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**PRESENT SITUATION AND CHARACTERISTICS OF  
THE AGRICULTURAL COOPERATIVE MOVEMENT  
IN KOREA**

WON HO SUH  
DIRECTOR GENERAL  
INTERNATIONAL COOPERATION DEPARTMENT  
NATIONAL AGRICULTURAL COOPERATIVE FEDERATION  
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Presented at the ICA Central Committee Meeting  
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# **I . PRESENT SITUATION OF THE AGRICULTURAL COOP-ERATIVE MOVEMENT**

## *1. Organizational Structure*

The agricultural cooperatives in Korea are organized vertically at two levels; primary cooperatives at the township level and their federation at the national level. They are horizontally classified into two categories; multipurpose cooperatives and special cooperatives. The multipurpose cooperatives are organized by farmers primarily engaged in the production of grains such as rice and barley, while special cooperatives are established by the farmers who are mainly engaged in fruit and vegetable farming. (Table 1)

The multipurpose cooperatives and special cooperatives are affiliated with the national apex organization called the NACF or National Agricultural Cooperative Federation. The NACF has 9 provincial offices, 6 special city offices, 142 county offices, and 318 banking branches under its umbrella. There are 1,460 multipurpose cooperatives, 42 special cooperatives, and the number of member farmers stands at around 2 million. The number of officers and staff members of agricultural cooperatives totals 54,000 including 15,000 NACF staff. The total business turnover in 1988 of agricultural cooperatives including the NACF reached 45 trillion won (US \$65 billion).

## *2. Major Businesses and Activities*

The objectives of agricultural cooperatives are to increase agricultural productivity, to enhance the economic and social status of farmers and to ensure a balanced development of the national economy through the voluntary organization of farmers.

In an effort to attain these objectives, agricultural cooperatives conduct diverse businesses and activities as follows;

- (a) Farm and living guidance, education, public information service, cultural activities and research.
- (b) Supply of farm inputs and consumer goods.
- (c) Marketing.
- (d) Foreign trade.
- (e) Utilization.
- (f) Processing.
- (g) Credit and banking.
- (h) International banking.

Table 1. Organizational Structure of Agricultural Cooperatives (Sept. 1989)

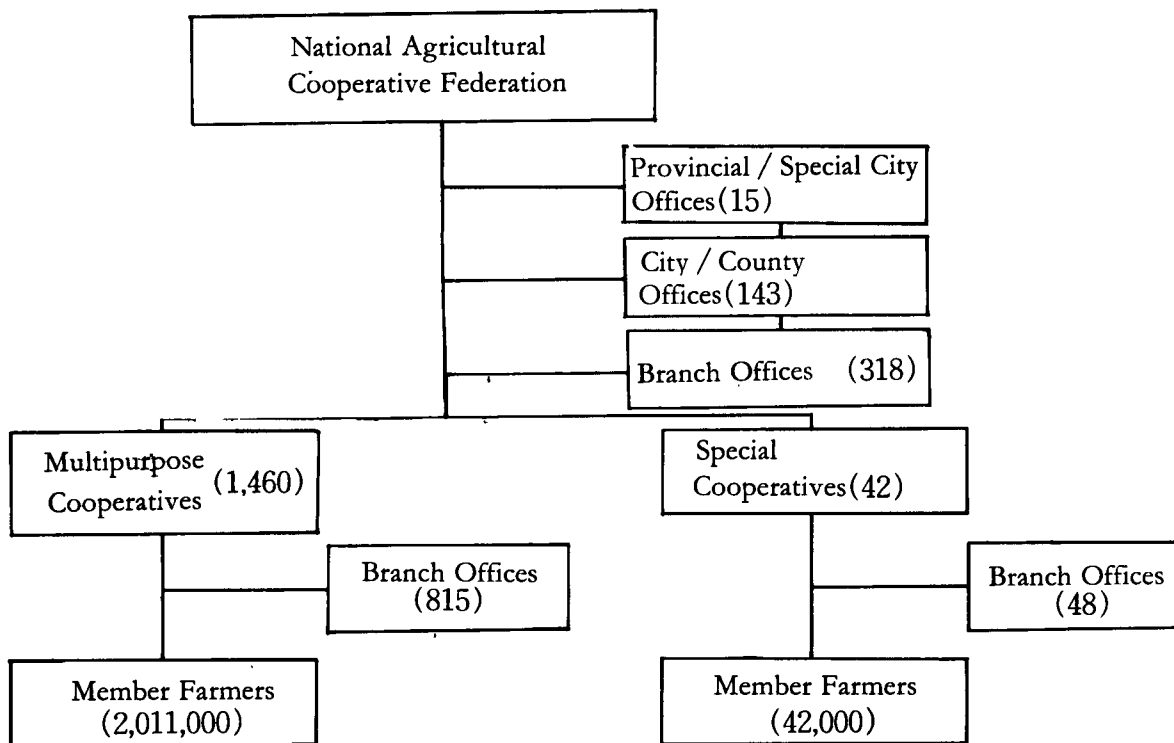


Table 2. Major Facilities operated by Agricultural Cooperatives (Sept. 1989)

