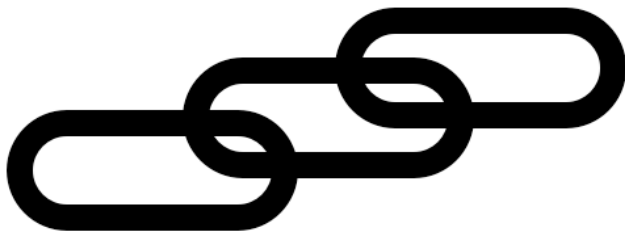


# **Farmers' Association Training Materials**

**China Canada Agriculture Development Program  
Farmers' Association Development Strategy  
and Training Program**

**Prepared for  
Agriculture and Agri-Food Canada  
on behalf of the Canadian International Development Agency**



**Centre for the Study of Co-operatives  
University of Saskatchewan  
December 2005**

The training materials in this package were developed by the Farmers' Association Development Strategy and Training Program as part of the China Canada Agriculture Development Program, a project funded by the Canadian International Development Agency and administered by Agriculture and Agri-Food Canada. The Farmers' Association Project Team, which is carrying out the program, is comprised of Murray Fulton (professor, University of Saskatchewan), Bill Turner, Gary Storey (professor emeritus, University of Saskatchewan), Bernie Sonntag, Maurice Doyon (professor, Université Laval), and Dan Ish (professor, University of Saskatchewan). Roger Herman, Centre for the Study of Co-operatives (University of Saskatchewan), and Murray Fulton developed and wrote the training materials, while Zhao Jun (PhD student, University of Saskatchewan), Gary Storey, Bernie Sonntag, and Murray Fulton developed the case studies. Tim Zachernuk provided the two role-playing exercises in Module BL-2.

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## **Introduction and Overview**

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The training materials in this package were developed as part of the China Canada Agriculture Development Program, which is funded by the Canadian International Development Agency and administered by Agriculture and Agri-Food Canada. The goal of the training materials is to support the development of farmers' associations in rural China.

Farmers' associations (FAs) perform several functions but fall into two broad categories. The first includes associations that perform specific economic or commercial functions such as marketing, the supply of inputs, technical and extension services, the provision of credit, access to information, risk management, and so on. The second includes associations that work to promote the general interests of the farm community or a specific segment thereof. The focus of the training materials is the formation of FAs in the first category. Farmers form these associations voluntarily within an enabling legislative and policy regime. These associations serve a defined membership or group of farmers and provide the membership with specific benefits.

### **The Context**

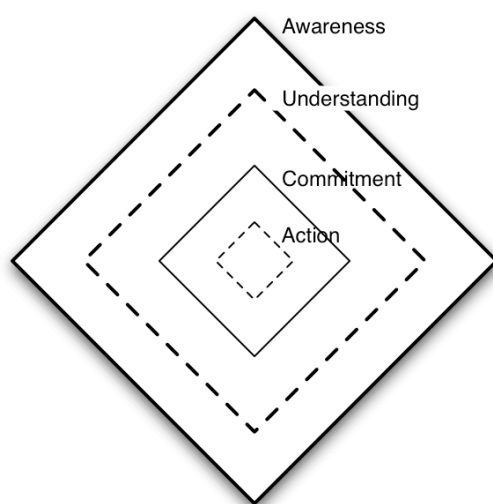
The training materials are to be used by an FA developer as he or she works with a group of farmers interested in forming a farmers' association. The materials are set up as a series of modules that a group will work through sequentially. As will be explained below, each set of modules provides the background knowledge and context for making a key decision in the FA development process.

The FA developer is assumed to be familiar with the materials in this package, as well as the concepts and ideas that form the basis for the materials. Given this background, the training materials have been designed to provide the FA developer with all the tools necessary to walk a group of farmers through the process of forming an FA. The development of farmers' associations requires a major shift in the thinking and practice

of small farmers in China. It requires them to develop an *awareness* of the market economy in which they are now operating and their role within this economy, as well as an *understanding* of how farmers might begin to take action and effect change in their own lives through group action generally and through the development and use of farmers' associations specifically. Farmers' associations will only be sustainable if the farmers are committed to the ownership and use of enterprises that they own, control, and use. Such *commitment* will result if the benefits of co-operative *action* are clear, direct, and relevant.

### **The Process: Awareness, Understanding, Commitment, and Action**

The development process described above follows a pattern of awareness, understanding, commitment, and action. This pattern appears repeatedly in the various components of the training materials, whether at the broadest level of attempting group action or at some very specific level such as securing financing to undertake enterprise development. These stages are labelled in the framework illustrated in figure 1, although it should be noted that the path through these stages is not always linear or complete. At times, sub-patterns develop within components of larger progressions, with an action stage, for example, perhaps containing the four stages of awareness, understanding, commitment, and action.



**Figure 1: Awareness, Understanding, Commitment, and Action**

The importance of this four-stage progression warrants some discussion of each element. Recognizing the purpose of a particular stage or component of the process will help the trainer and the student to teach and learn more effectively.

### *Awareness*

Awareness is an early stage in development. At this point, individuals or groups are exposed to new ideas and ways of understanding their own realities and their placement in the larger context in which they exist. Awareness involves becoming informed, developing a consciousness of one's surroundings, and understanding the impact of the decisions by or for one's group. While the process of creating awareness is often equivalent to the introduction of new ideas, concepts, or technology, it can also involve re-examining, reinterpreting, and re-evaluating preconceived notions.

### *Understanding*

Understanding is often a natural extension of awareness. Understanding implies having adequate knowledge and reasoning ability to judge and/or make decisions.

Understanding is not only about knowing all the facts related to and all the parts of a particular phenomenon; it is also a comprehension of how these facts and parts relate to each other. Understanding also involves the ability, within reason, to foresee the outcome of related actions.

### *Commitment*

Commitment is typically based on a solid understanding of a concept and suggests a belief in, agreement with, or promise to follow through on an initiative. Commitment to a new initiative is directly related to trust and loyalty and is therefore influenced by how that initiative was introduced, and by whom. Commitment extends beyond the creation of some new activity to include ongoing work with and concern for that initiative. Commitment is often most easily created and maintained by providing a clear sense of the benefits that may be gained through being committed.

## *Action*

Action is the stage at which individuals or groups consciously take the steps necessary to achieve a goal. The most effective and meaningful action is that which results from understanding and commitment. Taking steps to become aware, and developing understanding or commitment based on this awareness, are signals that action has already begun. Action is considered to be a product of having well-defined goals, strategies for achieving those goals, and the commitment to reach them.

### **Farmers' Association Development Process**

The training materials grow out of the following overall process of FA development. Given the development stage of FAs in China, only the first two and part of the third stage are explicitly considered here.

1. Participatory introductory training: During this stage, potential FA members are introduced to concepts and opportunities based on working together in FAs, co-operatives, and other forms of group action. This stage involves the growth of **awareness, understanding, and commitment**.
2. Feasibility study training: In this stage, potential FA members consider in more depth the opportunities for group action related to things such as input procurement, technical assistance provision, production, and marketing. This is an **action** stage, which not only builds on the awareness, understanding, and commitment acquired in the first stage, but also requires **awareness** and **understanding** of how feasibility studies are undertaken and **commitment** to procedures used to establish them.
3. Operational FAs: At this stage, the FA is established and formalized and members are trained in its operation and governance. Although this too is an **action** stage, it can only be undertaken through an **awareness** and **understanding** of how FAs operate, and based on this, through a substantial **commitment** by the members to the organization.
4. Sustainability training: This stage involves the long-term monitoring, evaluation, and mentoring of an association. Since the members of the FA must ultimately carry out this work, the goal of the training at this point is to provide



members with the skills and expertise required to do so. This skill and expertise is directly linked to awareness, understanding, commitment, and action.

Members must have the ability to become **aware** of and **understand** the problems and opportunities that their association is facing, the **commitment** to making the necessary changes, and the ability to take **action** on these changes.

### **External Resources**

The following training framework is intended and designed to recognize and benefit from the considerable work that has already been done in working with groups to develop associations and co-operatives (see reference list below). Many resources and training materials already exist and have been tested and proven effective. This project does not intend to replicate these former exercises, but rather to reference them where applicable, identifying at the same time situations in which they do not fully align with the approach put forward in this document.

### **Participatory Learning**

This training document assumes the use of a participatory learning approach, which is applicable to both the training of the FA developers and in turn the training of the farmers. An overview of this teaching/learning approach can be found in Module PL-1 (p. 23).

An important assumption underlying the training materials is that farmers, both individually and collectively, have the skills and abilities to develop farmers' associations, and once they are established, to successfully operate them. Although claims are often made that farmers lack the requisite experience and education to make decisions in this type of association, our experience indicates that these claims are not valid. With the appropriate training and support, farmers — even those with limited formal education — have the ability to develop and successfully operate FAs.

## **Overview of Document**

The following section provides a general description of the stages that a group typically needs to walk through as it develops a farmers' association. At each stage, the group must make a decision about whether it will take the next step in the development of an FA or will undertake no further work on it. A key element of the process is that each of these decisions must be explicitly considered and intentionally made; at no time should group members be unaware of why they are doing what they are doing. One of the purposes of the training materials is to provide the group with the background and knowledge to make these decisions.

## Farmers' Association Development Decision Tree

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This section outlines the series of decisions FA members must typically make in the process of forming their association. The steps in the process are presented in figure 2 (p. 13).

As outlined in the top left-hand corner, the impetus for the development of an FA comes when a group of farmers faces a problem. This problem may be related to the production of their main product, the supply of key inputs, or the marketing of their output.

The first step in the FA development process is to help the farmers gain **awareness** of the problem and to help them develop an **understanding** of the actions they can take to address the problem. Modules UP-1, UP-2, and UP-3 help the farmers gain this awareness and understanding.



Note to FA developer: Your role is to help the members of the group gain an understanding of the environment in which they function, to explore possible responses/strategies, and to determine whether group action provides sufficient benefits to make it the best response.

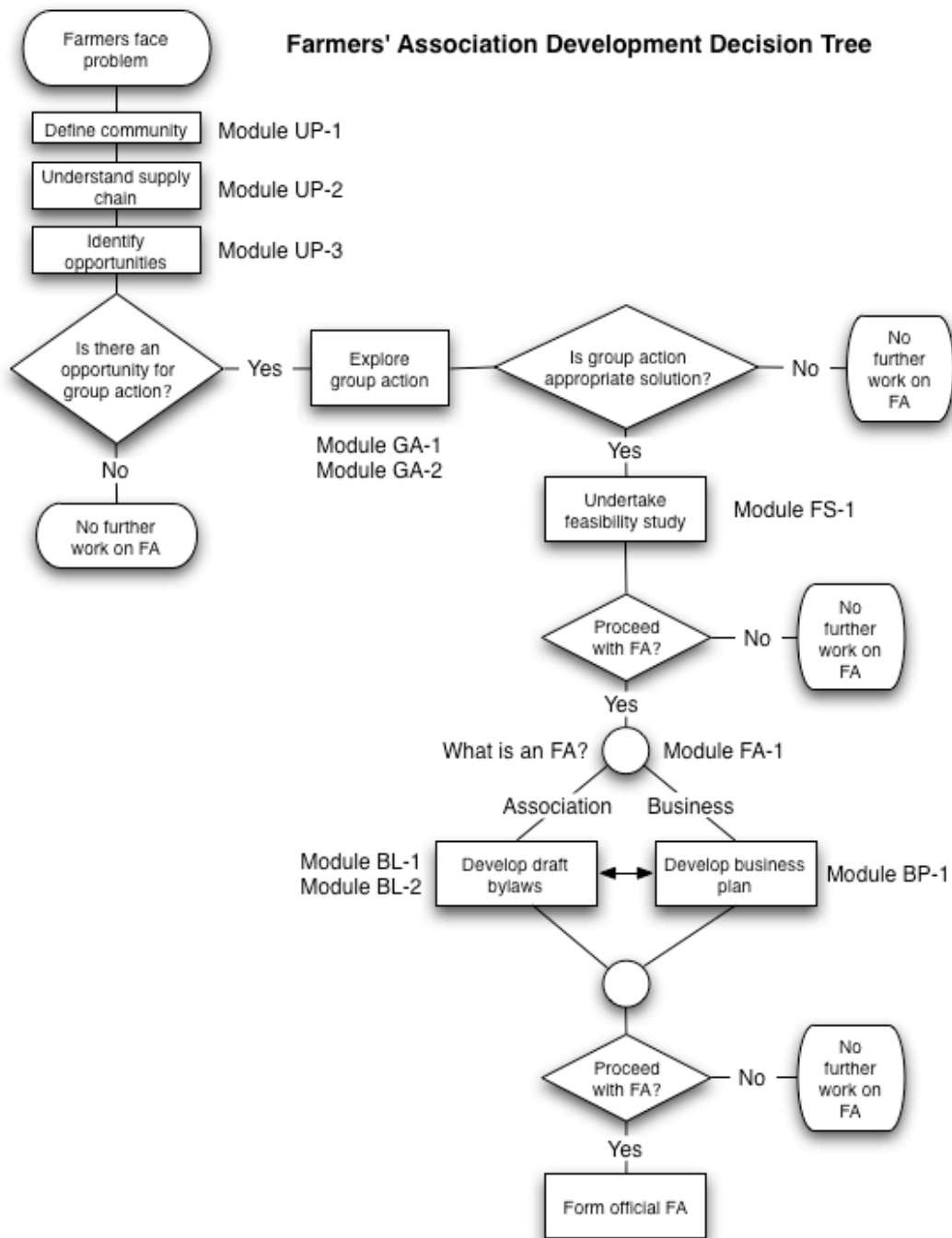
Module UP-1 (p. 25) provides the farmers with an opportunity to become aware of their community — that is, the group with which they share a common problem. Module UP-2 (p. 30) offers them an opportunity to understand the supply chain of which they are part. Understanding the supply chain is critical to addressing their problems, since the operation of the supply chain determines their well-being. Module UP-3 (p. 34) allows farmers to identify opportunities within the supply chain for improving their well-being.



Note to FA developer: Providing the farmers with a clear understanding of the supply chain is critical to both FA development and to the successful operation of the association. It is important that the farmers develop their own awareness and understanding of the supply chain — i.e., that they are not simply given an answer. Thus, it is important that you do not come across as the expert with all the answers. At the same time, it will be necessary for you to develop a good understanding of the supply chain so that you can raise the important issues and draw out the important lessons.



Decision point: After working through modules UP-1, UP-2, and UP-3, the farmers should be in a position to make a decision as to whether there is an opportunity for group action that will address the problem they face.



**Figure 2: Decision tree for the development of farmers' associations**



Note to FA developer: Make sure the farmers actively consider the question, “Is there an opportunity for group action?” Only if the answer is clearly yes should you proceed to the next step, in which the group then moves to an in-depth examination of some of the benefits and challenges of group action. Module GA-1 (p. 39) provides the group with an exercise that shows the benefits of group action when actions can be coordinated, while Module GA-2 (p. 44) shows some of the challenges that emerge when group action is attempted.



Note to FA developer: Module GA-1 is designed to show one of the ways in which group action can provide a group with a benefit. It is important to underscore the idea that group action should only be undertaken if a benefit can clearly be obtained. FAs that form because a group believes they should form one in order to “follow the pack” are likely to be unsuccessful. Module GA-2 is designed to show that group action brings with it some challenges. One of the more common of these is the free-rider problem, which is the subject of this module. Both modules underscore the importance of trust and farmer **commitment** when undertaking group action.



Decision point: After working through modules GA-1 and GA-2, the farmers should be in a position to make a decision as to whether group action is an appropriate way to address the problem they face. By making this decision, the farmers are demonstrating **commitment** to the idea of group action. This commitment, which is built on the awareness and understanding developed in all the preceding modules, is critical to the success of an FA.



Note to FA developer: Make sure the group actively considers the question, “Is group action an appropriate solution?” To answer this question, the group will have to consider material from modules UP-1, UP-2, and UP-3, as well as modules GA-1 and GA-2. Only if the answer is clearly yes should you proceed to the next step, which

involves undertaking a feasibility study. This is an **action** activity, which of course builds directly on the awareness, understanding, and commitment obtained earlier.

The training materials are designed to provide the farmers with the opportunity to learn the basics of a feasibility study and how it is developed. The idea behind Module FS-1 (p. 50) is that a basic **understanding** of a feasibility study is required before the study itself can be undertaken. This basic understanding is provided through a fictitious example that the farmers work through in Module FS-1. Once they have done this, a similar process can be used to develop a real feasibility study for the group, an activity that could occur at this stage, or could wait until the group completes modules FA-1 (p. 63) and BL-1 (p. 71).



Decision point: After working through Module FS-1, the farmers should be in a position to decide if the fictitious group should proceed with developing an FA. Similarly, the farmers should also be in a position to decide whether they should proceed with FA development when they have carried out their own feasibility study.



Note to FA developer: Make sure the farmers in the group actively consider the question, “Should FA development proceed?” It is important that they base this decision on the feasibility study; put somewhat differently, it is important that farmers actually make a **commitment** to using the feasibility study as the basis for making decisions. Watch for situations in which the decision is based on factors that were not addressed in the feasibility study. If this situation occurs, have the group redo the feasibility study with these new factors explicitly introduced into the analysis. As always, only if the answer is clearly yes should you proceed to the next step.

If the farmers have proceeded to the point where they have decided an FA can be more formally developed, it is time to more explicitly consider the question, “What is an FA?” This question is the subject of Module FA-1.

One of the lessons from Module FA-1 is that an FA is both an association of individuals and a business; these two aspects require separate consideration. The association aspect is captured largely in the by-laws of the prospective association, while the business aspect is captured in its business plan.

