

**Report of the 2nd ICANACF Regional Seminar on  
Agricultural Cooperative Business  
Development with special reference  
to Korean Experience**

**Seoul, Republic of Korea  
September 5-16, 1994**



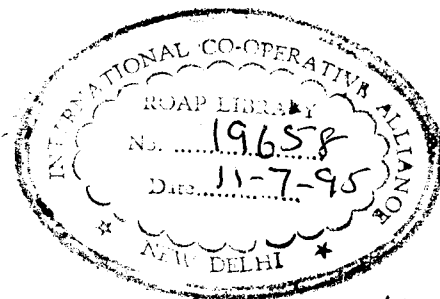
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**Agricultural Cooperative Business Development**  
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# Acronyms

ACCA	:	Associate Course in Cooperative Accountancy
ACCFA	:	Agricultural Credit and Coop Financing Administration
ACCM	:	Associate Course in Cooperative Management
ACFS	:	Agricultural Cooperative Financial System
ACFSMC	:	All China Federation of Supply and Marketing Coops
ACL	:	Agricultural Cooperative Law
AFMC	:	Agriculture and Fisheries Marketing Corporation
AIM	:	Asian Institute of Management
ARS	:	Automatic Response System
BUK	:	Bank of Korea
BRDB	:	Bangladesh Rural Development Board
BSBL	:	Bangladesh Samabaya Bank Limited
CCS	:	Central Cooperative Society
CDA	:	Cooperative Development Authority
CLIMBS	:	Cooperative Life Mutual Benefit Society
CMC	:	Cooperative Marketing Centre
CUP	:	Cooperative Union of the Philippines
CWID	:	Cooperative Women in Development
DECS	:	Department of Education, Culture and Sports
ECA	:	Energy Control Administration
EU	:	European Union
FACOMAS	:	Farmers' Cooperative Marketing Association
FELCRA	:	Federal Land Consolidation and Rehabilitation Authority
FELDA	:	Federal Land Development Authority
FFSIPM	:	Farmers' Field School on Integrated Pest Management
GDP	:	Gross Domestic Product
GFP	:	Green Forum Philippines
ICA	:	International Cooperative Alliance
IRDPA	:	Integrated Rural Development Programme

<b>JAL</b>	:	<b>Japan Air Lines</b>
<b>KBs</b>	:	<b>Kilusang Bayans</b>
<b>KUD</b>	:	<b>Koperasi Unit Desa</b>
<b>LRA</b>	:	<b>Land Reclamation Act</b>
<b>MAFF</b>	:	<b>Ministry of Agriculture, Forestry and Fisheries</b>
<b>MC</b>	:	<b>Mutual Credit</b>
<b>MCSA</b>	:	<b>Mutual Credit Special Account</b>
<b>NACF</b>	:	<b>National Agricultural Cooperative Federation</b>
<b>NAP</b>	:	<b>National Agricultural Policy</b>
<b>NATCCO</b>	:	<b>National Confederation of Cooperatives</b>
<b>NGO</b>	:	<b>Non-Governmental Organisation</b>
<b>NLCF</b>	:	<b>National Livestock Cooperative Federation</b>
<b>NSSO</b>	:	<b>National Seed Supply Office</b>
<b>NWFP</b>	:	<b>North West Frontier Province</b>
<b>PC</b>	:	<b>Primary Cooperative</b>
<b>PCHRD</b>	:	<b>Philippine-Canadian Human Resource Development</b>
<b>PCSD</b>	:	<b>Philippine Council for Sustainable Development</b>
<b>PD</b>	:	<b>Presidential Decree</b>
<b>PDPW</b>	:	<b>Philippine Development Plan for Women</b>
<b>PHILDHARRA</b>	:	<b>Philippine Partnership for the Development of Human Resources in Rural Areas</b>
<b>RCS</b>	:	<b>Registrar of Cooperative Societies</b>
<b>RDA</b>	:	<b>Rural Development Administration</b>
<b>RGDP</b>	:	<b>Relief Goods Distribution Programme</b>
<b>RISDA</b>	:	<b>Rubber Industry Smallholders Development Authority</b>
<b>ROAP</b>	:	<b>Regional Office for Asia and the Pacific</b>
<b>SDP</b>	:	<b>Social Development Programme</b>
<b>SMC</b>	:	<b>Supply and Marketing Cooperative</b>
<b>SNs</b>	:	<b>Samahang Nayons</b>
<b>SPSMC</b>	:	<b>Shaanxi Provincial Supply and Marketing Cooperatives</b>
<b>VCF</b>	:	<b>Visayas Central Fund</b>
<b>VICTO</b>	:	<b>Visayas Cooperative Development Center</b>
<b>WAND</b>	:	<b>Women's Action Network for Development</b>
<b>WED</b>	:	<b>World Executive's Digest</b>

# INTRODUCTION

# **Introduction**

## **Objectives**

The objectives of the seminar were :

- (a) To understand the structure and business activities of agricultural cooperatives in Korea;
- (b) To learn modern computer system and advanced management in agricultural cooperative business development;
- (c) To discuss applicability of the Korean experience on business development to agricultural cooperatives of the participating countries; and
- (d) To formulate action proposals for the organisations/movements of the participants, keeping in view the experience gained.

## **Proceedings**

The 2nd ICA-NACF Regional Seminar on Agricultural Cooperative Business Development with Special Reference to Korean Experience was organised by the International Cooperative Alliance Regional Office for Asia and the Pacific (ICA ROAP) in collaboration with the National Agricultural Cooperative Federation of Korea (NACF). The seminar was held at the Central Training Institute of NACF in Seoul from 6th to 15th September 1994. 11 participants from eight countries, i.e. Bangladesh, China, Indonesia, Malaysia, Myanmar, Pakistan, Philippines, and Vietnam attended the seminar.

