

## Study on the Optimization of Farmer Cooperatives' Environmental Management under the Background of Rural Revitalization

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**Abstract:** Rural revitalization is the prosperity of rural economy, society and culture. It is also the creation of ecological civilization and the innovation of governance system. It is related to the future development path and comprehensive blueprint of rural areas. As a new type of rural management, farmers' cooperatives have an important role and fixed positioning in the context of rural revitalization. We should explore the improvement of the governance system, especially the optimization path of the governance environment, and contribute to the rural revitalization. Through the interpretation of government support, financial support and risk mitigation policies, we will reshape the cooperative governance environment and promote the comprehensive revitalization and sustainable development of the countryside.

### 1. Introduction

In October 2017, the Rural Revitalization Strategy was first proposed in the 19th Congress of CPC. In December of the same year, the Central Rural Work Conference of CPC first proposed to take the road of socialist rural rejuvenation with Chinese characteristics, making agriculture a dynamic industry and making farmers attractive career. The occupation of the country makes the countryside a beautiful home for life and work, and brings the three rural aspects (countryside, agriculture, farmer) a new era. Rural revitalization requires economic, social and cultural prosperity, as well as the advancement of ecological civilization and the innovation of governance systems. As a new type of rural management, farmers' cooperatives play an important role in the context of rural revitalization. We should explore the improvement of the governance system, especially the optimization path of the governance environment, and contribute to the promotion of rural revitalization.

Under the background of rural revitalization strategy, cooperatives have become the fundamental way to develop rural economy to realize the prosperity of rural industries and the affluence of farmers. As a new type of agricultural management entity that links farmers and markets, farmer cooperatives are an important force in promoting agricultural modernization and have greatly promoted the development of modern agriculture in China. According to the data of the Ministry of Agriculture, by the end of February 2018, there were 20.44 million farmers' professional cooperatives registered in China, involving 11.199 million farmers, accounting for 48.1% of the total number of farmers in the country (source: China Agricultural Economic Information Network). The cooperative has become a rural economic entities of the largest number of new rural business. Based on the needs of farmers' production and management, the cooperatives rely on local agricultural leading industries, leading products or characteristic industries to carry out independent management, self-service and self-management in the fields of capital, information, technology, purchase, sales and processing, expanding the industrial chain and enhancing the value chain, to achieve the integration of the three industries. To a certain extent, it solves the problem between the scattered rural small production and large market. It has promoted the development of rural industries, agricultural efficiency and farmers' income.

Under the background of rural revitalization strategy, cooperatives can help realize the ecological livability of rural areas, and promote the construction of villages' rural civilization, and ultimately

achieve effective governance in rural areas. The industrialization and marketization process of rural areas in China has had an important impact on the rural ecological environment. For example, waste gas, waste water and waste residue have a negative impact on rural production and living environment. Although the work of rural environmental governance has gradually enhanced in recent years, the phenomenon that “two hands” of the government and the market have failed in the countryside still exists. By formulating production standards, the cooperatives supervise the production behavior of farmers, guide farmers to carry out green production, recycle agricultural planting, and promote the ecological livability of the village. Through legal education and moral education for its members, members' legal and moral awareness will be enhanced, and the formation of rural governance models will be combined with the rule of law and virtues to achieve effective rural governance.

At present, the development of Chinese farmer cooperatives is still in its infancy. The potential organizational advantages have not yet been fully realized. Faced with poor governance environment, loose governance structure, unclear governance mechanism, weak competitiveness, and weak motivation for small farmers, how to establish and improve the cooperative governance system will become a key issue to establish professional cooperative for farmers in China, standardizing the operation and sustainable development, improving the performance of cooperatives, increasing farmers' income, and finally realizing the rural revitalization.