Module BL-1 walks the group through the key questions that must be addressed when deciding upon the by-laws of an FA. The by-laws are critical because they establish the basic rules of the organization — rules that govern everything from how money is invested to how decisions are made.

Using a fictitious example that raises the key questions that must be examined, Module BL-1 will provide the group with an understanding of the issues that must be addressed in the by-laws. After working through the fictitious example, the group can then move on to consider their association. Alternatively, if the timing is right, the group may bypass the example and move straight to a consideration of the by-laws for their own association. Remember — the development of the by-laws should only be carried out after the group has conducted a feasibility study and made a decision as to whether they should proceed.

Module BP-1 walks the group through the key questions that must be addressed in developing a business plan. This module has not yet been developed. However, the structure of the business plan will be similar to that of the feasibility study, only in much more depth. Thus, if a group is in a position to develop a business plan, it could follow the template provided by the feasibility study. One of the key differences is the depth of research that goes into establishing the revenue and cost estimates. To obtain the level of depth and rigour required in a business plan, it is often necessary to find someone with business-plan expertise. While this individual will do the research required, it is important that the members of the prospective association actively direct and supervise the work that is being done.



Module BL-2 (p. 84) uses two role-playing exercises to examine issues of representation and participation by different household members. This issue, particularly around the role played by women in an association, is critical and needs to be explicitly addressed when forming the by-laws.



Decision point: After working through Modules BL-1, BL-2, and BP-1, the group should be in a position to decide whether they wish to form an official FA. If the group decides to proceed, they need to begin the processes of actually forming the association, getting the members to invest in the association, and beginning operations.



Note to FA developer: Make sure the farmers in the group actively consider the question, “Should FA development proceed?” It is important that the farmers base this decision on both the by-laws they have developed and the business plan they have conducted. As with previous decisions, watch for situations in which the decision is based on factors that were not addressed in either the by-laws or the business plan. It is important to recognize a decision that has been made simply because momentum is pushing the group in that direction. Since this is the last chance to abandon the undertaking, it is important not to proceed if all or many of the signs point to the undertaking being unsuccessful.

Table 1 shows the external resources cited or consulted in the training modules. Details on each of the resources can be found in the reference section.

**Table 1: External Resources Cited or Consulted in the Training Modules**

Resource	PL-1	UP-1	UP-2	UP-3	GA-1	GA-2	FS-1	FA-1	BL-1
CS 2005							✓	✓	✓
FAO 1985	✓	✓							
FAO 1994	✓	✓		✓			✓		
FAO 1998	✓	✓		✓	✓	✓	✓	✓	✓
FAO 2001	✓	✓		✓					
Henehan 2001				✓			✓	✓	✓
Kinnis 2002	✓			✓			✓		✓
Munkner 2005	✓	✓	✓	✓			✓	✓	✓
SIR 2005									✓
USDA 1996							✓	✓	✓

## Case Studies

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An integral part of the training materials is six case studies of farmers' associations from China (five) and Canada (one). The case studies provide an in-depth look at why farmers' associations have formed and the challenges they face during operation. The case studies have been designed to dovetail with the training modules. Table 2 shows the module issues that are addressed in each of the case studies.

**Table 2: Training Module Material Addressed in the Case Studies**

Module	Case 1 Swine Sichuan	Case 2 Rapeseed Sichuan	Case 3 Rabbit Sichuan	Case 4 Vegetables Shandong	Case 5 Potatoes IMAR	Case 6 Snowplow Canada
UP-1				✓	✓	✓
UP-2	✓	✓	✓	✓	✓	
UP-3	✓	✓	✓	✓	✓	✓
GA-1			✓	✓	✓	✓
GA-2						✓
FS-1				✓		
FA-1	✓	✓	✓	✓	✓	✓
BL-1	✓	✓	✓	✓		

The case studies do not contain a lot of information about the role played by women in the featured associations. This lack of information may reflect a belief that the composition of a farmer association is not important to its functioning. As will be shown in Module BL-2, this belief is not correct.

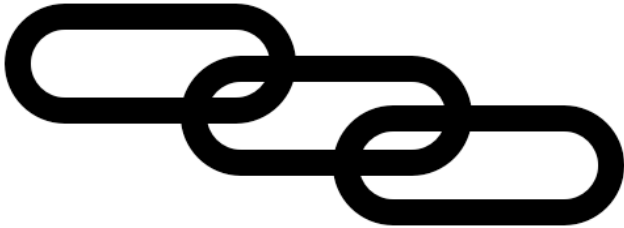
The case studies can be used in a number of ways. They can serve as background material for the FA developer — for instance, the cases provide an example of the free-

rider problem and details on the governance structure of a number of FAs. They can be used as background reading for the group during a training session or as the focal point for group discussion — for instance, the FA developer might want to have the group read one or more of the case studies and then discuss what they have learned. And they can be used as a reference for group members when they are making decisions regarding a farmers' association.

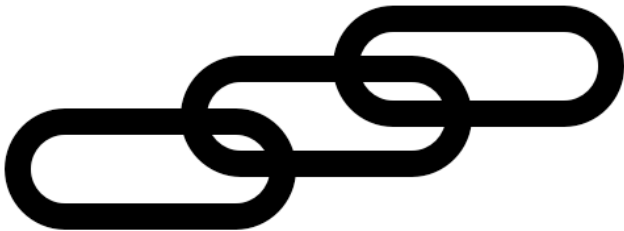
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## **Training Modules**



## **Module PL-1: Participatory Learning**

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### **What Is Participatory Learning?**

Participatory learning is a pedagogical approach that actively involves all members of a group in the teaching/learning process. It ensures that everyone's contribution is given appropriate consideration and that nobody dominates the discussion. The participatory learning method recognizes and unlocks local knowledge that then becomes the focus of the learning exercise. This method acknowledges that much of the knowledge crucial to understanding a problem at hand resides with the people who are involved in the learning exercise.

### **Benefits of Participatory Learning**

Participatory learning empowers the individuals involved by recognizing the value of each individual's contribution to the overall process. The group activities and processes included in this model help to develop skills that are transferable to later stages of the given initiative or to other unrelated projects. Overall, the people involved gain a better understanding of their own circumstances and opportunities and what they can contribute to the initiative. Ultimately, through successful involvement and meaningful contribution, participants develop greater self-confidence and self-worth.

### **Challenges of Participatory Learning**

While participatory learning is intended to involve all participants in some equitable fashion, it is often challenging for the facilitator to ensure that this happens. Individuals accustomed to taking a leadership role within the group easily assume that role in these exercises. It is critical for the facilitator to recognize and limit that contribution while ensuring that others are encouraged to take part. It is especially important to involve subgroups such as women or youth, whose contributions are sometimes less valued. Such efforts may challenge cultural norms and it is therefore critical for the facilitator to exercise sensitivity.

It is also more challenging to use pre-prepared materials or curriculum with participatory learning. Materials must be carefully selected and adapted to suit the specifics of the particular group at hand. Failure to take such care runs the risk of imposing a “one-size-fits-all” approach to development.

### **Using Participatory Methods**

Participatory learning has become an increasingly popular method in development work. Group facilitators should review the many guides and “how-to” manuals that exist on the subject. Generally, these guides will encourage the use of methods such as “brainstorming,” which encourages contributions from all participants. For a good introduction to participatory learning methods, see *The Group Promoter’s Resource Book* prepared by the Food and Agriculture Organization (FAO) of the United Nations.



## Understanding the Problem

### Module UP-1: Defining and Understanding Community

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#### Exercise #1



#### *Objective*

The purpose of this exercise is to have the group think about what community means and how it might be thought of differently by different people and at different times.



#### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard



#### *Time Required*

Approximately 45–60 minutes

- 5–10 minutes for individual work
- 15–20 minutes for subgroup work
- 25–30 minutes for large group work



#### *Process*

Begin by having each person draw a picture of what they believe is their community. Do not provide too much guidance in this exercise. Participants may choose to draw a map with a circle indicating their community; they may draw a group of people; they may draw the skyline of a town or city; or they may think of their community as a group of houses. Be clear that artistic skill is not important and that anything goes, but that they must be prepared to explain what they have drawn and why they think of this as their community.

Depending on the size of the group, have group members either form dyads (groups of two) or small groups (if the overall group is larger). In their dyad or group, each person must explain his or her picture to the others. Everyone should attempt to explain why they “defined” community the way they have.

Have the subgroups report back to the larger group on what they have observed. The facilitator can record in point form on a flip chart or chalkboard some of the reported observations. The facilitator may ask some of the questions identified below in order to provoke discussion.



### *Probing Questions*

- What factors contribute to how you define community?
- Is it possible to belong to more than one community? Explain.
- Why might it be important to form some common understanding of community when you want to work together on a project?
- Both men and women are key members of the community. What strengths do men bring to the community? What strengths do women bring? How might some of these strengths be missed if women are not viewed as part of the community that is defined by the participants?



### *Wrap-Up*

Leave flip charts, pictures, lists, observations, etc. posted where they can be easily viewed or revisited.

## Exercise #2



### *Objective*

The purpose of this exercise is to have the group come to agreement on what community means for the purpose of FA development and to explore that community's capacity for undertaking a project. It is critical to emphasize the strengths and experiences of both women and men.



### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard



### *Time Required*

Approximately 2 hours

- 15 minutes to identify which community to consider
- 45 minutes for SWOT analysis
- 20 minutes reporting back to large group on process
- 20 minutes reporting back to large group on SWOT
- 10 minutes to identify as internal or external factors
- 10 minutes for wrap-up



### *Process*

Break the group into subgroups of four or five participants each. Have each group choose a community to consider for the purpose of forming an FA. This might be a geographical community, an agricultural-sector community, or a cultural community. Let each group figure out how to come to this decision, but instruct them to make sure that each member has equal input and influence in the decision. If some members of a group (e.g., women) are excluded from the discussion and input, the facilitator needs to challenge the group about the fairness and the efficacy of the process that was used.

Provide each group with four sheets of flip-chart paper. Have them label the sheets as follows: Strengths, Weaknesses, Opportunities, Threats (SWOT). Instruct the group to identify items related to their selected community for each list.

Have one person from each group report to the larger group on what community they decided to consider, how they came to that decision, and how or if that decision-making process was effective.

The facilitator can ask the larger group which of the decision-making processes seemed to work best. Which were less effective? What was it about the respective approaches that made them more or less effective? Make a list of effective and less effective processes and post in a visible place.

Have a new person from each group report on the SWOT analysis.

Have the small groups reconvene and quickly identify if the items on their lists are internal to their community (e.g., knowledge of how to grow a particular crop) or external (e.g., a market trend away from a particular commodity). Have them label each item with an “I” or “E” and then post the flip charts in visible spots.

During the exercise, the facilitator may ask some of the following questions to provoke discussion.



### *Probing Questions*

- Did your group find it difficult to decide on a specific community for the purpose of forming an FA? Why?
- Do you have control over internal factors? How?
- Do you have control over external factors? Explain.

- If you were going to go through this exercise again, how might you adjust the process? Why?



### *Wrap-Up*

Leave flip charts, pictures, lists, observations, etc. posted where they are easily viewed or revisited.

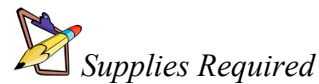
## Understanding the Problem

### Module UP-2: Exploring the Supply Chain

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The purpose of this exercise is to have group members develop awareness of the supply chain in which they operate.



Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard



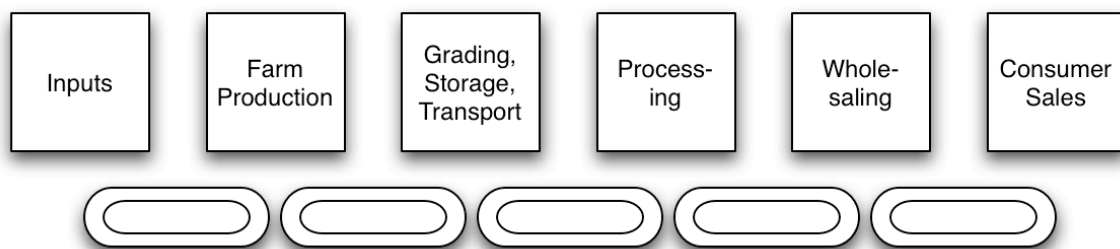
Approximately 120 minutes



In this module, the group, with the help of the facilitator, will draw a **map** of the supply chain in which they are operating. Prior to this exercise the facilitator needs to acquaint him/herself with a basic understanding of the supply chain in question. During the exercise, however, the facilitator must be careful to let the group develop the map. It is important for the group to indicate where they are unsure of how the supply chain operates; it is also important to indicate where there are conflicting opinions on how the supply chain operates. In follow-up sessions, these areas of uncertainty and conflict can be further explored and resolved once more information has been obtained. In describing the supply chain, it is useful for the group to be explicit about the actors in the supply chain. Are they men? Are they women? Are they corporations? Do women play different roles (e.g., ones that are important but often underestimated) than men? When asking the group for input, the facilitator may wish

to use dyads or triads (groups of two or three) as a way of getting the group members to come up with ideas for the map.

The facilitator begins by asking the group for a brief overview of the supply chain for their product. The following definition can work as a starting point: a supply chain is a series of stages that a product must go through from its initial production to its final consumption. On the basis of the responses and follow-up questions, the facilitator should be able to illustrate a supply chain as follows:



Once the basic supply chain has been drawn, the facilitator works with the group to further develop the map. It is important to note that the supply chain may have many branches, since the same product can end up in many different markets (e.g., potatoes can be sold to consumers through local markets, through supermarkets, or through hotels and restaurants).

(a) Farm Production: Have the group describe the product that is being produced as well as the structure of the farm production sector (e.g., lots of small farmers, majority of work undertaken by women). Who (men or women) makes the farm production decisions? Who (men or women) does the farm production work? What production problems exist? Is farm income a function solely of the quantity that is produced, or is quality important? If quality is important, on what does quality depend? What is the most risky aspect of farm production? Record the responses on a separate sheet of paper.

(b) Inputs: Get the group to describe the key inputs required to produce the farm product. (Note: inputs can include variable inputs such as seed, fertilizer, labour, and water, as well as capital items such as equipment. They can also include things such as credit and technical knowledge.) For each of the key inputs, get the group to describe the structure of the sector providing these inputs (e.g., number of suppliers). Is research and development (R&D) important for the input suppliers? Are input prices a concern to farmers? Is the quality of the inputs important? Is trust between the input suppliers and farmers high or low? Record the responses on a separate sheet of paper.

(c) Grading, Storage, and Transportation: What needs to happen to the farm product before it can be sold to the processor? For instance, does it need to be graded? Stored? Transported? What is the structure (e.g., number of suppliers) of the sectors involved in each activity? Is the price charged for storage or transportation a concern for farmers? Is the quality of these services as good as the participants expect? Is trust between farmers and the firms engaged in grading, storage, and transportation high or low? Record the responses on a separate sheet of paper.

(d) Processing: How is the farm product processed? Is the quality of the product important in how it is processed? Is the quality of the processed product important? On what does the quality of the processed product depend? What is the structure of the sectors involved in processing? Is R&D important for the processing firms? What other inputs do the processors need besides the farm input? What substitutes could the processors use for the farm input? Record the responses on a separate sheet of paper.

(e) Consumer Sales: What are the outlets through which consumers can purchase the products produced from farm-level output? To what do consumers pay most attention: Price? Quality? Food safety? What is the structure of the various outlet markets? Is advertising important in selling to consumers? Record the responses on a separate sheet of paper.



During the exercise, the facilitator may ask some of the following questions to provoke discussion.



### *Probing Questions*

- What factors determine the value that farmers are able to obtain for the product they produce? Which of these are the most important?
- Why might the structure of each sector be important in determining the value obtained by farmers?
- What role does government play in the supply chain?
- How has the supply chain changed over the last five years?
- What changes might be expected in the next five years?



### *Wrap-Up*

Briefly discuss the nature of the supply chain, making the point that the value obtained by farmers depends on how well all the other parts of the supply chain work. Review the role played by government. Highlight the extent to which product quality is important in the supply chain.

## Understanding the Problem

### Module UP-3: Identifying Opportunities in the Supply Chain

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#### *Objective*

The purpose of this exercise is to have the group identify the opportunities for group action within the supply chain.



#### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard



#### *Time Required*

Approximately 90–120 minutes



#### *Process*

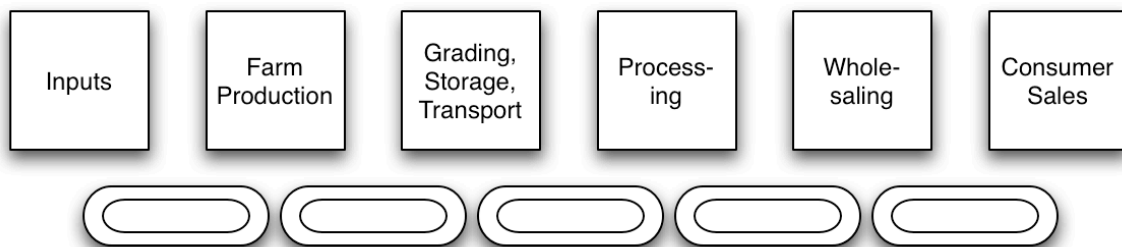
In this module, the group, with the help of the facilitator, will identify activities that need to be strengthened in the supply chain in order to increase the value farmers receive for their products. The group will also identify which of these activities it might make sense for farmers to undertake together.

