Proposal on the Promotion of Professional Cooperative Associations of Farmers

CCCC, Sun Yat-sen (Zhongshan) University

Oct 15, 2003
Contents

I. Introduction .............................................................................................................................. 3
II. Brief Retrospect of Evolution of Farmer Association ............................................................ 4
III. Name and Nature of Farmer Association .............................................................................. 4
IV. Types, Problems and Development Trend of PCAF ............................................................... 5
    4.1 Types of PCAF ............................................................................................................... 5
    4.2 Problems in Operation of Existing PCAFs ...................................................................... 8
    4.3 Development Trend of PCAFs .......................................................................................... 9
V. Suggestions for Development of PCAFs ............................................................................... 10
    5.1 Expectations for PCAFs .................................................................................................. 10
    5.2 Suggestions for Development of PCAFs ........................................................................ 11
    5.3 Schedule of PCAF Development Stages ......................................................................... 14
Appendix 2. Guide to Foundation of PCAF .............................................................................. 14
Appendix 1. Sample Memorandum of Understanding .............................................................. 15
Appendix 2. PCAF Guide ............................................................................................................. 17
I. Summary ................................................................................................................................. 17
II. Guide to Foundation of PCAF ............................................................................................... 18
III. Guide to Local Government’s Support to PCAF ................................................................ 20
IV. Guide to Cooperation between Project Company and PCAF ............................................... 21
Appendix 3. Sample Contract between PCAF and Project Company ........................................... 23
I. Sample Cooperative Contract for Agro-tech Projects of Planting Category ......................... 23
II. Sample Cooperative Contract for Agro-tech Projects of Animal Breeding Category ....... 26
I. Introduction

The World Bank Financed 4-province Agro-tech Project is intended to offer robust technical support via the alliance between leading enterprises and farmers and technical support units, realize the demonstration, popularization of advanced agricultural sciences and technologies while dealing with the integrated operation of production, supply and marketing, and that of trading, industry and agriculture with the “company + farmer” pattern. During this course, the World Bank lays stress on ensuring the extensive, in-depth participation of affected farmers in the Project and their benefiting therefrom.

In retrospect of the experience of the “company + farmer” pattern in China for over 20 years, the World Bank’s Expert Panel and the Social Assessment Team from the CCCC at the Sun Yat-sen (Zhongshan) University found in the fieldwork in the project areas that: in the “company + farmer” pattern, most companies have a strong sense of market economy, solid economic strength, strong decision-marking, strict organization and perfect marketing system. They have a good understanding of the government’s economic policies, laws and regulations, a full mastery of market information and are relatively advantaged. Farmer families have a smaller scale, live in a scattered manner and are provided with weak financial and technical forces, insufficient in the ability to capture, appraise and identify market information accurately, fully and timely, apparently in a disadvantaged position. Meanwhile, scattered farmer families are short of an organizational reliance that represents their own interests and are independent of each other in respect of interest. This would likely to make them unfavorable in contracting and negotiating with the company in the agricultural industrialization operating organization of “company + farmer”, the production and transaction of farmer families are very easily controlled by the company.

The World Bank experts and the SA Team experts have reached a common understanding in communications: farmer association intermediaries with certain economic strength set up on the basic philosophy of mutual-aid, democracy, fairness, good-faith and unity can, on the one hand, represent the interests of farmers covered, negotiate and contract with the company in an organized form to improve the status and capability of farmers in negotiation; on the other hand, they can supervise and inhibit any opportunistic behavior of individual farmers within the farmers’ associations, improving the rate of contract fulfillment between the company and farmers.

Farmer associations already established or in preparation under most projects are part of a beneficial trial made by the World Bank, the project company and the government of the project areas with a view to improve the operating efficiency of the “company + farmer” pattern and ensure the extensive, in-depth participation of farmers in the project. On this basis, how to enhance the strength of existing farmer associations, so that they can give rise to a balanced interest community on behalf of farmers and the company has become a strategic consideration in successfully fulfilling the objectives of the Agro-tech Project.
II. Brief Retrospect of Evolution of Farmer Association

Soon after the foundation of the Chinese Communist Party, the Party assigned Peng Pai, Xuan Zhonghua, etc to go deep into rural areas to set up the earliest farmer association (1922). After the failure of the Great Revolution in April 1927, the farmer associations were dissolved. The farmer associations, from their establishment, developed to spread over many provinces, and made indelible contributions to the new democratic revolution and national liberation undertakings of China prior to 1949.

In the Land Reform after the foundation of the P. R. China, farmer associations were set up throughout the country. At that time, farmer associations were both autonomous villager associations and legal law-enforcement organs in the Reform. Their key leadership was selected from poor farm households, who became the master of the rural political power and rural areas through farmer associations.

During the 20 years from the Great Leap Forward (1958) to the 11th People’s Congress, 3rd Plenary Session, under the organizational system of “people’s commune”, the development of farmer associations was impeded. During this period, most rural associations were either outlawed or converted to official organizations.

With the pursuit of the rural contract system with remuneration linked to output in the early 1980s in China, farmer family has become the basic unit of agricultural production, the land ownership was separated from the right to use land, the agricultural production and the rural economy transformed from the planned economy to the market economy. The narrow farmer family operation’s link to the market gave rise to excessive sales costs, seriously impeding the further development of the rural economy. In adaptation to the development of the market economy of China, diversified folk integrated operational cooperative organizations have emerged, of which farmer association is one. When driving the Agro-tech Project, the World Bank’s effort in setting up farmer association in collaboration with the project company and the government of the project areas has to some extent accelerated the development of farmer associations. However, the long-term absence has resulted in insufficiency in experience and a disadvantageous external environment, so that farmer associations are faced with numerous difficulties and problems amidst rapid development.

III. Name and Nature of Farmer Association

By nature and future development trend, the farmer associations found by the SA Team shall belong to professional cooperative associations of farmers (PCAF) and professional cooperatives as one of the 5 major components of the agricultural societal services system1.