The seminar was inaugurated by Dr. Kyo-Eun Kim, Dean, Agricultural Cooperative Junior College of NACF. He said that Korean agricultural cooperatives are now facing many difficulties in business operation because of rapid increase of imported farm products and unlimited competition with private enterprises caused



by the liberalisation of economy and market opening. He hoped that the discussions and findings in the seminar would be very useful for the participants to improve the agricultural cooperative business in their countries. Mr. Guo Yong Kang, Agricultural Cooperative Development Advisor, ICA ROAP, welcomed the participants and gave a brief account of the background and methodology of the seminar. The resource persons from NACF introduced Korean experience on supply of farm inputs and consumer goods, marketing, banking and credit business as well as development strategies of agricultural cooperatives. The participants presented country papers and exchanged information of cooperative development in Asian region.

Field visits were arranged to selected cooperatives to give the participants an opportunity to observe the functioning of agricultural cooperatives in Koyang City and Echun County and Seoul city.

The participants felt the seminar was well organised and successfully achieved its objectives. The participants also formulated several proposals to introduce Korean experience to their cooperative organisations in order to improve cooperative business activities.

The closing ceremony of the seminar was held on 15th September 1994. It was addressed by Mr. Yong-Jin Kim, Director-General, International Cooperation Department of NACF; Mr. G.K. Sharma, Regional Director, ICA ROAP; and Mr. Guo Yong Kang, Agricultural Cooperative Development Advisor, ICA ROAP.

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# LECTURE PAPERS



# **Agricultural Cooperatives in Korea : A Broad Outline \***

## **1. General Introduction**

### **A. History**

1961 : The present multipurpose cooperative organisation was initiated by merging the Agriculture Bank and the Agricultural Cooperatives into a three-tier system comprising village coops at the base, county coops as a middle tier, and the national federation (NACF) at the national level.

1981 : The nationwide organisation was restructured into a two-tier system of village cooperatives and their national federation. The former county-level cooperatives were converted into branch offices of the federation, and livestock cooperatives were separated to set up their own independent federation.

1989 : The Agricultural Cooperative Law was revised to open the way for direct elections of the presidents of both the federation and its member cooperatives.

### **B. Characteristics**

- A democratically controlled farm producers' organisation with capital base comprising members' subscriptions;
- Multipurpose type of functions including supply and marketing enterprises, banking, insurance and farm extension service;
- Cooperative character of movement combined with efficient business management; and
- A banking institution exclusively handling farm credit, with NACF serving as a deposit money bank and its member cooperatives as credit cooperatives.

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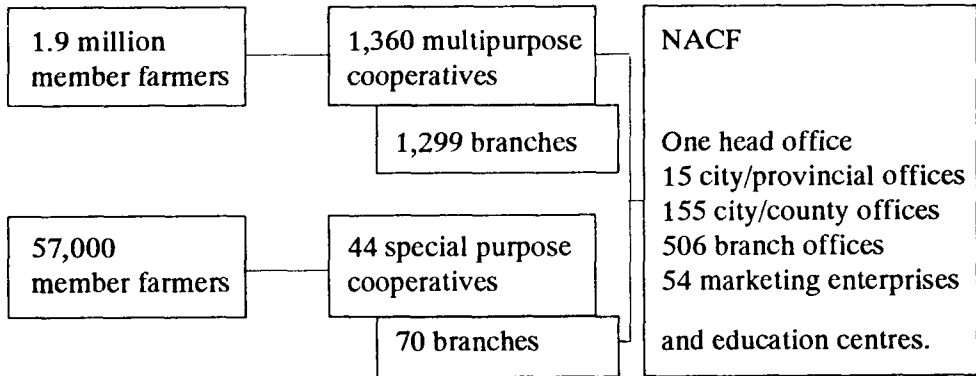
*\* by Mr. Yong-Jin Kim, Director General, International Cooperation Department, NACF.*

### C. Organisation and Staff

#### *Major responsibilities*

Help to achieve a welfare rural society by improving farm productivity and income, and by enhancing the economic and social status of farmers through cooperative organisations.

#### *Organisation*



#### *Staff*

##### Member coops

Multipurpose coops	47,264	(persons)	71.1%
Special purpose coops	1,670		2.5
Sub-total	48,934		73.6

##### NACF

Head Office	1,172		1.8
City/provincial offices & business enterprises	3,297		5.0
City/county offices & branches	13,035	-	19.6
Sub-total	17,504		26.4
Total	66,438		100

## **D. Internal Organs**

### *Member cooperatives*

#### Policy-making

- Representatives Meeting : Top policy-making body in lieu of the General Assembly, consisting of 50 to 200 representative farmer members.
- Board of Directors : Consisting of the president and 6 to 10 directors (farmer members).
- Executive : One president
- Auditing : Two auditors

### *NACF*

#### Policy-making

- General Assembly : Authorised to elect the NACF president and one standing auditor.
- Representative Meeting : Top policy-making body in lieu of the General Assembly, consists of one multipurpose cooperative president for every city/province (161 representatives) and one special purpose cooperative president for every province (9 representatives).
- Board of Directors : Consists of the president, two executive vice-presidents, and 19 directors (8 standing and 11 non-standing). Makes decisions relating to business execution.
- Executive : One president
- Auditing : Two auditors (one non-standing).

