

# *Global Growth of Cooperatives in the Context of Social and Solidarity Economy*

## *— Practice and Story from China*

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### **I. Introduction**

In the process of economic globalization, especially the outbreak of the financial crisis in 2008, global economic growth has entered a stage of more unbalanced and spiral growth with more uncertainties. Faced with the challenges of stagnation and even temporary setbacks, how to find an effective way to revitalize social development and economy has been put on the agenda. Dominant global business model for maximizing profit has been profoundly reflected and diverse organizations in the private sector, ranging from micro-enterprises to cooperatives in the implementation of the 2030 Agenda, have received more recognition.

Cooperatives as self-aid economic organizations for vulnerable groups have returned to the perspective of the governments and the public. The cooperative movement has accelerated its development and entered a new stage of inclusiveness and sustainable development. The cooperative model exists in almost every field of human activities, especially in the fields of agriculture and food industry, insurance and mutual, wholesale and retail trade, as well as new industries or sectors such as bio-energy, environment protection, social care and so on. According to the 2018 Annual World Cooperative Monitor Report made by ICA and Euricse<sup>1</sup>, the Top 300 cooperatives and sectorial analysis based on the ratio of turnover and GDP per capita ranking in 2016, the cooperatives of agriculture and food industries accounted for 35%, insurance and mutual cooperatives accounted for 32% and wholesale and retail trade for 19%, banking and financial services for 8%, and 2% for health, education and social care, 2% for industry and utilities, and 2% for other services, respectively. As a people-centred business model, cooperatives are owned and operated by their members and are strongly committed to the development of their local communities. In the agriculture sector, cooperatives help to improve the productivity and living conditions of smallholder farmers by facilitating access to markets, credit, technology and local off-farm employment opportunities. In the process of establishing a moderately prosperous

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<sup>1</sup>European Research Institute on Cooperative and Social Enterprises.

(well-off) society by 2020, China's practice and lessons of large-scale poverty alleviation and development has established a good case for it. In 2018, China's GDP has reached 13.6 trillion USD, which accounted for one-sixth of global GDP and contributed to nearly 30% of world economic growth. According to the international poverty standard of 1.90 USD per capita per day set by the World Bank, China has reduced poverty by more than 850 million people in the past 40 years, which contributed to more than 70 percent of global poverty reduction. The poverty rate has dropped to 1.4 percent in 2018, compared to 97.5 percent in 1978. The poor population has been reduced by 10 million yearly during 2012-2018. China has become the first developing country to achieve the UN millennium development goals (SDGs). The Chinese government has promised to eradicate extreme poverty by 2020 and would make a great contribution to the SDGs and the 2030 Agenda.

Farmers' cooperatives in rural China are an efficient and effective business model for revitalizing local community economy, developing new industries, providing new jobs locally in a competitive economic environment. They have become important business entities in promoting the transformation of traditional small householders farmers to modern farmers. Give full play to their unique rooted community attributes the cooperatives have played a crucial part in poverty alleviation and a broader shift towards social and solidarity economy with a huge potential for growth. In the following parts, the background of government policies change is introduced, and how cooperatives help the poor by different means or ways are analyzed. The challenges and the future outlook would be discussed finally.

## **II. Government Policies on Supporting Cooperative Involvement in the Process of Rural Poverty Alleviation during the Past Decade**

Industrial development for poverty alleviation is an important component of Chinese government's poverty reduction strategy. Cooperative is the important carrier of industrial development for poverty alleviation. The Program for Poverty Alleviation in Rural China (2011-2020), issued by the Central Committee of the Communist Party of China (CPC) and the State Council in 2011, calls for leading enterprises, farmers' cooperatives and mutual aid organizations to help poor farmers by promoting the extension of advanced and practical technologies, developing new production, fostering and expanding distinctive industries, optimizing local traditional grain industries and promoting tourism industries by making full of the advantages of the ecological environment and natural resources in poor areas. The Decision on Winning the Battle Against Poverty by the Central Committee of CPC and the State Council in December 2015 further proposed to "develop characteristic industries to alleviate poverty", and specifically proposed the implementation of "one village one product" in the poor village to develop a new special agricultural base in which a number of poor population