---

1“Notice of the State Council on Strengthening the Construction of the Agricultural Societal Services System” (State Council Issue (1991) No. 59) points out that the embryonic form of the agricultural societal services system of China includes 5 major aspects: 1) services offered by village-level collective economic organizations with focus on unified mechanized farming, drainage and irrigation, plant protection, harvest, transport; 2) services offered by Xiang-level agro-tech stations, agricultural machinery stations, water conservancy stations, forestry stations, veterinary stations, aquatic produce stations, operational management stations and weather service
These are self-service technical, economic cooperative organizations and interest groups organized by farmers spontaneously and voluntarily on the basis of specialized families, technological demonstrators and technically able persons, dealing with technical services, information services, supply of means of production, farm product processing, storage, transport and sales, integrating pre-production, mid-production and postproduction service functions. They are an intermediary that connects scattered farmers and the relatively centralized market to guide farmers into the market, and also one of the organizational forms of farmers’ self-protection in the fierce market competition.

By now, there have not been any nationwide articles of association and regulations on farmer association in China, nor has the legal status of PCAFs and professional cooperatives been defined legally. Only in some regions (Beijing, Hebei, etc) have regulations on professional farmer cooperative economic organizations, farmer cooperative stock enterprises and similar organizations been laid down.

Farmer associations and similar organizations existing under the project have many names, including farmer self-help organizations, rural folk cooperative service organizations, rural economic cooperative organizations, rural folk mutual-aid organizations, new-pattern rural professional cooperatives, PCAF, professional technical associations professional technical associations, service associations, etc. The SA Team thinks that “PCAF” well accords with the actuality of the project, for 3 reasons: 1) the names of farmer association, cooperative, etc had special missions in specific historical periods, which have essential differences from farmer associations appearing as economic organizations, so it’s necessary to differentiate it from “farmer association”, “cooperative” bearing special meanings; 2) considering associations in different projects have been set up around a certain agricultural industry, this appellation has highlighted the nature of professional service of such associations; and 3) this is differentiated from rural grassroots political power organizations and generally in line with the appellation of other social organizations, such as scientific association, women’s federation, association of authors and students’ federation, etc.

IV. Types, Problems and Development Trend of PCAF

4.1 Types of PCAF

Rural folk cooperative economic organizations in China today similar to PCAF are roughly divided into 5 types: (1) self-organized type, namely cooperative economic organizations self-organized by farmers; (2) transformed type, namely transformed from former enterprises, in 4 further cases: a) cooperative economic organizations transformed from rural enterprises; b) cooperative economic organizations resulting from the re-alliance of supply-marketing networks with focus on fine breed provisions, technical popularization, weather information and scientific management; 3) services offered by supply and marketing cooperatives and commercial, materials, foreign trade, financial departments with focus on the supply of means of living, purchase, processing, transport, marketing, export, financing and insurance; 4) services offered by scientific research and educational units going deep into rural areas with focus on technical consultation, guidance, personnel training, group contracting; and 5) special services offered by professional farmer technical associations, professional cooperatives and specialized families.
cooperatives and farmers; c) cooperative economic organizations transformed from individual private enterprises; and d) cooperative economic organizations transformed from the alliance of several business entities; (3) Led [by government] type, i.e., cooperative economic organizations set up under the leadership of agro-tech, stockbreeding and other agriculture-concerning departments; (4) Supported [by company] type, namely, cooperative economic organizations set up backing on leading farm product processing, transport and marketing enterprises to realize an organic combination of leading enterprises, farmers and cooperative economic organizations; and (5) Phony type, i.e., associations fabricated by different organizations for different purposes.

In the 4-province the Agro-tech Project, the existing PCAFs belong to the self-organized type, led type and supported type. On the basis of this classification, the SA Team makes the following observations:

(1) Led [by government] type. The established projects under the 4-province Agro-tech Project are mostly in the agriculture-oriented industries to which the cities and counties concerned are dedicated. In order to develop the agriculture-oriented industries of their respective areas, these cities and counties are led by the relevant government departments and have organized PCAFs earlier, featuring:

a. Associations are organized mainly by the government of the city, county, Xiang and town, which financially supports the daily operation of associations, the degree of involvement and activity of farmers are not high. In some places, associations are combined with the 2 village branch committees; even not combined, they are dominated by village cadres. Such associations are essentially “detached offices” of the government and can hardly ensure farmers’ interests to the greatest extent. In many cases, they merely play their role in project execution and serve as the “microphone” of the government;

b. The project company is not dominant in an association, and is just a participant and driver of the whole industry’s development;

c. Associations have a broad coverage not limited to one village only. Different regional levels of associations have been set up, realizing the collateral regional connection of associations;

d. Key functions of associations cover the whole pre-production, mid-production and post-production chain;

e. The articles of association of associations are perfect;

f. In the operation of the company + farmer pattern, the company is the dominator. Pursuant to the project operating requirements, associations may in some cases amend certain practices in adaptation to the project’s development, but which effect is limited;

In the 4-province Agro-tech Project, the PCAFs under the soybean industry and the Daqing Cow Project in Heilongjiang are typical led type professional technical associations.
(2) Supported [by company] type. These associations are mostly closely related to the Agro-tech Project and organized by the company centering on the main industry dealt with by the established project. Their main characteristics include:

a. Associations are affiliated to the company or have contracted therewith. From the existing contracts and articles of association, these associations have maximized the company’s interests and minimized its risks, farmers are just seriously dependent on associations and the company. On the face, it seems that a mechanism of “sharing of risks and interests” has been set up, but this pattern can hardly ensure that farmers can obtain “fair, just and reasonable” interest sharing opportunities;

b. Associations are mostly playing the role of technical training, information communication, troubleshooting, assistance in product production and purchasing, the company will pay a certain remuneration to associations for any service offered. All affected farmer families will naturally become members of association;

c. Each project village often sets up their own associations, short of collateral regional connections.

