

Shareholding Associations in China's Forestry:
Reflections on Institutional Innovation
John W. Bruce, IASCP Conference, 5/2000

The author has written about shareholder association forestry before (Bruce, Rudrappa and Li 1995). He recently had an opportunity to revisit the institution in Fujian Province, and found the experience somewhat unsettling. It left him dissatisfied, with a sense that we know less than we thought (or a least than he thought he did!) about this institutional innovations and why it occurs.

The Reform Context

In China, the basic unit for management of community property is the village economic cooperative. In the reforms of rural production organization in the late 1970s and the 1980s, the large people's communes were broken into smaller units, units which had been smaller cooperatives that were consolidated to create the communes. These earlier cooperatives had commonly been based on pre-revolutionary village units. The administrative village generally became the unit for land administration. This administrative village may or may not be co-terminous with the "natural village", the pre-revolutionary unit, depending on the local history of consolidation and dissolution of collective production units. Often, the administrative village is a larger unit, consisting of two or more natural villages. The allocation of land for administration between these two units, when they are not the co-terminous, is again the product of local history and power relationships.

Rural land, including land under forests, is owned by the village and is administered by the village's economic cooperative. This much is clear from the Land Administration Law of 1987, though the wording in that law does not distinguish between the natural and administrative village and this has caused some confusion. But national and local law give little guidance on how the village is to organise its forest production. The national Forestry Law, 1984, provides in Article 3 for forest ownership by co-operatives. The Forest Department helps rural village economic cooperatives draw up forest management plans. Article 22 makes it clear that it is the responsibility of collectives to help fulfil government's afforestation plans, and it is a specific legal responsibility of collectives to afforest barren hills and wasteland of the collective which are suitable for forestry. Article 23 sets out a system of property incentives to encourage afforestation.. Where state or collective land is contracted to the collective or individuals for afforestation, the trees planted belong to the tree-planting contractor, unless a contract provides the otherwise. The 1986 Implementing Regulations for the Forest Law say nothing further about how villages are to organize production in forestry. Art. 17 of the regulations refers to "privately-managed mountains", but just to make the point that cutting there must be brought into line with the annual timber production plan of the state.

These enactments may say little about the institutional side of village forestry because they were being drafted at a time of major reassessment of such institutional

arrangements. From the late 1970s, the farmland belonging to villages was broken up into household-managed holdings under the Household Responsibility System. Households held this land on leases from the village economic cooperative, and the terms of these leases, initially annual, have gradually been extended. The system has been credited with major increases in agricultural productivity. But its extension to forestry in 1980-1982 proved unfortunate. There were large losses of standing timber, perhaps as much as 35% in some provinces, due to premature mass harvesting, declination of stumpage, and lack of investment. Household tenuring of forest land was suspended in 1987 by Central Government Document No. 27 of that year, even though nearly three-quarters of such land had already been distributed.

Liu Shouying's study in Huaihua prefecture in Hunan Province (1995) provides an important account of communities and local government trying to readjust after this debacle. In some communities, collective production was re-instituted. In many others, forest small holders engaged in transactions that concentrated forest use rights in the hands of a sub-set of larger, specialized forest producers. Still others set up shareholder associations to manage forest land, with villagers contributing their forest land in return for shares in the association. The term shareholder union is also used.

The shareholder association is not an institutional form unique to forestry. It is used in fisheries and other enterprises that require the pooling of resources. Such an association is formed by the village economic cooperative. It involves all or some subset of the households in a village, and is a legal entity separate from the village economic cooperative. Membership is theoretically voluntary. Management of the forest resource is vested in the association by the village economic cooperative, which remains the owner of the forest land. The association plans a unified forestry production process, but households have their own forestry farms and act as a contract production units of the village forestry shareholder association (Bruce, Rudrappa and Li 1995).

SHIFT Forestry in Sanming Prefecture, Fujian Province

When the forest shareholder associations were instituted, for example in Sanming City of Fujian Province two types of shares were usually issued: basic shares and investor shares. Two-thirds of the basic shares were distributed to forest farmers, while the remaining one-third were turned over to the village economic cooperative to become part of the village's accumulation fund. Because the accumulation fund profits were not shared, this arrangement was later dropped. Now basic shares have been divided into mountain land shares, for those who hold mountain land, and common shares, for all members of the community. Investor shares are issued for investments of cash, technological innovation, labor and tree planting (Sun Changjin 1990, Lei Zhang and Sheng Di 1993).

This is the system termed "SHIFT" (Shareholding Forestry Tenure) by Yajie Song (1991, 1996), and his reporting on the system in Sanming Prefecture of Fujian Province is the most detailed account we have of the system. He indicates that the approach was first developed in Shannxi Province, but not generalized there. Sanming may have been fertile

group for the approach because it had resisted the introduction of the Household Responsibility System for Forest Land. It had not suffered as greatly as many other areas, losing only 5% of immature trees in the transitional period. Experiments with SHFT began in 1984.