## **E. Functions**

Commercial business	-	Marketing of farm products
	-	Food processing
	-	Supply of farm inputs and feedstuffs
	-	Supply of consumer goods
Banking	-	Warehousing and transportation
	-	Deposits and loan
	-	Trust and securities
	-	Foreign exchange
Mutual Insurance	-	Farm credit guarantee
	-	Credit card
	-	Life & damage insurance
Extension Service	-	Health check-up and scholarships refund
	-	Operation of farmer resort hotels
	-	Farm management and home economics
	-	Implementation of rural structural improvement projects
	-	Promotion of grass-roots organisations
	-	Member farmer education
	-	Political and legislative activities
	-	Research and public relations

## **F. Major Facilities**

Marketing facilities in producing areas	389	farm produce collection points
	144	cold storages
	176	improved warehouses
	53	fruit packing houses
	26	farm product cargo ships
	3,484	cargo vehicles
	5,154	grain warehouses
Marketing facilities in consuming areas	68	coop marketing centres
	153	direct marketing outlets
	6	farm product distribution depots
	218	supermarkets

	113	food processing plants
Processing facilities	124	grain milling plants
	63	rice processing complexes
	5,343	fertiliser warehouses
Farming-related facilities	9	farm machinery parts supply centres
	710	farm machinery service centres
	1,016	gas stations
	290	gas transport vehicles
	131	LPG shops
Welfare & utilities	2,066	chainstores
	3	farmer resort hotels
	384	funeral service centres
	1	Agricultural Coop Junior College
Educational facilities	3	Agricultural coop. leaders training institutes
	6	Staff training institutes
	6	Technical training institutes for farmers
Banking facilities	668	NACF banks
	2,735	member cooperative banks
	1	Farmer newspaper company
NACF-invested establishments	1	Agricultural Coop Trading Company
	1	Agricultural Technology Exchange Centre.
	1	Namhae Chemical Company (25% capital share).

## 2. Historical Review of Past Development

1960s : Laying the foundation for a multipurpose cooperative system.

- Established primary cooperatives at village level (about 21,000 coops at the end of 1961), and strengthened their organisation.
- Implemented as agents for the government such institutionalised businesses as farm loan, fertiliser supply, grains procurement, etc., mostly through county coops.

1970s : Developing the managerial viability of primary cooperatives.

- Consolidated village-level primary coops (7,525 coops) into township-



level coops (1,490 coops).

- Expanded mutual credit, chainstore business, and support services for increased foodgrain production.
- Transferred the key businesses of county coops (farm loan, fertiliser supply, product marketing, mutual insurance) to primary coops.

**1980s : Diversifying and expanding cooperative businesses**

- Strengthened the banking service (expanding the banking network, installing the on-line system, etc.) aimed to mobilise financial resources for farm loans.
- Initiated agricultural marketing improvement programmes by constructing essential marketing facilities in both producing and consuming areas.
- Launched the farm income generating projects, including the integrated regional agricultural development project.

**1990s : Democratizing cooperative operation and invigorating cooperative business enterprises.**

- Instituted the direct election of presidents of NACF and its member cooperatives, leading to a bottom-up system of operation.
- Undertook food marketing and processing as a top-priority business with the construction of distribution depots, rice processing complexes, Kimchi processing plants, etc.
- Expanded cooperative services to support farming and livelihood for member farmers, such as capital investment in the Namhae Chemical Company, expansion of the farm machinery parts supply centres, supply of gas and oil, funeral service, etc.

**Growth of Major Businesses**

	in billion Korean Won*		
	1970	1980	1983
Marketing of farm products	35.2	692.7	5,236.2
Grains	8.1	127.9	2,065.7
Fruits & vegetables	7.5	196.0	2,224.8

Other products	19.6	368.9	945.7
Supply of farm inputs	39.2	431.9	1,409.7
Chemical fertilisers	29.0	217.2	330.7
Other farm inputs	9.2	183.3	662.3
Mixed feed	1.0	31.4	416.7
Supply of consumer goods	1.9	80.4	980.0
Deposits (outstanding)	97.8	1,871.5	36,148.6
NACF	95.4	1,047.7	14,061.9
Member coops	2.4	5,823.8	22,086.7
Loans (outstanding)	108.7	1,709.4	27,806.2
NACF	105.9	1,181.4	12,227.4
Member coops	2.8	528.0	15,578.8
Mutual insurance (policies sold)	69.7	540.3	22,246.4
Farm credit guarantee (outstanding)	-	90.8	2,538.4

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\* At the end of 1993, one US\$ was roughly equivalent to 880 Korean Won.

### **3. Basic Policies for Future Development**

#### **A. Targets**

- Competitive Agriculture
- Cooperatising Rural Community

#### **B. Policy Directions**

- Mobilise cooperative efforts and resources towards producing those selected farm products with competitive strength, and innovating food marketing and processing enterprises.
- Contribute to promoting a dynamic rural community and expand the role of agricultural cooperatives as local community cooperatives.

- Consolidate a new identity of agricultural cooperatives by means of organisational and managerial reforms.

### **C. Basic Policies**

- Innovate the cooperative food marketing and processing enterprises centred on the real practical benefits of farmers.
  - Promote selective production of competitive farm products and expand the sources of farmers income.
  - Initiate the environmental improvement and welfare programmes to help improve the quality of life of farmers.
  - Achieve top-ranking “community life banks” to complete customer satisfaction.
-

# Tasks and Development of Agricultural Cooperatives in Korea\*

## 1. Brief History of Agricultural Cooperatives in Korea

Korea began her history as a modern country in 1948, 3 years after achieving independence from Japanese control for 36 years. That year onwards, the people as well as the government began to organise two kinds of agricultural cooperatives: one, agricultural cooperatives dealing in supplies and marketing, and the other, agricultural banks dealing in credit.

Since the above structure was not operating to the satisfaction of the farmers, the military based government decided in 1961 to amalgamate these two different institutions into the present multipurpose agricultural cooperatives.