(3) Self-organized type. As the name implies, this refers to the type of associations organized by farmer families, mostly by economically able persons, including major producers and technological demonstrators among farmer families. In the market competition in the past few years, these people had a strong sense of market and a broad vision, became rich earlier and became an example for farmers. Accordingly, farmers would follow varieties, fertilizers and pesticides they plant or use, receive the same technical training as they do. These persons would make unified purchase to complete the marketing process.

Depending on the operation mode of associations, self-organized associations can be divided further into 2 types:

1) supported self-organized type. Owing to the fierce market competition today, dominators of some self-organized associations can hardly “subsist independently” now and have been “enlisted” by the company to become an economic participant and an interest sharer in the company’s pursuit of associations. Accordingly, at present, in this pattern, farmers can only count on good market opportunities and the conscience of these people, in other words, there is not a good supervision and assurance mechanism available to guarantee farmers’ interests;

2) independent self-organized type. They are organized by economically able persons, mainly responsible for the market information coordination and communication among members, keeping a loose, voluntary alliance with farmers. More importantly, these associations have no necessary relations with the government and the project company, but have still maintain an indomitable market viability, associations’ personnel are full-time and their interests rely completely on the “price difference” from the sales process, therefore these associations are always entities in nature and have a certain rallying point among farmers. However, they often get into conflict of interest with the government and
in the prevailing political system, their legality is in doubt and they cannot be incorporated. However, they should be the general trend and prospect of associations.

There are no examples of these associations under the project;

(4) False associations, founded by the government or temporarily in order to meet the World Bank’s project requirements. Not only such associations have no actual operations, even farmer families do not know about them.

4.2 Problems in Operation of Existing PCAFs

1. There are 2 apparent tendencies in development of rural societal service organizations. One is the rapid development of service organizations organized by the government and individuals; the other is the difficulty for farmer cooperative service organizations. Many able persons who were formerly farmers are unwilling to cooperate with farmers but are taken up with their private service organizations. Except the above reasons, this is also because the setup and development of cooperative organizations are nonstandard and they have not become interest communities featuring “shared interests and risks”.

2. Existing associations mostly do not have economic assets of their own. Rural folk cooperative service organizations are unlike other societal service organizations and have weak economic strength. They rely merely on low-income farmers eager to obtain service aids. They lack funds, information, techniques, professional service knowledge, skills and experiences. Among all these factors, the most crucial is fund shortage. This just accounts for why the service coverage of folk cooperative service organizations is so narrow. 84% of service organizations can deal mainly with technical exchanges only, because this service does not need too much money. To grow, associations must have an economic entity of their own. An economic entity has two contributions to an association: 1) to enhance the association’s economic strength, as the basis for further consolidation and development of the association; 2) to develop the service coverage of the association available to members, to satisfy farmers’ urgent needs and protect farmers’ interests. An association can run an entity with focus on service and promote its services by running the entity properly.

3. Fund cooperation is to be developed. Fund cooperation is important to the development of service organizations, because not only farmers stand in need of funds for production, but also service organizations themselves have many difficulties and can hardly grow for fund shortage. Accordingly, all service organizations should organize fund cooperation, establish and develop agricultural cooperative foundations wherever permitted by the government, to break down the bottleneck to the development of rural folk cooperative service organizations today.

4. The development level of cooperative organizations is low and range of influence small. Cooperative organizations are imbalanced in rural areas of China. Generally, they are at the primary stage only, with a small number, a small scale and less influence and driving force. In addition, cooperative organizations are mostly of the primary type and are
found mostly in the production field on the planting, breeding link. There are relatively few cooperative organizations on the 2nd and 3rd links of the agricultural industrial chain, i.e., the processing and distribution fields. There are fewer cooperative organizations in the form of “company run by cooperative”, to say nothing of the foundation of cooperative union and agricultural associations through collateral combination among cooperatives.

5. The internal management of cooperative organizations is imperfect, short of talents. The competencies of principals of existing cooperative economic organizations determine the future fate of a cooperative. Owing to the absence of scientific, rigorous management experience and a perfect internal management mechanism, a cooperative will overcome difficulties with one mind shortly after its foundation for the purpose of subsistence. However, once the situation betters, the potential abuses of unclear interest assignment mechanism and unsound management system will arise. Many short-lived cooperatives would “partner in the 1st year, prosper in the 2nd year and dissolve in the 3rd year”.

6. The external development environment for cooperative organizations is restrictive. To take part in market competition, a cooperative economic organization must be an independent body corporate. However, at the beginning of foundation of a cooperative, restricted by scale, information, etc, it can hardly obtain a business necessary to enter into the market directly. At the meantime, when the cooperative meets with a good opportunity and is in urgent need of external funds, it can hardly obtain any credit support because it is neither a state-owned economic organization nor a collectively run organization, missing the good opportunity of development.

4.3 Development Trend of PCAFs

Judging from its experiences and the recent development of farmer associations, the Project Team thinks there are the following development trends with PCAFs:

1. The government’s support will promote the further development of PCAFs. The rural grassroots organizational reform being pursued by the Chinese government requires rural communities to improve their autonomy to a great extent, which relies on all kinds of farmer professional groups. The present effort of the Chinese government in respect of large scale agricultural operation will make it necessary to develop PCAF;

2. The proportion and absolute number of “independent self-organized” PCAFs will rise gradually. Although it’s predictable that in the following development stage, led-type and supported-type associations will remain the majority. However, since these two types of associations can hardly reflect farmers’ own interests and will in practice, the support of farmers obtained will fall, stimulating the generation and development of self-organized association to some extent. The long-term effort of the Chinese government in building up the power of “strong market, weak government” in the economic field has provided more and more development spaces to PCAFs. Presently, one of the bottlenecks to the development of self-organized associations is restriction in government policies, laws and regulations. Seen from the development trend in the past 10 years, such
restriction is being gradually released. Accordingly, in the long run, the restriction in this regard will be gradually weakened;

3. The scope of cooperation will be further development breadthwise and depth-wise. What an association might deal with will no longer be limited to the simple level of technical training and information exchange only or a relatively small territorial scope, but will be gradually expanded to deeper cooperation in a greater territorial scope to cover technical, financial accommodation, production, trading, processing aspects;

4. Management and operation will be more and more perfect and standard. The nonstandard, loose management and operation is one of the main reasons for the “short life” of many PCAFs. However, with the progress of measures on autonomy of rural grassroots organs, openness of village and financial affairs in the rural grassroots reform, as well as the deeper and deeper involvement of farmers in market activities, the demand of farmers for standard, perfect management and operation of associations will increase to promote the perfection thereof.