Prior to this exercise the facilitator needs to acquaint him/herself with a basic understanding of the supply chain in question. During the exercise, however, the facilitator must be careful to let the group identify the activities. It is important for the group to indicate where they are unsure of their information and the decisions they make, and where conflicting views exist. These areas of uncertainty and conflict can be further explored and resolved once more information has been obtained. When asking the group for input, the facilitator may wish to use dyads or triads (groups of two or three) as a way of getting the group members to come up with ideas.

The formation of a farmers' association to deal with a stage in the supply chain outside of the farm production sector is a form of vertical integration where farmers — as a group — make an investment in a different stage of the supply chain. Generally speaking, the further farmers vertically integrate either forwards or backwards in the supply chain, the greater are the problems and difficulties. This point should be kept in mind during the exercise, with more attention being given to the input stage and the grading, storage, and transportation stage than to other stages that are more distant in the supply chain from farm production.

### Part A

The facilitator begins by reviewing the structure of the supply chain and the description provided by the group in Module UP-2.



### Part B

The facilitator then asks the group to examine each stage of the supply chain to identify which activities could be done by a group of farmers. It is useful to get participants to be specific about which farmers would undertake the activities — men, women, or groups of men and women — and why. For instance, there may be activities that groups of female farmers could profitably undertake — this could be based on some of the traditional division of labour on farms in China. If there are women participants, they could be grouped together and charged with thinking about whether it is better for them to form a women's group or to play a role in a community-wide FA.

(a) Farm Production: Which activities need to be strengthened in this stage of the supply chain? Of these activities, which should farmers rely on others to undertake? Which activities can farmers do individually? Which activities would be better done by a group of farmers? How does a group undertaking these activities provide greater benefits than if they were done individually or by others? Record the responses on a separate sheet of paper.

(b) Inputs: Which activities need to be strengthened in this stage of the supply chain? Of these activities, which should farmers rely on others to undertake? Which activities can farmers do individually? Which activities would be better done by a group of farmers? How does a group undertaking these activities provide greater benefits than if they were done individually or by others? Record the responses on a separate sheet of paper.

(c) Grading, Storage, and Transportation: Which activities need to be strengthened in this stage of the supply chain? Of these activities, which should farmers rely on others to undertake? Which activities can farmers do individually? Which activities would be better done by a group of farmers? How does a group undertaking these activities provide greater benefits than if they were done individually or by others? Record the responses on a separate sheet of paper.

(d) Processing: Which activities need to be strengthened in this stage of the supply chain? Of these activities, which should farmers rely on others to undertake? Which activities can farmers do individually? Which activities would be better done by a group of farmers? How does a group undertaking these activities provide greater benefits than if they were done individually or by others? Record the responses on a separate sheet of paper.

(e) Consumer Sales: Which activities need to be strengthened in this stage of the supply chain? Of these activities, which should farmers rely on others to undertake?

Which activities can farmers do individually? Which activities would be better done by a group of farmers? How does a group undertaking these activities provide greater benefits than if they were done individually or by others? Record the responses on a separate sheet of paper.

During the exercise, the facilitator may ask some of the following questions to provoke discussion.



### *Probing Questions*

- Have the group consider the activities they could undertake in terms of “make” versus “buy.” Is it better for the group to buy a good or service from someone else, or is it better to make the good themselves? What are the costs of making versus buying? The benefits of making versus buying?
- Why would the activities that are identified be better done by a group of farmers?
- Does group action provide economies of scale that individual action does not?
- Does group action provide greater bargaining power than individual action?

### Part C

Once the activities that could be done by a group of farmers are identified, the facilitator asks the group to rank the activities in order of the likelihood of success. Factors to consider in establishing this order include: scale of the activity (e.g., number of farmers required); mix of the farmers (e.g., women, men, or a mix); level of investment required; level of risk associated with the activity; benefit provided if the activity is successful; history of the group working together; and level of trust in the group.



### *Wrap-Up*

Review the activities that could be carried out by a group of farmers and identify similarities among these activities (if any). Have the group members indicate their agreement with the activities that have been chosen, as well as with the ranking they have developed.

## Group Action

### Module GA-1: The Benefits of Co-ordination

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#### *Objective*

The purpose of this exercise is to have the group understand the need for and the benefits of co-ordination.



#### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard, organization voting slips (copied as necessary from the sheet supplied)



#### *Time Required*

Approximately 30 minutes



#### *Process*

Indicate to the group that they are going to engage in a role-playing game. The game is designed to highlight key features of individual behaviour in group situations. While elements of these features are likely to show up in real-life situations, the game itself does not represent any specific real-life situation.

Indicate that each person in the room is a farmer. Each farmer purchases one unit of feed for his or her livestock. A group of farmers is discussing setting up a farmers' association to provide this feed at a lower price than the price at which it can be purchased currently. The association discovers that, because of economies of scale, its costs fall with the amount of feed that is purchased. Specifically, suppose the association's cost (this is the full cost, including obtaining the feed, the cost of financing, and the cost of administration) of feed is given by  $C = Y120 - X$ , where  $X$  is

the amount of feed sold by the association. The association charges its members exactly the cost that is incurred. Since each farmer purchases one unit of feed,  $X$  is also equal to the number of farmers who decide to purchase their feed from the association. Use the board to write down these essential features.



Note to FA developer: The figure of  $Y_{120}$  can and should be changed to match the size of the group. As a rough formula, this figure should be equal to  $Y_{100} + 0.7 N$ , where  $N$  is the total number of people playing the game. With this formulation, at least 70 percent of the group will have to join the association before it is beneficial to do so.

Each farmer has to decide whether to purchase feed from the association or from a private company. The private firm sells a unit of feed for  $Y_{100}$ . The goal of each participant is to minimize the price they pay for feed. The feed is assumed to be the same quality whether it is purchased from the association or the private firm.

Ask each participant to use the attached slips of paper to indicate whether they are going to purchase from the association or the private firm (they can simply check the appropriate box). It is important to stress that if the participants choose to purchase from the association, they will **not** be able to purchase the feed from the private firm (and vice versa).

In the first round of the game, have the participants make the decision **without** any interaction or communication. After the participants have made their selections, collect their slips and total up the number of people who have chosen to purchase from the association. Use the board or flipchart to indicate the number of people who chose the association, and the final price that results.

Discuss the results of the game with the group. Ask specific individuals what factors they considered when they made their decision. Keep asking different participants until you get someone who says they were trying to guess/estimate/anticipate the choices



that the other farmers were going to make. Using this response, make sure the participants understand why it is important to have a good idea of what the other participants are going to do (all the participants should understand that if not enough of them choose the association, then nobody should choose the association; however, if a critical mass chooses the association, then everyone should choose the association).

If the participants' choices in the first round resulted in a price that was higher than that of the private firm, have the group participate in a second round where they again have to make a choice between the association and the private firm.

At the end of the role-playing game, use the following questions to help the group understand co-ordination and its benefits. Jot down answers on the flip chart.



### *Probing Questions*

- Why is co-ordination important in this game?
- What things would encourage co-ordination among the members of a group? (Look for answers such as trust, communication, repeated interaction among the members, use of agreements or contracts.)
- The situation presented in the game has also been called an assurance game or problem. Why would it have been given this name?
- What other situations can the participants identify where co-ordination is required for group action to provide benefits? (Answers might include marketing products that have similar quality; storing product so that it is not all sold at the same time; using shared equipment at times when others are not using the equipment.)



### *Wrap-Up*

Briefly discuss the importance of co-ordination throughout the supply chain and the fact that other players in the supply chain may be expecting farmers to act in a co-ordinated fashion. Note that obtaining a **critical mass** of participation is often critical

in getting the rest of the people to participate. Thus, it is often important to focus on getting this critical mass in place. Review the role of trust and communication in achieving co-ordination.

## Module GA-1: Organization Voting Sheet

Make copies as necessary.

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## Group Action

### Module GA-2: The Free-Rider Problem

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#### *Objective*

The purpose of this exercise is to have the group understand one of the pitfalls of collective action — the free-rider problem — and how it can be addressed.



#### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard, price tally sheets and organization voting slips (copied as necessary from the sheets supplied)



#### *Time Required*

Approximately 60–90 minutes



#### *Process*

Indicate to the group that they are going to engage in a role-playing game. The game is designed to highlight key features of individual behaviour in group situations. While elements of these features are likely to show up in real-life situations, the game itself does not represent any specific real-life situation.

Indicate that each person in the room is a farmer. Each farmer purchases one unit of feed for his or her livestock. A group of farmers is discussing setting up a farmers' association to provide this feed at a lower price than the price at which it can be purchased currently. The association discovers that, because of economies of scale, its costs fall with the amount of feed that is purchased. Specifically, suppose the association's cost (this is the full cost, including obtaining the feed, the cost of financing, and the cost of administration) of feed is given by  $C = Y120 - X$ , where

X is the amount of feed sold by the association. The association charges its members exactly the cost that is incurred. Since each farmer purchases one unit of feed, X is also equal to the number of farmers who decide to purchase their feed from the association. Use the board to write down these essential features.



Note to FA developer: The figure of Y120 can and should be changed to match the size of the group. As a rough formula, this figure should be equal to  $Y100 + 0.5 N$ , where N is the total number of people playing the game. With this formulation, the price will centre approximately on Y100.

Each farmer has to decide whether to purchase feed from the association or from a large private company. The goal of participants is to minimize the price they pay for feed. The feed is assumed to be the same quality whether it is purchased from the association or the private firm.

The private firm always sells a unit of feed for Y2 less than the price charged by the association — i.e., the private firm always undercuts the price offered by the association. The private firm can do this because its size enables it to lower its cost sufficiently to make a profit even if it undercuts the association; presumably, as the price the private firm offers goes up, the firm earns more profits. This element of the game is introduced to capture the idea that the private firm is likely to respond in a strategic fashion to the actions undertaken by the association and its members.

Ask each participant to use the attached slips of paper to indicate whether they are going to purchase from the association or the private firm (they can simply check the appropriate box). It is important to stress that if the participants choose to purchase from the association, they will **not** be able to purchase the feed from the private firm (and vice versa). The participants are to record their decisions on their price tally sheets.

After the participants have made their selections, collect their slips and total up the number of people who have chosen to purchase from the association. Use the board or flipchart to indicate the number of people who chose the association, and the final price that results. Have the participants record the price they paid on their price tally sheets.

Repeat the game for four or five rounds. During these rounds do not directly encourage any discussion among the participants; however, if they begin to discuss the situation on their own, let the discussion take place. Stress to the participants after each round that their goal is to minimize the price they pay for feed.

After four or five rounds, ask the participants to describe what is going on. Get them to describe the dilemma they face — i.e., how at any given time they can make themselves better off by choosing the private firm, but if everyone were to do this, all group members would end up losing. Make sure the participants understand why this dilemma exists.

Have the group participate in one or two additional rounds, keeping track of the decisions as for the previous rounds. Get members of the group to describe what is different during these last few rounds compared to the first four or five rounds.

At the end of the role-playing game, use the following questions to help the group understand the dilemma. Jot down answers on the flip chart.



### *Probing Questions*

- Why is the situation in the game called the free-rider problem?
- What other situations have a free-rider problem? (Possible answers include work point systems in the former village communes, the iron rice bowl.)
- The free-rider problem can often be solved. What needs to be done to solve this problem? (Look for answers such as trust, communication, an understanding of

the situation, repeated interaction among the members, penalties for people who cheat.)



### *Wrap-Up*

Briefly discuss the importance of the free-rider problem to farmers' associations, particularly as it relates to decisions to do business with the farmers' association and to provide it with capital. Note that trying to get full participation is usually not possible (e.g., see Case Study 6, p. 129). However, if a large number of the members of an association can co-operate, the impact of the free riders is usually small. Review the role of trust and communication in solving the free-rider problem. Also discuss the need to have both men and women committed to a project. For instance, if both men and women are involved in production, then they both need to contribute to the decision making. Even if only one of them is actively involved in farming, it may be important to the success of the project if both of them are committed to it, since participation in an FA will likely lead to impacts in other parts of the household. If one spouse is reluctant to join, convincing the other spouse and getting them to work on their partner can also be an important way of generating commitment and trust.

## Module GA-2: Organization Voting Sheet

Make copies as necessary.

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**Module GA-2: Price Tally Sheet**

回合 Round	协会/社团 Association	私有企业/私营企业 Private Firm	已付款项 Price Paid
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2			
3			
4			
5			
6			
7			
8			
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21			
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23			
24			
Total			

## Module FS-1: Feasibility Study: Fictitious Farmers' Association

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The purpose of this exercise is to show farmers the steps that must be undertaken for a feasibility study.



Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard; computer and PowerPoint projector are useful but not required; copies of supplied background materials, as required



Two to three hours



Indicate to the group that they are members of a fictitious farmers' association that is undertaking a feasibility study. More specifically, explain to the group that they are to pretend to be members of the fictitious bee-keepers' group described below. The challenges the group faces and the decisions they must make are similar to those faced by any group planning on forming a co-operative. As the participants work through this exercise, it is important they understand that the tasks assigned to them are similar, although not identical, to those they will face with their own organization. They should also consider that while the trainers provide the information for this fictitious case, in reality this information would have to be gathered by the members of the FA.

It is important to stress that the decisions the participants must make in this exercise will affect both their own well-being and that of the other members of the group. The

participants must be made aware that they are all facing the same problems and opportunities.

### Introduction

Break the participants into six groups of approximately the same size. Give each group the page that provides the background material on the bee-keepers' group and the problems and opportunities it faces. As the material indicates, the beekeepers' group has to undertake a feasibility study to determine if the association should produce and sell bee feed.

### Income Statement

Provide each group with a copy of "Basic Elements of an Income Statement" (see p. 55). Outline the two major components of the income statement — revenues and costs. Briefly discuss what makes up revenues and costs. Although more complicated situations can easily arise, revenues typically are obtained by multiplying quantity sold by price. Total costs are the sum of the costs of materials, labour, land and buildings, and the cost of financing these expenditures.

Indicate that each working group is responsible for collecting the data required to complete a specific portion of the income statement (you can add that the term "working group" is used because the group is expected to work to find the data required). Explain that in a real association they would need to decide how they would share responsibilities and how the large group might be broken into subgroups with particular tasks. For this exercise we will assume that the group has resolved this issue and that the groups have been assigned to certain jobs.

Hand out to each working group a sheet detailing the information the group needs to complete their portion of the income statement. (Each group should receive only the relevant sheet for that group.) Explain that one group will be working on the association side of the exercise while the remainder of the groups will be working on the business side of the exercise. Stress that one task is not more important than the others and that without each group's contribution, this exercise cannot move ahead.

Discuss how, in real life, the larger group might decide who would do certain parts. Explain that while each member might not be involved in gathering information for each task, it is important for them to at least be aware of what information is required and where it might be found. Stress the value of local knowledge, as well as contacts, networks, agencies, or programs that might be accessed.

The information sheets have been designed so that each group must consult with at least one other group in order to be able to provide the required information. Ideally the groups can be left to figure out on their own that they need to co-operate with each other. At some point it is useful to stress to the groups that this type of co-operation between working groups is not only typical but necessary in real-life situations.

Once the working groups have obtained their information, reconvene the large group and have each working group present the information they have collected. As the groups report, complete the income statement appropriately. A completed income statement is provided to use as a reference (see p. 62). It is important to note that the revenue section cannot be completed with the information provided to the working groups, since price information was not made available to any of the groups.

The price the association will charge has to be discussed and approved by all the members. Have the group discuss why they would not want the price to exceed \$110 per kilogram (the bee-keepers can always purchase bee feed from the world market at this price). How much can the price of bee feed be lowered? Make sure the farmers understand why choosing a price involves a complicated balancing act. As users of the product provided by the FA, they would like to see the price set lower. Doing so, however, results in the FA becoming less profitable, thus jeopardizing the investments the members have made as well as likely making it more difficult for the FA to operate. To drive home this point, a number of different prices can be used to generate different income statements. Have the group make a final decision as to the price they would like to see the FA charge.

Use the following questions to help the group understand the aspects of a feasibility study highlighted in the exercise.



### *Probing Questions*

- What are the main components of an income statement?
- What do the association side and the business side of an FA refer to?
- Why is each of these important?
- Why is choosing price a complicated balancing act for an FA?
- What should a group do if the feasibility study shows that it is unlikely that an FA will be profitable?



### *Wrap-Up*

Ask the group if they think the bee-keepers should go ahead with the formation of the ABFA (Associated Bee-Keepers Farmers' Association). What reasons do the group members have for the answer they gave?

## Canadian Bee-Keepers' Group — Background Information

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The Canadian Bee-Keepers' Group (CBG) is a group of honey producers in Canada. The group consists of both men and women; in some cases the women are the active representatives of their household (and raising bees is part of the household activities), while in other cases the women are the ones primarily involved in raising bees. The board of directors of the CBG currently has two women members (one of whom is vice-president), and the executive director is a women.

The group has a common identity because they all farm in the same geographic region and because they all produce a similar type of honey. The honey from this particular area is of the highest quality and it is produced primarily from the nectar collected from buckwheat blossoms, which by nature are more difficult for honey-bees to harvest. Therefore, while the honey is of superior quality and usually commands a higher price, the quantities produced are less than those from alternative blossoms such as clover.

A new product has recently been introduced that increases the efficiency of production from buckwheat blossoms. This product is a feed given to the bees in the hives. The current world market price for this feed is \$110 per kilogram.

The CBG has discovered that the equipment and technology to produce the bee feed can now be purchased. At a recent meeting, CBG members decided to consider the possibility of creating an FA to produce and sell the feed. The preliminary name for the FA is the Associated Bee-Keepers Farmers' Association (ABFA). The first step in this process is to undertake a feasibility study that lays out, in the form of an income statement, the revenues and costs that the FA can expect. On the basis of this feasibility study, a decision will be made whether or not to proceed with the formation of an FA that will produce and sell bee feed.

