor and more remote parts of the country. At the same time the rapid pace of development and change in the rural economy has created opportunities for farmers with outstanding entrepreneurial talent to do very well for themselves individually, and having succeeded they have little incentive to complicate their achievements with the challenges of leading groups of fellow-villagers.

![Table 6: Primary Internal Obstacles to Sustainability of Farmer Associations](image)

<table>
<thead>
<tr>
<th>Obstacles Identified (Internal Factors)</th>
<th>FPA Leaders</th>
<th>FPA Members</th>
<th>Non-members</th>
<th>Government Officials</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>Rank</td>
<td>#</td>
<td>Rank</td>
</tr>
<tr>
<td>Lack of capital</td>
<td>39</td>
<td>1</td>
<td>95</td>
<td>1</td>
</tr>
<tr>
<td>Scale of operations scale too small</td>
<td>21</td>
<td>2</td>
<td>48</td>
<td>2</td>
</tr>
<tr>
<td>Poor FPA management</td>
<td>20</td>
<td>3</td>
<td>43</td>
<td>3</td>
</tr>
<tr>
<td>Inadequate market information</td>
<td>19</td>
<td>4</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>Lack of service from FPA</td>
<td>15</td>
<td>5</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>Lack of technical ability and service</td>
<td>15</td>
<td>5</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>Unqualified FPA leaders</td>
<td>9</td>
<td>7</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Lack of training</td>
<td>9</td>
<td>7</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Discrepancy between FPA members</td>
<td>9</td>
<td>7</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Poor quality achieved</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Land scale is too small</td>
<td>7</td>
<td>10</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Never thought about</td>
<td>..</td>
<td>..</td>
<td>19</td>
<td>7</td>
</tr>
</tbody>
</table>


**There is a tendency for village officials to hold management positions in associations.** Frequently they are elected to the positions on the various grounds that: they have experience in managing public affairs; as village officials they are already collecting a salary for managing public affairs; or where village heads have been elected by popular vote, they have already been identified by villagers as capable individuals. Association members often have other, very practical motives behind the selection of their leadership as described in box 6. When considerations other than the capability of an individual to provide the necessary leadership are part of the selection criteria the strength of the association is likely to be jeopardized. When asked to identify the major constraints to sustainable development of their association both association members and leaders ranked poor management as the third most serious problem (Table 6).

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13 Shen et al. (2004, p.11) note that in almost 67 percent of FPAs surveyed the association leaders were also village cadres.
Box 6: Choice of leadership

There is general consensus that identifying good leaders for farmer cooperatives is essential for their success. The attributes of successful leaders are usually described as: capable managers, knowledgeable about production and marketing, respected within their community and motivated by a desire to help members of their community.

Different perspectives are also involved when members select leaders. For example, a bamboo handicrafts association was being established in Huomin village of Huoshan county, Anhui. A successful association had been established in a neighboring township two years previously and was being used as a model. At that time a party official from a television station in Liu'an municipality was assigned to work in Huomin as village Party Secretary for two years as part of the local poverty alleviation strategy.

The election of the association executive was done by “selection from the sea”, a voting procedure where candidates are not identified beforehand, but rather each association member writes the names of those they want to elect on a sheet of blank paper. When the votes were tallied it was found that the party official from the municipality had been elected as association head. When asked to explain their decision to elect an outsider who was only working in the village temporarily as association leader the members said that they felt he was better educated than anybody in the village, had better connections with government officials at the municipal level, and he had financial resources available to him in connection with his poverty alleviation responsibilities, which they hoped he would use for the association.

Source: Zachernuk, personal experience.

Returned migrant workers are good potential candidates for association leaders. Many migrant workers return to their home villages with a certain amount of capital in hand and with exposure to new ideas and ways of doing things. Their wider view of the world and experiences often emboldens them to embark on new initiatives. Such people can provide the catalyst behind the creation of farmer organizations.

Understanding of supply chains and a realistic assessment of the capabilities of farmer organizations are prerequisites for development of farmer organizations. The organization of farmer cooperatives offers opportunities for greater integration into the supply chain and thus improving economic returns to farmers. However there is a need for a realistic assessment of how far they can go, bearing in mind the constraints faced with regard to capital, technical and business skills and access to resources. While traders and middlemen are often cited as one of the reasons for low farm gate prices it is essential to recognize the actual value added by the different players in the supply chain, including storage, advertising, packaging, processing etc. Many food processing enterprises are very capital intensive, and it may well be beyond the capacity of a farmer organization to aspire to such a high level of integration (Baker and Theilgaard, 2004, pp.44f).

The success of FPAs will impact on the economic interests of other stakeholders in the rural economy. To the extent that FPAs succeed in becoming integrated more directly into the supply chain by selling directly to processors or final consumers they will displace other intermediaries in the supply chain such as petty traders and wholesalers. Traditional suppliers of inputs also stand to lose from the creation of successful farmer organizations which source their inputs from wholesalers or directly from manufacturers.

Transparent and rule-based operation of markets is essential for FPAs to function. In a well regulated and functioning market economy the competition between different stakeholders takes place within the parameters of laws which delineate and protect the interests of different stakeholders. In China's rural economy, where the regulation of markets and the rule of law have
yet to mature, conflicts of interest are often resolved with resort to political pressures, influence and connections. Without the protection of legal status, farmer organizations on their own are not in a strong position to defend the interests of their members. This is even more so when some of the stakeholders who stand to lose will themselves be government agencies which have traditionally had a role in supplying inputs or purchasing agricultural products. Newly formed farmer associations which lack social capital in the political arena, may find themselves severely challenged.

**Box 7: Defining new market relationships**

Farmers in Shehong County of Sichuan joined a Cotton Association to improve their cultivation skills and coordinate sales of their product. To guarantee the quality of the cotton sold, the association provided seeds to farmers and stipulated that the association would only sell cotton grown from the seeds supplied. The association gradually expanded until it accounted for 70 percent of sales in the local markets. Traditionally the local agricultural bureau held a monopoly on the sale of cottonseeds. While the association represented only a small part of the local market the agriculture bureau did not take any action. However, when it began to dominate the local market the agriculture bureau attempted to prevent the association from supplying seeds. The association leadership appealed to the county authorities, and a special meeting of Party and government officials was convened to resolve the issue.

The meeting determined that both the association and the agriculture bureau should be allowed to compete in the market to supply cotton seeds. However conflicts between the two parties still persisted, and extended beyond cotton seeds to disputes over the supply of agricultural chemicals as well.


**Emerging farmer organizations change the traditional functions of local government.** Not infrequently, local government officials are suspicious of or even hostile to the idea of farmers organizing for their collective benefit. This is attributed to conservative attitudes, confusion between the former people's communes and the new forms of organization, and in some cases a concern that farmer organizations threaten the control and authority of government officials (Chen, 2004, p.66). Experience has shown, however, that when farmers organize to manage their own affairs the result is generally not detrimental to the authority of local government. Farmer organizations can serve to enhance the operation and authority of local government by relieving government agencies of unnecessary responsibilities and allowing government officials to concentrate their time and efforts on their primary tasks. Farmers self governance will reduce many of the rent-seeking opportunities of government officials, which will evoke some opposition from them.

**Box 8: Farmers managing their own affairs**

The Piyuan Canal in the Dabie mountains of Anhui is typical of many medium-sized irrigation projects in China. Built in 1959, the canal was generally well managed and maintained during the period of the collective economy. Communes and work brigades had clear responsibilities as well as the authority and resources necessary for their tasks. Following the dissolution of the communes, discontinuities appeared in responsibilities, authority and resources. Poor maintenance, deterioration of the infrastructure, and poor service was the result. Consequently, farmers became reluctant to pay water fees, creating a vicious cycle which led to inadequate maintenance and a gradual shrinking of the irrigated area. These problems were exacerbated because the 40 km long canal crossed administrative boundaries, serving villages in seven townships.

A solution was proposed in the form of WUAs, giving farmer organizations the authority and responsibility
to manage and maintain the network of branch canals in their own communities. Beginning in 1999 and over a period of three years WUAs were established along the length of the canal. They were officially registered with the Civil Affairs Bureau and the county People's Congress passed legislation to recognize their responsibilities for management, maintenance and collecting water fees.

The establishment of the WUAs initially faced resistance from village and township officials. The resistance arose partly from skepticism about the ability of farmers to take care of operation and maintenance, and partly because, prior to the management reforms, water fees had been collected by village and township authorities and were not always used solely for management and maintenance of the infrastructure.

However, once the WUAs became functional the township officials came to realize their benefits. They acknowledged that the WUAs relieved township staff of the burdens of dealing with irrigation management and maintenance. Most importantly, the WUA undertook the resolution of conflicts and disputes between different water users, relieving township officials of a major, perennial source of trouble. Ultimately township magistrates acknowledged that the WUAs helped relieve township officials from detailed involvement in day-to-day issues of irrigation management, allowing them to focus their energies on larger issues.

Source: Zachernuk, personal experience.

Note: The Hengshan and Xiaofuqiao Water Users Associations, which are part of the Piyuan irrigation scheme, were recipients of a 2nd Tier Award in the 2005 World Bank sponsored China Development Marketplace, for a project titled “Models to Promote Independent and Healthy Development of Water Users Associations”.

Farmer organizations are an effective means of introducing agricultural innovations. The introduction of new agricultural practices, improved varieties or new crops is traditionally the responsibility of the agricultural extension system. Because of the organizational culture in the extension system the introduction of innovations frequently takes the form of a top-down exercise, where technical specialists at higher levels identify an innovation and technicians at the township level are responsible for encouraging farmers to adopt it. This approach often creates tensions between extension workers and farmers, which are made worse if, for any reason, the innovation turns out not to be successful. Organizations managed by farmers also seek new varieties, crops and technical innovations. But because they are more intimately familiar with local conditions and feel market pressures more directly, they may be more likely to identify innovations appropriate for their circumstances. As a farmers organization they are also more likely to have an easier task gaining acceptance of the innovation. Moreover, technical innovations introduced by farmer organizations reduce the costs to the extension system, which often provides subsidies as a means of promotion.

Resource Mobilization

Difficulties in raising adequate capital are a main obstacle to the development of farmer organizations. In a survey of government officials, association leaders and members, and non-members the lack of capital was identified by each of the four groups as the most important obstacle to the sustainable development of farmer organizations (Table 6). There are two aspects to the need for capital:

- Credit for the productive operations of individual members.
- Capital for start-up costs of the organization (e.g. fees for registration or certification, equipment for transport and facilities for storage)
Inadequate access to credit for agricultural production is a major constraint for farmers. In the 1950’s rural credit cooperatives were first established to address this issue but were subsumed, first within the people's communes and subsequently by the larger banking system, in the process losing their cooperative nature. Under current regulations FPAs are barred from lending to or holding the savings of members. The People’s Bank of China and the China Banking Regulatory Commission regulate the financial sector including rural finance and, although reforms of the RCC system are underway, the option of allowing farmer organizations to become involved in the delivery of credit is not considered. However, there have been instances where farmer organizations have facilitated their members’ access to credit by providing credit references and loan guarantees (Feng, 2004, p.22). There are also instances, usually in FPAs operated under the auspices of dragon head enterprises, of FPAs providing credit in kind by providing inputs at the beginning of the year to be repaid in products following harvest, although such links may not always be in the best interests of farmers.