The above trends might take a relatively long period to come to fruition if left to natural development of PCAFs. However, the concern and guidance of different parties—including the Chinese government and the World Bank—will accelerate this process.

V. Suggestions for Development of PCAFs

As what was mentioned in the common understanding reached by the World Bank experts and the SA Team experts in communication, a cooperative farmer intermediary set up on the basic philosophy of self-help, democracy, fairness, honesty and unity can represent the interests of farmer families it covers, negotiate and contract with the company in an organized form to improve the status and capability of farmers in negotiation; on the other hand, it can supervise and punish any opportunistic behavior of individual farmers inside, improving the rate of contract performance between the company and farmers. Consequently, agricultural PCA, as a means of farmers to guard against risks, and a means and mechanism to guarantee farmers’ interests, its existence is important for guiding the project company’s behavior and guaranteeing the successful execution of the project. Accordingly, it might be a way of benign continuation of the project effect to cultivate a PCAF with certain economic strength. It is very important to follow the consistent practice of the World Bank as to farmer association to quicken the PCAF development with reference to the conditions of China.

5.1 Expectations for PCAFs

For a World Bank project, a “self-organized” PCAF with the independent business operation capability and certain strength is the best kind of association to ensure the sustainability of the World Bank project and guarantee farmers’ interests. Based on the above analysis, the Investigation Team has proposed the following expectations for PCAF:
1. The PCA and the project company are equal subjects of behavior. It speaks for affected farmers in the project areas, maintains farmers’ interests and enters into a mutual balance, mutual restraint and mutual supervision relationship with the project company;

2. The PCAF shall guarantee farmers’ interests and also restrict short-term, opportunistic behaviors of its members to ensure the sustainable development of the project;

3. PCAF will finally become a “nonprofit” organization, but it may have overhead expenses of its own and even set up a risk fund, full-time managerial personnel and office spaces, can give out their own voice.

Which is to say, among the 4 types of associations mentioned in 4.1 Types of PCAF, it will be the development trend of PCAF to enhance and expand “self-organized” associations.

5.2 Suggestions for Development of PCAFs

Based on the above expectations, the Investigation Team makes the following suggestions for PCAF:

1. Overall development strategy

On the basis of the existing projects employing the “company + farmer” pattern, a trial will be conducted in Anhui and Hunan by selecting different types of industries and locations, laying down a specific action plan. SOCAD, POCAD, the company, experts, farmer representatives and independent organizations shall organize a supervision and evaluation organ to monitor the trial’s effect at any time. After completion of the trial, the relevant experiences will be summarized for further popularization.

2. Trial mode

In the trial, a PCAF in which the government officials, the project company’s representatives, farmer representatives and the World Bank jointly act as key members of the preparation committee and the council at the beginning. Then in the course of operation, the government officials and the project company’s representatives will be reduced gradually to finally realize the complete self-organization of the PCAF. Such trial aims to find a mode and means suited to the operation and development of the “self-organized” farmer association.

3. Supporting establishments

In the trial, it may be considered to set up a chamber of commerce and industry at the county level for unified management of all kinds of farmer industrial associations to turn them into legal organs under the prevailing political system and make them play the role of chambers of commerce in urban areas.

Experts shall become consultants to both the farmer association and the company, and a force to balance the interest division between farmers and the company. Experts shall unite into an interest group with the farmer association and the company.

4. Financial support
In the trial, offer financial support to the PCAF. According to the prevailing regulations of China ("Regulations on Registration Management of Social Organizations", State Council, Sep 25, 1998), a certain amount of registered capital (RMB 30,000~100,000) will be required for corporate registration of a nongovernmental organization. This is not a small figure for many PCAFs. Moreover, to play the function expected by the World Bank—to guarantee the extensive, deep participation of farmer families in the project and their benefiting therefrom while restricting the behavior of the local government and the project company—the PCAF not only should be independent in identity and administration, but also has to obtain certain funds and operating strength. In the project execution, the World Bank and all levels of project offices should endeavor to seek gratuitous funds in support of the PCAF’s developments.

5. Perfect service system

In the trial, help the PCAF set up a compensated and low-remuneration service system. Where possible, set up an economic entity with primary farm product processing capabilities. Based on the present situation, this is a better way to strengthen the PCAF. However, in addition to allocation of project funds to the PCAF, coordination with the government administration will be necessary—in the current legal system, a professional farmer association as a non-business NGO cannot conduct a large-scale profit-making campaign in general. Accordingly, it will be crucial for the development of a PCAF to reach an understanding with the local government on the corresponding level.

The Project Team thinks, in the trial, where conditions are provided, some primary processing equipment and the corresponding processing procedure shall be placed in the PCAF, which shall collect raw materials from farmer families for processing and then selling to the project company or even other commercial institutions. This can enhance the connection between the association with farmers and farmer families, enhance the influence ability of the association on farmer families; on the other hand, this can bring certain economic status to the association, to negotiate with the project company and guarantee farmer families’ interests.

Another way worth consideration is, at the beginning of the project when PCAFs have not fully developed, the Stage I fund can be controlled and granted by the project company under the supervision of the government and the World Bank, however, the Stages II and III funds under the project, especially the part concerning the distribution to farmer families, control and granting by the farmer association can be tried. Meanwhile, more agricultural machinery and equipment for primary processing can be placed in farmer associations with conditions.

