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**FACTORS FOR SUCCESSFUL DEVELOPMENT OF FARMER  
COOPERATIVES IN NORTHWEST CHINA**

A study at Shandan county, in Gansu Province

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## Abstract

Cooperatives, as member owned, and controlled self-help organisations, have demonstrated a significant contribution to social and rural development around the world. In China, the development of cooperatives has been varied due to political, social and economic reasons. However, in recent years, the farmer cooperative has been recognised as one of the main approaches leading Chinese farmers to become involved in domestic and international market competition. Although farmer cooperatives have developed rapidly in China, over the last three years since the Farmer Specialized Cooperative law took effect in July 2007, their progress was varied in the different provinces, due to farmers' education and their economical and social situations.

In order to identify factors for successful development of farmer cooperatives in Northwest China, a qualitative methodology was employed by using two case studies. Two provincial successful cooperatives, the Shandan Dongwan Lvdadi Melon and Vegetable Growing cooperative and the Shandan Ronghua Growing Cooperative in Shandan County, in Gansu province were selected. The study has found that factors related to policy and legislation, the cooperative initiator and leadership, membership, governance, management, training and education were all important for the successful development of farmer cooperatives in Northwest China. This study also emphasised the importance of government support for farmer cooperatives' successful development, especially in their initial stage. There were also challenges ahead, such as the increasing number of associate members becoming 'free-riders', and the increasing gap between large and small farm holders causing decision-making problems. Recommendations on how farmer cooperatives can develop successfully in the future are also formulated for policy-makers and cooperative leaders.

Keywords: farmer cooperatives, successful factors, cooperative development, Northwest China.

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## **List of Abbreviations**

- CASS: The Chinese Academy of Social Science
- CCA: The Canadian Cooperative Association
- CCP: The Chinese Communist Party
- CIC: The Chinese Industrial Cooperative Association
- CIFRC: The China International Famine Relief Commission
- ICCIC: The International Committee for the Promotion of Chinese Industrial Cooperatives
- ICIS: International Cooperative Identity Statement
- FSA: Farmer Specialized Association
- FSC: Farmer Specialized Cooperative
- KMD: Kuomintang
- NGC: New Generation Cooperative
- NGO: Non-Government Organisation
- NPC: National People's Congress
- NZAID: New Zealand Agency for International Development
- NZCFS: New Zealand-China Friendship Society
- PRC: People's Republic of China
- RSCE: Rural Shareholding Cooperative Enterprise
- SCF: Shandan Cooperative Federation
- SMC: Supplying and Marketing Cooperative
- WB: World Bank

\*Exchange ratio: 1 NZ DOLLAR =5.00 Yuan (RMB) (August, 2010)

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## Chapter 1 Introduction

### 1.1 Background:

Cooperatives as a social and economic organization have been developed for more than 200 years around the world. Today, there are over 800 million people around the world who are cooperative members. Co-operatives provide secure livelihoods for 3 billion people, provide work opportunities for more than 100 million people, cover 25% of the world market in insurance and supply 33% of the world's dairy products. Co-operatives also have shown a significant economic contribution of their national economies. Examples include Belgium whose co-operative pharmacies have a market share of 19.5%; Brazilian cooperatives are responsible for 40% of its agricultural GDP and for 6% of its total agribusiness exports in 2007 (Source: Brazil-Arab News Agency, 2 February 2007); New Zealand's cooperatives are responsible for its 95% domestic dairy market and 95% of its export dairy market (New Zealand Co-operative Association, 2007) (ICA, 2010).

With the concerns for its members and community, a cooperative represents a model of economic enterprise that places high regard on democratic and human values and respect for the environment. Cooperatives will continuously play a significant role in the world. As the world today faces new issues such as unstable financial systems, insecurity of food and food supply, and environmental degradation, it is wise to reconsider what cooperatives could offer to the world to deal with these issues (COPAC, 2008).

Recognising the importance of farm cooperatives in rural development, the newly issued Farmer Specialized Cooperative law has taken effect in China in 2007. Under the implementation of Farmer Cooperative law, in the last three years, cooperatives have showed their significant roles in improving members' income, technical skills and social status, which in turn fostered Chinese rural

development and new village construction (D. Liu, 2007; Yuan, 2008). According to the Ministry of Agriculture, up to the end of June 2010, there were 310,000 registered farmer cooperatives. 26,000,000 households joined the cooperatives which accounted for about 10% of the total national farmer households. The development of farmer cooperatives has become the efficient approach to bring farmers into marketing economy (Chen, 2010). Therefore, an understanding of the factors that influence successful development of farmer cooperative will certainly help cooperatives' future development.

## **1.2 Problem statement**

Farmer cooperatives in Northwest China appeared in the 1920s. However, their development was strongly influenced by the political environment and the political approaches to cooperative promotion. Farmer cooperatives developed faster in the 1950s due to government authority changes from Kuomintang (KMD) to China Communist Party (CCP) and the implementation of Agriculture Cooperative law in 1956. However, the implementation of government policy, which changed cooperatives into people's communes, caused the stagnation of farmer cooperative development from the 1960s to the early 1980s. Since the 1980s, farmers have tried several types of economic organizations to overcome the difficulties due to the change from a planned to a market economy. Although cooperatives have developed in China in recent years, the types of cooperative are very diverse (Fock & Zachernuk, 2005; Xiaohui Zhang, 2007).

Although the newly (2007) enacted Farmer Cooperative Law provides a legislative environment for farmer cooperative development, in Northwest China the development of cooperative is still at the initial stage (Y. Zhang, et al., 2009) and most farmers have only limited knowledge and experience, in relation to the development of cooperatives in this new situation. In order to develop farmer

cooperatives successfully, it is important to identify factors that can influence their development in Northwest China, especially under the newly enacted legislation from 2007. Although factors for successful farmer economic cooperative organisations development (which included farmer cooperatives and farmer associations) have been done by some researchers, such as Zhang and Yuan (2010), Han et al (2006), Yu (2009), they are based more on studies in the economically developed region of the eastern part of China. There is limited research available on factors which affect farmer cooperative successful development in Northwest China, especially in the western part of Gansu province. Therefore, this research aims to contribute towards the identification of particular factors, which can influence the successful development of farmer cooperatives in Northwest China.

### **1.3 General aim and specific objectives of the research**

The overall aim of this research is to ascertain:

- To identify and discuss factors contributing to the successful development of farmer cooperatives in Northwest China and the Gansu province in particular.

*The objectives include:*

- To overview the evolution of farmer cooperatives in China and Gansu province;
- To analyze factors contributing to the successful development of farmer cooperatives in the Gansu province;
- To formulate recommendations for regional government policy makers and cooperatives for their future successful development.

In terms of farmer cooperative successful development, in this thesis, the successful farmer cooperative refers to a cooperative which shows significant increase in its membership, economic income, impact to local community and its sustainable ability for future development.

#### **1.4 Overall methodology of the study**

For the purpose of the study (and following a study of the literature), a qualitative research methodology was employed by using two-cases-study approach. By using a purposive method, two farmer cooperatives (from Shandan County in Gansu Province) were selected, as the cases to be studied.

Secondary data was collected from both government and non-government publications and reports. The main sources were from Agriculture System, including national, provincial, regional and county levels of Agriculture Bureau and Agriculture and Economic Administration Stations. Some other data was collected from the provincial and local (Shandan) government and other agencies.

Primary data was collected through face-to-face semi-structured interviews. Interviewees were selected by using purposive sampling and included cooperative leaders, cooperative members, government officials and NGO representatives. Nineteen interviews were conducted using a questionnaire.

Ethics issues have been a high concern in this research, particularly relating to the participants' privacy and confidentiality and therefore, in the final report, the participants appear as anonymous.

Analysis of factors (which influenced the success of the two farmer cooperatives' development) followed a structure, based on the literature review.

Recommendations for the future successful development of farmer cooperatives have been made, for both local government and cooperatives.

### **1.5 Importance of the study**

The main contribution of this study is to help cooperative leaders, members, government officials and NGO staff to gain a better understanding of the factors, which could influence the successful development of farmer cooperatives in their initial stages of development, in Northwest China.

### **1.6 Outline of the thesis**

Chapter One provides the overall picture of the thesis, and Chapter Two offers an overview of the evolution of farmer cooperatives in China, which provides a background for a better understanding of cooperative development, and Gansu in particular. This is followed by Chapter Three, a comprehensive literature review on cooperative theory to provide the theoretical background of this study which shows world-wide (and particularly in the context of China) certain factors that influence successful cooperative development.

The methodology used in this thesis is presented in Chapter Four and this chapter also includes the research process, methodology strategy, data analysis and limitation of the research. Chapter Five is a description of the two selected cases while analysis and discussion of factors for the successful farmer cooperative in Northwest China is presented in Chapter Six. Chapter Seven provided the conclusion of the study and including recommendations for further studies.

## **Chapter 2 Overview of the Evolution of Farmer Cooperative Development in China**

This chapter provides an overview of the evolution of farmer cooperative development in China. Following the time line of this development, this chapter is comprised of four sections:

- Pre 1949: Government awareness of the potential of cooperatives;
- Period from 1949 to mid 1984: development and stagnation;
- Mid 1980s to 2007: restoration and development;
- Current development (2007 onwards): standardise and develop by following the new Farmers Specialized Cooperative law.

## **Background**

China is located in East Asia with a large population of 1.3 billion (2009) and a total area of 9,596,961 sq. km. Geographically, plains, deltas, and hills can be found in the east, while mountains, high plateaus and deserts make up features for the west. According to the Constitution, the administration of China is divided into provinces, autonomous regions and municipalities directly under the central government. Provinces and autonomous regions are divided into districts, cities and autonomous counties. Districts, cities and autonomous counties are divided into townships or towns. Townships are divided into villages. Currently there are 4 municipalities, 23 provinces, 5 autonomous regions and 2 special Administrative Regions (see Figure 2-1: Map of China). The Constitution also stipulates that the National People's Congress (NPC) is the highest organ of state power, which traditionally meets at least once every five years. Its standing committee meets annually to review and approve major new policy directions, laws, the budget, and major personnel changes. The State Council, as the Central People's Government, is the executive body that carries out the Constitution, laws and resolutions adopted by the NPC and its standing committee. The State Council has set up many administrative departments to take charge of various affairs. The local governments are the executive bodies of the local organs of state power; they must obey the unified leadership of the central government and their superior-government organs, and be responsible and report to higher authorities. Local governments are also responsible for managing local economic, cultural and other administrative works of their respective administrative area (W. Feng, Zhu, Zhang, & Gu, 2004). Compared with the eastern part of China, the Northwest, including five provinces: Shanxi, Gansu, Ningxia, Qinghai and Xingjiang, is less developed. Although the farmland per capita exceeds 3 mu/0.2 ha in these provinces, production is lower due to the climate and soil fertility (MOA, 2009a).

Figure 2-1: Map of China



<http://www.paulnoll.com/China/Provinces/I-China>

Before 1978, the system of the people's commune was adopted in rural areas. Under this system, land belonged to the collectives, and all commune members carried out production activities collectively. Farm produce was purchased and sold in the framework of the government monopoly system. The agricultural returns were distributed among all commune members according to his/her work. This resulted in the slow growth of agriculture and economy in rural areas for a long period of time. Since the reforms in the rural areas in 1978, agriculture has developed rapidly. In the 1980s, China combined the central planning with market-oriented reforms and dismantled the people's commune system. The household contract responsibility system was introduced which restored farmers'

rights to use land, arrange farm work and dispose of their output. The government also encouraged farmers to develop diversified self-management business enterprises, such as village enterprises and farmer economic organizations, to increase their ability to compete in the marketplace. As a result, with only 7% (about 130 million ha) of the world's cultivated land, Chinese agriculture was able to feed its people (1.3 billion, one fifth of the world population) (MOA, 2009b).

Now China is one of the world's largest producers and consumers of agricultural products. Its main products include rice, wheat, potatoes, corn, peanuts, tea, millet, barley. Its commercial crops include cotton, other fibers, apples, oilseeds, pork and fish. Agricultural production is geographically concentrated in regions with competitive advantages. For example, in the northwest region, due to the richness of its natural resources, grains, fruits, vegetable, oil seeds, melon and cotton are their traditional products. With accelerating urbanization and industrialization since 1980s, agriculture's share in the GDP has decreased (See Table 2-1). However, its role as the base and staunch pillar of the national economy has never changed. In 2008, there were about 256.6 million farm households, and 520.3 million farmers in the workforce in rural areas (54.5% in farming and 45.5% in industry and service sectors) and agriculture contributed 11.3% of the national GDP. Despite this, incomes for farmers are not increasing as rapidly as for urban residents, which are leading to an increasing wealth gap between the urban and rural areas. On the other hand, the difference in levels of social and economic development is also increasing the gap between farmers in the east (more developed area) and the west (less developed area) (MOA, 2009a).

Economically, China could be divided into four regions which include the east, middle, west and northeast. Northwest (5 provinces) as part of the west, is a less developed area. As one of the five provinces in Northwest, Gansu province is

one of the most undeveloped provinces in China. Historically, Gansu province is a traditional agricultural area; its main agricultural products include grain, oilseeds, cotton, Chinese medicine, fruits, vegetables and meats. Farmers and agriculture industry has played a significant role in the development of Gansu. Table 2-1 shows the changes in the agriculture contribution to the provincial GDP and the percentage of farmers in the total population of Gansu province in the last 18 years. Similar to the whole China, the agricultural contribution to GDP and the farmer population of Gansu province is decreasing; but Table 2-1 still reflects that the majority of Gansu's population is still farmers and the agriculture industry are important for its economic development.

**Table 2-1: Agriculture contribution to GDP and farmer construction**

Item	1990	1995	2000	2005	2008
Farmers of total population (%) (Gansu)	77.96	76.83	75.99	69.98	67.85
Farmers of total population (%) (China)	73.59	70.96	63.78	57.01	54.32
Agriculture contribution to GDP (Gansu)	26.38	19.84	18.44	15.83	14.55
Agriculture contribution to GDP (China)	27.1	19.9	15.1	12.2	11.3

Data collected from: <http://www.stats.gov.cn/tjsj/ndsj/2009/indexch.htm> (retrieved Dec 2, 2010) and <http://www.gstj.gov.cn/doc/ShowArticle.asp?ArticleID=9797> (Retrieved Dec 2, 2010); <http://www.gansu.gov.cn/GsglItemQw.asp?id=32757> (retrieved Dec 3, 2010)

On the other hand, although farmer income in Gansu has been increasing over the last 18 years, it is far below the national average. Table 2-2 shows the changes of farmer's net income in Gansu province.

**Table 2-2: Farmer net income (NZD)**

Item	1990	1995	2000	2005	2008
Farmers' net income (national average)	137	316	451	651	952
Farmer' net income (Gansu province)	86	176	286	396	545

Data collected from: <http://www.stats.gov.cn/tjsj/ndsj/2009/indexch.htm> (retrieved Dec 2, 2010) and <http://www.gstj.gov.cn/doc/ShowArticle.asp?ArticleID=9797> (Retrieved Dec 2, 2010)

In order to help farmers increase income and have a better life, the government has tried different approaches since the early 1900s. Farmer cooperative as one of the approaches has been promoted by the government at different times with different attitudes which resulted in different outcomes. The evolution of farmer cooperatives in China shows how farmer cooperatives have changed in China and their influences to farmers.

## **2.1 Pre 1949: Government awareness of cooperatives' potential**

Prior to 1949, the independent family farm dominated the landscape in rural China — and in terms of land, farms were small, averaging less than two hectares a piece in the north and just over one hectare in the south (Perkins & Yusuf, 1984). Moreover, nearly half the land was owned by landlords, who rented their land to farmers at high interest rates (Perkins & Yusuf, 1984). Under this situation, farmers had no incentive to invest in agriculture, especially in China's north. Commonly, rental contracts were based on one-year tenures and the

relationship between the landlords and tenants (and between the government and farmers) were based on monetary contracts, which were mediated by the market (Perkins & Yusuf, 1984).

Modern cooperative thoughts were introduced into China in three ways, during the early 1910s (Jxcoop, 2005). One way came from Western Europe and North America, one from Japan and another way came from the Soviet Union but their approaches to the promotion of cooperatives were different. The first approach involved co-operative reformist ideas, which were mainly promoted by a group of intellectuals. The second approach was the 'Three Principles of Cooperation' school of thought, mainly promoted by the Kuomintang (KMD) and the third approach was the co-operative ideology of Marxism, mainly advocated by the China Communist Party (CCP) (Jxcoop, 2005). Intellectuals first experienced cooperatives at universities, such as Beijing and Shanghai Fudan, which began as consumer cooperatives. Under the influence of Mr. Sun Zhongshan, the KMD government issued the first cooperative law and set up a 'top down' system, in order to develop various cooperatives, by forcing residents' participation. At the same time, the CCP was also promoting cooperatives, but it regarded them as self protective organisations, which encouraged people to work together voluntarily and it emphasised the farmers' need for consumers and credit and also marketing of their cooperatives (Mao, 1927). In 1932, the CCP set regulations to guide its governing regions and to promote different types of cooperatives, which included grain growing, consumers, producers, supply and marketing and also credit (Jxcoop, 2005).

### **2.1.1 Characteristics of the cooperative movement**

In summary, some of the characteristics of the cooperative movement during this period were as follows:

1. Government played a crucial role in the promotion of cooperative development. As shown above, both the KMD and the CCP issued regulations to support farmer's cooperative development, although they were using different approaches. As the governing body, the KMD government supported cooperative development, by providing financial support — this did work in the early stages and it contributed to agricultural development (Vermeer, 1987). This experience showed that government had a great influence on the cooperative movement, through its legislation and policies.

2. Non-government organisations (NGOs) played an important role in cooperative training, promotion and supervision. During the period between 1920s to 1940s, both the CIFRC and the CIC made a great effort to promote cooperative development, by setting up pilot schemes and delivering training programmes (Gung Ho, 2009; Jxcoop, 2005; J. R. Liu, 2008).

3. The types of cooperatives generally promoted at this stage were producer's cooperatives, consumer cooperatives, marketing cooperatives and credit cooperatives.

4. Results and efforts differed within the approach to cooperative promotion. Farmer cooperatives, located in the CCP governing area, were more productive and their members were more active, than those in the KMD governing areas. The NGOs' work showed that training and a pilot scheme approach could be effective, when promoting cooperative concepts to farmers.

## **2.2 Period from 1949 to mid 1984**

### **2.2.1 Changes in cooperative development**

The establishment of the People's Republic of China (PRC), in 1949, brought with it vast changes for rural farmers. Under the leadership of the CCP, the process of rural transformation began with land reform — the confiscation and redistribution of landlord-held land and other property. The land reform programme was implemented, as early as the 1940s, in areas controlled by the CCP and this continued into the early 1950s — the time of the New China. One of the main purposes was to redistribute land to the poorest people and especially to landless farmers (Perkins & Yusuf, 1984; Vermeer, 1987). Prior to 1952, approximately 43 percent of China's cultivated land had been redistributed to approximately 60 percent of the poorest farmers (Yang, 1996). After the farmers became landowners (and small farmers' livelihoods improved) they produced and consumed more grain (Tung, 1959). The government began to create a vision of how the agricultural sector would be developed. With discussions and the lessons learned from the Soviet Union, the government introduced compulsory farm delivery quotas (soon after the land reforms in 1953) and this was continuously implemented, until the early 1960s (Perkins & Yusuf, 1984). During this time, collectivisation was recognised as a way to mobilise rural surplus labour (Perkins & Yusuf, 1984) and the government viewed the transformation, from individual farmer proprietorship to collective farming, as a long-term process, which would proceed gradually, through three distinct phases of development: The first phase would be a combination of six or more households that had voluntarily formed a mutual-aid team; the second phase involved these mutual-aid teams combining into 'semi-socialist' or 'low' agricultural producing cooperatives, where land would be pooled and farmed cooperatively, whilst the farmers still retained their ownership of land; the third phase involved 'lower' cooperatives, which would eventually amalgamate into 'higher' or 'advanced' cooperatives, where private land ownership would be abolished (Meisner, 1986).

Under the first stage of reform, farmers owned land and had the right to decide how to use their land. However, they were encouraged to form mutual-aid teams, in order to pool resources, including their labour force, whilst still retaining ownership of their land and other productive assets (Yang, 1996). This policy of agricultural cooperation grouped farmers together, according to their economic conditions and it encouraged them to form cooperatives, by stages (Tung, 1959). This policy also stimulated farmers' enthusiasm and successful rises in agriculture development were seen. In addition, the cooperative's members average income was much higher, than that of the middle farmers (Tung, 1959; Warshaw, Bromwell, & Tudisco, 1973). In the winter of 1955 -1956, the second phase began and the national government decided that (within three years) 70-80 percent of rural labour should be organised into mutual-aid teams or into cooperatives (Vermeer, 1987; Warshaw, et al., 1973). Therefore, individual family farms were abolished and farmers were encouraged to form a higher level of organisation, being "lower level agricultural cooperatives", by pooling the land of all families in a given village (Perkins & Yusuf, 1984; Warshaw, et al., 1973). These units would be slightly larger than the former mutual-aid teams and there were several in each village. Although the farmers still owned their land, groups decided on how it would be used and payment was solely based on the amount of work that family members contributed to the cooperative, through a work points system (Perkins & Yusuf, 1984; Warshaw, et al., 1973). Under this payment policy, an adult working a full day could receive ten work points and a part-time worker (or child) earned less — women generally, received fewer work points than men (Perkins & Yusuf, 1984). At the end of the year, the cooperative's income would be divided by the amount of work points earned by all the members and distributed to the members, after deductions for taxes, investment, purchased inputs and their welfare fund (Perkins & Yusuf, 1984). Therefore, a cooperative member's income depended on the number of work points gained and the average value of each work point depended on the net production of the cooperative (Perkins & Yusuf, 1984). However, it was emphasised that both the

formation of mutual-aid teams and 'lower' cooperatives were to be entirely voluntary, with the farmers who joined doing so freely. Party cadres (leaders and staff working for the government) were asked to only use 'methods of persuasion' to encourage farmers to work cooperatively, during these first two phases (Meisner, 1986).

In 1956, there were approximately 75,410,000 households (or 62.6 percent of the nation's members) involved in either semi-socialist cooperatives or socialist cooperatives (16,920,000 or 14.2% in 1955) (Tung, 1959). Although agricultural cooperatives developed rapidly and successfully, during the mid 1950s, the different level of benefits that each cooperative gained, from their public voluntary work, influenced the cooperative's incentive to provide free labour for public projects (Perkins & Yusuf, 1984). It was obvious that one solution to this dilemma would be to pool twenty or thirty village-size cooperatives into one large collective unit and make it possible to mobilise voluntarily labour on a larger scale (Perkins & Yusuf, 1984). For this reason (and also driven by the desire to promote the socialisation of the farmers) in 1958, Mao Zedong (Chairman of the People's Republic of China) ordered the 'lower level' cooperatives to be merged into 'higher level' ones, although many senior members felt that the formation of people's communes was premature (Perkins & Yusuf, 1984), given that the highest level of collectivisation, was represented by phase three of the original vision. The other major aims of this collectivisation included the specialisation of the farmers' labour force, increasing the number of working days and diverting agricultural labour to industrial undertakings (Vermeer, 1987). Within this movement, agricultural equipment, land and labour were combined and farmers no longer owned their land. Farmers' income was based on work points gained through activity within a production unit, in addition to their needs (Perkins & Yusuf, 1984; Tung, 1959; Warshaw, et al., 1973). Initially, 26,000 communes were created and each commune was normally comprised of 5,000 households, representing approximately 40 villages and thus it was like a small society. Each

commune planned its own activities, including the overall management of its small industries, secondary education and hospitals. It covered almost everything related to its members' lives (Perkins & Yusuf, 1984; Warshaw, et al., 1973; Yang, 1996). This movement, later named as 'The Great Leap Forward', ended in failure.

Although the ability to mobilise China's rural surplus labour was the main rationale for collectivisation, in a purely economic sphere, there were other perceived benefits of collectivization, than simply the possibility of ever larger public works projects (Perkins & Yusuf, 1984). It was thought that cooperatives would make it easier and more efficient to introduce farm machinery and new techniques (than through family members) and in addition, cooperatives were expected to eliminate differences in incomes, arising from variations in the quality and size of holdings and thus return control over the land to former poor and landless farmers, rather than leaving it to the rich and middle income farmers (Perkins & Yusuf, 1984). The results of this collectivisation effort were substantially different from what was expected (Perkins & Yusuf, 1984), and agriculture output decreased sharply (part of the reason for this was inclement weather) and farmers were also suffering from a famine, which lasted from the late 1950s into the early 1960s (Yang, 1996). This result also forced government leaders to retreat from the idea of fostering smaller communes, but they still maintained the three level system — but this was now based on teams (Warshaw, et al., 1973). The production team was a sub-unit of the commune (approximately thirty families) and it became the basic accounting unit, which accepted the primary responsibility for managing crop production, under the supervision of the commune. Its members' income was still determined by the value of their work points (Perkins & Yusuf, 1984; Warshaw, et al., 1973). However, within a large unit, the number of work points earned could still be related to effort expended and the value of each point depended on the net output of the entire unit of 4,000 to 5,000 families (Perkins & Yusuf, 1984).

Therefore, if an individual's effort was completely unproductive, the value of his/her work points was almost the same as the others (it only declined 0.01 percent) (Perkins & Yusuf, 1984). Although farmers, as members of a production team, worked collectively until the late 1970s, the operation of this payment policy and the communes' internal management gradually lost farmers' support and this became the main reason for the later failure of communes (Warshaw, et al., 1973).

### **2.2.2 Legislation for the promotion of cooperative development**

Legislation has played an important role in the fostering of cooperative development around the world. The New China introduced cooperative law in the early 1950s and (with the implementation of this law) cooperatives developed successfully in the first couple of years and they made a significant contribution to the success of agriculture. However, due to political reasons, this policy was not implemented adequately after the 1960s, when the cooperative movement turned into collectivisation.

Under cooperative law, the purpose of the cooperative was to promote agricultural producers' cooperatives, step by step, in order to end capitalist exploitation in the countryside, to overcome the backwardness of small-farmer farming and to develop socialist agriculture, which would meet the needs of the nations' socialist industrialisation. The definition of a cooperative was as follows:

*“a collective economic organisation formed on a voluntary and mutually beneficial basis by working farmers with the guidance and help of the Communist Party and the People's government” (Article 1, Chapter One, para 1) (NPC, 1956).*

*“In such a cooperative, the principal means of production such as land, draught animals and farm tools owned privately by members are put under*

*a single, centralized management and gradually turned into their common property; members are organized for collective work and the fruits of their labour are distributed according to a common plan.” (Article 1, Chapter One, para 2) (NPC, 1956)*

Cooperative development needs to follow these principles. 1. They shall, in accordance with socialist principles, convert privately owned production into collective property. 2. They shall steadily improve farmers' skills and promote the constant development of rural economy. 3. They shall properly integrate the collective interests of the cooperative with the personal interests and collective interests. 4. A cooperative shall properly integrate its own interests with those of the state. 5. A cooperative shall be managed in a democratic way (NPC, 1956).

### **2.2.3 Some characteristics of the cooperative movement, during this period**

Agricultural cooperation procedures passed through two stages: the elementary and the advanced (Tung, 1959). At the elementary stage, the means of production was owned in common and members were, for a definite period of time, allowed to retain ownership of land and other means of production, which they had pooled for use under a centralised management and where they received an appropriate return for their property. At the advanced stage, all the land pooled by members and other means of production needed by the cooperative, would become common property. However, the members' household goods, small plots of land, trees, poultry, domestic animals, small farm tools and (if needed) subsidiary cottage occupation, would not be made common property of the cooperative, in either of the elementary or advanced types (Tung, 1959).

The cooperative was not allowed to practise any form of exploitation (Tung, 1959). In dealing with its economic problems, the cooperative had to maintain the principle of giving due consideration to both public and private interests, in order that the interests of the state, the cooperative and the individual members was properly integrated. The cooperative should also be managed in a democratic way and it should strive for unity and constant progress, taking measures to effectively strengthen internal unity and foster comradely relationships amongst members (Tung, 1959).

## **2.3 Mid 1980s to 2007: restoration and development**

### **2.3.1 The responsibility system**

In the late 1970s, due to less-prosperous communes being set up in Sichuan and Anhui provinces, the 'responsibility system' was experimented with, in order to increase farmers' motivation towards agriculture production. Perkins and Yusuf (1984) interpreted this responsibility system as being comprised of three main styles, which included contracts for specialised tasks; output contracts with an individual or a group; and household contracts. Within these three systems, the household contracts responsibility system was the most widely used under this system:

*“The team’s productive resources — fields, ponds, orchards, or equipment — are distributed among households that enter into production contracts. Each household is then responsible not only for meeting output quotas assigned by the team leadership, but also for taxes and all other payments to the brigade and the commune. Items such as seed and fertilizers must be financed from the household’s own resources, and the families decide how the labour is utilized. Under this system, a household enjoys considerable latitude and is allowed to retain all production in*

*excess of the assigned quotas and mandatory payments, which provides a very powerful incentive for improving productivity (pp,81) (Perkins & Yusuf, 1984).*

In 1978, the third plenary session of the Eleventh Party Central Committee (1979-1984) was held in Beijing and a decision was made that the work of the entire Party work should be reformed and (from 1979) its focus would be shifted to the construction of socialist modernisation. Under this policy — and as a result of the success of the responsibility system experiments in Anhui and Sichuan province — the central government decided to implement the household contract responsibility system, together with remuneration linked to output, as the main measures for reformation in rural areas. Therefore, the people's commune system was cancelled and a system of township government was restored. Farmers were given greater freedom to choose which crops to cultivate and the household became the dominant unit of production (Croll, 1987; Vermeer, 1987). This reform greatly enhanced and stimulated farmers' motivation and it resulted in a sufficient increase in agricultural production and rural incomes (Shi, 1998; Vermeer, 1987). China's economic development in rural areas entered into a new stage, through this adjustment of structure and improvement in efficiency. The double-decker operation mechanism, which consisted of the household contract responsibility system and remuneration linked to output, became a fundamental of the rural economic system in China (Shi, 1998). During this period, in order to maintain a stable increase in farmers' income, various service organisations concerned with farmer's needs were gradually created, which included the rural collective economic organisation (such as a township or village enterprise); the state's economic technical sector; and specialised technical associations organised by the farmers (Shi, 1998).

### **2.3.2 Diversified farmer's cooperative economic organisation**

The establishment of household management brought the cooperation between household. In the 1980s, various households (with common specialties) combined and specialised associations began to appear. Since there was no prompt formulation of cooperative law, those specialised farmer associations could not register and obtain legal status as cooperative enterprises and therefore they were unable to carry out independent economic activities. These types of new farmer associations were left to live or die (D. Liu, 2007; Yuan, 2008).

In the 1990s, earlier experiments in enterprise forms began to spread nationwide, following the publication of the Ministry of Agriculture circulars, aimed at standardising models. At this stage, attention was particularly focused on specialised production within technical associations; the reform of township and village enterprises into shareholding cooperatives; and rural cooperative fund associations (Clegg, 2006; Selden, 1998).

By 1997/1998, the ground rules for the agricultural economy began to fundamentally change, as emerging national markets in agricultural produce shifted, from a supply to a demand orientation (Xiaoshan Zhang, 1999). Farmer Specialized Cooperatives (FSCs) had begun to emerge, especially in the high quality fruit and vegetable sectors and generally this involved joint organisation of pre- and post-farm production activities, in relation to purchasing, processing and marketing (Clegg, 2006; Shen, Rozelle, Zhang, & Huang, 2005). In addition, this process of development resulted in the establishment of more specialised economic organisations of farmers, who could earn higher profits, by the application of more advanced technology and with the collaboration and cooperation of cooperatives and private enterprises (Prakash, 2002).

Due to a lack of legislation, the type of farmers' economic organisations was very much diversified, during this period. Appendix 1 shows the main types of farmer organisations since the 1980s. However, in general, during this period, there were two main types of farmers' economic organisation (as shown in Appendix 1). One was the farmers' specialised association and the other was the farmers' specialised cooperative. The main difference between these two forms was the ownership of fixed assets and performing functions, such as production, marketing, or processing. Specialised cooperatives were registered at the Administration of Industry and Commerce Bureau. They had fixed assets and they were similar to traditional cooperatives in western countries, in terms of their production, marketing and processing activities. Farmer specialised associations were registered at the Civil Affairs Bureau and they normally did not have any fixed assets, but they mainly provided some technical assistance and shared information. However, this distinction was rather too crude. The Farmer Specialised Association' (FSA) was a very broad name, which comprised a very large association that supplied technology and information to thousands or tens of thousands of members, in addition to very small associations that communicated technology and experience amongst several farmers. Some specialised associations were even cooperative enterprises and they acted in the same manner as specialised cooperatives (Y. Hu, 2007).