Today, there are over a thousand villages in Sanming with forests under SHIFT management. It is the village committee that assigns forested areas to this shareholder union. This transfers the rights over the forest to the shareholder union. But the ownership of the land is still with the village committee. SHIFT is a way to mobilize expertise, land, labor, capital. First, you must affirm villagers' ownership of forest. That ownership becomes the basis of the "old shares", based on rights in the resource and not transferable; and "new shares", based on labor and capital and expertise contributions, which are inheritable and transferable but not marketable. Later, shares were classified into three types: 1) mountain land shares, created out of the original basic shares, 2) common shares, distributed among the households of the village, according to family size; and 30 investors' shares, exchanged for investments of cash, technology, labor or trees planted.

The process is: stumpage and forest land are converted into stock shares, and community residents are determined to be shareholders. The SHIFT charter is approved by the Shareholder Assembly and the Forestry Committee of the village. The Shareholder Assembly elects the SHIFT Board of Directors, and the SHIFT Board of Directors then manages daily activities and forest tenures, and decides how shares and share dividends will be distributed to individual shareholders. The Board calls annual meetings to issue dividends and annual reports to shareholders. SHIFT performance periodically evaluated by officials and technicians from competent forestry committees.

The SHIFT Board of Directors has since 1984 been independent from the government system. An enterprise with its own account, own development plan, own production goal, own management stipulation, own distribution protocol. It is a financially independent entity, bearing both possible loss and profits. Government provides guidance, program design and technical assistance.

Shareholders are nominal owners of use rights, but they are allocated by the SHIFT Board of Directors to contractors. Benefits flow to shareholders in the form of revenue from sales of forest products. Land is held by contractors on a set of contractual terms, with a contract for planting (8-12 years), young timber forests (15-25 years), mature timber forests (3-5 years), harvesting (7-10 years). There are separate contracts for fruit-tree orchards and for watershed (ecological) forests.

The results in Sanming were positive. With the introduction of this system, replanting increased, and fire was now under control. Both general forestry and fruit tree planting and mushroom cultivation broadly practiced. In 1989, Gross income of 1347 SH boards in Sanming was 196 million Yuan, of which 69 m. Y. was net income. There was a bonus to the shareholders of \$26 million. There is not good data available on productivity, but

forest coverage had by 1990 grown to all appropriate land, with a labor force which had shrunk from c. 70% prior to the system to 40-50%.

Shareholding Forestry in Fujian Province Today

Fujian has maintained a reputation as a strong collective forestry province. There is still some direct production by collectives, but it is now more common for the collective to contract the land to specialised households, who manage the forest. Their holdings can be quite large; the largest in the province is 1,000 ha, though most are only a few hectares. The average household size of forest holding in the Province was said to be 3-5 ha. The length of the contract to the household appears to be dictated by the length of the production contract from the Forestry Department to the village, which depends on the species of the trees to be planted.

SHIFT forest management is still practised broadly in Sanming, but this much touted system has not spread to other parts of the province to any significant extent. In Jian'ou County in northern Fujian, only one village could be identified practising shareholder association forestry, and this was said to be typical of the province outside Sanming. The one village had adopted the system in 1994, and the activity is still considered a pilot by the Jian'ou Forestry Department. It is in a small area (30,000 mu) near Nan Ya Town, on the road to Nan Ping.

The deputy head of the County Forestry Department drew a distinction between the local pilot and shareholding forestry as it exists in Sanming. In Sanming each villager has a share in the total forest of the village, and the land is generally farmed by specialised households. A household (aside from the specialised households) has no special sense of responsibility for any one tree or area of forest, and so has limited incentives to refrain from illegal cutting or to help fight forest fires. While the system engendered a good deal of enthusiasm initially, he said, the incentives are abstract, unspecific and long-term, and their motivating effect was said to be waning.

In the Nan Ya pilot, however, groups of households are given responsibility for particular areas of forest land. Each household in the village has a share interest in the forest according to the number of household members. At their own option, the households formed into groups of 8-10 households. Each group was assigned 1-2 mu per person. One person is chosen as leader and signs the contract with the administrative village. After the final cutting, the revenue shares are distributed. The contract is finished and the land returns to the collective, but the group can have priority to use it again if it so desires. It was argued that the identification of share interests with limited and identifiable areas of forest produces more commitment to forestry. But the deputy director added that the cadres tended to oppose adoption of the system because it took the allocation of forest land and revenue from sale of forest products out of their control.