6. Operations guidance and consultation

Give guidance and help to the operation and management of associations. In the investigation and through the relevant findings of other scholars, the Investigation Team has found a key reason for the short life of many self-organized association is the imperfection in management, especially financial management. Accordingly, it will also be crucial for professional farmer cooperative organizations at the primary stage to have the World Bank experts help them set up sound financial system and operating standard.
The Investigation Team has also found, in some well-developed self-organized associations, most of the management are full-time or semi-full-time personnel, who obtain remuneration and profit from trading price difference. The Investigation Team thinks, this is a development trend of associations. On a certain sense, a full-time management is the guarantee to possible benign development of an association. However, this will inevitably involve the fairness of remuneration and profit sharing, which is usually a problem that cannot be well solved by a self-organized association. The members of the expert panel shall pay special attention to this.

7. Training

Since the degree of development of existing PCAFs is low, most people lack an understanding of how a professional farmer cooperative association is operated. Accordingly, local farmers, PCAF operation staff and local government officials concerned will be trained:

1) Training for key principals of an association and local farmer representatives on foundation, operation and management of association;

2) Training for local governmental personnel on how to support PCAFs

3) Training for personnel concerned of the project company on how to cooperate with PCAF.

8. Monitoring and evaluation

The State “Agricultural Development Office (ADO)” and the provincial, municipal, county ADOs, the company, experts, farmer representatives and independent agencies shall organize a supervision, evaluation organ to monitor the trial’s effect at any time and bring the PCAF operation into the formal evaluation as a part of the project mid-term evaluation.

9. Modification measures for existing associations

If the subjects selected in point selection are existing supported-type and led-type associations, try to transform them into “self-organized” associations with the capability of doing business independently. 1) Involve more and more farmers in the core groups of the council and board of supervisors of an association (at least 50% members shall be farmer representatives); 2) in the development process, gradually enhance the capability of the association to do business independently, reduce the personnel directly detached from the government and the project company; and 3) promote the independence and self-organization of the association with reference to the above suggestions.

If an association of the “phony type of association” is identified at the links of social assessment and expert work, where possible, its finance and personnel should be reinforced to quickly turn them into “self-organized” associations that work.

10. Advice on follow-up

The Investigation Team thinks, the trial can be finished in 1-2 years. On the basis of the data collected from the trial, the World Bank should summarize the pattern of PCAF development and all possibilities, and make a further detailed operation guide for PCAF. At a suitable time in the future, a proposed project will be required to set up a self-organized PCAF with the
capability to do business independently, and the evaluation and review of the PCAF’s working efficiency will be included in the social assessment and mid-term assessment. Any project with missing or seriously poorly operated PCAFs will be required for adjustment, and the possibility of adjustment to the amount of financial appropriation will be kept.

5.3 Schedule of PCAF Development Stages

Schedule:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Task</th>
<th>Coverage</th>
<th>Objectives</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Understand the coverage of PCAF development, formulate specific trial scheme</td>
<td>1. Perfect the association development planning 2. Formulate a trial scheme by communicating with trial provinces and regions</td>
<td>Formulate a rational specific trial scheme</td>
<td>Late 2003</td>
</tr>
<tr>
<td>II</td>
<td>Conduct of PCAF trial</td>
<td>1. Conductation of trial</td>
<td>Successful execution of trial to obtain experiences in association development</td>
<td>Early 2004–mid 2005</td>
</tr>
<tr>
<td>III</td>
<td>PCAF popularization</td>
<td>1. Make an action plan 2. Popularization to proposed and ongoing projects</td>
<td></td>
<td>Late 2005</td>
</tr>
</tbody>
</table>

Appendix 1. Sample Memorandum of Understanding between PCAF and County Government

Appendix 2. Guide to Foundation of PCAF

Appendix 3: Sample Contract between PCAF and Project Company
Appendix 1. Sample Memorandum of Understanding

Memorandum of Understanding\(^2\) between [BB] County Government and [AAAA] PCA (professional cooperative association)

This Memorandum is entered into between [AAAA] PCA and [BB] county government for the purpose of reaching an understanding on the foundation, operation and relevant issues of [AAAA] PCA as follows:

1. [BB] county government has realized, [AAAA] PCA plays an important role in raising the operating efficiency of the World Bank Financed [CCCC] project in the “company + farmer” pattern, guaranteeing farmer families’ extensive and in-depth participation in the [CCCC] project and promoting the project’ sustainability.

2. [BB] county government will actively support the preparation of [AAAA] PCA, help the PCAF be set up and enter smooth operation.


4. [BB] county government understands, in order to give full play to its role and realize its self-maintenance, [AAAA] PCA should be provided with a certain economic entity. [BB] county government agrees that the county ADO and other units shall appropriate a certain part of the project fund to [AAAA] PCA as suggested by the World Bank experts and as required in practice to help it purchase [equipment name], set up [name of economic entity], establish a higher level of cooperative relationship with [DDDD] project company.

5. [BB] county government agrees, [AAAA] PCA shall provide higher-level compensated and paid services on the basis of trying best to provide members with gratuitous services.

6. [BB] county government agrees, [AAAA] PCA may represent members to contract with [DDDD] project company and other economic entities on the basis of fairness, lawfulness and trying to maintain members’ interests.

7. [BB] county government agrees [AAAA] PCA to join the county Chamber of Commerce and Industry and encourages it to play an active part therein.

8. [BB] county government agrees that it will conduct supervision and evaluation of [AAAA] PCA along with the World Bank experts and consultants of the professional consultation and evaluation firm retained by the World Bank, to turn it into one of the

---

\(^2\) Inside [] are contents to be completed as the case may be. AAAA, BB are codes used temporarily for convenient description and shall be replaced as the case may be in practice.
organizational forces that are responsible for farmer members and actively drive the development of [CCCP] project.