### **2.3.3 Features of cooperative during this period**

The characteristics of specialised cooperatives, during this period, can be summarised as follows:

- Farmer members had autonomous rights;
- Farmers were free to take part in various specialised associations, according to their own willingness;

- Cooperative economic organisations had become high specialised;
- Cooperative organisations provided more services for their farmer members;
- The organisational structure and management was autonomous, democratic and free;
- These farmer organisations were flexible and independent in decision-making;
- Profits were shared amongst the members and thus, with the flow of income, their standard of living was increased (Prakash, 2000).

#### **2.3.4 Factors affecting cooperative development during this period**

Problems that affected current farmer cooperative development include their small scale and lack of finance (Han, Qin, Zhang, & Luo, 2006; Wang, 2007), the low capacity of cooperatives' internal management (Zhu, 2005), the low impact on other farmers in the region (B. Ma, 2005; Jin. Pan, 2004), and strong external influences, especially from the government (Cao, 2004; D. Feng & Luo, 2006; Shen, et al., 2005). Furthermore, development was controlled by the founders (Yuan, 2008), the members' low participation and misunderstanding of the concept of a cooperative, the uncertain marketing environment and low ability to use technology, were all factors that influenced farmer cooperative development (Yu, 2009). Hu (2007) believed that the organisation and strategy of farmers' specialised cooperatives in China was deeply influenced by the institutional environment and the traditional Chinese culture of centring on personal relationships and that the members were heterogeneous, in terms of education, age and gender (Y. Hu, 2007).

During this time, the range of business activities was very broad, covering marketing; supply; retail; processing and manufacturing; storage and transportation; services; education and extension; and international cooperation. Both the Ministry of Agriculture and the All-China Federation of Supplying and Marketing Cooperatives (SMCs) were promoting farmers specialised cooperative development. Some of the international non-government organisations and local NGOs were also promoting farmers cooperative, but in different ways.

However, although new cooperative organisations have developed and played a very important and indispensable role in promoting the Chinese rural economy, when compared with standardised foreign cooperatives, in terms of the control of decision-making power and residual claimant rights, only a small number of cooperative-orientated FSAs were similar to their foreign counterparts. Furthermore, some of the Chinese rural cooperatives could be regarded as quasi-cooperatives, whilst some so-called cooperatives were, in fact, investor-orientated firms (IOFs) (Xiaoshan Zhang, 1999). It was clear that, due to a lack of legislation, the current cooperative development in China was very diverse and many different styles existed. The implementation of the Farmers Cooperative Law, in 2007 hoped to formalise and standardise those farmers' economic organisations. Following the enactment of this cooperative law, those organisations, which were formed mainly by farmers and for the purpose of serving farmers, would be registered as cooperatives, under the Industrial and Commercial bureau. Moreover, those registered cooperatives would also receive a series of support from the government, in relation to their policies. Overall, farmers' specialised cooperative organisations were still at the initial stage (Yuan, 2008).

## **2.4 Current development (2007 onwards): standardisation and development by following the new Farmer Specialized Cooperative Law**

Since the beginning of the 21st Century, diversified, rural cooperative organisations have shown a momentum of rapid innovation and development, within the improvement of regulatory environment, especially with the release of the Law of Farmers' Specialized Cooperatives. This has become a highlight in the innovation of China's agricultural management organisations and systems. Yuan (2008) pointed out that these changes included the rapid growth rate of cooperatives (from 94,771 in 2002, to 150,000 in 2007); the improvement of the field and the scope of business; the service capability of cooperatives; an increase in farmer elites starting cooperatives (69.2% of the 150,000 cooperatives have been started by able farmers and larger-size households); and the achievement of farmers' specialised cooperative organisations. These farmer organisations have increasingly shown remarkable results in the acceleration of the agricultural development and thus there has been an increase in farmers' revenue: The average income of registered specialised cooperative member farmers has increased by 20% (Yuan, 2008).

Hu et al (2007) argued that the development of Chinese cooperatives has been characterised by two factors. Firstly, the number of new cooperatives has increased rapidly throughout China. Secondly, the governance structure of Chinese farmer cooperatives is a co-governance structure, based on farmers' abilities and relationships. The actual arrangements and operations are mainly based on the abilities of members. Trust and commitment, derived from members' relationships, underpins these institutional arrangements, by confining control rights to core members (Y Hu, Huang, Hendrikse, & Xu, 2007).

In order to facilitate and direct the development of farmer cooperatives; to standardise and protect the legal interests of farmer cooperative and members; and to foster the growth of agricultural and rural economy, the Standing

Committee of the 10th People's Congress (NPC) formally accepted the drafting of the Law of Farmers Cooperative Economic Organizations' into their agenda for drafting legislation in December 2003. Before approval of the law, the Agriculture Committee of the NPC, the Ministry of Finance and the Ministry of Agriculture of the State Council and international organisations, such as the World Bank and the Canada International Development Agency, supported some research programmes into Chinese Farmer Associations' development, undertaken by both international and domestic government research institutes, universities and NGOs (Fock & Zachernuk, 2005). The review of the Chinese Farmer Association, undertaken by the World Bank team, suggested that the focus of the Chinese Cooperative Law should be on clearly defining and regulating organisations created in the spirit (and with the aims) of member-owned self-help cooperatives. It further stressed that the law should reflect widely recognised international practice on farmer cooperatives, so long as domestic specifics were taken into account and deviations should be made deliberately and with justification, based on the primary goal of promoting the interests of members (Fock & Zachernuk, 2005). This approved cooperative law took effect from July 2007 and basically it has accepted the international definition and principles of cooperative development. According to the law:

*“Cooperatives are self-help organizations which are associated voluntarily and controlled by producers of same agricultural products or service providers and users of same agricultural business operations. The farmer Cooperatives are based on the rural household contract system (Article 1, Chapter One, para.1)(NPC, 2006)*

*Farmer Cooperatives focus on the needs of their members, which includes the purchase of agricultural inputs, marketing, processing, transportation, storage of agricultural products and provision of information and technologies” (Article 2, Chapter One, para.2) (NPC, 2006).*

The principles on which farmer cooperatives should comply are as follows:

- (a) Farmers play the dominant role amongst its members;*
- (b) The key purpose is to serve members and act in the common interests of all members;*
- (c) The members shall join and exit voluntarily;*
- (d) All members are equal and cooperatives are democratically controlled;*  
*and*
- (e) Surplus should be redistributed, based on the volume of members' patronage (Article 3, Chapter One, para 4)(NPC, 2006).*

These principles basically reflect the ICA principles of voluntary membership, democratic control, economy participation (surplus redistribution by members' patronage), and independence (farmers play a dominant role). These principles have also been used to guide and assess the standardisation of current farmer cooperative development. The experiences have gained from the recent development of farmer cooperatives including: respecting farmers' willingness, adhering to the cooperative law and related bylaws, protecting farmers' enthusiasm and increasing farmers' income. To develop farmer cooperatives well, various government supports, model pilot cooperative building, markets development were all important (Chen, 2010).

## **2.5 Summary**

Although rural cooperatives have developed rapidly in China, during the last two decades, progress has been varied in the different provinces, due to financial status and provincial policies. However, rural cooperative organisation development in China can be classified into two types: The first is community-based organisations, which were mandatorily formed on the basis of the People's Commune system, under the guidance of the government; and the second is the

new type of specialised cooperative, which have been launched by farmers, voluntarily, with the encouragement of the government. The former have produced very little effect on the development of farmers' economic organisations because they have not been able to completely break away from the traditional operational mode of the People's Commune system. In contrast, the latter are innovated organisations formed by farmers, to meet the requirements for the development of a market-orientated economy and they have the full support of the government, and therefore there has been high impact on the development of farmer economic organisations (Yuan, 2008) (Appendix 2 shows the milestones of Chinese cooperative development). To look ahead, rural cooperative organisation will become a trend for improving the basic management system of the rural economy, in which, specialised rural cooperatives will play a leading role. However, the development and innovation of rural cooperative organisations still faces two challenges: insufficiency of external drivers for the cooperative undertakings and insufficiency of entrepreneurial cooperative leaders (Yuan, 2008). For future cooperative development, internal management needs to be continually improved, through training and education and government policies need stability, but at the same time they need to have the flexibility to adjust, according to the changing conditions.

### **Chapter 3 Literature Review**

This chapter provides a theoretical background on cooperatives theory and cooperative development. This would help better understanding the development process of cooperatives including the factors and challenges relating to their successful development. For this purpose, this chapter is arranged into the following sections:

- Definition of a cooperative
- Evolution of cooperatives
- Role of farmer cooperatives
- Factors affecting cooperative development
- Challenges to cooperative development

### 3.1 Definition of a cooperative

A cooperative is a people-centred organisation, which is founded by its members and its main purpose is to provide goods and services for these members. The importance of the cooperative's role in social and economic development has been widely recognised, by nations and international societies. Compared with other enterprises, cooperatives have been defined slightly differently, in a number of ways. However, as a key player, the International Cooperative Alliance (ICA) (set up in 1895) defined cooperatives based on the Rochdale experience, but they have revised this definition many times due to the social and economic changes. The most recent (in 2005) statement of a cooperative 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*" (ICA, 2009b). This definition emphasises that cooperatives are based on the values of self-help, self-responsibility, democracy and equality (ICA, 2007).

It is important to understand the concept of cooperatives behind this definition, because it is not always easy to decide whether a given organisation is a cooperative — or not. It is not a simple legalistic question, but rather a matter of the strategy, purpose, control structures and connections of (and within) defined communities of people. The diversity of cooperatives relates to the fact that they have emerged within many different regions, classes, communities, economic sectors and time periods (Fairbain, 2004a). Similar to other organisational innovations, the expansion and diffusion of a cooperative is a long initial phase of build-up and experimentation (Fairbain, 2004a).

Apart from the ICA, scholars have defined cooperatives by focusing on different aspects. McBride (1986) considered that a true cooperative was one that (1) provides services at cost, (2) is democratically controlled by its member-patrons, and (3) limits returns on equity capital. Cobia (1989) argued that a cooperative

was a user-owned and user-controlled business that distributes benefits, on the basis of use. He distinguished them from other type of business by the three principles of user-owner, user-control and user-benefits (Cobia, 1989).

Governments define and promote cooperatives according to their own social, cultural and economic conditions. In America, a cooperative is “*a business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use*” (USDA, 1997). According to the Co-operative Companies Act 1996, the New Zealand government defines a cooperative as “*an organisation in which those who transact with (i.e. “patronise”) the organisation also own and formally control the organisation, and derive significant benefits from those transactions over and above any financial returns they derive from their investment in the organisation*” (Evans & Meade, 2006). In China, the newly enacted Farmer Cooperative Law defines cooperatives as a “*self-help organization which is associated voluntarily and controlled by producers of the same agricultural products or service providers and users of the same agricultural business operations* (NPC, 2006).

The definition of farmer cooperative in China is based on the characteristics of the Chinese rural household contract system and it stresses that a farmer cooperative must meet the needs of its members, in relation to agricultural production. Under the household contract system, in practice, a member of a cooperative usually refers to a household — one member equals one household. Compared with America and New Zealand, the Chinese cooperative definition is narrower and it only focuses on farmer based agricultural cooperatives.

However, in order to set up and evaluate a cooperative, the principles of a cooperative play a key role. At the 100th anniversary of the ICA’s establishment in 1995, based on the cooperative movement’s practical experience, cooperative experts discussed and revised the former cooperative principles from 1937, 1966, 1995, and seven principles were accepted widely to guide future cooperative

movement. The seven principles are: *voluntary and open membership; democratic member control; members' economic participation; autonomy and independence; education, training and information; cooperation amongst cooperatives and concern for community*(ICA, 2009a). These principles were revised again in 2005 at the ICA conference — and all were retained. However, for specific types of cooperative, the principles must be very specific and more realistic, since they must be easy to implement and operate.

Although strong principles are essential for cooperative survival, there is a danger of attributing the success or failure of a particular cooperative. For business success is based on many factors and whilst strong principles should be able to lead a superior cooperative performance (Cobia, 1989), often factors, such as social factors, member's education level and government policy, need to be considered.

### **3.2 Evolution of cooperatives**

The cooperative, as a social organisation, began early in human development. In pre-history, the tribe (as a for-people-basic-needs-living-style) was a type of cooperative society. Later, in order to meet their basic needs, some low-class workers or farmers worked together, as an informal cooperative, which resembled a social association — even before the first recognised formal Rochdale Pioneer cooperative was inaugurated. These early cooperatives were seen to relate to the spirit and needs of the people.

Potter (1891) believed that co-operators were always inspired by the ancient doctrine of human fellowship, by the new spirit of social service and by a firm faith that the time would come when people would work for the whole community, instead of for their own gains (Cheney, 1999; Potter, 1891). Furthermore, before

Rochdale, cooperative pioneer societies had practised most of the Rochdale principles. Gates (1998) found profit sharing and surplus sharing co-operation between workers and owners, as far back as 1795 and (as might be expected) the genius of the Rochdale cooperative was that they actually developed principles, which they then practised and popularised (Topham & Hough, 1944).

After the first consumer cooperative was successfully developed in 1844, the cooperative idea was accepted by the working class and various cooperatives, such as the Credit Union in Germany (1864), a housing cooperative in Finland (1900), an industrial cooperative in Spain (1940s), and the New Generation cooperative in America (1970-80s) were created. Within cooperative development, the role, which the cooperative had played in both social and enterprise organisations' functions, became gradually clearer. In August 1895, cooperative representatives from 15 countries, including England, USA, Argentina, Australia, France, Germany and The Netherlands, came together to hold the first Cooperative Congress Conference, where they formed the 'International Cooperative Alliance' (ICA) for cooperative development, by providing information, defining co-operative principles and fostering international trade (ICA, 2009b). Subsequently, following the guiding principles of cooperative promotions by the ICA, various cooperatives rapidly developed worldwide — both in developed and developing countries — and this made an immense contribution to social and economic development (ICA, 2008). Table 3-1 shows some key milestones of cooperative development.

**Table 3-1: Key milestones in cooperative history**

Time	The cooperative movement
Before 1840s	Cooperative thinking emerged and co-operators promoted and practised cooperatives
1840s	The Rochdale Society of Equitable Pioneers was founded and the 'Rochdale Principles' were created
1844	First cooperative established (consumer cooperative)
1864	First Credit Union established the credit union model in Germany
1867	Co-operative Insurance Society (CIS) established in Britain
1895	International Co-operative Alliance (ICA) established
1900	Housing cooperatives were started in Finland
1930s	First self-help building co-operative established in North America
1937	ICA conference identified cooperative principles.
1940s	Mondragon cooperative (industrial cooperative) emerged in Spain
1966	Co-operative principles revised by the International Co-operative Alliance (ICA)
1970-80s	New generation cooperatives emerged firstly in America
1995	New co-operative identity statement adopted by the ICA Centenary Congress, held in Manchester
New century	New cooperative models were created and practiced, due to the new social and economic environment

Source: [http://www.cooponline.coop/about\\_intro\\_milestones.html](http://www.cooponline.coop/about_intro_milestones.html)

The evolution of cooperatives has shown that the cooperative movement has been influenced by its social and economic conditions. Cooperatives were created by their members to deal with their own difficulties, in relation to aspects of economic change (Fairbain, 2004a). Dijk (1997) summarised the historical

reasons to set up cooperative firms, which included the need for counterbalancing power; to gain access to industrially produced goods and services; efficiency by economies of scale; risk management; and the improvement of members' income and the rural economy. Since cooperatives have a constant market presence, their internal structure has had to evolve, due to changes in the global market environment (Merrett & Walzer, 2004) and attempts to solve any new problems faced by their members. Iliopoulos and Cook (2004) overviewed the historical evolution of farmer cooperatives in America, and divided them into two main types which included 'traditional' cooperatives and 'new generation' cooperatives. Traditional cooperatives often refer to producer-owned, controlled with open membership, and risk capital generated primarily by means of retained earnings from member patronage and illiquid equity ownership rights. New generation cooperatives (NGCs) often adopt "*a property rights structure that enables them to partially ameliorate the aforementioned constraints*" (Iliopoulos & Cook, 2004). Reasons for NGCs existing are their ability to control production, stock vs. non-stock form of business, exclusivity in the farming community and the business culture (Torgerson, Reynolds, & Gray, 1998). Chaddad and Cook (2004) think that the most important aspect of the NGC model is the improvement of members' incentives to contribute risk capital to the cooperative. In the new century, some new types of cooperative, such as hybrid cooperatives, also emerged under new social and economic situations. Cook and Burrell (2009) further research also proposed a dynamic life cycle framework to show the evolution of agricultural cooperatives. This life cycle framework includes five phases of economic justification: organisational design; growth; glory and heterogeneity; recognition and introspection; and choice (Cook & Burrell, 2009).

### **3.3 Role of farmer cooperatives**

Cooperatives play a significant role in agriculture, in both developed and developing countries. One common form of cooperative is the farmers' or agricultural production cooperative. It is estimated, for example, that over 50 per cent of global agricultural output is marketed through such cooperatives (UN, 2005). With a majority of the poor living and working in the agricultural sector, these types of cooperatives offer an appropriate channel, by which the incomes of poor farmers can be increased or stabilised. Such cooperatives provide farmers with the agricultural supplies they need, mechanisms for the sale of their produce and other essential services, such as marketing, credit and insurance and transportation. Through mutual insurance and farm credit, members of cooperatives are better able to cope with crop failures and other emergencies. In general, the ways that cooperatives increase farmers' incomes include: 1), raising the general price level for products marketed or lowering the level for supplies purchased; 2), reducing per-unit handling or processing costs by assembling large volumes, i.e., economies of size or scale; 3), distributing to farmers any net savings made in handling, processing, and selling operations; 4), upgrading the quality of supplies or farm products handled; and 5) developing new markets for products (Huang, 2000; Y. Ma & Dong, 2006; Mather & Preston, 1990).

By organising themselves as cooperatives, small scale farmers can increase the efficiency of their agricultural production, by working collectively. They can also gain a stronger bargaining power in a local or regional market (Hendrikse, 2004), (as buyers and sellers) and as a result they will be in a better position to compete with larger business in the market. One successful example is the Indian dairy cooperative development, which resulted in 22 state federations of milk unions, covering over 285 districts (or nearly 101,000 village level societies). This dairy cooperative is owned by nearly 11 million members (UN, 2005) and the model has also been replicated by the Milk Vita Cooperative in Bangladesh, where approximately 300,000 households have achieved a tenfold increase in their earnings (UN, 2005).

Farmers and growers seek cooperative solutions to their problems, for many reasons, which include economic benefits from purchasing their requirements through a bulk buying organisation; selling their produce more favourably in the market place; gaining influence in the market place; seeking to overcome their relatively isolated location; balancing the small scale of their activity and powerlessness in the market place; gaining access to services and facilities that would otherwise be denied them; and gaining social benefits, such as a feeling of security (Sargent, 1982).

The cooperative can also play a role in the promotion of social integration, social equity, social services, markets and information (UN, 2005). Moreover, cooperatives can help to empower and give a voice to the poor, by enabling them to organise federations and alliances, in order to promote and contribute to capacity-building and human capital investment, through members' training and education for the development of entrepreneurial and organisational skills and the sharing of information (UN, 2005). As a development tool, cooperatives also play a role in helping groups of people generate start-up capital, jobs and tax revenues, within a community (Merrett & Walzer, 2004).

Researchers also categorised cooperatives' functions from three aspects, which include economic, democratic and social. Economically, cooperatives helped to increase members' income; democratically, members learned to participate the cooperative governance; socially, cooperative helped to create the harmony relationship among its members and also the community (OCDC, 2007). Cooperatives may also serve a catalytic role, in bringing a variety of competing institutions into rural areas, which benefits all rural people (Mellor, 2009).

Agriculture cooperatives have played a significant role in fostering cooperative movement and are continuing to do so. As the ICA Global 300 project shows that more than one-third of the Global 300 cooperatives were involved in agriculture in 2007. Nearly every country represented in the Global 300 has at least one

agriculture cooperative represented in the list of 300 cooperatives (Chesnick & Liebrand, 2007).

### **3.4 Factors affecting successful cooperative development**

There are many factors that influence farmer cooperatives establishment and successful development. In the early 1980s, Sargent (1982), in his study, summarised the common factors associated with success and failures, based on the comparison of cooperatives in seven countries. Those factors can be categorised into social, political, economics, business, administration and management.

Social factors, such as members' attitude towards cooperation, members' relationships and participation and cooperative governance and management, are important to the success of a cooperative. According to Tips (1986), the success of a cooperative is strongly related to the target group and member participation (Tips, 1986; Yu, 2009). Research in Thailand in 1978-1988 showed that the appropriate management of member participation is one of the main factors, which leads to the success of a cooperative (Suksawang, 1990). Member's commitment to working together (in the long-term) and a sense of trust and mutual respect between the managers and members are also important factors (J. Fulton, 2004) Researchers found that the ideal social environment and enthusiastic co-operators (in America) (Sargent, 1982), various members' attributes, such as commitment to the cooperative and their trust of the board (in Switzerland) (Osterberg & Nilsson, 2009) (analysis from a survey of 2,250 Swedish farmers) and the process of members' selection and members' business relationships (in Poland) (Ilona Banaszak, 2008) are all important social factors in the success of cooperative organisations.

Similarly, in rural communities, social factors, such as formal cooperatives, the influence of the local community, farmers' attitudes and responsibilities towards their cooperatives (researchers found economic reasons and saving money were the main reasons for joining), also influenced the successful development of a cooperative (Bhuyan, 2007; Sargent, 1982; USDA, 1993). Research (in India) showed that the success or failure of cooperatives was related to geographic and social factors. Regions with more open social stratification were more conducive to successful cooperatives (Baviskar & Attwood, 1984).

A study in America, concerning loyalty and participation of cooperative members, revealed that general social participation and socio-economic status have a great influence on a cooperative. Other factors, which had a significant influence included an understanding of basic cooperative principles; knowledge of facts about the cooperative; having a 'say' in running the cooperative (Sargent, 1982; USDA, 1993); feelings of responsibility to the cooperative; identifying with the cooperative association; defining the role of the cooperative; the number of neighbours who belonged to the cooperative; the greatest benefit that came from the cooperative; and knowledge of the existence of wholesale or regional cooperatives (Sargent, 1982). On the other hand, using a quantitative approach, Bruynis et al (2001) assessed the agricultural marketing cooperatives of three categorised factors which included: cooperative principle factors; formative and organisational factors; and operating management factors.

Economic and business factors are critical for the success or failure of a cooperative. Sound finance, benefits/costs of cooperating (J. Fulton, 2004; Suksawang, 1990); an increase in profit each year, without corruption (Suksawang, 1990); marketing capacities; and business planning and management, are all indicators that show the economic and business aspects of the cooperative. However, similar to any other type of business organisation, cooperative board members (or other members) may have different ideas on how to evaluate their cooperative's economic success. Management may be more

interested in the firm's level of success factors, such as capturing a greater market share or revenue growth (Zeuli, 2004), whilst ordinary members may be simply interested in their own income. Compared with simply supplying private companies in the region, getting into marketing and controlling the market were considered to be critical features in the success of cooperatives (UN, 2005). A survey of 52 cooperatives in America, found that securing sufficient equity before start up, maintaining an adequate business volume and keeping and distributing accurate financial records, in addition to previous cooperative experience and continued management training for the board and manager and a marketing agreement, have often been associated with success (Bruynis, Goldsmith, Hahn, & Taylor, 2001). Darroch's (2005) surveys in South Africa identified factors from a business aspect, which included factors, such as public and private sector support; access to capital and training; complex labour and tax legislation; business experience; and entrepreneurial qualities.

Administration and management is certainly an important part of the success of a cooperative. Lessons learned from case studies in Thailand revealed that appropriate administration and management of people's participation is a key factor, which leads to the success of a cooperative (Suksawang, 1990). Evidence also shows that the leaders' ability and the relationship between the board and the management of the cooperative are of central importance — the same as in any other business (Adrian & Green, 2001; Ilona Banaszak, 2008; Hilchey, 2009; Sargent, 1982). Johnson (1995) specified the strength of leadership to include their vision, spirit and time commitment to the new organisation and their honest and open communications, amongst all the involved stakeholders. He also addressed the fact that realistic market-entry strategies; experienced outside consulting resources; a comprehensive business plan; products related new technologies; capable management, and sufficient equity capital from members, are also important factors that influence cooperatives' successful development (Johnson, 1995).

Ngaothamsarn's (1988) research showed that unsuccessful cooperatives often face the following challenges which include: lack of marketing officers; working capital was slowly increased; the number of members was decreasing; and the using of cooperatives' services by members declined. A research in India showed that the development of mutual interest, amongst large and small farmers, is crucial and the type of enterprise and product can result in the success or failure of a cooperative (Baviskar & Attwood, 1984). To measure the success of cooperative enterprises in America, Bruynis, et al (2001) used four categories, including longevity, business growth, profitability and members' satisfaction.

The political factors which influence the success or failure of a cooperative refer to the legal environment and government policies related to the development of the cooperative. Cooperative law plays a significant role in promoting and fostering cooperative development in each country although the implementation of the law has done more harm than good is debatable according to FAO (FAO, 2004). Historical experience shows that government policies have had an important affect on the prosperity and structure of agriculture cooperatives in America (Sargent, 1982). Close links with the interests of political leaders, at regional, state and national levels, are also influential for cooperative development (Baviskar & Attwood, 1984).

As for the factors that influence the farmer cooperative in China, Wei and Zhang (1998) identified several external factors, including the local community's economic development level, the degree of marketing, cultural background and the level of people's education. They further discussed the variables of the government's economic system and redistribution policy. Pan's (1999) research on the Laiyang farmer cooperative found that the development of this farmer cooperative depended on its special industry, which was associated with its local natural and social resources; the needs of a local agricultural products processing enterprise; and the innovation of other state-owned cooperative

enterprises, such as supply and marketing cooperatives. She further stressed that the farmers' need to protect their own rights was one important reason to form a cooperative (J. Pan, 1999). Research on the Wuping cooperative in Zhejiang province, an economically developed area in China, found that a lack of capital; lack of people who have capacity in business management; and weak awareness of the cooperation amongst most of the members, were problems that the cooperative had to face, during its development (Sun, 2009). She further stressed that the members' lack of cooperative knowledge, their low participation and being unclear of their own rights and duties, as a cooperative member, were also other factors that influenced the cooperative's development (Sun, 2009). Another case study research of farmer cooperative development, in the economically less developed area of Taihu (Anhui province), found that agricultural infrastructure was another major factor which influenced cooperative development (Renmingwang, 2010).

Yu's (2009) research on cooperatives in three different provinces of southwest China, Guizhou, Sichuan and Chongqing, identified four broad factors, which had influenced the successful development of these farmer cooperative and supported Wei and Zhang's (1998) research. These four factors included people (cooperative members and leadership), marketing and management and government policy (Yu, 2009). Han et al's (2006) research of the development of farmer cooperatives in nine provinces, which included Shanxi, Gansu, Sichuan, Jilin, Anhui, Henan, Zhejiang, Shandong and Hebei, summarised successful factors which included: available support and services provided by local government; a high potential for increasing value in the industry; a good beginning to the industry; worthwhile members' relationships; a suitable leading model and project, such as an excellent brand and advanced technology; a suitable and efficient managing mechanism; exemplary leadership and technical support; and finally, maintenance.

Research on Shanxi farmer cooperative development found that the members' willingness and awareness of cooperatives were most important to the establishment of the cooperatives (M. Zhang, Chen, & Li, 2010). Apart from the farmers' needs and willingness to cooperate, Li and Yan (2010) also emphasised that factors, such as a clear business goal and plan and natural resources, were important to the success of a farmer cooperative. However, in their list, government policy and its implementation (thus creating a suitable environment), the cooperatives' internal management abilities and the members' ownership of equities, were also seen as important factors that influenced the sustainable development of farmer cooperatives — a finding shared with Miu (Miu, 2008). A very recent research found the basic conditions for the successful development of farmer cooperatives in China including the institutional environment; historical experience; marketing abilities; a specific industry; high ability in governance and management; and a legal and policy environment (Xiaoshan Zhang & Yuan, 2010).

### **3.5 Challenges to cooperative successful development**

Cooperatives faced many challenges as a result of the rapidly changing development and environment. Historically, political issues, economic conditions and social changes have always influenced the development of cooperatives. Issues, such as the industrial revolution, the green revolution, the great depression and urbanisation and globalisation, have all had a strong influence on cooperative development. Furthermore, researchers found that the current economic conditions, legal concepts, adjustments in agriculture, changing economic conditions and aspects of worldwide social, economic and political issues were all factors that influenced the various periods of cooperative development (Abrahamsen & Scroggs, 1957; French, Moore, Kraenzle, & Harling,

1980). In China, Li and Yan's (2010) analysis found that challenges related to the development of Gansu farmer cooperatives included lack of recognition of farmer's cooperatives, from officials, technicians and farmers; lack of capital, which limited the progress of the cooperative; and unsystematic internal management of cooperative. These cooperatives were small and they did not have any ability to face marketing competition (Li & Yan, 2010). They emphasised that one of the major challenges, which affected cooperative development, in Gansu, was that farmers generally had a low level and limited period of education (Li & Yan, 2010).

Some specific challenges, which traditional cooperatives have faced include difficulties in funding growth from equity capital and raising debt capital, in addition to 'free rider' problems with new members income bundling and an inability to obtain capital gain on the members' shares (Woodford, 2003). In a more complex and competitive environment, cooperatives faced new challenges. Due to the unique user-driven features of cooperatives, Cook (1995) outlined five general problems that cooperatives faced, which included:

- *Horizon Problem* — members pressured to increase current payments, instead of making further investment in the cooperative's future development and thus the cooperative became non-competitive over time;
- *Portfolio Problem* — members lost confidence in their belief that the cooperative was the best way for their personal investment.
- *Internal Free-Rider Problem* — those members who made only a small capital investment in the cooperative, which then gained a similar return to the major investment members.
- *Control Problems* — normally caused by incomplete information being given out and therefore misunderstandings occurred between members and governing boards and management, especially those cooperatives which had increased in size.

- *Influence on Costs Problem* — these arose when a cooperative decision affected its members' own interests. Within the cooperative, conflicts within members' relationships, members' interests, ownership, the manner in which decisions were made and surplus distribution, were all problems influenced by a cooperative's development (Cook, 1995) .

Other researchers further explored members behaviour within a cooperative and outlined the problems that cooperatives faced as free-riders, horizon, portfolio, control and decision-making problems (Faber & Egerstrom, 2001; Nilsson, 2001).

Baldwin (2001) summarised that the problems with cooperatives could be identified as follows: the members multiple objectives for the cooperatives; decision-making processes; problems relating to control of power; limited pool of director skills and knowledge; under- and over-investment; weak incentives to perform; unbalanced portfolios; and member moral hazards.

Egerstrom (2004) also listed some factors as being external obstacles, which constantly confronted cooperatives and these included information, resources, political environments and culture and Porter's five forces of business competition. He also listed a number of strategic management factors, which had influenced a cooperatives' development including suppliers, competition, customers, market price, technical developments, demographics, social concerns, legal regulatory factors, political and economic environment.

Apart from the common cooperative social environment problems, every cooperative has its own problems. Frequently, these specific problems may cause the failure of a cooperative. The U.S. National Cooperative Business Association (NCBA) (2009) discussed specific problems, such as poor selection of directors; members who join but never use their cooperative; failure to take responsibility; allowing a few people to draw up policies; non-attendance at annual meetings; lack of consistent membership; lack of money; low costing by

management; not closely watching the formation of cliques and special interest groups within the cooperative; errors in financial policy; and management errors. Most likely, the development of farmer cooperatives in developing countries may repeat these problems which have been experienced by cooperative pioneers in the early stages of cooperative development in the developed countries.

Egerstrom (2004) concluded that if cooperatives were going to manage these internal and external threats, they must adopt new organisational forms, such as the NGCs, joint ventures and partnerships, together with a range of other cooperative business forms (Merrett & Walzer, 2004).