The challenge of raising start-up capital for FPAs has been a major cause of deviations from international cooperative principles. Solutions devised in specific instances have involved striking a balance between retaining the principle of democratic control with the need to raise adequate capital. One source of funding is through a membership fee. However, membership fees are often small out of a concern that high fees would deter people from joining. One survey of farmer organizations found that only 14 percent have regular membership fees (Shen et al., 2004, p.8) while another found that two thirds of the cooperatives surveyed charged a membership fee, but that it was generally an entry fee rather than an annual fee, and often was only nominal (RAF, 2004, p.27).

Raising funds through sale of shares threatens to blur distinctions between cooperatives and investor owned firms. It is common for farmer organizations in China to adopt the form of share-holding cooperatives to raise start-up capital. While equity investment is used as a mechanism to raise capital in western cooperatives, especially in the new generation ones, the equity investment is closely related to the right to deliver product. Furthermore, the ownership of shares is restricted to cooperative members, there is frequently a ceiling put on the maximum number of shares one member can hold and share holdings are not reflected in differential voting rights. Moreover, the distribution of surplus (profits) is based on volume of transactions rather than the number of shares held. The practice in China has been more flexible, with share holdings reflected in both voting rights and the distribution of surplus. The cooperative law in Zhejiang aims for a balance by stipulating that no single member can hold more than 20 percent of the shares and that, while voting should be based on the principle of one member one vote, flexibility is allowed up to a maximum of one person controlling 20 percent of the voting rights. The same law notes that the distribution of surplus can be based on a combination of share capital and volume of transactions.

A strong degree of reliance on government support has implications for the independence of the organizations. The lack of appropriate legal status restricts the ability of many organizations to access credit through formal financial institutions, however those registered with the Industry and Commerce Bureau may be able to access loans from banks. In a survey of organization members asking how funding for new investments would be raised, 30.7 percent of the respondents identified bank loans, while 23.9 percent said contributions from government agencies, and 14.8 percent said contributions from members (RAF, 2004, p.91, table 3-58).
Relationship between FPAs and Government

The relationship between FPAs and the Government in China is developing in a direction favorable for the development of FPAs. With the general support and encouragement of the central Governments, many local Governments have attached increasing importance to the development of farmer cooperative economic organizations in recent years. In a number of locations, relevant issues such as registration, training and policy support are being properly addressed, and the governments’ principle for developing these organizations is mainly built on encouragement. Hence, the overall trend in China is one from a ‘government-driven’ to ‘self’ development, in which the own capacity of FPAs and their sustainable development is emphasized.

Nevertheless, the relationship between FPAs and the Government is not yet clearly defined. In an environment that is characterized by the lack of an overall legal framework as well as the changing, and still often unclear role of the Government, the responsibilities of various Government levels and agencies are unclear. For example, there seems to be different views between various levels of Governments and various localities on the development of FPAs and how the Government should promote them. Moreover, not infrequently, the role of the Government vis-à-vis FPA becomes an area of competition between line agencies. Areas such as registering, auditing, monitoring and supervising of FPAs are often not clearly assigned to one agency, leading to overlaps such as multiple registration, or gaps such as in auditing and monitoring. These more regulatory functions are also often merged and implemented together with other activities such as the provision of technical or financial support. Especially when combined with policy directives that call for an increase in the number of FPAs or members, such institutional arrangements reflect inherent conflicts of tasks and objectives.

Lack of a standardized registration and regulation in various localities reflects negatively on the development of FPAs. FPAs are often unclear about their rights and obligations. In some locations it might be difficult or even impossible for them to become registered, while in other locations it might be possible – and desirable – to register with more than one agency. The uncertainties became particularly acute where the Government seeks active involvement in the governance of the FPAs themselves. Recognizing the damaging effect such involvement has on the ability of FPAs to act independently as self-help groups, a number of policy documents call for restraining such Government involvement, in particular, in the management of FPAs. At the same time, there is a ‘higher-level demand’ for “the [Party] branch and the association”, a deviation from institutional separation of FPAs and state institutions. And, as Yang (2005) observes, even though these Party branches are generally established, there is no clarity as to their functions.

An important issue for the promotion and development of healthy and sustainable FPAs in China is striking the right balance between government support and FPA autonomy. International literature stresses the importance of the autonomy of farmer organizations and their control by farmer members without interference by government or business interests. Some Chinese specialists on the other hand have divergent opinions. While some agree that farmer organizations should be farmer-owned and managed, with support but not interference from government, a line of argument frequently put forward is that, for practical reasons largely owing to low levels of education and lack of experience, the development of farmer organizations still requires a strong degree of government involvement and guidance.
Mr. Du, a researcher specializing in kiwifruit production, hoped to promote kiwifruit in the Dujiangyan area of Sichuan using the model of “dragon head enterprise & association”. Kiwifruit production in Dujiangyan had been stagnating because the poor quality fruit produced resulted in low prices. Using a technique called “bag covering”, wrapping the fruit in a paper bag when it is still on the vine, fruit can be produced with uniform color and shape, and a sugar content of 6.2 percent achieved, which is up to international standards. Because the local markets had never offered a significant price differential for quality the technique had not been widely adopted in the area.

Having worked in rural areas for many years Du knew that township support was important to achieving success, and that to mobilize farmers they must see real benefits. He identified Hongkou township as the site for his pilot where the vice magistrate in charge of agriculture was a graduate from Sichuan Agricultural University. For the purpose of demonstration Du agreed to provide growers with 400,000 bags for free and promised to pay a 30 percent premium above the market price for all fruit meeting his specifications. The township agriculture extension office agreed to provide technical and organizational support to implement the “bag covering technique”; and the township agreed to provide farmers with compensation in case the purchase with the 30 percent premium could not be completed due to market reasons, substantially reducing their risk. Moreover, the organization work carried out by the township government greatly reduced Du's costs and efforts.

The township magistrate identified 19 households in Hongkou village for the trial and suggested Mr. Guo, the chief of Hongkou Village to lead the site trials. Guo had been a kiwifruit planter as well as a village cadre for many years. He was happy to handle affairs for villagers, and he enjoyed a high prestige in the village. With guidance from Du, a production schedule, including detailed technical requirements, was formulated and tracked for each stage of the production with the supervision and support of the Agricultural Technology Service Center of the township. In autumn of 2003, the 19 farmers of Hongkou Township who had participated in this “bag covering” experiment produced a total of 36 tons of fruits conforming to the specifications, all of which were purchased by Du according to the agreement.

Source: (Feng 2004, pp 42-45)

A distinction must be drawn between “supporting” and “leading” when determining the appropriate role of government in the establishment and operation of farmer organizations. “Transforming the functions of government” has been a prominent theme in central government policy pronouncements since 2002. One element of this transformation is that the government should step back from active involvement and control over economic activities and confine itself to a role of regulating and supervising the operation of markets. However, habits developed through years of active involvement in local economic activities will not disappear easily. When government officials were surveyed regarding their perceptions of the role of government in relation to farmer organizations, many of the responses suggest that they see themselves not simply as providing advice and information, but also as having responsibility for the financial operation and success of organization (providing subsidies, arranging loans, getting contracts etc.) (RAF, 2004, p.131, table 6-8).

Attention should be give that FPAs do not become an instrument for inappropriate social exclusion. There is a risk for the development of FPAs, if Governments pursue other objectives in the support for FPAs than the needs of the association and its members. This problem of Government support not being given indiscriminately is noted from international experience (Baker and Theilgaard, 2004, p.120). Examples of such behavior are evident in Chinese experience,
instances being cited where membership in cooperatives is conditional on meeting family planning goals (Jiang, 2004, p.50), or where eligibility for loans in a micro-credit program was conditional on borrowers “supporting government policy” (ADB, 2001). While “government policies” such as achieving “family planning goals” might be legitimate objectives in themselves, using FPAs for their implementation undermines the support of farmer associations as independent ‘self-help’ organizations. There is also a concern that as a channel of government funding these associations could become an instrument for social exclusion, because only the farmers meeting set criteria or with connections may be eligible to become members and have access to government support. Obviously, FPAs and their members have to fulfill their obligations and act within the boundaries of the law, but attention needs to be given that FPAs and support to them do not become an instrument of inappropriate exclusion.

Box 10: Excessive government support

The head of the county-level Science Association, Mr. Yang, went village by village explaining to farmers the mechanism of share-holding, the meaning of professional technical associations, and asked farmers whether they were willing to join the association and buy shares. He was surprised to find that although they hoped an association could help them sell chestnuts, most of them were unwilling to buy shares. Yang and the county and township officials failed to pay attention to this fact. Instead, they thought the work of organization and promotion by the government must be strengthened; that it would not be sufficient to depend on the voluntary participation of farmers, and their awareness needed to be improved.

Subsequently, the county and township governments adopted a range of actions. The County Party Secretary got personally engaged and soon the township government issued a Decision on “Preparation and Establishment of a Chestnut Association” and set up a preparatory leading team made up of key leaders of the township government and relevant departments to take the lead and assist in formulating the association charter, organizing and holding meetings, and formally electing leaders of the association. It stated that the work “must be hurried up, and completed by mid-August before the harvest season of chestnuts.”

Only weeks later, the County Mayor paid a visit to the township to hear the report by township government on preparation work for the association. After hearing the report, he said the county government would work as necessary to prevent and solve potential problems and a leading team was set up within the county government. Thus for the preparation work for the chestnut association there were leading teams from the township and county governments. The preparation work became an issue of first priority.

Subsequent developments suggested that in organizing the farmers to cooperate, the two teams acted too impatiently and somewhat “overmuch”, in some cases acting as agents of or even on behalf of the farmers, thus the functions of the governments were exerted too excessively during the establishment process.

On June 28, 1998, the County government issued a Notification on “Setting-up a Leading Team for Establishing a Share-holding Rural Professional Technical Association”. This notification appointed staff of the leading team, with a county vice mayor as the leader, Mr. Yang as the vice team leader and office director, and with team members including leaders from departments such as Standing Office of the County Government, Institutional Reform Commission, Financial Bureau, Forestry Bureau, Agriculture Bureau, Industrial and Commercial Bureau, Civil Affairs Bureau, the Agricultural Bank of China, and the Supply and Marketing Cooperative. This high level leading team participated in and controlled the whole process of organizing and establishing the association. It should be noted that all the preparation work, except for consulting the opinions of two villagers, was almost solely taken care of by the government and relevant departments.

In the years after establishment of the association, except for some purchasing and training, as well as registering a trademark for chestnuts, various activities planned by its designers were not carried out and the objectives and tasks stipulated in the charter were not realized. The association existed in name only. In the 6 years since its establishment, the association only absorbed 2 new members. During these 6 years, it merely carried out some active activities in the first year after its establishment, after this, it had actually
Practical considerations suggest that under current circumstances, the ‘right’ government involvement in the operation of farmer organizations may serve the interests of farmers. Given the large role of government in allocating resources, farmer organizations may stand to benefit from the involvement of government officials and it may be in their interests to have a certain degree of government involvement.\textsuperscript{15} It has been suggested that with the current state of rural financial sector, the lack of legal status, and the ineligibility of many farmer organizations for credit from formal financial institutions, it is important for them to utilize connections with local government to get access to credit (Chen Jie, 2004, p.18). In such cases the issue becomes one of achieving an appropriate balance, limiting the extent of government involvement.

\textbf{Box 11: Support through facilitators}

The CIDA funded China Canada Agricultural Development Program includes an initiative to foster the development of farmer associations at a grass roots level in project pilot counties. The program is training facilitators to provide farmers and local government officials with advice on establishing and operating farmer associations. The program, developed under the guidance of the Center for Cooperative Studies at the University of Saskatchewan, involves a four stage process which involves: i) promoting an understanding among prospective farmer members about the nature and basic principles of cooperative action; ii) undertaking detailed analysis to assess the viability of cooperative action and prepare a strategic development plan; iii) formal establishment and registration of an organization and finally; iv) providing mentoring, training and support to the organization for a follow-up period. The role of the facilitator is to provide guidance throughout the process and to use the process as a means of improving the capacity of members to manage their own association. This approach is designed to ensure solidarity of group members and provide a basis on which a strong, sustainable organization can be built.