9. [BB] county government agrees, to promote the rapid development of [AAAA] PCA, it will provide all necessary aids to it. However, all departments of the county government shall also try to avoid direct intervention in all affairs of the association, to help turn it into a PCA with the capability to do business independently and self-discipline.

10. [AAAA] PCA will try best to serve farmer members in all aspects to guarantee farmers’ interests, it will also fully cooperate with [DDDD] project company to drive [CCCP] project jointly and realize the project’s sustainability.

11. [AAAA] PCA will receive the guidance and supervision from the government, the World Bank, the project company, and consultation and evaluation consultants retained by the World Bank.

12. [AAAA] PCA understands, the association’s duty is to provide technical and information services, means of production, farm product processing, storage, transport, marketing services to its members, integrating pre-production, mid-production and postproduction services. The association also understands, the equal cooperation, mutual-benefit relationship with [DDDD] company is one of the conditions for the sustainable development of the project.

13. [AAAA] PCA promises the association will observe the Four Cardinal Principles, uphold the leadership of the Chinese Communist Party and limit its activities to the economic field.

Both Parties have made a satisfactory review of the above and have agreed to execute this Memorandum. This Memorandum is made out in quadruplicate with each Party holding two.

[BB] county government
Representative’s signature
Date

[AAAA] PCA
Representative’s signature
Date

Witness: World Bank expert
(Signature)
Date
Appendix 2. PCAF Guide

I. Summary

Purpose

1.1 This guide: “Guide to Foundation of PCAF” aims to provide the projects concerning the “company + farmer” pattern with the guidance on: 1) how should farmers set up a PCAF; 2) how should the local government support the PCAF, and 3) how should the project company cooperate with the PCAF. These projects are fully or partially credited by the International Bank for Reconstruction and Development (IBRD), by the International Development Association (IDA), financially supported by the trust fund granted by the World Bank or supervised by the World Bank and executed by beneficiaries.

1.2 PCAF is a self-service technical, economic cooperative organization and interest group organized by farmers spontaneously and voluntarily on the basis of specialized families, technological demonstrators and technically able persons, dealing with technical services, information services, supply of means of production, farm product processing, storage, transport and sales, integrating pre-production, mid-production and postproduction service functions. It is an intermediary that connects scattered farmers and the relatively centralized market to guide farmers into the market, and also one of the organizational forms of farmers’ self-protection in the fierce market competition. In the project, it is a practice of the World Bank to support affected farmers to set up similar organizations, so as to ensure farmers can actually benefit from the project and guarantee the sustainability of the project.

1.3 Since there is a limited number of associations organized by farmers in China today, the foundation of a farmer association involves certain legal and regulatory problems. This guide is also aimed to help farmers learn the steps and precautions in founding a PCAF and help clarify the relations between the PCAF and the local government and the project company.

1.4 The local government mentioned herein refers to the county government of a project location. In some cases, it might include the local Xiang (town) government. The project company mentioned herein is the one under the “company + farmer” pattern.

Present Situation

1.5 Most projects of the World Bank in China have established or are preparing a PCAF. However, for various reasons, most of these associations have a low level of participation by farmers and self-organization. This is related to the both unawareness of how to set up and run a professional cooperative organization among most farmers, and the insufficient support offered by the law of China and the local government or the absence of support. This is also closely related to the failure of effective cooperation between the project company and the professional farmers cooperative association.

General Considerations
1.6 In most cases, neither farmers nor farmer families will forwardly set up a cross-regional PCA with a large number of members. Accordingly, the government’s support and even guidance at the initial stage will be very important. However, when the association has been set up and gradually got on to the right path, the government should try to maintain the independence of the association.

1.7 The present cooperation between the project company and PCAF is at a low stage. One reason is the lack of an independent PCAF with sufficient strength. The project company has no foundation of cooperation and experience with PCAF is also an important reason. Accordingly, it will be an important step to solve the problem to strengthen PCAF and develop multi-level cooperation between the project company and the association.

II. Guide to Foundation of PCAF

2.1 Remarks: This section provides the description and guidance of foundation procedure of a PCAF. The World Bank’s expectation for a PCAF is that it has the capability of doing business independently, becomes a subject of behavior equal to the project company and speaks for affected farmers to maintain their interests, establish a mutual balance, mutual restriction and mutual supervision relationship with the project company. However, most PCAFs are weak now and have to rely upon the government departments and the project company for support at the initial stage of development. When the operation has matured gradually, the representatives of the government and the project company shall withdraw gradually, and the association will gradually become an independent subject of behavior.

2.2 Steps 1-2 belong to the project initial stage. The task in this stage is to establish good communications among the government officials, the project company’s representatives, farmer representatives and the World Bank experts. It is necessary to reach a common understanding among the 4 parties as to the role, importance and operation mode of the PCAF, and select candidates for entry into the preparation committee, of which the PCAF introductory meeting and preparation working conference are two important steps;

2.3 Steps 3-4 are the preparatory stage. The preparatory items in Step 3 are fundamental to the associations, of which the financing of the registered capital, the selection and leasing of the site may be applied for with the local government and the project’s gratuitous fund. The formulation of the articles of association and the outlining of the association systems can be conducted with the help of the World Bank experts;

2.4 Steps 5-6 are about the process of formal foundation and taking effect of the association. In this process, the election of the council and the board of supervisors is an important thing, which will have great influence on the association’s future operation. Similarly, the affiliation to the county Chamber of Commerce and Industry will also have key influence on the formal conduction of the association’s affairs, including its cooperation with the project company and services to members.
2.5 Steps 7-8 are the mature stage of the association. When the association has continuously perfected its operation and harmonized its relations with different parties, the association should be self-organized, the government officials and the representatives of the project company should gradually withdraw. However, the World Bank experts will play the dual part of consultant and supervisor.
III. Guide to Local Government’s Support to PCAF

3.1 Remarks: The local government should realize that, the PCAF plays a non-replaceable role in improving the operating efficiency of the “company + farmer” pattern, ensuring the extensive, in-depth participation of farmers in the project, and promoting the sustainability of the project. It should become one of the strategic considerations for the successful fulfillment of the Agro-tech Project’s objectives to establish a PCAF and enhance its strength, so that it can form a balanced interest group with the project company on behalf of farmer families.
3.2 The local government should actively organize and participate in the preparation work of the PCAF, help PCAF be set up and enter smooth operation.