However, the problem faced by cooperative management is how to keep its members from free riding and patronising another firm, whilst accessing competitive pricing for their products, due to the cooperative's presence in the market (J. Fulton, 2004). Fulton (2004) also advised that, for agricultural cooperatives to remain competitive, one of the solutions would be to grow larger through mergers/acquisitions and joint ventures/strategic alliances.

### **3.6 Summary**

Cooperatives, as an organisation for people, are concerned about their members' interests and rights and — as an enterprise — they seek out benefits for their members. By following identified principles, cooperatives have developed in many different ways. From the first modern Rochdale cooperative until the present time, cooperatives have adapted to new situations.

Cooperative history shows that the cooperative movement has often developed during world economic crisis situations. In particular, when many people had lost their jobs or farmers were in a very difficult situation, people demonstrated a desire and need to work together. History also reveals that cooperatives play a significant role in agriculture, in both developed and developing countries. The

successful development of farmer cooperatives not only solves the farmers' production and living problems, but it also contributes to the social and economic development of rural communities.

There are many factors that influence the successful development of farmer cooperatives. These major factors are social, economic, political, business and management and others. As a people centred organisation, factors such as members' knowledge, skills, education levels and capital resources, all affect a cooperative's successful development.

The successful development of farmer cooperatives also faces problems from both within and beyond the cooperatives. Internal problems include members' increasing demands, lack of capital and free riders and external problems include financial crisis, market changes, and urbanisation. In order to develop successfully, cooperatives have to adjust to their external environment, whilst still maintaining their cooperative features.

## **Chapter 4 Methodology**

This chapter describes the research process of this study. It includes the following sections:

- Research process
- Research strategy identification
- Data collection
- Data analysis
- Limitations of the study
- Summary

## 4.1 Research process

### 4.1.1 Research problem identification

Stimulated by China's new policy of economic reform, launched at the end of the 1970s, several types of cooperatives gradually emerged. In the 1980s, farmers' specialised cooperatives (or associations) began to develop in rural areas and this development showed a rapid increase in the late 1990s. However, due to the lack of cooperative legislation, governments at different levels may vary in their attitudes and behaviour towards the promotion of rural cooperatives (Xiaoshan Zhang, 1999). In addition, during the early 2000s, non-government organisations (NGOs), such as the International Committee for the Promotion of Chinese Industrial Cooperatives (ICCIC) and the Shandan Cooperative Federation (SCF), with the support from international organisations, such as the World Bank, the Canadian Cooperative Association (CCA), the New Zealand-China Friendship Society and NZAID, have developed and implemented a number of cooperative development projects in rural areas in China. They have mainly promoted an International Cooperative Identity Statement (ICIS) style of farmer cooperatives by combining the Chinese rural conditions. In 2005, it was estimated, by both the Ministry of Agriculture and the Rural Development Institute of the Chinese Academy of Social Sciences (CASS), that there were over 150,000 farmer cooperatives or associations, comprised of 23,630,000 member households in China. Amongst these institutions, 65% are referred to as 'farmers' specialised associations' and 35% are referred to as 'farmers' associations'. Within these organisations 40% were involved in agriculture and forestry; 27% in animal husbandry; 18% in processing and transportation; and 15% in other sectors, like machinery, culture and services (Yuan, 2008). The majority of these cooperatives are placed at the primary level of co-operative development, according to the ICIS style cooperative principles. In 2006, since cooperatives had shown a significant role in Chinese rural development and new village construction (D. Liu,

2007; Yuan, 2008), the Chinese National People's Congress (NPC) discussed and passed the 'Farmer Specialized Cooperative Law', in order to "*facilitate and direct the development of farmer cooperatives, standardize organization structure, protect legal interests of cooperatives and members, and foster the growth of agricultural and rural economy*" (Cooperative law, Chapter one, Article 1). This farmer cooperative law took effect from July 2007 and has resulted in a rapid growth of farmer cooperatives in the last few years. However, the level of farmer cooperative development has varied between the developed and less developed regions in China due to their different social and economic conditions. In Northwest China, the less developed area, farmers are often less educated and lack capital, technical skills and marketing experience. One of the problems, which farmers have to consider, is how to develop farmer cooperatives successfully. This study is aimed at identifying the factors, which influence the development of farmer cooperative development in Northwest China.

#### **4.1.2 Literature Review**

A literature review is a process, which assists the researcher to examine what has been studied and how a particular research topic has been studied (methodology) (Kumar, 2005). The four main functions of a literature review are that it brings clarity and a focus to research problem; it improves the research methodology; it broadens the researcher's knowledge of the research area; and it contextualises the research findings (Kumar, 2005).

This study has reviewed the literature, which relate to the role of farmer cooperatives and the factors that affect these farmer cooperative developments, both in China and other countries. In addition, methods have been used to identify factors which influence farmer cooperative development also has been reviewed. Literature reviews provide a theoretical background for this study and

based on the literature reviews, a case study approach was selected to conduct this study.

The various literature sources studied by the researcher include: books, journals — both published and online, papers — published and unpublished, organisational research documents — Shandan Cooperative Federation, publications and surveys from government units — Agriculture Bureau of Shandan County government; Rural Economic Management Station of the Agriculture Bureau; and the Shandan Xianzhi office, and internet.

#### **4.1.3 Aims and objective of the research**

The aim of this paper is to identify and discuss factors contributing to the successful development of farmer cooperatives in Northwest China and the Gansu province in particular. This overall aim is achieved by the following objectives:

- to overview the evolution of farmer cooperatives in China and Gansu province in particular;
- to analyze factors contributing to the successful development of farmers' cooperatives in the Gansu province;
- to formulate recommendations for regional government policy makers at national and regional levels and cooperatives.

#### **4.2 Research strategy identification**

#### 4.2.1 Qualitative versus quantitative

Literature reviews have shown that both qualitative and quantitative approaches have been used for the purpose of identifying factors that affect cooperative development by cooperative researchers in China and other countries of the world. However, qualitative and quantitative research methods differ primarily in their general framework, analytical objectives, data collection format and flexibility within study design (Bernard, 2006). Bernard (2006) further stressed that qualitative methods are more flexible, and they allow interaction between the researcher and the participants compared to quantitative methodology.

A qualitative method allows the researcher to gain a richer and 'deeper' understanding of social phenomena (Silverman, 2005) and it provides a 'greater voice' for the people in the study (Engel & Schutt, 2009). In order to identify factors that have influenced the success of producer cooperative organisations in Poland, Banaszak (2008) used a structured interview with cooperative leaders and designed a questionnaire, which comprised six sections: general information about the organisation; the process of the organisation's formation; group functions (management and decision-making, production and marketing and membership); costs and benefits of the cooperation; the role of institutional environment; and leadership. He interviewed 50 functioning cooperative leaders. In 1990, Suksawang (1990) used a field survey and observation of two case studies during their development between 1978-1988, to identify the factors that influence cooperative success in Thailand. Scholars from Bath University in the UK also used a case study approach to identify the factors leading to the success or failure of a cooperative in UK, in the 1980s (Sargent, 1982).

In order to assess the real impact of cooperatives, on the reduction of poverty in Africa, a qualitative study was conducted and data were collected, by the use of semi-structured interviews with key informants, including officials, selected

cooperative leaders and members. Primary data were supplemented with secondary data from official records, reports of cooperative organisations and published books and articles (Wanyama, 2008). Baviskar and Attwood (1984) also used a case study approach to identify the success or failure factors of dairy cooperative development in India.

In order to identify factors that influence farmer cooperative development in China, case study research was undertaken, such as Pan's (1999) research on the Laiyang (Shandong province) vegetable growing farmer cooperative, Sun's (2009) research of Wuping (Zhejiang province) cooperative development.

On the other hand, in order to quantitatively assess agricultural marketing cooperatives, Bruynis et al (2001) used twenty seven variables from their own literature review, which were then grouped into three categories for analysis. Banaszak (2008) also used independent variables to measure success, but placed more focus on group size; leaders' decision-making strength; the selection of members; business acquaintances; communication amongst members; homogeneity; and competition. In order to identify factors relating to farmer cooperatives in South Africa, Darroch's (2005) used surveys to identify factors from a business aspect, which included factors, such as public and private sector support; access to capital and training; complex labour and tax legislation; business experience; and entrepreneurial qualities. More recently, Osterberg and Nilsson (2009) also used a survey of 2,250 farmers to reveal the factors that influenced successful farmer cooperatives development in Sweden.

Quantitative surveys have also been carried out, to assess the factors that created successful development of farmer cooperatives in China. Yu (2009) surveyed 13 cooperatives, in three different provinces of southwest China, Guizhou, Sichuan and Chongqing to identify factors which influenced farmer cooperative development in Southwest China. Han et al (2006) undertook surveys of 140 farmer cooperatives, selected from nine provinces, to gain a

broad idea of the successful factors for farmer cooperative development. On the other hand, Zhang et al (2010) surveyed 200 farmers from Shanxi province, in order to identify the 'people' factor for successful farmer cooperative development.

In general, most scholars have used a qualitative method to conduct their research since this allowed them to discover more information about cooperative members and also to identify intangible factors, such as socio-economic status, gender roles and members' relationships, which can all influence cooperative development.

#### **4.2.2 Research strategy for this study**

As Yin (1994) pointed out, there are three types of case study: *descriptive, explanatory and exploratory*. The use of a case study approach can assist in the exploration of the key factors, which affect those participants within the case study setting (Denscombe, 2007). Case studies are also used for research questions, relating to interventions, in terms of improving policies, implementation and benefits (Gillham, 2000). In case studies, the main sources of data are documentation, archival records, interviews, observations and physical artefacts (Yin, 1994). Participant observation, in-depth interviews and focus groups are the three most common qualitative methods for data collection (Engel & Schutt, 2009). The individual interview is the main technique used for the investigation of personal perspectives (primary data) and also an in-depth understanding of the personal context (within the research locations) can be gained by this method (Ritchie & Lewis, 2003). Therefore, for the research purpose, a qualitative research strategy and case study approach is the most appropriate for this study, since it is the preferred methodology for 'how and why' research questions, when the research is dealing with current issues (Yin, 1994).

A combination of descriptive and exploratory types of case studies has been selected, since they allow exploration of factors that have influenced the establishment of farmer cooperatives and they also provide a description of the process of farmer cooperative development. For data collection, the individual interview was chosen as the main technique used to collect primary data, since it gave the researcher an in-depth understanding of the participant's opinions on how to successfully develop a cooperative. Interviewing was followed by semi-structured questionnaires.

#### **4.2.3 Site selection**

For the research purpose, Shandan County (in Gansu Province) was selected as the study site, for its location (Northwest China), its uniqueness in having a local (county level) professional cooperative development NGO, its unique experience of both industrial and rural cooperative development —and offered easy access for the researcher. The researcher has a close relationship with local government units and NGOs in this area and he has had local experience of promoting farmer cooperatives. Following the case selection criteria and recommendations from the county Agriculture Bureau and the Shandan Cooperative Federation (NGO), Shandan Lvdadi Melon and Vegetable Growing Cooperative was selected as the main study case. The Lvdadi Cooperative is recognised by the provincial government as a successful development cooperative and it has been approved as one of the top 100 provincial cooperatives, by following the evaluation criteria (see Appendix 3). In order to gain a deeper understanding of factors that have influenced the successful development of farmer cooperatives in Shandan, the Shandan Ronghua Growing cooperative was studied (as an additional case), by the researcher. In 2008, the Ronghua Cooperative was approved as one of the 122 provincial model cooperatives. The criteria of the assessment of top 100 cooperative are more focus on the cooperative turnover and its impacts to the local community.

## **4.3 Data collection**

### **4.3.1 Secondary data**

Secondary data was obtained from publicly available data archives and from other researchers and projects (Engel & Schutt, 2009). In this study, secondary data was firstly collected from reports (both published and unpublished) undertaken by the Agriculture Bureau of national, provincial, district and county level and the Shandan Cooperative Federation. Other important data resources were obtained from the Shandan Xianzhi (bulletin), which is edited and published by the Shandan government. This is a collection of official statistical reports and it provided rich information about the development of the county. There were also written data, such as the cooperatives' constitution, bylaws of financial management relating to the cooperatives, which had been collected from the cooperatives themselves.

### **4.3.2 Questionnaire design**

In order to collect high quality data, interviewers have to plan their main questions and the outline of the interview topic (Engel & Schutt, 2009). For the purpose of this study, the researcher designed a semi-structured questionnaire, to guide the interviews. The questionnaire consists of two parts: the background of the interviewee; and open-ended questions relating to the development of the cooperative. According to the different roles, which the participants play in the promotion of their farmer cooperative development, the researcher designed slightly different interview questions, for the different participants. These different

groups included government officials, NGO representatives, cooperative leadership and cooperative members. (See Appendix 7 for a detailed questionnaire)

### **4.3.3 Primary data**

#### ***4.3.3.1 Selection of participants***

Primary data was collected through the conduction of semi-structured interviews. Interviewees were selected by using purposive sampling techniques. Interviewing of officials from the Agriculture Bureau of Agriculture and the Economic Management Station, at three levels, which include district, county, and township, provided the researcher an intensive understanding of governments' views of promoting and fostering farmer cooperatives successful development.

The director of the Shandan Cooperative Federation, as a representative from a local NGO, was also interviewed. The main function of this NGO is to promote cooperative development. This gave the researcher another perspective to understanding the factors that influence local farmer cooperative development.

There were 16 participants selected to be interviewed, from the two case cooperatives. Nine participants were selected from the Dongwan Cooperative and seven were selected from the Ronghua Cooperative. This allowed the researcher to access people who were critical for this research purpose (Denscombe, 2007). The two key initiators in the case studies (the directors of the cooperatives) were paid high attention in the interview, since they were crucial to the research, due to their ongoing contribution to the development of their organisations. Interviewing of other board members and steering committee members provided the researcher a better understanding of factors for the

successful development of the cooperatives from a leadership perspective. Interviewing of ordinary members, including female members, provided the perspective of member factors for the successful development of the cooperatives. Table 4-1 presents the interview structure for the two selected cases.

**Table 4-1 Interview structure for the two case studies**

Dongwan Lvdadi Melon and Vegetable Growing Cooperative	Ronghua Growing Cooperative
Board Director (1)	Board Director (1)
Board Committee Member (2)	Board Committee Member (1)
Steering Committee Director (1)	Steering Committee member (1)
Management (1)	
Female Member (2)	Female Member (2)
Male Member (2)	Male Member (1)

#### *4.3.3.2 The time schedule of data collection*

Data collection for this study was conducted from May till July 2010, in Shandan County of Gansu Province, in Northwest China. Total 19 Interviews were conducted. (A detailed interview list of data collection is presented in Appendix 6.) All data was collected in Chinese and no tape recorded.

#### *4.3.3.3 Ethical considerations*

Ethical issues have been a high concern in this study and therefore protection measures were taken, to ensure participants' confidentiality and anonymity,

during any correspondence. For cultural reasons, the interviews were not tape recorded and all notes taken were clearly shown to the participants. It was also made clear that the collected information was only for this research purpose and that individuals' details would not be revealed, at any time in the future. When specific questions were asked in the final report, all the participants were assured that their real name would not be used to ensure their confidentiality.

Information sheets, which contained a description of the research purpose, were given to the participants and full contact details of the researchers were also provided (Appendix 4). Consent forms were also given to the participants, who were asked to sign them, before taking part in the interviews (Appendix 5).

## **4.4 Data analysis**

Following Yin's (1994) method of qualitative data analysis, examining, categorizing and tabulating were used to address the initial research purpose of this study. However, for this study, the data collected including both secondary and primary has to translate from Chinese to English. Furthermore, a pattern-matching structure was used to analysing the factors that influence farmer cooperatives successful development in Northwest China. Specifically, in this research, the procedure for the data analysis included the following.

### **4.4.1 Data management**

Similar to Wanyama's (2008) research in Africa, Suksawang's (1990) research in Thailand, the data management of this study includes field notes from interviews with four different groups: the key initiator and leadership of the cooperative; cooperative members; officials; and the NGO representative. These notes were sorted and categorised into groups, which reflected factors affected the

establishment and development of the cooperative, in that region. Secondary data were also grouped, in each case, so that the researcher would be able to cross check the evidence from the case studies.

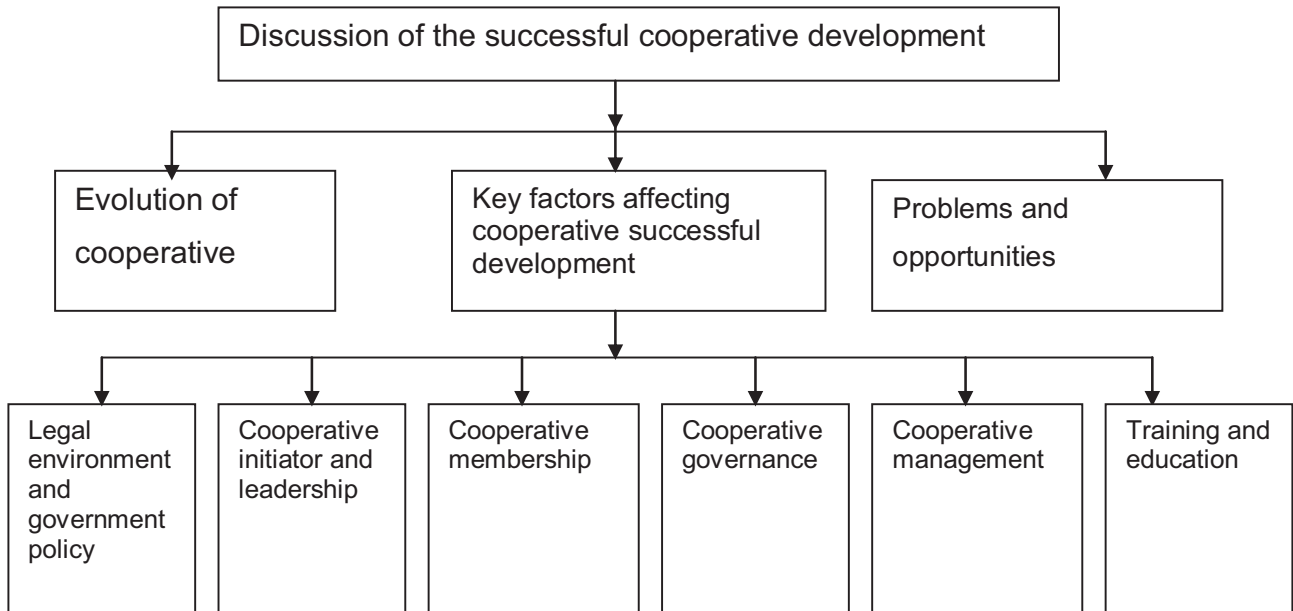
#### **4.4.2 Case description**

Based on the primary interviews and secondary data collection, following Yin's (1994) research of case study approach, a description of each case was created in this study, as a base for further discussion. These two case studies have then been iterated and cross checked with evidence from different aspects, in order to provide the facts relating to the development of the case studies and to ensure quality for any future analysis.

#### **4.4.3 Discussion and analysis of the cases**

In order to identify factors that influenced the successful development of the cooperative, a comparative analysis of pattern matching technique has been used. The characteristics of the development of each cooperative case study are listed and the factors affecting its development are determined. The basic discussion structure is presented in Figure 4-2.

**Table 4-2 Discussion structure of the cooperative case studies**



#### **4.5 Limitations of the study**

There are some challenges and limitations to this study, which include the following:

- Time limitation: due to financial and time frame for the completion of the study, the researcher' time is limited for field data collection. Due to the seasonal reasons (busy spring) and natural disaster (dust storm followed by later spring snow), the quality and quantitative of interview limited by farmers' concentration and time involvement. Therefore, the depth of the research was limited.
- Social factors influence: Due to social and cultural reasons, the interviews were not tape recorded and this may cause the missing of

participant's comments. Therefore, details data might have been missed by the limitation of the quality of interpretations.

- Translation (using two languages, Chinese and English) of the interview notes may have affected documentation of the interviewees' real meaning and this could limit the quality of the analysis of the case studies.
- Culture and local custom influences: Due to culture and other reasons, in-depth financial information for the two cases was not collected and this has limited an analysis of the financial factors, which have influenced the development of the cooperative, since financial issues are one of the key issues, which reflect how successful a cooperative is.
- The use of a purpose technique, to select ordinary members for the case studies, limited the collection of a broad range of members' opinions, relating to the development of the organisation.
- This research used a case study approach and therefore the case selection could be biased, by following local government and NGO recommendations, which may then cause potential problems.

#### 4.6 Summary

For the purpose of this research, qualitative methodology was employed by using a case study approach. Two farmer cooperatives from Shandan County of Gansu Province in Northwest China were studied: the Dongwan Lvdadi Melon and Vegetable Growing Cooperative and the Ronghua Growing Cooperative. They were selected based on recommendation and approval of the provincial government (directors of Shandan Agriculture Bureau and Shandan Cooperative Federation (NGO)).

Primary data was collected through face-to-face semi-structured interviews. Interviewees were selected by using purposive sampling and included cooperative leaders, cooperative members, government officials and NGO representatives. Nineteen interviews were conducted using a questionnaire.

Secondary data was collected from both government and non-government publications and reports. The main sources were from Agriculture system, including national, provincial, regional and county levels Agriculture Bureau and Agriculture and Economic Administration Stations. Some other data was collected from the provincial and local (Shandan) government and other agencies.

In order to identify factors influencing the successful development of cooperatives in Northwest China, a comparative analysis of pattern matching technique was used. Ethics issues were a high concern in this research, particularly relating to the participants' privacy and confidentiality.

This study was limited as it involved only two farmer cooperatives in Shandan County, Northwest China. The 'household' membership structure and the future successful cooperative development with a higher number of cooperatives involved needs to be further studied.

## Chapter 5 The Case Studies

This chapter provides a description of the cases studied in terms of how they evolved and developed and what factors influenced their development. For this purpose, this chapter includes four sections:

- section one is a brief description of the evolution of the farmer cooperative development;
- section two stresses the current development of the Shandan farmer cooperatives (especially since the Chinese Farmer Specialized Cooperative Law was enacted in 2007);
- sections three describes the Dongwan Lvdadi Melon and Vegetable Growing Cooperative (Dongwan cooperative);
- section four describes the Ronghua Growing Cooperative (Ronghua Cooperative);
- section five addresses the key findings from the two cooperatives studied.

## 5.1 Evolution of the Shandan Cooperative

The evolution of the farmer cooperative in Shandan basically followed the trend of the Chinese farmer cooperative development. In 1936, the first farmer cooperative was established in Shandan, as a supply and marketing cooperative. The approach to promoting cooperative development was a top-down approach, governed by the KMD government (Nongyeweyuanhui, 1993). It was not successful and it later became a private business. In the late 1940s, the Shandan Bailie School was established, which focused on the training of industrial cooperative leaders and technicians (GungHo, 1999). This training programme fostered the development of local industrial cooperatives and it had a large impact on other local types of cooperative development (Bailie, 1993).

Following the establishment of the 'New China', Shandan delivered a land reform policy in 1951, which resulted in farmers gaining ownership of land. The national policy of agricultural mutual aid group construction was followed and combined with local conditions, thus following the principles of volunteering and exchange (based on equal value) of mutual aid groups. In 1952, small mutual aid groups developed, from several households to more than ten households. The main style of these mutual aid groups included temporary, seasonal and permanent (all year round) aid groups. There were 116 mutual groups were formed, which included 812 households: This number represented approximately 6.9% of the total households in the county (Nongyeweyuanhui, 1993). This increased rapidly in 1953 and 53.2% households formed 1132 mutual-aid groups. Then in 1954, the government forced all these farmers to form three primary farmer cooperatives, and later on became three people's commune in 1958. The failure of people's commune broke the three communes into 10 small communes from 1965-1982 and then reformed as 11 townships in 1982 by following the open policy. Table 5-1, below, presents the evolution of Shandan cooperatives.

**Table 5-1: Evolution of Shandan Cooperative**

Time	Number of cooperatives	Number of households	Other items
1952	116 (mutual-aid groups)	812	6.9 % of total farm households
1953	1132 (261/871) (mutual-aid groups)	6885	53.2 % of total farm households
1954	3 (primary farmer cooperative)	108 (642 farmers)	Labour force 208 Land: 4323.5mu 2-3 managers to manage plan, finances etc
1955	76 (low level)	5222 (39%)	
1956	196 (higher level)	All farmers joined	547799 mu (total)
1957	37 (reformed)		
1958	3 people commune	29 bridge; 176 production team	
1965-1982	10 people commune	91 bridge team; 532 producing team	1752 households per team (average)
1982	11 townships	2.4314 rent 54.7588 mu land	Household responsibility system established

Source: Shandan Xianzhi, p.169—175

Under the policy for elementary producers' cooperatives, farmers combined their land for the cooperative to use and manage. Livestock, such as donkeys, in addition to large agriculture equipment, was also combined and used by the cooperative. However, the cooperative paid fees for the use of livestock and equipment and any surplus and benefits were distributed, based on labour contribution (60 - 70%); land (20 - 30%) and others (10%) (Nongyeweyuanhui, 1993). Some cooperatives also began to raise accumulation funds and to set up labour and financial bylaws for management; and they also began to try out new crops and machinery.

This policy (in the 1950s) and this form of cooperative protected the farmers' ownership of land and other equity. Furthermore, it stimulated the farmers' enthusiasms to work cooperatively, which resulted in increased agricultural development. Subsequently, in 1956, an advanced producers' cooperative was formed, which resulted in all land belonging to the cooperative and dividends from the land (for farmers) ceased. In addition, livestock, agricultural tools, orchards and forests now belonged to the cooperative (the cooperative paid the evaluated price). Therefore, at this stage, the cooperative tended to be a collective economic organisation. Benefit distribution depended on work points (labour force contribution) and all work was arranged by the leadership (Nongyeweyuanhui, 1993).

## **5.2 Current development of Shandan Farmer Cooperative**

There are 115 villages belonging to nine townships, in Shandan County. Prior to 2009, there were **60** farmer economic organisations (associations and cooperatives) and approximately **15,530** households were members, which was approximately **41%** of the county's total farmer households. Amongst them, **25** were officially registered with the Industrial and Commercial Bureau, under the

newly issued Cooperative Law. The main industries within local farmers' economic organisations included sheep, potatoes, canola (for oil), barley (for beer), flax, wolfberries and honey production. Within these 60 organisations, categorised by industries, **40 (66.7%)** were involved in agricultural production; **11 (18.3)** were involved in animal husbandry production; and **9 (15%)** were involved in processing and marketing industries (Nongyeju, 2009). Farmer cooperatives developed more rapidly in some villages than others, due to their location and economic development level, in addition to the farmers' recognition of cooperatives and outsiders' promotions. However, with government support and all the hard work within the cooperatives, at the end of 2009 Shandan Dongwan Lvdadi Melon and Vegetable growing cooperative was selected as one of the 122 pilot cooperatives, within Gansu province. It was also evaluated as one of the top 100 provincial cooperatives (Nongjingchu, 2009). The criteria for its selection included its constitution, organisational construction, internal management, marketing competence (brand, members' profit, etc) and influence on other farmers (being attractive to other farmers) (Nongjingchu, 2008). Therefore, Shandan Dongwan Lvdadi Melon and Vegetable Growing Cooperative is the most successful cooperative in Shandan County. Table 5-2 presents the Shandan cooperative development, compared to provincial and national level.

**Table 5-2: Type of cooperative by category**

Item/ Industry	Agriculture Production (%)	Animal Husbandry (%)	Others (machinery, service etc) (%)
China	47.6	24.7	27.7
Gansu province	50.7	28.8	20.5
Shandan county	66.7	18.3	15

Source: Based on 2008 data resources from report of Shandan Agriculture and Economic Administration (2009), Zhang & Yuan (2010, p 159); based on Li and Yan's (2010) calculations (Li & Yan, 2010)

Compared with the entire Gansu province (and national levels), Table 5-2 shows that the Shandan Cooperative is mainly focused on agriculture industry. Table 5-3 shows the changes of industry structure of Shandan county since the open policy initiated in 1978. It revealed that the local agriculture industry has changed from traditional crops of wheat, to cash crops and animal feed crops, comprised of barley, maize, vegetable and Chinese medical plants. This also revealed that farmers' behaviours have begun to influence by markets demand. For a better income, farmers have the needs to gain technical skills in producing new products for the markets.

**Table 5-3: Industry structure changes from 1978 - 2009**

Time	1978	1985	1988	2004	2009
Ratio of wheat/cash crops	93:7	72:28	69:31	54:46	40:60

Source: Shandan Xianzhi, 1993, p.181-182; Zonghe Nianjian, 2008, p.221

<http://www.shandan.gov.cn/NewsContent.asp?id=C0GH51EG750C0AJ> (2010-08-31)

## **5.3 Case 1: Dongwan Lvdadi Melon and Vegetable Growing Cooperative**

### **5.3.1 Background of Dongwan village**

Dongwan village is located in Weiqi Township, 10 km from Shandan County centre and 15 km from the Weiqi Township government (See Figure 5-1 and Figure 5-2). This village was set up in 1973, by immigrants from Siba village in Weiqi, Shanghe and Xiahe villages from Huazhai Township and some farmers from Qinquan Township. When Dongwan village was established, there were approximately 120 households which were divided into four main groups based on their places of origin. In 2010, there were 239 households, with a population of 892 (543 people made up the labour force of the village) (Respondent No.3, 2010). The total arable land for this village is 3,986 mu (265.7 ha). Historically, farmers collectively farmed this land as a brigade team (one level of the commune system between a commune and production team, which was often formed by approximately ten teams) from the Weiqi Township, until 1980. The main product, during this period, was a traditional variety of wheat, together with the raising of sheep and cattle. The team also organised other business, such as building houses and it provided workers for the coal mine industry, in order to obtain more income for the village, which was distributed to all team members, based on the work points they earned during the year. In the late 1970s, the people's commune system was dismissed and the management of the village production system began to change. In 1980, the new policy, relating to a household responsibility system for products, was implemented and all the village arable land was basically equally distributed amongst the farmers, with an average of 4.3 mu (0.3ha), per farmer. After gaining land use rights, the farmers began to try other products, apart from the traditional crops of wheat and barley,

in order to improve their income, since now their income was based on what they could produce and how well they could sell their products.