Facility	Unit	Quantity
Cooperative office	establishment	2,880
Agri. Coop. College	"	1
Staff training institute	"	6
Coop. leaders training institute	"	2
Coop. marketing center	"	74
Agri. collection point	"	168
Folk handicraft center	"	1
Warehouse	unit	11,733
Agri. supermarket	establishment	33
Coop. chain store	"	1,909
Farm mechanization center	"	288
Farm machinery service center	"	697
Petroleum station	"	894
Truck	each	2,100

- (i) Cooperative insurance.
- (j) Political and legislative activities.
- (k) International cooperation.

### 3. *Business Performance*

After their establishment in 1961 as multipurpose agricultural cooperatives, the primary cooperatives endeavored to create an indispensable organizational base for cooperative business operations. They have made remarkable progress since 1972 when village-level cooperatives were merged into economically viable township-level cooperatives, bolstering their ability to extend a variety of services to their member farmers through the increase in the number of employees, introduction of new types of business and establishment of various physical facilities.

The rapid development of the multipurpose cooperative is evident in the growth of annual business turnover as shown in Table 3. In 1988, the average business turnover per multipurpose cooperative reached 14 billion won (US \$ 21million), about 314 times over the 1972 figure. During the period, loans recorded the highest rate of growth followed by deposits, marketing, supply of consumer goods, cooperative insurance, utilization and processing, and supply of farm inputs.

The major factors behind such rapid development of the Korean agricultural cooperative movement during the past 28 years can be summarized as follows ;

#### (A) Organizational Factors

- (a) Adoption of the multipurpose cooperative system.
- (b) Top-down promotion of agricultural cooperatives.
- (c) Amalgamation of primary cooperatives.
- (d) Reorganization of the former three-tier structure into two-tier structure.

#### (B) Operational Factors

- (a) Implementation of the government-entrusted businesses.
- (b) Introduction of the Mutual Credit Scheme.
- (c) Member education
- (d) Implementation of the Integrated Regional Agricultural Development Projects.

#### (C) Managerial Factors

- (a) Centralized management system
- (b) Establishment of managerial accountability system
- (c) Employment of competent staff members

Table 3. Growth of Business Turnover of the Multipurpose Cooperative (national average per cooperative) (in million won)

Business	1972	1980	1985	1988	Ratio(times)	
					88 / 72	88 / 85
Deposits	8	555	1,795	4,702	587.8	2.6
Loans	8	726	2,519	5,007	625.9	2.0
Cooperative insurance	53	374	675	2,478	46.8	3.7
Supply of farm inputs	15	379	418	459	30.6	1.1
Supply of consumer goods	3	64	146	288	96.0	2.0
Marketing	11	287	621	1,454	132.2	2.3
Utilization & processing	1	21	35	39	39.0	1.1
(Total)	(46)	(2,406)	(6,209)	(14,427)	313.6	2.3
Staff(person)	6	18	21	24	4.0	1.1

Table 4. Business Performance of the NACF (in billion won)

Business	1972	1980	1985	1988	Ratio(times)	
					88 / 72	88 / 85
Deposits	133	1,172	2,752	5,535	41.6	2.0
Loans	148	1,181	2,854	15,426	36.7	1.9
Borrowings	72	575	1,943	3,890	54.0	2.0
Foreign loans	5	49	90	153	30.6	1.7
Foreign exchange	44	808	601	970	22.0	1.6
Cooperative insurance	90	540	1,540	4,990	121.7	3.2
Supply of farm inputs	41	401	467	854	20.8	1.8
Supply of consumer goods	2	80	338	657	328.5	1.9
Marketing	96	879	1,010	1,027	10.7	1.0
Foreign trade	39	40	35	42	1.1	1.2
(Total)	(670)	(5,115)	(11,630)	(23,544)	(35.1)	(2.0)

## II. CHARACTERISTICS OF THE AGRICULTURAL CO-OPERATIVE MOVEMENT

### 1. Multipurpose Type

The primary cooperatives in Korea are of the multipurpose type, embracing practically all the country's farm households and providing member farmers with diversified services including credit and banking, cooperative insurance, marketing, supply and guidance.

The national apex federation called the NACF is unique in the sense that it is also of the multipurpose type, carrying on education, audit, research, publication, and political and legislative activities in addition to the businesses conducted by primary cooperatives.

From their inception, the Korean agricultural cooperatives have adopted the multipurpose type for the reasons such as the small-scale farming, homogeneity of farmers, the lack of functional coordination between the former agricultural cooperatives and the Agriculture Bank, and strong desire of the Government to accelerate agricultural and rural development.

The multipurpose type of agricultural cooperatives in Korea has been proved to have the following merits:

First, they have provided member farmers with an integrated package of services at reasonable costs to meet diversified needs of farmers in their farming and daily living.

Second, they have enhanced the complementary effects of cooperative businesses by integrating the banking business sector with non-banking business sector including marketing, supply and guidance.

Third, they have contributed to the successful implementation of agricultural development policy by supplying farming funds and farm inputs at a proper time and reasonable prices.

### 2. Two-tier Structure

The agricultural cooperatives in Korea have a two-tier structure: the primary cooperatives at the township level and their federation at the national level. However, up until 1980, the agricultural cooperatives had a three-tier structure of primary cooperatives, county cooperatives and the national federation.

The changing situations surrounding agriculture and rural communities in the early



1980s have prompted the restructuring of former three-tier system into two-tier system.

First, the expectations and aspirations among the farmers and Government officials toward the primary cooperatives were rising to a great extent.

Second, an increasing number of private enterprises, most of them competing with primary cooperatives, entered the rural community, thereby requiring further strengthened managerial ability of primary cooperatives.

Third, with the development of transportation and communications drawing the rural and urban areas closely together in terms of time and distance, the functions of county cooperatives began to decline, thus giving rise to a functional overlapping among agricultural cooperatives at different levels.

Under the circumstances, agricultural cooperatives were confronted with the need to overhaul their structure and improve their operations. The county cooperatives were divested of their legal status and placed under the control of the NACF, thus streamlining the organizational structure into a two-tier system.

As a result, the status of primary cooperatives was strengthened, while the waste and inefficiency due to the operation of the county cooperatives were removed. The funds and manpower thus saved were diverted to the development of primary cooperatives, and various facilities previously owned by county cooperatives were turned over to primary cooperatives to bolster their ability to serve the farmers.

### *3. Shift to Bottom-up Operation*

Unlike the cooperatives in developed countries which have been established by farmers from the bottom up, the agricultural cooperatives in Korea were organized from the top-down. The Government took the initiative to establish the national federation, and the federation, in turn, provided guidance and assistance for the farmers to organize primary cooperatives.

The top-down promotion of agricultural cooperatives was necessary for the following reasons:

First, in the early 1960s when agricultural cooperatives were organized, farmers were not fully aware of their status as an independent entity and thus didn't recognize the need to organize their own cooperatives. Therefore, the Government had to play a leading role in inducing farmers to join cooperatives.

Second, the Government felt a pressing need to organize the agricultural cooperatives as early as possible to expedite the development of agriculture and national

economy by resolving the chronic problems of usurious loans in rural areas and the national food shortage.

Hence, it was natural that the Government should exercise some voice and control over agricultural cooperatives. Consequently, member farmers were inclined to look upon them as an arm of the Government rather than bona fide farmers' cooperatives.

Therefore, the NACF has endeavored to shift to the bottom-up operation of primary cooperatives. From the early 1980s, formulation of the annual business plan was left to the individual cooperatives themselves, and their presidents were elected by the representative member farmers. In particular, with the amendment of the Agricultural Cooperative Law in 1988, the shift to the bottom-up operation of agricultural cooperatives will be further accelerated.

#### *4. Multibanking Business*

Agricultural cooperatives are the exclusive banking institution for the agricultural sector. As the nation's largest nation-wide on-line banking network covering 467 banking branches of the NACF in urban and semi-urban areas and 1,460 multipurpose cooperatives in rural areas throughout the country, agricultural cooperatives have carried on multibanking business such as agricultural development banking business, cooperative banking business, and commercial banking business.

First, agricultural cooperatives play the role of agricultural development banks by extending credit to individual farmers and corporate bodies engaged in agriculture or development of agriculture and rural communities. The exclusive handling of the government policy loan by the NACF and its member cooperatives has many advantages in view of the NACF's significant contribution to the mobilization of agricultural development funds, and their nation-wide on-line network.

Second, agricultural cooperatives play the role of cooperative bank in rural areas through the implementation of the Mutual Credit Scheme. Primary cooperatives receive deposits from and make loans to the member farmers and non-members. The surplus funds of the primary cooperatives are deposited with the Mutual Credit Special Account in the NACF to be either relented to primary cooperatives with poor deposits resources or used to purchase securities with high interest rates.

Third, agricultural cooperatives play the role of commercial banks in urban and semi-urban centers with the NACF headquarters acting as the head office and county offices as its local branch banks. They receive deposits, make loans and provide various commercial banking services such as domestic exchange, remittance, credit card, trust, securities, and international banking to the general customers.

## *5. Agricultural and Rural Development Function*

As agricultural cooperatives have been established by the government as a means of accelerating agricultural and rural development, they have been heavily involved in the development of agriculture and rural communities through their diversified business activities. In particular, agricultural cooperatives have undertaken the Integrated Regional Agricultural Development Projects since 1985 based on the experience gained from the implementation of the Integrated Income-Generating Saemaul Development Projects in 1977 and the Diversified Model Farming Projects in 1982.

First, agricultural cooperatives mobilize funds from various sources including farmers, urban dwellers, the government, the Central Bank and international banking institutions, and extend agricultural and rural development loans to farmers and agribusiness firms, thus alleviating the so-called external capital rationing.

Second, agricultural cooperatives supply at reasonable prices major farm inputs such as fertilizer, farm chemicals, farm machinery, etc. for timely use by farmers, thus contributing to enhancing agricultural productivity and increasing agricultural production.

Third, agricultural cooperatives play an important role in the increase of the agricultural prices received by farmers through the improvement of agricultural marketing by organizing joint shipping groups, establishing cooperative marketing facilities, enhancing the marketability of farm products and providing marketing information.

Fourth, agricultural cooperatives provide rural welfare services to farmers through their business functions. The cooperative insurance business performs the function of social security and thus contributes to stabilizing the farm household economy by helping the affected household recover from the unexpected death, disease or accidents, and regain economic stability as early as possible. In addition, the supply of consumer goods at reasonable prices by agricultural cooperatives has contributed to reducing living expenditures of farmers and thus to improving their economic well-being. Furthermore, agricultural cooperatives operate welfare facilities such as wedding halls, barber shops, bathhouses, beauty parlors, day-care centers and libraries, hold classes for housewives or the old and encourage cultural and recreational activities among farmers.

## *6. Enforcement of the New Agricultural Cooperative Law*

In 1988, the NACF proposed further amending the Agricultural Cooperative Law in order to reflect the changing circumstances surrounding agriculture as well as to allow more autonomous operation of agricultural cooperatives with active participation of member farmers. The revised Law was passed by the National Assembly in the 1988 autumn session, effective April 1, 1989.

The passage of the new Law is considered an epoch-making event in the history of the agricultural cooperative movement in view of the following:

First, the NACF and its member cooperatives will become fully democratic organizations due to the new election system. The Chairman and President of the NACF, formerly appointed by the President of the Republic of Korea, shall be elected directly by 1,500 presidents of member cooperatives in April 1990, while the presidents of member cooperatives, formerly elected by representative member farmers, are scheduled to be elected directly by all the member farmers of respective cooperatives.

Second, the managerial autonomy of the agricultural cooperatives will be greatly promoted with the introduction of an ex post facto reporting system for the agricultural cooperative business plan and budget. The advance approval of the NACF business plan and budget by the Ministry of Agriculture, Forestry and Fisheries was replaced with an ex post facto reporting system, and the business plan and budget of member cooperatives do not require advance approval of the NACF President.

Third, convenience and benefits for member farmers will be increased in line with further diversified business activities of agricultural cooperatives. Agricultural cooperatives have been permitted to admit non-farmers as associate members, invest in agribusiness, and conduct the commercial transportation business and farmland brokerage business.

## **III. MAJOR PROBLEMS FACED BY THE AGRICULTURAL COOPERATIVE MOVEMENT**

### *1. Severe Competition with Private Sector*

Agricultural cooperatives are now in severe competition with private sector in almost all the business activities. Although merchants were operating their businesses mainly in urban centers in the early 1960s when the farm income was at a relatively low level, they began to take a great interest in rural markets from the early 1970s when a rapid increase in agricultural production and farm income was recorded.

A number of large-scale supermarkets operating in major cities have established buying agents in rural areas to purchase farm products directly from farmers in competition with primary cooperatives. In addition, many supermarkets and chain stores have been established in rural communities, resulting in severe competition in the supply of consumer goods with cooperative chain stores operated by primary cooperatives. Furthermore, merchants are competing with primary cooperatives in the supply of farm inputs including agro-pesticides and farm machinery.

On the other hand, primary cooperatives and banking branches of the NACF have been increasingly competing with commercial banking institutions in the fields of savings, trust and securities. Agricultural cooperatives are also competing with private insurance companies in canvassing for insurance.

Therefore, agricultural cooperatives have to establish modernized physical facilities and introduce up-to-date relevant technology in order to effectively cope with increasing competition from private sector in the fields of marketing, supply, banking and insurance.

### *2. Diversified and Conflicting Demands for Cooperative Services*

The member farmers of agricultural cooperatives are increasingly requesting their cooperatives to pay higher patronage dividend and interest on their share capital, to guarantee higher prices for their farm products, to expand rural welfare activities including the supply of consumer goods at cheaper prices and insurance welfare programs and to be more actively involved in political and legislative activities for the interests of farmers.

On the other hand, the government strongly urges agricultural cooperatives to operate their business in line with the agricultural policy aiming at increasing food

production, renovating the agricultural marketing system and establishing welfare rural communities.

Furthermore, the consumers living in cities want agricultural cooperatives to supply farm products of good quality at reasonable and stabilized prices, thus influencing against the manipulation of prices by private traders.

However, agricultural cooperatives are not in a position to satisfy those diversified and conflicting demands because of their limited capability in terms of financial, human and physical resources and because of the basic objectives and principles of the cooperative.

In order to overcome this situation, agricultural cooperatives have to strengthen the member education for the farmers to understand the limited capability of their cooperatives, and conduct publicity activities for the government officials and consumers to comprehend the cooperative characteristics and extend support to the noble cause of the cooperatives.

### *3. Liberalization of Agricultural Imports*

Agricultural cooperatives are operating a wide variety of businesses mainly in rural areas based on agriculture. However, Korean agriculture has been experiencing great difficulties in the process of rapid industrialization and urbanization of the nation. The share of agriculture in the national economy is gradually decreasing.

At the end of 1988, the farm population accounted for only 17.3 per cent of total population, and the share of agriculture in the GNP stood at 11.7 per cent. While the average farming acreage per farm household is meager 1.17 ha. Because of the small scale of farming, our member farmers are unable to realize an economy of scale, resulting in high production costs for farm products, low level of farm income and heavy debts. Furthermore, the debts of farm households have steadily increased mainly due to low prices of farm products and limited off-farm job opportunity for farmers.

Under the circumstances, our country has to import a large quantity of farm products such as grains, meat, fruits and prepared foods due to the mounting foreign pressure to open our domestic agricultural market, thereby dealing a serious blow to our member farmers and gradually shrinking our agriculture which is the basic foundation of the agricultural cooperative movement.

In view of the increasing damage to the agricultural sector resulting from the liberalization of agricultural imports, agricultural cooperatives have to strengthen

the political and legislative activities to protect domestic agriculture, and take appropriate measures for the member farmers to enhance their agricultural productivity and produce farm products of high quality.

#### *4. Lack of Understanding of Agricultural Cooperatives*

General public and even some cooperative members have insufficient information on agricultural cooperatives, resulting in a handicap to the smooth growth and progress of the agricultural cooperative movement. Generally speaking, the government officials, professors in the universities, and journalists and citizens have very limited knowledge of the cooperative movement, cooperative principles and cooperative activities.

Therefore, many people think of agricultural cooperatives as a governmental agency established for the purpose of implementing governmental programmes. Furthermore, some cooperative members do not believe in the explanation by their cooperative leaders that the agricultural cooperative is not an agency for the government but a voluntary organisation established by the members themselves for the protection of their own interests.

These wrong images of agricultural cooperatives are due to the facts that agricultural cooperatives were established on the initiative of the government without positive participation of member farmers, and that agricultural cooperatives are implementing government-entrusted businesses under the guidelines given by the government.

Thus, agricultural cooperatives should conduct the information and publicity campaigns in an effective way with a view to correcting wrong images of agricultural cooperatives, and thus to winning full support from the public general as well as from the member farmers.