Source: Zachernuk, personal experience

\textbf{The distinction between providing support and taking control requires the application of judgment and flexibility.} The case of the Kiwifruit Association in described in box 9 shows that there are critical junctures at which appropriate government intervention can strengthen the development of farmer organizations. The assistance of officials from the township government in identifying appropriate locations and individuals based on their local knowledge, disseminating information to farmers, supporting and supervising training efforts and providing a risk guarantee were measures which facilitated the development of the association. On the other hand the case of the Fengqiao Chestnut Association in box 10 shows how government support can lead to the indifference of farmers, resulting in the collapse of an organization. Stepping away from a position of control to one of support is often contrary to the work habits of many government agencies.

\textbf{Providing preferential tax treatment to promote the development of farmer organizations has been endorsed by central government policy pronouncements.} In the provinces of Jiangsu, Shandong and Jilin income tax, business tax and land fees have been reduced or eliminated for FPAs. In some provinces FPAs are exempt from road tolls. Some argue that the policy of

\footnotesize{\textsuperscript{15} See He (2003), who coins the term ‘semi-civil society’ to describe the relationship found in China between government and civil society organizations.}
reducing the burden of farmers by eliminating agricultural taxes should, by extension, be applied to farmer organizations, and their operations should be exempt from taxes (Chen, 2004, p.64).

**Internationally, cooperative related tax issues relate to avoidance of double taxation and provision of preferential tax treatment.** Avoiding double taxation means recognizing the member-owner nature of cooperatives and the mutuality of income they earn. Transactions between members and a cooperative are not viewed as commercial transactions and therefore value added tax and other taxes are not applied. If business with non-members is allowed, income generated from such business should be taxed. In most western countries cooperatives pay sales, land and other relevant taxes as well as benefits on labor, just as ordinary corporations. In some Asian countries cooperatives have been given preferential tax treatment in comparison with investor-owned firms, as a spur to their development (Baker and Theilgaard, 2004, p.41; Chen, 2004, p.63)

**Tax incentives, like excessive subsidies, can produce results contrary to their intent.** The availability of tax concessions for farmer organizations can create an incentive to adopt the label of “cooperative” simply as a means of acquiring financial incentives even when the management and ownership of a commercial entity may not be organized around cooperative lines. Tax burdens are not cited as a major constraint to the development of farmer organizations, ranked by association leaders and members as 9th out of 11 external factors impinging on the sustainable development of the organizations (RAF, 2005, table 3-66).

**In the anticipation that the challenges currently facing farmer organizations can be suitably addressed, new roles for farmer associations have been identified.** While the details of the “New Socialist Countryside” program announced for the 11th 5 year plan have yet to be fully elaborated, it is clear that the program will involve a substantial increase in financial support for agriculture and rural development. Some commentators note that the realignment of the role of government and the shrinking size of local government administrations create an opportunity to use farmer organizations as a conduit for government support (Zheng, 2006a). Arguments favoring such an approach are that FPAs, as organizations representing farmers’ interests, are more likely than local government to distribute resources more equitably and efficiently than government agencies and that channeling support through FPAs would help relieve the financial constraints faced by most organizations. Experiments are already underway in Jiangxi province under an ADB supported pilot project to channel poverty alleviation funds through NGOs as a trial of government – civil society cooperation. There are examples (Box 12) from international experience of successful farmer organizations providing public services such as agricultural research and extension, as well as using their own resources for investment in public infrastructure.

**Box 12: Farmer organizations and public services**

Established in 1927 the Colombian Coffee Growers Federation is an example of a successful farmers organization. It is entirely owned and operated by Colombian coffee farmers, of whom there are approximately 500,000. All members are coffee growers, and the federation is organized in accordance with the principles of democratic management, one person one vote. It is politically and financially independent, acting solely in the interests of its members. The federation engages in activities such as transportation, coffee storage, and public works programs. It also operates a buffer fund in which reserves

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16 Many countries have encountered difficulties when tax breaks or incentives are provided to cooperatives. For example, in Indonesia tax breaks for financial cooperatives is an incentive for setting up cooperatives to run banking operations, but with clients well beyond the “member” concept of cooperatives. This institutional arbitrage that favors the choice of cooperative legal status for bank-like activities is further promoted if supervision of financial cooperatives has a more lax legal and institutional framework.
are accumulated when world coffee prices are high, allowing it to pay growers a minimum price when world markets are falling.  

Moreover, the Federation funds a research center (Cenicafé) with over 100 scientists and chemists. The research center responds directly to the needs of farmers through a questionnaire distributed to members each year and annual meetings to discuss research findings. The federation also runs its own extension and training system, with over 900 technical advisers. The extension activities include a half hour weekly television program with an estimated viewing audience of 5 million people. Finally, the federation has invested heavily in the development of social services and infrastructure. Using a levy charged on coffee exports it has helped build 16,923 schools and 12,882 km. of roads in the coffee growing regions of Colombia.


Attention should be paid to the fact that the channeling government programs through farmer associations can threaten the independence of farmer organizations. If the programs to be delivered are planned and designed in a top-down manner without full consultation with the farmer association there is a risk that the organizations will implement programs for the sake of accessing resources rather than as a part of their own development strategy. International experience highlights risks associated with channeling government programs through farmer organizations, particularly the threat that it poses to their autonomy and the risk that the organizations could become simply an arm for implementing government policy (Münkner, 2005).
4. Policy Recommendations

National Legislation

The lack of a law regulating the creation and operation of cooperatives is one of the most important impediments to further development of cooperatives and one of the reasons for the “non-standard” development of farmer organizations. A task force under the National People’s Congress (NPC) has drafted such law and submitted it to the Agricultural Committee of NPC. The importance of promulgating the planned law as soon as possible is widely recognized. Promulgation of the law should not be delayed until all issues under review are resolved. It may be useful to prioritize the essential issues and enact a law with a general framework, to be refined over time and with experience. In such a case some of the priority issues are those related to legal status for associations to enable them to make commercial contracts and getting access to loans, clarification of the rights and responsibilities of members and standards for financial management.17

The focus of the law should be on clearly defining and regulating organizations created in the spirit and with the aims of member-owned self-help cooperatives. Legitimizing a broad variety of existing types of organizational structures under the label of cooperatives would only dilute the self-help principle of farmer associations. Legal frameworks already exist for organizations such as shareholding firms and arrangements such as contract farming, and there is no need to bring such structures or practices within a cooperative law.

An enabling law, which facilitates adaptation to changing markets and circumstances, is preferable to a prescriptive law which may quickly become outdated. Given the diversity of forms in which cooperative organization are now found and the diversity of demands which cooperative organizations might be created to meet, a regulatory framework which is too restrictive may result in sideling some types of organizations which may be well suited to the needs of their members. This is particularly so given the variety of needs of farming households in different parts of the country and the different levels of integration into commercial markets.

As long as domestic specifics are taken into account, international experience on farmer association is relevant for China. The law should reflect widely recognized international practice and, where deviation from such practice is necessary due to specific circumstances in China, exceptions and deviations should be made deliberately and with justification based on the primary goal of promoting the interests of members.

FPA Formation, Membership and Composition

The formation of FPAs should follow a clear business purpose and plan and should only be pursued where an assessment indicates that creating a FPA provides the best model for implementation. Business planning and the identification of common needs should be undertaken before forming an association. Once formed, the FPA needs to be concerned with its sustainability in a changing market environment. Internationally, success and sustainability is often synonymous with merger and constant growth in the size of co-operatives. Consequently, a realistic assessment of the development of FPAs in China includes that many FPAs that exist or will be

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17 Key, internationally-recognized principles of co-operatives are the ones by ICA (2003), see Annex 3. According to Yeo (1989, p.1), the main purposes of the law should be (i) to encourage self-reliance, (ii) to give legal personality, and (iii) to protect members and the public. Additional purposes include (iv) to protect public money; and (v) to ensure conformity to government policy. Further on cooperative principles and co-operative law see also Münkner (1974).
created might be unsustainable and that there is a strong pressure to growth through increase of membership, merger, etc.

**Cooperative organizations, which include a wide variety of interest groups, require special consideration.** Strong organizations are more likely to result when they have a clear focus on serving the needs of their members. The capacity of cooperative organizations to promote the interests of their members will depend to a large extent on the commonality of those interests. In cooperative organizations which include members with a wide variety of interests, including both small and large scale producers, wholesalers, processors and government officials, the heterogeneity of members will inevitably make it more difficult to develop a consensus on the aims and objectives of the organization. In fact, international experience points to homogeneity of members and commonality of interests as key factors contributing to the success of cooperative structures (Baker and Theilgaard, 2004, pp.93, 107). The principle of democratic control within cooperative organizations will be challenged, if the organizations include members with a wide variety of interests and if the interests of different members are in conflict. Studies have shown that farmer organizations can actually serve to increase inequalities in wealth, if their operations are appropriated by those in the community who already have wealth and influence (Baker and Theilgaard, 2004, p.29).

**The aims of producers and enterprises may be parallel but are not identical.** The creation of cooperative organizations under the leadership of dragon head enterprises is often promoted with the goal of improving the efficiency of supply chains and promoting the modernization of agriculture. However, under such a structure the relationship between farmers and the enterprise is still heavily weighted in favor of the enterprise. Farmer-owned and -managed organizations representing the collective interests of producers in negotiating with the enterprises are more likely to create a more equitable relationship which can serve the interests of farmers. One of the key aims of farmers’ organizations is to correct the imbalance of power between different agents in the supply chain and increase the bargaining power of farmers when they deal with limited number of processors and retailers.

**Multi-stakeholder cooperatives, or cooperatives with heterogeneous memberships including local government, need special rules for their internal structure, decision-making and control.** Such co-operatives are rapidly developing in many countries. Solutions found to the governance challenges they pose include dividing the membership into sub-groups and giving each sub-group equal voting rights. Members belonging to each sub-group elect their representatives in a meeting of delegates replacing or supplementing the general meeting of all members (Münkner, 2004). These arrangements are generally found in countries where a strong tradition of cooperative action exists and cooperative members are accustomed to exercising a high degree of participation in the decision-making. The introduction of such approaches in China, before the basic foundations of cooperative operation have been established, may undermine the development of strong primary cooperatives.

**Organizations with similar interests should be allowed to join together as federations to better serve the interests of their members.** When associations are able to work together under the umbrella of a federation they are likely to further improve the benefits to members achieved from economies of scale and scope. Such federations will also be well placed to provide technical, management and marketing advice and services for members. However, such federations should be built on the foundation of local, farmer-controlled organizations rather than developed with a

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18 Greater heterogeneity certainly comes into play in higher level cooperative organizations (e.g. cooperative associations), where it can usually accommodated in effective organizations.
top-down approach. As such it is a development which may take several years to evolve, and should not be hurried by externally imposed schedules.

Finance and Resources

Internal funding is a principal financing source for FPAs. As a principle, co-operative societies are organisations pooling members’ resources for joint business operations in favour of their members. Hence, internal funding is a principal source of funding of farmer cooperatives, even though not all cooperative laws require minimum amounts of capital from members. Co-operatives could introduce non-voting preferred shares or other financial instruments for members only. Many laws allow cooperatives to raise capital from outside investors (outside equity). However, international experience shows that this practice risks damaging the independence and self-help principles at the heart of cooperatives.