**Figure 5-1: Map of Shandan (with the location of the Dongwan and the Ronghua Cooperative-● )**



[http://www.travelchinaguide.com/images/great\\_wall/gansu-shandan.jpg](http://www.travelchinaguide.com/images/great_wall/gansu-shandan.jpg)

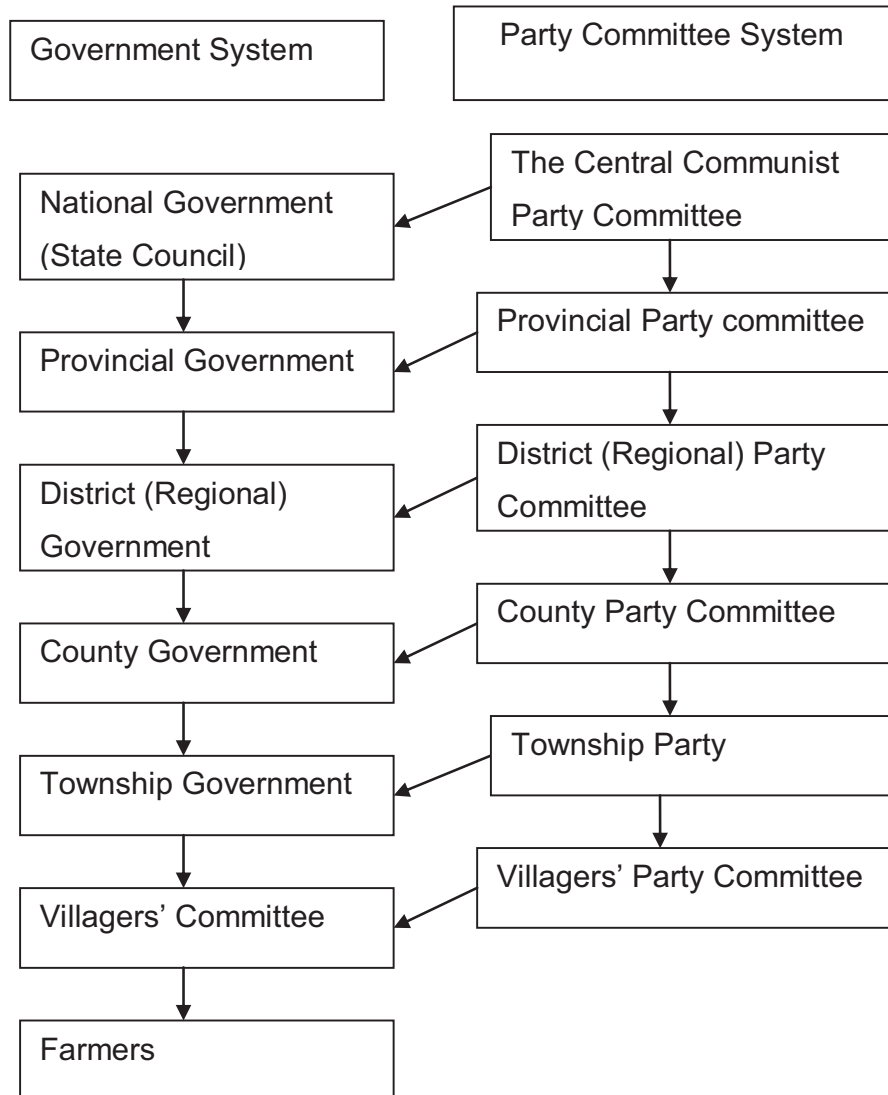
Figure 5-2: Map of Gansu



### 5.3.2 Key initiator of the cooperative

Respondent No.3 was born in Siba Village in Weiqi Township in 1960. He was educated at primary school and middle school in his home village of Huazhai and then he studied agriculture for one year, at Shandan Hongzhuan secondary school. With this knowledge and skills, he was employed by the township government and he became the township agriculture extension technical officer, in 1979. He only worked there for one year, since he resigned from the work when the new policy and system of household contracting responsibility started. In 1980, he went back home and attempted to grow melons and vegetables, on his own contracted land at Dongwan. One year later, he had become successful and he began to show other farmers how to grow vegetables. In 1981, he was appointed as the leader of Dongwan village (by the Weiqi Township government) and his responsibility was to administer the daily work of the village under the township leadership. Respondent No.3 remained in this position until 1993, when (following the introduction of government policy that village leaders had to be elected by farmers) he was elected as the director of Dongwan village, by the farmers in Dongwan. He was also re-elected again in 1998, but in 2000, he resigned from the director's position and he was appointed as the Village Party Secretary, by the Weiqi Township Communist Party Committee. Figure 5-3 shows the general structure of the Chinese government administrative system.

Figure 5-3: Government administration system in China



However, in relation to the government's governing body, normally there is also a Chinese Communist Party Committee, which supervises the same level of government work. Government leaders, at the village level, are elected by farmers, based on a one farmer (over 18 years' old) one vote system but the

Party Committee leaders are often appointed by the Party Committee (from the level above) and they have to be Party members. For example, village Party leaders would be appointed by the Township Party Committee and County Party leaders would be appointed by the District Party Committee.

Under the household contracting responsibility system, similar to any other farmers, Dongwan farmers grew crops and raised animals at their household base. As a production unit, every household had to decide what to grow every year on their limited land and (at that time) the average land for a family (average 4 - 5 people) was approximately 15 mu (1 ha). Moreover, this land was often scattered and it was difficult to use larger machinery. This new system also created a new type of trading work and (as a result) many middle-men arrived to sell seeds, fertiliser and to collect products to sell on. Farmers had to pay higher prices for materials and they had to sell their products at lower prices. In addition the quality of the fertiliser and seeds could, sometimes, not be guaranteed and poor products placed farmers in a disastrous situation. Consequently, for those farmers who had no new skills and continually grew traditional crops of wheat and barley, there was only a very limited income. For several years, the price was very low for wheat, approximately 1.2 yuan/kg (1NZD equals 5.0 yuan), and these farmers could not really make a living. The market situation was gradually changing, from a planned economy to a market based economy and the agricultural products' market was also gradually opening up. In order to increase their income, farmers had to think about other ways to earn money. Some of the young farmers went to work as migrants and left their land behind with their parents, only returning home for sowing and harvesting periods. Others tried to grow cash crops (which mainly sold for money), apart from wheat, which was for self use and some (such as Respondent No.3) began to grow vegetables.

### **5.3.3 The development of the Dongwan Melon and Vegetable Growing Association**

Respondent No.3 had seen the difficulties for vegetable growers, as individual growers, which had been made worse by bogus seeds and fertiliser, in addition to internal competition when selling their products. In 2002, he decided to set up an organisation, which could combine and organise all the growers together. This meant they could also buy cheaper materials and (by sharing their technical skills and marketing information) they could sell products at a higher price (Respondent No.3, No.4, No. 5, No.6; May 19<sup>th</sup> to 25<sup>th</sup> 2010). With the supervision of the local township government and the County Science and Technology Bureau and the Agriculture Bureau, Respondent No.3 discussed his proposal (with a few key vegetable growers) for the establishment of the Dongwan Melon and Vegetable Growing Association. After several meetings, 79 melon and vegetable grower agreed to join and together they formed the association. The main aim of this association was to provide technical training and marketing information, which included buying materials and selling products. There was a five yuan (1NZD) membership fee (yearly), to cover basic administration costs and this was mainly used for members' technical training. This association was registered as a NGO at the County Civil Bureau, according to government policy. Their main products were melons and vegetables, due to the higher market price for these products.

With the help of this association, the vegetable industry has grown in Dongwan village and it has also influenced neighbouring villages. When interviewed Respondent No.3 stated:

*"I just thought to help farmers to get more income: Although we have no problems in producing vegetables now, we still lack skills for new varieties and new products. So I keep a small amount of land, about 10 mu (0.67 ha) every year, for introducing and testing new varieties, like Gaoyuan Xiakai (vegetables grow in summer and are stored for winter supply), red and yellow skins of onions".*

*“Our melon quality is very good. Some of the other villages’ farmers also grow melons, but when they sell them, they say they are from Dongwan”.*

The main incentive for farmers to join the association was to improve their skills in growing vegetables and melons and to gain useful information about services, when purchasing materials and marketing their products. This became clear when talking with farmers, who were part of the original association:

*Respondent No. 8 (male) (2010): “The association can provide information for us, and by sharing the same technology and producing the same products, according to our soil, we produce a large volume of products, so that we are able to sell them at a higher price, than just selling them to the middlemen.”*

*Respondent No. 6 (female) (2010): “As a member, I can participate in the technical training so I can improve the yield and make more money”.*

*Respondent No. 4 (female) (2010): “I joined the association with the aim to gain training and increase my income”.*

With support from the association, the farmers’ skills related to growing vegetables were significantly improved and more and more the farmers began to grow melons, in addition to vegetables. The average income from growing melons and vegetables increased up to 1,200 yuan (240 NZD) per mu (0.067ha) (much higher than growing wheat and barley, which only sold for only 600 - 800 yuan (120-140 NZD)). Furthermore, the association influenced the village industry structure and more farmers began to grow vegetables. As a result, in five years, almost all the young migrants came back to work in the vegetable growing industry in their township. In the meantime, with a change in market demand, every year, the association introduced new types of vegetables. Throughout the existence of the association, local township government and the County Agriculture Bureau have provided a great deal of free technical training

for the association and this has also helped to foster the development of the association. The Local Shandan Cooperative Federation provided several cooperative trainings and this helped with the construction of a constitution and the management of the institution, in the early stages.

#### **5.3.4 Development of the Dongwan Lvdadi Melon and Vegetable Growing Cooperative**

When the new cooperative law was enacted in 2007, members of Dongwan Melon and Vegetable Growing Association began to consider reform, which would change the association into a cooperative structure. In December 2007, after several (at least four) discussions between its key members and after a meeting of all the members, the association formally changed to a cooperative and it registered at the Industrial and Commercial Bureau, thereby gaining the legal identity of a cooperative. The 79 association initiators became the founders of the cooperative. At this meeting of all members, five people were elected as board members (the average age being 46.2 years) and three were elected as the steering committee (the average age being 40.3 years). The members' meeting decided that, for the cooperative's establishment, membership would remain at a household base, which meant that only one person from each household was the official member of the cooperative — and that key person from each household would be on the cooperative's name list. At each cooperative meeting, any member from a household could come to the meeting, but each household would only have one vote, when it came to cooperative decision making. In fact, a member of the cooperative is a household representative and whatever he/she says or votes (in the meeting) is done on behalf of his/her household. The number of people in each household is usually between four and six and the contracting land for each household is based on

the number of members in each household. Therefore, in this case, a member of the cooperative is referred to as the household he/she represents — and frequently this person is the male head of the household.

### 5.3.4.1 Governance and management

According to the cooperative constitution passed at a general meeting, the governance and management structure of the cooperative is shown in Figure 5-4.

Figure 5-4: Governing structure of the Dongwan Cooperative

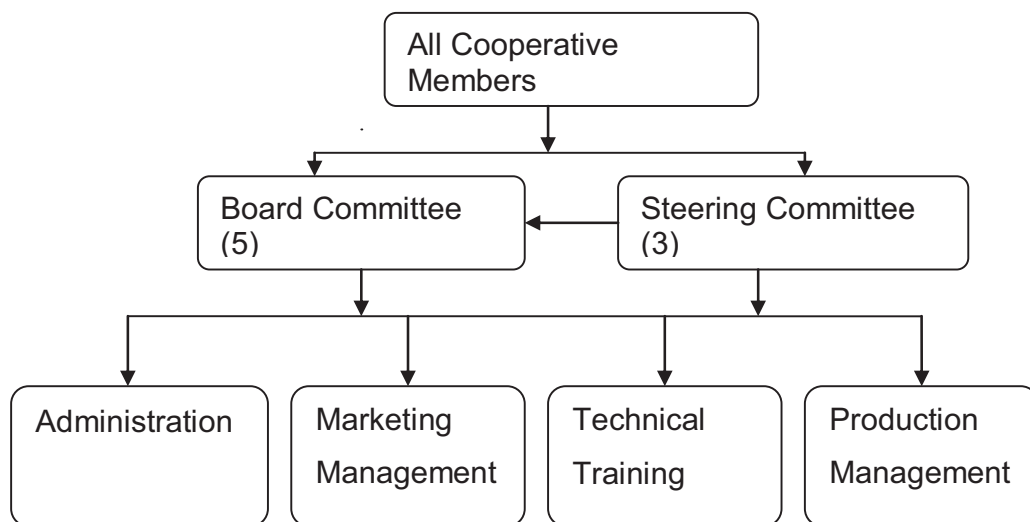


Figure 5-4 shows that the meeting for all members is the highest governing body of the organisation and during this meeting the cooperative elects a board to govern the business of the organisation. It also elects the steering committee, to supervise the board and the management's work, to ensure the quality of the

board work. Under this structure, members implement their rights, through their votes at the meeting.

According to the constitution, the governing body of the organisation (which is the all members' meeting) is formed by all the members. If the number of members is more than 150, then each group of five members can select one person (as their representative) to participate in the all members meeting. There is a three year term, but representatives can be re-elected (Chapter 3, Article 19). Under the organisation's constitution, the all members' meeting has to be held at least once every financial year and (in order to hold the meeting) the board committee has to inform all members of the contents of the meeting, at least fifteen days prior to the meeting (Chapter 3, Article 21). The all members' meeting can be held, if at least two thirds of the cooperative members are present. If, for various reasons, a member cannot be present, then he/she can ask someone to vote on their behalf, but he/she has to provide the proxy with written permission. One member can only vote on behalf of two other members (Chapter 3, Article 23). In order to make decisions at the meeting, at least half of the participants have to agree and (in the case of special issues, such as an increase or reduction of the volume of shares, joining up with other cooperatives or setting up new branches or dismissals) the decision has to be agreed upon by at least two thirds of the participants (Chapter 3, Article 23).

*The interviewed members (Respondents No.4, 5, 6, 7, 2010) all stated that they had participated in the 2009 meetings and the current meeting they had attended was "...to discuss the issue of re-adjusting the cooperative industry structure and to standardise the operation of production" (Respondent No. 5, 2010); "...to discuss the skills of how to produce good quality onions, and the situation of contracts, which the cooperative got for onions in year 2010" (Respondent No. 4, 2010); and*

*“ ....skills of how to recover the seedling problems caused by the recent dust storm and snow” (Respondent No.6, 2010). In regards to decision making, after a collective discussion, the participants voted, based on one member, one vote (Respondents Nos. 5, 6, 7, 2010). However, Respondent No. 6 stated “The one member, one vote, decision-making mechanism is often based on the board committee suggestion but often in the meeting, larger share holder’s comments have more influence on us” (Respondent No.6, 2010).*

Following the constitution, the board committee is the implementing body of the organisation and it is responsible for the all members’ (member delegates) meetings. The board committee is comprised of five members: one director, two vice-directors and two members. The director and board committee are elected for a three year period and they can also be re-elected (Chapter 3, article 24). *“It is hoped that board members can only be re-elected for a second term, and then have to have at least a term gap (three years) before re-election, and this way we can bring fresh blood in the board committee while maintain the governance consistency” (Respondent No.3, 2010).*

At board committee meetings, every member has one vote and any important decision made by the board has to come from at least two thirds of the board’s members. The board members’ meeting invites the director of the steering committee and the manager and members’ representatives to their meetings. However, those invited participants have no votes (Chapter 3, Article 26).

The director of the board, as the legal representative of the organisation, has the right and responsibility to organise meetings, sign contracts with other organisations and to check the management’s work (Chapter 3, Article 27).

*Respondent No.3 stated:*

*“The board committee is responsible for the general management of the cooperative, seeking for contracts, assessing, and assigning the contracts, supervising members to produce quality products, by following the contract criteria. In general, the board committee is playing the role of both governance and management”.*

*“The board committee is responsible for making the cooperative’s industrial development plan and also its implementation” (Respondent No. 10, 2010).*

*“Apart from plan-making, the board committee also administrates the daily work of the cooperative and it is responsible for the annual business planning and implementation: It is responsible for the resolutions of the all members’ meeting; and other business activities” (Respondent No.8, 2010).*

*The interviewed members were all satisfied with the board committee’s work, since the board committee’s work helped them to increase their income (Respondent Nos. 5, 4, 6 and 8, 2010).*

The steering committee, which is formed from three members, is the supervisory body of the cooperative. The steering committee has the authority to supervise the board and management’s work, on behalf of the members. The steering committee members are elected through the all members’ (delegates’) meeting and they also work on a three year term (Chapter 3, Article 28). Members of the steering committee can be re-elected, but a retired board member can only be elected as a member of steering committee, after a three year gap (Chapter 3, Article 28).

*“The steering committee is responsible for supervising the board committee work, especially the financial work and to make sure the*

*transparency of the board committee works. It pays attention to the price of introducing seeds and buying fertilisers and the price for selling the members' products, as these issues are the main concerns of the members, and it is easy to compare with the market price" (Respondent No.3, 2010).*

*"The steering committee is mainly there to check the board committee's work, both internal and external, especially the financial management" (Respondent Nos.10 and 11, 2010).*

*"The steering committee is responsible to check the board committee's work of completing the resolutions of the all members' meetings; to protect members' interests on behalf of the members and to provide comments and suggestions for improvement of the board committee's work" (Respondent No. 8, 2010).*

Despite these supervisory responsibilities, the management work of the cooperative can be undertaken by the manager and his/her team. However, under the constitution, the board committee has the responsible to recruit or remove the manager of the cooperative. The manager is responsible for managing the cooperative business; ensuring that the resolutions made by the board committee are implemented; fulfilling the organisation's annual business plan; administering the daily management work of the cooperative; and fulfilling other work conferred on him/her, by the board committee (Chapter 3, Article 32).

A decision has also been made that board members can hold a concurrent management role (Chapter 3, Article 32), but immediate relatives (brothers, sons, etc) of the present board director, board members, manager and financial manager, cannot hold a concurrent job, as a steering committee member (Chapter 3, Article 33).

There are criteria in place for the selection of members of the board committee, steering committee and management, such as people who adhere to the

constitution, who are loyal to the organisation, who are honest and responsible, and who take care of the organisation and its members' interests (Chapter 3, p, 34). However, there are also some limitations such as not engaging in businesses which competes with the cooperative; not embezzling the interests of the organisation and/or its members; not taking the organisation's capital for personal or other relatives to use; not using the organisation as guarantor for other people to obtain loans from the bank; and not using the organisation's capital for their own bank savings account (Chapter 3, Article 34).

#### ***5.3.4.2 Membership of the cooperative***

The constitution, as the basic 'law' of the cooperative's operation, spells out the specific responsibilities and rights of its members. Under this structure, in order to be a member of the Dongwan Melon and Vegetable Growing Cooperative:

*“Farmers have to work in the melon and vegetable industry, to participate in new vegetable and melon breeding and producing programme, participate in the experimental work of new vegetable introduction, production, processing, marketing, and storage, and be willing to use the services provided by the cooperative” (Cooperative Constitution, Chapter 2, Article 9, 2007).*

In order to become a member, a farmer “has to apply, to study the constitution seriously and accept it, and buy shares according to their own economic abilities” (Cooperative constitution, Chapter 2, Article 10, 2007).

Generally, any farmer who is interested in the cooperative can apply and join.

*“Basically, there is no limitation on farmers to join, if they are willing to, they can” (Respondent No.10, 2010).*

However, in practice:

*“There are some restriction in the operation, those farmers who are dishonest, have a record of not producing quality products according to technical requirements, such as using forbidden pesticides, are not welcome” (Respondent No.3, 2010).*

*“Those who participate in gambling are not allowed; those who do not produce the same products as the cooperative are not allowed” (Respondent No.8, 2010).*

If a farmer wants to be the member, he/she has to:

*“Study the cooperative constitution and apply it (either oral or written), get the board committee to approve, buy shares according to own economic situation, and then become a formal member” (Respondent No.3, Respondent No.10, No.9, No. 19, 2010); “Through participating in the cooperative’s training, they get a better understanding and then they can apply and get approval from the board committee. Sometimes ,there can be a year of test period before becoming a formal member” (Respondent No. 4, No. 6, 2010); “If you want to be a member, just apply, participate in some training, then be verified and approved by the board committee” (Respondent No. 9, 2010).*

As a member of the cooperative, he/she has the right to participate in all members’(members’ representative) meetings to vote and stand for election; to use the cooperative’s various services and facilities for production; to share in any benefits from the cooperative; to access the minutes of any cooperative meetings, financial reports, statements and book-keeping; to question the cooperative’s board and the management’s work; to ask for a short notice meeting of all members, at any time when some serious issues have occurred;

and to freely leave the cooperative, according to a bylaw within constitution (Chapter 2, Article 11).

On the other hand, as a member of the cooperative, each member has the following responsibilities: to adhere to the constitution of the cooperative and bylaws agreed by all the members' meeting; to buy cooperative shares (at least one); to participate in all the different type activities arranged by the cooperative; to accept the technical services provided by the cooperative; and to produce standard products, in accordance with the quality criteria; to complete the contracts signed by the cooperative; and to help other members with common development; to maintain the interests of the cooperative and protect the various cooperative's facilities; to maintain responsibility for his/her own personal related economic activities; to take on responsibility, if committed to other members; and to not participate in any activities that would negatively affect the cooperative's development.

#### ***5.3.4.3 Cooperative financial management***

Finance is one of the major concerns for the cooperative's members. The constitution has a special chapter, which deals with the organisation's financial issues. It has been decided that the financial section of the cooperative will provide a regular finance report on a monthly basis (the 5<sup>th</sup> of each month) and the accountant and cashier cannot be immediate dependants of members of the board committee or the steering committee or management (Chapter 4, Article 37). Another measure is that the cooperative opens its accounts, for every member to record that member's capital contribution, the amount of reserves and the patronage and transaction volumes with the cooperative. The transaction volumes will be the basis for the cooperative's surplus redistribution (Chapter 4, Article 38). The annual financial report, after it has been checked by the steering

committee, needs to be provided to members fifteen days before the annual general meeting (Chapter 4, Article 39).

As one of the cooperative capital resources, every member has to buy at least one share, but not more than thirty shares. One share is worth 100 yuan (20 NZD) and any one member cannot buy shares worth more than 20% of the cooperative's total shares. However, when buying shares, members can use either capital or other items, such as machinery and facilities used for production, but these need to be evaluated and converted to dollars, by an independent committee, which has been approved at an all members' (delegates') meeting (Chapter 4, Article 40, 41). Long-term contract land using right, as the fixed asset of each member, has to be recorded separately and share purchasing is also related to the land held by each member. Although the cooperative collectively purchases agricultural materials, the amount purchased reflects the needs of each individual member. Furthermore, each member's production activities are often independently maintained. Approximately 64% of the members' long-term contracting land is less than 20 mu (1.3ha) and approximately 36% of the members own land between 20 - 49 mu (1.3-3.3ha) (Respondent No.3, May 19, Respondent No.8, No.4, No.5, 2010). This is also reflected in the number of shares they bought, at the establishment of the cooperative. Figure 5-5 presents the number of shares bought by members, at the time of the cooperative's establishment and Table 5-6 presents the measurements of land owned by members.

**Figure 5-5: Number of Dongwan cooperative shares purchased by members, when it was established**

Number of shares	30	25	8	6	5	4
Number of buyers	4	4	21	23	26	1
%	5%	5%	26.6%	29.1%	33.0%	1.3%

(Source: the cooperative's establishment documents, May 20<sup>th</sup> 2010)

**Figure 5-6: Background of land contracted by members**

Amount of land	Less than 20 mu	21 - 50 mu
Number of members	51	28
%	64%	36%

Figure 5-6 also reveals that approximately 36% of the cooperative's members have more contracted land than the other members (between 21-50 mu (1.4-3.3ha) and this matches the number for the larger producers and share holders, which is 36.6% in Figure 5-5 (Dongwan cooperative, 2007). Although the basic decision making of the cooperative is based on one member, one vote, those larger share holders (or larger users of cooperative services) can have extra additional votes. However, this additional vote is less than 20% of the total basic votes of the cooperative. The names of members, who hold additional votes (who

and how many) have to be provided to all the participants at each meeting (Chapter 2, Article 12).

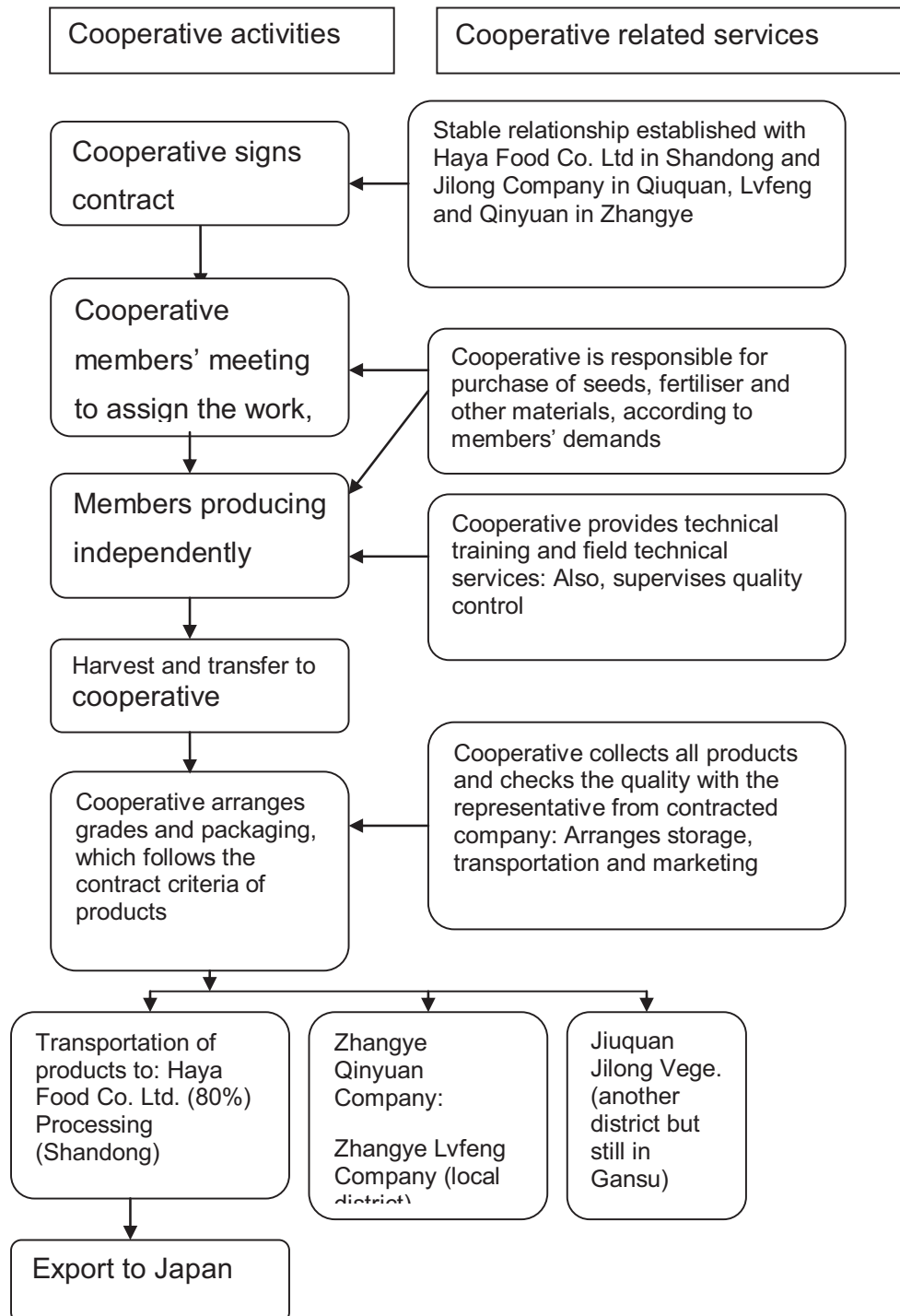
Respondent No.3 was elected as the board director, at the first cooperative all members' meeting. The eight elected board and steering committee members are also the largest share buyers and the largest land owners. In the meantime, Respondent No.3 was also the Party Secretary of the village's Communist Party Committee. The decision made at the all members' meeting was that board members would take on the management work, during the first years. Apart from administration, three members are responsible for technical training, marketing and production. Their work payments are based on the time they have invested in the cooperative's business. The elected (by all the villagers) director of the village committee, who is also a member of the cooperative, was elected as the director of the steering committee, to supervise the board committee and management work. In order to support the cooperative's establishment and development, the village committee provided an office for the cooperative to use for free.

#### *5.3.4.4 The development of the cooperative*

Beginning from 2008, under the cooperative structure, the management team commenced work on a plan to restructure local industry and (after a market survey) the cooperative decided to grow mainly onions. In order to obtain updated market information, the cooperative purchased a computer, connected it to the internet and they have a specially trained person to regularly look for information. During the marketing season, marketing information (mainly the price of cooperative products) is provided to members on a daily basis. In order to improve efficiency, the cooperative also decided to purchase a larger tractor (50 horse power) and its related sowing machinery, for members to use at cost

price. In order to guarantee the members' income, the cooperative signed contracts with a processing factory in Zhangye and the Haya Food Co. Ltd, in Shandong Province. The structure of the cooperative's management system is presented in Figure 5-7.

Figure 5-7: Structure of the Dongwan cooperative's management system



The cooperative's management system (Figure 5-7) shows that the cooperative is mainly working on finding contracts, organising its inputs and marketing its products, collectively. As a production unit, each household (being a member of the cooperative) is playing a key role. In 2008, under this management system, the Dongwan Cooperative was showing great success: The members' income was guaranteed and maintained due to its completion of contracts and it was increasing. According to a contract already signed, the company will pay twenty yuan (4NZD) per ton to the cooperative, for the completion of that contract. The cooperative management does not get paid from the members directly, but they are paid, based on how well they manage the completion of contracts. In relation to the twenty yuan (4NZD) income per ton, five yuan (1NZD) goes to pay staff salary, five yuan (1NZD) pays the cooperative office expenses, five yuan (1NZD) goes back to members and another five yuan (1NZD) goes into the cooperative accumulation fund (Respondent No.3, 2010). This fund is mainly used to provide support for its members, when purchasing raw materials, such as fertiliser and seeds and other urgent issues that may arise for the members (Respondent No.3, 2010).

In order to foster the farmer cooperative development (after the cooperative law had taken effect in July 2007) all levels of governments began to implement some specific policies, to support farmers who were establishing cooperatives. In Shandan, the local county government official stated:

*“If farmers are working together and set up a cooperative, they will get a 10,000 yuan (2,000NZD) subsidy from the local government, plus other opportunities, like free agricultural technical training from county government agriculture related units, loans from the Agriculture Bank, free tax for the first three years, and priorities to get government supporting projects” (Respondent No.2, 2010).*

In 2008, in order to foster cooperative development, the Gansu provincial government set up an evaluation programme, to select the top 100 cooperatives, by following certain criteria (Appendix 2), so that other cooperatives could learn from these 100 top cooperatives. This programme was very competitive and existing cooperatives had to apply through local township government and then they had to be evaluated by the County Agriculture Bureau, the District Agriculture Bureau and then again by the Provincial Agriculture Bureau (Respondent No.2, 2010). The entire process took six months (all the interviewees).

With a recommendation from Weiqi Township, and support from the Shandan Agriculture Bureau, Dongwan Lvdadi Melon and Vegetable growing Cooperative went through the whole process and it was finally approved as one of the provincial top 100 cooperatives, in 2008. This brought about an excellent reputation for the cooperative and (in 2009) the Dongwan cooperative signed more contracts for its main product of onions. In addition another 40 farmers joined the cooperative (increasing the membership from 79 to 119). Thus, the cooperative was able to enlarge its markets in Liaoning and Hainan Provinces. The cooperative received a 70,000 yuan (14,000NZD) subsidy, from the provincial government, as a reward for its development in 2009 and the cooperative used this money to build its own office (it has now move out from the village offices) and storage place.

In 2010, the Dongwan cooperative is still maintaining its stable relationships with Shandong, Liaoning and also with other companies in Jiuquan and Zhangye (two districts of Gansu Province), but the demand for its products is increasing in a significant way. In 2010, the national government delivered another policy, to allow farmers to lease land from households who wanted to migrate and who did not to work on their own allocation. Nowadays, within the Dongwan cooperative, almost all the members' rent land from other households in the neighbouring villages, and some even rent more than 300 mu (20ha) from other townships. In

the meantime, the cooperative also (collectively) rents 2,246 mu (149.6ha) from Chenhu and Weiqi Townships, to grow onions and sunflowers for cooking oil. The development of this cooperative has also attracted more members, throughout 2009 and by May 2010, there were 486 members in the cooperative of which 235 members are Dongwan villagers. The others are not only from its neighbouring villages in Weiqi Township but also from other townships, including Chenhu and Dongle. The total growing land of the cooperative has increased from 3,900 mu (260 ha) in 2009, to over 5,000 mu (333.3 ha) in 2010. The cooperative has also signed new contracts with the Zhangye Jiahe Company, for trials of new varieties, such as cabbage, pumpkins and the production of other vegetable seeds. Within the cooperative, in 2010, there are 30 households, who rent land of more than 100 mu (6.7 ha). However, the production activity is still based on each household, but for large area production the cooperative members have to employ farmers from other villages, as seasonal workers.

The cooperative supports and is also supported by other developments. It also provides new machinery services for its members. Furthermore, with the development of the cooperative, there has been an increase in the number of associate members, who are growing similar products and who want to market through the cooperative. There are now 1,500 associate members from other villages in Weiqi, Qingquan and Chenhu. These associate members are growing 20,000 mu (1,333.3 ha) of melons and onions, which provides great support for the cooperative to complete its contracts. Although the associate members also signed growing contracts with the cooperative and they would be paid at the same price for their products (as members), they have no right to participate in the cooperative's meetings and have no voice in the cooperative's business. On the other hand, compared to the cooperative members, they do not receive any surplus redistribution from the cooperative business. However, they can join the cooperative, if they meet the cooperative's criteria for membership.

### 5.3.5 Difficulties and problems in the process of the cooperative's development

Although the Dongwan Lvdadi Melon and Vegetable Growing Cooperative developed rapidly and it has been approved as one of the best cooperatives (one of the provincial top 100 cooperatives amongst a total of 1,915) in Shandan County, by the provincial Agriculture Department, there were a large number of difficulties and problems that the cooperative had to overcome during its development process. These difficulties and problems included members' attitude to the cooperative; members' capital resources; members' understanding of cooperative values; member's limited land resources; members' low technical skills for growing new varieties of vegetable or other crops; and a lack of marketing information (Respondent Nos. 8, 11 and 10, 2010).