At that time we had 21,042 primary cooperatives most of which had only one village as their area of operation. At county level, there were 141 county agricultural cooperatives which had many primary cooperatives as members. The county cooperatives established the national federation named NACF (National Agricultural Cooperative Federation).

The 1970s was a decade of a nation-wide movement of amalgamating the small-sized village level primary cooperatives into township level ones. We succeeded in the movement. The number of primary cooperatives sharply decreased from 21,042 in the 60's to 1,545 in 1974 @ one cooperative at one township level. The re-organised primary cooperatives were entrusted with all the 4 main items of business, namely credit, fertiliser distribution, supply of government based farm inputs and marketing which were earlier handled by county cooperatives. In this way, the primary cooperatives were able to cater to all the requirements of farming from a single counter.

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\* by Dr. Sang-Ho Choi, Dy. Dean, Professor, Agricultural Cooperative College.

The second institutional change came in 1981 when the county cooperatives were converted into branch offices of the national federation. This helped in shortening the process of decision making and handling business. From that time NACF has more direct relationship with primary cooperatives as members - from 3 tier system to 2 tier system. It is a big innovation in agricultural cooperative history.

From just before closing 1980s presidents of cooperatives and their national federation could be elected by the all members. Therefore, the member farmers elect their cooperative presidents through direct voting and cooperative presidents elect NACF president by themselves.

In a sense the farmers have initiated Korean political democracy. Electing representatives through voting by members has been almost always tried first in agricultural cooperatives, and then adopted in the government.

## **2. 1990s the Era of Cooperative to be Closed**

In 1984 US weekly magazine Newsweek reported that world leadership in science, technology and commerce passed to the Pacific from Europe perhaps forever. We can also find from an Italian author named Luigi Bazini a similar expression that the only thing Italians and French can do now is to make Americans and Japanese learn how to drink wine at an optimum degree of temperature.

Weakening of economic power in Europe can be explained from the reasons like excessive labour union activities and excessive social welfare. Most European countries in 1970s, thought that their development and prosperity would continue in coming years. So they allowed wages to increase by 25% more than the real economic growth and allocated more portion of national budget for social welfare. Therefore, they had a limited 7% growth of industrial products in 1970s while US achieved 12% and Japan 28%.

It is understood that these two facts, namely, undue increase in wages and welfare measures have encouraged the workers to have a free-ride in general. They have failed to motivate them to work hard for better lives.

What applies to the European countries, also holds good in case of communist countries. They, in late 1980's have given up their communist ideology and adopted free-market system. They have realised that it is almost impossible to motivate the workers to work hard in the socialist system.

Cooperatives may have the same character with communism in sofar as it emphasises equal dividing rather than free and competitive earnings. Therefore 1990s may be the era of cooperative to be collapsed. In this sense, Korean

agricultural cooperatives may follow the same destiny with communism countries unless they do a big change in human and business development.

### **3. Present Situation and Tasks before Korean Agricultural Cooperatives**

In relation to the open market policy around the world, Korean agricultural cooperatives also have a big problem to successfully cope with this world-wide opening trend.

At the present time (1994), most of agricultural products flow into Korea from outside. For example, food grains are imported mainly from China, United States and Canada. Livestock products come from the United States and Australia, and many kinds of agricultural and agri-business products come from China.

So, Korean farmers and their products stand nowhere. Their problem is of taking up some profitable items like vegetables or livestock which may have a relative advantage in the price competition with other countries' products in the near future.

Most Korean farmers have already shared high-level farming technologies of some items including rice and several fruits and vegetables. But in most cases marketing problems have not been solved.

Korean agricultural cooperatives have not been active in handling marketing business of agricultural products. It can be explained from the fact that although they have tried to cope with the problem during the last more than 30 years, cooperatives' market share remained around 30% in 1993. 66% of gross income on the average per cooperative is taken from banking business. In other words, agricultural cooperatives could survive on profit from banking, not from marketing and services.

The challenge may be more severe to cooperatives in rural areas than urban, because rural cooperatives still have small business volumes. 75 per cent (1,025) of 1,360 Korean agricultural cooperatives are located in rural areas under township level are of small size. Banking business has been a major part for these cooperatives. The total gross profit per cooperative in 1993 amounted US\$ 784,000, of which 61%, US\$ 477,000 was achieved from banking business.

Position has, however, improved since 1991. Total gross profit has shown an increase of 26% over that of the year before last, while growth in banking business in the same period was 13%. In other words, the portion of banking business has been decreasing relatively. In 1991 primary cooperatives achieved 68% of gross profit from banking business, against 61%, in 1993, a decrease of 7%.

In the marketing business which is of highest priority to farmers, cooperatives were able to get gross profit of US\$ 57,000, a sharp increase of 63% over that of 2 years ago. Anyway marketing based profit was sufficient to meet the cost of keeping cooperative staff only last year.

If with the opening up of banking business the competition among banking institutes become severe, many agricultural cooperatives will not be able to survive.

Although average margin between deposit and loan at Korean banking markets in 1991 was 4.7%, in the US and Japanese markets margins were 3.9% and 2.3% respectively. Korean agricultural cooperatives in rural area were able to enjoy 5.3% of gross profit rate to about US\$ 8 million deposits received, 4.7% to US\$ 10 million in 1992 and 4.1% to US\$ 12 million in 1993.

If we assume that the gap among these banking institutions in productivity remains unchanged and if the competition of interest margin becomes severe, resulting in declining the profit to half of the level in 1991 Japanese level, most of rural cooperatives will be able to keep only the half number of 24 cooperative staff.