This may be one reason why the system has not been replicated more generally. A second reason was also cited: under the system as practised in Sanming, the households' share

interests and income are rather small in terms of each household. The return to placing their forest land within the system is modest enough so that the operation of the system is not a major concern of households, and they tend to lose interest in it. The enthusiasm one might have imagined the system engendering is not there.

Reflections

I want to make five points in conclusion, and they are largely cautionary.

First, we obviously do not know why this system can be implemented in some locales and not in others. One suspects, from an apparently arbitrary system of distribution, that it has to do with the political economy of institutional change. Cadres get credit for successful experiments, as do Forestry Department officials. An experiment whose author has already achieved broad recognition, as in the case of Sanming, is an experiment that cannot be used so easily to advance the career of another official. American officials run with ideas, picking up yardage but dropping them for other ideas before long. It is not surprising that Chinese officials do likewise.

What is not appropriate, I want to suggest, is to place too much confidence in our functionalist explanations of such innovations, or talk about them in language that assumes that a community opted for them. (I have recently read with discomfort two articles on Ethiopia that used that language where the institutional change is the result of a non-to-be-refused campaign by government, a decision in which the community had little choice.)

I instinctively like shareholder associations because they seem to me to provide a way in which to preserve the social security function of broad ownership of land and at the same time get most of the land into the hands of full-time and therefore likely more efficient forest producers. But it seems that career dividends for officials involved and perhaps the administrative convenience of the Forestry Department may be quite as important in the adoption of this system as my reasons.

Second, we do not know that the system produces more efficient afforestation than other forms of production organization. It has been successful, but afforestation has been broadly successful in rural China, whether under this system or under contracts directly from the village economic co-operative to specialised households.

Third, we do not really know whether income from forestry in this system is significantly better distributed than under other arrangements. It should be, if the practice follows the theory, but the fact must be faced that we do not have good studies of household income from forestry under various options. And there are a dozen holes in this system through which income can leak before it is divided among the shareholders. It is also not clear to me, from the little I know, what a "better distribution" is. Certainly I mean to suggest a distribution which leaves more in the local community, but as between shareholders for

land and those who practice forestry on the land, I am not clear what is needed, and this is key to incentives.

Fourth, the shareholder association strikes us as a relatively democratic organisation of production. We should be cautious about this. We have the village committee and the cadres, and we have the village economic co-operative. This separation of village government and management of village economic resources seems attractive, because it provides some potential for insulating management of those resources from politics. But often both are managed by the same people wearing different hats. The same may apply to shareholder associations. Until we have research that suggests that such associations create new opportunities for meaningful participation in village resource management decisions, we should tread warily. We lack the political anthropological studies at village level which are essential to evaluating these institutional changes.

Fifth, we need to be clear that this system is not necessarily empowering people to any extent. This is a mistake that common property and tenure-centric people like myself can easily fall into, and not just with regard to this system. As a tenure system it is attractive. But it must also be understood as one option for organisation of local forestry production as part of a radically planned and command production system. The state sets quotas for the cutting of trees at the various levels of government, all the way down to the village level. There is an unified national production plan which is allocated in this way, and it cannot be exceeded. Cutting permits are required, and co-operatives must obtain these, usually from county level. A cutting license is required even for individual rural inhabitants to cut trees on the village land contracted to them as individuals, and the individuals must obtain these at county or township level, though they require no permits to cut scattered trees belonging to themselves on their private plots and around their houses. (These restrictions are in force in Fujian's "forest counties", but not in their full rigor in the aqua-culture oriented coastal counties, where forestry is plays a minor role.)

These mechanisms allow the Forestry Department to function as a virtual monopoly buyer of timber, at prices which it fixes. It operates the only timber markets in the forest counties, and sells timber through licensed outlets. The Department offers villages production contracts, and most forestry in Fujian is carried out under such contracts. Communities are expected to sign these contracts and they invariably do so, both because the contracts provide their only access to a market, and because it provides access to financing from the Forestry Department for developing new mountain land. For any timber not purchased by the state, article 33 requires that a transport certificate must be obtained to transport trees out of the forest area.

Such a system allows government to keep timber production prices down, and keeps timber from Fujian competitive with timber from other provinces in both the national market and in export markets. This is an important concern for provincial forestry department officials. It is also a set-up that makes likely a continuation of the poverty in forest-dependent areas obvious to even casual observers.

Such a command production system nullifies much of what we might hope for from a common property regime in terms of incentive-induced innovation.

None of this is to suggest that village shareholder associations are not an important and promising form of production organisation. It is simply to urge caution in jumping to this conclusion. If the form is interesting, then we owe it to all concerned to understand the system better, critique the system clearly, and suggest that is needed to allow it to achieve its potential.

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