*"We have about 11 mu (0.73ha) contracted land, but we have to use 3 mu(0.2ha) to grow wheat for own use, so we can only use 6 mu (0.4ha) to grow onions or other crops. And of course, I haven't studied the skills of how to grow new vegetables. I have to see how other members are going, and then I follow them" (Respondent No. 4, 2010).*

*"We have about 20 mu (1.3ha) contracted land and also rent 40 mu(2.67ha) from the neighbouring village to grow onions and sunflower seeds for cooking oil; Technology and money is the most difficult thing for us" (Respondent No. 7, 2010).*

*"I haven't got much money. I only have 10 mu(0.67ha) land, about 3 mu(0.2ha) is growing wheat for my family to use, about 3 mu(0.2ha) grows yellow onions (higher price than white onions), and another 3 mu(0.2ha) grows sunflower seeds for cooking oil (I think it is a good price this year)" (Respondent No. 9, 2010).*

*“Farmers lack cooperative knowledge and they haven’t recognised the value of the cooperative” (Participant No. 8, 2010); and “It’s hard to get common agreement from members, due to their diverse understanding of the cooperative” (Respondent No.19, 2010).*

Cooperative management, especially the financial management; the members’ technological skills relating to the production; the implementation of cooperative constitution and bylaws; cooperative leadership and its capacities; the competing ability of the cooperative’s quality and quantities; government support and the legal environment; and the cooperative’s profitability, are all challenges that the cooperative has had to face in its development. As some interviewees stated:

*“The most important things for the cooperative’s development are capital and technology” (Respondent No.3, 2010); “Members’ training, to form cooperative core products, to improve management and to have a fair and transparent surplus distribution are the challenges for our leadership” (Respondents No. 8, No.10, 2010); “How to market the products and how to implement the constitution and bylaws is an important issue for the development of the cooperative” (Respondent No. 19, 2010); “Good leadership, financial transparency, specialty of the products, form own product brand” (Respondent No.4, 2010); and “Government support is an important factor for the cooperative’s successful development” (Respondent Nos.9 and 3, 2010).*

*Competing in the Market, especially competition from other cooperatives who are working in the same industry; the customer’s increasing demand for quality products; the low capacity of internal management; the influence of the financial crisis; and natural disasters, such as dust storms and early spring snow, are all challenges that the cooperative has to face” (Respondent No. 8, 2010).*

From the official perspective, the difficulties for farmer cooperative establishment and development include:

*“Firstly, it is the farmers’ low recognition of the cooperative’s value and also their low participation in cooperative activities. This is mainly because of their experience, as small scale self sufficiency farmers for many years, and they haven’t had many extra products to sell, so they have not got much experience of marketing their products. Secondly, they haven’t seen the great benefits from the cooperative and, on the other hand, to participate in the cooperative’s activities is a very time consuming for them, when they are busy making money” (Respondent No.2, 2010).*

*“To improve members’ awareness of cooperative, to standardise cooperative operations, by following the cooperative’s laws, to have professional training and to have support from the bank and financial units, are all important to the cooperative’s development” (Respondent No. 12, 2010).*

However, from Respondent No.1’s experience (NGO), he thinks that difficulties for farmer cooperative establishment are that it is *“hard, in the beginning, because the farmers’ recognition of the cooperative is blurred (confused, mixed up with the people’s past commune experience) and most of them are not active and not enthusiastic and they take a wait-and-see attitude”* (Respondent No.1, 2010).

The participants believe the recently enacted ‘Farmers Specialized Cooperative Law’ (2007) and the related supporting policies, from all levels of government, will bring opportunities for the cooperatives, not only from the officials but also from NGO staff. In addition, most of the cooperative’s members are confident in the future of the cooperative’s development.

*“Cooperative law has provided a legal environment for farmer cooperatives to develop, although there are still a lot of work needed to do, such as making specific measures to support the cooperative locally” (Respondent No.2, 2010); “Cooperative law also creates a good environment for farmers to have a better understanding of cooperatives and to form and work cooperatively” Respondent No. 18 added (Respondent No. 18, 2010).*

*“I believe that the cooperative will grow as the members’ income is increasing, especially from the last two years, members have seen the advantages of being a member, and more and more farmers are applying to join now” (Respondent Nos. 4,8 and 19, 2010). With the improvement of our management, members’ income will show a significant increase and we can invest capital in processing and add value to our future products” (Respondent Nos. 3, 4, 8,10 and 19, 2010).*

*“With the good reputation being one of the top 100 cooperatives, our products sold quickly and with better prices than last year. We had more contracts for this year” (Respondent Nos.7, 6 and 4, 2010).*

*“Whether or not I will be a cooperative member in five or ten years’ time, really depends on the cooperative’s profits” (Respondent No. 6, 2010).*

However, the majority of the interviewees expressed that they would certainly remain a cooperative member and they were very confident about the future of the cooperative.

Although the cooperative has experienced many difficulties, during the last two years, it is growing rapidly with good leadership, enthusiastic members and a demanding market, in addition to receiving government support. Indeed, there are many opportunities but there are also challenges, which the cooperative will have to face during its future development.

## 5.4 Ronghua Growing Cooperative: A case study

### 5.4.1 The background of Shanyangpu village

The Ronghua Growing cooperative is located at Shanyangpu village, 35 km from Shandan County and about 10 km from Dongle Township (Figure 5-1, map of Shandan). Shanyangpu village was established in 1990, as an ecological migrants' village (migration for the protection of the environment) in Shandan County. There were originally 325 households and the foundation population was 1,650. These farmers were originally from Dingxi and Longxi districts (two districts located in the eastern part of Gansu province) and from Damayin, Huazhai and Chenhu townships in Shandan County (Respondent No.13). The total arable land, which was opened up, was 5,400 mu (360ha) and this was distributed amongst the farmers (about 3.2 mu (0.21ha) each). During that time, the local government conducted a policy to allow these farmers to open up some wasteland (un-cultivated land) to use, if they could manage to get water to it. Consequently, under this policy, some farmers gradually gained more land to farm, although some later-comers hold less arable land — some of which is less than 2 mu (0.13ha), per person. In addition some private companies and businessmen also took the opportunity to open up the wasteland, in order to set up small farms to produce their own crops for food, or to make money from a farming business. However, after approximately 10 years, all the private investors left, due to management and financial problems. Those private companies and businessmen offered their land to those farmers who could pay the debts associated with the land.

With limited income from the land to support their family, almost all the men went to work as migrants in other cities, leaving the land behind for their wives and parents to manage. The majority of women only had a few years of primary

school education and very few of them had graduated from middle school. However, they became responsible for land management — and more recently for decisions, as to what crops should be grown.

*Respondent No.15 (female): “I only had two years education at local primary school, and can only read a few Chinese characters. My husband is mostly working in Dunhuang (another city about 700 km from Shandan) as a migrant and he only comes back in winter time. I have two children; they both are studying at the local middle school. I have about 22 mu (1.47ha) of land (I rent 10 mu(0.67ha)) and basically I have to make the decision of what to grow every year” (Respondent No.15, 2010).*

*Respondent No.14 (female): “My husband is working in Qinghai province. I have two children: one is in middle school and the other is in primary school. I myself only had three years of primary school education. My family has about 20 mu (1.33ha) arable land and we use 16 mu (1.06ha) for growing maize for seeds, for which I think can get a good price. I also keep about 6 mu(0.4ha) land to grow wheat, for our own use. I have to decide what to grow every year by myself” (Respondent No.14, 2010).*

#### **5.4.2 Key initiator of the cooperative**

Respondent No.13 was born in Huazhai in 1958. He has six brothers and sisters. After his graduation from high school, he applied to join the army. He spent 6.5 years in the army and then (in 1982) came back home. In 1983, he was appointed as the leader of the production team (for one year) and later he was recruited to work for Huazhai Township, in 1984. In 1987, he moved to Chenhu Township and worked there for four years. In 1991 resigned from Chenhu Township and later, he went to Shanyangpu to work for one of the companies’

farm as farm manager. He only got paid for the first two years and then he received no pay for six years, although he managed to open more than 300 mu (20ha) of arable land for the company. In order to support his family, he had to give up this job in 2000. As a migrant, he tried different work (in several places) and finally, in 2001, he obtained a project leader's position in Jiayuguan. Jiayuguan is another Gansu city, 400 kms from Shandan. In 2004, he came back to Shandan and found that the farm he had worked on previously was still there and the local township government was looking for someone to take over and manage it. Since he had a great affection for the area, (he had spent almost 10 years there), he went back to the farm to work and took on the responsibility to pay off total debts of 650,000 yuan (130,000 NZD). In 2010, he still has 300,000 yuan (60,000 NZD) of debt to clear. In 2004, he began to dig a new well, in order to 'put right' the farm's water problems and he also began to grow crops on the farm's land. Gradually, he has managed to make those 300 mu (20ha) arable land become productive.

From his experience, he understands the difficulties and hardships of migrants' lives. Therefore, when he came back to Shanyangpu, he tried his utmost to manage the small farm efficiently and successfully and he also tried to help the other migrant farmers' families. He did not have any ideas about creating an association or cooperative, but he worked collectively with other farmers due to his previous experience as a production team leader, to purchase fertiliser, seeds and other materials (for agriculture production) at lower prices (compared with prices at the market and from the middlemen). He also tried to get marketing information for all the farmers (who grew the same products as he did) and to sell all their products for a better price. Gradually, about 20 households were working together with him, in a very informal way.

Respondent No.13 also supported a local disabled farmer, when he opened a shop in the village, which was very convenient for the other farmers. This

disabled farmer then joined the cooperative at a later date and he now provides marketing services for the cooperative.

#### **5.4.3 The Development of the cooperative**

In early 2007, Respondent No.13 heard on the television news that the government would support farmers working cooperatively and that a new cooperative law would take effect, from July 1<sup>st</sup> 2007. With his previous experience of working as a production team leader and understanding the advantages of farmers working collectively, he hoped the new cooperative law would help the development of a farmers' economic organisation and (as a result) increase the farmers' income, through this cooperation. He was eager to know more about this new law, so therefore, went to town and bought the booklet on cooperative law and studied it. In the meantime, through personal relationships, he was able to make contact with the Shandan Cooperative Federation, to ask for advice. From his study of the law, together with the government's announcement of a national policy for farmer cooperative development, he thought that this would be the most propitious time to set up a cooperative, where members could purchase seeds and fertiliser together and pay a lower price. In addition, he believed that they could increase the scale of certain products and these could be marketed together, in order to gain higher prices. After about six discussions (and some persuasion) 18 farmers agreed to work cooperatively and they formally created a cooperative. With support from the Shandan Cooperative Federation, the Ronghua Growing Cooperative was established and registered as a formal cooperative, in September 2007. This was the first officially registered farmer cooperative in Shandan County, under the new cooperative law.

*Respondent No.13: "To establish a cooperative, I mainly want unity with all the other farmers, to purchase seeds and fertiliser at a lower price and sell products at a higher price, because I am the largest grower, so in fact,*

*in this way, I will get more benefit. From my own experiences, I know working cooperatively certainly can reduce costs and increase the selling price of a larger scale of products; this is the benefits that farmers can easily see” (Respondent No.13, 2010).*

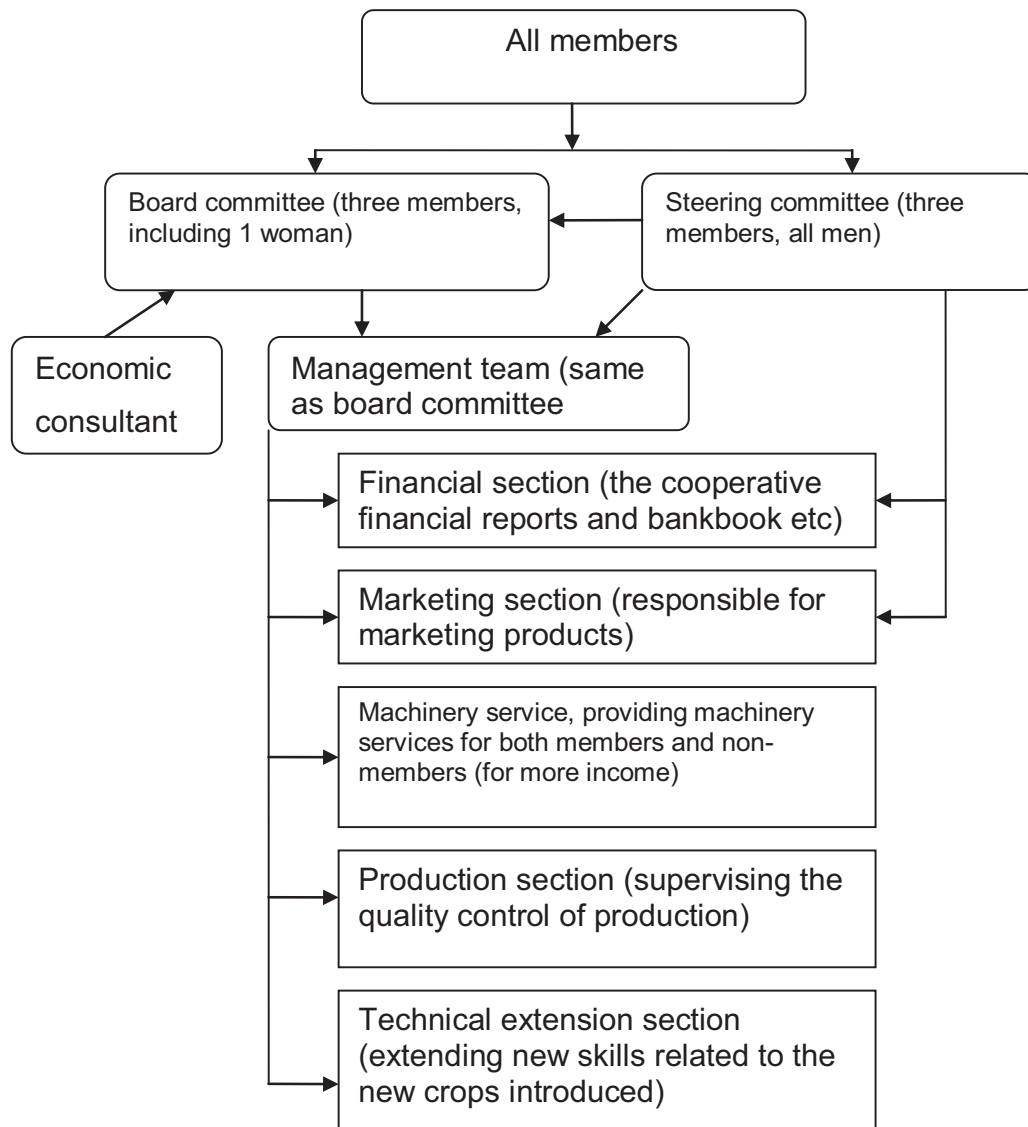
*Respondent No.15: “To join the cooperative I am hoping to purchase seeds and fertiliser at a lower price with good quality. There are eight members in my location and we are working together to produce the same products on a larger scale. This makes it easy to use machinery and saves our time and cost” (Respondent No.15, 2010).*

*Respondent No.16:” To join the cooperative I am mainly looking to increase my own income” (Respondent No.16, 2010).*

#### ***5.4.3.1 Governance and management***

According to the cooperative constitution, the organisational structure of the cooperative is shown as Figure 5-8.

Figure 5-8: Ronghua Cooperative governing structure



As seen in this structure, the all members' meeting is the top governing body of the organisation and it is comprised of all the cooperative members. As a governing body, the all members' meeting has the authority to pass and amend the organisation's constitution; elect or remove members of the board committee

and the steering committee; verify and approve plans and reports, from both the board committee and the steering committee (especially the financial plan and reports); verify and approve the cooperative's business projects; implement business planning and bylaws; discuss and decide upon the value of the organisation's shares and the maximum number of shares a member can buy; and discuss and decide upon any other important issues, about which members are concerned (Chapter 2, Article 14).

The all members' (delegates') meeting has to be held at least once a year and meetings can also be held when the board committee deems it necessary; or the steering committee suggestion; or when one fifth of the total members or one third of the members' delegates require a meeting (Chapter 2, Article 15). The all members' (delegates') meeting can only be held, when at least two thirds of the members or delegates are able to participate. Decision making follows the one member, one vote principle. On the other hand, if (for various reasons) a member cannot attend, he/she can ask someone to vote on his/her behalf, but that person has to provide the proxy with written permission. One member can only vote on behalf of two other members, at the most (Chapter 2, Article 16). All decisions have to be agreed upon, by at least half of the participants at the meeting (Chapter 2, Article 16). Five days before holding the all members' (delegates') meeting, the board committee has to provide an agenda for the meeting: otherwise, members have the right to refuse to participate in the meeting (Chapter 2, Article 17).

In relation to production and business management (and to meet members' needs) the cooperative provides services, which include technical assistance, packaging and storage, trading and marketing and industry development information. It also works with the government on projects and with other organisations or private groups, which are related to the cooperative's business development (Chapter 4, Article 28). In order to develop markets and to ensure the quality of their products, all members have agreed that the cooperative

should work towards forming its own brand and to always provide a high standard of products for the markets.

Following the constitution, the board committee is elected at the all members' meeting and it is comprised of three people, who each work for a three year term. This board committee has the authority to arrange all members' (delegates) meetings and implement the resolutions decided upon at those meetings; make proposals, via the strategic plan, annual business plan and bylaws for internal management; ensure that an all members' (delegates') meeting is arranged, in order to discuss and approve these decisions; make decisions, relating to the acceptance of new members, members withdrawing, inheritance and rewards and punishment; sign contracts or agreements on behalf of the organisation; recruit or remove the staff of the cooperative; and administer the organisation's finance, property and assets, in order to guarantee its safety (Chapter 3, Article 19).

The board committee has to regularly provide reports on its management and financial work, which is normally every three months (Chapter 3, Article 20). If any illegal work is done (by any member of the board), which damages the cooperative, then he/she has to take responsibility for any economic loss (Chapter 3, Article 21). In regards to decision making issues, these need to be fully discussed and any decision has to be agreed upon by two thirds of the committee members. In addition, any disagreement regarding any decision has to be recorded. In addition, the board committee has to invite the steering committee members and members' representatives to their meeting, but they do not have the right to vote (Chapter 3, Article 22).

Figure 5-8 also reveals that the steering committee is the monitoring body of the cooperative. It is also elected by the all members' meeting, to supervise the board committee and its management work (Chapter 3, Article 23). The members work for a three year term on the steering committee, which has the following

functions: supervision of the board committee's work, relating to the implementation of the decisions made at the all members' (delegates') meeting and at the cooperative's constitution; supervision of the organisation's management work and business operations, especially auditing the organisation's accounts; checking the quality of the work done by board members and management staff; participation at board committee meetings; asking questions, relating to the board committee's work and offering suggestions for improvement; offering proposals for the all members' meeting; and dealing with any illegal work or corruption, undertaken by any board members (Chapter 3, Article 24).

A steering committee meeting must be held at least twice a year. In order to hold a steering committee meeting, at least two thirds of the members have to be present and any disagreement should be recorded (Chapter 3, Article 26). Board members cannot concurrently serve on the steering committee and neither can relatives (or family members) of board members (Chapter 3, Article 27).

#### ***5.4.3.2 Membership of the cooperative***

In order to be a member of the cooperative, any farmer (who is over the age of 18 years and who is working or doing business with the cooperative industry) can apply to join the cooperative (Article 2, Article 6). Other people, who are not farmers, but who are involved in business related to the cooperative's development, can also apply to become members of the cooperative. However, the total non-farmer membership must be less than 10% of the cooperative's total membership (Chapter 2, Article 6). In addition members should not engage in any business which competes with the cooperative or damages the cooperative's interests (Chapter 2, Article 8). The shares, which members own,

can be inherited and sold, but only to other cooperative members (Chapter 2, Articles 10 and 11).

#### *5.4.3.3 Financial management*

Since capital is one of the major concerns for the development of the cooperative, the all members' meeting decided that members could buy more than one share, but no more than twenty shares — and that each share was worth 5,000 yuan (1,000NZD) (Chapter 4, Article 36). However, in order to buy shares, members could use capital, technology, various items, or their land use rights. All the investments had to be recorded separately, under each member' name and this would be the basis of any surplus redistribution (Chapter 4, Article 36). For example, one member's large agriculture machinery (a 50-horse power tractor) was assessed by the members elected independent three person committee and it became 10 shares of his investment. As a result, the cooperative members have the right to use the tractor's services, at cost price. Non members can also apply to use the tractor but have to pay a market price (higher than the members' price). However, the ownership of the tractor still belongs to the member and he receives a financial gain from his 10 shares, for any surplus, at the end of the cooperative's financial year.

At the first all members' meeting, Respondent No.13 was elected, as the director of the cooperative. When discussing capital investment, the all members' meeting agreed to and elected a three person committee, to evaluate the members' land and other items, which could be used for buying shares and they assessed those items and land on their capital value equivalence, for their shares in the cooperative (this is the first cooperative, within Zhangye district, to use land as shares, (Respondent No.18, 2010). The members' meeting also discussed and agreed that, at the beginning, the board committee would also be

responsible for management work, on a voluntarily basis. The cooperative also accepted Respondent No.13's offer (no fees charged) to use his house as their office base, for meetings and training workshops.

#### *5.4.3.4 Development of the cooperative*

After the harvest in 2007, the cooperative managed to sell their members' products together and they obtained a higher price, compared to the local market price. For example, Ziran (used as a cooking ingredient) was 2.4 yuan (0.48NZD) per kg higher, barley was 0.06 yuan (0.012NZD) per kg higher and maize was 0.06 yuan (0.012NZD) per kg higher. In the meantime, the cooperative also organised the use of machinery to plough the fields, at a cost price of 20 yuan (4 NZD) per mu (0.067ha), which was 5 yuan (1NZD) cheaper than the market price. All these services, provided through the cooperative, have increased members' confidence and (as a result) more farmers have gradually joined. Since markets and the price of products are major concerns for the members, Respondent No.13 personally bought a computer and connected it to the Internet, in order to be able to give updated marketing information to the members, especially the prices for various cooperative products.

By the end of 2008, there were 88 members in the cooperative and (after the annual meeting) the cooperative re-elected the board and appointed a management team. Subsequent members' meetings developed a three year plan (2009-2011), for the development of the cooperative. They revised the constitution, in order to attract more capital for development, but they maintained the share value of 5,000 yuan (1,000NZD). In the meantime, members could continue to use their land rights, professional technology, agriculture machinery and other items or capital, as their shares — and the maximum number of shares for each member was still set at 20. In regards to decision making, the basic

principle still maintained one member one vote, but large scale farmers (more than 100 mu (6.8ha) of land) were given extra votes, although the total number of extra votes has to be less than 20%. For example, the largest scale farmer (300 mu (20ha) grower) has three extra votes for cooperative decision making. The management team was appointed from the board and they are all members of the cooperative. The management team's work pay is based on the work they do for the cooperative.

Interestingly, although many village men are still working away from the area and their households are run by their wives or parents, most memberships are still in the men's names and when they return to the area, they will attend the members' meetings. Only a few women are members and only one has a committee position.

*Respondent No.15: "I have been to cooperative meeting three times this year, and at a recent meeting we were discussing what to grow next year, and how to build the storage places for the cooperative, the design, investment and benefit. I could not understand the full story of the plan but I believe that whatever Mr Respondent No.13 says is good for the cooperative and for the members. I think I will invest more in the storage facility building, because I think we can make more money from storing the products" (Respondent No.15, 2010).*

*Respondent No.14: "I have only been to the technical training workshops, but I have never been to the all members' meeting to vote; that is my husband's work, when he comes back at the end of the year. He goes to the meeting and votes on decisions" (Respondent No.14, 2010).*

In 2008, with united technical support and other services provided by the cooperative, the members' average income, per mu (0.067ha) arable land, increased from 720 yuan (144NZD to 910 yuan (182NZD)). Some Chinese medical plant growers' income increased to 2,200 yuan (440NZD) per mu

(0.067ha). On the other hand, in 2008, the cooperative (as a separate entity) purchased 3.5 tons of high quality seeds, 230 tons of fertiliser and 260 kg of other materials. Compared with the market price, the cooperative saved 51,730 yuan (10,346NZD) for its members (587 yuan (117.4NZD)), per household member). The cooperative also organised the marketing of members' products: 650 tons of maize; 220 tons of barley; 32 tons of Ziran; and 5 tons of vegetables to local (Zhangye district) and other markets in Shandong and Guangdong provinces. Their selling price was 5% higher than the local markets. The cooperative is now selling their products, based on their own surveys, with only a small amount products being sold on contract.

Under the cooperative structure, the board has recruited a retired county government leader, as its economic consultant (without pay). Respondent No.13 and other cooperative members believe that this retired official leader would help them to create good relationships with the government units, which may then provide more support or pay more attention to the development of the cooperative. In order to improve the efficiency of the management, the board appointed five members to take responsibility for each of the sections set up by the cooperative. One board member is responsible for marketing, which they believe is the most important part of the cooperative's management.

The development of the cooperative has also improved its women members' abilities. Although cooperative membership is based on each household, almost all the men work away from the area as migrants and therefore, the women actually do the entire field work. As a result, through the various training workshops, the women's ability has gradually improved. In 2008, with the support of the Shandan Cooperative Federation cooperative development project, Ronghua cooperative conducted five workshops on cooperative training, in order to improve the members' knowledge of a cooperative and how to operate one. With support from a contract seed company and the Agriculture Bureau, the cooperative conducted three workshops on technical training. Respondent No.13

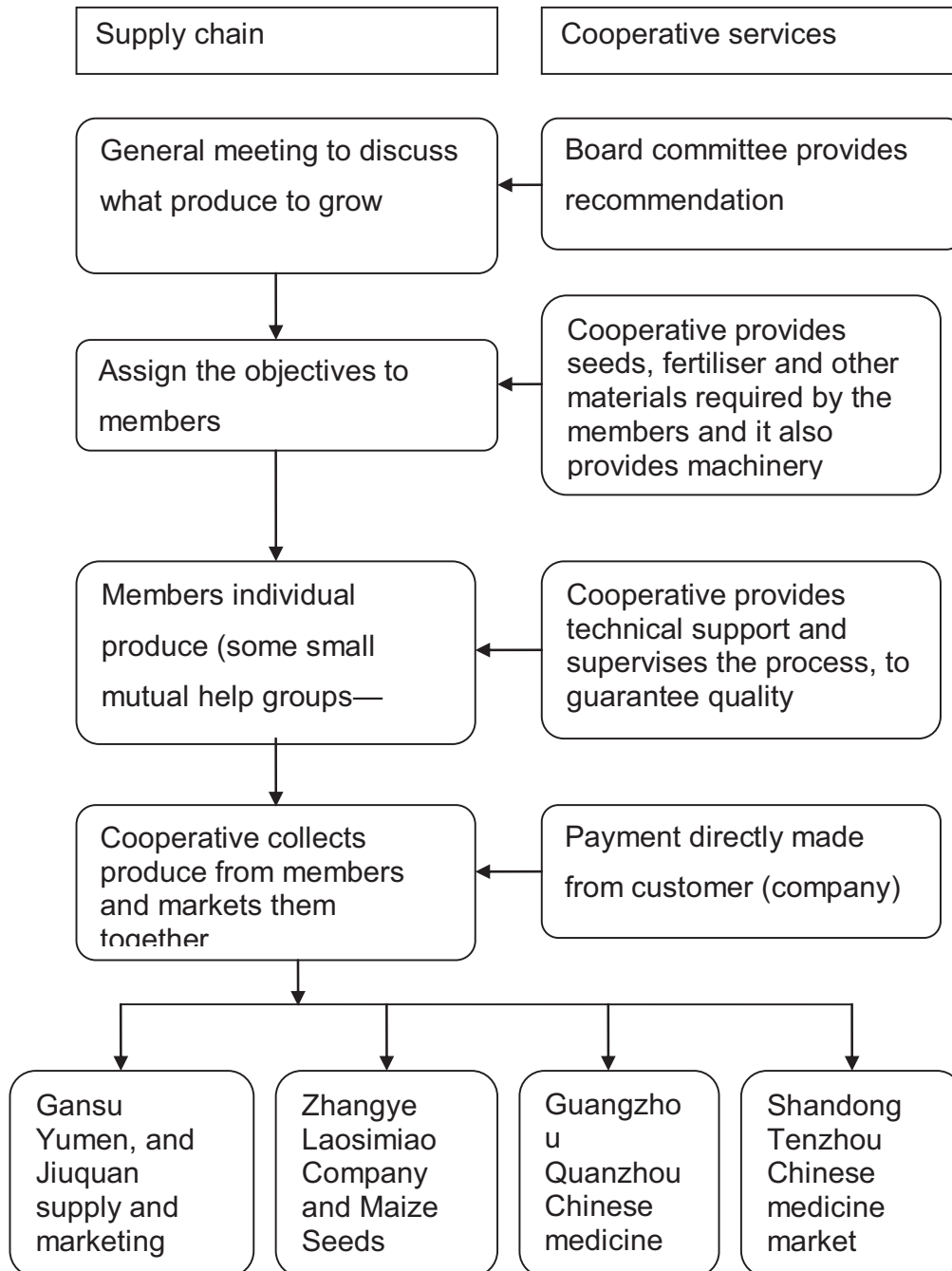
also arranged for a 10 mu (0.67ha) land plot to be used as a trial area for the introduction of new crops, to show other members how to grow these crops.

*Respondent No.15: "I know the cooperative organises training, and no fee is charged. Sometimes, I participated: sometimes I could not because of family issues. But I did learn a lot from the training and I often went to see the cooperative trials of new variety crops. I wish I had joined the cooperative earlier (she joined in 2008), as the training helped me to understand more about the cooperative and the technology of growing new high value crops" (Respondent No.15, 2010).*

In 2008, in regards to the development of the cooperative, Respondent No.13 proposed a three year plan and this was discussed twice by the board committee and then twice by the representatives of the cooperative — and on another two occasions at the all members' meetings. In 2009, in the final version of this three year plan for the cooperative's development, the cooperative expected to have more members and to have increased its growing land and range vegetables produced (they have tested several varieties), whilst still maintaining their output of maize, barley and other medical plants. In 2010, the plan is to build up the storage facilities, so that the cooperative can store members' vegetables in summer and sell them in the winter, when prices are higher. In addition, with the storage facilities, the cooperative is hoping to adjust its industry structure and to undertake some primary processing work (as a result of consumer demand) and thus add value to its products. In 2011, they plan to begin building some facilities for raising pigs, sheep and other animals, through the use of agriculture by-products, so that members can receive a higher income and the cooperative can make use of all the members' resources. The operation of the cooperative management basically follows this plan. In 2009, the number of cooperative members increased to 106 and the growing land increased from 800 mu (53.3ha) in 2007, to 3780 mu (252ha). In 2010, they have begun to work on the storage facility and ten women (as representatives) are involved in this process.

Figure 5-9 shows the formation of the supply chain and its related services, which are provided by the cooperative.

**Figure 5-9: Supply Chain of Ronghua Growing Cooperative**



This supply chain shows that, every year, the board provides recommendations about what products to grow. This is discussed at the general meeting and a decision is made. Following this decision, each member decides what to grow, in relation to own land and economic and labour situation. They then report to the cooperative about what and how much materials they need for their production. The cooperative then organises to purchase all the materials for its members and it also provides its members with ongoing technical and machinery services. After harvest, the cooperative organises to sell the members' products together. However, the payment is directly made from the customer to each individual member, through the cooperative. In the last two years, 60% of the cooperative's land was used for producing maize seeds, 20% for wheat and barley, 10% for Chinese herbs and the other 10% was used to grow vegetables. Only 40% of the cooperative's products were sold through contracts, with the remainder being sold in respect to the present market situation. The cooperative is taking both benefits and risks, by using the current market for selling its products. In the past, management has worked on a voluntary basis. However, from 2010, the management team has agreed to be paid for their time investment and for marketing the cooperative's products. They will each receive payment of 0.04 yuan (0.008NZD) per kg for selling barley, 1.00 yuan (0.2NZD) per kg for selling Chinese herbs and 0.20 yuan (0.04NZD) per kg for vegetables, as subsidies for their time investment.