Cooperatives should have the legal right to take loans. Generally, strong FPA activities such as the pooling of produce for marketing or inputs for purchasing should give the co-operative a sufficiently strong position to obtain external loans if necessary. However current banking regulations do not recognize such resources as acceptable collateral for loans. Restricted access to credit that is caused by problems of the financial sector should be addressed through the financial sector itself.

The use of government funds to promote FPAs should be improved and standardized; the use of direct government financial support to promote FPAs should be discouraged. While there are many examples in international practice of providing government subsidies to support cooperatives in a variety of forms, most experience shows that direct financial support can be detrimental to the development of healthy organizations (Baker and Theilgaard, 2004, p.36). In Europe, with its long history of cooperatives, the practice is to provide subsidies for costs related to the start-up of cooperatives, but not to support fixed investments or working capital. Some specialists put it more strongly, suggesting that “government money often is the kiss of death to co-operatives” as it results in the loss of independence of the organizations (Münkner, 2005).

The types and methods to subsidize the development of FPA should be improved to avoid that subsidies may reduce the incentive of association members to mobilize their own resources, which may lead to the organization becoming unsustainable. There is also a risk that subsidies will be used as a lever by the (local) government to exercise control over the operation of associations. At the same time subsidies that give FPAs a competitive advantage over other forms of organization will serve to distort markets, while the aim of policy should be to enable FPAs to compete on equal terms with corporate entities.

Attention should be given to that significant financial support to an association may create incentives to establish the organization simply for the sake of capturing grants or subsidies rather than out of a commitment towards creating effective business-oriented associations. To the

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19 A separate problem is that of limited access to credit by farmers. Internationally farmer organizations are an important source of credit for farmers. While legislation should allow the establishment of financial organizations such as credit cooperatives and allow FPAs to operate credit facilities for members, this issue falls within the jurisdiction of the People's Bank of China and the China Banking Regulatory Commission and is beyond the scope of a new law for FPC.

20 Baker and Theilgaard (2004) point out that “non-member equity challenges fundamental FPA concepts of member control. The joint venture enterprise will need to accommodate non-members on its board, and incorporate the board’s objectives into its pricing and product delivery conditions for members. Where the joint venture partner is a vertically-integrated [entity] that supplies its own outlets from the enterprise, questions will arise as to the loyalties of the non-members involved in deciding price and delivery conditions.”
extent that the creation of FPAs is motivated primarily with the aim of capturing subsidies or taking advantage of market distortions, the costs and efforts required for monitoring the operation of FPAs will be increased.

**Financial support should be used strategically in ways that strengthen organizations rather than create a dependency on external support.** Government financial support could be used for costs associated with establishment and start-up of organizations, such as publicity, training, market and feasibility studies or meeting costs. These represent expenses leading towards the establishment of organizations, but which individuals may be reluctant to bear as private costs prior to the establishment of an organization. Costs associated with things such as certification for food safety or registration of a trademark may be justified, but these are items which have an intrinsic commercial value as well. Therefore, the amounts provided by way of subsidies should be moderate so as not to create incentives for re-branding of commercial ventures as “farmer organizations” simply to capture such subsidies. If any financial support is provided then the highest degree of transparency and accountability in the awarding and the utilization of such support should be ensured.

**Government financial support should be directed at activities related to the cooperative nature of FPAs rather than their commercial activities.** Government financial support could be provided for things such as creating opportunities for exchanging experience between cooperatives and disseminating an awareness of cooperatives through information campaigns, websites and newsletters. Financial support could also be provided for technical, management and leadership training necessary for the strengthening of farmer associations. If higher level federations of associations come into existence these would provide a valuable channel for this type of financial support. However, higher level apex organizations should be allowed to evolve organically in response to the needs of member associations, and not be created prematurely solely with the aim of channeling financial support.

**Limited access to credit for FPAs (or their members) should be addressed by measures targeting the key underlying constraints,** i.e. those related to the reform of the financial sector in rural areas. Providing loans with subsidized interest is not only unlikely to promote FPAs as self-help institutions, but also bears the risk of undermining the necessary reform of rural financial institutions. Consideration might be given to developing a loan guarantee facility or a system providing matching funds. International and China’s experience with micro-credit demonstrates that developing innovative mechanisms to provide access to credit (i.e. addressing constraints related to the need for collateral and guarantors) are more important than subsidizing interest rates. Moreover, providing subsidized loans distorts targeting, leads to a waste of resources and reduces effectiveness of support programs.

**Taxation**

The tax status of FPAs should be made clear and unambiguous. The most significant tax issue surrounds the potential for “double taxation” of cooperatives. However, “mutuality” of income should allow a FPA to distribute surplus (profits) to members, who then pay taxes on distributed profits as normal income. Any preferential treatment beyond this principle should recognize the risks of creating incentives for FPAs to be formed simply to capture taxation benefits.

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21 Of course, restrictions apply. In particular, co-operatives may retain limited proportions of surplus (profits); this restricts their capacity to re-invest. Mutuality also applies only to “member business”: buying and selling associated with non-members, interest earned on savings, and sales of assets are not counted as mutual income (Baker and Theilgaard, 2004, p.21).
Registration, Regulation and Supervision

A national registry of FPAs should be maintained within a single agency. If, as exemplified in the Zhejiang legislation, FPAs will be required to register with the Bureau of Industry and Commerce then the national registry should also be maintained by the Bureau. The responsibilities of the Bureau should include providing regular reports and statistics on the status of FPAs across the country.

The operation of FPAs should not be restricted by the area of jurisdiction of the department or level of government with which they have registered. Compliance with legal requirements for registration should entitle organizations to expand and carry out its operations in response to market conditions, the capacity of the organization and the development objectives of its members.

To ensure the objectivity of supervision, the responsibilities for registration and supervision of cooperatives should be separated from responsibilities for supporting them. The Zhejiang legislation provides a useful model where organizations are registered at the Bureau of Industry and Commerce and the main responsibility for support is with the Agriculture Bureau. This is also in line with most international experiences.

The terms and definitions used with regard to cooperative organizations should be clearly defined and standardized to allow for meaningful reporting, monitoring and analysis. Such standardization is a necessary step towards proper analysis and an accurate understanding of the impact of FPAs and their development.

Standardized accounting practices and reporting systems should be applied in the operation of cooperatives, including a requirement for annual financial reports. The development of special accounting systems for the management of cooperatives may not be necessary. However, a simplified set of accounting practices may be developed appropriate to smaller organizations or those whose financial transactions are below a certain ceiling. If necessary, training or professional assistance to ensure adherence to commonly accepted accounting practices could be provided with support provided by government subsidies.

FPAs should be subject to auditing requirements. Important audit functions can be fulfilled through internal audits. The new law for farmers’ cooperative economic organizations could require cooperatives to establish internal audit capacity, and that there be an internal cooperative audit committee that reports the results of its work to the members during an annual meeting. Given that many cooperatives may have small, close-knit memberships or limited financial transactions, it may be an unnecessary and needless expense to make external audits mandatory for all cooperatives. In any case, in the interest of ensuring transparency and accountability as well as protecting the rights of members, the right of members to call for an independent external audit should be preserved. Consideration should be given to providing government support for such audits.

Selected indicators should be identified and developed to assess the performance of FPAs. This will allow comparisons between organizations so that good ones can be emulated and those performing badly can be improved. The availability of standard, comparable indicators will assist members to assess the performance of cooperative leadership. For examples of financial and organizational performance indicators see Annex 1 Tables 6 and 7. While standardization is important, performance indicators chosen should recognize the diversity of forms and purposes of organizations and not be used to fit all organizations into a single mold. Some different indicators might be used for different types of cooperatives, depending on the objectives of their members.

There are few countries in which private law organisations or institutes (e.g. in Portugal) are in charge of registering co-operatives. Usually registration and pre-registration audit is the prerogative of the state (Münkner, 2004, p.30).
Government Support Programs

The principle of “support but not interfere” should be followed to create a favorable support environment for the development of FPAs. This principle is frequently used to describe the ideal relationship between government and farmer organizations. In such a view the role of the government should be limited to the providing the rule of law, to creating an enabling environment through policy and legislation, to regulating and supervising of markets to ensure fair competition, to setting standards and providing certification, and, possibly, to providing advisory services and access to information. This is fully in line with the aim of “transforming the functions of government”. Government support for FPAs should therefore be done in ways that reduce the dependency of FPAs on government and enable them to operate independently.

Quantitative targets for establishing farmer associations, especially if used as performance assessment targets, bear risks for the development of FPAs. The creation of farmer organizations should be driven by the needs and timetable of farmers themselves. The high priority given by government to the creation of farmer organizations creates the risk that the development of organizations will be driven by government priorities to meet numerical targets rather than the needs of the members. Timetables and quantitative targets for creating FPAs or for achieving percentages of farmer enrollment in FPAs put pressure on Government agencies and officials, whose performance is being measured against the targets. Negative consequences for the sense of ownership and self-reliance of farmer-members might be a consequence.

Where government agencies do become involved directly in helping farmers organize, their involvement should not be in the management of FPAs, and should be accompanied by an exit strategy and timetable. Such a strategy would include a plan for training and cultivation of leaders from among the farmer members of the cooperative and help in identifying sources of support available from the private sector. An alternative to the likely detrimental – at least in the long-run – direct Government involvement in FPAs is that FPAs set up advisory boards that have no voting rights and decision making in the internal governance of the FPA.

International experience underlines the value of external support for the development of farmer organizations. Even when a favorable policy environment is in place, it has generally been found that training and technical support for cooperative organizations in terms of business planning, market analysis and management skills is necessary for their successful development. A strong focus on enhancing the skills and abilities of members to manage their own association is a factor frequently identified for success of organizations (Baker and Theilgaard, 2004, p.98). One of the biggest needs of farmers is to improve their understanding of and ability to work in associations and markets. Training needs for association members include, among other things, training on association governance and management, internal economics of co-operative operations (output and pricing decisions), business and leadership training. Training and support for making strategic business and development plans for farmer organizations is essential, to help farmers acquire the knowledge and skills to operate successfully in a rapidly evolving market environment.

A core element of a government strategy for supporting FPAs should involve technical support and advice for feasibility studies, economic and market analyses and strategic business planning. Strong farmer organizations can only be created on the basis of sound commercial operations; this requires the availability of good technical advice and support. To promote the goal of developing farmer-controlled organizations such support should be provided in an advisory capacity only, and should not involve external parties participating directly in the management and decision making of FPAs. Government officials and staff of technical agencies
may not be the best qualified to provide all aspects of advice and support needed by organizations, particularly those involving business development and strategic planning.

**Awareness-raising and training of local Government officials should be a key priority for any higher-level Government program supporting the development of FPAs.** Given a lack of knowledge and diversion of local Government opinion and practices from national policies, local Government officials should be a key target group for increasing the knowledge on the characteristics of member-based FPAs and the role of the Government in supporting them. Specific training and capacity-building programs should be designed and rolled out for those agencies most directly involved in the ‘administration’ of FPAs, including the agencies responsible for supervision and regulation as well as any agency providing direct support such as training and TA for FPAs.

**Direct government support to FPAs should be well targeted and the support of non-viable FPAs should be avoided.** Eligibility criteria for groups of farmer or FPAs should be set and enforced in order to ensure efficient use of Government funds. Minimum criteria might include internal governance (written rules, elected leaders), financial management capacity (internal audit committee, member approved budget, accounting capacity, annual budget outcome report to members), etc. For groups of farmers that do not meet such criteria alternative Government support might be considered.