The cooperative governance system refers to the goal of maximizing the interests of members on the basis of the preconditions of rural household contract management and not changing the autonomy of farmers' production and operation, through the cooperative internal interest distribution mechanism, incentive constraints, decision-making behavior, supervision behavior and member withdrawal. Institutional arrangements such as the establishment of rights, on the basis of the external environment, formed a system of internal and external power and interests and balances. The cooperative governance system includes the governance environment, governance structure and governance mechanism. The governance environment belongs to external governance, including the policy environment and market environment. The cooperative governance structure refers to an organizational structure composed of the member assembly, the board of directors, the board of supervisors and the chairman of the board of directors. The members of the owners realize the supervision and control of the management and performance of the cooperative. The cooperative governance mechanism is a series of execution, control and feedback mechanisms under the certain governance structure to achieve the cooperative's operational objectives, including the decision-making mechanism, incentive mechanism and supervision mechanism of the cooperative. This article focuses on the problems of the cooperative's governance environment and optimization recommendations.

## **2. Status Of External Governance Environment of Cooperatives**

The performance of cooperatives depends not only on the institutional arrangements within the organization, but also on the compatibility of organizational arrangements with external environments such as policies and laws. The policy environment is an important part of the cooperative governance environment. In the specific stage of China's imperfect market system and imperfect factor market, cooperatives, as a vulnerable group, need government support and protection. The relationship between protection and protective relationship is a common request of both parties, and it is a transaction of rational choice from the perspective of economic interests. At present, the source of funds for farmers' cooperatives in China is mainly self-raised by farmers, and the financing constraints are large. As a result, compared with specialized large companies, it is impossible to build a standardized production system and sales network, and it is difficult to provide effective information and technical services to farmers whose market expansion capacity is weak.

From 2004 to 2019, the No. 1 document issued by the central committee of CPC clearly proposed a series of policy measures to support the development of cooperatives. Local governments at all levels also introduced corresponding supporting policies and measures to encourage and guide the development of cooperatives. The government's support for farmers'

professional cooperatives mainly uses various policy tools to improve the external market environment of cooperatives, enhance the self-help ability of cooperatives to provide services for members and the market competitiveness of cooperatives, and promote full competition in the market. The way of financial support for the development of cooperatives is mainly to directly subsidize the project, to supplement the awards, and to select model organizations at all levels. The selection criteria are mainly based on support the merits and advanced units. At present, the main problem of the financial support policy is that the phenomenon of “elite capture” is widespread in financial support. The more competitive a cooperative is, the easier it is to obtain government support policies and vice versa. If the financial support is not well grasped and the support is too much, which will substitute the cooperatives to participate in market competition, as a result, which will eventually lead to the alienation of cooperatives and even become official institutions.

A large part of agricultural risks come from natural disasters. Because only professional farmers of a certain scale have strong insurance awareness and agricultural insurance purchasing ability, raising the professionalization and scale of farmers is not solved overnight. Therefore, the government's increase in premium subsidies has become an inevitable choice to ensure the overwhelming majority of “small farmers”. The high agricultural risk compensation rate makes commercial insurance companies reluctant to directly operate agricultural insurance business. Only when the government's preferential policies make the profit margin of agricultural insurance substantially equal to the profit margin of other companies' financial insurance, commercial insurance companies have the motive to start agricultural insurance business. To achieve this goal, not only will the government face enormous financial pressure, but it will also face a series of serious moral hazards.

### **3. Optimized Path of Cooperative Governance Environment**

Farmer cooperatives are self-service organizations of farmers. It is a common practice in the world to support cooperatives economically to protect agriculture. How to optimize the external governance environment of cooperatives and play an important role in rural revitalization should be discussed from the optimization of government support policies, financial support policies and risk prevention and control policies.

The government support policy should adhere to the principle of “GSP system”, establish a policy system to support the development of small farmers, pay attention to the fairness and inclusiveness of the policy of benefiting farmers, prevent to forge man made large-scale households and expel small farmers (Han Jun, 2019). This can give a large number of cooperatives that are in the initial stage of development and relatively weak to have the opportunity to receive government financial support. The “GSP” is not only in line with China's national conditions, but also a general system to support agricultural development, the effects of which have been proved by many countries and regions.