#### **5.4.4 Difficulties and problems during the establishment process of the Ronghua cooperative**

There have been many difficulties and problems faced by the cooperative, during its establishment and development. Those difficulties have included the farmers' low level of awareness regarding the cooperative and low technical skills and

lack of capital, in addition to the low capacity of internal management and a lack of marketing information.

*“In the development of the cooperative, members’ participation is low, and they have no confidence about the future of the cooperative: the majority of the members are taking a wait-and-see attitude. And of course, farmers are living relatively scattered around the area and they do not have much time to communicate and exchange ideas, plus most men go away to work as migrants, and the people who are left behind are very busy looking after both their business and families. And members’ cohesion is low (Respondent No.13, 2010).*

*“Lack of capital; low capacities for agricultural technical skills; members have a different understanding about forming cooperatives, which has influenced the establishment and development of our cooperative” (Respondent No.17, 2010).*

Respondent No.2 from the Agriculture Bureau stressed:

*“Farmers recognition is low, and there is also low participation. I think it is mainly because of their experience with a small scale self-sufficiency economic approach for many years, and they haven’t had many extra products to sell, and so they have a weak recognition of marketing their products. They also haven’t seen the benefits of working as a cooperative enterprise; another view is that the cooperative hasn’t brought great benefits for its members: some of them think it is a waste of time, and it has high costs for reaching agreement, so it is easy and convenient to do things by themselves” (Respondent No.2, 2010).*

Other members also emphasised the difficulties, relating to a lack of capital and labour, the small scale of land and the low capacity of technology, which are all

key factors that influence the cooperative's development (Respondent Nos.14, 15 and 13, 2010).

Although, from 2010, farmers can lease land, in Shanyanpu village this is not popular. The majority of these farmers still believe that land is the backbone of their lives. The current 106 members of the Ronghua cooperative are basically farming on their own land. About 65 members work land that is between 20-50 mu (1.3-3.3ha). However, the policy of land leasing provides opportunities for some of the members (such as Respondent No.15) and they have begun to rent land from those migrants. Respondent No.15 has rented 10 mu (0.67ha) this year, in order to grow maize and vegetable (Respondent No.15, 2010). Members believe that the government policy of fostering rural development, to restructure the new socialist countryside — and the implementation of the cooperative law — will bring a greater opportunity for the cooperative's development.

*“The government's support policy and some processing enterprises are increasing the demand for our products, which brings a greater chance for us to develop” (Respondent No.16, No.14, 2010).*

*“I feel we have a great opportunity now, for mainly we have land and basic facilities, and a good board committee. I feel confident and I want to invest more and participate more” (Respondent No.15, 2010).*

*“We have a better legal environment now for cooperative development and our location (soil, climate etc, and natural environment) is unique. The local government has stated a supporting measure for farmer cooperative development and some technical training services, provided by the county agricultural units, are free. In general, I feel confident in achieving the three year plan of our cooperative, and that the scale of the cooperative will become bigger” (Respondent No.13, 2010).*

There are also concerns from the members about the future. *“I am willing to maintain my membership, but it really depends on what benefits I can get, but I do hope that the cooperative can grow bigger”* (Respondent No.14, 2010). Respondent No.15 also hopes that, in the future, *“All the local farmers can join the cooperative, working collectively to grow crops. Some members can focus on crops, and some can do other business, so that all the members’ incomes can increase”* (Respondent No.15, 2010).

However, there are also challenges for the future of the cooperative. These include the internal management’s capacity; up to date and correct marketing information; an increase in capital demand for development; food quality and safety; and some natural disasters (Respondent Nos.14, 15, 16 and 13, 2010).

Since the cooperative is very concerned about its members and it maintains an excellent transparency for its governance and management, in addition to maintaining a stable market relationship and ensuring its members’ income has increased significantly in the last two years, it is now recognised and approved as one of the 122 provincial model cooperatives, by the provincial agriculture department. The processes of this cooperative’s development will therefore, certainly impact upon local and regional cooperatives’ development.

## 5.5 Summary

The study of the Dongwan Lvdadi Melon and Vegetable Growing cooperative and the Ronghua Growing cooperative shows that there are many factors that have influenced the successful development of the two cooperatives. The key findings of their successful factors include: government support policies of registration, financial and training; farmers’ willingness to increase their income and to gain advanced products related technology; dedicated initiators; members’

understanding of cooperative knowledge; members' participation and support of cooperative governance and management; efficient governance and management, efficient on-going cooperative and technical training and education. Study also revealed that both cooperatives are at the initial stage and their governance and management teams are in their first three-year term period (they have not yet made any surplus redistribution to their members). They are multi-functional agricultural cooperatives instead of simple producer cooperatives, since they not only provide services for producing but they also provide services for purchasing inputs and marketing products for their members. As a result of government support, these two farmer cooperatives have shown that they are now in a rapid growing period, both in the number of members and the expansion of their markets. Table 5-5 summarises some of the key findings of the two cooperatives.

**Table 5-5 Key findings of the two cooperatives studied.**

Items	The Dongwan Lvdadi cooperative	The Ronghua Growing cooperative
Location	Close to center town of the county	Far from the center town of the county
Background of initiator	Farmer, also village Party secretary	Farmer
Members motivation for establishment	More income and new technical skills, marketing information	More income and new technical skills, marketing information
Membership	Based on household	Based on household
Time of registration	Dec, 2007	Sept, 2007
Number of funding members	79	18
Percentage of small scale (less than 20 mu/1.3ha) members	64%	77.8%
Farmer's contracted land resources	4.3 mu/0.3 ha	3.2 mu/0.21 ha
Members experience as farmer association	5 years before cooperative	No
Number of cooperative member in 2010	486	106
Members structure	From different villages	Only from one village
Associate members	1,500 (different villages)	No
Governance structure	Well formed by following the law	Well formed by following the law
Decision-making	One member one vote	One member one vote
Main products	Onions, melon and other vegetables	Maize seeds, vegetable and Chinese herbs
Business management	Work on contracts (90% of its products)	Working on contracts (60%) and depend on current market (40%)
Financial management	Have special bylaw, maintain transparent	Have special bylaw, maintain transparent
Training and education	Regularly include both cooperative and technology	Regularly include both cooperative and technology

## **Chapter 6 Analysis and discussion of factors for successful farmer cooperatives**

This chapter analyses and discusses the key factors that have influenced the successful development of farmer cooperatives in Northwest China through the two case studies. Two sections are including:

Section One: Analysis of factors that have influenced the successful development of the two case studies;

Section Two: Discussion of the successful farmer cooperative development in Northwest China.

## **6.1 Analysis of factors which have influenced successful development in the two case studies**

There are a number of factors that have influenced the development of these two cooperatives and these factors can be categorised into six categories: cooperative initiators, members, governance, management, government intervention, and non-government intervention.

### **6.1.1 Cooperative initiator**

Although the two cooperatives are different in scale (number of cooperative members) and location, their initiators share some common characteristics. The two initiators are both in their fifties. They are well educated compared with other farmers. They are both experienced farmers, with previous working experience within the township government (in the 1980s), in addition to having experience as a leader of a production team. They both cultivate their own contracted land and understand about the frequent difficulties faced by farmers. Most importantly, they have a vision for the future of their organisation and they have a certain inspiration capacity for managing the organisation. They respect (and they are willing to work for) the other farmers, who in turn respect them. They have a large amount of long-term contracted land or they have rented more land from other farmers and become a large scale producer (more than 50mu/3.3ha). They devote most of their time to the cooperative's management and continually try other crops like onion and Chinese herbs apart from their traditional crops of vegetables, melon and maize. They are working on to improve new crops related technical skills to enhance the future prospects of their organisation. They also play a key role in their organisation's development. In summary, the similarities of the two initiators' vision, experience, knowledge, and management capacity have

contributed (and are critical) to the successful development of the two cooperatives.

However, the background of the two initiators is different. This has affected the pace of development of the two cooperatives. Being the director of village for seven years, and the Party Secretary of the village committee since 2000, the initiator of the Dongwan cooperative has built strong relationships with both the township and the county level governments, even including district leaders. This has provided the Dongwan Cooperative with a higher level of attention from government units and the general public in the county. Therefore, the Dongwan cooperative has more opportunities for its development. Being an ordinary farmer, the initiator of the Ronghua cooperative has less political resources and only uses his personal relationships to seek local government support. Moreover, the villager leader (also a farmer) of Shanyangpu (where the Ronghua cooperative is located) is not a member of the cooperative at the present time, which may affect farmer enthusiasm to join the Ronghua cooperative and influence the process of the cooperative. The different backgrounds of the two initiators reflect how their personal resources can also contribute to the successful development of farmer cooperatives.

### **6.1.2 Cooperative members**

The members (as the owners and users of a cooperative) are the most important factor contributing to the establishment and development of a cooperative. Member factors for the successful establishment and development of these two cooperatives include economic income as a driving force for the establishment of the cooperative; members' knowledge of the cooperative and skills of technology; 'household' membership, and their participation in the cooperative's governance and management.

### **6.1.2.1 Driving forces for the cooperative establishment**

The main reasons for establishing these two cooperatives were to increase income and gain new technical skills. *“I joined the cooperative with the aim to earn more money”* (Respondent No. 4, 2010); *“I am happy to join the cooperative, for I can learn new skills from the cooperative and produce more”* (Respondent No.5, 2010). In order to increase incomes, both cooperatives have taken measures to reduce their costs and to increase the benefits for their members, through the increased scale of their purchasing and selling. *“Through the cooperative, we buy seeds cheaper with guaranteed quality, and we use the machinery services at a cost price.”* (Respondent No. 4, 2010). *“to join the cooperative I hoped that I can improve economic benefit and increase income”* (Respondent No. 5, 2010). *“In the last two years, the selling price of products from the Ronghua cooperative averaged 5% higher than market prices due to the larger amount and better quality”* (Respondent No.13, 2010). Therefore, members are active within the cooperative and take on their responsibilities. As a result, this made the cooperative successful in producing high quality products to fulfil contracts and providing high quality products for the market. To increase income and gain new technical skills obviously are the key driving forces leading farmers to establish cooperatives. Increased income has improved members' confidence of the development of the two cooperatives and also attracted more farmers to join.

### **6.1.2.2 Household Membership**

Membership of the studied cooperatives is not based on a single farmer; it is based on a household instead. With regard to membership, both studied cooperatives have an open membership and farmers who are willing to produce

the same products can join the cooperative. To gain a formal membership, a member has to buy at least one cooperative share. However, as the majority of farmers have limited capital for investment, both cooperatives allowed members to join first and then gradually pay during the year through the participation of cooperative business. *“As agriculture is the main income for my family. I only have money when I sell onion and melons in autumn. I am pleased that the cooperative allowed me to pay membership fee after I sell my products”* (Respondent No.4, 2010). Members can also buy shares by using agricultural machinery they own with an evaluated capital value equation (for shares). In order to encourage farmers to join, Ronghua cooperative also accepted farmers' commitment of using a certain amount of their contracted land to grow the cooperative appointed products so that they are able to pay shares later. For every farmer has a certain amount of contracted land (land was distributed to farmers evenly in each village, like the cases showed). This policy made it possible for those small scale farmers (with only limited capital and land resource) to join the cooperative and benefit from their cooperation. These arrangements are crucial for the establishment phase of farmer cooperatives.

However, in the establishment of the two cooperatives, the founding members are homogenous (village-based). This has revealed that farmer cooperatives can be well established and organised by farmers themselves. Furthermore, as the Dongwan cooperative showed that farmer cooperative can develop very rapidly and membership could be changed from homogenous to heterogeneous in a very short period. This suggested that the phase of farmer cooperative development could be sped up by outside forces. However, this rapid progress of the organisation in large scale may also create potential problem for its future development.

Furthermore, as the two cooperative institutions showed that in the cooperative, *one registered member of the cooperative* refers to one household. This membership structure makes the decision-making process more complicated.

The findings demonstrated that usually the households are represented at cooperative meetings by the men, who are often the main income provider. In mixed generation households, this can be the husband or his father. They participate in cooperative meetings to make decisions, even if their wives and the older people do the farm work. This especially occurred in Ronghua cooperative. So far this does not seem to have impacted on households' participation, possibly because the village is very collective so much of the information is widely known. However, this arrangement obviously could create potential conflicts in the household which most likely will affect the cooperative future development.

#### *6.1.2.3 Members' knowledge of cooperatives and skills of technology*

The developments of the two studied cases have shown that members' knowledge of cooperatives and their technical skills relevant to their core products are important for the cooperative success. Realizing the importance of members' cooperative knowledge to the organisation, the two studied case cooperatives paid high attention to run cooperative trainings for their members, for members' understanding of the features of the cooperative determines how they will react in their cooperative. To improve members' knowledge of cooperatives, both have arranged at least two special cooperative training workshops for their members, every year, since 2007. They not only invited staff from the Agriculture and Economic Management Station of the Agriculture Bureau, they also invited staff from the Shandan Cooperative Federation to facilitate professional cooperative training. Training has certainly helped these farmers acquire a better understanding of their cooperative and it has resulted in members' high participation and cooperatives rapid development, in terms of membership and economic growth.

Members' technical skill is another factor that leads to the success of the cooperative. Advanced technical skill will help members to produce high quality products which then contribute to increase member's income and improve cooperative reputation. Understanding the importance of members' skills to the success for the organisation, to improve members' technical skills becomes one of the main works of cooperative management. Consequently, every year, before and during the production season, both cooperatives invited technicians from county agriculture extension station to deliver specialized technical training related to the cooperative main products. During the production season, both cooperatives also asked technicians from the customer's company to stay in the cooperative to supervise the production process, and to provide technical support to individual members. Furthermore, both cooperatives maintain a trial plot (10mu/0.67ha) to test new crop varieties prior to introduction and for members' training (Respondent Nos.13 and 3, 2010). As a result more and more customers (enterprises) from both in and out of the region are signing contracts with them. In these two cooperatives, it can be seen that the members' technical skills have been important for their success and development, especially during the early stages.

#### ***6.1.2.4 Members' participation in meetings and trainings***

The findings showed that members were active in the participation of cooperative meetings and training workshops. Both trainers and cooperative leaders commented on their high attendance. Whilst there is a strong expectation that members will attend trainings, the attendance is also seen as a demonstration of the members' desire for technical knowledge and success, both for themselves and the cooperative. Although the general members' meetings were often attended by men, women were increasingly attending. The women, especially,

showed a higher participation in technical training, since they were generally responsible for farming activities, whilst their husbands were often away working as migrants. The experience of participating in meetings and workshops has also improved the women's ability and skills, in relation to decision-making and management, which in turn supported the development of the cooperative. For example, in the Ronghua cooperative, 10 female members (their husband working as migrants) were discussing whether to borrow money through collaboration (mutual guarantee) and invest in the construction of cooperative storage facilities (Respondent No.13, 2010). This shows the increasing demand of women in the decision making in the household and their willingness to participate in the cooperative business.

Generally, the members' participation within the two cooperatives has also created excellent relationships between members and the leadership and this has helped members to understand how the cooperative operates. *"Both Dongwan and Ronghua cooperatives have a relaxed and friendly relationship between the members and the leadership"* (Respondent No.1, 2010). The active participation of the two cooperatives' members has also attracted more farmers to join the cooperatives, since *"many of the farmers were taking a 'wait-and-see' attitude"* (Respondent No.13, 2010). Therefore, the members' participation in meetings and trainings has been a significant influence on the growth of these two cooperatives.

The members of the two cooperatives interviewed were basically satisfied with their leadership, both in governance and management. As one member of Ronghua cooperative stated *"Whatever the leader says, we believe and just follow"* (Respondent No.14, 2010); and one member in Dongwan stated, *"We are pleased with the management; they provide us with services we required, and keep us informed of contracts, orders, and prices"* (Respondent No. 6, 2010). Members' satisfaction has also been reflected in the dramatic increase in membership and a higher demand for services, their confident for the future, and

a strong trust and mutual relationship between managers and members, which has resulted in the smooth and has grown development of the cooperatives.

### **6.1.3 Cooperative governance**

Governance structure as an important factor has led to the success of these two cooperatives. Following the cooperative law, the governance structure of the Dongwan and Ronghua cooperatives include all members meetings and the establishment of board and steering committees and management. In order to ensure transparency and accountability, the all members' meeting elected a steering committee to monitor both the board and the management's work. The board supervises and ensures that the management uses available resources, in order to provide services for the members. To reduce conflict, the board committee provides all major information to all members, especially financial reports, which are produced at least twice a year. In order to reach a decision, the all members' meeting basically follows the principle of one member (the representative from each household) one vote. This decision-making process increases all members' enthusiasm to participate in the cooperative's business at its initial stage of development. To maintain the transparency of cooperative key issues, such as product selling price and financial reports, also helps the organisation to build a relationship of trust between the board, management and members. This structure of governance is fundamental to the success of the cooperative. However, a potential conflict also exists between the larger producer and small producers in this decision-making process in the longer-term. As the cooperative business increases, the larger producers (who have more than 100 mu/6.6ha) will ask for more votes in decision making, and they may dominant the cooperative business.

In the Dongwan cooperative, the construction of the leadership team includes a person who has had experience of village and enterprise management (the director); a person with experience as a marketing agent (vice-director); and another who has a good understanding of technology. These people are also larger growers and they are committed to use most of their time in the cooperative's management, where they actively foster the organisation's governance. They are open-minded and they ensure the transparency of business and its financial management. They also maintain excellent relationships with members at this stage. They play a crucial core role in the cooperative's successful development. But in the long term, when the larger producers become larger and larger (taking the land leasing policy and contract more land with their own capital and social resources) they may have a different attitude about working with those small producers. Even if they still work together with the small producers, they may ask for more votes in decision making, and even dominate the governance of the cooperative.

#### **6.1.4 Cooperative management**

Within the Dongwan cooperative, management is based on staff with proven experience and abilities and these are also supervised by the board committee. Management also accepts monitoring from the steering committee and all the management activities are transparent to members. Transparency also helps to improve the members' satisfaction with the cooperative, which then increases members' loyalty to the organisation. This style of management has created a trusting relationship between management and members and it has also developed a strong relationship between the board and management. In the case of the Ronghua cooperative, due to a lack of members' abilities, a meeting of the all members decided that the board committee would also be responsible for

management work but work on a voluntary basis. This style of management is working well for the Ronghua cooperative in its present situation. However, for the future development, Ronghua *is training young people to be able to undertake professional management* (Respondent No.13, 2010). Due to the different capacity of management, the level of development of the two cooperatives is different. This shows that appropriate management is an important factor for the success of a cooperative at the early phase of development.

Since finance is one of the members' major concerns, both cooperatives have discussed and created bylaws for their financial management, following the regulations of cooperative law. Both cooperatives' members have elected an independent accountant and cashier and they have policies in place to keep members' individual financial records. In addition, their accountants have to provide financial reports for the members at least every six months. The steering committees also have the authority to monitor the accountant's work. Board members, the management and/or the accountant and cashier, have to take personal responsibility for any corruption on their part. This measure helps to maintain the financial transparency of the cooperative and it increases the members' trust in the cooperative's management and enables them to have a thorough understanding of the cooperative's financial situation. The results demonstrated that a transparently proper financial management was certainly important for members' interaction and participation, and the increase in membership which led to the organisational successful development.

The results revealed that working on contracts was the key factor for successful cooperative business management. By working on contracts, the Dongwan cooperative has been able to plan ahead about what to grow and the quantity. Therefore, its management only needs to focus on how to complete their contracts at a high quality level. In the meantime, the board and management have begun to discuss a plan to build its own storage facilities and to work on the

processing of their products, in order to add to their value for future successful development. In the Ronghua cooperative, their business is more complex; since they are not only working on contracts, but also working on current markets. This might bring more benefits for the cooperative due to high market demand but it also has the risks of losses. This certainly brings uncertainty to the development of the cooperative. However, with a great effort from the board committee (marketing analysis), Ronghua has developed a three year business plan (2009-2012) and it is currently working on this plan. This should result in the Ronghua cooperative being in a better position for its future successful development.

The results revealed that working as a team to develop markets for the cooperative was much more efficient and better than a single person. In Dongwan cooperative, the board and management team encouraged all its members to look for new markets apart from the existing contacts (both in and out Gansu province) so that they could expand their business. In the meantime, the Dongwan cooperative also set up a special marketing section and employed two members, who had experience in marketing, to concentrate on looking for new markets. The board committee also appointed one vice-director to supervise and support this new marketing section. As Respondent No.10 (2010) stated, *"Finding markets is our major work, and it is often difficult. We have to spend lots of time and use all the relations we have developed"*. Also, *"To find markets is one of the difficulties we had in the last three years, for our cooperative development"* (Respondent No.3, 2010). With this high attention to market development, the Dongwan cooperative has been able to maintain its markets in Shandong and to also develop new markets in Liaoning province and other districts within Gansu province. This has resulted in a greater demand for their onions and most members have begun to rent land from neighbouring villages. The Ronghua cooperative also looked for new markets, but it was heavily reliant on the director's work. This has resulted in the markets for Ronghua products

increasing slowly and the scale of its markets was smaller than the Dongwan cooperative.

The findings demonstrated that to select products that met market demand would bring the organisation success. The production evolution of the Dongwan cooperative especially approved this. Dongwan's main products used to be melons and vegetables, mainly supplied to local regional markets. In order to gain higher profits, the Dongwan cooperative gradually changed its focus to production of onions (now more than 90% of its production), due to its natural resources and a greater market demand for onions. In Ronghua, the main product has been maize seed (60% of its production). However, due to the change of market demand, they are now also working on producing Chinese traditional medicine herbs and out of season vegetables for winter markets. The development of these two cooperatives revealed that the choice of products was one factor that influenced the profit and members' incomes — which then would lead on to the success of the organisation.

In summary, have a management team, work on contracts, have a transparent financial management, and select products that meet market demand all are important factors for the successful development of farmer cooperatives at their initial stage.

#### **6.1.5 Government intervention**

The development of the Dongwan cooperative has shown that government policies do have a great influence on the development of farmer cooperatives, in Northwest China — similarly, in the Ronghua cooperative development. Prior to the Farmer Specialized Cooperative law being enacted, the Dongwan cooperative was registered as an association and it only provided technical

training and information for its members. It was not permitted to sign any business contracts with other economic organisations. The members' relationships were 'loose' and very few members were involved in the organisation activities. Since the farmer cooperative law came into effect, in 2007, Dongwan farmer association registered as a farmer cooperative and began to work as an independent member-owned economic organisation. Since then, the number of members and turnover increased significantly and the relationships between members are closer, resulting in increased profits for both the cooperative and the members. In order to foster and lead farmer cooperative development, the Gansu government delivered some incentives measures, such as, the programme of "The selection of Top 100 provincial farmer cooperative", and "the selection of provincial model farmer cooperative". These programmes not only brought good reputation to the selected cooperatives but also provided a certain amount of financial reward for the cooperative development. This policy stimulated the development of farmer cooperatives. The approval of Dongwan cooperative as one of the Top 100 and Ronghua cooperative as one of the 122 model provincial cooperatives would certainly affect their future successful development. In order to meet the cooperative members increasing demand of more land, local government delivered a policy to support land leasing. Under this policy support, members of the Dongwan cooperative were able to rent land from neighbouring villages and expand their business to a larger scale. This policy also provides the opportunity for those large producers to become even larger and become more specialized. It is clear that, without the government's legal environment and supporting policy, Dongwan cooperative would not have developed so quickly. Although the Ronghua cooperative is also adaptable for the policy, due to the members' limited resources and capacity (only female staying home farming), there were few members renting land from other farmers. This revealed that whether the government policy was efficient or not depended on the stage of the cooperative's development. To summarise, in Northwest

China, government legal and financial support is very important for the establishment and early stage development of farmer cooperatives.

#### **6.1.6 Non-government intervention**

The development of both the Dongwan and Ronghua cooperatives has also shown that NGOs can play an important role in helping members to understand the structure of an international standard cooperative and also how to administer and manage a cooperative. When the Dongwan cooperative was at the stage of being a farmers' association, the Shandan Cooperative Federation (NGO) provided several cooperative training workshops relating to international cooperative principles; how to set up a cooperative; cooperative governance; management; business planning; and marketing. The Shandan Cooperative Federation has also provided ongoing training and on-going services (consulting), since the new cooperative law took effect in 2007. Since that time, the promotion of cooperative development, by the Shandan Cooperative Federation has always been based on the ICIS-style cooperatives, but this has been combined with the Chinese Farmer Specialized Cooperative Law (Respondent No.1, 2010). For the Ronghua cooperative, the Shandan Cooperative Federation has also provided similar training and consulting services — and the training approaches they often use were participatory (Respondent No.13, 2010). As a result, the training workshops and consulting services, provided by the Shandan Cooperative Federation, have helped those farmers to gain a better understanding of what a cooperative is and how it operates. More importantly, those members have also begun to understand how to conduct their democratic rights; how the cooperative makes decisions; and how important it is to follow the organisational constitution, in relation to management. This process shows that local NGOs can play a significant role in the successful development of a cooperative.

## 6.2 Discussion

### 6.2.1 Evolution of farmer cooperatives in Northwest China

The evolution of farmer cooperatives, have always been influenced by the political environment, economic conditions and social changes (Sargent, 1982, Abrahamsen & Scroggs, 1957; French et al, 1980). The study of the evolution of farmer cooperatives in Northwest China from the 1920s to today has also shown this to be true. However, the study further revealed that how a cooperative was defined was also important in cooperative development. Results showed that due to political and social reasons in the late 1950s, government defined a farmer cooperative as a collective organization which led to the establishment of the people's commune system. This resulted in the failure of farmer cooperative development in China through the 1960s to 1970s because they were too large, and controlled by the government appointed officials instead of its members.

For the current farmer cooperative development, the definition of cooperative (Farmer Cooperative Law, 2007) in China basically adheres to the ICA key principles of “*voluntary and open membership, democratic member control, member economic participation and autonomy and independence*” (ICA, 2007). This is similar to other countries where a cooperative was simply defined as a member owned, used and controlled economic organization (Cobia, 1989). The change of a farmer cooperative' definition from 'a collective economic organisation' (1956) to a 'self-help organisation' (2007) in China also revealed that the current government has changed its policy in promoting farmer cooperatives. However, the approach in promoting farmer cooperatives is still different to any other countries. Although the government does not force farmers to form cooperatives, it has encouraged farmers to work cooperatively by providing some incentives, such as free training, financial rewards, and supporting infrastructure construction in recent years.

Using the basic life-cycle framework (five phases of development namely economic justification; organisational design, growth-glory-heterogeneity; recognition and introspection; and choice) created by Cook and Burress (2009) to assess the development trend of farmer cooperatives in Northwest China it would seem that the two case study cooperatives are already at phase three (growth and glory). This is quite different from the farmer cooperatives' slower evolution (phase by phase) in other countries (Cook, 1995). Cooperatives in Northwest China did not show a slow evolution from phase to phase; they showed a rapid progress of development from phase one to phase three (growth and glory). Cooperatives like the Dongwan and Ronghua cooperative have also shown some multi-functional characteristics, instead of being just simple farmer/producer cooperatives. Most likely, once the members have had more experience and the situation changes, they may make new choices which will bring them into phase four (recognition and introspection) as Cook and Burress (2009) defined.

Literature has also showed that cooperatives were established due to members' motivation for more income (Dijk, 1997). Dealing with difficulties (Fairbain, 2004b) and facing changes in the market environment (Merrett & Walzer, 2004) were the other reasons that cooperatives were established. This study showed similar reasons for the establishment of farmer cooperatives in Northwest China, but also suggested that those cooperatives may have been motivated by the government supporting policy, especially the financial support policy. Although the government did not force farmers to form cooperatives as they did in the 1950s, the supporting policy certainly attracts farmers to form cooperatives for financial purposes.

The process of the development of Dongwan cooperative (from association in 2002 to cooperative in 2007) has also shown that members' previous cooperation experience was important for the cooperative's successful

development. This is similar to the findings of 52 cooperative developments in America (Bruynis, et al., 2001) and Darroch's (2005) surveys in South Africa.

## **6.2.2 Key factors for successful development of the cooperative**

### ***6.2.2.1 Policy and legislation:***

The evolution of farmer cooperatives in China from 1911 to now (2010) has suggested that a stable legal environment and appropriate government policy was important for the successful development of farmer cooperatives. This concurs with the conclusion of Sargent (1982) from his comparative analysis of cooperative development in seven countries which included UK, Ireland, the USA, Denmark, the Netherlands, France and Italy. Studies in the middle and eastern area of China have also suggested that a stable legal environment and government policy were important for the development of farmer cooperatives. These studies include Zhang and Yuan's (2010) recent analysis of Chinese farmer cooperative development, Yu's (2009) research of cooperatives in Guizhou, Sichuan and Chongqing, and Han et al's (2006) research of Shanxi, Anhui, Henan, Zhejiang, Shandong and Hebei provinces. The finding of this study certainly supported these scholars' findings. However, although other research revealed that the political policy impact on cooperative development was limited (Bekkum, 2001), the development of the farmer cooperative in Shandan certainly showed that government policy had a strong influence on their establishment and development.

Another interesting feature was that, although the government supporting policies such as free registration, free training, easy access to capital and financial support, are all aimed to foster the cooperative development, some farmers may join without being fully committed to the cooperative and its operations. This

would certainly influence farmer cooperatives' successful development, since the members' willingness to their cooperative determines their participation in the cooperative's business, which then influences the successful development of the cooperative (Bhuyan, 2007; Sargent, 1982; USDA, 1993).

Although the implementation of the law (with its stricter specifications) could speed up and standardize the establishment of farmer cooperatives (as the government expected), the maintenance of the successful development of the cooperatives very much requires that members be committed to the organisation and really understand it. The unsuccessful experience of farmer cooperative development in 1950s in China provided a good lesson for both the government officials and farmers today. Cooperatives would successfully develop only when members work for the community instead of just for their own gains (Cheney, 1999; Potter, 1891).

#### *6.2.2.2 Cooperative initiator and leadership*

Banaszak's (2008) analysis in Poland, noted that a dedicated initiator and strong leadership played critical roles in the success of farmer cooperatives. The finding of this study supported this. It can confidently be stated that, without the two initiators involved, these two successful cooperatives would not exist. Zhang and Yuan (2010) further argued that people who found the cooperatives, often as cooperative core leaders, who encouraged a spirit of cooperation and who had good management ability (and who were also willing to serve the members) was the basis upon which the success of cooperatives was built. The two cooperatives studied were reliant on their initiators; there would be a danger to their future successful development, if the two initiators did not pay attention to train young members to replace them as leaders in the future. If the two initiators were dominant and did not want change then after the initial period of growth, the

cooperatives might stagnate. Therefore, in order to ensure ongoing successful development, cooperative initiators need to continually enhance the strength of leadership. This strength of leadership may include their vision and spirit as well as a time commitment to the organisation, together with their honesty and openness. These are all qualities noted by Johnson (1995) as being crucial as cooperative leaders for a cooperative's success.

This study also found the roles that the initiators played were rather complicated. They had three roles. As a board member, the initiator had the role to show his vision and governing ability for the cooperative development; as a member of management, the initiator had the responsibility to administer the cooperative properly so that to achieve the cooperative goal; as a member of the cooperative, the initiator had to produce a certain amount of products to complete the contract with the cooperative and commit to the future of the cooperative. As the initiator plays a key role for the success of the cooperative, how the initiator performs his/her different roles (governor, manager, or member) in the cooperative will certainly influence the cooperative's successful development. This is especially a challenge for cooperatives like the Ronghua cooperative.

### ***6.2.2.3 Cooperative members:***

Members, as the owners and users, play a crucial role for the success of their cooperative. Literature revealed that the success of a cooperative's development was determined by the members' knowledge of its organisation; their education level; technical skills; participation; commitment ; and the relationship between members and managers (M. Fulton, 1999; Harris, Stefanson, & Fulton, 1996). Studies of cooperatives in America (Sargent, 1982; USDA, 1993), in Thailand (Suksawang, 1990), in Sweden (Osterberg & Nilsson, 2009) and in the developed area of China (Han, et al., 2006; Xiaoshan Zhang & Yuan, 2010) also

noted the importance of members' willingness and attitude to the success of a cooperative. As a member owned and controlled organisation, the members' satisfaction within the cooperative, was another measure of its success (Osterberg & Nilsson, 2009; Sargent, 1982; Suksawang, 1990; Sun, 2009; Tips, 1986; USDA, 1993; Yu, 2009). Literature has also revealed that members having a 'say' in the cooperative and having feelings of responsibility to the cooperative were important factors that influenced the development of the cooperative (Sargent, 1982; USDA, 1993). Research into Chinese farmer cooperative development has shown that the farmers' ability to use certain advanced technology for their core products had a significant influence on the successful development of their cooperatives (Han, et al., 2006; Yu, 2009; Xiaoshan Zhang & Yuan, 2010). Although this study suggested similar results on members' factors for the success of the farmer cooperatives development, it further confirmed that members' knowledge of their cooperative, members' skills of technology and participation of cooperative meetings and trainings were especially important for the successful development of farmer cooperatives in the less developed area of Northwest China.

