

China Global Leaders Programme 2019

# A NEW MODEL FOR INCLUSIVE AGRICULTURE: THE FUTURE OF CHINA'S RURAL DEVELOPMENT

Executive Summary





## CHINA'S AGRICULTURAL DEVELOPMENT

The household responsibility system (HRS) introduced in the 1980s in China redistributed land to farmers in the form of contracts and agriculture production operation was returned to individual households. The HRS has encouraged a wide range of farmers to expand production and promoted rural development.

But organising smallholder farmers and integrating them with the modern value chain remains challenging. Over 227 million smallholder households in China cultivate a total of 120 million hectares of farmland, though average land size per household is less than 0.3 hectares. Agriculture service companies and cooperatives also face challenges in professionalising their services and effectively organising smallholder farmers.

## THE PROBLEMS FACING SMALLHOLDER FARMERS

Smallholder farmers in Laixi, China face various issues:

- Small holdings: Average size of a smallholder farmer is 0.6 hectares
- Lack of skilled labour: young people move to the city for higher-wage jobs and sometimes leave children behind in the care of grandparents
- Ageing population: around 20% of the population are over 60, with many who still need stable income year-round supplemented by leasing out their land for field crop production, or seasonal part-time jobs
- Limited negotiation power: currently, agricultural inputs and production services, including technical training, are provided by companies and middlemen who are driven solely by profits.

## CHALLENGES FOR COOPERATIVES

Though a straightforward mechanism to improve farmer livelihoods is to organise smallholder farmers into cooperatives, there are many challenges that face such organisations.

In China, many cooperatives lack the talent to run the organisations effectively, since many young people leave the villages to work in cities to seek better opportunities. There is also a lack of management and technical training for those running these organisations. It is also difficult for self-organised cooperatives to reach the scale it needs without external funding or support.

Therefore, smallholder farmers have little incentive to join cooperatives, and do not stand to benefit much from the lack of scale of organisation.

### LAIXI, CHINA

Around 20% of population in Laixi are over 60



### CHINA

Average farm sizes are 0.3 hectares



### CHINA

58% and growing mobile internet penetration rate with 5G on the horizon



## THE TOWNSHIP AGRICULTURAL COLLECTIVE ENTERPRISE



The Township Agricultural Collective Enterprise (TACE) will organise farmers in the township to gain economies of scale and provide services through a Service Centre for Smart Villages (SCSV) that will generate a profit as well as create higher returns for farmers. Key services include group purchase of agri-inputs, post-harvest sorting, packaging and branding, labour brokerage, financial services, and other necessary agricultural services. The SCSV serves as a platform for agricultural service providers to provide services to members through a more efficient and cost-effective manner due to scale. Part of the profits from the Service Centre will fund community services for members.



Scale is achieved when farmers are organised into Farming Group Communities (FGC). Each FGC consists of different Producer Groups that grow the same type of crop and are within geographical proximity of each other. Farmer-members of TACE will become owners of the organisation through an initial investment, and will have voting rights as well as be part of a shared profit scheme.

## FIVE REVENUE STREAMS AND ONE DIGITAL INNOVATION

The goal of TACE is to help farmers capture greater economic benefits through scale, elevated bargaining position, and value-added services for new revenue streams by replacing the middlemen in the value chain. By offering services that will generate income, the Service Centre will then provide community and extension services to benefit the villages, as well as helping farmers capture a higher value from their means of production.

### Group Purchase of Inputs

- Consolidate procurement needs and negotiate prices for bulk purchase of agri-inputs with affiliated partners.

### Post-Harvest Handling

- Provide value-added processing services including sorting, storage and packaging.
- Support premium branding, certification, traceability with the digital app and naming rights for produce in order to increase value for farmers during the sales process.

### Farming-as-a-Service

- Providing mechanised services for field crops which includes sowing, applying fertiliser/ pesticides and/or harvesting for a fee, while farmers will still keep the crops for sale at the end.
- Providing selected technical services for farmers growing fruit.