In the field of marketing business, Korea expects a big competition with foreign counterparts in the near future. We have already opened Korean markets for almost agricultural products to foreigners. Rice, the only one item not to be opened, is also planned to follow the same destiny with other agricultural products from next year. During the last several decades we have created and developed many sorts of service businesses like insurance, agricultural processing, agricultural machinery, gas station, chain store for daily necessities, wedding, funeral needs and so on.

#### **4. Development Strategies to Cope with the Opening Trend**

Cooperatives have to adopt a free competition system, being away from the conventional practice of management on the basis of equitable division of incomes. Through vitalising the management atmosphere by giving cooperative staff incentive to work hard for more productivity, agricultural cooperatives must maintain quality services.

To achieve this goal, personnel management should be based on achievements, not on seniority. Promotions should be made mainly on the basis of efficiency, not on the basis of length of service. Achievement based promotion system can be rooted through correct assessment in objective of each staff's positive and negative workings. In line with this present written test for promotion should be cancelled.

A similar policy had better be adopted for recruiting new staff after graduating high

school or university. We have to emphasise on recommendation and interview than written test of knowledge only. It means that we need personnel who are open minded, cooperative rather than egoistic and creative with strong determination, problem-solving and logical expressing abilities. Because in general, good human character and personality is much more important in achieving higher productivity.

Agricultural cooperative staff have to change their present authoritative manners and practices and adopt service-oriented ones. They have to develop proper attitude to induce customers to willingly patronise the cooperatives.

To win competition particularly in banking business, we should be more serviceable. Main points of service may be understood as kindness, quickness and correctness. Therefore, cooperatives must offer more human and friendly treatment of customers and handle cooperative businesses to suit the customers.

They also have to try to actively introduce the way of thinking, getting information and marketing strategies. Cooperative staff should try to be more interested in information, facts around now in this world, and to systemise them to be developed as new ideas so as to apply them in their work. In a sense prosperity of cooperatives can be said to depend mainly on quality of information and innovative ideas.

Waste arising from poor management of resources should be prevented. A new promotion system without written test is to be developed so as to make staff indulge in achieving the cooperative goals.

A major strategy to increase productivity of cooperatives has been to increase their size. During the four years from 1985 to 1989 primary cooperatives decreased in number from 1464 to 1433 and within 2 years of 1989-91, 8 cooperatives were merged with other cooperatives. Over the last recent 2 years, 65 cooperatives were merged. The fact is that most cooperative staff members and farmers have realised the needs of merging their township level cooperatives into big ones to be more productive and competitive. This facility can be called "agricultural cooperative welfare centre".

Through merging of the small scale cooperatives, they can save the fixed cost of management, increase the benefits of economies of sale, easily specialise staff in specific fields, encourage competent youth to be recruited, and prepare large-scale facilities required to give better services to farmers and non-farmer customers.

To meet high quality daily life needs of resident customers, each cooperative should think of establishing one-stop shopping and service system with considerable facilities like the following 11 storey building with 8 floors above ground and 3 underground. The building can be used as follows :



Ground	:	Parking lots, gas station
1st floor underground	:	Supermarket for food and agri-products
2-3 floor "	:	Parking lots
1st floor above ground	:	Banking offices
2-3rd floor “	:	Department for goods except food
4-5th floor “	:	Staff offices
6-7th floor “	:	Travel agency, wedding parlour, wedding hall, meeting hall.
8th floor “	:	Restaurant

At this centre, farmers and customers come by cars, inject fuel or gas into their cars, park them, draw/deposit money, buy beef, vegetables and daily necessities including refrigerator, TV, shirt and suit, and then have consultation with staff on farming and rural life, reserve tickets for travelling to other countries and enjoy meal with families at the restaurant in the sky lounge.

Agricultural cooperatives should try to change their already acquired image of agricultural producer’s cooperatives into regional cooperatives. Farm population was 45% of the total population in 1970. In 1980, it had decreased to 28% and to only 12% in 1993. Therefore, if we do not change our attitude to be more interested in the life of rural residents, cooperatives are sure to face difficulty even in surviving.

To do this, they have to develop a variety of such life-related businesses as advancing loans to facilitate education and wedding needs for farmers’ children, to help tours inside and outside of the country and handle other non-farming activities of the residents, whether farmers or others. They have to expand cooperative movement even to non-farming residents by encouraging them to become members.

Faced with a sharp decrease in farm population, we introduced the sub-member system to draw non-farming rural residents to participate in cooperative activities. At the end of 1993, primary cooperatives on the average had 2,007 sub-members along with 1,430 full-fledged members. This situation is found more actively in the cooperatives close to the urban areas.

## **5. Conclusion**

Consequently, we consider it very important to give a human face to the cooperative movement. In line with this, cooperatives should elect highly qualified presidents who may be above the maladies of corruption and manipulation.

Cooperatives also should continuously emphasise on developing appropriate work ethics and attitudes of staff to be relatively advantageous. On the one hand, they have to be highly specialised in some specific field and on the other hand, they should be highly motivated to work hard to achieve more efficiently institutional goals. For this, cooperative managements should emphasise on training and educating with practical programmes based on reality.

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# **An Overview of Agricultural Cooperative Marketing in Korea \***

## **Introduction**

### **Marketing and Economic Development**

The role of marketing in an economic system was well illustrated by Peter Drucker about 35 years ago when he viewed marketing as “the process through which economy is integrated into society to serve human needs”. He pointed out that marketing performs the functions of :

- i. crystallizing and directing demand for maximum productive effectiveness and efficiency;
- ii. guiding production purposefully towards maximum consumer satisfaction; and
- iii. creating discrimination that gives rewards to those who really contribute to society.