This study also showed the influence of the household membership structure on the successful development of farmer cooperatives in Northwest China. Although the study of cooperatives in Bangladesh did not show whether the cooperative membership was based on household or not, it revealed that in Bangladesh whoever had the decision power from the household had a big impact on the success of a rural credit union (Goetz & Gupta, 1996), and further studies in Nepal and India found that the selection of who represented a household depended on his/her income, class category, education level, and skills related to production technology (Agarwal, 1997; McElroy, 1990). This study of farmer cooperatives in Northwest China has demonstrated that although the cooperative membership was based on household, each household as a member only had one basic vote in the cooperative business. As in the literature, the person who

represented the household and voted certainly made a difference to the cooperative's development. However, contrary to the literature, the representatives of each household were usually men, for traditionally men are the absolute heads of the household. This can be a challenge for farmer cooperatives' management since the person voting may not understand the farming situation or the practical implications of what they have voted for. It is likely, that in the future, challenges will occur in each household about who is the right person to attend the cooperative meetings and vote to make decisions. From the cases studied, it is possible that women, who are already growing many of the new crops and bringing more income into the family, may start requesting more voice in decision-making. One example is the 10 women members of Ronghua cooperative who are investing in a cooperative storage construction. This has shown that as the women members' income increases and technology improves, they will require more voice in decision-making, both in the household and cooperative. The changing power from man to woman or to whoever has the rights to represent the household in participating cooperative decision-making certainly brings out the interesting issue of gender empowerment in each household, a field that needs further research.

The change of membership from homogeneity to heterogeneity is another issue. As Banaszak's (2008) research of cooperative development in Poland has revealed, homogeneity is one factor that influences the success of a cooperative. The study of Dongwan cooperative suggested that the change from homogeneous (members only from one natural village) to heterogeneous (more associate members from other villages and townships) could help the cooperative to grow bigger and increase its income. However, this change is likely to affect the cooperative's future development in both positive and negative ways. In a positive way, the increased size of the cooperative will support the cooperative's work on a larger scale. This will help the cooperative to produce more and have a stronger market impact, in addition to a stronger bargaining

power for marketing, which will all lead to increasing the members' income. On the other hand, the increased number of cooperative members has the potential to cause conflicts amongst the members — and the members and management. Furthermore, conflicts could exist between formal members and associate members. These conflicts have the potential to influence the effectiveness of the cooperative's operation.

The return of young migrants may provide an opportunity for the development of a cooperative. Due to the members' rapidly increasing income and development of cooperative, some young migrants have returned to their villages with business knowledge or technical skills, and have participated (as the representative of his/her household) in the cooperative business. This has happened in the Dongwan cooperative, where one of the migrants was responsible for cooperative marketing. This will help to improve the knowledge and skills base of cooperative management, especially the cooperative's marketing capacity, which leads onto the cooperative's success.

On the other hand, following the cooperative business growth, to get more income, some of the capable members who have the abilities and capital will rent more land, like the Dongwan larger producing members, to enlarge their business for more benefit. This will foster the cooperative developments but also increase the gap between the large producers (more than 100mu/6.6ha contracted arable land) and small producers (less than 20mu/1.3ha). This also may create conflicts between the larger and small producers in cooperative decision-making. This may split the cooperative into two or the cooperative may become dominated and controlled by the larger members in the future, with the small producers being marginalized.

#### *6.2.2.4 Cooperative governance*

The structure of cooperative governance refers to how the cooperative is working. The main players in governing the cooperative are members, directors of the board committee, directors of steering committees and managers. Each of these groups plays different roles and has their own responsibilities in cooperative development. It is clear that a well-informed governance structure is important for the success of a cooperative (Chaddad & Cook, 2004). This is really about *who* is in control of the cooperative and *how* they control it. It is about the relationships between the cooperative's members and their board and management (Bird, 2001). This study revealed that the governance structure of the farmer cooperatives was well formed from the beginning of their establishment. Generally, the governance structure is forced by the cooperative law (for registration as a cooperative enterprise). However, this study also found that although farmer cooperatives in Northwest China, as the cases studied, have a well formed governance structure, this did not necessarily mean that all the members really understood why and how this worked. This is quite different to other studies, where the organisational innovations often showed a long initial phase of build-up and experimentation before they were functional (Fairbain, 2004a).

However, under the law for forming the standard cooperative governance structure, cooperative members at least have clear ideas of how the cooperative should be governed and structured; this would certainly help members to understand the organisational difference between cooperatives and other forms of enterprises. Cooperative members certainly will gain better understanding through their experience in the cooperative progress. On the other hand, trainings continually provided by government also help members understand the value of governance, although this will take time.

#### ***6.2.2.5 Cooperative management***

Studies, such as those by Suksawang's (1990) in Thailand, Zeuli's (2004) and Sargent's (1982) analyses of American cooperative evolution, and studies in Zhejiang, Shandong and Hebei provinces (more developed areas) in China (Han, et al., 2006) noted that appropriate cooperative internal management was the key factor that led to the success of cooperative development. This study supports this finding and further stresses the importance of members' understanding and supporting their management. The cases studied also revealed that during the early stage development, management work could also be done by the board (governance body) on a voluntary basis (no pay) if proper rules have been set up.

The literature also confirmed that the financial and business management of a cooperative was critical to its success or failure. Indicators, such as sound finance, increasing income, marketing capacity and business planning and management (J. Fulton, 2004; Suksawang, 1990; UN, 2005), could all be used to measure the economic and business outcomes of the success of farmer cooperatives. This study has demonstrated the cases' financial and business management success by increasing members' income, market developments, and increasing turnover in the last two years. However, the study also revealed that the selection of a core product which fit the natural resources and market needs (like Dongwan cooperative's focus on mainly producing onions) was important for the success of this cooperative business. This is similar to Pan's (1999) research of farmer vegetable growing cooperatives in Shandong province in China.

This study has revealed that cooperative' contracts, both with the 'customer' companies and its own members; played a significant role for their success of business management. The development of the Dongwan cooperative has especially demonstrated the success of working on contracts. By signing contracts with customers, the cooperative has guaranteed markets, reduced markets risks and further it allowed the cooperative to plan its business ahead.

Signing contracts with members was also good business management adopted by both cooperatives. It maintained members' ownership of their assets, stimulated members' enthusiasm for cooperative participation and reduced conflicts between members and management. The direct payment to members (who receive the buyers' price according to contract without any deduction by cooperative management) has also strengthened the trust between members and management, and maintained the transparency of the cooperatives' financial management. This suggests that working on contracts is an efficient approach for cooperative business management, especially for cooperatives at their early development stage.

Furthermore, this study revealed that the market was the key factor that affected members' income which, in turn, affected members' participation and satisfaction. Therefore, for future successful development, cooperation with other cooperatives, which produce similar products, would be an opportunity for larger cooperative development. In the county area, the cooperatives which produce similar agricultural products, such as onions and vegetables, could increase their market power by working together.

#### ***6.2.2.6 Training and education***

Training and education, as one of the cooperative principles, has been recognised as an important factor for the successful development of cooperatives worldwide. The experience of the cooperative movement has revealed that members' knowledge is one of the factors that affect the successful development of cooperatives (Sargent, 1982; Sun, 2009; USDA, 1993). The data collected from the two cooperatives' members confirmed the role of regular trainings in increasing members' understanding of a cooperative and its potentials. Members' enthusiastic attendance at technical trainings has also had a direct effect on their

work and the cooperative's success. Trainings held by both cooperatives since their establishment confirms other researchers' observations that regular professional cooperative training and education is important for the successful development of farmer cooperatives (Darroch, 2005; J. Pan, 1999). This study has also demonstrated that cooperative training and education played a significant role in the success of the farmer cooperative's development in Northwest China. This study further suggested that the participatory approach such as role play was efficient in training those members who had only limited school education. In the Ronghua cooperative most of its women members (aged around 40 years old) only had two or four years' school education. With the limited level of literacy, trainers (Shandan Cooperative Federation) developed hands-on and role-play methods and showed the success to increase these members understanding of cooperatives and active participation in their cooperative.

This study further suggested that for the successful development of farmer cooperatives in Northwest China, keeping a balance between technical training and cooperative training was important, since farmers saw technical training as their priority. In the Northwest there are many opportunities existing for technical training, as the government has set the policy to provide free training to help farmers to improve their skills in production. The challenge for the cooperative leadership is to communicate effectively so that these free training sessions are relevant to their members and that the content of the sessions are useful and of real benefit to both members and the cooperatives. Although this is a challenge, it is one that can be achieved, particularly works when there are good communication channels between the cooperative and government officials as in Dongwan cooperative.

### **6.2.3 Problems and opportunities for future cooperative development**

Cook (1995) outlined five general problems that cooperatives usually faced in their development. These included horizon problem, free rider problem, portfolio problem, control problem and influence on cost problems. Although this study has demonstrated farmer cooperatives in Northwest China could be successfully established, to have rapid development in economic turnover, and an increase in membership in three years (since their establishment in 2007), there were also signs that some of Cook's (1995) list of common problems could appear in their future development. Firstly, following the cooperative business expansion and increase in income, members may ask for more income instead of investing further in the cooperative which will appear as a 'horizon problem'. They may also have multiple objectives problems as noted by Baldwin (2001). Secondly, the increasing number of cooperative associate members such as in the Dongwan Cooperative suggests a 'free-riders' problem (Cook, 1995; Faber & Egerstrom, 2001). Thirdly, the increasing gap between larger producers and smaller producers may cause decision-making problem as Egerstrom (2004) also stated. On the other hand, smaller producers may gradually lose their confidence in the cooperative if only the larger producers make the policy and become dominant in the cooperative business. Fourthly, there is also an increasing cost of management and this will be more demanding on committee members' time and finances as cooperatives become bigger, as Baldwin (2001), Cook (1995), Egerstrom (2004) studies have all demonstrated as 'influence on cost problem'. Fifthly, as the organisations grow, especially in size, misunderstanding between members and governance and management may arise and cause 'control problem' (Cook, 1995). Lastly, due to the characteristics of 'household' membership, there could be conflict among the household members when some members get more income from their cooperative economic participation. Who participates in the meetings will certainly affect the successful development of cooperatives. It seems likely that farmer cooperatives in Northwest China such as the Dongwan and Ronghua cooperatives, will face the common development problems described by Baldwin (2001), Cook (1995), Faber and Egerstrom

(2004). Therefore, for a long-term development of farmer cooperatives in Northwest China, the board, management and members have to consider these issues, to ensure the future successful development of their respective cooperatives.

Other problems influencing farmer cooperative development in Northwest China will be government over intervention. Although this study has revealed that government support was very important for the establishment of farmer cooperatives, historical experiences also revealed that government over intervention could affect cooperative development in a negative way. Therefore, government officials have to find a proper approach to foster, guide, support but not to intervene in cooperative management to ensure their successful development.

However, there are also opportunities for the successful development of farmer cooperatives in Northwest China. The stable legal environment and government policy of new village construction certainly create a better social environment for various farmer organisations development, which of course include farmer cooperatives. Government support policies of training and financial support for the establishment of farmer cooperatives may enable cooperative opportunities to develop fast and grow larger both in membership and scale in a short time period. The current land leasing policy certainly brings the opportunity for farmer cooperatives to grow bigger. Local, provincial and national increasing markets demand for safe and high quality agricultural products is another opportunity for farmer cooperatives. The demand of farmers is for a continually increasing income and better social welfare. Cooperation with other cooperatives in different regions is another opportunity for farmer cooperative development. As the farmer cooperative develops, it is possible that in the future small cooperatives will form federations, and increase their power in marketing and provide more services for their members. It is also possible that new generation cooperative will emerge in Northwest China as well.

## **Chapter 7 Conclusion and recommendations**

### **7.1 Conclusions**

Farmer cooperatives in Northwest China first appeared in the 1920s. However, their development was strongly influenced by the political environment and the political attitude to cooperative formation. Farmer cooperatives developed faster in the 1950s due to government authority changes from KMD (Kuomingdang) to CCP (China Communist Party) and the implementation of the Agriculture Cooperative law in 1956. However, the implementation of government policy, which changed cooperatives into people's communes, caused the stagnation of farmer cooperative development from the 1960's to the early 1980's. Since the 1980's, farmers have tried several types of economic organization to overcome difficulties created by the change from a planned to a market economy. In order to foster and standardize farmer cooperative development, a Farmer Specialized Cooperative Law was introduced in 2007. Although this law provided a legal environment for the establishment of cooperatives in China, no guidelines are available on how to develop and operate cooperatives successfully in the current environment. In the last few years, several studies have addressed the positive and negative factors influencing cooperative development in the eastern parts of China (the most developed cooperative region of the country) such as those published by Han et al (2006), Yu (2009) and Zhang and Yuan (2010). Few studies have been done in Northwest China which is a less developed cooperative region. Therefore, the present study set out to investigate the factors required for successful development of farmer cooperatives in Northwest China.

This research objective was achieved by using a case study approach and a qualitative methodology. The literature review showed that both qualitative and quantitative methods have been used by researchers to identify factors for

successful development of farmer cooperatives. Banaszak's study (2008) in Poland and Pan's (1999) research in China used qualitative methods; whereas Osterberg and Nilsson in Sweden and Yu (2009) in southwest China used quantitative methods. Due to the time limitation, this research employed a case study qualitative approach. Two successfully developed farmer cooperatives (both approved by provincial government) from Shandan County in the Gansu Province of Northwest China were studied. The Dongwan Lvdadi Melon and Vegetable Growing Cooperative was one of the top 100 provincial model cooperatives and the Ronghua Growing Cooperative was one of the 122 provincial model cooperatives in 2008. Their selection was based on the recommendation and approval of the provincial government (Directors of Shandan Agriculture Bureau and Shandan Cooperative Federation (NGO)).

Secondary data was collected from both government and non-government publications and reports. Primary data was collected through face-to-face semi-structured interviews. Interviewees were selected by using purposive sampling and included cooperative leaders, cooperative members, government officials and NGO representatives. Nineteen interviews were conducted using a questionnaire.

The literature review showed that there are many factors influencing successful development of farmer cooperatives. The major factors included social, economic, political, business and management influences (Ilona Banaszak, 2008; Osterberg & Nilsson, 2009; Sargent, 1982). The literature also revealed that factors such as members' knowledge, skills, education levels and capital resources, all affect the successful development of farmer cooperatives (Bhuyan, 2007; Yu, 2009). The current research tends to confirm many of these ideas and has shown that the key factors for successful development of farmer cooperatives in Northwest China are as follows:

### *Policy and legislation:*

- Legislation provides a suitable legal environment in which the farmer cooperative can be registered as an independent economic legal identity. A successful cooperative therefore has the authority to undertake its own business, retain its own benefits and risks, and it is also legally responsible for its business actions.
- The government influences farmer cooperative development through its implementation of various policies of support and promotion. The findings revealed that financial and specialized technical support from the government is important for farmer cooperatives, especially at the initial stage of their development.

### *Cooperative initiation and leadership:*

- A dedicated initiator, with vision and capacity, is important for the successful development of a farmer cooperative. A dedicated initiator is often the 'spiritual soul' of the cooperative as this study has shown. The initiator's political and social views and his/her economic resources and management capacity are important factors that affect the speed and level of development of the cooperative which he/she is leading.
- Leadership with vision, transparency, honesty and fairness, together with an understanding of industrial technology, business and marketing capacity, will increase the unity of members and further lead to successful cooperative development.

### *Cooperative members:*

- Increasing income, gaining new advanced products and related technologies are the main driving forces for the establishment of farmer cooperatives in Northwest China.

- Farmer awareness, willingness for participation, knowledge and skills relating to the industry of their cooperative are fundamental for successful cooperative establishment and development.
- A 'bottom-up' participatory approach (often used by NGOs) has been shown to be more effective, than a 'top down' approach in helping farmers understanding of how cooperatives operate.
- The membership of the farmer cooperatives in Northwest China is based on individual 'households' and it is different to farmer cooperatives in other countries. This is an advantage for the pooling of resources for cooperative development (especially at the early stage), but it also could create problems or conflicts about who participates in cooperative meetings and who is actually working on the farm.

#### *Cooperative governance:*

- This study revealed that the governance structure of the farmer cooperatives that were investigated was effective and well formed from the time they were first established.
- This study found that although farmer cooperatives had an effective governance structure, this did not necessarily mean that all the members understood why and how this worked. This finding is quite different to other studies (Fairbain, 2004a).

#### *Cooperative management:*

- The capacity of cooperative business management determines how successfully the cooperative performs as a business enterprise. Markets also play a key role in the success of the cooperative business.
- Working on a contract basis is one of the best options for the successful development of farmer cooperatives in business management as the Dongwan cooperative has shown.

- Appropriate and efficient financial management adds to the success of a farmer cooperative. The study has shown that cooperative members are very concerned about financial issues and that ongoing business transparency is the key to sound financial management.
- Appropriate selection of core cooperative products determines how successfully the cooperative will develop. To select products the cooperative has to consider and combine its various available resources, advanced technology and market demand.
- This study revealed that the market was the key factor affecting members' income and this in turn, strongly affected members' participation and satisfaction.

#### *Training and education:*

- On-going training and education for members, both in technical skills and cooperative knowledge, is another factor that leads farmer cooperatives to develop successfully.
- Government support of appropriate technical and cooperative training are important for the successful development of farmer cooperatives.
- Professional non-government organisations, which promote cooperatives, can make a valuable contribution towards the development of farmer cooperatives. They can provide professional cooperative training for farmers, in addition to on-going technical services and other resources, such as capital and machinery.

#### **Problems in the development of farmer cooperatives**

Although this study demonstrated farmer cooperatives in Northwest China could be successfully developed in a short period (three years), there were also signs showing that common potential problems in cooperative development such as outlined by Cook (1995), Faber and Egerstrom (2001), and Baldwin (2001) may develop. These common problems included the 'horizon problem' when members ask for more income instead of further investment; the 'free-riders' problem, a decision-making problem, an influence on cost problem and the problem of size and administration when a cooperative like Dongwan is growing larger. Furthermore, the study found that due to the characteristics of 'household' membership in Northwest China, the person who represents the household at cooperative meetings may be a cause of conflict among the other household members. Other potential problems influencing successful development may be government over intervention. In Northwest China government support was very favourable for the establishment of farmer cooperatives. However, the evolution of cooperative development in China has revealed that government over intervention could affect cooperative development in a negative way.

## **7.2 Limitations of the study**

Although this research has achieved its main objectives, there are still some limitations that require consideration. Firstly, due to time and financial limitations, only two cases of farmer cooperatives have been studied. The findings are therefore limited to Shandan county's particular situation and may not be applicable to other provinces in China and other countries. Secondly, since Chinese cooperative law has only taken effect in 2007 and the local government has put considerable effort into promoting farmer cooperative development; this may affect the results of this research. Thirdly, due to social and cultural reasons, the interviews were not tape-recorded and in-depth financial data was not

available for examination. This may affect the analysis since finance is one of the key issues which reflect the cooperatives success. Fourthly, using two languages (Chinese and English) in the interview notes may affect documentation of the interviewees' real meaning. For example, it is difficult to explain strategy for the cooperative, and to help farmers understand the difference between governance and management. Fifthly, the use of purposive sampling to select participants may have limited the collection of broad members' opinions about cooperative development which will affect the analysis of this study.

### 7.3 Recommendations

#### Recommendations for farmer cooperatives:

- *Enhancing members' technical skills* to produce high quality products according to market demand should be the fundamental base for the successful development of these cooperatives.
- *On-going training* in cooperative knowledge to help members gain a better understanding of their cooperative's function will improve the quality of members' participation and steer the cooperatives towards success.
- *Continually taking measures to improve cooperative management* is important for successful development. Cooperatives like the two cases studied need to take measures to attract young farmers with interests and skills in management and involve them in the cooperative management. This will contribute to long-term successful development.
- *A strategy with clear vision and stated objectives* needs to be developed to unite cooperative members and guide their cooperatives' development.

- *Cooperatives need to revise their constitutions every year or at least within a fixed term, and make adjustments based on their development experience.*
- *As finance is a high concern for all members, financial management needs to be carefully monitored by the board and management. Bylaws for financial management need to be discussed by members and the financial management staff need to remain independent. The principles of transparency and open and regular reporting to members should be continually followed. Financial reports need to be presented in a simple form, which members can easily understand. When conditions allow, an independent auditor could be used to audit the cooperative's finances and the results should be open to members — and even to the public.*
- *Forming cooperative brands for core products and enhancing capacity for market competition needs to be a priority for a long-term development.*
- *Making the best use of government support policies for ongoing development. By taking the newly issued land leasing policy (initiated in 2010), cooperatives can encourage their members to expand their contract land ownership. This can help to increase cooperative members' scale of production so that they can use larger machinery and become professional, economic and efficient. Cooperatives need to also take the opportunity to ask for government support in training and dissemination of information, to continually improve their members' technical and business capacities.*
- *As a legal identity, cooperatives need to maintain their character of self governance and independence, and avoid government over-interference.*

- *Support from local NGOs and the local cooperative federation* needs to be sought, for future development. As professional promoters of cooperatives, NGOs can provide high quality services for cooperative development.

### **Recommendations for policy makers:**

- *National government* needs to review the implementation of the Farmer Specialized Cooperative law to evaluate and adjust some articles so that cooperative members' interests are protected. The National government also needs to consider the policy of fostering other types of cooperative development, such as rural credit cooperatives.
- *Provincial government* needs to provide a special financial policy to support local farmer cooperative development. This policy should ensure farmer cooperative's easy access to capital. For, as the study has revealed, the majority of farmers lack capital for both cooperative establishment and development. Although, the agricultural industry is fundamental (providing food for human beings) it is easily affected by natural disasters for which it may require assistance. The provincial government could also take measures to support professional NGOs to do cooperative promotion work.
- *Local government* should pay attention to training rural elites (farmers with vision and knowledge of marketing and management) as local trainers and initiators of cooperatives. A cooperative is different to a village (it has to be separate; otherwise there will be a conflict of interests). Village leaders could be supported by the local government to lead the cooperative, but it must always remain a separate entity.

- *Local government* can focus on providing technical and cooperative training services according to cooperatives' needs. Training is better delivered by the use of a participatory approach with a focus on practice. A combined programme, between government agricultural extension technicians and the cooperatives — in order to demonstrate advanced technology — would be very useful for the cooperatives, especially if provided when requested.
- *Cooperatives* should remain independent and all government measures and support should be gradually reduced, to the point where they are autonomous. The improvement of cooperatives' self development capacity is important, for their long term survival.
- *Contracting local NGOs, to provide professional services* for farmer cooperatives is another approach that local government can use to assist cooperatives. Local professional NGOs can often provide high quality services and may be specialists in the promotion of cooperative development.

### **Recommendations for further research**

The evolution of farmer cooperative development in China has shown that the government has a great impact on the development of farmer cooperatives. Although the newly enacted Farmer's Specialized Cooperative Law (2007) aims to promote and standardise the successful development of farmer cooperatives, the level of farmer cooperative development varies, due to farmers' understanding of cooperatives and their economic status. This study has made an initial contribution to identifying the factors for successful development of farmer cooperatives in northwest China. However, in order to gain a deeper

understanding of farmer cooperative development, further research needs to be conducted in the following areas:

- Since the government plays a crucial role in farmer cooperative development in China, especially at their establishment and early stage of development, further studies need to be undertaken to identify the most suitable approaches that the government could take to foster the successful development of farmer cooperatives — but without over-interference.
- Further research also needs to be undertaken on these two case study cooperatives to evaluate how the factors (which have been identified in this study) affect the two cooperatives' long-term development. Since these two cases are only in their first term of operation (this is their first three years, since they began officially operating as cooperatives in 2007), both cooperatives' leadership and members are finding that they have many lessons to learn. A continued study would provide longitudinal data.
- Further studies need to be undertaken in the broader area of Northwest China, moving from county level up to provincial level. Studies should not only include successful crop and vegetable growing cooperatives but also involve unsuccessful cooperatives to provide further confirmation of the factors involved in success, innovation and the support required.
- Further research could also be undertaken on cooperatives which are involved in animal husbandry, machinery services and other industries.
- A study of the effects of various types of approaches used to promote farmer cooperatives in Northwest China (a less developed area), could also be undertaken, especially since training and education has been

identified as being very important for successful farmer cooperative development.

- Further study also needs to be undertaken into how the structure of 'household' membership would affect the future development of farmer cooperatives in China.

The successful development of the two cases studied has shown their significant influence to both the local community and their members. The stable legal environment and government policies will certainly help to build farmers' confidence to develop farmer cooperatives successfully. With the better understanding of cooperative theory, and the abilities of management and member participation, farmer cooperative in Shandan will certainly grow bigger and have strong influence to the markets which will in turn bring benefit for the cooperative members.

It is clear that farmer cooperatives will play a significant role in fostering local social and economy development. In the near future, in Northwest China, more and more farmer cooperatives will be established. It would not only be producing cooperatives, but also other types of cooperatives such as credit cooperatives. It will be seen that the majority of the farmers will be members of certain cooperatives.

## Appendix

### Appendix 1 : main type of farmers' organisation and features, since the 1980s, in China

Time	Main types	Main features
1980s	Rural community cooperatives, township and village enterprises (TVEs), Supply and marketing cooperatives (SMCs) and rural credit cooperatives (RCCs)	Rural community cooperatives were community orientated multi-purpose organisations, responsible for handling the administrative and social affairs of the village (Clegg, 2006). TVEs were small scale industries, which contained the cooperative principles of redistribution and open autonomous organisation but were normally run by local governments to strength their collectivist base.
1990s	Specialised production technical associations (SPTAs); shareholding cooperative system (SHCs); Rural cooperative fund associations (RCFAs); small farmers' mutual aid groups; SMCs and RCCs; farmers' specialised cooperatives (FSCs), in nation-wide markets	SPTAs, are more focused on providing more sophisticated marketing and technical information for its members. Membership is usually restricted to the most technically advanced and innovative farmers.  RCFAs were aimed to provide agricultural loans as well as raise new funds for investment in agriculture and infrastructure.  FSCs emerged and generally involved joint organisation of pre- and post-farm production activities, related to purchasing, processing and marketing.
2000s	Rural community cooperatives; rural cooperative foundations (RCFs); rural shareholding cooperative enterprises (RSCEs); and farmers' specialised associations (FSAs);	The field and business scope of various farmers organisations continued to expand and service capability continued to improve.  Farmers' specialised cooperative organisations achieved increasingly remarkable results in accelerating agricultural modernisation and the standardised, brand-orientated and specialised production of agriculture and they also increased farmers' revenue.
2007-	Formalisation and standardisation of the existing types of farmers' economic organisation to farmer cooperative, according to law.	Farmers' specialised cooperative law was issued and all types of farmers' economic organisations either registered as cooperatives (under the Industrial and Commercial Bureau) or as an independent legal identity or they maintained their organisations style.

Sources from: (Clegg, 2006; Guo, Henehan, & Schmit, 2007; Prakash, 2000; Yuan, 2008; Xiaoshan Zhang, 1999)

**Appendix 2: the milestones of cooperative development in China, over the last century**

Time	Main characteristics
1911	Modern cooperative concepts introduced into China
1918	First consumer cooperative at Beijing University established
1919	First credit cooperative in China--Bank of Shanghai People's Saving
1920	First producers' cooperative-- Datong Cooperative in Hunan established
1922	First cooperative established and lead by Communist Party-- Workers Consumer Cooperative of Anyuan coal mine workers
1923	First credit cooperative established in Hebei province
1928	First cooperative law issued by the KMD government to foster cooperative development in its governing regions
1932	Temporary regulations for cooperative development by the CCP government in its governing regions
1933	The practical guidelines for cooperative development issued by the CCP government
1936	Consumers, transportation and credit cooperatives formed , in Yan'an
1938	First farmer cooperatives were established in Jianpin county (JinChaji)
1938	Industrial cooperative movement started in Wuhan
1940s	Industrial Cooperative developed rapidly for unemployed workers in the Northwest of China (successful in Baoji)
1949	First All Federation of Supply and Marketing cooperative in Hebei formed as a pilot scheme
1950	Establishment of All China Federation of Cooperatives; Main types included: supply and marketing cooperatives, consumer cooperatives and handcrafts industrial cooperatives
1953	First Five Year Plan, by the national government to foster the rural cooperative movement

- Different types included: mutual-aid cooperation, consumers' cooperation and credit cooperation
- 1954 Establishment of All China Federation of Supplying and Marketing Cooperatives on a national level;
- Establishment of regional networks for supply and marketing cooperatives throughout China.
- 1955 Approximately 650,000 farmers cooperatives existing in China
- 1958-1978 740,000 Advanced Cooperatives, included mutual aid and productions teams;
- The Advanced Cooperatives merged into more than 20,000 People's Communes (later known as the Great Leap Forward);
- Cooperative types included: Supply and marketing cooperatives, rural credit cooperatives and handcraft cooperatives, all governed by local governments
- Cooperatives were distorted and ended with agriculture decline
- 1978-2006 Open policy and household contracting responsibility systems started;
- Types of farmers' organisations included: farmer cooperatives, specialised associations, producer cooperatives, marketing cooperatives.
- The majority of farmers' organisations are registered as NGOs, under the Civil, Agricultural or Animal Husbandry Bureaux
- Approximately, 150,000 various farmers' economic organisations throughout China, in 2006.
- 2006 Farmers Specialized Cooperative Law is passed, offering guideline on how to develop farmer cooperatives (MOA)
- 2007 New cooperative law takes effect;

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Retrieved 23<sup>rd</sup> 2009 from <http://www.znhw.com/show.asp?id=919>; (Mao, 1927; Mu, 2008)

### **Appendix 3: Criteria and process for the approval of the top 100 cooperatives in Gansu Province**

#### 1. Criteria:

- Registration as a cooperative at the Industrial and Commercial Bureau, according to the Farmer Specialized Cooperative Law.
- In 2007, the total service and business income of the cooperative is more than one million yuan (RMB 1000,000 Yuan—200,000NZD) and it has a close business relationship with farmers and plays a leading role in the improvement of the local agriculture industry.
- It has a fully structured governance body. According to its constitution, all sections of governance and management have to be set up and regular all members meeting must be held, which are based on a democratic control principle. Members are able to regularly access the cooperative's financial reports. There are bylaws in place to guide the management in the areas of marketing, financial management and staff management.
- There is a standard service for all its members. The cooperative demonstrates stable relationships with its members, when sharing information about purchasing raw agricultural materials. It offers technical training and it guides the process of production and marketing. It implements a united production system and products are marketed together (those cooperatives, which have formed a product brand, have this priority to consider).

#### 2. Process and approval:

- Applying should be voluntary. Any cooperative can undertake a self assessment, by following the above criteria and filling in application forms

to hand in to their local county level Agriculture Bureau. The Farmers awareness, willingness, knowledge and skills about cooperative are fundamental for cooperative establishment and development.

- Local County Agriculture Bureau assesses the candidate (cooperative) and if it meets the criteria, then they report this to the Agriculture Bureau at district level.
- The Agriculture Bureau at district level has to re-check or verify the candidate cooperative and then report to the Provincial Agriculture Bureau
- The Provincial Agriculture Bureau will invite an expert committee to assess the candidate cooperative, by following the criteria set out previously and they will publicise the results of their assessment
- After a certain time, acceptance will be confirmed and approved and then publicised to the public.

(Gannongjingham, 2008)

(2008.3.27, Gansusheng Nongmuting Nongcun hezuojingji zhidaochu, Gannongmujinghan, (2008) No. 90)  
<http://www.caein.com/index.asp?xAction=xReadNews&NewsID=32876>

**Appendix 4: Letter to key participants**



**Massey University**

Department of Agribusiness

Institute of Food, Nutrition and Human Health

Massey University

PO Box 11 222

Palmerston North 4442

New Zealand

**April 29, 2010**

**Dear Sir/Madam 尊敬的先生/女士 :**

My name is Liu Guozhong, currently a postgraduate student of Agricultural Commerce in Massey University of New Zealand.