can participate. To reach the target, the policy has strengthened the importance of cooperatives' cultivation and their role in organizing and driving the poor population. The document also has put forward a proposal of "exploring poverty alleviation with income increase from assets". It operates as follows: the governments at different levels have their own special financial poverty alleviation funds as well as other agriculture-related supporting funds to input in various industrial projects. The business entities including farmers' cooperatives who would like to help poor small householder farmers in the project are allowed to bid for the projects. When they get financial support projects, some financial funds can be directly converted into shares and quantified for the poor small householders farmers, which will be uniformly managed by cooperatives or other business entities. The poor smallholder farmers will receive relatively higher fixed dividends from cooperatives and other business entities, which are higher than the deposit interest rates and lower than loan interest rates of commercial banks.

In June 2018, the Guidance on Winning the Battle Against Poverty for Three Years Action by the Central Committee of the CPC and the State Council proposed to strengthen the implementation of industrial development for poverty alleviation in poverty-stricken areas and improve the benefit-sharing mechanism between the business entities or farmers' cooperatives and poor smallholder farmers. It has specially emphasized the importance of employment promotion at the same time and made it play a more active role in poverty alleviation.

Therefore, in the implementation of poverty alleviation strategy, the Chinese government attaches great importance to farmers' cooperatives by mobilizing poor smallholders and improving their traditional agriculture production chain through extending and upgrading the supply chains, developing new industries based on local natural rich and featured resources, as well as providing more employment opportunities. It has provided a favorable policy environment for farmers' cooperatives.

To implement the central government's strategic plan, many central and western regions have issued documents to carry out industrial poverty alleviation through cooperatives. For example, Gansu province, which is a region with a high density of poor population, issued a government document on accelerating the development of farmers' cooperatives in poverty-stricken areas in 2015, proposing to achieve full coverage of farmers' cooperatives in 6,220 poverty-stricken villages within one year. In the second half of 2017, the province vigorously promoted the development of at least two specialized cooperatives for planting crops and raising livestock in each poverty-stricken village, and these cooperatives also have become important carriers for improving self-aid agricultural production organizations at the grassroots' level. Based on the author's investigation, by the end of October 2018, the number of cooperatives in the province has reached 99,000 involving 1.84 million members. The poor villages

have achieved full coverage, and there are 7,262 poor villages with a total of 34,900 cooperatives, 524,900 members and 1,292,300 people. In addition, since 2016, the development funds especially for cooperatives have been included in the government budget and increased yearly. A start-up development funds have been allocated to each cooperative to give priority to their development. In 2018 alone, the Gansu province provided nearly \$30 million USD of financial support funds to the province's 35 deep-poverty villages. Each new cooperative in deep-poverty villages got subsidies of 15,000 USD, each new cooperatives in general-poverty villages received subsidies of 10,000 USD. In addition to the central and provincial fiscal project funds and business enterprises endowment, there are 75 million USD all together for cooperative development. It is estimated that the average capital investment is about 1500 USD for each poor householder farmer.

### **III The Functions and Roles of Farmers' Cooperatives in Poverty Alleviation in Rural China**

#### **A. Provision of Agricultural Services from Field to the Market**

As their economic power strengthens, more and more farmers' cooperatives are providing their members with whole agriculture supply chain services from planting, field management to cultivation and marketing. When poor households join cooperatives, problems such as labor shortage, a lack of technology and dis-economies of scale as well as limited market coverage are readily solved. Farmers' cooperatives can build up their professional teams consisted of experienced farmer field-experts and technical personnel who provide guidelines to their members according to the agriculture calendars or farm the land based on their members' requirement at cost price.

As e-businesses has become important channel to help smallholder farmers improve their marketing channels and combat against poverty, many cooperatives have participated in it through opening their e-shops or relying mainly on public e-platforms. According to one of the China's largest agricultural products e-business platform Pedoduo's Annual Report of 2019 released just this March, its total transaction volume by e-orders for agricultural products and agricultural and sideline products on the platform reached nearly 10 billion US dollars in 2018, which is 2.3 times more than that of 2017. More than 140,000 business dealers or organizations with their registered address are in the state-level poor counties, and their total turnover orders reached a total of 2.4 billion USD. 170,000 targeted poor smallholders farmers are involved and benefited from that. Cooperatives are both a business entity selling products to their members through e-platform and a media connecting poor smallholder farmers and e-platform.

