

# **Evokation – People Value Company, Guizhou China**

## ***Section 1 – The Social Venture***

### **The Venture**

Agriculture today is financed much like any other big business: with a view of investment that only includes financial return. This approach, however, is limited in scope and leads to major negative environmental and social externalities. With few sources of capital available to smaller players in the sector, and with an increasingly competitive marketplace, large-scale agriculture is increasingly squeezing out smaller scale regional agricultural economies. As a result, the industry has suffered from significant losses in jobs, open space and community identity.

The People Value Company (PVC) Ltd. will broaden the financial base of organic regional agriculture enterprises in China's Guizhou Province by defining their success not only in financial return, but also in environmental and social returns. Instead of investing in anonymous green investment portfolios with difficult to measure impacts, the PVC will offer Chinese emerging middle class investors the opportunity to invest in their own region and therefore remain closely connected to their investments.

Each return of the joint stock company – financial, social and environmental will be well accounted for. To do so, it will develop indicators that cover performance in these three arenas. At each annual meeting, the organization's shareholders will learn about the tradeoffs between these returns and can thus make informed decisions on how to balance them in the future.

The People Value Company will create a sustainable mechanism to connect capital with local agricultural enterprises, thereby creating benefits for entire regional economies. As a leading model for shareholder participation, this idea will not only be on track to grow organically, but also to spread to other regions and potentially beyond agriculture.

### **The mission**

The PVC will create regional value chains where they did not previously exist. In addition to buying small farms with social and environmental impacts, the holding company will invest in parts of wholesalers with much higher financial margins. The result is that all three returns – financial, social and environmental - are soundly balanced inside of the holding. By ensuring a balanced return the PVC will enable regional, small and medium sized farms and grocery producers to survive in a highly competitive market while also allowing rural supply chains and synergies to strengthen the Guizhou's sustainable values.

### **The vision**

PVC's main aim is to improve rural livelihoods and reverse severe land degradation through innovative organic farming with small-scale women farmers. Our vision is, ultimately, to increase the prosperity of Guizhou and its people, by employing

innovative approaches to the empowerment of small independent women farmers. The objective of PVC is to become the main provider of organically certified food and vegetable in Guizhou and to become a key player in organic agriculture in China.

## ***Section 2 – Problem Analysis and needs assessment***

### **2.1 The community setting – China, Guizhou Province, Kaizhuo township**

Guizhou, located in the southwest of China, is one of its poorest provinces and about half its population belongs to ethnic minority groups. These groups mainly inhabit the mountainous rural areas where they manage complex production systems consisting of irrigated and rainfed rice fields, less productive uplands and grasslands, forested areas and so-called "wastelands." Problems that people face include low yields, little crop diversification, forests that in general are not in good health, and overgrazed common grasslands.

Guizhou is a typical mountainous area with 90% of its total land being mountains and hills. Its 34 million people are supported by a small, fragile agricultural land base, and deforestation and soil erosion are severe. Farming lands are scarce and in poor condition. Rural people mainly rely on limited natural resources for their subsistence. Farmers are deficient in both cash and food. The major socioeconomic indicators such as per capita income, grain production, area of arable land are all among the lowest in China. Of the total population in the province, 30% are living under the poverty line accounting for over 10% of the poor people in China.

Kaizhuo township is located in the north of Changshun County, 60km from Guiyang, the capital of Guizhou province. Hereby the the initiative will focus on the two villages, Dabuyang and Xiaozhai. Dabuyang, dominated by a Buyi minority, belongs to the lowland area and Xiaozhai, dominated by Han, belongs to the uplands. Dabuyang village has 200 years of history and Xiaozhai village has 50 years. This may explain why there is a strong community spirit in Dabuyang village.

Starting in 1995 the Guizhou Academy of Agricultural Sciences has introduced a Community-Based Natural Resource Management that aimed to provide an alternative approach to address natural resource management issues at the local level. They supported the organization of farmers, and empowerment with improved capacities and a supportive institutional environment with a particular focus on organic farming. This improved capacities will build the basis for the successful continuation of their organic farming methods.

### **2.2. The evolving problem – Out-migration and the femization of farming**

Since the early 1980s, China has undergone rapid economic transformation from a centrally planned-economy to a market-oriented economy. As a result of the economic reforms, the commune regime in rural China collapsed in 1980-1982. After the breakdown of the commune regime, farming lands, both paddy fields and upland fields, were contracted out to individual households. This was called the household responsibility system. At the same time, the other natural resources such as forests,

grasslands, wetlands and water systems became the "commons," i.e., owned and managed by the individual community/village.