**In a period of transition government support could be used strategically to promote the development of expertise in the private sector to support FPAs.** Even where the Government finances awareness programs, training, and technical assistance, it might not be the best qualified to deliver these services itself. To the greatest extent possible professional advice and assistance should be sought from outside the Government. Research institutes, universities, NGOs or private institutes and individuals can be better and more cost-effective at delivering such services than Government employees. Government funding could be provided using competitive delivery mechanisms such as voucher systems. Some services may not be available through the private sector, but legal advice and financial management (accounting) services are increasingly emerging at county centers, and their use should be encouraged. A potential source of valuable expertise would be leaders of successful cooperatives.

**A strong monitoring and evaluation system should be established to assess the effectiveness of the support being given.** Currently, little comprehensive and systematic information is collected and analyzed on the development of FPAs, their impact, and the cost and benefits of various Government support programs on their success. Consequently, the Government has little basis on which to justify the support for specific FPAs, on which to provide guidance for success to FPAs, and on which to build and expand its support program for the development of FPAs. Moreover, a strong monitoring and evaluation system of Government interventions is necessary for policy-makers (leaders) to hold providers of services to FPAs, both line departments and those outside the Government such as trainers from research institutes, accountable and to ensure the success of the interventions and adjust them accordingly.

**Partnerships should be developed involving government, universities and FPAs to establish research centers.** The aim of such a center should be to conduct research related to co-operative theory and practice and deliver training to all interested parties. Funding of such center could be shared among the three key players.

**Promotion Strategies**

**A systematic approach should be applied to promote the development of farmer organizations.** A synthesis of international experience suggests that the most effective approach
involves a sequential process, beginning with: (i) raising the awareness and understanding of group members; (ii) providing assistance with market analysis, feasibility studies, business planning and strategic planning; (iii) group formation and formal registration of the group, and; (iv) providing mentoring support and advisory services for an extended period following the formation of associations (Baker and Theilgaard, 2004, pp.33f). It should be stressed that the formation of an organization should only be pursued where the results of market analysis and feasibilities study undertaken as part of stage (ii) identify viable commercial opportunities to be gained and indicate that advantages can be realized by the formation of an organization.

“Farmer organization promoters” should be cultivated to implement the promotion strategy. International experience suggests that such promoters contribute to the development of strong, independent cooperative organizations (Baker and Theilgaard, 2004, p.32, pp.103ff). Promoters should be people with significant experience in the development and operation of farmer cooperatives and should play a support and advisory role only. Historically government extension agents have played a promotion role. In countries with a strong cooperative tradition promoters are often found from other cooperative organizations or from apex organizations serving the needs of their member cooperatives.

If they are to be successful “Farmer organization promoters” need not just the right knowledge, but also the right personality and an enthusiasm for the role. The role of promoter is more complex than that of simply instructing and passing along a pre-defined body of knowledge and skills. The aim of promoters is to guide prospective cooperative members through the four stages of group formation, and at the same time help to build a sense of solidarity and trust among members. The use of participatory approaches is essential to the task, and promoters should regard themselves as facilitators rather than instructors. Successful promoters will require a high degree of social skills, a high degree of adaptability and the ability to communicate with farmers on the basis of equality and mutual respect.

Measures should be taken to develop a pool of promoters from non-government sources. The use of promoters can, initially, be supported with Government funding. Farmers who have established successful local organizations can be cultivated to provide advice and support to other groups of farmers hoping to establish organizations. Capable individuals to become promoters might also be identified in universities, colleges, research institutes and NGOs. In the role of a promoter such people could facilitate skills transfer through training and consultancy services. Government funding could be used to develop such promoters by paying them advisory fees and providing them with additional training. In the longer term the aim is that promoters should be contracted and paid by client FPAs (Baker and Theilgaard, 2004, p.111).

The development of strong farmer associations should start with small and readily achievable objectives. This would allow them to focus on strengthening their management and internal governance before aiming for more ambitious strategic goals requiring larger investments and more complex management skills. For example joint purchasing of production inputs to negotiate a lower price and ensure quality, or sharing the cost of transporting goods to market, may provide small but tangible financial benefits. The experience gained and mutual trust built up through managing such activities can lead progressively to more sophisticated collective action (Baker and Theilgaard, 2004, p.84). Starting with small and low-cost actions will also help reduce the risks inherent in seeking initial funding from external sources.

Communication and collaboration between farmer organizations should be encouraged and supported, allowing them to benefit from the experience of other organizations. This would include collaboration and exchange of experience between similar organizations in different
locations and between different organizations in the same location. The government could support such opportunities with financial and organizational assistance.

**Promoting Public Awareness**

*Steps should be taken to promote a broad public awareness and understanding of FPAs.* Training modules and curriculum providing an introduction and basic understanding of the operation and key principles of cooperatives should be developed for vocational secondary schools and disseminated to rural areas. The material should be designed as a basic introduction and needs not be comprehensive. Also important materials to be identified and disseminated are various models of the ‘charter’ (constitutions) of farmer associations. In the longer term the co-operative sector should be able and encouraged to develop its own education and training programs.

*Measures should be taken to promoting a better understanding by key government officials.* Training and awareness raising is needed not just for farmers but also for those in local government whose responsibilities intersect with the development or operation of farmer organizations. Consideration should be given to preparing training materials and modules on farmer cooperatives aimed at local government officials and disseminating these through the network of county level Communist Party Schools. Such materials should provide a basic understanding of cooperative principles, focusing on the role of government in the promotion of cooperatives, the role of cooperatives in addressing economic and social disparities and ways in which a local policy environment conducive to the development of cooperatives can be promoted.

*Reference and resource material should be compiled and made widely available* to those interested in establishing associations and those already running associations. Given the high level of penetration and wide coverage of the internet in China, such resource material could be web-based. It should include: an indexed collection of case studies highlighting different scenarios and strategic challenges faced by FPAs; relevant national and provincial laws and regulations; resource material on management skills and techniques; a guide to market and technical information available on the internet (note that a good variety of market and technical information is already available on the internet, so that a large part of any “Farmer association website” should be designed to provide convenient access to existing resources which are maintained by other agencies rather than attempt to duplicate those resources).

**Creating a Business-friendly Environment**

*More important than direct government support to the development of farmer association is the creation of a business-friendly environment.* Specifically, measures should be taken to ensure a well-functioning registration, audit and supervision system for FPCs. In addition, FPA thrive in the same environment in which other enterprises, particularly small and medium enterprises, thrive. A well-functioning law-enforcement and a functioning financial market are two important elements of such a business-friendly environment. The Government should monitor these aspects carefully, for example through investment climate survey instruments.

*Proper regulation and supervision of markets are essential for the development of farmer associations,* and the government has a critical role to play ensuring that markets operate fairly and transparently. The role of the government includes establishing and enforcing standards, ensuring equal access to information. In commodity supply chains which are dominated by one or a few

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23 In fact, a recent investment climate survey in Southwest China undertaken by the World Bank (2004) showed that developing product-specific farmer associations through an appropriate legal framework and adequate local Government support is an important part of improving the investment climate of a locality.
leading enterprises the government may also need to consider measures to balance market power for price determination and ease restrictions on market entry.

**Usually an effective use of direct government investment is to improve infrastructure that facilitates the commercialization of agriculture in general,** thus creating an environment in which FPAs can grow. Improved transportation and communications (ICT) infrastructure are vital to the commercialization of agriculture. All weather road access to administrative villages and a network of tractor roads to natural villages help create the basic conditions for the commercialization of agriculture and hence the creation of farmer organizations. Likewise conditions conducive to the development of farmer organizations can be created by investing in irrigation infrastructure to promote diversified crop production; improving storage facilities for perishable crops, thus increasing marketing options; and improved research and extension services.

**Government and FPA Synergy**

The Government can support FPAs by working with them as providers of public services. The “New Socialist Countryside” program promises to significantly increase the amount of funding for rural infrastructure. The value of farmer associations for the operation and management of rural infrastructure, particularly irrigation systems has been demonstrated and any program of investment should provide a role for farmer organizations in the operation and maintenance of infrastructure facilities.

There are risks associated with using farmer associations as a conduit for government support. Before such an approach is adopted it will be important that the internal governance structures of the organizations are operating effectively, with full transparency and accountability. Any government funded programs to be implemented by farmer organizations should be developed in full consultation with the organizations and not imposed from above.

**Local government should involve FPA representatives in consultations on policy and public investment decisions.** This would help ensure that policy directions are supportive, or at least not harmful, to FPA development and that investments in public infrastructure help promote the economic development of members. Such practices help provide credibility to FPAs and strengthen them in the eyes of their members and the public. Consultations with FPAs prior to making investment decisions also create a sense of local ownership, which in turn serves to strengthen a commitment to operation and maintenance.

**Poverty and Gender Aspects**

While a correlation may exist between the presence of farmer associations and improved incomes of farmers, the promotion of farmer associations should not be seen as a substitute for poverty alleviation programs. Careful reading of the data on associations shows that they thrive best where agriculture is relatively highly commercialized, markets are readily accessible and higher levels of education are prevalent among farmers (Shen et al., 2004, p.22). It is precisely the absence of these conditions that is highly correlated with poverty. This suggests that farmer associations are less likely to be self-generated in poor areas and that they are likely to have a more difficult time succeeding. This is not to say that support for associations should not be included in poverty alleviation programs, but to highlight that additional, carefully designed and adequately funded measures for support and mentoring should be included where poverty alleviation and the promotion of farmer associations are packaged together in a rural development strategy.

**The development of FPAs would benefit from greater attention to promoting the role of women in FPAs,** and efforts to encourage the active participation of women in the management and
operation of cooperatives. Few studies or surveys in China highlight the role of women in farmer organizations in China. Neither is there any mentioning of women playing a role in any of the case studies reviewed. Discussion of membership in farmer associations is usually on the basis of households, without identifying which member of the household is the active member in the association. This omission is regrettable. There are good examples of women setting up very successful farmer professional organizations (Guo, 2003). Traditionally it is men who represent the household in community affairs, and without explicit recognition and encouragement given to women, the formation and management of farmer associations is likely to remain a male-dominated activity. Without explicit efforts to encourage and ensure the active participation of women the opportunity for FPAs to achieve a positive social impact will be diminished.24

International Donor Support

International experience can provide useful guidance for the development of FPAs in China. At the same time, rigid insistence that international practices be adopted may not adequately take into account the realities at the local level. Interventions seeking to promote adherence to international ‘best practice’ may not be achievable under the current circumstances. Donor support has to fully recognize the reality of local conditions, including the extent of government involvement in the operation of the local economy, the attitudes of different stakeholders towards farmer organizations and the existing opportunities and constraints regarding farmer organizations. A review of international experience of donor supported initiatives to promote farmer cooperatives suggests that a frequent reason for the failure of such projects is a lack of understanding of the 'local political economy', specifically the vested interests of local elites (Baker and Theilgaard, 2004, p.105).

Donor supported interventions to promote the development of farmer organizations must be based on realistic timeframes that recognize the scope and extent of change necessary for their successful adoption. Interventions with unrealistic expectations and short timeframes may achieve superficial results, particularly when beneficiaries have a vested interest in creating the appearance of success. Successful interventions will only happen when all parties involved have undergone a process of learning and adaptation, which in turn requires the passage of time and gaining first hand experience.