## Basic Elements of an Income Statement

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The following table shows the main elements of an income statement for the Associated Bee-Keepers Farmers' Association. The top portion of the statement presents the income a business can expect to earn, while the bottom portion presents the expenses that must be incurred to generate the revenue. The difference between the total revenues and the total costs is net revenue, which is also a measure of the profits of the business. Total revenues typically are obtained by multiplying quantity sold by price. Total costs are the sum of the costs of materials, labour, land and buildings, and the cost of financing these expenditures.

### Income Statement — Associated Bee-Keepers Farmers' Association (ABFA)

	Period				
	1	2	3	4	5
<b>Revenue</b>					
Price	.....	.....	.....	.....	.....
Quantity	.....	.....	.....	.....	.....
<b>Total Revenue</b>	.....	.....	.....	.....	.....
<b>Costs</b>					
<b>Operating Costs</b>					
Cost of materials	.....	.....	.....	.....	.....
Labour	.....	.....	.....	.....	.....
Land and buildings (lease)	.....	.....	.....	.....	.....
Total operating costs	.....	.....	.....	.....	.....
<b>Financing Costs</b>					
Interest on operating costs	.....	.....	.....	.....	.....
Interest & principal on capital costs	.....	.....	.....	.....	.....
<b>Total Costs</b>	.....	.....	.....	.....	.....
<b>Net Revenue</b>	.....	.....	.....	.....	.....

## Association Development: Membership Working Group

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The task for your group is to determine how many farmers are interested in joining the proposed farmers' association (and thus how much demand there will be for the FA's product) and the total amount of investment the members will be prepared to make.

Your working group has determined that there are approximately 150 honey producers who could potentially participate in the FA. About 120 of these producers are households where both men and women (and children) participate in raising bees and honey. The remainder of the producers consists of women who have taken up bee-keeping as a way of earning extra cash. After many conversations with the bee-keepers in the region, your group has determined that about 100 of the producers are likely to participate in the co-op. On average, each producer can be expected to purchase 10 kilogram of bee feed a year.

Your group has determined that each production unit that is willing to join the FA is willing to invest \$500 for the purchase of equipment and technology.



## Business Development: Cost-of-Materials Working Group

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Producing the special honey-bee feed requires a variety of ingredients. The job of your group is to determine the availability and total cost of materials for the manufacture of the feed.

The equipment manufacturer has provided you with the recipe for producing the bee feed. Based on this recipe and the quotes that you obtained from suppliers, you find that the per-kilogram cost falls with the amount that is produced. This declining cost arises because of volume discounts that can be achieved when purchasing larger amounts of the ingredients. The cost schedule per kilogram produced is as follows:

Quantity (kgs.)	Materials Cost (\$/kg.)
500	35
750	30
1,000	25
1,250	20

## Business Development: Labour-Cost Working Group

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Manufacturing bee feed at the scale proposed for this co-op involves hiring a person for a few months of the year. The task of your group is to determine the total cost of labour. The staff person requires some specialized training, which would happen before production begins. This person will also be trained to handle the bookkeeping for the association. Given the economies of scale that exist in production, your group has discovered that the per-unit labour cost falls as the quantity of production goes up. The cost schedule per kilogram produced is as follows:

Quantity (kgs.)	Labour Cost (\$/kg.)
500	45
750	35
1,000	25
1,250	15

## Business Development: Land-and-Buildings-Cost Working Group

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In order to manufacture and distribute the bee feed that ABFA is going to produce, you require a building to house the production machinery, some storage space for ingredients and for the feed before it is shipped to the members, and some minimal office space. Your task is to determine the total cost of land and buildings.

Your working group has discovered that suitable land and buildings are available in your region. After contacting a local real estate agent, you received the following information on the annual lease cost of the land and buildings, per kilogram produced, assuming that the lease is taken out for a five-year period.

Quantity (kgs.)	Land and Buildings Cost (\$/kg.)
500	30
750	25
1,000	20
1,250	15

## **Business Development: Interest-on-Operating-Costs Working Group**

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Since the bee feed is going to be produced and stored for up to a year before it is sold to the members, it is necessary to borrow the money to pay for the materials, labour, land, and buildings. Your working group has been given the task of determining the cost of borrowing money to cover the operating costs. To figure out the operating costs, you will need to work closely with the working groups assigned to those particular tasks.

After a meeting with the local credit union loans manager, you discover that a line of credit can be set up with an interest rate of 5 percent per year.

The total interest to be paid will be equal to 5 percent of the total operating costs, where the total operating costs are equal to the sum of the cost of materials, the cost of labour, and the cost of land and buildings.

## **Business Development: Interest-and-Principal-on-Capital-Costs Working Group**

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Your group has been assigned the task of determining how much money the co-op will need to borrow to purchase the feed production equipment and technology, as well as the cost of paying off the loan.

Your group has learned that the cost of purchasing the equipment and technology to manufacture the bee feed is \$120,000. This includes the cost of getting the equipment set up and operating. The loan that will be required is equal to this cost less the equity that the members are prepared to contribute.

You have discovered from talks with the local credit union loan manager that the annual interest rate on the loan will be 5 percent. The loan will be amortized over a five-year period with equal annual payments covering interest and principal. The annual payment for different loan amounts is given in the table below.

Loan Amount (\$)	Annual Payments (\$)
45,000	10,394
70,000	16,168
95,000	21,943

## Completed Income Statement

### Income Statement – Associated Bee-Keepers Farmers’ Association (ABFA)

	Period				
	1	2	3	4	5
<b>Revenue</b>					
Price	100	100	100	100	100
Quantity	1,000	1,000	1,000	1,000	1,000
<b>Total Revenue</b>	100,000	100,000	100,000	100,000	100,000
<b>Costs</b>					
<b>Operating Costs</b>					
Cost of materials	25,000	25,000	25,000	25,000	25,000
Labour	25,000	25,000	25,000	25,000	25,000
Land and buildings (lease)	20,000	20,000	20,000	20,000	20,000
Total operating costs	70,000	70,000	70,000	70,000	70,000
<b>Financing Costs</b>					
Interest on operating costs	3,500	3,500	3,500	3,500	3,500
Interest & principal on capital costs	16,168	16,168	16,168	16,168	16,168
<b>Total Costs</b>	89,668	89,668	89,668	89,668	89,668
<b>Net Revenue</b>	10,332	10,332	10,332	10,332	10,332

## Module FA-1: What Is a Farmers' Association?

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The purpose of this exercise is to have the group identify the key aspects of farmers' associations and co-operatives.



Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard, copies of ICA statement for group members



Approximately 120–150 minutes



Start by sketching out the co-operative development process as a timeline (recall the discussion in the section “Farmers’ Association Development Decision Tree” (see pp. 11–18). Identify where in that process the material covered in this workshop is situated and explain why this foundational work is critical. Explain that once a feasibility study has been undertaken and the decision has been made to proceed further with the development of an FA, additional understanding is required as to the nature of FAs. Acknowledge that it is tempting to jump ahead to the operational stage, but explain why that would be premature (the old analogy of a brick house built on a straw foundation).

### A Picture of a Farmers’ Association

Break the group into subgroups (for the sake of a later exercise, break them into seven groups of approximately equal size). Get them to move the tables and chairs around to

ensure that everyone within each group really is part of the group. Provide groups with flip chart paper and markers and get them to draw a picture of an FA. Explain that artistic ability is not important. What is important is that they be able to explain to the larger group what the various components of the drawing represent. Try not to lead them in this exercise, but if they are completely at a loss for what to do, you may offer some hints (e.g., people, working together, common task, solid foundation, trust, communication, equality, diversity, benefits, part of a larger community).

Post the pictures on the wall and have one person from each group explain to the larger group what they have drawn and why. As they are doing this, the facilitator can make a list on the board of the elements identified in the various drawings. As each group explains their drawing, add to the list. If there are critical bits missing — e.g., people working together — you may ask the large group leading questions to help complete a basic list of characteristics. It is also important to stress that both men and women are critical to FAs. If women, for instance, are missing from the drawings, then it is important to point this out and ask why this might have been done.

### What Is a Farmers' Association?

Start by explaining that there are many different kinds of FAs and that they exist in most countries of the world. They create benefits for people by providing services of almost any type imaginable. For example, they provide technical assistance to farmers; they operate as commercial businesses providing goods and services (these are typically referred to as co-operatives; examples include agricultural input supply co-ops — e.g., fertilizer, seed, feed — and agricultural marketing co-ops — e.g., dairy co-ops); they provide credit to farmers (often operating as credit unions); and they undertake research and development.

Explain that while FAs have their own particular characteristics, and in different countries they might have slight differences in how they are structured or operated, all FAs follow the same format — the members are both the owners and the users of the



enterprise. Ask them how this dual relationship occurs in the examples that were presented.

To drive home the point that both men and women form FAs, the examples presented should include cases of men-only, women-only, and mixed groups. Under what conditions might a men-only or a women-only FA make most sense? When is a mixed group better?

### What Is a Co-operative?

Explain that most commercial FAs — i.e., those that buy and sell goods — are effectively co-operatives, and that as a result it is important to understand the aspects that have defined these organizations over their 150-year history. Distribute the International Co-operative Alliance (ICA) Statement on the Co-operative Identity to each participant and ask them to focus on the definition. Ask them to separate into groups of two and to come up with answers to the following questions: What do you think is the most critical part of the definition? Why?

By the end of this exercise it is important that a discussion take place about two key points. The first is that the co-op is both an enterprise and an association. As an enterprise, the co-op has to operate commercially — i.e., it has to generate sufficient income from its business to pay its costs. As an association, the co-op is a group of members who have joined together. In this association, the members all have a say in how things operate.

The second point is that in a co-operative, the members are both the owners of the co-op and the users of the services it provides. Use this opportunity to revisit the discussion from the feasibility study exercise and how this dual role of owner and user is reflected in the pricing decisions that members of an FA will have to make.

Indicate that you will come back to the seven co-operative principles later.

### How Does a Local Co-op Fit into the Global Co-op Sector?

The purpose of this exercise is to illustrate how even the smallest grass-roots co-operative is part of a global co-op system. It also helps to situate the ICA in this scheme and in turn helps to explain that organization's legitimacy in terms of such things as establishing the co-operative principles.


One easy way to illustrate the relationship to the global co-operative sector is to work with a Canadian example—for instance, a local co-op retail store on the prairies. On the whiteboard, draw a simple sketch with the individual members of the co-op coming together as part of the retail co-op (first tier). Be clear that in most cases it is men and women who are members. Then sketch how several retails come together under a wholesale co-op, Federated Co-operatives Ltd. (second tier). From there show how various second-tier co-ops join together under a national association, the Canadian Co-operative Association (third tier). Finally, show how national co-operative associations come together to form the ICA. It should be emphasized that, in Canada, women are found at every tier and every level of management — as members, as board members, as president, as managers, and as employees.

Point out to the group how that simple retail co-op in rural Saskatchewan could just as easily be their newly formed association, and that as they move forward they will want to think about how similar Chinese organizations may have reasons to form apex organizations.

### How Is a Co-operative Different from Other Businesses?

Sketch out the framework of the table “Key Characteristics of Different Organizations” (see p. 70) on the board. Have the participants supply the information to fill in the blanks under the three main categories (ownership, control, sharing surplus). It is likely that they will not know the differences or may not feel comfortable sharing their ideas. You may need to ask them leading questions to elicit responses. The completed chart does not need to be as detailed as the one provided here; this level of detail was included to provide some idea of what the table could contain.

During the exercise, the facilitator may ask some of the following questions in order to provoke discussion.



*Probing Questions*

- Why can members of an FA be thought of as both owners and users?
- What are the implications of FA members being both owners and users?
- Why is it important to think of an FA as an association? As an enterprise or business?
- What are the key differences between a commercial FA (or co-op) and a company that is owned by investors?



*Wrap-Up*

This exercise can be debriefed by examining the ICA co-operative principles. Split the participants into seven groups, assigning each group one of the co-op principles. Have each group come back with their ideas on the importance of the co-operative principle they have been assigned to the FA they are contemplating.

## ICA Statement on the Co-operative Identity

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### **Definition**

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

### **Values**

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### **Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

#### *1st Principle: Voluntary and Open Membership*

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### *2nd Principle: Democratic Member Control*

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

### *3rd Principle: Member Economic Participation*

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### *4th Principle: Autonomy and Independence*

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### *5th Principle: Education, Training and Information*

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

### *6th Principle: Co-operation among Co-operatives*

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

### *7th Principle: Concern for Community*

Co-operatives work for the sustainable development of their communities through policies approved by their members.

## Key Characteristics of Different Organizations

Co-operative Business	Investor-Owned Firm
<b>Ownership</b>	
The share is listed in the member's name.	Generally, a share carries no name. Unless registered, it belongs to the bearer.
In general, a share may not increase in value. It can usually only be redeemed by the co-operative at its initial value.	A common share may increase in value. A shareholder may sell his or her shares to another person at an agreed upon price.
Member's responsibility is limited to the amount of the shares he or she holds.	Shareholder's responsibility is limited to the value of the shares he or she holds.
<b>Control</b>	
A member is entitled to only one vote at a general meeting, regardless of the number of shares he or she holds.	The number of votes a shareholder is entitled to at a general meeting is equivalent to the number of shares held in the company.
Certain co-operatives with a large and dispersed membership may introduce a delegate structure for representing members (e.g., delegates representing multiple members from a geographic district).	
No proxy voting is allowed (e.g., husbands cannot vote on behalf of their wives).	A shareholder may obtain a proxy to vote for other shareholders.
<b>Sharing in the Surplus</b>	
Surpluses may be paid into the reserve or to members in the form of patronage returns proportional to the business done by each member with the co-operative.	Profits may be distributed in the form of dividends according to the provisions for each class of shares, or reinvested in the company. The value of shares reflects the net value of the corporation.
Co-operative legislation may limit or prohibit the payment of interest on share capital.	There is no limit on share dividend.
Some legislation allows co-operatives that issue investment shares to allocate part of their surpluses as dividends on those shares.	
Some provincial legislation may stipulate that a co-operative's general reserve is indivisible, or divisible in whole or in part.	Shareholders may dispose of all of the assets of the business in accordance with certain legislative provisions.
Some co-operatives, such as housing, health, and daycare co-operatives, are structured as nonprofit co-ops. Surpluses are not distributed to members.	

Adapted from [http://coop.gc.ca/index\\_e.php?s1=info\\_coop&page=diff](http://coop.gc.ca/index_e.php?s1=info_coop&page=diff)

## Module BL-1: Developing By-Laws

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The purpose of this exercise is to have the group understand the purpose of the FA by-laws and to get the group to make some decisions regarding these by-laws.



Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard, copies of supplied background material, as required



Approximately 180 minutes



In addition to getting the participants to think through the by-laws, a further goal of the exercise is for the group to figure out ways they will make decisions together. Either explicitly or implicitly, the group will need to adopt procedures for making decisions, whether it is majority rule or consensus. These decision-making procedures should not be imposed upon the group but should emerge out of group discussion and deliberation. In fact, it is a good idea for the facilitator to explicitly state that the group will need to come up with ways of making decisions.

Explain to the group that by-laws are the set of rules established by the founding members of the organization to set out its aim or objective, establish who the members will be, outline how the association will be structured, how it will operate, and how it will be controlled. It is critical that the members of the co-op be intimately involved in the development of the by-laws in order to ensure a clear understanding and ownership

of them. While many model by-laws are available for various jurisdictions, the use of these templates is cautioned against, as it becomes too easy to adopt them without full consideration of their applicability to the group or organization in question. However, such model by-laws can be helpful in identifying the types of issues that should be addressed. While it might be helpful to get professional assistance in crafting the final wording of the by-laws to ensure they conform with relevant legislation and regulations, early discussions and drafting should be left to members or to a committee charged with that specific task. Ultimately they must be approved by the whole membership. It is helpful if the by-laws are written in language such that any member is able to explain any part of the by-laws to a friend or family member. Such an approach helps to ensure that members are able to understand and take ownership of the by-laws.

It should be stressed that regardless of the type of organization that is being contemplated (e.g., farmers' association, co-operative), it is necessary to decide upon the rules by which the organization will run.

The group will work with the fictitious Associated Bee-Keepers Farmers' Association (ABFA) for this session. Some of this exercise will be done as a large group; at other times the group will be split into smaller subgroups.

Begin the discussion by identifying the six categories of by-laws identified below:

- Basic Questions
- Aim and Objective
- Membership
- Control
- Structure
- Operations



It is important for the whole group to understand the breadth of topics covered in the by-laws. Identify a list of considerations or questions under each topic. The facilitator can use as many or as few of these suggestions as necessary.

Begin by explaining that the Canadian Bee-Keepers' Group has completed the feasibility study and has determined that it will form an FA. In order to proceed, members must agree on certain rules for their organization. The exercise will focus on each of the six categories in turn. At the start of each category, the write-up on that category is distributed to the members of the group. Each write-up contains a short introduction, followed by a list of questions. The group will need to come to some consensus on the answers to these questions. It should be stressed that these answers constitute decisions that the group is making about each of the issues under consideration.

### Basic Questions

Working with the whole group, try to identify answers to the questions in this category. These are quite straightforward and should help to get the group into the exercise. Identify the types of things they might need to consider when answering these questions. For example, when selecting a name, you might argue that it should contain the following three elements: (1) a distinctive element — e.g., “Wuchuan”; (2) a descriptive element — e.g., “Potato Seed Marketing”; and (3) a corporate designation — e.g., “Co-operative” or “Association.”