Despite of the government's great efforts in poverty reduction and some achievements already made, poverty still persistent in this remote rural areas. This is especially true in the remote and poor area of western and south-western China where are resided by the majority of the nation's 100 millions of poor people who live under the poverty line of 1 dollar per day. And this includes 30 millions of the extreme poor living below the nation's poverty line of \$0.5 per day. They are mainly small subsistence farmers in resource-constrained remote areas that are agro-ecologically diverse, resource poor, and risk-prone. Especially women and women-headed households represent a disproportionate share of the poor farmers in these regions.

Even though per capita rural income has increased two to three times in the last decade. Nevertheless, the income gaps became larger between households in the rural villages of Guizhou since 1995. Agricultural income has increasingly become smaller percentage in rural household income. Therefore most farmers are losing interest in farming.

Out-migration from rural area to cities is one of the most urgent issues in China and especially in Guizhou. A recent study revealed that the total number of rural migrants in 2007 is 280 millions including 140 millions permanent migrants and 140 millions seasonal migrants. The total migrants compose 56% of the total rural labor of 500 million in 2007. This is an rapid and significant transfer from agricultural to non-agricultural employment.

Furthermore it has been shown that women's out-migration is far below that of men in terms of magnitude, time periods, and increase over time in both permanent migration and seasonal migration. This has resulted in an increasing feminization of agriculture in the last two decades in rural China, especially in the poor Western areas. In any case women and old people become the major acting agricultural cultivators who have limited productive assets and limed social capital comparing to men.

Moreover some traditional intensive farming methods like inter-cropping, multiple cropping etc have been changed into more labor saving crops and methods. Some farmers even gave up the traditional two crop seasons per year, like rice and maize in the South, and grow only one crop season due to labor constraints and low return of food crops. Women become the main everyday decision makers in agriculture especially in food crops, which are not considered as prioritized area by men. Women still have less opportunity in "big" decision making in household and community.

Women's access to technology and related production resources are quite limited despite of their increasing dominant roles in the division of labor and decision making in agriculture. Women are facing difficulties in technology, credit and market information access due to their limited social and human capitals comparing with men. Some constraints and issues confronted by women are lower education, traditional by both men and women themselves, male bias and gender mutual public services like extension and credit etc. Decrease quality of life in certain degree caused by seasonal migrant labor with inadequate social services facilities and

policies towards family reunion in cities. For example children have to be remaining in the rural area while their parents migrant in urban area, or wives, mostly in our cases, have to be remaining in rural area while their spouse migrant to urban area.

Livelihood patterns have been transforming from single traditional subsistence farming form to multiple livelihood patterns. The major 4 types are transforming subsistence farming, traditional subsistence farming, starting professional farming and non-farming. Majority of rural households are in transforming subsistence farming, waiting and experiencing changes.

There are four factors resulting in the livelihood transformation: (1) land size is too small to maintain livelihood; (2) agricultural production return is too low to attract labor force, particular the youth; (3) increasing demand of cash income in rural HHs; (4) economic growth provides more job opportunities in cities

### **2.3. The needs assessment – Unaware consumers**

Without information about their true cost, consumers demand cheaper agricultural products. Although today's highly specialized, large-scale monoculture farms which rely on long distance transport are able to deliver cheap products, more and more of the industry is becoming financially unviable for small producers, while also degrading the environment and disintegrating the regional social fabric.

Consumers, one of agriculture's central stakeholders, are painfully realizing that farms produce cheap goods at the cost of important economic, ecological and social benefits to communities. Agriculture affects not only the landscape, biodiversity, and the soil and water quality, but also regional employment and local value chains. However, none of these social and environmental factors are priced into products. As a result, consumers are not offered adequate choice, and the public ends up paying a high price for environmental cleanups, preservation areas, unemployment benefits, and a lower quality of life.

Despite the large number of consumers and investors who would be prepared to help shape a more sustainable and regional agriculture, the industry today offers limited informational mechanisms to make responsible investment and purchasing decisions that contribute to a more responsible sector. At present, the agriculture sector is organized to consider purely financial returns, providing no sustainable investment opportunities that acknowledge the social and environmental benefits of local agriculture.

## ***Section 3 – The business model and its product***

### **3.1. The business model**

The objective of the People Value Company Ltd. (PVC) is the backup and the development of environmentally and socially sustainable agriculture and food production in the Kaizhuo township. This will be achieved through the acquisition of farm land and businesses or by participating in them. Except of agriculture there might be also other companies participating in the value chain. The composition of different enterprises is aiming for the development of a regional production, processing and marketing network for food and other agricultural products. On this

basis income is received, allowing for a return on the capital contributed.