International exchanges of experience are valuable for devising innovative approaches suitable to local conditions. Opportunities for such exposure should not be confined to government officials responsible for FPAs. Absorption of international experience is ideally done through joint exercises involving policy makers, specialists and practitioners on each side, providing opportunities to explore areas in which foreign experience may be appropriate to a Chinese context in an open-minded, non-doctrinaire exchange. Exchanges between farmer associations in mainland China and, for example, Taiwan and South Korea would allow opportunities to explore the role of farmer associations in countries which share Confucian value systems and have recent experience of rapid economic development and industrialization. Exchanges with farmer associations in India would provide opportunities to learn from the experience of a country sharing the many of the economic characteristics of China’s agricultural sector but with a history of democratic rule and traditions.

Donor funded projects can be used to support the development of the necessary skills and experience in the private and non-government sectors for the development of farmer

24 On an analysis of gender dimensions in development and practical tools to support gender in agriculture and rural development see World Bank (2001) and World Bank (2006b), respectively.
The cultivation of FPA promoters and the development of business and management consultancy services from the private sector are likely to develop only over an extended period of time. At the moment the necessary skills and resources are sparse or non-existent in China. Donor funded projects, with ready access to international experience, provide an opportunity to undertake pilot activities aimed at demonstrating the viability of using non-governmental resources to support the development of farmer associations.

Alliances should be built between government and donor agencies with a strong presence in FPAs development and synergy should be created to build a local knowledge base of FPAs development. The World Bank, ADB, CIDA and GTZ all have strong presence in FPAs promotion and development. Although there are exchanges of information among them, more efforts should be made to coordinate their programs and avoid waste of resources. More synergies should be generated between Government programs and donor projects in terms of design and funding to achieve more cost-effectiveness.
References


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References


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Yang Lianfang (2005) Survey On Farmers’ Professional Associations In Two Counties Sichuan Province, RAF Institute for Rural Development, Beijing, June 2005


Law of the People’s Republic of China on Agriculture, Adopted on July 2, 1993; Revised on December 28, 2002

Zhejiang Law on Farmer Professional Cooperatives, 2005

Circular on Central Financial Assistance to Farmers’ Professional Cooperatives in 2006, General Office of the Administration of the Ministry of Finance, People’s Republic of China
### Annex 1: Tables on the Definition and Promotion of FPAs

#### Annex 1 Table 1: Factors Contributing to Successful Group Action

<table>
<thead>
<tr>
<th>Factor</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homogeneity of members’ background</td>
<td>Homogeneity is desirable. Not necessary where there is strong leadership. Depends on the form of homogeneity (note on women etc).</td>
</tr>
<tr>
<td>Similarity of members’ skills</td>
<td>A good skill mix is always desirable, although groups with strong links to buyers may use skills from outside.</td>
</tr>
<tr>
<td>Single or multiple purpose organization at the start</td>
<td>Easier to start from one enterprise. Difficult to define a single purpose that motivates all members.</td>
</tr>
<tr>
<td>Single or multiple purpose organization once in operation</td>
<td>Few successful groups had taken on more than one purpose. Several groups had changed purposes, but maintained a single purpose</td>
</tr>
<tr>
<td>Political links</td>
<td>Clear benefits from political links at formation and in operation.</td>
</tr>
<tr>
<td>Subsidy and protection at start and once established</td>
<td>Subsidies did little to prevent groups from failing. Groups that survived the formation process made effective use of subsidies.</td>
</tr>
<tr>
<td>Participative or individual leadership</td>
<td>No conclusions. Groups tended to end up with the types of leaders they wanted.</td>
</tr>
<tr>
<td>Firm rules or flexibility at start or once established</td>
<td>No strong conclusions. Flexible rules may be needed at formation, with firmer rules being used later.</td>
</tr>
<tr>
<td>Social, or solely financial, objectives</td>
<td>No strong conclusions. Some members insist that they joined the group, and remained members, for non-economic reasons.</td>
</tr>
<tr>
<td>Freedom from state control</td>
<td>No strong conclusions. Note that the state can provide constructive intervention as well as inflicting damage. Good managers are able to harvest benefits while avoiding costs.</td>
</tr>
<tr>
<td>Large investment in fixed assets</td>
<td>No groups in the survey had made large investments.</td>
</tr>
<tr>
<td>Competition for sales and member patronage (i.e. not a monopoly)</td>
<td>Competition is constructive for internal organisation and performance. A good manager is required to transform competitive forces into understandable incentives.</td>
</tr>
<tr>
<td>Regular and frequent dealings with members</td>
<td>The more frequent and regular were members’ transactions with the group, the more likely was success of the group.</td>
</tr>
<tr>
<td>Different types of dealing with members</td>
<td>Most groups in the survey had simple, single functions. It appears that success is, to some extent, associated with a range types of dealing. Advantages of multiple types of dealing may be outweighed by the associated management difficulties.</td>
</tr>
<tr>
<td>Centrality to members’ livelihoods</td>
<td>No strong conclusions.</td>
</tr>
<tr>
<td>Simplicity of business</td>
<td>Very clear association between simplicity of the business operation, and success of the group.</td>
</tr>
</tbody>
</table>

Note: Success is here being defined as (i) profitable operation during the last three years; and (ii) growing membership in each of the last three years.
### Annex 1 Table 2: Selected Definitions of an Agricultural Co-operative

<table>
<thead>
<tr>
<th>Organization</th>
<th>Definition of a co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Co-operative Alliance (ICA)</td>
<td>“an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.</td>
</tr>
<tr>
<td>United States Department of Agriculture (USDA)</td>
<td>“a user-owned and user-controlled business that distributes benefits on the basis of use.”</td>
</tr>
<tr>
<td>University of Wisconsin Centre for Co-operatives’ (UWCC)</td>
<td>“a business voluntarily owned and controlled by its member patrons and operated for them and by them on a not-for-profit or cost basis. It is owned by the people who use it.”</td>
</tr>
<tr>
<td>International Labour Organisation (ILO)</td>
<td>“an association of persons… voluntarily joined together to achieve a common economic end through the formation of a democratically-controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking”</td>
</tr>
<tr>
<td>Author</td>
<td></td>
</tr>
<tr>
<td>McBride (1996)</td>
<td>“an organization that: 1. provides service at cost; 2. is democratically controlled by its member-patrons; 3. limits the return on equity capital.”</td>
</tr>
<tr>
<td>Chukwu (1990)</td>
<td>“an institution within which… joint activities take place in a formalized, long term, deliberate… and specific form.. in the social and economic spheres.”</td>
</tr>
<tr>
<td>Parnell (1995)</td>
<td>“an enterprise, freely established, that is owned and controlled by a group of persons wit the purpose of providing themselves with mutual benefits, on an equitable basis, which arise from the activities of the enterprise and not primarily from investment in it.”</td>
</tr>
</tbody>
</table>

Source: Baker and Theilgaard (2004), Table 10.

### Annex 1 Table 3: Differences between FPAs and Investor-owned Firms

<table>
<thead>
<tr>
<th>An FPA is essentially</th>
<th>An investor-owned firm is essentially</th>
</tr>
</thead>
<tbody>
<tr>
<td>A union of people</td>
<td>A union of capital</td>
</tr>
<tr>
<td>An organization of users</td>
<td>An organization of investors</td>
</tr>
<tr>
<td>Organized by people to serve people</td>
<td>Organized by entrepreneurs to attract capital, serve customers, and deliver profits to shareholders</td>
</tr>
<tr>
<td>Controlled by its members</td>
<td>Controlled by those holding a majority of its shares</td>
</tr>
<tr>
<td>An organization in which surplus earnings (profit) belong to the user-members and are used to make the FPA stronger, or returned to members as dividends.</td>
<td>An organization in which surplus earnings (profit) belong to the firm and are used to make the IOF stronger, or returned to shareholders as dividends.</td>
</tr>
<tr>
<td>An organization delivering benefits according to use by members</td>
<td>An organization delivering a return on capital invested by shareholders</td>
</tr>
<tr>
<td>Owned and controlled by members, who generally are members of a local community.</td>
<td>Vulnerable to takeover by outside, foreign and multinational interests.</td>
</tr>
<tr>
<td>The only commercial venture by members (or one of a very few), which concentrates members’ risks.</td>
<td>Just one of many investments by shareholders, allowing a risk-diversified portfolio.</td>
</tr>
<tr>
<td>An organization that provides a service to members, utilizing economies of scale, special advantages in communication and in direct communications with members.</td>
<td>An organization that offers services to suppliers and customers on the basis of profitability, with a diversity of services provided, based on willingness to pay and the costs of supply, as well as a commercially-oriented information base.</td>
</tr>
</tbody>
</table>

Source: Baker and Theilgaard (2004), Table 7, adapted from CCBC (2000).
# Annex 1 Table 4: Factors Contributing to Success of Co-operatives in Developing Countries

<table>
<thead>
<tr>
<th>Success factor</th>
<th>Notes</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autonomy</td>
<td></td>
<td>Taimni (1994)</td>
</tr>
<tr>
<td>Open membership</td>
<td></td>
<td>USOCDC (1985)</td>
</tr>
<tr>
<td>Agreed distribution mechanisms for profit sharing</td>
<td>Including the ability to calculate and offer a pricing formula that reflects business operating costs, capital requirements and satisfactory rewards to members</td>
<td>Uprety et al. (1996) Davidman (1996) Magill (1984)</td>
</tr>
<tr>
<td>Steady increase in sophistication if tasks attempted</td>
<td>Including the capacity to adapt and be innovative. Including the capacity to change from single service to multiple service</td>
<td>Stringfellow et al. (1997) USOCDC (1985) Magill (1984) Launder (1988)</td>
</tr>
<tr>
<td>Internal cohesion amongst members</td>
<td>That the organisation is: • Member driven • Member controlled • Member responsive Member homogeneity</td>
<td>Stringfellow et al. (1997) Scoones (1997) Prakash (2000) Launder (1988)</td>
</tr>
<tr>
<td>Training is given to members</td>
<td>To enhance the participation and empowerment of members</td>
<td>USOCDC (1985) Prakash (2000)</td>
</tr>
<tr>
<td>Ethical conduct both internally and externally</td>
<td></td>
<td>Prakash (2000)</td>
</tr>
<tr>
<td>The development of market power at a secondary level</td>
<td>i.e. these are not effective at primary level</td>
<td>Jones (2001) Taimni (1994)</td>
</tr>
<tr>
<td>Training targeted at secondary level</td>
<td></td>
<td>Jones (2001)</td>
</tr>
</tbody>
</table>