Drucker’s insight tells us the fundamental characteristics of marketing that it first looks at the values and wants of the individual, and it motivates people to act purposefully and responsively. Implication from historical observation is that any attempt to develop an economy or an industry without “marketing as a social discipline” experiences a failure of operation and a waste of resources.

### **Micro and Macro Marketing**

Marketing economists discuss two types of marketing: micro marketing and macro marketing. Traditionally, this distinction has focused two aspects of marketing :

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the organisational unit involved, and the function of management. The essence of micro marketing has been single entrepreneurial unit and the management thereof. Macro marketing has been related to the systems of multiple units, such as various forms of distribution channels and marketing functions performed thereby. Macro marketing considers not only private marketing channels but also governmental and other public agencies. More recently, the dichotomy of micro and macro marketing is based on considerations from wider range of perspectives : (i) data or information; (ii) theory; (iii) normative models; and (iv) forms of management or implementation (see Table 1).

**Table 1 : Components of Marketing Thought**

<i>Types of Marketing</i>	<i>Micro Marketing</i>	<i>Macro Marketing</i>
Data or Information	Data of the firm	Overall data of the marketing system
Theory	Theory of the firm	“General” marketing theory
Normative Models	Plans for the firm, e.g. proforma budgets	Social values, goals, and programmes
Implementation or Management	Firm management decision-making, administration and control	Public regulations, assistance, programmes

**Two Faces of Cooperative Marketing Business**

Current system of agricultural cooperatives in Korea was established based on the “Agricultural Cooperative Law” legislated in 1961. The law stipulates that any organisation that does not follow this law shall not be called an agricultural cooperative. The law regulates not only the organisational structure of the overall agricultural cooperative system but also the operational process of agricultural cooperatives as well as that of the NACF (National Agricultural Cooperative Federation), the national level and agricultural cooperatives at farm level.

This implies that one of the most important characteristics of the cooperative marketing business in Korea has been its two-facedness. It has been an important element of macro marketing for the government and society. But it also is a critical part of the cooperative management. There are members for cooperatives but there is general public for the government. Conflicts have been experienced between what is desirable from macro marketing point of view and what is expected by

member farmers or by cooperative managers from micro marketing point of view. Compromises have been made between the government and agricultural cooperatives. Evaluation on the performances and development of the agricultural cooperative marketing depends on which one emphasises.

This paper presents an overview of marketing business of agricultural cooperatives in Korea. It first looks at chronological growth path since 1960's and then gives a general description on the current situation and development strategy of agricultural cooperative marketing business in Korea. In general, this paper takes the macro marketing point of view.

## **Cooperative Marketing Under Subsistence Farming**

### **Government Entrusted Marketing**

Marketing of agricultural products has been one of the major activities of the multipurpose agricultural cooperatives in Korea since their establishments in 1961. The marketing business has been faced with enormous challenges in response to the changes in the political, social and economic conditions in which agricultural cooperatives exist and operate.

In the 1960s, the cooperative marketing business had centred on the government entrusted marketing activities on commission basis. Major role of the cooperatives was the handling of rice and barley, which constituted the predominantly important staple food in Korea, under the "Food Grain Management Programme" of the government. Agricultural cooperatives performed the functions of buying, storing, milling, releasing rice and barley according to the instructions given by the government and at the prices determined by the government. Most farmers and general public considered the agricultural cooperative system as an extended arm of the government at that time.

In addition to the handling of the staple food grains, the cooperatives handled various kind of cash crops under the name of Raw Material Marketing Projects for Processing. Commodities handled used to include sweet potato for alcohol, silk cocoon, flax seeds, custodial seeds, cotton and rabbit fur, although the list underwent frequent changes in term of the commodities included.

In this area of the marketing business, the government used to set the purchase prices and determine the quantities to be purchased. The NACF then formulates sales contracts with processors, purchases the crops from farmers, stores and hands them over to the respective processing companies. The purchase price of a crop is the same throughout the country, usually higher than the import price. The processing firms usually experience a financial squeeze in using those domestically

produced raw materials. For this reason, government provided subsidy to the processors in the form of loan, and allocated import quota of the raw material based on the quantity of domestic farm products they use.

Due to import liberalisation of most agricultural commodities since mid 1980s, this type of cooperative marketing business is becoming less and less important in terms of business volume and farmers interests.

### **Emphasis on Marketing Business**

Between the latter 1960s and the early 1970s, agricultural cooperatives at village level merged into township level cooperatives to enlarge the size of cooperatives. It was in this period that the cooperative marketing business entered a turning point with the commencement of various types of new cooperative business including mutual credit, daily necessities supply and mutual insurance business. In other words, primary cooperatives began to secure the necessary funds, facilities and manpower for the promotion of marketing business.

As the 1970s set in, the government implemented a dual price system for rice and barley to increase farmers income. Along with the increased national income, changes were brought about in the food consumption pattern, boosting demand for meat, fruits and vegetables. Under the Saemaul (new village) Movement, various projects were undertaken to improve the living environment in the rural areas. Between 1965 and 1975, the non-agricultural population increased from 13 million to 23 million and the ratio of farming population to the nations' total population dropped from 55 per cent to 37 per cent.

These social and economic changes spurred the commercialisation of agricultural production and boosted farmers' interest in cooperative marketing. As a result, the cooperatives strengthened efforts to expand their marketing business under the banner, "production by farmers, marketing through cooperatives". A marketing business promotion programme adopted by the NACF in 1974 emphasised (i) strengthening the marketing projects initiated by primary and special agricultural cooperatives; (ii) making all levels of the NACF offices and member cooperatives serve as marketing outlets of agricultural products; and (iii) training all cooperative employees as salesmen. This simply indicated the extent to which the cooperatives were anxious to promote marketing business at that time.