My research topic is “factors for successful development of farmer cooperative in Northwest China”. The objective of the research includes:

- To provide an overview of farmer cooperative development in China (history) (by documentary and literature)
- To identify factors that influence farmer cooperative development in Northwest China.
- To discuss the opportunities of developing farmers cooperative in Northwest China.

- To provide recommendations for policy makers in developing small scale farmer cooperative in local, national levels.

我叫刘国忠，我的研究题目是“在中国西北部发展农民合作社的机遇与挑战”---基于甘肃山丹农民合作社的发展案例分析。具体的研究目标包括：中国农民合作社发展综述；影响中国西北部农民合作社发展的因素分析；讨论发展农民合作社的机遇与挑战；对今后发展农民合作社的建议。

To achieve this purpose, 4 leaders and 10 members of the most successful cooperatives will be interviewed. Additionally other stakeholders who include officials from Agriculture Bureau and representative from Shandan Cooperative Federation also will be interviewed.

为实现上述研究目标，计划对山丹最成功的合作社领导（4人）和社员（10人）进行访谈。另外对促进当地合作社发展的相关机构负责人进行访谈，他们包括当地市、县及乡镇农业系统从事合作社管理工作的人员，以及山丹工合联社（非政府组织）的领导人。

You are most welcome to participate in this study. If you do decide to take part, you will be asked to sign a consent form on which you can choose to have your name and position acknowledged in this research. The interview will take about one hour. With your permission, I would like to take some notes during the interviewing.

非常欢迎您参与此项研究。如果您同意参与，您需要在意愿书上签字。采访大约需要一个小时左右。根据您的许可，在采访的过程中，我会做一些记录。

#### **Participant's Rights 参与者的权利**

If you decide to participate, you have the right to:

- Decline to answer any particular question;
- Withdraw from the study at any time during participation
- Ask any questions about the study at any time during participation;
- Provide information on the understanding that your name will not be used unless you give permission to the researcher;
- Be given access to a summary of the project findings when it is concluded.
- Ask for the recorder to be turned off at any time during the interview.

如果您同意参与，您有以下的权利：

可以对某一个具体问题拒绝回答；

可以在采访的过程中离开；

在采访的过程中可以就此项研究的相关问题提问；

在研究论文的最终稿中不会出现您的名字（除非您愿意）；

您可以看到最终的论文稿；

在采访过程中可以要求采访者停止采访或记录。

### **Data Management**

Data obtained will be analyzed and used for my Masters degree in Agricultural Commerce thesis and for other academic publications. All data will be stored securely in a safe place. To protect your privacy, I will ensure that the translator

signs a confidentiality agreement, where applicable. Where required, names will be changed and pseudonyms will be used to ensure anonymity and confidentiality. All recorded interviews will be kept safely by Massey University and will be erased after a period of five years. The thesis will be accessed through the Massey University library.

数据管理：

采访所收集的数据、资料等只会用于完成硕士论文或作为学术成果发表。在具体的论文表述中，所有的被采访者将用匿名。所有数据、资料等将被安全保存，五年后销毁。论文可以在梅西大学图书馆查询。

### **Project Contacts**

For your convenience, contact details of me and my two supervisors have been provided below:

此项研究的主要联系人及联系方式如下：

<b>Researcher Supervisor</b>	<b>Chief Supervisor</b>	<b>Second</b>
Guozhong Liu	Dr. Elena Garnevska	A/Pro Nicola Shadbolt
45 Atawhai Rd	IFNHH Massey University	IFNHH Massey University
Palmerston North	PO Box 11222	PO Box 11222
New Zealand	Palmerston North 4442	Palmerston North 4442
	New Zealand	New Zealand

Tel: 06-3570362

06-356 9099 extn 81413

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Email: [sbscoop@yahoo.cn](mailto:sbscoop@yahoo.cn)

[E.V.Garnevsk@massey.ac.nz](mailto:E.V.Garnevsk@massey.ac.nz)

[N.M.Shadbolt@massey.ac.nz](mailto:N.M.Shadbolt@massey.ac.nz)

“This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University’s Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor John O’Neill, Director, Research Ethics, telephone 06 350 5249, email [humanethics@massey.ac.nz](mailto:humanethics@massey.ac.nz)”.

Guozhong Liu, April 29<sup>th</sup>, 2010.



**Massey University**

Department of Agribusiness

Institute of Food, Nutrition and Human Health

Massey University

PO Box 11 222

Palmerston North 4442

New Zealand

***Factors for successful development of farmer cooperatives in  
Northwest China***

***在中国西北成功发展农民专业合作社的机遇与挑战***

**PARTICIPANT CONSENT FORM - INDIVIDUAL**

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.

我已阅读此表，并被详细地告知了有关研究的细节。我的有关疑问都得到了满意的答复，而且明白为研究的需要，研究者将来可能还要问到其他相关的问题。

I agree/do not agree to the interview being sound recorded. *(if applicable include this statement)*

我同意/不同意在接受采访时被录音。 (如适用, 包括此声明)

I agree/do not agree to the interview being image recorded. *(if applicable include this statement)*

我同意/不同意采访时被录像。 (如适用, 包括此声明)

I wish/do not wish to have my recordings returned to me. *(if applicable include this statement)*

我想/不想收回我的受访录音。 (如适用, 包括此声明)

I wish/do not wish to have data placed in an official archive. *(if applicable include this statement)*

我想/不想受访情况保存在官方档案。 (如适用, 包括此声明)

I agree to participate in this study under the conditions set out in the Information Sheet.

我同意参加在本信息表规定的条件下开展研究。

**Signature (签名):**

**Date:**

日期

**Full Name – printed**

(全名——印刷体)

## Appendix 6: Field work interviewing list

Field work of interviewing list (May 5<sup>th</sup> to July 5<sup>th</sup>, 2010):

Time	Key Interviewers/ secondary data	Organization/cooperative
May 12 <sup>th</sup>	Respondent 1	Director of Shandan Cooperative Federation
May 17 <sup>th</sup>	Respondent 2	Director of Agriculture Economic Management Bureau
May 19 <sup>th</sup>	Respondent 3 (Deqin)	Director of Dongwan Lvdadi Melon and Vegetable growing cooperative
May 20 <sup>th</sup> ,	Respondent 4 (female)	Member of Dongwan Melon and vegetable growing cooperative
May 20 <sup>th</sup> ,	Respondent 5 (male)	Member of Dongwan Melon and Vegetable growing cooperative
May 21 <sup>st</sup> ,	Respondent 6 (female)	Member of Dongwan Melon and vegetable growing cooperative
May 21 <sup>st</sup> ,	Respondent 7 (male)	Member of Dongwan Melon and vegetable growing cooperative
May 24 <sup>th</sup> ,	Respondent 8 (male)	Vice director of Dongwan Melon and vegetable steering committee
May 24 <sup>th</sup> ,	Respondent 9 (male)	Member of Dongwan Melon and vegetable growing cooperative
May 25 <sup>th</sup> ,	Respondent 10 (male)	Vice director of Dongwan Melon and vegetable growing cooperative board committee
May 25 <sup>th</sup> ,	Respondent 11 (male)	Vice director of Dongwan Melon and vegetable growing cooperative board committee
May 28 <sup>th</sup> ,	Respondent 12	Director of Township Agriculture and Economic Management Station

May 31 <sup>st</sup> ,	Respondent 13 (Huawen)	Director of Ronghua Growing cooperative
June 1 <sup>st</sup> ,	Respondent 14 (female)	Member of Ronghua cooperative
June 2 <sup>nd</sup> ,	Respondent 15 (female)	Member of Ronghua cooperative
June 3 <sup>rd</sup> ,	Respondent 16 (female)	Member of Ronghua cooperative responsible for technology
June 4 <sup>th</sup> ,	Respondent 17 (male)	Member of Ronghua cooperative and responsible for producing management
June 7-8 <sup>th</sup> ,	Respondent 18 (female)	Vice director of Zhangye Agriculture and Economic Management station
June 10 <sup>th</sup>	Respondent 19 (male)	Member of Dongwan cooperative in Chenhu township

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**Appendix 7: Questionnaires**

**Questionnaire 1**

**Leading questions for interviewing the cooperative: (leadership)**

**Background (基本情况):**

Name (姓名):

Gender (性别): male (男)  female (女)

Education (受教育程度):

Literary 没有上学  primary school 小学  middle school 初中

high school 高中  college 大专

Age (年龄):

Less than 30  30—40  40—50  over 50

Position (职务/身份):

member of board 理事会 director  member

member of steering committee 监事会 director  member

member of management 管理层 director  member

other 其它

Number of cooperative members in establishment (建社初期社员人数):

Current number of cooperative member (当前社员人数):

**Questions:**

1. Are you one of the founders of the cooperative? 您是合作社的创始人之一吗？

Yes 是  **why did you establish this cooperative?**\_\_您为什么要创建这个合作社？

No 否  **why did you join the cooperative?** ( 您为什么要加入这个合作社？ )

2. Was it difficult to establish this cooperative? 建立这个合作社有困难吗？

Yes 是, **what were the difficulties?** 有哪些方面的困难？

3. Have you had any problems in establishing this cooperative?

在建立合作社的过程中，您遇到了哪些方面的问题？

If yes, **what kind of problems?** 有哪些方面的问题？

4. Can you rank the top five problems (for the cooperative establishment)?

请您将在建立合作社过程中所遇到的前 5 个问题排序？

5. Have you had any financial difficulties? 您有资金方面的困难吗？

Yes 是  No 否

6. How did you overcome the financial problems?

您是如何解决资金方面的问题的（通过哪些途径）？

7. Did y you do promotion to attract members for the cooperative?

为促使更多的农民加入合作社，您是否做了有关合作社的宣传工作？

Yes, **what kind of promotion?** 是，做了哪些方面的宣传？

No, **why not?** 没有。为什么没有？

8. Can any one join the cooperative? 任何人都可以加入这个合作社吗？

Yes , No , **why?**

9. What is the process for a farmer to become a formal cooperative member?

要成为贵社的一名正式社员需要经过怎样的程序？

10. What is the structure of the cooperative? 合作社的组织结构如何？

11. How many people are on the board? 理事会有多少人？

12. What is the role of the board? 理事会的主要职责是什么？

13. How many people are on the steering committee? 监事会有多少人？

14. What is the role of the steering committee? 监事会的主要职责是什么？

15. How many people are on the management? 管理层有多少人构成？

16. What is the role of the management? 管理层的主要职责是什么？

17. Did the cooperative have a strategic plan? 合作社有战略发展规划吗？

Yes, (**how did this make?**) 有，战略规划是怎么制定的？

No, (**why not?**) 没有，为什么没有？

18. Did the cooperative have an annual business plan (operating) for the achievement of the strategic plan? 合作社有实现战略规划的年度经营发展目标吗？

**Yes ( then the following )** 有 ( 回答下列问题 )

18-1 . Since the establishment, *does the cooperative achieve its targeted objectives?* 自建社以来，合作社每年都实现了所确定的目标了吗？

18-2 A . Yes, (how) **是**，是如何实现的？

18-3 . *To achieve the objective, what measures the cooperative has taken?* 为实现年度目标，合作社都采取了哪些措施？

18-4 . *what were the problems?* 遇到了哪些方面问题？

18-2 B . No, (**why not?**) 没有 , 为什么没有 ?

19. How did the cooperative decide what to produce every year? 每年合作社是如何确定生产什么的 ?

20. How did the cooperative decide how much to produce every year? 每年合作社是如何确定生产多少产品的 ?

21. Who made the decisions? 谁来做出决定 ?

**Why?**

22. How does the cooperative allocate its producing assignments to members every year? 合作社是如何向社员分派生产任务的 ?

23. How does the cooperative collect members' products?

在销售中 , 合作社是如何收集成员产品的 ?

24. Does the cooperative make some processing? 合作社进行一些初级的加工吗 ?

Yes , (**how**). 是 , 是怎样的初加工 ? No , (**why not?**) 没有 , 为什么没有 ?

25. Does the cooperative packaging own products? 合作社对销售的产品进行包装吗 ?

Yes , (**how**). 是 , 如何进行的 ? No , (**why not?**) 没有 , 为什么没有 ?

26. Does the cooperative guarantee the quality of its products? 合作社采取措施确保产品的质量吗 ?

Yes , (**how?**) ( 是 , 如何保证产品质量的 ? ) No , (**why not?**) ( 没有 , 为什么没有 ? )

27. How does the cooperative sell its products? 合作社是怎样销售产品的 ?

**Any problems? 有什么问题吗 ?**

28. Is there any surplus from the cooperative? 合作社有盈余吗？

Yes , (*how to allocate*) 有，（如何分配的？） No . 没有.

29. Do you think your cooperative is successful? 您认为贵合作社办的成功吗？

Yes , why? 是，为什么？ No , why not? 不是，为什么不很成功？

30. According to you, what are the characteristics of a successful cooperative?  
您认为办的成功的合作社都有些什么特点？

31. Why are these characteristics? 为什么是这些特点？

32. What do you know the selection of top 100 cooperative in the province? 您对  
省选百强合作社知道些什么？

33. Why did you want to be one of the 100? 贵社为什么要参选百强合作社？

34. Who decide to go for it? 谁做出的这一决定？

The local government

The cooperative itself (board, management, members)

35. What's the process of selecting the top 100 cooperative? 参选百强合作社要  
经过怎样的程序？

36. Did you have any difficulties in the process of selection? 在参评百强合作社的  
过程中，您遇到困难了吗？

Yes, *what kind difficulties*? 是，您遇到了哪些方面的困难？

37. How long did the process take? 参加这个评比活动花了多长时间？

1 month                      2 months                      3 months

4 months                      5 months                      6 months                      more than 7

38. What are the strengths of your cooperative? 贵社的优势有那些？

39. What are the weaknesses of your cooperative? 贵社的不足有那些？
40. What are the opportunities for your cooperative? 当前贵社的发展面临那些方面的机遇？
41. What are the threats for your cooperative? 当前贵社的发展面临哪些方面的挑战？
42. How do you see the current performance of your cooperatives? 您怎么看待贵社 2010 年的表现？
43. How do you see your cooperative in 5 years time? 您对贵社 5 年之后的表现有什么样的展望？
44. How do you see your cooperative in 10 years time? 您对贵社 5 年之后的表现有什么样的展望？
45. What kind of supports you got from the government since the cooperative established? 自建社以来，当地政府为贵社提供了怎样的支持？
- 46 . What kind of supports you got from the local NGO in the process of cooperative establishment? 在建社过程中，当地的非政府组织提供了哪些方面的帮助？
47. What kind of training your cooperative had since established? 建社以来，合作社搞了哪些方面的培训？
- 48 . How is the result of those training? 这些培训的效果如何？

Questionnaire 2:

**Leading questions for interviewing the cooperative: (members)**

**Background (基本情况):**

Name (姓名): \_\_\_\_\_ Gender (性别): male female

Education (受教育程度):

literary  primary school 小学  middle school 初中

high school 高中  college 大专

Age (年龄):

under 29  30—39  40—49  over 50

Land (mu owned per-member) (人均耕地—自有) \_\_\_\_\_:

Land (rented if any) (租地数) \_\_\_\_\_:

Main products (主要产品):

**Questions:**

1. When did you join the cooperative? 您是何时加入合作社的?

2007  2008  2009

2. What was the process of applying? 成为一个正式的成员都经过了哪些程序?

3. *How long did it take to become a formal member? 成为一个正式社员要多长时间?*

4. What do you expect to get from the cooperative? 您期望从合作社中得到什么?

5. Has the cooperative met your expectation? 合作社满足了您的期望了吗?

Yes 是  No 没有 (那些方面没有)

6. Are you familiar with the cooperative constitution? 您对合作社的章程熟悉吗？

Yes 是  No 不是  了解一些

7. Are you following the responsibilities to the cooperative? 您完全履行合作社章程所规定的义务吗？

Yes 是  No 不是 为什么

8. Are you invited to any kind of cooperative meetings in 2009? 您是否被邀请参加 2009 年合作社的相关会议？

Yes 是  No 没有  (why not?)为什么没有

9. Have you attended the cooperative meetings? 您参加合作社的会议吗？

**Yes** , what kind of meetings? (Can you talk about these more?) 那种类型的会议？

No

10. What did you discuss in the last meeting? 在最近的一次会议中，您们都讨论了什么？

11. Did you make any comments? / any suggestions? 您表达了您的相关意见/建议吗？

**Yes.** Was it accepted by the management? 是的，领导层采纳了吗？

Yes 接受  No 没有接受  (why not?)为什么没有

**No.** why not? (为什么没有)

12. What is the voting rule to make decision in the cooperative meeting?

在合作社会议上，重大决策的表决原则是什么？

One member one vote

One share one vote

Others

13. Can you make your own decision of what to grow (raise)? 您是否可以自己决定每年生产什么？

Yes 是  No 不

14. How do you make decision of how much to grow (raise)? 您是如何决定每年生产多少产品的？

15. Does the cooperative help you to reduce your production cost? 合作社是否帮您降低了生产成本？

Yes, (how?) 是， 怎样的途径和方式 No, (why not?) 没有， 为什么没有？

16. Does the cooperative help you to increase your income? 合作社是否帮您增加了收入？

Yes, (how?) 是， 怎样的途径和方式？ No, (why not?) 没有， 为什么没有？

17. What are your benefits from cooperative membership? 作为一个合作社成员， 您得到些什么好处？

18. Have you received any dividends? 您从合作社中得到利息分红了吗？

--2009

--2008

---2007

19. Are you satisfied with the cooperative board management? 您对合作社理事会的工作满意吗？

Yes, (why?) 是  No, (why not?) 不是 为什么

20. Do you think your cooperative is successful? 您认为您的合作社办的成功吗？

Yes, Why 是  No, why not? 不是

21. According to you, what are the characteristics of a successful cooperative?  
您认为一个成功的合作社应具备什么样的特征？

22. Can you name the successful characteristics of your cooperative?

您能列举贵社所具备的成功合作社的特征吗？

23. What are the strengths of your cooperative? 贵社的优势有那些？

24. What are the weaknesses of your cooperative? 贵社的不足有那些？

25. What are the opportunities for your cooperative? 当前贵社的发展面临那些方面的机遇？

26. What are the threats for your cooperative? 当前贵社的发展面临哪些方面的挑战？

27. Do you have any benefit as a member of a provincial top 100 cooperative? 作为一个省百强合作社的社员，您得到一些额外的好处吗？

**Yes** , what kind of benefits? 是，什么样的好处？ **No**

28. How do you see as the member of the cooperative now? 作为一个合作社的成员，您对合作社的现状怎么看？

29. In 5 years' time, are you still member of the cooperative? 5年后，您还会是这个合作社的成员吗？

**Yes** , (why?) 是，为什么？ **No** , (why not?) 不是，为什么不是？

30. In 10 years' time, are you still a member of the cooperative? 10年后，您还会是这个合作社的成员吗？

**Yes** , (why?) 是，为什么？ **No** , (why not?) 不是，为什么不是

**Others:**

31. Are you offered cooperative training course in 2009? 2009 年合作社为您提供培训的机会了吗？

Yes  what type? 什么样的培训? No  why not? 为什么没有?

32. Are you happy with the training contents? 您对培训的内容满意吗？

Yes  No

Why?

33. Who deliver the training? 谁讲的课？

34. Do you need to pay for participating the training? 参加这个培训，您需要交费吗？

Yes 需要  No 不需要

35. Do you have any relationship with other members? 您跟其他合作社的社员有关系吗？

Yes  No

36. What type relationship? 是怎样的关系？

亲戚      一般社员关系      同一家族关系      其它

### Questionnaire 3:

#### Leading Questions for interview (officials):

#### Background(基本情况)

Name ( 姓名 ):

Gender ( 性别 ): male ( 男 )  female 女

Education ( 受教育的情况 ):

middle school  high school  college  university



7. From your experience, does the newly enacted Farmer Cooperative Law really foster the development of farmer cooperatives in Shandan? 从您自己的工作看，新颁布的合作社法是否真的促进了山丹农民合作社的发展？

*Yes, how (in what ways)? 是，是怎样促进的？*

*No, why? 没有，为什么？*

8. Does your bureau take some special measures to foster farmer cooperatives after its establishment? 贵局是否制定了促进农民合作社发展的一些特殊政策措施？

*Yes, what is your purpose to do this? 是，为什么要制定这样的措施？*

*No, why not? 没有，为什么没有？*

9. Did those measures work? 这些措施发挥作用了吗？

*Yes, what is the most effective measure? 是，最有效的措施是什么？*

*What are the other effective measures? 其他有效的措施是什么？*

*No, why not? 没有，为什么没有？*

10. What are the problems to implement these measures?

执行这些措施的问题是什么？

11. Does the local government provide any special financial support?

当地政府部门是否设有专门的合作社发展资金来支持农民建立合作社？

Yes  **(What kind?)** No

12. Did you provide any help for the registration process of farmer cooperative?

您为农民成立合作社提供注册方面的帮助吗？

*Yes, how do you help them? 是，您是如何帮助他们的？*

*No, why not? 没有，为什么没有？*

13. How many farmer cooperatives you have helped to register?

您为多少个成立的小农户合作社提供了帮助？

***Any problems? 有什么问题吗？***

14. Are you evaluating these cooperative? 您对这些合作社进行评估吗？

Yes, how? 是，如何评估？

No, why not? 没有，为什么没有？

15. Are they still all regularly operating (running)?

这些合作社现在都运行正常（良好）吗？

Yes, why? 是，为什么？

No, why not? 没有，为什么没有？

16. Do you think they are all successful? 您认为这些合作社办的成功吗？

Yes, why? 是，为什么？

No, why not? 不是，为什么不是？

17. According to you, what are the characteristics of a successful farmer cooperative? 那么，从您的角度看，一个成功的合作社应该具有什么样的特点？

18. How was the whole process of selecting the successful cooperatives of the provincial top 100? 选拔当地成功合作社参评省 100 强合作社要经过怎样的程序？

19. Do you have any difficult in the selection process?

在选评省百强合作社的过程中，您遇到困难了吗？

Yes, what kind of difficulties? 是，怎么样的困难？

How did you deal with the difficulties? 您是如何处理这些问题的？

No, *why not?* 没有，为什么没有？

20. Is it difficult for a cooperative to be in top 100?

成为百强合作社很困难吗？

Yes, *why?* 是，为什么？

No, *why not?* 不是，为什么不是？

21. Could you suggest 3 successful farmer cooperatives for me to visit? 请您为我推荐 3 个当地办的好的合作社？

Cooperative 1 \_\_\_\_\_:

Cooperative 2 \_\_\_\_\_:

Cooperative 3 \_\_\_\_\_:

22. Why this three? 为什么是这三个？

Cooperative 1:

Why? (有什么特点)

Cooperative 2:

Why? (有什么特点)

Cooperative 3:

Why? (有什么特点)

23. What are the main characteristics of those not so successful cooperatives?

那些办的不太成功的合作社有哪些特点？

24. What are the benefits for a cooperative of the top 100?

作为一个省百强合作社本身会得到些什么好处？

25. What are the benefits for the members of the top 100 cooperative?

作为百强合作社的社员会有什么好处？

26 . What are the difficulties for the future farmer cooperative development in Shandan? 山丹农民合作社今后的发展面临什么样的困难？

27. What are the opportunities for the future farmer cooperative development in Shandan? 今后山丹农民合作社的发展面临怎样的机遇？

28. How do you see the current farmer cooperative development in Shandan? 您对当前的山丹农民合作社发展现状怎么看？

29. How do you see farmer cooperative development at Shandan in 5 years' time? 您对 5 年后 山丹合作社发展的情况有什么看法？

30. How do you see farmer cooperative development at Shandan in 10 years' time? 您怎么看小农户合作社在山丹 10 以后的情况？

**Others:**

1. Does your bureau run cooperative training courses in 2009?

贵局 2009 组织过合作社培训吗？

Yes ( 是 )

Where? ( 在哪 )                      Town,        village

How?    培训方式是什么                      Lecturing,    discussing, Who are coming? 谁  
来参加培训    Chief villagers, farmers, cooperative leaders

cooperative members

How many? 有多少人

For how long? 培训多长时间

Training what? 培训的主要内容有哪些

No, why not? 没有，为什么没有？

2. Why the other 35 farmer's economic organizations in Shandan still haven't registered as cooperatives?就我所知，除这 25 个注册的合作社外，在山丹还有 35 个其它类型的农民组织，为什么他们没有注册成合作社？

3 . What are the characteristics of them? 有什么样的特点？

**Questionnaire 4:**

**Leading Questions for interview (NGO):**

**Background(基本情况)**

Name ( 姓名 ):

Gender ( 性别 ): male ( 男 )  female 女

Education ( 受教育的情况 ):

middle school  high school  college  university

中学                      高中                      大专                      大学

Age ( 年龄 ):

under 29,  30—39,  40—49,  over 50

小于 29

Position of organization: director  staff

在组织的身份                      局长 ( 主任 )                      一般工作人员

**Questions:**

1. How long have you been working in Shandan Cooperative Federation?

您在山丹合作社联社工作多久了？

Less than 5 years  6-10 years  11—15 years

16—20 years  more than 21 years

2. When did you begin to involve farmer cooperative development?

您什么时候开始从事与农民合作社有关的工作？

3. How did you get involved in the development of Shandan farmer cooperative?

*什么原因促使您从事促进山丹合作社发展的工作？*

4. What are the difficulties you had in helping farmer cooperative development?  
在促进农户建立合作社的过程中，您遇到的主要困难是什么？

5. In your work, do you classified farmers?

Yes, how? 是的，是如何分类的？

No, why not? 没有，为什么没有？

6. According to you, what are the benefits farmers can get if they work cooperatively? 从您的角度看，农民合作起来的益处是什么？

7. From your experience, does the newly enacted Farmer Cooperative Law really foster the development of farmer cooperatives in Shandan? 从您自己的工作看，新颁布的合作社法是否真的促进了山丹农民合作社的发展？

Yes, how (in what ways)? 是，是怎样促进的？

No, why? 没有，为什么？

8. Does Shandan Cooperative Federation take some special measures to foster farmer cooperatives after its establishment? 山丹合作社联社是否制定了促进农民合作社发展的一些特殊政策措施？

Yes, what is your purpose to do this? 是，为什么要制定这样的措施？

No, why not? 没有，为什么没有？

9. Did those measures work? 这些措施发挥作用了吗？

**Yes, what was the most effective measure?** 是，最有效的措施是什么？

*What were the other effective measures?* 其他有效的措施是什么？

**No, why not?** 没有，为什么没有？

10. What were the problems to implement these measures?

采取这些措施所遇到的问题是什么？

11. Does the local government provide any special financial support?

当地政府部门是否设有专门的合作社发展资金来支持农民建立合作社？

Yes  (*What kind?*) No

12. Did you provide any help for the registration process of farmer cooperative?

您为农民成立合作社提供注册方面的帮助吗？

Yes, *how do you help them?* 是，您是如何帮助他们的？

No, *why not?* 没有，为什么没有？

13. How many farmer cooperatives you have helped to register?

您为多少个成立的农民合作社提供了帮助？

***Any problems? 有什么问题吗？***

14. Are you evaluating these cooperative? 您对这些合作社进行评估吗？

Yes, *how?* 是，如何评估？

No, *why not?* 没有，为什么没有？

15. Are they still all regularly operating (running)?

这些合作社现在都运行正常（良好）吗？

Yes, *why?* 是，为什么？

No, *why not?* 没有，为什么没有？

16. Do you think they are all successful? 您认为这些合作社办的成功吗？

Yes, *why?* 是，为什么？ No, *why not?* 不是，为什么不是？

17. According to you, what are the characteristics of a successful farmer cooperative? 那么，从您的角度看，一个成功的合作社应该具有什么样的特点？

18. Could you suggest 3 successful farmer cooperatives for me to visit? 请您为我推荐3个当地办的好的合作社？

Cooperative 1 \_\_\_\_\_:

Cooperative 2 \_\_\_\_\_:

Cooperative 3 \_\_\_\_\_:

22. Why this three? 为什么是这三个？

Cooperative 1:

Why? (有什么特点)

Cooperative 2:

Why? (有什么特点)

Cooperative 3:

Why? (有什么特点)

19. What are the main characteristics of those not so successful cooperatives?

那些办的不太成功的合作社有哪些特点？

20. Is it difficult for a cooperative to be in top 100?

成为百强合作社很困难吗？

Yes, *why*? 是，为什么？ No, *why not*? 不是，为什么不是？

21. What are the benefits for a cooperative of the top 100?

作为一个省百强合作社本身会得到些什么好处？

22. What are the difficulties for the future farmer cooperative development in Shandan? 山丹农民合作社今后的发展面临什么样的困难？

23. What are the opportunities for the future farmer cooperative development in Shandan? 今后山丹农民合作社的发展面临怎样的机遇？

24. How do you see the current farmer cooperative development in Shandan? 您对当前的山丹农民合作社发展现状怎么看？

25. How do you see farmer cooperative development at Shandan in 5 years' time?  
您对 5 年后 山丹合作社发展的情况有什么看法？

26. How do you see farmer cooperative development at Shandan in 10 years' time?  
您怎么看小农户合作社在山丹 10 以后的情况？

27. Did your organization run cooperative training courses in 2009?

贵局 2009 组织过合作社培训吗？

Yes ( 是 )

Where? ( 在哪 )                      Town,        village

How?    培训方式是什么                      Lecturing,    discussing, Who are coming? 谁  
来参加培训    Chief villagers, farmers, cooperative leaders cooperative  
members

How many? 有多少人

For how long? 培训多长时间

Training what? 培训的主要内容有哪些

No, why not? 没有，为什么没有？

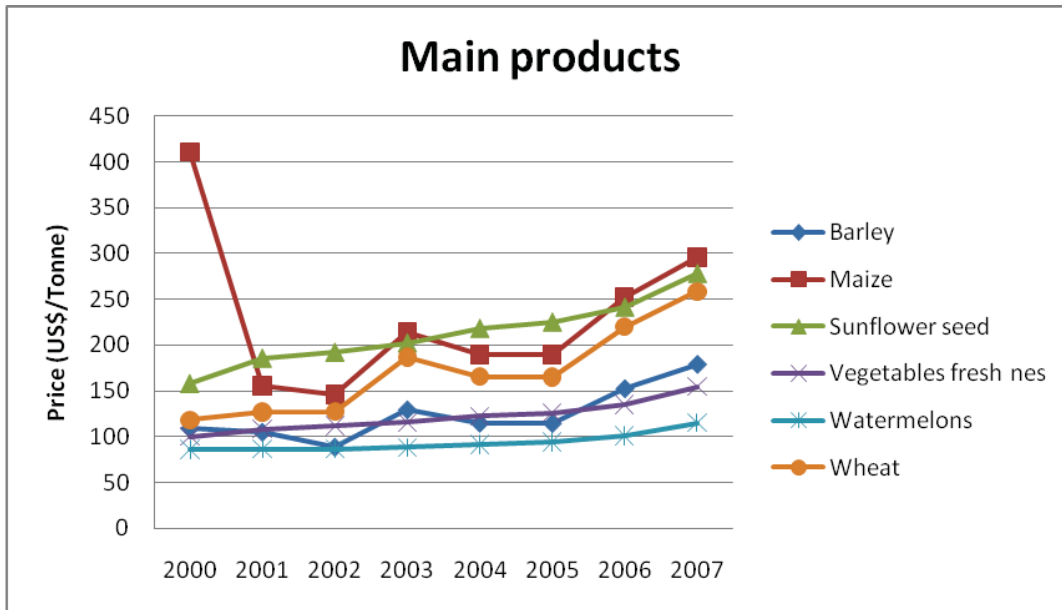
28. According to you, why the other 35 farmer's economic organizations in Shandan still haven't registered as cooperatives?  
从您的角度看，为什么另外的 35 个其它类型的农民组织没有注册成合作社？

29 . What are the characteristics of them? 他们有什么样的特点？

30 . According to your experience, what are the effective approaches to promote local farmer cooperative developm  
您认为促进农民合作社健康发展的有效方式是什么？



Appendix 8: Price change trend of products in China



Data resources from: <http://faostat.fao.org> (16 December 2009)

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