## Annex 1 Table 5: Basic Steps in Promotion of Marketing Groups

<table>
<thead>
<tr>
<th>Step</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Awareness</strong></td>
<td>• Information collection about needs and expectations</td>
</tr>
<tr>
<td>(emphasizes identifying opportunities for benefits from group action)</td>
<td>• Development of relationships with small farmers</td>
</tr>
<tr>
<td></td>
<td>• Maintain relationships with local leaders and progressive farmers</td>
</tr>
<tr>
<td></td>
<td>• Utilize well-trained marketing extension officers</td>
</tr>
<tr>
<td></td>
<td>• Adopt farmer-to-farmer techniques in training and extension</td>
</tr>
<tr>
<td></td>
<td>• Arrange meetings</td>
</tr>
<tr>
<td></td>
<td>• Present group action as one alternative</td>
</tr>
<tr>
<td></td>
<td>• Present practical case studies</td>
</tr>
<tr>
<td></td>
<td>• Demonstrate techniques</td>
</tr>
<tr>
<td></td>
<td>• Assist in changing procedures, applying for permits, applying for loans</td>
</tr>
<tr>
<td></td>
<td>• Provide regular information bulletins on achievements of other marketing</td>
</tr>
<tr>
<td></td>
<td>groups</td>
</tr>
<tr>
<td></td>
<td>• Provide market information</td>
</tr>
<tr>
<td></td>
<td>• Identify and evaluate commercial opportunities, comparing group action</td>
</tr>
<tr>
<td></td>
<td>with individual action and existing arrangements</td>
</tr>
<tr>
<td></td>
<td>• Provide technical and management information, assistance and advice</td>
</tr>
<tr>
<td><strong>2. Motivation</strong></td>
<td>• Focus on homogeneous groups of farmers</td>
</tr>
<tr>
<td>(emphasizes creating a favorable environment)</td>
<td>• Make very few written rules</td>
</tr>
<tr>
<td></td>
<td>• Recommend group sizes, based on technical and commercial criteria</td>
</tr>
<tr>
<td></td>
<td>• Provide administrative assistance</td>
</tr>
<tr>
<td></td>
<td>• Assist in democratic election of leaders</td>
</tr>
<tr>
<td></td>
<td>• Help prepare production and marketing plans</td>
</tr>
<tr>
<td></td>
<td>• Help procure and deliver inputs to members</td>
</tr>
<tr>
<td></td>
<td>• Help with technical guidance (e.g. quality grading)</td>
</tr>
<tr>
<td></td>
<td>• Implement plans for increasing farm incomes</td>
</tr>
<tr>
<td></td>
<td>• Allocate earnings amongst members and towards further development of the</td>
</tr>
<tr>
<td></td>
<td>group’s actions</td>
</tr>
</tbody>
</table>

### Annex 1 Table 6: Measures of FPA Financial Performance to be utilized in Promotion

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement/comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member profits</td>
<td>Revenue and costs attributable to the product sold. Compared to prices and costs faced by:</td>
</tr>
<tr>
<td></td>
<td>(i) non-members;</td>
</tr>
<tr>
<td></td>
<td>(ii) members of other FPAs</td>
</tr>
<tr>
<td></td>
<td>(iii) local large farms.</td>
</tr>
<tr>
<td></td>
<td>Member profits expressed</td>
</tr>
<tr>
<td></td>
<td>(i) as an annual return on total cost of funds paid to the FPA.</td>
</tr>
<tr>
<td></td>
<td>(ii) net of those payments in each year.</td>
</tr>
<tr>
<td>Member share of retail price</td>
<td>Member prices received as % share of retail prices in final markets. Compared to:</td>
</tr>
<tr>
<td></td>
<td>(i) otherwise-similar non-members;</td>
</tr>
<tr>
<td></td>
<td>(ii) members of other FPAs;</td>
</tr>
<tr>
<td></td>
<td>(iii) local large farms.</td>
</tr>
<tr>
<td>Member equity</td>
<td>% growth over time. Compared to:</td>
</tr>
<tr>
<td></td>
<td>(i) interest rates</td>
</tr>
<tr>
<td></td>
<td>(ii) % growth of equity in other FPAs</td>
</tr>
<tr>
<td>FPA profitability</td>
<td>Profits generated before dissemination to members.</td>
</tr>
<tr>
<td></td>
<td>Compared to otherwise-similar organizations marketing the same products.</td>
</tr>
<tr>
<td>FPA credit-worthiness</td>
<td>Ability of the FPA to borrow funds.</td>
</tr>
<tr>
<td>Market risk</td>
<td>Guarantee of market for members’ produce (or access to inputs).</td>
</tr>
<tr>
<td></td>
<td>Measured as % of crop volume sold through FPA under normal arrangements.</td>
</tr>
<tr>
<td></td>
<td>Compared % sold easily by otherwise-similar non-members.</td>
</tr>
<tr>
<td>Institutional risk</td>
<td>Volumes (and number of occurrences) of loss of market due to intervention by vested commercial interest.</td>
</tr>
<tr>
<td></td>
<td>Numbers of members receiving purchase offers from other buyers.</td>
</tr>
<tr>
<td>Price risk</td>
<td>Accuracy of FPA management’s forecast prices at planting time.</td>
</tr>
<tr>
<td>Political risk</td>
<td>Instances of local government intervention in commercial activities of the FPA.</td>
</tr>
<tr>
<td></td>
<td>Instances of local government intervention in commercial activities of the member.</td>
</tr>
<tr>
<td></td>
<td>Compared with otherwise-similar non-members.</td>
</tr>
<tr>
<td>Payment risk</td>
<td>Instances and significance of non-payment to members.</td>
</tr>
<tr>
<td></td>
<td>Compared with otherwise-similar non-members.</td>
</tr>
<tr>
<td>Timing of payment</td>
<td>Time delay between delivery of product and payment.</td>
</tr>
<tr>
<td></td>
<td>Compared with otherwise-similar non-members.</td>
</tr>
<tr>
<td></td>
<td>NPV analysis of within-year values of inputs received, initial payments, final payments, and value of services received.</td>
</tr>
<tr>
<td></td>
<td>Compared with other-wise similar non-members.</td>
</tr>
<tr>
<td>Price-quality correspondence</td>
<td>Member satisfaction with price-quality correspondence.</td>
</tr>
<tr>
<td></td>
<td>Price-quality correspondence achieved by otherwise-similar non-members.</td>
</tr>
<tr>
<td>Fixed costs of membership</td>
<td>Fees paid by members (initial and recurrent).</td>
</tr>
<tr>
<td></td>
<td>Compared with costs faced by otherwise-similar non-members.</td>
</tr>
<tr>
<td>Costs of capital</td>
<td>Total costs of use of capital to the FPA, expressed as % of total capital.</td>
</tr>
<tr>
<td></td>
<td>Compared to interest rates on capital.</td>
</tr>
<tr>
<td>Members’ time spent on marketing &amp; purchasing tasks</td>
<td>Survey of members, compared to otherwise-similar non-members. (to include time spent by all members of member household)</td>
</tr>
</tbody>
</table>

Source: Baker and Theilgaard (2004), Table 25.
### Annex 1 Table 7: Measures of FPA Organizational Performance to be utilized in Promotion

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement/comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fulfillment of purpose as defined in constitution</td>
<td>Measured by vote of all members, % approving.</td>
</tr>
<tr>
<td>Approval of leadership</td>
<td>Measured by vote of all members, % approving.</td>
</tr>
<tr>
<td>Approval management performance (annual)</td>
<td>Measured by vote of all members, % approving.</td>
</tr>
<tr>
<td>Adherence of FPA to feasibility study and business plan</td>
<td>% departures from plan in: (i) product volume delivered; (ii) product volumes sold in each product market; (iii) unit costs; (iv) prices received; (v) capital accumulated; (vi) profits disbursed to members. Comparisons between FPAs’ % departures and companies reporting publicly.</td>
</tr>
<tr>
<td>Service delivery</td>
<td>Members’ satisfaction with (by survey of impressions of frequency, relevance, content, delivery): (i) training; (ii) extension and technical advice; (iii) market information. Comparisons with otherwise-similar non-members receiving services from elsewhere. FPA’s costs of delivery of services. Compared to delivery by outside agency independent of FPA.</td>
</tr>
<tr>
<td>Service and input delivery</td>
<td>Price advantage gained by FPA from delivery of services or inputs to members. Measured by survey of members receiving/not receiving services.</td>
</tr>
<tr>
<td>Membership growth</td>
<td>Number of members. Compared to (i) previous years, (ii) other FPAs.</td>
</tr>
<tr>
<td>Communication amongst members</td>
<td>• Number of opportunities offered by the FPA for communications amongst members. • Capacity of surveyed members’ ability to remember details of statements made by other members at meetings.</td>
</tr>
<tr>
<td>Communication between FPA and members</td>
<td>• Number of meetings called. • Written material distributed. • Members’ assessment of value of distributed information. • FPA leaders’ knowledge of details of members and membership (by test).</td>
</tr>
<tr>
<td>Information flow to members</td>
<td>• Members’ surveyed knowledge of commercial arrangements (price, payments schedule, input needs, end use, etc) for the current season. • As above for the coming season.</td>
</tr>
<tr>
<td>Member representation</td>
<td>• Members’ assessment of representative nature of leadership. • Number of layers of leadership. • Number of layers of leadership that are elected by all members. • Members’ assessment of leaders’ knowledge and understanding of members’ problems and constraints.</td>
</tr>
<tr>
<td>Degree of representative democracy</td>
<td>• Numbers and types per year of decisions taken by vote of full membership. • Presence of elected leaders. • Presence of elected junior or deputy leaders.</td>
</tr>
<tr>
<td>Capacity of FPA to solve members’ problems</td>
<td>Members’ assessment of the extent to which their initial (stated) problems have been solved by the FPA.</td>
</tr>
<tr>
<td>Primacy of members’ interests</td>
<td>• Members’ overall satisfaction with non-member patronage (by vote); • Members’ perceived disadvantage from non-member patronage (by survey): (i) Additional costs; (ii) Reduced prices. • Members’ satisfaction with relationships with companies (by vote); • Members’ perceived disadvantage from dealing with specified companies (by survey): (i) Additional costs; (ii) Reduced prices.</td>
</tr>
</tbody>
</table>

Source: Source: Baker and Theilgaard (2004), Table 25.
Annex 2: Minutes–International Workshop on Farmer’s Cooperative Law Establishment

The International Workshop on Farmer’s Cooperative Law Establishment, jointly sponsored by the Development Research Center of the State Council, Ministry of Agriculture, Canadian International Development Agency, EU and the World Bank, was held recently in Beijing. The purpose of the Workshop was to bring together Chinese leaders, as well as national and international experts to discuss technical aspects of developing farmer cooperative legislation. Participants included government officials, several people involved in the drafting of the legislation, academics, international experts, and international/bilateral agency representatives (see participant list). The meeting began with a welcome speech by Mr. Fan Xiaojian, Vice Minister of Agriculture, and involved several sessions on different issues, with presentations by experts and heated discussion amongst participants. This has proven interest and support of the experts to China’s Farmer’s Cooperatives. Following are summaries of the main issues discussed.

Cooperative Principles

Cooperatives are a group of individuals who come together to meet their own shared need(s). The purpose of a cooperative is to serve its members, not to further wider social goals. However, by serving its members cooperatives can have many positive impacts on the larger society. In some countries, cooperatives are treated as associations that have economic activities, in other countries they are treated as special types of corporations. Cooperatives are different from companies in that they do not want to make a return on capital, but engage in various activities and provide services to members with any surplus (profit) going to indivisible reserves, working capital requirements, cooperative development, cooperative members on the basis of patronage, and limited compensation (if any) on capital subscribed as a condition of membership. Recognition of the unique nature of cooperatives is the basis for developing a special cooperatives law.

The cooperative law in China should lay down principles for cooperatives, but also provide flexibility for cooperative development, giving power to cooperatives to determine their own structure. This is especially important due to the variety of conditions and locations under which cooperatives operate in China.

Legal Status

In China, there are four types of legal persons: government, associations/NGOs, corporations and institutions. Cooperatives have characteristics of both corporations and associations. The experts believe that the legal status of the cooperatives in China is yet to be defined. In most countries there is only one type of legal person or cooperatives are considered to be a special type of corporation or association. One of the most important benefits of cooperatives as a legal entity is limited liability, which, in the experts’ view, should be an important consideration for the Chinese legislation. In most countries, cooperatives dividends to members are not taxed - an important legal benefit for members. In Vietnam, cooperatives are taxed but the government is considering to lower taxes.

