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The Disputes over "Normal Development" and "Natural Growth" of Farmers' Cooperatives ——On the Basis of Empirical Analysis on Farmers' Cooperatives in Deyang City

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Abstract Combining the disputes on the "normal development" and "natural growth" existing in farmers' cooperatives and according to the actual investigation statistics, the management model selection and regulation (including model selection, policy encouragement, operation scale and scale selection) of farmers'cooperatives in Deyang City, share structure and governance structure (including the establishment way and share structure, reserve sharing and dividend distribution, organization structure and policy-making mechanism), capital raising situation and financial support of farmers' cooperatives in Deyang City are analyzed empirically. It is pointed out the farmers' cooperatives should take the road "normal development".

Key words Farmers' cooperatives, Normal development, Natural growth, China

On July 1, 2007, the *Farmers' Cooperatives Law of People' Republic of China* (it is shorted for farmers' cooperatives law) was implemented formally. It marked the second recognition of cooperatives 30 years after the disintegration of farmers' cooperatives. Indeed, no matter in form and content, farmers' cooperatives have differed greatly from the old cooperatives. It is a new organization form with clear right, perfect governance structure and specialized labor division.

In China, the researches on farmers' cooperatives are hot and fruitful results in terms of organization model, governance mechanism and growth mechanism have been obtained. But in terms of "normal development" of farmers' cooperatives, many domestic scholars hold different opinions. Some scholars think that it is bad time for Chinese farmers' cooperatives, so it should let them develop naturally regardless of the developmental types[1]. But some scholars think that farmers' cooperatives are in the agricultural market monopolized by vendee. On this basis, no matter from the perspective of improving farmers' living conditions and enhancing the overall welfare of farmers and from the perspective of improving the market competitive momentum, the government should vigorously support the development of farmers' cooperatives[2]. Since the implementation of *Farmers' Cooperatives' Law of People' Republic of China*, Chinese farmers' cooperatives develop vigorously and the developmental momentum is good. At the same time, there are many problems in the development of farmers' cooperatives. For example, the cooperative's awarenesses of some farmers' cooperatives are low and their interest connection with their members is twist[3]. Members of farmers' cooperatives can only get slender profits and the democratic governance of members is invalid[4]. The financial management of farmers' cooperatives is weak and their capability of resisting risks is fragile[5]. In the distribution of net earnings of farmers' cooperatives, the proportion of secondary rebate in the distribution can not reach the boundary line of legal demand[4] *etc.* however, how to treat the problem on earth, in fact, is the dispute on "normal development" and "natural development". By the end of 2008, China has had 110 900 farmers' cooperatives of various kinds. The number of farmers' cooperatives develops greatly. At present, farmers' cooperatives from various kinds of farmers' cooperatives still lay in the primary stage. The surplus of cooperatives mainly comes from the decrease of trade costs and the decrease of marginal costs after enlarging cooperative scale and individual cooperatives even want to get profits from the government. In order to explore the commercial sustainable development of farmers' cooperatives, the paper conducted the empirical analysis on investigation statistics of farmers' cooperatives in Deyang City on weather intensify the "normal development" and "natural growth".

1 Distribution and features of sampling areas

According to the statistics of governmental statistics, by the end of June, 2009, Deyang City has had 944 farmers' cooperatives of various kinds. Among them, there are 356 specialized farmers' cooperatives according to the normalization of Farmers' Cooperatives Law of Farmers' Cooperatives. The registered capital was 0.15 billion yuan and absorbed 183 000 members. In the first half year of 2009, the actual marketing income was 2.48 billion yuan, with the profits of 0.428 billion yuan. In order to better evaluate the normalization and developmental status of farmers' cooperatives. The paper selects the major investigation of 14 provincial demonstration cooperatives in Deyang City.

The investigation samples are distributed in Zhongjiang County, Luojiang County and some other traditional agricultural

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counties, as well as Guanghan County, Shifang County, Mianzu County, Jiangyang County and some newly emerged counties. The organization forms of sample all belong to farmers' cooperatives. Since the formal implementation of Farmers' Cooperatives of the people's Republic of China , the establishment of individual farmers' cooperatives can be dated to 2005. The investigation statistics came from the date in 2008; the interviewees are mainly the board chairman or the director-general of farmers' cooperatives. They have high authority among members and know well the operation and relevant market of the very cooperatives. At the same time, in order to investigate the rural cooperative mode from various kinds and the investigation sample is widely used in the plant, breeding, agricultural machine, handcraft, processing and transportation and some other industrial fields.

2 Empirical analysis on farmers' cooperatives in Deyang City

2.1 Model selection and normalization of management

2.1.1 The model selection and policy encouragement The investigation samples are all select cooperative model. Actually, except cooperative model, new cooperative economic organizations also include professional associations, community comprehensive cooperatives, limited liability company, *et al*. Many farmers' cooperatives are originated from the former professional associations, community service organization, which are reformed and regulated according to the *Farmers' Cooperatives Law of the People' Republic of China*. Many farmers' cooperatives still keep the brand of professional association. Considering the actual situation of Chinese agriculture, countryside and farmers, the market admittance and market exit stipulated by *Farmers' Cooperatives Law of the People's Republic of China* are more loose than that stipulated by *Company Law*. The nation undertakes less law and policy risks.