3.2.1 The local government should actively organize the preparatory recommendation and promotion activities of the PCAF, so that the government staff, the project company and farmer families can have a thorough understanding of the significance and importance of the PCAF, and organize the government, the project company, farmer representatives and the World Bank experts to establish the PCAF preparation committee;

3.2.2 The local government should appoint special persons from the ADO or departments concerned to assist in establishing the preparation committee, and play a driving role;

3.2.3 The local government shall try to raise uncompensated funds for the PCAF together with the World Bank experts as its registered capital and working capital, and try to look for a suitable office space for it;

3.2.4 The local government should arrange for registration for it as soon as possible and try to shorten the approval period;

3.2.5 The local government should specially assign a person to assist and guide the initial stage operation of the PCAF, assist it in harmonizing its relations with the government departments, the project company and farmer families, and help it establish a perfect system and a good work-style;

3.2.6 The local government should actively drive the development of the PCAF towards the independent, efficient direction, should not attempt to exert long-term control over the PCAF, specific operations for the association shall be passed on to the association’s council and board of supervisors.

3.3 The local government may set up a chamber of commerce and industry at the county level as the superior unit of all kinds of PCAFs for unified management of PCAFs and similar organs, play the role similar to that a chamber of commerce to turn them into legal organs under the prevailing political system;

3.4 The local government shall reach an understanding with the PCAF, agree the association to provide its members with compensated services and allow the association to possess an economic entity;

3.5 The local government should withdraw its personnel when the PCAF is already operating smoothly, so that the PCAF can gradually develop to the state of independent operation.

3.6 Meanwhile, the local government should maintain close attention to the PCAF, cooperate with the World Bank experts in supervising and evaluating its activities.

IV. Guide to Cooperation between Project Company and PCAF

4.1 The project company should understand, the project company and PCAF are in a mutual balance, mutual dependent and mutual promotion relationship. Only if FCA organizes
farmers, guarantees their participation and promotes the project’s sustainability can the interests of the project company be guaranteed in the long run.

4.2 The project company should actively organize the preparatory work of the PCAF, help the PCAF be set up and enter smooth operation.

4.3 The project company should specially assign a person to assist and guide the initial stage operation of the PCAF, assist it in harmonizing its relations with the government departments, the project company and farmer families, and help it establish a perfect system and a good work-style.

4.4 The project company should enter into commercial contracts with the PCAF on a mutual negotiation principle and should not drive down the purchasing price or make a profit by laying down clauses adverse to farmer families and the PCAF willfully. Especially in the early stage of the PCAF’s development, it should make interest transfer of profits affordable by the project company on the principle of project sustainability and long-term cooperation, so that the PCAF can get a benign development.

4.5 In projects concerning the purchase of raw materials and semi-finished goods, the project company should agree to consign a part of purchase to the PCAF. The project company shall enter into contract with the association to purchase raw materials and semi-finished goods purchased by the association.

4.6 In projects concerning consignment stockbreeding, the project company should agree to hand the livestock consigned to the PCAF, the association shall make internal arrangements and allocations to farmer families.

4.7 When the PCAF is setting up all kinds of economic entities, the project company should offer its support:

4.7.1 Possible financial support. These funds may be project funds from the World Bank or funds from the local government or other funds;

4.7.2 The project company should offer support as to some necessary equipment to be transferred from the project company to the PCAF to improve the operating efficiency of the “company + farmer” pattern and guarantee the successful, sustained development of the project;

4.7.3 It shall try to hand any business suitable for the PCAF to the PCAF or any economic entity thereunder by contract.
Appendix 3. Sample Contract between PCAF and Project Company

I. Sample Cooperative Contract for Agro-tech Projects of Planting Category

Party A: (name of project company)
Address:

Party B: (name of PCA)
Address:

Pursuant to the requirements of the World Bank [AA] Project and the provisions of the Contract Law, both Parties have agreed as follows for cooperation in the World Bank project.

Article 1 Effective Period
This Agreement shall be effective for one year, from ______M ______D, ______Y to ______M ______D, ______Y.

Article 2 Scope of Cooperation and Requirements
Party A shall pass on the product in the [AA] project to Party B in batches (specific the quantity) to organize its members for [planting, production, etc], and provide necessary assistance in [production, planting]. Party A shall also fully purchase qualified products after completion thereof.

Article 3 Party A’s Duties
3.1. Supply of raw materials (including seed, fertilizer, pesticide, etc)
3.2. Financial support (production fund, subsidy, insurance, equipment cost, etc)
3.3. Information support (production information, market information, etc)
3.4. Technical support (technical support on production, processing)
3.5. Epidemic prevention (epidemic prevention support)
3.6. Other necessary support (to be outlined for the project)

3 Inside [] are contents to be completed as the case may be. AA, BB are codes used temporarily for convenient description and shall be replaced as the case may be in practice.
3.7. Party A shall purchase all qualified products [produced, planted] by Party B in an open fashion within the agreed price range.