### Aim and Objective

For this category, break the large group into dyads (groups of two). Have half the dyads address the first question, “What are the objectives of the organization?” and the other half address the question, “For what activities and purposes can the funds of the organization be used?” Get one or two of the dyads to report back to the main group and mark their responses on the board. Ask if any of the other groups have things they would like to add. When no further ideas appear to be forthcoming, ask the group to formulate an answer to both questions that the group can agree upon. At this point it may be necessary to explicitly address the question of how group decisions will be

made. During this exercise it may be important to challenge their assumptions about the objective of the organization and for what purposes the funds can be used.

### Membership

Break the large group into three smaller groups and assign each group a few questions from the list. Indicate to each subgroup that they have to devise the policy on each of these areas for the entire group. Each subgroup will need to decide how they will reach a decision on their issue. If a subgroup finishes before the others, it can begin discussing the other issues.

Point out to the group that there should be an explicit discussion of women's participation as members, not just through the household representation of a husband or other male member. This discussion needs to be explicit so that the by-law regarding membership also be explicit. The assumption that "women don't need to take part" should be challenged.

Once all the groups are finished, have them report back to the full group. Make sure there is general agreement by all the members as to the policies that have been developed. Accurate note taking is critical, as the decisions made by the group will form the basis for the by-laws.

### Control

This category is perhaps the most difficult, mainly because of the large number of decisions that have to be made. For this category, keep the whole group intact. Slowly walk the group through the various questions in this category. It is important not to pre-determine the outcome by assuming, for instance, that the association will have a board of directors and a manager with staff. Many associations will not be able to hire a manager; one or more of the members may handle the day-to-day operations on a volunteer basis. At each stage of the decision-making process, make sure that the group understands what is being decided. Ensuring this understanding is more important than reaching decisions on each of the matters.

## Structure

Follow an approach similar to the control category. To keep the group engaged, find opportunities to split it into dyads or triads. As with the control category, make sure the group understands what is being decided. Again, ensuring this understanding is more important than reaching decisions on each of the matters.

## Operations

Follow an approach similar to the control category. Further comments exactly as above under “Structure.”



Note to FA developer: The questions listed in this exercise are adapted from Munkner 2005, The British Columbia Institute of Co-operative Studies, and from Saskatchewan Industry and Resources and should be viewed as suggestions. Relevant considerations might be added or items removed from the list. Throughout this exercise, the facilitator will need to constantly determine to what extent the overall group agrees with the ideas being put forward and then decide if the discussion can be left or whether more work is warranted.



## *Wrap-Up*

Ask the group to suppose that as the group of farmers referred to in the exercise developed their by-laws, working through the various questions and discussions, a few members were taking careful notes. A group of three members agreed to take the notes and attempted to carefully craft the appropriate wording of by-laws that captured the essence and intent of the discussions. The farmers agreed that the wording should be kept simple enough so that any member could understand and explain the by-laws to someone from their family. Once the wording has been developed, the group will meet again to review the by-laws to ensure they reflect what was discussed. At that point, group members will decide if they wish to retain a lawyer to review the by-laws before adopting them and submitting them as part of the incorporation of their association.

## Developing By-Laws: Basic Questions

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After completing their feasibility study and concluding that a farmers' association could provide bee feed at a price lower than the current market price and make a profit doing so, the bee-keepers are anxious to move ahead with the formation of their association. An organizing meeting has been called to establish some basic rules for the association. While many of the group members want to immediately continue discussions about how they will run the business, one member points out that before they do that they have some fundamental decisions to make. He poses the following questions to the group.



### *Probing Questions*

- What will be the legal name of the newly formed association or co-operative?
- What geographical area will be served by the new association? Should there be limits to this area?
- What should be used as an official address (mail, phone, e-mail) until such time as a place of business is established?

## Developing By-Laws: Aim and Objective

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The bee-keepers' group believes they have made good decisions on the **basic** considerations. While there was some discussion, members quickly came to consensus on those decisions. One of the members, however, pointed out that those questions were the easy ones and that the group now has some tougher decisions to make. She suggests they start with the following questions related to the **aim or objective** of the new association.



### *Probing Questions*

- What are the specific objectives of the association? Should the association be very specific in its objective or should it leave the objectives loose or flexible?
- If the group decides to raise some capital from members, or once the association is functioning if a surplus is realized, for what activities and purposes can such funds be used?

## Developing By-Laws: Membership

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The group is beginning to realize there are some important decisions that must be made before they can create the new association. One member produces a list of by-laws for an FA from another village. It is suggested that the group adopt these by-laws as the guide for their own association. A couple of farmers disagree, explaining that each group must decide what should be included in its by-laws — after all, only by deciding upon the rules of their own association can a group really be said to have control over it. In addition, developing your own by-laws is a good way to make sure everyone in the association knows the rules that have been decided upon. After a discussion of the categories covered in the other by-laws, the group comes up with a short list of questions related to membership.



### *Probing Questions*

- Who will be the members of this association? Can only bee-keepers be members, or can companies that supply bee-keeping supplies or that market honey become members? Should there only be one member per household, or could both spouses be members if both are bee-keepers?
- Is this an open or closed membership co-operative? Can anyone join, or is membership limited to a certain number of individuals — e.g., the number required to raise a certain amount of capital or produce a certain amount of volume?
- How are the members going to use the association? Are members expected to purchase bee feed from the association? Can you be a member if you are not going to purchase bee feed?
- Can nonmembers use the association?
- Will all members have the same rights and responsibilities, or will there be different classes of members?

- How much member participation is required? For example, are all members expected to provide unpaid work to the association?
- What is the process for joining the association?
- Is there a trial period before membership is approved?
- What are the criteria for approving a member's application? Will some people be excluded (e.g., those with low incomes or education) even if they are beekeepers?
- How is membership terminated, and under what conditions?

## Developing By-Laws: Control

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The farmers working on establishing the association realize that, as owners of the association, they want an effective and sustainable way to control the organization to ensure that the interests of the farmer members are always considered. They understand that in most associations an opportunity exists at least once a year for the entire membership to get together in an annual general meeting (AGM). Some members feel that a more efficient control mechanism — perhaps a board of directors — should be built into the control structure. The group comes up with a long list of questions related to control.



### *Probing Questions*

- Will the entire membership make the key policy decisions in the co-op, or will some smaller set of individuals (e.g., a board of directors (BOD)) make the decisions? If a BOD is chosen, how large should it be?
- Will the BOD be composed entirely of FA members or will non-FA members be allowed to sit on the board? If non-FA members are allowed on the board, how many should there be?
- Should there be a representative number of women on the BOD (e.g., representing the proportion of the membership that is female)?
- How will the FA members of the BOD be chosen?
- How will the non-FA members be chosen?
- Will the BOD delegate decisions to a manager and staff? If some of the powers are delegated, which ones will they be? How will the manager and staff be chosen?
- What is the term of office for the members of the BOD? Can they be removed or suspended before their term is up? If so, what is the procedure for their removal?



- What is the term of office for the manager and the staff? Can they be removed or suspended before their term is up? If so, what is the procedure for their removal?
- What tasks will be carried out at the AGM (e.g., election of board of directors, discussion of major policy issues, approval of major decisions such as changes to by-laws or the structure of the association)?
- How will major decisions be made (e.g., what voting or decision rule will be used) at the AGM? At the BOD?
- Will the board and/or the management be bound by policy decisions made at the AGM? Will management be bound by policy decisions made by the BOD?
- What authorization does an officer or officers have to sign documents on behalf of the association?
- What are the duties of the chairperson, the secretary, the treasurer, and the manager of the association?

## Developing By-Laws: Structure

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Now that the group has worked through some of the questions about how the association will be controlled, the members decide it is time to discuss how the association will be structured. During the feasibility study exercise it was determined that members would need to raise capital in order to purchase the equipment required for the manufacture of bee feed. While many farmers indicated a willingness to do this, it was not fully explained how this would be accomplished or what the implications would be of contributing capital (perhaps in varying amounts). This question and a number of others need to be discussed in order to determine how the association will be structured.



### *Probing Questions*

- How much capital does the association need to raise for start-up and for operations?
- How will you raise share capital and other funds? Will shares be sold to the members? Can members lend money to the association?
- How much will shares cost?
- What is the minimum number of shares a member must purchase?
- Should there be special provision for vulnerable groups (e.g., those with low incomes, including some women) in order to allow them to participate? These special provisions might include the association covering the cost of the shares with the members repaying the association in the future.
- What is the maximum number of shares a member may own?
- Does the association need to have different classes of shares?
- How can members redeem their shares? What is the value of a membership share at redemption?
- What is the extent of the liability of members for debts of the association?

- What happens to the assets and liabilities of the association upon its dissolution?

## Developing By-Laws: Operations

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The group is now getting to the point where members can talk about the operations of the association. One member points out that it will be useful to specify some broad operating rules within the by-laws of the association. The group discusses this and agrees that, by doing so, there will be less chance for confusion later on. The group comes up with a short list of questions related to the operations of the association.



### *Probing Questions*

- How will any annual net surplus (or profit) generated by the association be distributed? Will it be distributed as cash to the members? Will some or all of it be retained by the association as a source of funds for upkeep of the equipment and further investment?
- When will the profits retained by the association be returned to the members? Will they be returned after so many years (e.g, five years or ten years), or will they be returned to a member only when he or she leaves the association?
- Will the association use some of its profits to establish unallocated reserves (this money cannot be returned to the members)? If so, how much? What advantages do unallocated reserves have for the association? What costs do they have? Will there be minimum and maximum limits to unallocated reserves?
- Will honoraria or allowances be paid to officers of the society? How much?
- If a manager is hired, what authority, responsibility, and accountability does that person have?
- How will conflict-of-interest situations be dealt with? Should the by-laws provide a mechanism (e.g., full and transparent disclosure) that alerts the association to conflicts of interest? Should the by-laws explicitly prohibit

individuals who have a potential conflict of interest with the association from holding office in the association?

- What is the process for amending the association's by-laws?

## Module BL-2: Representation and Participation

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### *Objective*

The purpose of this exercise is to have the group consider who should represent the household in a farmers' association.

### *Supplies Required*

Paper, pencils/pens, flip chart paper/stand and markers, or chalkboard

### *Time Required*

Approximately 30 minutes for each role-playing situation

### *Process*

In the process of developing a farmers' association, and particularly when drafting the by-laws, it is important for the prospective association members to address the question of representation. While the representation and participation of women in the association is often the issue that receives the most attention, representation/participation issues can also arise in other contexts — e.g., the age distribution of the members. The problem is not simply a matter of ensuring representation of women or younger members on the management board. The more fundamental question concerns which family member is seen as representing the interests of their household and which family member has a voice in the affairs of the association.

It may seem a needless complication to insist upon discussion of such issues. However, with the household being the basic economic unit in rural China, it is common to register association membership on a household basis without delving into the question of which household member is the active, voting member of the association. Given the

traditional dominance of males in rural areas, effectively this will mean that men represent the family in the association. In many situations the question of which male represents the household will also arise — e.g., is it the grandfather who remains in the village or his thirty-year-old son, who might be better educated and more entrepreneurial but has left the village to work?

The questions of representation and participation have major practical importance for how an association should develop and what types of activities it should undertake. For instance, in the absence of the husband (who is likely to leave the village in search of wage labour for all or part of the year), should the wife be considered a full member of the association? If the aim of the association is to promote technical training, and a training opportunity is arranged, will she be notified of the training and be welcomed to attend? If the association has been created to provide better market information, will she be included in the information dissemination network if her husband is away? If the purpose of the association is to modernize farming practices, should the younger farmers be given a chance to express their views?

In each of these cases, the decision as to who represents the household could have a significant influence on the decisions taken by the association, the direction in which it develops, and even whether it ultimately succeeds or fails. In each of these cases, it might be expected that men and women, or younger and older individuals, would have quite different priorities for and expectations from their association. This underlines the importance of discussing, in the process of formation, the interests of different people in the association, and determining how those interests will be balanced in the operation and decision making of the association.

To get the participants thinking about these issues, the facilitator introduces two role-playing situations. Each involves a farmer association making a decision about how it will spend its funds or the activities on which it will focus.

For each role-playing situation, split the large group into two subgroups; if the group is large, it could be split into four subgroups. One subgroup will play the role of the women, while the other will play the part of the men. In the case of four subgroups, two will play the role of the women, while the other two will play the part of the men; the groups should switch roles in the second situation. Each of the subgroups is told to discuss the decision that the association has to make and to come to a decision within their subgroup. Each group is then asked to make a short presentation to the large group, after which a general discussion takes place. This discussion is followed by a vote of the entire group.

### Situation 1

A tea growers' association is formed in a village to help improve the income of farmers from the cultivation of their tea gardens. One of the aims of the association is to pool resources to mechanize production.

The various stages and processes in tea cultivation are gender specific. While men look after the tea gardens throughout the year, the plucking and basic drying of the tea leaves in spring is regarded as women's work. Marketing is taken care of by the men.

This particular location produces a specialty tea, which involves drying the freshly picked tea leaves, turning them by hand in a wok over a charcoal burner until it reaches the right shape, colour, and moisture content. Marketing is done by taking the tea to the nearest road and selling it to passing traders, or by taking it to the nearest tea market at the township centre. Better prices can usually be found at the county centre some sixty kilometres away.

The association has raised some funds (\$11,000 RMB — Renminbi or People's Currency in Chinese) for mechanization and now has to decide how to use them. Two options are available: 1) purchase equipment that does the drying automatically; or 2) buy a small farm vehicle for transporting the tea to the market. How should the association spend its funds?

## Situation 2

A bamboo handicrafts association is set up to make finished products from the bamboo resources of a village where the forestland has been allocated under the household responsibility system to the individual families. The association buys bamboo poles from its members, paying 0.50 RMB per pole higher than the going market rate. Bamboo weaving in the association workshop is done almost entirely by women, who are paid on a piecework basis, earning on average 300–400 RMB per month.

While the family forms the basic economic unit in the village, it is customary for both women and men to have priority on spending decisions when using money they have earned individually.

When creating its development plan, the association must make a decision regarding the type of products it will produce and the types of markets to pursue. Two broad strategies have been put forward. The first involves developing more sophisticated products such as finely woven baskets, which have a higher labour content. The second involves developing cruder products such as chopsticks or barbecue skewers, which have a higher throughput of raw materials and maximize the amount of bamboo used. What strategy should the association choose?



### *Probing Questions*

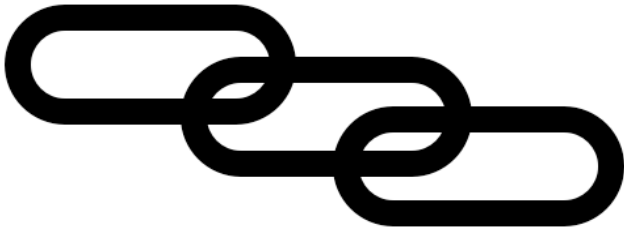
- The decisions available to the association resulted in a conflict between the interests of the women and the interests of the men. What options might the associations have available that would result in benefits to both groups?
- What might be the consequences for an association if the men's interests were not given more attention and weight — e.g., if the interests of the women prevailed? Would these same consequences occur if the interests of men prevailed?
- Outline a situation in which the interests of the younger generation do not match those of the older generation.



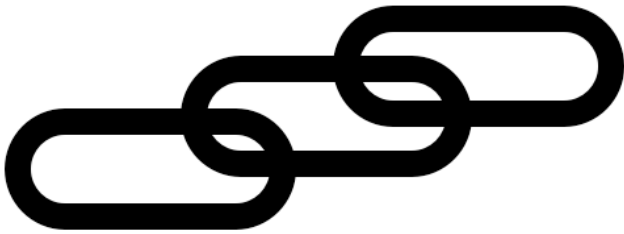
- With reference to the role-playing situations, why is it important that women are represented at all levels in an association — e.g., as members, as board members, as employees?



Briefly discuss the need for both representation *and* participation. For instance, if women are represented in the membership or on the board of directors but do not actively participate in the decision making, then this representation is of little consequence.



## Case Studies



## **Case Study 1: Santai Fushun Swine Producers' Association (Sichuan Province)**

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### **Purpose of Case**

The case will provide an example of the formation of a farmers' association in China in which the association is closely linked to privately owned firms operating in the same sector.

### **Source of Information**

Information was obtained from interviews with members of the association in August 2005 in Santai County.

### **Background to Case**

Santai County is located in a hilly area approximately two hundred kilometres northeast of Chengdu, the capital of Sichuan Province. The county covers an area of 2,660 square kilometres, with a farm population of 1.3 million (ActionAid China, 26 June 2004) and 86,000 hectares of arable land (1.2 million mu). There are eighteen farmers' associations in the county engaged in livestock production — fourteen in swine, three in poultry, and one in rabbits. Santai Fushun Swine Producers' Association (SFSPA) was formed in Fushun, a town in Santai County. Its members are from the villages surrounding the town. The extent of women's involvement in these associations is not known.

### **Formation of the Association**

Although the government is disengaging itself from agricultural production activities, it still plays a key role, especially through the structure of the industry and through power relations among the key economic players. In Santai, about fifty FAs have been formed with government support. The procedure for registering an association begins with the farmers going first to the technical bureau to obtain approval. The group's

application is then forwarded to the County Science and Technology Bureau for consultation. Finally, the files will be sent to the local Civil Affairs Bureau for registration.

As in other parts of China, there is a strong government presence in the formation of FAs in Santai County. Although this will likely hamper the formation of true self-help groups, the involvement is likely necessary given the role that government plays in the Chinese economy. In addition, as has been the case elsewhere in the world, FA development typically requires the assistance of outside groups. The discussion initiated by government and the ideas circulated among farmers by government officials are expected to foster FA development in China.