Another important factor for selecting cooperative model is policy encouragement. For the subject of capital support should be strictly follow the demand of *Farmers' Cooperatives Law of People' Republic of China* and regulate the name, system, organization structure, operation mechanism *et al.* , so actually, farmers' cooperatives have become the best management model. According to the survey, 43% of capital collection channels of farmers' cooperatives rely on governmental support. Besides, the government should vigorously provide preferential tax, free training, project support *et al*. Although policy support has enhanced the farmers' cooperatives' capability of sustainable development, but the short term effect is obvious, for example, some farmers' cooperatives assume strong tendency of obtaining profits, it should be watched out for.

2.1.2 Operation scope and scale selection. At present, the business scope of farmers' cooperatives includes providing purchase service, technical support and processing of primary products for members and other members. Currently, the surplus of farmers' cooperatives mainly comes from the two sections of purchasing agricultural materials and selling products. Generally, purchasing agricultural materials mainly comes from targeted manufactures and suppliers, and the prices are 10% – 15% lower. The unified selling market has improved rural households' position in negotiation to a large degree and decreased the transaction costs of products. The functions of technical support to obtain the cooperative surplus have not been fully presented. In the first place, the technologies are simple and easy to be copied. The major task of many farmers' cooperatives is to provide production standard direction for their members. In the second place, technology duplication plays an important role in increasing yield and enhancing quality, but it can not change the effect functions of single household production model. The investigation also shows that 50% of cooperatives undertake the rough processing or take rough processing as the major business, but the processing process is just grade, pack and brand of the original products. Farmers' cooperatives can only earn a small amount of processing charges; most profits are left in circulation section.

From the perspective of activity scale, all scopes of farmers' cooperatives are limited in the very village and the geographic distraction is limited as well, even the formal farmers' cooperatives do not have branches. The major reasons are as follows: firstly, from the perspective of market restriction, at present, farmers' cooperatives still stay in the primary stage and it can not connect well with market or even separate from market. The technology accumulation and preparation of farmers' cooperatives are not enough, so they can not abstract capital input and do not have the situation of expanding. Secondly, from the perspective of information restriction, the information among the founder and farmers in other countryside is asymmetric. If farmers'cooperatives absorb members indiscriminately, the risks of non-cooperative of non-rational gaming might happen.

2.2 Ownership structure and governance structure

2.2.1 Construction way and ownership structure Farmers' cooperatives regulated by law should be established at the beginning. It can be seen from the investigation that the establishment of farmers' cooperatives is mainly motivated by large rural households, pillar industries, credit cooperatives and leading of governmental agricultural technology service department. The big rural household motivation model is usually started by the local successful rural households and then common rural households will follow suit. Obtaining the governmental capital support, saving trade cost, improving price negotiation capability, distributing equipments and some other expenses are the motivation of cooperatives.

Some new members from most farmers' cooperatives added new conditions, which make farmers'cooperatives more professional. The situation is obvious in farmers' cooperatives motivated by sample rural households, however, farmers' cooperatives motivated by enterprise, rural credit cooperatives and agricultural machinery station can not meet the requirement. The sample rural households cooperate with rural households with certain production and operation scale and special production technology, which is conducive to reducing the opportunism tendency of rural households and preventing the damage of

cooperation rules. If the major drive for construction farmers' cooperatives is to win over the support of government, then the additional conditions will be relatively loose.

In the investigation samples, the total number of members is 3 059, among which the cooperative with the members of 3 059, ranks first, the smallest cooperatives has 7 members, from the perspective of the number of members. From the perspective of the structure of members, farmers account for 99.7% of total share holders of farmers' cooperatives, members from enterprises, public institution and social unit account for only 0.3%. From the perspective of equity capital, the average scale of equity capital of sample farmers' cooperatives is 382 000 yuan, among which the largest equity capital in certain farmers' cooperatives has reached 1 224 000 yuan, the smallest one is 30 000 yuan. It can be seen that farmers' cooperatives, no matter driven by sample rural households, enterprises or credit cooperatives, they all have the problems of highly concentrated equity capital of principal shareholders and loosely dispersed of minor shareholders. Although the number of shareholders in farmers' cooperatives is in accordance with the stipulation of *Farmers' Cooperatives Law of the People's Republic of China*, but the situation will form the results of " Pigs' payoffs" , that the principal shareholders are willing to supervise the farmers' cooperatives; vigorously pay attention to and participate in the operation of farmers' cooperatives, while the minor shareholders just want to take the free ride.