It was in the early 1970s that many primary cooperatives were able to invest in such marketing facilities as rice mills, transportation vehicles and retail shops for farm products. During the 1970-75 period, cooperative sales of farm products increased by an annual average rate of 70 per cent, excluding the government-entrusted sales of rice and barley.

As the volume of farm products sold by primary and special cooperatives increased, they began to pay increasing attention to the terms of trade between cooperatives, the sellers and the private merchants, the buyers. This was a major driving force for the expansion and modernisation of the cooperative distribution functions around the middle of 1970s. An increasingly greater number of cooperative marketing centres were set up in large cities across the country. For example, the cooperative marketing centres for livestock products were established in Seoul and Chonju city in 1974 and 1976 respectively. And a cooperative supermarket opened in Sinchon, Seoul in 1976. The supermarket was regarded as one of the large scale retail outlets in Korea when it began to run.

The retail sales networks such as foodgrain stores and mini supermarkets, expanded by agricultural cooperative system across the country. In accordance with the government price stabilisation policy, the number of the NACF foodgrain stores rose from 17 in 1975 to 1,000 in 1978.

## **Marketing Business in Transition**

### **Commercial Farming**

Since the beginning of the 1980s, commercial farming has become more prevalent. The government marketing policy began to switch from regulatory measures or administrative guidance to greater investments in marketing infrastructure. It was realised that more physical facilities were required to accommodate increasing volume of farm products to be distributed. A sharp increase in aggregate volume of farm products was accelerated by (i) rapid urbanisation; (ii) specialisation of production by region and by individual producers; and (iii) increase in per capita consumption. Marketing of fruits and vegetables, livestock products became more important than before. In response to changes in the food consumer behaviour, supermarkets mushroomed in many large cities.

Adjustment of agricultural cooperative marketing business in 1980's can be summarised as follows. First, primary agricultural cooperatives and horticultural cooperatives in producing areas began to be very active in marketing of farm products. The restructuring of agricultural cooperatives from the three tier system to two tier system encouraged cooperatives in rural areas to take initiatives in marketing business. Second, in order to activate the agricultural marketing business based on the concept of cooperative activity, it was felt that voluntary participation of farmer members was one of the most important necessary condition for its existence and success. Emphasis was placed on the strengthening of the role of cooperative marketing groups organised among farmers producing same crop at village level.

Third, sales of high-quality rice was encouraged to meet the growing demand. Some primary cooperatives introduced quality differentiation in rice marketing from late 1980s. High-quality rice in Korea basically indicates certain variety and specific locality in production, and soil condition. In general, it was traditionally noticed that Korean consumers prefer rice varieties with less indica type characteristics, produced in Kyung-Ki province, and rice produced on reclaimed land.

Other specific characteristics found in the 1980s included the operation of large supermarkets in urban areas, in an effort to prevent sharp price changes at retail level, and to develop consumer reputation for reliability in the prices and quality of domestically produced farm products that the agricultural cooperatives sell.

### **Motivating Farmers**

Basically, cooperative marketing business is a form of cooperation among farmers to promote the sales of farm products at favourable terms. Therefore, successful cooperative marketing depends upon concerted activities on the part of member-farmers.

In Korea, there was no cooperative marketing business in the genuine sense of the word when the multipurpose cooperative system was founded in the early 1960s. In those days, the NACF started marketing business but farmers were not interested in it. Their participation in the marketing business was at a very low level. It was partly because they considered the cooperative as a government agency. However, more important factor for low participation was that their farming at that time was basically of subsistence level. With small quantity of marketable surplus and with little understanding of the need for cooperative action, farmers did not pay much attention to the cooperative marketing.

However, commercialisation of farming encouraged a continuous decrease in number of crops each farmer produced and an increase in the quantity of products to be sold in the market. Market oriented agricultural production made farmers think and behave in a way that motivated cooperation among themselves.

Moreover, fruits and vegetable production became more important part of farming especially for small farmers due to the increasing demand and decreasing profitability of food grain production. Most food and feed grains, except rice, consumed in Korea are now supplied by farmers abroad. Examples of those commodities are wheat, corn, and soybean. Their self-sufficiency rates dropped from 27%, 36.1% and 100% in 1965 to 0.03%, 1.4% and 13.8% in 1993. Import of other commodities is also increasing. Livestock production, which has been an important income source for small farmers, is heavily dependent upon large scale specialised farms or agricultural firms.



Fruits and vegetable production for market requires new technology and market information even for small farmers. It seems to be difficult for a farmer to invest in a new business isolated from his neighbours. Voluntary cooperation between themselves from investment and production planning stage each year is of mutual help not only for an efficient production but also for an efficient marketing of products.

Agricultural cooperatives place heavy emphasis on motivating farmers to organise cooperative farming/marketing group among farmers producing same kind of fruits or vegetable crops in the same region. The concept of integration of cooperative farming and marketing became popular among cooperative leaders in some rural areas. They noted that cooperation after harvest without close coordination at the production planning stage may not be really meaningful in practical sense.

To facilitate the activities of the cooperative farming/marketing groups at the village level, agricultural cooperatives provide farm credit to these groups so that the group members decide the allocation of credit among themselves. A close coordination between the farming activities of group members is expected. Some of the examples of the expected coordination among farmers are selecting varieties to grow, introducing new production technologies, synchronisation of seeding and harvesting, unifying the grading and packing methods, and so forth. This coordination among farmers enables cooperative management to decide what is required to support them.

### **Direct Election of Cooperative Leaders**

An interesting change in cooperative management can be observed recently. Presidents of primary cooperatives are elected, from 1989, through direct vote of all member farmers. The Chairman and President of the NACF is elected by the direct vote of all Presidents of the primary cooperatives. The term of office for the primary cooperative leaders and the NACF is four years. The introduction of direct election system made a momentum for the growth of cooperative marketing business.