By doing this the PVC doesn't want to farm their property holdings farms by itself, instead it aims to lease them to independent operating companies. The PVC may also want to participate in other companies (shares) or build up and acquire new businesses (subsidiaries). The PVC also aims to assess their activities on macro-economically, environmentally and socially criteria. A substantial business purpose of PVC is to promote entrepreneurship in the organic industry by the financing of investments in rural companies.

### **3.2. The solution**

Through a simple market mechanism - a legal joint stock company with publicly available shares – will create an accessible financial investment opportunity that will change the structure of the agriculture industry in Kaizhuo township. The PVC will continually broaden its financial base by issuing new stock, which will then used to acquire small agricultural enterprises to encourage local value chains in which each regional business specializes in its core products.

The PVC will be a public joint stock company committed to an ecological and social constitution, and will be monitored by a board of directors who are themselves experts in the field of organic farming and ecology. Together with academic and consultancy partners, an innovative reporting method will be developed taking economic, ecological and social indicators into account. This will represent a radical departure from the traditionally purely financially-driven agricultural industry.

By bringing patient capital to organic farming, the PVC will address a wide array of issues confronting the rural villages in Guizhou. As a holding company, the PVC buys small family farms and related businesses that have no one willing to take on the family business. PVC then offers a farmer who would not have the money to buy his or her own farm the ability to lease the enterprise on favorable terms. This puts an end to the dying of small farms due to a lack of successors.

Additionally PVC offers the following complimentary services: Education for farmers in regards to the cultivation, production, authentication, processing, exporting, and marketing of organic products of the highest quality for the local chinese market.

PVC will furthermore encourage participation, deliberation and decision making from all of his shareholders. At annual meetings, consumers-turned-investors will ask important questions about the agriculture industry. In PVC, shareholders will have a venue in which they can share ideas and make decisions about key business proposals brought forward by the board of directors.

## ***Section 4 – Marketing Plan***

### **4.1 Market Analysis**

China is at the onset of an organic agriculture revolution. From 2000 to 2006, China has moved from 45th to 2nd position in the world in number of hectares under organic management. China now has more land under organic horticulture than any other country. In the year 2005/2006, China added 12% to the world's organic area. This accounted for 63% of the world's annual increase in organic land, and China

now has 11% of the world's organically managed land. The antecedents to China's Organic Revolution are examined, and reveal further growth potential in the Chinese organic sector. Longitudinal analysis of China's food production statistics reveals explosive growth, and the consequent capacity for export has implications for food exporting nations. China has adopted an innovative path, via Green Food, towards achieving an organic future.

In 2006, locally sold organic food generated about 2.76 billion RMB (= 345 million US \$), equal to only about 0.08% of China's domestic food market. Moreover, most of the organic products sold domestically were sold without an organic premium. China expects a fast development of the sector within the next years.

The main target group is an emerging group of middle class urban consumers influenced by global lifestyle trends and fashions and increasingly worried about health, food safety and environmental issues. Researcher estimates that between 1 and 3% of China's farmland will in the coming decade will become certified organic, the organic food sector will account for 1 to 1.5% of the domestic food market (thereby turning into the fourth largest national market in the world), and organic products made in China might contribute up to 5% to the international organic food market.

Up to now, markets for organic food have mainly been located in China's booming regions Beijing, Shanghai and Guangzhou, where living standards are higher than elsewhere in China. It is interesting to note that in 2001 organic food was introduced to the domestic retail market by the major international chain stores such as Carrefour and Wal-Mart. In these stores certified organic food is marketed as high quality and usually more expensive good. Some supermarkets are posting explanations of organic food and its benefits next to the products, along with the respective organic certificates. Carrefour states that their organic food sales have increased by 50 percent since the public media repeatedly reported about cases of food poisoning and severe pollution of conventionally grown food in 2006. Recently, in Beijing and Shanghai farmers' markets for organic products and specialized organic food and health stores such as Lohao City and Organic Farm Food Hall have opened.

## **4.2 The Products**

The organic products that will be marketed through the PVC will be cultivated by the farmers of the villagers in Kaizhuo township. We will study the potential of the cultivated organic products in the region and will decide over a portfolio of products together with the small-scale farmers.

## **4.3 Marketing Strategy**

The target customers will be wholesalers like international chain stores such as Carrefour and Wal-Mart in the big Chinese cities at the East China Coast. We will distribute mainly to Eastern China in the immediate future and then once PVC is established there, we will look towards Western and South-western China.

We will study the different organic markets; determine the demand for the various organic products; determine the range of prices available in these markets; and assess the economic potential of producing and marketing a particular oil. At present, the demand for rose oils is outstripping supply. Furthermore, we will spend a significant amount of time researching the markets and planning how to access target markets.

PVC will train its partners in the fundamentals of organic farming on the basis of Chinese Organic Labels and international standards of organic farming (EU-organic certification). It will empower particularly women farmers to take personal advantage of the ever-growing organic market themselves. Marketing is not easy, but having a high quality organic product to sell makes it easier.