## B. Application of Land-contract Farming

Many farmers' cooperatives in China currently mobilized their smallholder farmer members to cultivate land together and make unified farming by professional teams. They have made contracts with their members by promising the minimum yield and net income per ha. For example, one agricultural cooperative in the main grain-production province in the Mid- region of China, provides more than 1,500 surrounding farmers with land-contract farming which is also called "land trust" services. The contract-farming land covered an area of 170 ha which were fragmented before. As a result of economies of scale and proper modern technology application, it may save expenditure by nearly 450 USD per ha and increase income by nearly 15 USD for each of the 70 poor members.

## C. Provision of market-oriented Contract-farming

A prominent problem for small farmers is their inability to sell out products at a good price or even at a loss. By signing supply contracts with wholesalers, supermarkets or processors, cooperatives carry out production by order in advance and help their members especially poor household farmers solve the difficulties in selling agricultural products. Some cooperatives also promise to give poor household farmers a slightly higher price for their products than that of ordinary farmer members, or a minimum protection price which is higher than the cost of production expenses, so as to ensure that poor household farmers can get basic agricultural net income or at least does not lose money. A tea plantation cooperative in a minority region of Hubei mountainous area where the author visited, has signed fresh tea leaves acquisition contract with its members. The cooperative paid a higher price of about 0.03 USD per kg for a small amount of poor members for the same quality of tea leaves, which is about 5% higher than the local market price.

## D. Exploration of New Industries by Making Full Use of Local Nature Resources

Some cooperatives make full use of local natural resources to develop new industries, concentrate land scattered by small farmers in their communities, and standardize production planning, land formation, varieties of seed, farming, branding and marketing. Those poverty-stricken members with a lack of labor force and production management ability to develop land resources, turn their land into preferred investment shares and hand them over to cooperatives for unified management. The cooperatives promise to give them higher income than what they otherwise can get by planting grain individually. For example, Zhaicun Precision Poverty Alleviation Cooperative of Yucheng County has transferred 33 ha. of land to plant white peony root, among which more than 20 percent of the land come from the poor farmer households, and the

cooperative paid a fixed “preferential dividends”<sup>2</sup> of 2238 USD per ha., which is about 1.5 times higher than their grain net income by individual farming.

#### E. Improvement of using of production funds

Some of the well-served cooperatives provide credit sales of agricultural materials to poor households, including seeds, seedlings, fertilizers, feed stuffs, agricultural film and fruit bags, so as to ensure that poor households do not miss the farming season. Cooperatives would get their credit sales back after selling the small poor households products. Different from the measurement of ordinary farmers, cooperatives basically do not charge the possession fee for credit fund from their poor members, which can solve the problem of insufficient circulating fund of poor households and also reduce the operation cost of poor households. Some cooperatives, in order to encourage the adoption of new materials, also provide free services such as new seedlings and new fertilizers for poor households.

In addition, cooperatives play a role of being intermediary platforms, undertaking government loan support projects for poor households and issuing loans to poor households. There are lots of mutual-aid cooperatives in rural China conducting micro-credits for poor households. The term is generally one year, with the amount generally between 30,000 USD at maximum and 750USD at minimum.

#### F. Job Creation for the Poor

Nowadays, more than 50 percent of farmer householders get their net income from off-farm activities in rural China. However, it is difficult for poor households to work in cities because of illness, disability, mental retardation or a shortage of labor force, etc. With the development of cooperatives, they provide employment opportunities for poor households to work in local communities. Under the guidance of government policies as well as fiscal subsidies, many cooperatives give priority to the employment of poverty-stricken farmers and provide them with seasonal or even long-term odd jobs within their capacity. For example, nursing posts for the offices, community parks, seasonal fruit and vegetable picking, packaging and bagging, pulling weeds in the fields, pollination and other odd jobs.

In a few regions where the non-agriculture industries have been developing, labor service cooperatives are set up. They help elder farmers or women including the poor provide services posts of environmental cleaning or gardening for business entities or public organizations. The cooperatives represent members’ interests for making contracts, labor management, solve the labor disputes and guarantee their members to get their salaries timely.

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<sup>2</sup> It’s land rent in fact.

#### G. Development of the Primary Processing Industry to Extend the Industrial Chain

During the implementation of poverty alleviation strategy, lots of government support funds have been applied to help cooperatives develop the primary processing industry and extend the industrial chain. In such a way, small farmer householders including the poor have got stable channels for the transformation of primary products into commodities and shared the value added from the products as well.

Yecheng County in Xinjiang Autonomous Region is a traditional large agricultural county being famous for high-quality walnuts nationally. However, due to a lack of processing equipment for peeling, a high percentage of raw walnuts were wasted and unable to be sold on the market. In recent years, Yecheng County has made an industry policy that promotes the walnut industry with modern technology and equipment as an government effort for poverty alleviation and gives subsidies for speeding up renewing of old orchards, pushing forward the construction of the cold storage of fresh walnuts, and establishing deep-processing enterprises for walnut milk and other products, and improve value-added walnut products. Under the government support, a cooperative invested 0.5 million USD to set up a processing production chain including walnut green husking, cleaning, breaking off, sorting conveyor, air separation, drying and dry grounds, ensuring to handle raw walnuts of small farmer households to mature walnuts in a timely way. As a result, it has greatly increased the commercialization rate of walnuts and reduced the poor rate significantly. In 2018, the market price of walnuts in Yecheng County reached an average of 2 USD per kg. It is estimated that the average yearly income of poverty-stricken households can raise by more than 150 USD due to the increase in the purchase price.

#### IV Main Challenges and Future Outlook

In the process of participating in targeted poverty alleviation program, cooperatives have faced challenges of small scales and weak economic strength. The development of farmer cooperatives in China is at a preliminary stage. They have grown rapidly during the past 10 years since the implementation of the Law on Farmers' Specialized Cooperatives in 2007. According the latest statistics released by the National Market Administration State Bureau, the total number of farmer specialized cooperatives in China has reached 2.13 million, with more than 3 cooperatives in each administrative village by September 2018. However, the average number of members per cooperative is no more than 50 farmer members. With the average cultivated land less than 0.5 ha. of farmers, almost all farmers' cooperatives are micro-enterprises and their capacity for helping the poor is limited. Also, some cooperatives have speculative behaviors when they involved in targeted poverty alleviation. Their motivation is to obtain government

poverty alleviation projects and funds rather than helping the poor. As a result, they tend to abuse the fiscal funds for their own interests. As the government policies give more emphasis on the responsibility and obligation of cooperatives in poverty alleviation, cooperatives involved in the poverty alleviation system have duties to ensure the absolute income level of the poor, some even required to solve employment of the poor. Cooperatives are responsible for the market failure and even for burdening some operating costs for the poor. These have increased the risk of cooperatives, leading to a decline in endogenous incentives for some cooperatives to help the poor, particularly when they consider that the government project funds or subsidies are not big enough. Besides that, poor households have not enough incentives to participate in cooperatives. On the one hand, most poor households are the old, the weak, the sick and the disabled, so they simply rely on the cooperatives without proper capacity or spirit for active participation. On the other hand, cooperatives are required to give poor household members fixed benefit returns on their business, so they can neglect the poor during the decision-making process.

China's experience has shown that farmers' cooperatives have a unique institutional advantage for poverty alleviation and many of them have demonstrated the features of social enterprises. For a healthy and sustainable development of cooperatives in the future, the Chinese governments should improve their policies in order to activate the cooperatives' intrinsic motivation, establish effective incentive mechanism for helping poverty-stricken farmers, encourage them to get rid of poverty and finally promote their transformation from being traditional to modern farmers. The next stage of cooperative development in China would turn to improve the quality of cooperatives from pushing forward the expansion of quantities of cooperatives. In the 2019 Number One Document of CPC, The government has emphasized cooperatives' "High Quality Development", and encouraged cooperatives to establish a long-term win-win mechanism for mutual benefits with poor households, increase their market competition power by cooperation among cooperatives and attract more local farmers to join cooperatives. Some local governments have set up professional teams for cooperative consultation, encouraged more people with lofty ideals on cooperatives to join, and provided cooperative leaders and managers with comprehensive training programs on new development concepts, cooperative culture as well as new technologies and management knowledge. They help cooperatives improve their operations, create a healthy social atmosphere for cooperative development and finally promote the development of a sustainable social economy.