2.2.2 Reserve sharing and dividend distribution. Sharing reserve and obtaining profits are the deserved rights of members of farmers' cooperatives. But the distribution way of reserve sharing depends on the profit demand and cooperative degree of farmers' cooperatives, so the farmers' cooperatives vary hugely. From the overall point of view, the earning distribution follows the principals of contribution & proportion, but the distribution of a reserve fund is relatively complex. As for the farmers' cooperatives with regulated organization and close interests, the reserve fund and earnings are shared and distributed according to investment ratio, so they are excluded from account. As for the loose farmers' cooperatives and membership farmers' cooperatives, only the core members can enjoy the rights of sharing reserves and distributing earnings. In order to absorb common farmers to participate in farmers' cooperatives, some farmers' cooperatives stipulate the distribution way of returning earning by trade volume. Some farmers' cooperatives dominated by providing services also give consideration to the principles of distribution on the basis of labors. On average, the returns given to core members of farmers' cooperatives have far surpassed the returns given to external members and also higher than the return rate in production section.

Investigation statistics provide explanation from multiple perspectives of the diversity for reserve sharing and dividend distribution: first, from the perspective of cooperative motivation, the cooperative aims of minor shareholders and principal shareholders are different: the small shareholders only satisfy with cheaper price and smoother marketing channels, without more benefit appeals. The principal shareholders absorb more minor shareholders to improve the price negation capability and satisfy the structure of shareholder structure and win over preferential policies. Second, from the perspective of management, the capital invested by small shareholders takes small proportion of equity capital of farmers' cooperatives and they can only get small amount of reserve share and dividend, but their income can be compensated from other ways, so it is unnecessary to establish a reserve fund and trade account for each member. Third, from the perspective of accounting, at present, farmers' cooperatives implement the professional enterprise accounting system, but the accounting information is low. The sustainable operation, accounting periods and some other assumptions often transfer, for example, a farmers' cooperative always insist the dividend distribution by seasonal and harvesting periods.

2.2.3 Organization structure and decision mechanism The association structure and decision-making mechanism of farmers' cooperatives is an important component for perfecting governance structure and an important basis for realizing democratic management. The investigation statistics assume that a large majority of farmers' cooperatives are in accordance with legal regulation. But in fact, the director-general, directors, executive supervisors of farmers' cooperatives are basically taken on principal shareholders and the membership reprehensive conference should be composed by core members. Although the investigated director-general said that the farmers' cooperatives should hold at once one membership conference every year. But they admit that it is hard to gather all members, therefore, under many situation, the conference is presented by the representatives and the council and the supervisory board are often the same one.

From the perspective of practice, the right structure may be an effective choice for reducing the costs of agents of farmers' cooperatives. But the cooperation of formed by " internal cooperation of contributor" may be used to replace external cooperation. Correspondingly, at the same time of losing systematic restriction on minor shareholders, farmers' cooperatives also lose the actual meaning of construction governance. Therefore, although most farmers' cooperatives adopt the vote of " one person, one vote" , more dispersed the shareholder structure of farmers' cooperatives, the farther the distance of minor shareholders from right center.

2.3 Fund collection situation and financial support At present, the restriction of capital on the development and regulation of farmers' cooperatives is not so strong, but it has been represented in certain cooperative. In terms of capital collection, many farmers' cooperatives rely on governmental policies. It indicates that the government has supported the sustainability of farmers' cooperatives' finance. Besides, the capital collection channels of farmers' cooperatives also include the capital increase of old members, financial institution loan, absorbing external capital, capital paid by new members and membership fee and some other ways. On the primary stage, farmers' cooperatives provide services including information consultation, technology instruction and marketing. Their reliance on

capital is not so strong and the financial demand relies mainly on potential capital.

Many reports attribute the insufficient financial support of farmers' cooperatives to single channels of financial support, backward credit products, unbalanced financial service and insufficient financial marketing from the perspective of financial restraint. It is observed that although farmers' cooperatives have the motivation capability of collective activities, due to the independence of members, farmers' cooperatives can only exist as a production or price alliance. Relying on membership fee or income can maintain operation, so farmers' cooperatives do not have great demand on credit. At the same time, many farmers' cooperatives lack the essential industrial accumulation capital and they are just empty entities, so they do not have the access to credit loan. In fact, it is harder for farmers' cooperatives to get loan than that of rural households and individually-owned business.

3 Conclusion

Combining the disputes on " normal development" and " natural development" exist among farmers' cooperatives, the paper has conducted a series of investigation. From the perspective of historic background and actual conditions, as a new economic organization, farmers' cooperatives will inevitably focus on seeking the maximum profits to realize their commercial sustainable development. As a system arrangement, farmers' cooperatives carry the legal demand of mutual economic help among members. Farmers' cooperatives may be the basic way of solving the current economic development, but they are just part of Chinese " Three Agriculture Problems". At the same time of continuously perfecting the governance structure , farmers' cooperatives face more and more barriers in terms of capital, market, management, scale, information *et al.* How to solve the barriers is the possible future developmental direction of farmers' cooperatives. Generally speaking, it is imperative and significant for farmers' cooperatives to go to normal development in the future.

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and society in rural areas. The leadership of the party and the committee should be unified who can manage and supervise together. All kinds of leading mechanisms and working mechanisms also should be strengthened, the basic organization and operation mechanisms in rural areas should be innovated and rural automatic management mechanisms should be perfected too.

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