SFSPA was initiated by three large swine producers who were encouraged by government. The association was to be a farmers' self-help group that would provide services to members and maximize their profits. Membership in the association is voluntary; the requirement for membership is that a farmer should raise more than fifty swine and five breeding sows. When SFSPA was founded in July 2004, there were 108 members. The number of women members is not known. There are now 126 members, of which 111 are large swine producers, ten are technicians, two are dealers, one is a slaughterhouse, and three are weanling breeders.

Individual farmers pay Y4 in annual member fees, while institutional members pay Y30. Members make no equity contribution and the association depends heavily on the government for funding.

## **Structure and Operation of the Association**

### *Membership*

As mentioned above, membership in the association is voluntary. If the board of directors (BOD) accepts an application, it will issue a member pass to a farmer. The member can exert the following rights:

- participating in the general meeting;

- voting;
- supervising;
- accessing the services provided by the association;
- participating in vertical integration in the pig supply chain; and
- exiting the organization.

The obligations of the member include:

- abiding by the constitution and decisions made by the general meeting;
- paying membership fees and other fees endorsed by the general meeting;
- following the contracts the association signs with other parties;
- participating in the production, processing, and marketing activities organized by the association; and
- providing support to the BOD and the supervision committee to assist them in accomplishing their work.

Members who cannot fulfill the obligations will be expelled from the association. Each member has one voting right. In the case of absence from the general meeting, the member can entrust another member to vote on his/her behalf; however, no single member can represent more than two members.

### *The General Meeting*

The members' general meeting is the top decision-making body of the association.

Activities undertaken at the general meeting include:

- drafting and amending the constitution;
- electing and dismissing the members of the BOD;
- reviewing the reports prepared by the BOD;
- making the decision for dissolution; and
- making other important decisions.

The general meeting should be held once each year. In the case where a provisional general meeting is required, the BOD should approve the proposal for the meeting and

submit an application for the meeting to the relevant government agency. The participants at the general meeting should be more than two-thirds of all members; decisions made at the general meeting can only come into effect when half of the members have no objection.

Amendments of the constitution need to be approved and submitted to the general meeting. After the general meeting passes the amendments, the new constitution should be forwarded to the relevant government agency for approval.

### *The Board of Directors*

The BOD is the executive agency of the general meeting and is accountable to the general meeting. The term of each BOD member is five years, although this can be extended (for up to one year) or finished earlier by BOD approval and clearance by the relevant government agency.

The responsibilities of the BOD include:

- implementing all decisions made by the general meeting;
- electing and dismissing the director, deputy directors, and secretary;
- making preparations for the general meetings;
- presenting work and financial reports to the general meeting;
- making decisions for granting new membership and expelling members;
- establishing subsidiaries, representative offices, and other entities;
- hiring managers of each unit; and
- designing internal control systems; and administering day-to-day work.

The BOD meeting, which should occur at least once each year, can take place only with the participation of two-thirds of BOD members; decisions require the approval of two-thirds of those in attendance. Each BOD member has equal voting rights. The BOD's director is the legal representative of the association and cannot assume the same post in another organization. The director's responsibilities include: calling and chairing the BOD meeting; checking the implementation of the agreements reached by

the general meeting and the BOD; and signing documents on behalf of the association (with written authorization this task can be assigned to others). It is not known if any women sit on the BOD.

When a BOD term expires or there is a change in legal representative, the association will be audited by the Association and Audit Agency. It is unlawful for any agency or individual to appropriate the property of the association.

### *The Secretary*

The secretary of the association has the following duties:

- managing the day-to-day work;
- organizing implementation of the work plan;
- co-ordinating the work of all units;
- nominating candidates for vice-secretary and heads of other units;
- hiring staff in all units; and
- dealing with other orders authorized by the BOD.

### *The Supervision Committee*

The supervision committee (SC), members of which are appointed for five-year terms, is responsible for checks and balances within the association. The general meeting elects the three to five members of the SC, and the director and deputy directors are appointed out of this group. BOD members and their relatives as well as financial staff cannot be members of the SC. SC members do not receive a salary from the association, although an allowance can be paid, the amount of which is decided by the BOD. The responsibilities of the SC include:

- monitoring the implementation of decisions made by the general meeting;
- enforcing the constitution;
- monitoring the running of the association and the financial statements;
- protecting the legal interests of members;
- preventing violations of law and the constitution and reporting violations that do occur to legal enforcement units;

- presenting the SC report to the general meeting; and
- representing the committee at BOD meetings.

### *Dissolution*

When the motivation for group action ceases, the BOD will make a proposal for dissolution, which must be passed by the general meeting and have approval from the relevant government agency. A clearance team should be formed to dispose of assets and liabilities. The association will be disbanded once it receives approval from the government agency; assets remaining will be used for purposes stipulated by this body.

### **Business Activities**

The major activities of the SFSPA are to:

- gather information and study the latest development trends in pig production, processing, and marketing;
- share information on pig raising, processing, and marketing;
- organize members' participation in pig production, processing, and marketing;
- deliver training to members to provide them with better technical and management skills to improve production and marketing of their products;
- establish contacts with other farmers' groups — for example, contacting swine producers' associations in other locations in order to find a market for weanlings;
- sign contracts directly with feed mills to lower the price that members pay for feed;
- protect members' legal interests and co-ordinate relations between members and other economic agents; and
- provide input into policy formulation in industry development.

A key activity of the association has been to sign a contract with a food-processing company that produces sausage. Based on this contract, the members raise lean pigs. The working capital for this production is provided by the food company, which also pays a price premium to members of Y0.4 per kilogram for lean pigs. For members



who sell more than a hundred pigs, the company will pay a bonus of Y10 per pig. The company also pays Y0.4 per pig to the association as organization fees.

The association represents the members in applying for government funds. Through the efforts of the association, the County Agricultural Inputs Supply and Market Co-operative channeled Y100,000 to the association. This grant was used to subsidize the building of pig shelters, the introduction of new species, and the control of diseases in members' swine. The association set up a procedure for managing the grant and members were required to make an application for funds. Members were expected to finance most of the costs associated with the new activities, with only a small part being financed by the grant, which would be disbursed to farmers provided the quality of the activities undertaken met relevant requirements. The grant was used as leverage to foster the raising of lean pigs.

The association set up a quality assurance system and maintains internal control to ensure compliance. The system is designed to guarantee that the quality of all the members' production meets the standards set by the buyers.

The association has also created a business unit to market weanlings and fattened pigs. Five members of the association, including the director, formed a shareholder company that has a marketing unit, a feed unit, and a slaughterhouse. The owner of the slaughterhouse is a member of the association.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmers' association? The answers to this question are divided into observations and conclusions.

#### *Observations*

- There is a strong government presence in the formation and operation of the association.

- The association has a well-developed set of rules for how it will operate.
- The wealthier farmers in the township appear to have assumed a leadership role in the association.
- Some members of the association, usually those who are the most wealthy and competent, have formed their own company to do more sophisticated marketing or to provide added-value services.

### *Conclusions*

- The association would not have formed without the involvement and encouragement of government officials.
- While the association appears to be providing its farmer members with benefits (lower feed prices, for instance), there is nevertheless a potential conflict of interest between those members who have formed their own company and those who only produce pigs.
- Despite the well-developed set of rules that govern the association, it is not owned and controlled by its members. Members have not made any capital contribution to the association and appear to lack real control.
- Although information is lacking, it is expected that women are not active in the association.

## **Case Study 2: Rapeseed Production and Marketing Association (Sichuan Province)**

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### **Purpose of Case**

The case will examine the formation of a farmers' association in China following the country's accession to the WTO, under which farmers are being confronted with making production and marketing decisions in a relatively free market.

### **Source of Information**

Information was taken from the *Farmer Need Assessment Report*, Santai County, Sichuan Province, 26 June 2004, and interviews with members of the association on 18 August 2005 in Santai County.

### **Background to Case**

Santai County is located in a hilly area approximately two hundred kilometres northeast of Chengdu, the capital of Sichuan Province. The county covers an area of 2,660 square kilometres, with a farm population of 1.3 million (ActionAid China, 26 June 2004) and 86,000 hectares of arable land (1.2 million mu). Rapeseed plantings reached approximately 400,000 mu in 2005 (personal discussion with Santai extension agents), the same area as that planted to rice. Rapeseed plantings typically follow rice in mid-fall. According to ActionAid, rapeseed is the most important cash crop.

Rapeseed contains erucic acid and the meal contains many types of glucosinolates, components deemed undesirable for human consumption (erucic acid) and livestock feed (certain glucosinolates). Plant breeders in Europe and Canada successfully developed rapeseed varieties that were low in erucic acid, subsequently dubbed "single low." The breeders then reduced the level of glucosinolates, calling these new varieties "double low." In Canada, where they were first produced, these new varieties were given the name canola, the name that has been adopted worldwide for these double-low varieties.

Both traditional rapeseed and canola varieties are grown in Santai County. Some consumers still prefer the oil obtained from the traditional varieties as it tends to have more flavour. Others, who have health concerns with erucic acid, favour canola. Canola varieties now dominate production in Europe and North America. Where high erucic acid oil is required for industrial uses, HEAR (High Erucic Acid Rapeseed) is grown under contract to certain crusher/processors. This is also true in Santai County.

The problem for crusher/processors is that the two types of seed are essentially indistinguishable. This makes it difficult for those who want to process oil of one type or the other, because they must rely on the honesty of producers and dealers to tell them what type of seed is being delivered.

Rapeseed/canola producers have numerous problems in production and marketing. These stem from the small scale of farming, the low education level of farmers, the lack of knowledge of good production practices, and the lack of marketing experience in a relatively free market setting where price is arrived at not by government fiat but by the interplay of supply and demand.

### **Formation of the Association**

The government in Santai County encouraged the formation of farmers' associations as a means of dealing with farmers' problems. In response to this initiative, local government officials coupled with extension agents have been instrumental in forming farmers' associations starting in 2003.

In late 2003, several large rapeseed producers near the town of Jianping, located approximately twenty kilometres west of Santai City, took the initiative to form the Jianping Rapeseed Production and Marketing Association. Most of these producers were either town officials (e.g., party secretaries) or extension agents and therefore had experience in some form of administration and decision making. The number of women involved in starting the association is not known.

The stated purpose of the association was to improve the technical knowledge of farmers and to provide certain services to members. Farmers expressed the need for technical advice, high-quality seed, quality inputs, and marketing services.

### **Structure and Operation of the Association**

The association consists of a board of directors (BOD) and a supervisory committee (SC). The BOD is comprised of four members, elected for three-year renewable terms. The number of women on the BOD is not known. No mention was made as to whether these terms are staggered to provide continuity of experience on the board, as is typically done in most North American farm organizations. The supervisory committee is made up of three elected members; the purpose of this committee was not clear.

No membership fees are paid, nor do board member receive a salary or payment from the association. The Township and Agricultural Bureau, a government agency, provided start-up money, which amounted to between Y20,000 and Y30,000.

Both the BOD and the SC are elected at the annual general meeting (AGM), which is held in February of each year. The BOD meets more frequently, although it has no budget and no financial statements appear to be available.

The BOD manages the association. Mr. Cao Ming Wu is the director of the BOD and is also the party secretary of Lao Yang Village and a farmer. Mr. He Xiang Feng is deputy director of the association and also deputy governor of Jianping town.

### **Services Performed to Date**

The association performs two functions: the purchase of inputs and extension. Members place orders for fertilizers and pesticides. The association then negotiates the purchase from the Agricultural Bureau's Soil and Fertilizer Station. Due to lack of funds, the association did not purchase the inputs as ordered by farmers. In some cases,

the station made deliveries to farmers or to central points where farmers picked up the inputs and made payment.

### *Benefits*

The benefits were purported to be of three types. First, the farmers were assured of getting quality inputs. The station apparently formulates the fertilizer based on soil tests of the area in which the farmer resides. This service is provided free as part of a purchase package. Interestingly, the station does not provide information on the levels of nutrients, such as N-P-K. The reason for this practice is that if this information were given to the farmer then he/she could go to other fertilizer dealers and with the formulation get the fertilizer made up more cheaply. This practice raises the question of what farmers are actually paying for. Are they being cheated? The second benefit is prompt delivery. Apparently, delivery of fertilizer can be a problem, particularly since farmers lack storage space. The third benefit is a lower price. The station reduces the price by one yuan per 35 kilogram bag. The saving is small, however, since a 35 kilogram bag typically sells for about Y70.

### *Technical Sessions*

The association arranges for technical sessions, providing professional advice on various agronomic practices from seedling planting to harvest. These sessions, which comprise both classroom and field demonstrations, are provided free of charge. There was no way to determine the quality of the information.

### *Marketing Services*

The marketing services consist of providing market price information and price forecasts. The association provides short-term (e.g., three-day) and several-week forecasts, although answers were vague as to how these forecasts were made. Those interviewed did not seem to have much knowledge of the Chinese rapeseed and oilseed market, let alone the world market. Interviewees were aware of the Dalian soybean futures market. Price data is available on a website, and TV channel 7 also carries

prices and other agricultural information. The interviewees felt that China would eventually get a futures market in rapeseed (canola).

The association also provides seed to members, but the benefits of this activity were not clear.

### **Future Plans for the Association**

The director indicated that in the near future the organization wants to improve its charter and its internal management, build its technical capacity and knowledge base, and improve its ability to collect and process information.

### **Farmer Perspective**

The researcher visited the farm of one member — Mr. Wu (not his real name). He is sixty-eight years old and lives with his wife in a home that was built in 1948. He has four mu of good cropland and some other “high” land that was not specified. Adjacent to his house is a small dam with a large pond that he rents from the village; the rent was not specified. There were several dozen geese and ducks in a pen adjacent to the house.

Mr. Wu was questioned on various aspects of his farm and his views in particular on his production and marketing practices for rapeseed. He grows only double low varieties.

With extension agents encouraging the practice of intercropping, Mr. Wu produces a crop of rice followed by canola and potatoes cropped together. The land is not plowed or tilled after rice production. The seed is planted in beds in September and set out by hand along with fertilizer in October. It was claimed that the practice of intercropping with potatoes provides an additional net 300 to 500 yuan per mu. The extension agents also encourage the intercropping of corn and soybeans.

Mr. Wu said that his cost for seed, fertilizer, and pesticides was 200 yuan per mu, while labour time per mu was 120 hours.

After harvest he stores his canola and watches the price, selling mainly to dealers or agents who come to his farm to purchase. When asked about marketing issues, he said that there were problems with dealers' scales, quality assessment, and level of impurities.

If true, this problem would not be unique. Grain farmers on the Canadian Prairies around 1900 faced similar problems. Prairie farmers found a solution by appealing to the federal government through their farmers' associations. The government responded by appointing two royal commissions on the grain trade, the recommendations from which led to the formation of the *Canada Grain Act* and the Canadian Grain Commission to address these problems.

Mr. Wu was asked if he thought the association could request government assistance to deal with these problems. It was suggested that one possibility would be to require all dealers to have inspected scales and to provide moisture testers and a dockage (impurities) tester when they came to the farm. Mr. Wu thought this would add to the cost of dealer operations and was likely not required, as there was sufficient competition among dealers that farmers would not be cheated.

When asked if he knew the price of canola that day, Mr. Wu said it was 1.2 yuan per jin. (one jin = 500 grams). He had obtained the information from dealers showing up at the farm.

### **Processor Perspective**

Mr. Duan Shifa is the chief manager of the Santai County Shenlong Commissariat and Oil Company, Ltd. He is a CPA, registered accountant, and consultant. The crushing plant that he manages opened in 2002, designed with a 100,000 tonne annual capacity that it has not met to date. Using both hot press and hexane extraction methods, the plant crushes cottonseed and three types of rapeseed — HEAR, medium quality, and



double-low canola. HEAR is high-erucic-acid rapeseed; the oil is used for lubricants in industry. Medium quality apparently refers to cross-pollinated rapeseed/canola.

The plant contracts between 50 and 60 percent of its seed requirements and all of its HEAR rapeseed. The contracts tend to be with the grain station, but Mr. Duan said that they also contract with individual growers.

They also refine oil and have their own vegetable oil brand — ZiXang. They do not yet manufacture margarine, and no mention was made of what they do with the meal.

When asked about pricing strategy, he said they follow the soybean market in China and North American oilseed futures (including the Chicago soybean complex and canola futures). He felt that China would eventually get a rapeseed futures contract, although not likely for some years. Further, he said they base their purchase price on the price of oil.

When asked what the price of canola was that day, Mr. Duan said 1.19 yuan per jin — the same price essentially that Mr. Wu told us. He said that he pays dealers 3 cents per jin more for double low.

Mr. Duan said that his company had given (loaned?) a computer to the association to improve their access to market information. When asked if his company would support other new rapeseed associations in the same way, he said he felt they would not — he saw this one as a demonstration association.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmers' association? The answers to this question are divided into observations and conclusions.

### *Observations*

- The association is relatively new and feeling its way in terms of providing useful services.
- The association has not expanded its membership from the initial number.
- The association has few resources to work with, given that members do not pay fees or provide capital for any function. This will limit the capacity of the association in terms of the projects and activities it can engage in to benefit its members.
- All work is carried out on a voluntary basis, with the direction and projects undertaken by people who have other jobs either as officials in the village, as farmers, or as extension agents. Whatever progress occurs, therefore, must grow out of the dedication of the association's leaders, which is not likely a good basis for expanded activities.

### *Conclusions*

- Despite these limitations, the association is providing some services. Given its current structure and operations, however, it does not have the capacity at present to enter directly into any aspect of the rapeseed supply chain. That is, there is no capital base from which to make investments in transportation or other market functions.
- By arranging for technical sessions, the association is providing a useful service that was not available previously and is thus making a contribution to members, but only if the quality of the information is good.
- By arranging purchases of inputs from the bureau, the association is able to provide only a small saving to farmers. It is not clear if the association could get a larger price discount if it was able to make the purchases directly rather than just placing bulk orders.
- Although started by village leaders and extension agents, the association is functioning for the benefit of farmers and not as a source of income for village

leaders. The fact that village leaders are also farmers probably mitigates against this practice.

- Although information is lacking, it is expected that women are not active in the association.

## **Case Study 3: Ha Ge Rabbit Co-operative (Sichuan Province)**

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### **Purpose of Case**

The case will present an example of the company-plus-farmers model of organization being used in many parts of Chinese agriculture and contribute to an understanding of the role of a farmers' association in this model.

### **Source of Information**

Information was taken from a case study undertaken by the DRC (Development Research Centre of State Council) under their farmer association project funded by CIDA's China Canada Agriculture Development Program.

### **Background to Case**

In Sichuan Province's Jingyan County, many farmers raise rabbits to generate income to support their families. There are no large capital inputs required for raising rabbits and feed is readily available anywhere in the county. Each household typically produces only a small number of rabbits in order to manage risk. The market for rabbit meat is growing as a result of consumers wanting a more diversified diet and because rabbit meat's fat content is lower than pork, beef, or chicken. Sales in Chengdu City are around seventy thousand tons a year, with the annual turnover of rabbits in the county being about 2.5 million.

### **Formation of the Association**

In 2003, four growers who raised rabbits on a relatively large scale — Mr. Peng Xiangdong, Mr. Wang Fengying, Mr. Zhongqing, and Mr. Cheng Shuqing — met to discuss the possibility of working together to control disease and access marketing channels. They recognized that the small-scale operation of each household did not allow them to meet technical standards; they also faced constraints in marketing and in accessing credit for further business expansion.

At that time, Mr. Rong Xinfu, who had been a village party secretary years ago, was a successful businessman who had invested in rabbit processing, founding a firm named Ha Ge Rabbit Company Ltd. When the four farmers above exchanged views with Mr. Rong about the formation of a rabbit co-operative, he spoke highly of the initiative and indicated that if they organized farmers to raise rabbits, he would purchase all of them for processing at his plant.

Encouraged by this positive response, the four growers consulted with government agencies such as animal husbandry, the science and technology commission, and the ministry of agriculture, all of whom supported the proposal. Conducting a survey, they found 200–300 households willing to work together. They then drafted a constitution for the co-operative and received comments on it from line agencies in the government.

After all the preparation work was done, the organizers discussed the name of the proposed co-operative with the Ha Ge Company, which agreed that the co-op could use its name. The four founders then went to the Industry and Commerce Administration and registered the co-operative as a shareholder company.

Although the Ha Ge Company invested Y2 million worth of fixed assets as equity in the co-operative, this does not give the company access to the distribution of the surplus. The farmers can invest rabbits as equity, with twenty breeding rabbits calculated as one share (equivalent to Y500). By the end of 2004, the equity of members reached Y3.23 million, contributed by sixteen thousand shares.

The distribution of surplus of the co-operative is carried out as follows: 5 percent is retained as reserves; 5 percent is kept as an educational fund; and 15 percent is maintained as a contingency fund. The rest of the surplus is distributed to members based on their shares, and bonuses are distributed according to the number of rabbits

the members sell to the co-operative, a mechanism that provides an incentive for members to sell to the co-op.

### **Structure and Operation of the Association**

The general office of the co-operative is found at the county level. In addition, there are about thirty-eight branches with three thousand members at the village level. The number of women involved in the association is not known.

The association has a number of key operating bodies.

#### *Congress of Members*

The congress of members is made up of representatives of members and is elected by the members; the number of representatives cannot be less than one-fifth of the total membership. The number of women participating in the congress is not known. The responsibilities of the congress include:

- passing and amending the constitution;
- making decisions on significant matters such as disbanding the co-operative, mergers, and alliances;
- electing and dismissing members of the board of directors (BOD) and the supervision commission (SC);
- reviewing and approving the reports and work plans prepared by the BOD and the SC;
- reviewing and approving major business activities and rules of administration;
- making decisions about internal organization structures and the signing of large contracts;
- determining the amount of equity each member should pay and the maximum amount of equity each member can hold; and
- dealing with other important issues as they arise.

Meetings of the congress should be held one or two times per year. A provisional meeting can be held upon request. The congress can meet only when more than two-thirds of its members are present.

### *Board of Directors*

The BOD makes decisions on the business plan and on personnel and financial matters. Its decisions require agreement by two-thirds of the board members. The BOD must also report periodically to the congress on business and financial issues.

BOD members serve three-year terms; members can be elected without limitation of terms. The president is the legal representative of the co-operative. His authority includes:

- organizing the congress;
- implementing the agreements reached in the congress;
- drafting the development, rules, and operation plans and bringing them for approval to the congress;
- implementing the plans once they have been approved;
- making decisions on membership — e.g., entry and exit, award, punishment, expulsion, and inheritance;
- signing contracts with other parties on behalf of the co-operative;
- delivering training to members;
- hiring and firing staff;
- managing the financial issues and property of the co-operative; and
- undertaking other issues entrusted to him or her by the congress.

The BOD has two honorary presidents — Mr. Mei Chaofu, the deputy party secretary of the county, and Mr. Wu Guangquan, the vice-major of the county. The purpose of these two positions is to win the support of the county government. Mr. Peng Xiangdong was elected president, while Mr. Cheng Shuqing and Mr. Wang Fengying were elected vice-presidents. The president of the Ha Ge Company was also elected as a vice-president. No women are members of the BOD.

### *Supervision Commission*

The supervision commission (SC) acts as a check and balance to the BOD on behalf of the members. The responsibilities of the SC include:

- holding the BOD accountable to all decisions made by the congress and to the constitution;
- monitoring the business activities and the financial statement;
- supervising the work of BOD members;
- reporting to the congress about the performance of the BOD; and
- sitting in on BOD meetings and providing advice.

If the SC comes across a case of mismanagement or fraud, a provisional congress will be called to cope with it and discuss how to bring the issue to justice. All the SC's decisions should be approved by more than half of its members.

The members of the SC include: Mr. Qi Jinchun, the director of the county animal husbandry bureau; M. Huang Shaoqing, deputy director of the general office of county government; Mr. Zhang Xiang, director of the agricultural office of the county; Mr. Guo Jinjun, the deputy director of the county industry and commerce administration; and Mr. Chen Jie, deputy director of the county party branch. All members of the SC are government officials from line government agencies. The SC has no women members.

### *Members' Rights and Obligations*

The member has the following rights:

- to participate in the congress;
- to vote in the congress;
- to have access to technical and economic services provide by the co-operative;
- to buy inputs from the co-operative and to sell products to the co-operative;
- to retain shares of surplus;
- to monitor the performance of the management of the co-operative;
- to refuse illegal requests; to call for a congress; and



- to apply for exit.

The member has the following obligations:

- to comply with all rules and regulations of the co-operative;
- to follow all decisions made by the congress and the BOD;
- to actively participate in all activities of the co-operative;
- to protect the interests of the co-operative;
- to accept technical guidelines and comply with technical standards of Green Food Production;
- to not undertake any activities that have conflicting interests with the co-operative; and
- to pay membership fees (individual member — Y20; institutional member — Y50–Y5000).

Members can provide their equity in kind or in cash. On a cash basis, Y20 purchases one share; on an in-kind basis, twenty breeding rabbits (which are worth Y500) are calculated as one share. The most prominent obligation of members is to sell rabbits to the co-operative.

The property rights to the rabbits used as members' equity payments are not clearly defined. Although the rabbits are deemed to be assets in the bookkeeping of the co-operative, it is impossible for the co-operative to make use of them to meet its investment needs since the rabbits are kept by the members.

One of the major functions of the co-operative is to mobilize farmers' resources for productive use. With the equity structure outlined above, the co-operative does not have sufficient equity to finance its business and to invest in other operations that could generate added values. Another effect of this equity structure is that members generally have not made a strong financial commitment to the co-operative and thus do not have a strong sense of ownership. When some of the members were interviewed,

they did not even realize that they were members and had obligations to sell their rabbits to the co-op.

### *Ha Ge Company versus Ha Ge Co-operative*

Ha Ge is a very successful private company. It has built its own sales teams and has eighty sales people promoting its products in more than twenty cities. The company participates in many exhibitions and advertises in newspapers and on TV. To assure the quality of its products, the company has developed the Quality-Assurance Handbook. Ha Ge goods are certified green products.

To ensure a consistent supply of the raw material — namely rabbits — Ha Ge Company would like to deal with rabbit raisers as a group. The transaction costs are too high to deal with each small farmer; the consequence would be lower prices for products, and products that could not meet the company's needs for safe and healthy food. To ensure this supply, the company has established a closed partnership with the co-operative by:

- providing offices to the co-operative;
- contracting with the members (the annual processing capacity of the company is 5 million rabbits; of this amount, 2.5 – 3 million are supplied by the co-operative);
- setting a floor price (in 2003, the floor price was Y6/kg; in 2004, the floor price was Y8/kg; if the market price is higher than the floor price, the company will purchase rabbits at the market price);
- returning a bonus of Y0.1 – Y0.5 per rabbit to the co-operative (in 2003, the total bonus was Y266,000; in 2004, it was Y398,000); and
- providing credit to the co-operative (the company provided credit of Y56,000 and Y160,000; in the second case, the principal was deducted from the bonus).

### *Major Business Activities*

The co-operative is involved in a number of business activities and employs eight full-time technicians to provide services to members. It has assisted new members in

building shelters for rabbits; it has provided poor households with twenty breeding rabbits free of charge; and it has invested Y500,000 in supplying breeding rabbits, feed, and drugs at preferential prices. The co-operative has also worked with relevant research institutes and universities to deliver training to its members, and has already organized eighty-five short courses on raising rabbits and distributed eighty thousand copies of technical materials. No information is available on who attends the training sessions (e.g., large farmers, small farmers, women, men).

The co-op has developed a quality assurance system for rabbits, and by controlling inputs, has attempted to manage the production process and ensure that members comply with standard operating procedures. The co-operative has also facilitated access to credit, with the co-op and the company jointly pledging Y2 million as collateral for credit to members of the Rural Credit Union. This resulted in Y9.1 million being channeled to members, with an additional Y900,000 worth of drugs and feed being provided to members as credit.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmers' association? The answers to this question are divided into observations and conclusions.

#### *Observations*

- The Ha Ge Rabbit Co-operative represents a typical company-plus-farmers model of organization that is increasingly being called for by government.
- Women are not represented on the BOD and the SC.
- The government has a strong presence in the co-operative: county government officials act as honorary presidents and all members of the SC are heads of government bureaus.
- As a private business, Ha Ge Company provides strong support to the co-operative.

## *Conclusions*

- The strong presence of government in the governance of the co-operative conflicts with the self-help objective. The intervention of government agencies in the activities of the co-operative has the potential to significantly reduce the members' sense of ownership and hence their commitment to the co-op.
- The members' lack of any real stake in the co-operative is likely to threaten its sustainability.
- The close relationship between the co-operative and the company results in many opportunities for conflict of interest. The obvious conflict is over the price paid for rabbits — generally speaking, the company will want to pay a lower price while growers will want a higher price. A less obvious conflict exists over the use of the Ha Ge name — would the co-operative be able to use this name if it were to undertake more value-added services?
- Despite the fact that women are often the ones raising the rabbits, they are not represented on the BOD and the SC.

## **Case Study 4: Yumin Vegetables Co-operative (Shandong Province)**

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### **Purpose of Case**

This case will present an example of a co-operative that has been formed to specifically address a number of problems in the supply chain.

### **Source of Information**

Information was taken from a report prepared by the Rural Development Institute of the China Academy of Social Science.

### **Background to Case**

Yumin Vegetables Co-operative (YVC) is located in Zhujiatong village of Laiyang City in Shandong Province. Shandong is the largest vegetable producer in China and much of its production is transported to large cities such as Beijing, Shanghai, and Tianjin. A significant portion of the output is also exported to Japan and Korea.

There are 149 households in Zhujiatong village, with a farmland area of 706 mu (~50 hectares). Of this total, 400 mu is devoted to vegetable cropping, with 350 mu of the area taken up by greenhouses. Total annual vegetable production is more than 1.5 million kilograms, with each household, on average, producing Y10,000 worth of vegetables per year.

### **Formation of the Association**

Founded in 1995 with forty-two members, YVC has a current membership of two hundred. The number of women members is not known. Co-op members grow 800 mu of vegetables and have built 600 green houses.

Mr. Wang Yumin became the village's party secretary in 1973. Based on his observations, he identified a number of common problems faced by small vegetable growers in the increasingly competitive market:

- Inconsistent supply of quality inputs — There are many marketing channels for agricultural inputs, some of which sell fake and counterfeit products, making it difficult for individual farmers to test the quality of the inputs and bargain for good prices. In 1993, for example, tomato producers used inferior pesticides, causing a loss of Y40,000 for the entire village.
- Marketing constraints — The 110 vegetable growers in the village plant, on average, 1.5 mu of vegetables per household in greenhouses. Most of their output is sold to travelling traders because the growers do not have marketing skills and they lack the time to do both the production and the marketing.
- Inadequate access to information — There is no in-depth understanding of market trends, and the varieties of vegetables planted and their cropping areas were selected without market research or contracting arrangement. Most of the growers just follow what their neighbours do.
- Poor technical inputs — The growing technology cannot be updated on a timely basis since an individual household cannot afford the technical advisory services.

Mr. Wang recognized the common needs of vegetable growers. He also recalled his experience in the co-operatives of the 1950s (before the People's Commune era), when farmers came together to purchase inputs and market their products, but owned their own land and grew their own products. He came to the conclusion that individual farmers were too vulnerable to deal with the traders and that the government could not deliver the kind of tailored services required by each household. As a consequence, he felt the farmers should be organized as a group to serve their own needs.

Mr. Wang started to circulate his idea among villagers, especially those who had had experience with co-operatives during the 1950s. Many of them were concerned about collective action, specifically about the possibility that such activity would lead them back the People's Commune era. Mr. Wang emphasized to prospective members that they would only act together to buy inputs and market their products; land would be owned by each member and the farming would be done only by them. Some farmers accepted the concept and nominated Mr. Wang to lead them in developing the co-operative.

In February 1995, Mr. Wang and other members of the village party branch mobilized local citizens to form the co-operative. Forty-two households applied for membership. The initial equity was Y65,000; of this, Y40,000 was from households belonging to the village; the rest of the equity was contributed by farmers. The members suggested the co-operative be named after Mr. Wang, and the new organization thus became known as the Yumin Vegetables Co-operative.

As the party secretary of the village, Mr. Wang is a member of the rural elite, and as a result of his activities and accomplishments over the years, he has the trust of both villagers and government. His leadership experience over the last two decades has given him the vision to identify the common objectives of group action and the credibility to initiate discussions among the farmers. He was able to mobilize resources to form the co-operative, including the property of the village, although whether he had the authority to acquire the property owned by all villagers is a matter of some controversy. Mr. Wang also possesses strong social capital, as demonstrated by the fact that most of the management staff in the co-operative are from the party branch of which he is in charge.

The city and township governments agreed to provide assistance in drafting the co-operative's constitution. And to support the formation of the organization, the City Inputs Marketing Co-operative and other institutions injected Y36,500 as equity, including Y10,000 in agricultural inputs. The purpose of this funding was to address working-capital constraints. The equity financing provided by these organizations does not, however, give them the right to any of the surplus generated by the co-operative, which will repay the funds when its financial position improves.

### **Structure and Operation of the Association**

#### *Membership*

Membership requirements are laid out in the constitution: all villagers who abide by the constitution, honour their obligations as members, and invest the required equity can become members. All members are given proof of equity investment and have the right to benefit from services and facilities provided by the co-operative as well as the right to receive a portion of the surplus of the operation. Members are free to exit but application to do so must be made two months before the end of the business year and the member's equity cannot be redeemed until after the end of the business year. If there is a loss on the operation, the equity is reduced accordingly; if there is a surplus, the member will retain a part of it in proportion to his/her equity and patronage.

Members will be expelled from the co-operative if they cannot abide by the constitution, if they fail to honour their obligations, if they have conflicts of interest, or if they break the law.

#### *The Congress*

The congress of members is the top decision-making body in the co-operative and meets at least once a year. Each congress can take place only if more than two-thirds of the members participate, and each member has one vote regardless of the amount of equity held. The responsibilities of the congress include:



- passing and amending the constitution;
- electing and dismissing the board of directors (BOD) and supervisory committee (SC) members;
- increasing or decreasing equities;
- reviewing and approving reports submitted by the BOD and the SC;
- approving the annual financial report; and
- formulating plans to distribute the operating surplus or compensate for a loss.

### *The Board of Directors*

The BOD is an executive body that is accountable to the congress, which elects five members of the board. Mr. Wang is president. Other BOD members include the treasurer of the village, the accountant of the village, and two villagers. BOD members must be members of the co-operative and they cannot be elected for more than three terms. The number of women members of the BOD is not known.

The BOD meets once a month. Its responsibilities include:

- implementing the decisions made by the congress;
- preparing the annual financial plans;
- signing contracts and agreements with other agents on behalf of the co-operative;
- reporting to the congress; and
- authorizing the president to exercise litigation and other legal rights.

The BOD is in charge of financial management and makes decisions on borrowing and repayment. It can dispose of the property of the co-operative, sign wage agreements and employment contracts, and participate in drafting other agreements.

### *The President*

The president is the legal representative of the co-operative and can call for meetings of the congress and the BOD. He or she has the right to sign all contracts — including those associated with membership, equity, input supply, and product marketing — and can nominate candidates for director and deputy director of the BOD. Although salaries for the president and other management staff were low at the outset (only several hundred Yuan), these positions provide other benefits such as personal credibility and influence, which have positive impacts on their businesses.

### *The Supervisory Committee*

The supervisory committee provides the checks and balances for the co-operative and is composed of three people elected by the congress for three-year terms. The SC director and one of the other members are chosen from the village party committee; the third person is a villager. SC members cannot be relatives of BOD members or management. SC meetings take place once each quarter; the committee has the following powers:

- to check the operation and business of the co-operative;
- to review the financial statements;
- to supervise BOD members and management; and
- to work with the BOD on behalf all members.

A representative of the SC sits in on BOD meetings and provides advice as to when to hold the congress and BOD meetings. The SC also reports to the congress about the performance of the co-operative. The number of women members of the SC is not known.

### *Principal Business*

The co-operative's principal activities include the supply of inputs, the marketing of members' products, and the provision of training and education. With the bulk purchase of inputs such as fertilizers, pesticides, and plastic mulch, the co-operative can supply high-quality inputs to members at low prices.

The marketing of members' products is designed to eliminate the activities of the traders. The co-operative has established outlets in several cities and the vegetables are branded as produce of the YVC. The co-operative has also developed institutional buyers such as the army and the school. These marketing approaches can result in price premiums for members.

The marketing strategies used by the co-operative — pooling members' products and grading, branding, and certifying the product to meet quality assurance standards — are not sophisticated. The business has not yet integrated forward in the supply chain, for example, by expanding its business into storage and processing to retain more added value.

In terms of technical advice and training, the co-operative has worked with the agricultural college and government extension people to bring in experts to give training courses to members. The co-operative also subscribes to a technical journal for each member and has introduced new technologies to upgrade members' greenhouses and new vegetable varieties to improve members' products. Other new technologies include drip irrigation from Israel.

### *Distribution of Surplus*

The surplus for the co-operative is obtained by deducting expenses from total revenue. Expenses include taxes and fees, interest payments on loans, depreciation, wages, and dividends. The constitution stipulates that 10 percent of the surplus should be retained as reserves and 20 percent should be retained as a contingency fund to repay loans, to pay for dividends in loss-making years, and to cover emergencies. While these reserves cannot be distributed to members, they can be used as working capital. The net surplus after deducting the reserves and contingencies is distributed to members based on their patronage. All the financial information for the co-operative is published.

The co-operative's leaders have to make trade-offs between immediate and tangible benefits to members and the long-term development of the organization. If the co-op wants to survive and develop further in an ever-changing market, it has to make a significant investment in equipment and facilities and integrate forward; this means that most of the surplus should be retained rather than being distributed to members. This practice, however, means that growers do not see the benefits of the co-op immediately.

At present, all of the vegetable growers in the village have become members of the co-operative and growers in neighbouring villages also want to join.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmer association? The answers to this question are divided into observations and conclusions.

### *Observations*

- This case is a good example of farmers encountering a number of problems in the supply chain — uncertain quality of agricultural inputs, inadequate access to high-quality market information, lack of competition in marketing — and using group action to address them.
- The impetus for the co-operative came from a leader in the community who had significant credibility and strong leadership skills.
- Although the co-operative has received considerable funding from government, the members have also made a significant investment in the organization.

### *Conclusions*

- Although control of the co-operative appears to rest with the members, in reality a small group of people, including government officials, is running it. To become a truly member-owned and member-controlled organization, the co-operative will have to invest in training and education.
- This co-operative is operating in a very competitive market. To remain in operation, it may have to adopt more sophisticated marketing strategies and consider the possibility of integrating forward in the supply chain. Doing so will require considerable capital and significant management expertise.
- Women would do a large proportion of the work on the farms that are part of this association. Although information is not available, it is likely that women are not playing a major role in the association.

## **Case Study 5: Nailer Township Seed Potato Farmers' Association (Inner Mongolia Autonomous Region)**

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### **Purpose of Case**

The case will present an example of a farmers' association that was created to develop a new market.

### **Source of Information**

Ning Hui Boa, director of the Bureau of Agriculture and Animal Husbandry in Wuchuan, provided information on this association.

### **Formation and Operation of the Association**

The association was formed in 2002, largely at the instigation of Mr. Ning. While serving as deputy director of Nailer Township, Mr. Ning came to realize the benefits of collective action and saw the opportunity to help organize an association so that potato farmers could develop a new market. The association was primarily set up to produce and sell seed potatoes to seed nurseries.

The association built storage facilities with a capacity of 2.5 million kilograms. At harvest, the farmers deliver their potatoes to the facilities, where they are sorted. Potatoes weighing greater than 150 grams but less than 400 grams are kept for seed, while those weighing less than 150 grams and greater than 400 grams are returned to the farmer for marketing. Potatoes less than 150 grams are sold for processing into starch, while those greater than 400 grams are sold as fresh potatoes. About 80 percent of the potatoes are acceptable for seed and are sold to the association.

In fall 2004, potato producers were paid 0.21 cents per jin for seed potatoes. The association sold them for 0.28 cents per jin, taking an initial commission of 0.10 cents per jin. It then returns 0.07 cents per jin to the producer, keeping 0.03 cents per jin for the association's reserve. By comparison, the price of fresh potatoes was 0.28 cents per jin and culls 0.18 cents per jin.

When the association was formed in 2002, it had 30 members (the number of women members is not known). In 2003 it had grown to 107 and by 2004 had reached 315. The average farm size is 30 mu. A 2004 calculation revealed that the association increased member net income by Y120 per mu, giving the average member an increase in income of Y3,600.

The association engages in bulk purchase of pesticides for members. Using its reserves, the association buys the pesticides and deducts the cost from payments to members following harvest. The organization does not have sufficient funds to do the same thing with fertilizer as it is much more expensive than pesticide.

The association also provides technical training, most of it provided by Mr. Ning, who specialized in agronomy at Inner Mongolia Agricultural University.

The association has a seven-member board of directors, all of whom are farmers. Mr. Ning serves as director and manager and is paid Y8,000 per year for his expertise. A part-time accountant is paid Y300 per year, and the treasurer, a local government official with the Science and Technology Station, is paid Y4,000 per year. There is a deputy director who also gets an allowance. Although there is no direct membership fee, one cent per kilogram is retained by the association to pay salaries. The number of women on the board of directors is not known.

The association has built up a reserve fund of Y5,000,000 and there is some disagreement over how to use the money.

Mr. Ning feels that the association would be better off if it were managed by farmers, but acknowledges that this is difficult to achieve because of their lack of experience. He has given his notice to resign in 2006. He is grooming one of the farmers to take over his position. He would like to see the association by-laws changed to reflect a farmer-owned and -directed organization.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmer association? The answers to this question are divided into observations and conclusions.

#### *Observations*

- This association appears to have been successful at improving farmers' incomes through the development of a new market.
- The impetus for the association came from a leader in the community who had significant credibility and strong leadership skills.
- The association is not yet owned and controlled by the members.

#### *Conclusions*

- To become a truly member-owned and member-controlled organization, the association will have to invest in training and education, and a way will have to be found to have the members make a financial investment in the association.
- The association has built up a significant reserve fund. The manner in which this fund is used will be important in determining the future market



competitiveness of the association and the degree to which the members feel they have some ownership and control of the organization.

- Although information is lacking, it is expected that women are not active in the association.

## **Case Study 6: Goodsoil Snowplow Co-operative (Province of Saskatchewan, Canada)**

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### **Purpose**

This case will describe a small co-operative venture in Saskatchewan, Canada, that illustrates how a co-operative can address the problem of a local government failing to provide a required service.

### **Source of Information**

The case is based on the author's recollection of the formation and operation of the co-operative in its early years.

### **Formation of the Association**

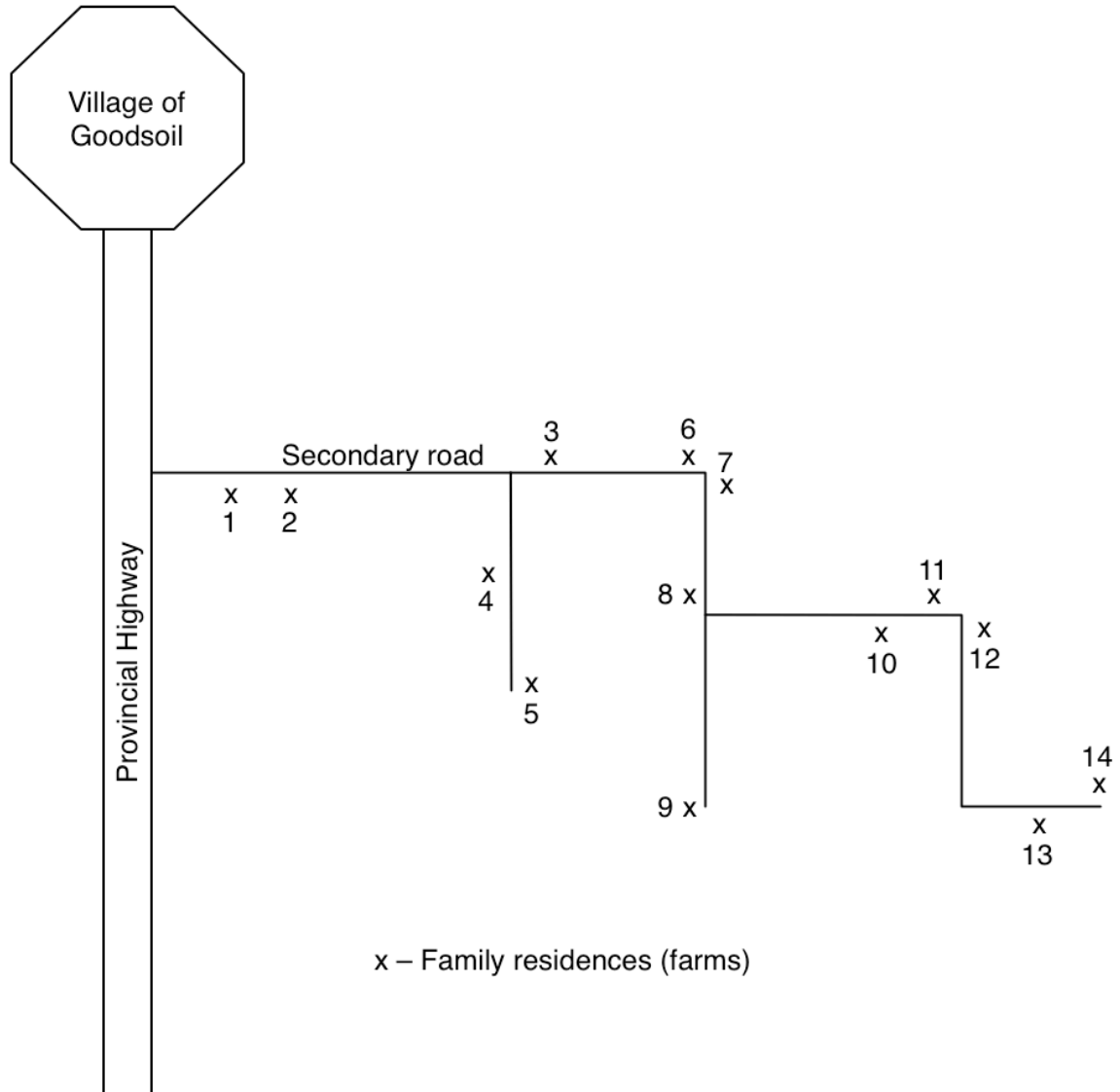
The community of Goodsoil, Saskatchewan, was established in the late 1920s and early 1930s by immigrants from Germany and neighbouring European countries; some settled in Goodsoil as direct immigrants, while others re-located from other settlements in southern Saskatchewan. The community is located on the northern fringe of agricultural settlement in the province. It began as a farming community and has remained essentially that to this day. In the 1920s and 1930s, draft horses were the principal source of power for farm work and transportation. The nearest railway station was eighty kilometres away. Some years after initial settlement, a provincial highway was constructed to provide access to supplies, services, and markets. Secondary public dirt roads provided access to village services for farmers, all of whom lived on their farms. The community existed on a largely subsistence basis for its first twenty years. All farms were mixed, producing some combination of cereal and forage crops, vegetables for home use, and livestock such as cattle, pigs, and chickens. Products sold included small quantities of cream, eggs, grains, alfalfa seed, pigs, and cattle.

The village of Goodsoil provided all of the basic services for the community, with the services growing in number and diversity as the community developed. By the mid-

1940s, available services included: a primary and secondary school; a hospital; food and dry goods stores; a post office; car, truck, and farm machinery sales and service; transport services for product marketing and input supply; a police station (one RCMP constable); financial services (a local credit union and a branch of a chartered bank); a community hall for meetings and social activities; a Christian church with resident pastor; a telephone office; restaurants; a blacksmith shop; harness and shoe repair; and a hotel.

In the mid-1940s, conversion from horse power to cars, trucks, and tractors began in response to increased cash flows and higher incomes due to high prices for livestock and alfalfa seed. By 1950, most farmers had tractors and cars. While this was a major leap forward in terms of productivity and convenience, it also presented the problem that is described in this case study — winter snow removal was required to allow the cars and tractors to drive on the roads. The municipality maintained the provincial highway that serviced the community, including winter snow removal. It did not, however, provide these services on secondary roads. This became a problem as farmers replaced horses with cars and trucks; access to all of the services listed above became problematic in the winter, when snow covered the roads. This case describes how one group of farmers on one secondary road dealt with the problem.

*The Problem*



**Figure 1: Map of the Goodsoil Region**

Figure 1 depicts the location of fourteen farms along approximately thirteen kilometres of public secondary roadway. Most of the families had school-age children and all but one had a car or truck. The author of this case lived at #8 and the school-bus operator lived at #14. All residents had a common problem with winter access to village services.

### *The Solution*

The farmers organized a meeting at one of their homes to discuss the problem. In this particular co-operative, the men were the ones who officially took part in the organization; they were also the ones who did the work of running the snowplow. This pattern was common to co-operatives formed during this time period. Farmer #8 was instrumental in organizing the first meeting and became one of the leaders in the organization eventually formed to solve their common problem. Options considered:

- Lobby the local government for service. This failed.
- Continue to use horses for winter transportation. This was considered impractical due to the large number of school-age children, distance to school, short winter days, and extremely cold weather.
- Contract a snow removal service. No suitable service was available.
- Form a self-help association. This option was selected.

The group invited the regional provincial agricultural extension specialist to a subsequent meeting to provide advice on the formation of a formal group to deal with the problem on a business-like basis. The formation of a formal co-operative was one approach considered. Many of the farmers were already members of the local credit union and of a regional Saskatchewan Wheat Pool committee.

The group decided to form a co-operative and register it under the *Saskatchewan Co-operatives Act*; they named the organization the Goodsoil Snowplow Co-operative. The provincial legislation provided the legal framework for the co-op to form as a business entity, and the extension specialist assisted with the formal registration process. The group elected officers of the co-operative; farmer #8 became the secretary-treasurer responsible for financial records, fee collection, and disbursements. Most farmers living along the road in question became members of the organization.

### **Structure and Operation of the Association**

Members made equal contributions to a capital fund to acquire a snowplow. The local credit union may have approved a loan for initial acquisition of the plow. The

farmer/member along the route with the largest tractor (#3) was contracted to install the snowplow on his tractor and operate it.

Members were assessed fees to defray the snowplow operator's costs; fees and costs varied with annual variability in the severity of snow removal needs. No members of the co-operative received any remuneration for services. Members provided additional assistance in snow clearing on a voluntary basis following serious storms. All officers provided service on a voluntary basis.

### *Problems*

Free rider — At least one farmer along the route did not join the co-op or pay any fees, but he still received service because his farm was adjacent to the road. Encouragement by neighbours to at least share in the operating costs went unheeded.

Dissolution of the co-op — Some years later the public road was upgraded to a new standard and the local government undertook provision of all maintenance work, including winter snow removal. Thus there was no further need for the co-op. The assets (the plow) were dispersed, the co-op was dissolved, and the remaining funds were returned to members in equal shares as specified in the by-laws.

### **Case Observations and Conclusions**

What can be learned from this case in terms of the operation and role of a farmer association? The answers to this question are divided into observations and conclusions.

#### *Observations*

- The regional agricultural extension specialist acted as an adviser and catalyst in the formation of the co-op but played no management role in the operation of the business entity.
- Members elected as officers of the co-op undertook these duties on a voluntary basis without remuneration.

- Women were not active in the formal running of the co-operative.
- The co-op went through a formal process to register under the *Co-operatives Act*. The *Act* and by-laws also contained the process for termination of membership and dissolution of the enterprise when the need for it was replaced by improved government service.
- The *Co-operatives Act* provided a facilitating framework for voluntary collective action through a legal business entity owned, governed, and operated by its members for their own benefit.
- More generally, the overall policy and institutional framework in place at the time the co-op was formed contributed significantly to the type of voluntary and independent collective action represented by the snowplow co-op (e.g., throughout western Canada there were many examples of similar co-ops being formed).

### *Conclusions*

- Associations are often formed to address one of two common problems — government failure or market failure. This case describes a situation in which the local government failed to provide essential services to the people in the area.
- The members identified a common problem that none of them could solve independently. They chose to solve their problem through collective action as they had done in other instances in the larger community on an informal basis, e.g., construction of a community church and community hall.
- The co-op was formed on a voluntary basis as a business entity to provide a necessary public service to its members. Although some of the people who benefited from the co-op did not become members and did not share in the cost of providing the service, the co-op still formed and was operated successfully.