## ***Section 5 – The Operational Plan***

### **5.1. Operational Plan**

The objectives of PVC is to safeguard and enhance the sustainable, organic agricultural production in the Kaizhuo township, by participation in and leasing its companies. The composition of different enterprises aims for the development of a regional production, processing and marketing network for organic food and other agricultural products. On this basis income is received, allowing for a return on the capital contributed.

By doing this the PVC doesn't want to farm their property holdings farms by itself, instead it aims to lease them to independent operating companies. The PVC may also want to participate in other companies (shares) or build up and acquire new businesses (subsidiaries). The PVC also aims to assess their activities on macro-economically, environmentally and socially criteria. A substantial business purpose of PVC is to promote entrepreneurship in the organic industry by the financing of investments in rural companies.

One of the main advantages of the separation of company property (PVC) and operational management (Partner enterprises) is to ensure the long-term follow-up operation, which is a problem in the rural villages of Guizhou.

Will a tenant give up an operation or ceases from grounds of age, the PVC may operate with a new tenant. Thereby the PVC will allow start-ups for women entrepreneurs who want to manage the holdings, without owing a farm.

The PVC will intend to create a binding framework for partner businesses in terms of organically certified resources management, based on the objectives of the PVC. The values achieved through the PVC won't be monetary dividends to shareholders alone, but will also express an increase in social-ecological value of the Kaizhuo township – as the PVC wants their activities considered as a whole.

The criteria of PVC will be applied to the existing leases as well as to future leases. This will rule out the environmental management of farms and the tenants commitment to it. The tenants will also be trained organically farming production methods. The tenants will need to agree to the partners criteria ruled out by the PVC.

### **5.2. Operational Activities**

The major business of PVC will be the acquisition and leasing of agricultural land and its premises or the participation in these. Another main activity is the acquisition of equity investment in organic food industry. Another activity is the implementation of training services for small scale women farmers. Training areas will include: conversion to organic farming, raising capital, networking and the social and ecological reporting.

## **Section 6 – The Management Team**

### **6.1 The PVC Team**

#### **Mirko Zürker (CEO)**

His field of specialisation include Corporate Social Responsibility (CSR) in China as well as Social Entrepreneurship. Class of 2010 Urgent Evoke ☺

#### **Cosima Strasser (Investor Relations)**

She is interested in the support of strategic decisions of investors as well as the support of small-scale farmers.

#### **Rainer Agster (Training of farmers)**

He does training for international climate protection, sustainable management, Sustainable Entrepreneurship, Supply Chain Management and Cleaner Production

#### **Stefan Raich (Indicator Development)**

He is experienced in the development of non-financial indicators for small and medium companies.

### **6.2 Potential Partners**

#### **Guizhou Academy of Agricultural Sciences, China**

They know the county context and the local conditions for organic farming.

#### **Dr. Yiching Song**

Senior research fellow in the Centre for Chinese Agricultural Policy (CCAP), Chinese Academy of Science, great knowledge about organic agriculture in Guizhou, China.

#### **Dr. Eva Sternfeld**

Research fellow, China Center, TU Berlin, great knowledge about organic agriculture in China.

#### **KAITE, Zimbabwe**

They are experienced in organic farming and training of small scale farmers.

#### **imug GmbH, Germany**

They are experienced in developing indicator systems for small companies.

#### **Regionalwert AG, Germany**

They developed a similar concept in Germany.



### **6.3 Evoke Agents – potential supporters**

#### **Patricio Buenrostro-Gilhuys**

<http://www.urgentevoke.com/profile/PatricioBuenrostroGilhuys>

Superb Evoke agent and great knowledge about organic agriculture

#### **Miaomiao Huang**

<http://www.urgentevoke.com/profile/MiaomiaoHuang>

Great Evoke agent and great knowledge about China

### ***Section 7 - How to use the first 1000 USD***

The 1000 USD will be used for a research and networking trip to China. The 1000 USD will cover the living costs for a two-month stay in the Chinese Province Guizhou. During this trip the fine-tuning of the project set-up will be discussed with the small-scale farmers in Kaizhuo. Together with the other listed potential partners this set-up will be refined and rolled out. The first steps for the foundation of the People Value Company will be made in order to build the basis for a fast foundation. At the end of this two month stay a first draft action plan for the coming two years will exist.

#### **Contact Information:**

Mirko Zürker

Schmellerstraße 21

80337 München

Germany

Cell: +49 – 162 – 457 49 11

Mail: [mirko.zuerker@me.com](mailto:mirko.zuerker@me.com)

Date of birth: 01.12.1981