### Labour Management

- Create and maintain a cross-township labor database for freelance labor and skilled technicians to register.
- Collect and broker needs for labour and match demand with the right workers.

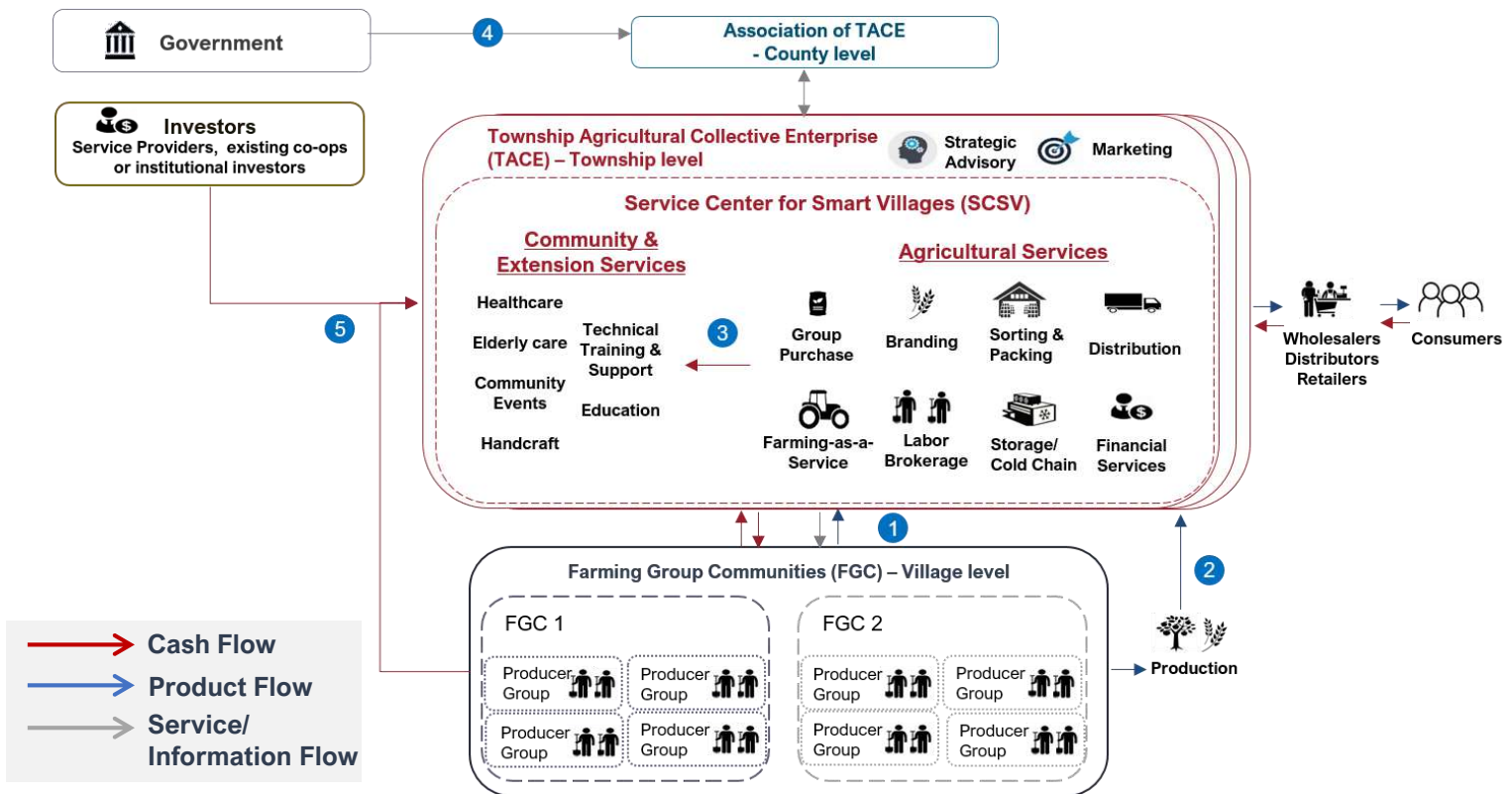
### Financial Services

- Provide wholesale credit and crop insurance to farmers

All of these services are supported by a **digital application** where data is shared across the value chain and facilitates provision of services. It will collect data throughout the production process to facilitate crop traceability, while gathering market information like wholesaler and retail prices for SCSV and farmers to better negotiate.