Role of Government

Governments for various reasons often promote and support cooperatives. Law enforcement has been defined by the cooperative legislations of most countries in the world as the responsibility of the related government agencies. Training, education and publicity are essential elements of the cooperative development in which the government has an administrative role to play. NGOs and the existing cooperatives should also be entitled to be involved in training. It is important for the trainers to have a good knowledge of the cooperatives and are enthusiastic about them, as well as having adequate accountability and incentives. In China, farmer cooperatives are seen as a critical tool for strengthening the agricultural economy and improving farmer incomes. Some experts recommended that limiting of support by the government is essential, as too strongly supporting would result in dependence, which in turn would affect their healthy growth. Meanwhile, some experts believe that cooperative growth is a slow process, and should be formed voluntarily by the farmers. They should have the right to select the service items. Forced promotion by the government should be avoided.
Membership of Cooperatives

According to the introduction by some international experts, some countries only allow one type of cooperative members with full rights as cooperative member, while in other countries associate-type membership or investment shares are allowed. The purpose of these auxiliary members is generally to raise the cooperatives’ capital and allow related individuals/firms to be involved in cooperatives. Arguments against allowing for any type of non-active membership include that there are alternatives to raise capital and the interests of associate/investment members will conflict with those of existing members. In many countries government officials are not allowed to be members of farmer cooperatives, while in a few they can join but not participate in management. In Zhejiang Province in China, membership of cooperatives has evolved to take a shareholding form, to ensure efficient and low cost cooperative management, but individual members cannot hold over 20% of shares, with corresponding voting rights. Cooperatives in some countries have equity requirements for membership, while for others farmers are not required to bring in capital.

Treatment of Surplus

General practice for cooperatives regarding surplus is that any surplus (profit) from operations is distributed to members as a dividend on the basis of patronage after all expenses are covered and capital requirements for purpose such as expanded operations are met. International experience shows that the most successful cooperatives are the ones who give conservative dividends, leaving adequate capital to invest in the cooperative. If any dividends are paid to non-members, they would be subject to taxes. In Zhejiang Province, cooperative organizations can stipulate in their bylaws whether to distribute surplus by patronage or shareholding. In some countries, including the United States and Australia, cooperatives are increasingly acting more like corporations in regards to treatment of surplus as well as other characteristics. An argument against such development might be made to keep cooperatives “pure”, as once they change they are no longer cooperatives and should take on another form, but there is also an argument for letting cooperatives evolve naturally. For the Chinese legislation, an important consideration is to what degree to regulate the distribution of surplus in cooperatives?

Dissolution

Whether or not cooperative property is given away or distributed to members upon dissolution is an important decision for cooperatives. Dissolution of a cooperative should be done properly because success or failure in this process will influence overall cooperative development. If the remaining value is not repaid to members, future investment may be discouraged, but if division is allowed the current generation of members have an incentive to close the cooperative in order to gain for themselves the value which previous generations worked to build. International experience suggests that the national law should leave this difficult question to be decided in the bylaws of each cooperative.

Financial Management

Auditing of cooperatives is treated differently across countries. A general principle is that cooperative finances must at least be disclosed to members on an annual basis. In Canada, the legislation only stipulates that cooperatives must be audited according to “generally accepted auditing principles”. In Germany, cooperatives must be audited by special audit federations, which themselves are created by cooperatives. The experts recommended that in China, care must be taken in the legislation not to require small farmer cooperatives to hire professional expertise. It is necessary for the state to train auditors on the unique nature of cooperatives.

New Forms of Cooperatives

Cooperatives have been evolving into many different forms. In summing up the respective description on the New Generation Cooperatives, experts said that these are unique in that (1) they focus on processing/adding value instead of marketing raw products/supply of inputs; (2) members are required to put in significant up-front capital so a new processing facility can be built, instead of capitalizing with low
member investment; and (3) there are limitations on the number of people who can be members and their qualifications due to the limited number of farmers who can provide to the cooperative processing facility. In many other East Asian countries, including, Vietnam, Japan, and South Korea, cooperatives have evolved to forms that are different from traditional cooperatives. There are many new forms of cooperatives internationally that China can explore and apply to its own needs.

April 20-21, World Bank Office Beijing
Annex 3: ICA Co-operative Principles

Any association of persons, or of societies, shall be recognised as a co-operative society, provided that it has for its object the economic and social betterment of its members by means of an enterprise based on mutual aid, and that it conforms to the ICA Statement on the Co-operative Identity, as approved by the General Assembly of ICA:

**Definition**
A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

**Values**
Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

**Principles**
The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership
Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control
Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence
Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community
Co-operatives work for the sustainable development of their communities through policies approved by their members.

Annex 4: Model Training Curriculum

A. Training Workshops for County and Township Government Officials

**Day One**

**Agricultural Industrialization and Roles FCEOs**
- Background, current situation, institutional patterns of agricultural industrialization in China
- Agricultural industrialization in China: Roles of FCEOs

**Using ICIS to guide organizational development of FCEOs**
- ICIS (1995): comparison with ICIS, analysis on current FCEOs in pilot counties
- Development and evolution of cooperative features in practice
- Group discussion: analysis on current features of FCEOs in pilot counties
- Institutional formation and sustainable development: directions of FCEOs in pilot counties

**Day Two**

**Improving internal governance mechanisms of organization development**
- Genesis, conditions, internal mechanisms, opportunities and challenges of FCEOs: home and abroad
- Participatory group discussion: Genesis, conditions, internal mechanism, opportunities and challenges of FCEOs in pilot project areas
- Developmental tendencies of operational modes for cooperatives in new era
- Participatory group discussion: new features of FCEOs in pilot counties
- Comments and advice on improving internal governance mechanisms of FCEOs

**Improving internal governance mechanism and management structure of FCEOs**
- Internal system of Chinese FCEOs
- Participatory group discussion, comments and advice on: Internal system of FCEOs in pilot areas and their reform directions

**Day Three**

**The role of government, establishing legal policy environment favorable for FCEO operation**
- Analysis on problems and risks of government involvement in formation and sustainable development of FCEOs (cases analysis)
- Participatory group discussion: role of local government in formation and sustainable development of local FCEOs
- Creation of legal and policy environment favorable for formation and sustainable development of FCEOs (cases analysis)
- Participatory group discussion: policy measures taken to improve direction of local government for formation and sustainable development of FCEOs

**Capacity building of government in communication with FCEOs**
- Communication between government and FCEOs: good practices home and abroad
- Participatory group discussion: role play & case analysis
- Issues related to successful development of FCEOs
- Participatory group discussion: Existing problems and solutions in communication between local government and FCEOs
B. Training Workshops on FCEOs in Pilot Counties (Leaders and members)

**Day One**

**Current situations and analysis on FCEOs at home and abroad**
- Genesis, conditions, features, patterns and roles of FCEOs
- Internal mechanism, development, opportunities and challenges of FCEOs home and abroad

**Using ICIS to guide sustainable development of FCEOs**
- ICIS (1995)
- Participatory discussion: comparison with ICIS, analysis on local FCEOs in pilot counties
- Development of cooperative features in practice
- Participatory discussion: comparison with ICIS, analysis on local FCEOs in pilot counties
- Comments and advice: how to strengthen FCEOs’ capacity for sustainable development

**Day Two**

**Strengthening FCEOs’ operational capacity, autonomy and independence, and improving the policy environment**
- Analysis on FCEOs stakeholders: autonomy and independence of FCEOs
- Participatory group discussion: problems and problem-solving strategy in aspects of autonomy and independence
- Policy and legal environment affecting sustainable development of FCEOs
- Discussion: Legal and policy challenges facing by local FCEOs
- How to enlighten FCEOs’ awareness of autonomy and independence and enhance their dynamic role in promoting improvement of policy environment

**Improving internal decision-making mechanism and management structure**
- Internal governance mechanisms and development tendencies of cooperatives in new era
- Participatory discussion on features of local FCEOs’ internal governance mechanisms
- Internal system of Chinese FCEOs
- Participatory discussion: features of internal system of local FCEOs
- Comments and advice: How to improve internal decision-making mechanisms and management structure

**Day Three**

**Capacity Building Of Organizations For Sustainable Development**
- Overall review: Problem analysis and problem-solving strategy on sustainable development of FCEOs
- Participatory trouble-shooting discussion: members relations and board building
- Members economic participation
- Members democratic control
- Participatory trouble-shooting discussion: members economic participation and democratic control

**Capacity building of organizational sustainable development**
- Setting up Co-operative By-laws
- How to create a co-operative
- Legislation of FCEOs
- Role plays and case study
- Exercise: simulated strategic planning of organization for sustainable development
C. Training Workshops on Small Farmer Households FCEOs

Day One

Why FCEOs?
- Cooperative movement home and abroad: genesis and current status of FCEOs in China
- Participatory discussion: SWOT analysis of small farmer households in poverty alleviation and increasing income
- Participatory analysis: what is effective for small farmer households?

Operation of FCEOs Under Guidance Of ICIS
- ICIS (1995)
- Participatory discussion: understanding definitions, values and seven principles of ICIS
- Organizational purpose and service functions of FCEOs—cases analysis
- Participatory discussion: problems-solving by SWOT analysis and FCEOs’ service functions demanded of small farmer households
- Internal governance mechanism of decision-making and management structure of FCEOs

Day Two

Internal governance and management of FCEOs
- Internal governance mechanism of decision-making and management structure of FCEOs
- Participatory role-playing: general assembly, board, supervisory (control) committee and members: rights and obligations
- Members economic participation in FCEOs
- Participatory discussion: how do members participate economically when starting up new FCEOs?

Creating successful FCEOs of small farmer households
- Necessary conditions for successful FCEOs
- Participatory discussion: SWOT analysis on starting up new FCEOs for small farmer households
- Constitution of FCEOs: cases analysis
- Participatory practice: drafting FCEO constitution by small farmer households

Day Three

Creating successful FCEOs of small farmer households
- Members democratic control
- Participatory discussion: Members relations and board building
- Practice: stipulating worksheets of member relations and board for FCEOs to be set up
- How to start up a new FCEO?
- Practice: formation plan of a new FCEO

Start up a small farmer households’ FCEO
- Group exchange, comments and advice: formation plan of new FCEOs

Annex 5: List of Relevant Websites

Center for Cooperative Excellence: www.coopdevelopmentcenter.coop

China Agri-product Marketing Association – an association is administered by Ministry of Agriculture and supervised by the Ministry of Civil Affairs – that consists of agro-enterprises rather than farmers. Its approved business scope includes information exchange, consultation, training, and international cooperation. www.chama.org.cn/default.asp

China-Canada Agriculture Development Program website includes information on seminars and training material on farmer organizations. www.ccag.com.cn/english/training/train_FA_eng.htm
Information in Chinese can be found at http://www.ccag.com.cn/chinese/training/train_FA_cn.htm

China Rural Special Technology Association, established in 1995, with a voluntary membership consisting of researchers, special technology specialists, etc. who are engaged in the extension on the science and technology. www.china-njx.com

International Committee for the Promotion of Chinese Industrial Cooperatives (ICCIC) - a non-profit organization that “aims to further the development of cooperative economy in the present historical period to enable them to serve China's socialist modernization.” www.iccic.org.cn

International Co-operative Alliance: www.ica.coop

International Co-operative Information Centre: www.wisc.edu/uwcc/icic


International Network on Participatory Irrigation Management - a global network promoting participatory irrigation and water resource management. www.inpim.org

Plunkett Foundation - an educational charity, which supports the development of rural group enterprise world-wide. www.plunkett.co.uk

World Bank website on Rural Producer Organizations …
http://lnweb18.worldbank.org/ESSD/ardext.nsf/16ByDocName/ProducerOrganizations
… that itself includes a considerable number of relevant websites: