

Regoverning Markets

Small-scale producers in modern agrifood markets

Innovative Policy

China

Agribusiness and the cooperative farmer model: The Jing Hai chicken production cooperative

Z Shudon

Nanjing Agricultural University

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Innovative Policy series

Innovative Policy is a series of short studies from the Regoverning Markets programme addressing a specific policy innovation in the public or private sector that improves the conditions for small-scale producers to access dynamic markets at national, regional and global level.

The case studies were coordinated by:

Julio Berdegúe, RIMISP - Latin American Centre for Rural Development, Chile (contact: jberdegue@rimisp.org)

Lucian Peppelenbos, Royal Tropical Institute (KIT), Netherlands (contact l.peppelenbos@kit.nl)

Estelle Biénabe, Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD), France (contact: estelle.bienabe@cirad.fr)

Other publication series from the Regoverning Markets programme

Innovative Practice

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Agrifood Sector Studies

These studies look at specific agrifood sectors within a country or region. Research studies have been carried out in China, India, Indonesia, Mexico, South Africa, Turkey, Poland and Zambia covering the horticulture, dairy and meat sectors. Part A of the studies describes the observed market restructuring along the chains. Part B explores the determinants of small-scale farmer inclusion in emerging modern markets. Using quantitative survey techniques, they explore the impacts on marketing choices of farmers, and implications for rural development.

Country Studies

These provide a summary of market changes taking place at national level within key high-

value agrifood commodity chains.

Further information and publications from the Regoverning Markets programme are available at: www.regoverningmarkets.org.

Authors

Z Shudon

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www.iied.org

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1. Introduction

In many places in rural China, farmers traditionally raise chickens, as a sideline activity. But small-scale producers often have difficulty in getting access to dynamic markets, and their productivity is low. Since 1998 the establishment of Pillar ('Dragon's Head') agribusiness enterprises has brought new opportunities for farmers. Normally the Pillar enterprise purchases products from farmers for processing and then selling them on markets. However, it was difficult for this enterprise, dealing with a very large number of farmers, to consolidate the wide range of varieties produced by them, and to ensure that the quality of produce was not compromised by abuse of medicines and feed additives. Moreover, transaction costs were very high. In our case study in Hai Men county, Jiangsu, China, the agribusiness and the cooperative farmer model solved these problems: a cooperative acted as intermediary and played an important role in connecting the Pillar agribusiness enterprise and a very large number of farmers.

1.1 Background to the policy innovation

Farmers in Hai Men county have always raised chickens but, owing to fluctuating prices and market risks, on a small scale, and inefficiently. It was difficult for them to get any training in rearing methods and to obtain high-quality day-old chicks, feed and medicines, so they were unable to achieve homogeneity in the breed of chicken that they kept or in the standard of finished bird. Given this situation, farmers found that access dynamic markets was barred to them, and their incomes were low.

The Jing Hai chicken production company was an agribusiness that hatched chicks and sold them to farmers, several months later buying back adult chickens from the farmers for processing. The company faced considerable risks. First, it imported hens to hatch baby chicks, incurring high costs, and if the chicks could not be sold within three days, the company would make a loss. Second, if any of the chicken farmers abused medicines or feed additives, this could directly harm the quality of the Jing Hai company's processed chicken products. Third, the company's profits were greatly affected by dynamic changes in the supply of chickens and by price fluctuations, which hindered the company's development.

After the Chinese commune system was ended, the collectives became steadily weaker, and were unable to carry out their function of organising farmers' agricultural production. The Chinese government's aim, with this new policy, is to encourage specialised farmers' cooperatives to take over this function.

2. The creation of the agribusiness model

The law on specialized farmers' cooperatives defines these cooperatives as mutual-aid economic organizations of suppliers and purchasers involved in the same type of agricultural products, and based on the rural householder contracted responsibility system. The specialized farmers' cooperatives can provide members with inputs for agricultural production, as well as technical and information services related to marketing, processing, transportation, storage of produce, and agricultural production. On the basis of this law, cooperatives are able to play an important role in the agribusiness + cooperative + farmers model. Governments at different levels have drawn up new policies measures to support their development. Normally, the Development and Reform Committees select some efficient cooperatives to become Pillar agribusiness enterprises, and provide them with financial support. The level of support varies according to whether the enterprise operates at provincial, municipal or county level.

The local government introduced the agribusiness + cooperative + farmers model in Hai Men county, and encouraged farmers' cooperatives with the provision of subsidies and grants, toll free, tax relief allowances, technical training and so on. The Jing Hai chicken production cooperative was founded in 1999 by 18 small-scale chicken farmers with the support of the Jing Hai chicken production company. It acted as intermediary between the chicken production company and farmers. The general manager of the chicken production company was appointed president of the cooperative. The cooperative signed a contract with the Jing Hai chicken production company in relation to orders for chickens, and separate contracts with each member of the cooperative for supply of chickens.

The cooperative drew up a policy based on the following points:

- The Jing Hai chicken production company provided a guaranteed price to the cooperative when the market price for chickens fell, and bore any market risk.
- The cooperative divided responsibilities between the organisation and its members as follows: the cooperative had overall responsibility for production planning, supply of day-old chicks, rearing methods and marketing; the individual members were responsible for actually rearing the chickens, on their separate farms, and the cooperative settled accounts with each member separately according to their chickens sold. Cooperative members made their own decisions, and were responsible for their own profits and losses.
- The cooperative provided feed, medicines and a disease-prevention service to its members. It drew up health and safety rules for the rearing of chickens, to increase product quality.
- The cooperative organised training for its members, and printed a handbook for the rearing and managing of chickens.

As the Jing Hai chicken production cooperative was obviously successful, it was selected as a provincial-level Pillar agribusiness enterprise, and received support from local governments' budgets and from a provincial government special fund.

3. The costs and benefits of the policy innovation

Several stakeholders have contributed to the success of this agribusiness + cooperative + farmers model. Local government provided subsidies and grants toll free, tax relief allowances, technical training, and finance amounting to RMB0.5 million as initial capital.

The Jing Hai chicken production company provided some initial funds for the cooperative's operating costs, and offered relative service. It provided day-old chicks to cooperative members at a standard price of RMB4 each, compound feed (5 per cent) at RMB3, 800 per ton, and medicines and vaccinations. The production company also gained from the policy innovation, in that its turnover increased from RMB20 million in 1999 to RMB245.02 million in 2005, and its profits increased from RMB1 million to RMB10.71 million over the same period. Its total capital grew from RMB19.07 million in 1997 to RMB167. 35 million in 2005, and the value of day-old chicks it sold rose from RMB4 million to RMB30.2 million over same period.

Farmers have to contribute RMB1, 000 each as share capital in order to become members of the cooperative. Once they have signed a contract with the cooperative, they can get a better price for their chickens and need not worry about market risk. All finished chickens purchased by the cooperative from its members go for slaughter to the Jing Hai production company at a standard price of RMB6/kg; the company then processes and exports them. The cooperative makes a profit from the marketing of the chicken. It retains 10 per cent of the profit as an accumulation fund, 25 per cent as a risk fund, and 15 per cent as 'members' welfare fund'? then shares out the remainder of the profit to members. As a result of the stimulation provided by the policy innovation, membership of the new cooperative grew from an initial 18 in 1999 to 107 in 2005, and the number of chickens reared increased from 1.2 million to 1.9 million. Most of the members expanded the scale of their operations and their incomes increased also.

The following is an example of cost-benefit analysis for a typical chicken farmer. Before he joined the cooperative, Mr Yuan Shicong raised 5,000 chickens, buying chicks from the local market at RMB2.3 each, at a total cost of about RMB71,000. He could sell chickens on the local market at RMB12/kg, so his gross revenue was RMB75,000, and his net revenue was RMB4,000. After he joined the cooperative, the number of chickens he raised grew to 24,000. He bought day-old chicks at RMB4 each from the Jing Hai production company, his total costs were about RMB325,800, and he sold finished chickens to the company at RMB12/kg. Therefore his total revenue reached RMB360,000, and his net revenue was RMB34,200.

4. Implications of the policy innovation

- The cooperative organised the small-scale producers into a team, and connected the Pillar agribusiness enterprise with hundreds of farmers.
- It would be possible to develop the agribusiness and the cooperative farmer model for other types of agricultural products, in order to ensure both farmers' incomes and a supply of these products.
- The precondition for replicating the agribusiness and the cooperative farmer model is the existence of a Pillar agribusiness enterprise which is highly efficient, and which already has close links with the farmers whose products it buys.

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