The platform can also serve as a platform for labour management and matching, as well as facilitate monetary transactions for financial services like loans and crop insurance.

# BUSINESS MODEL



- ① The Service Centre for Smart Villages (SCSV) will address some of the main agricultural issues of smallholder farmers.
 

Five main revenue streams (input sales, sorting/packaging and logistics, labour management, “farming-as-a-service” and financial services) are expected to increase income for farmers and fund community services.

All farmers in the township will join as members and co-owners of TACE through an initial investment. They will have voting rights to ensure TACE and Service Centre address members’ needs.
- ② Producer Groups will work with the SCSV through five main channels (also the SCSV’s revenue streams):
  1. Agri-input sales at a preferable rate based on consolidated orders from various Producer Groups
  2. Provide value-added sorting, packaging and logistics services
  3. Labour management and matching
  4. “Farming-as-a-Service”: providing machinery services for field crops
  5. Financial services including loans and insurance
- ③ 30% of profit (or RMB 600,000, whichever is higher) from each SCSV is set aside to fund community services to the FGCs. The focus areas are healthcare and education, but will also include elderly care, extension services and other community events.
- ④ The government would support the establishment and take the lead in recruitment of farmers to TACE. It can also bring in resources from county and provincial level as well as extension services like university partners.
- ⑤ The TACE is 60% owned by the FGC members, while 40% of the shares are owned by investors. Investors could include institutional investors, agricultural service provider companies or existing co-operatives. By investing in TACE, they could more easily organise farmers at scale, and benefit from a larger market.

The SCSV will provide community and extension services to improve livelihoods of farmers and ensure the elderly and needy are cared for by the community. The other goal is also to encourage young people to return to villages to work through scholarships, improved opportunities for advancement and a better living environment.

Healthcare is a main focus where the SCSV will provide one-time monetary support to members with healthcare needs. The other focus is education, where a scholarship will be created to incentivise young people who commit to coming back to the villages to work after university.

Besides community initiatives, the Service Centre will take the lead in providing extension services which address more of the organisational-level issues. Extension services include training in management skills, technical skills and sustainable farming practices etc.

The **Township Agricultural Collective Enterprise** will help organise smallholder farmers through creation of Producer Groups and provision of agricultural services through the Service Centre. In turn, farmers will be able to:

- Earn more value from their produce through value-adding services like sorting, processing, branding and traceability services
- Obtain inputs at a lower cost through group purchase
- Gain access to financial services and labour matching services

The centre expects that through cooperation with the local government, it will have a 99% participation rate in the township, and with additional investment from external investors, the initial investment of 22 million RMB will reach profitability by the end of the first year, while dividends can be shared with farmers starting from Year 6.

The **Global Institute For Tomorrow (GIFT)** is an independent pan-Asian think tank providing content-rich and intellectually-challenging executive education from an Asian worldview.

The **Global Leaders Programme (GLP)** is GIFT's flagship leadership experiential programme, designed for mid- and senior-level managers from leading global and regional companies to think critically about the drivers of change in the 21<sup>st</sup> Century and develop new business models that address the defining challenges of our time.

The **2019 China Global Leaders Programme** brought together twenty-four participants from twelve organisations and ten countries and regions, each bringing experiences from different cultures, backgrounds and expertise. The project team worked to produce business recommendations in partnership with the Hundred Villages Programme for the Laixi government to create a business model that would empower smallholder farmers and provide necessary services to support their integration into the modern value chain. Highlights were presented to a crowd of stakeholders and government officials in Laixi, China on 12<sup>th</sup> September, 2019.

GIFT would like to extend its warmest appreciation to the Hundred Villages Programme, the Laixi government, and all other organisations and individuals who made this effort possible.





# Tomorrow Matters.

*Published Oct 2019*

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