Farmers' professional cooperatives spend mainly on operating and non-operating expenses, the latter of which includes expenditures on education, training and technology promotion of members. However, the economic strength of cooperatives is mostly weak, and the pressure of survival brought about by fierce market competition has prompted cooperatives to use limited funds as much as possible in the aspects of capital that can make them bigger and stronger. They have to ignore the science and technology training and cooperative education of indirect-income property. Therefore, the direct support of the government's financial funds should focus on the cooperatives to solve non-operating cost difficulties, such as talent support and scientific and technological support, which can not only quickly improve the competitiveness of the cooperative market, but also not harm the self-help and self-reliance nature of the cooperatives.

The cooperative finance supports special funds from the government operates on system to implement the project system. In the agricultural department of the county and city, a special fund department shall be set up to divide the funds into support for poverty-stricken areas, education and training, technology promotion, and support for special agricultural products. Farmers' professional cooperatives that meet the requirements of the project may apply for government financial support.

The special fund management department shall conduct qualification examination and comprehensive assessment, review the scientific nature, feasibility, and promotion to farmers' implementation plans, as well as the contents and subsidies of the project construction links and standards, independently determine the farmers' cooperatives that meet the supporting conditions. In the process of project implementation, the agricultural departments at all levels should be equipped with special personnel, strictly follow the project construction content and quality standards, assist the cooperatives to improve the charter system, guide the farmers cooperatives to implement project construction, and organize technical training. They should conduct professional audits on special fund management departments, encourage people to supervise them, and let project funds be used in key links and achieve social and economic benefits.

The government's financial funds mainly support the non-operating capital needs of cooperatives, such as education and training, technology promotion, etc.. Solve the cooperative business capital needs relies on social financial support, encouraging cooperatives to be self-reliant and avoiding policy dependence. Under the current rural credit system in China, the financial services provided to farmers' cooperatives are very limited. The government should relax rural financial access and promote the development of rural financial institutions such as rural mutual fund groups, township banks and micro-finance companies. It is necessary establishing a rural financial services system, including policies, cooperation, business and other financial organizations, to provide financial and credit support for the development of farmer cooperatives.

Farmer cooperative financial organizations have unparalleled advantages to other financial institutions such as low transaction costs and information symmetry. Through internal credit cooperation, most of the funds come from the member deposits received by the credit department. On the basis of member credit, the members donate voluntarily. On the basis of production and operation cooperation, referring the Japanese Agricultural Association, they conduct mutual fund assistance among members and strengthens the interests connection of members. Establishing a cooperative's own bank, the financial support funds are the founding funds of the cooperative banks. The members actually participate in the shares. The cooperatives pay off the debts and interest to the government within a certain period of time. The banks are finally owned by the cooperatives, and the cooperative banks are allowed to finance the society through asset securitization in the capital market. The establishment of an agricultural equipment leasing cooperative, the government's agricultural machinery subsidy is used to establish the start-up capital of the cooperative, and the cooperatives participating in the lease establish shares in the agricultural equipment leasing cooperative according to the business volume to cope with the common needs of some agricultural equipment of the cooperative.

Drawing on the experience of Japanese agricultural insurance, we chose to implement joint-stock agricultural insurance based on farmers' professional cooperatives. We are going to construct a "shareholding system consortium" insurance model based on farmers' professional cooperatives and commercial insurance companies. Under this model, the government subsidizes commercial insurance companies on the one hand, and the subsidy subsidies for farmers on the other hand no longer directly target scattered small farmers, but rather the cooperatives where farmers are located. Under the joint-stock system model, the target of commercial insurance company insurance is changed from a single farmer to a farmer's professional cooperative. The cooperative guides and helps to establish a risk prevention mechanism such as the agricultural production and operation risk prevention fund with the assistance of the government, which can enhance the ability of small farmers' resistance to natural disasters and reduce the incidence of claims.

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