**Article 4  Party B’s Duties**

4.1. Organize members actively for [planting, production] (territorial scope and labor force of organization, quantity produced, output forecast, etc)

4.2. Make a report on plantation situation timely (report of primary situation of the plantation, such as fruit bearing, insect damage, etc)

4.3. Conduct [plantation and production] as per the standard (the specific standard is to be defined)

4.4. Organize picking and harvest duly (season, technique, manner, package, etc)

4.5. Sell products to Party A (means of sales and mode of transport are to be itemized and specified)

4.6. Other necessary duties (to be outlined as the case may be)

**Article 5  Product Purchase**

5.1. Product purchasing standard (product acceptance standard)

5.2. Mutual negotiation on pricing (hierarchical price system, to be agreed by both Parties)

5.3. Method of product purchase (door-to-door, fixed point, mode of transport, etc)

5.4. Mode of payment (specific description)

5.5. Price adjustment mechanism (price adjustment mechanism and method when the contract price differs greatly from the market price)

**Article 6  Party B’s Preprocessing**

6.1. Whether need preprocessing (specific conditions requiring preprocessing)

6.2. Standard of preprocessing (technical standard for preprocessing, and product rating method after preprocessing)

6.3. Product price after preprocessing (hierarchical price system)

6.4. Mode of product purchase after preprocessing (specific mode of purchase and payment, etc)

**Article 7  Force Majeure**

7.1. Solution to consequences of force majeure, such as natural disasters (solution to problems arising from natural disaster, earthquake, insect damage and other force majeure events)

7.2. Undertaking of insurance coverage (type of risk, and amounts to be assumed by both Parties)
Article 8  Liabilities for Breach

8.1. List of breaches of both Parties (list of possible breaches of both Parties)

8.2. Determination of breach by both Parties (determination of a breach and mode of appraisal of losses)

8.3. Compensation after breach by both Parties (determination of amount of compensation and means of compensation)

Article 9  Settlement of Dispute

9.1. Type of and solution to dispute (possible type of dispute arising from performance of this Contract by both Parties, and solution thereto)

9.2. Settlement by arbitration (dispute needing arbitration, and procedure of application for arbitration)

9.3. Legal proceedings (dispute to be referred to legal proceedings and procedure thereof)

Anything unstated herein shall be settled through negotiation by both Parties on the principle of promoting the cooperation. This Agreement is made out in quadruplicate with each Party holding 2 copies and shall come into effect the date hereof.

Party A: (Seal)                          Party B: (Seal)

Authorized Representative:             Authorized Representative:

Date: ______                          Date: ______
II. Sample Cooperative Contract for Agro-tech Projects of Animal Breeding Category

Party A: (name of project company)
Address:

Party B: (name of PCA)
Address:

Pursuant to the requirements of the World Bank [AA]\(^4\) Project and the provisions of the Contract Law, both Parties have agreed as follows for cooperation in the World Bank project.

**Article 1  Effective Period**

This Agreement shall be effective for one year, from ______M ______D, ______Y to ______M ______D, ______Y.

**Article 2  Scope of Cooperation and Requirements**

Party A shall pass on the product in the [AA] project to Party B in batches (specific the quantity) to organize its members for breeding, and provide necessary assistance in breeding. Party A shall also fully purchase qualified products after completion thereof.

**Article 3  Party A’s Duties**

3.1. Supply of raw materials (including embryo, animal larva, feed, drug, etc)
3.2. Financial support (production fund, subsidy, insurance, equipment cost, etc)
3.3. Information support (production information, market information, etc)
3.4. Technical support (technical support on breeding, processing)
3.5. Epidemic prevention (epidemic prevention support)
3.6. Other necessary support (to be outlined for the project)
3.7. Party A shall purchase all qualified products bred by Party B in an open fashion within the agreed price range.

**Article 4  Party B’s Duties**

4.1. Organize members actively for breeding (territorial scope and labor force of organization, quantity produced, output forecast, etc)

\(^4\) Inside [] are contents to be completed as the case may be. AA, BB are codes used temporarily for convenient description and shall be replaced as the case may be in practice.
4.2. Make a report on animal situation timely (report of primary situation of animals, such as growth, epidemic situation, quantity of reproduction, etc)

4.3. Raise pigs as per the standard (the specific standard is to be defined)

4.4. Organize picking and harvest duly (season, technique, manner, package, etc)

4.5. Sell products to Party A (means of sales and mode of transport)

4.6. Other necessary duties (to be outlined as the case may be)

**Article 5  Product Purchase**

5.1. Product purchasing standard (product acceptance standard)

5.2. Mutual negotiation on pricing (hierarchical price system, to be agreed by both Parties)

5.3. Method of product purchase (door-to-door, fixed point, mode of transport, etc)

5.4. Mode of payment (specific description)

5.5. Price adjustment mechanism (price adjustment mechanism and method when the contract price differs greatly from the market price)

**Article 6  Party B’s Preprocessing**

6.5. Whether need preprocessing (specific conditions requiring preprocessing)

6.6. Standard of preprocessing (technical standard for preprocessing, and product rating method after preprocessing)

6.7. Product price after preprocessing (hierarchical price system)

6.8. Mode of product purchase after preprocessing (specific mode of purchase and payment, etc)

**Article 7  Force Majeure**

7.3. Solution to consequences of force majeure, such as natural disasters (solution to problems arising from natural disaster, earthquake, insect damage and other force majeure events)

7.4. Undertaking of insurance coverage (type of risk, and amounts to be assumed by both Parties)

**Article 8  Liabilities for Breach**

8.4. List of breaches of both Parties (list of possible breaches of both Parties)

8.5. Determination of breach by both Parties (determination of a breach and mode of appraisal of losses)

8.6. Compensation after breach by both Parties (determination of amount of compensation and means of compensation)
Article 9

Settlement of Dispute

4.7. Type of and solution to dispute (possible type of dispute arising from performance of this Contract by both Parties, and solution thereto)

4.8. Settlement by arbitration (dispute needing arbitration, and procedure of application for arbitration)

4.9. Legal proceedings (dispute to be referred to legal proceedings and procedure thereof)

Anything unstated herein shall be settled through negotiation by both Parties on the principle of promoting the cooperation. This Agreement is made out in quadruplicate with each Party holding 2 copies and shall come into effect the date hereof.

Party A: (Seal) Party B: (Seal)

Authorized Representative: Authorized Representative:

Date: ______ Date: ______