Until recently, cooperative management used to believe that agricultural marketing is not a profitable business area for cooperatives. It was partly because agricultural cooperatives lacked management skills in the area. However, most member farmers have expressed their strong desire to have a cooperative leader, i.e. President of the agricultural cooperative who is energetic in marketing business. These desires are reflected to their voting.

Agricultural marketing business is not a major portion of the cooperatives yet in terms of the business turn over or income generation compared with credit and banking business. However, it seems to be true that major managerial efforts are concentrated in the agricultural marketing business. This lead to an increased investment in agricultural marketing facilities by the NACF and its member cooperatives.

**Table 2 : Major Marketing Facilities Owned and Operated by NACF and its Member Cooperatives (1993)**

<i>Facilities</i>	<i>Number</i>
<b>Rural Area</b>	
Collection points	389
Warehouses for cold storage	144
Warehouses for grains	5,154
Packing houses	53
Fruits and vegetable marketing complex	26
Vehicles for shipping	3,484
<b>Urban Area</b>	
Cooperative marketing centres	68
Distribution centre	6
Supermarkets	218
Direct retail shops	153
<b>Processing Facilities</b>	
Processing plants	113
Rice processing complex	63
Rice mills	124

### **Rice Policy and Cooperatives**

Traditionally, rice marketing by agricultural cooperatives has maintained a close relationship with government rice policy. However, participation of the cooperatives

in milling and releasing of the government rice was not active. Until 1993, government utilised private rice mills and private distribution channels in milling and releasing government rice respectively.

A new rice releasing system was adopted in 1993. Government began to sell unmilled rice through auctions organised by NACF. This change has three important implications. First, the release price began to be determined by market forces, whereas under the former system, price was determined by administrative process within the government. Thus the market price is now controlled indirectly by the quantity of rice sold by government.

Secondly, rice quality and package, which is affected in the process of milling, is now the responsibility of individual millers who buy government rice before milling. Formerly, private millers designated as government rice milling agents milled the government rice on custom hiring basis implying that no incentives existed for them to improve the quality and packaging of rice.

Thirdly, the NACF became an important institution not only for government rice purchases during harvest season but also for releasing the government rice during off-season. Furthermore, agricultural cooperatives with milling facilities are now allowed to buy unmilled government rice at the auctions of the NACF.

### **Marketing Centres and Auction Practised Collection Points**

At the end of 1993, the agricultural cooperatives operated 68 cooperative marketing centres in major cities across the country and 99 auction-practised collection points in towns and townships. Out of the 68 marketing centres, 15 were operated by the NACF in the six big cities and 53 by primary agricultural and horticultural cooperatives. The auction-practised collection points were operated by either primary agricultural cooperatives or horticultural cooperatives.

The first cooperative marketing centre was set up in Pusan, the second largest city in Korea, in 1961. The number has increased steadily since then. At a time when the functions of public wholesale markets were not yet established, the cooperative marketing centres contributed greatly to the promotion of farmers income as a form of market outlets for farmers and local cooperatives. The main function of the marketing centres is price discovery through auction for fruits and vegetables.

The auction-practised collection points can be classified into two types based on their location : one, operating in the producing areas; and the other, in consuming areas. Those in producing areas attract wholesalers and retailers coming from urban areas and sell farm products through auction in order to establish fair prices. Therefore, these markets operate only during harvest seasons dealing with products

specialised in the region.

In contrast, the collection points in the consuming areas operate in those rural areas with a comparatively large number of consumers throughout the year and deal with many items. In this respect, they are similar in functions to the cooperative marketing centres in the consuming areas.

**Table 3 : Business Turnover of the Cooperative Marketing Centres & Auction-Practised Collection Points (selected years 1980-1993)**

	1980	1985	1990	1991	1992	1993
Cooperative Marketing Centre (CMC)						
CMC of NACF	67	258	409	451	532	562
CMC of member coops	49	101	261	346	394	446
Sub-total	116	359	670	797	926	1,006
Auction-Practised Collection Point	3	32	138	176	217	254
Total	119	391	807	973	1,143	1,260

Source : NACF

### **Processing Business : A New Challenge**

Some primary cooperatives at village level were engaged in rice milling in 1960s. Livestock cooperatives and the NACF began to produce assorted feeds in 1962. Before the restructuring of the cooperative system in 1980, several county cooperatives and horticultural cooperatives entered into the food processing industry such as fruits and vegetable canning. However, most of the rice mills and all of canning business of agricultural cooperatives failed to survive for long. Lack of managerial skills was the main reason for the lack of the viability of the processing business of agricultural cooperatives. Livestock related processing such as dairy products, slaughter houses and feed mills were handed over to the newly established livestock cooperatives or the National Livestock Cooperative Federation (NLCF) in 1980. Processing of farm products has been a business area that was neglected by the multipurpose agricultural cooperatives.

However, changes in economic and social environment opened a new horizon to the cooperatives from late 1980s. In 1990, the NACF formulated an ambitious "Five-Year Plan for Processing Business Development". Many of the primary and horticultural cooperatives looked to the possibility of entering into the agro-processing business in which they were not interested at all up until mid-1980s.

Background for the active participation in the processing industry by the agricultural cooperatives from the late 1980s could be summarised as follows. First, gradual opening of domestic agricultural market enforced Korean agricultural policy-makers to find new income sources for farmers. The agro-processing business by the agricultural cooperatives is regarded as a potential opportunity for farmers to retain the value added by the processing business utilising the productive resources at farm level.

Secondly, as consumer income increased, food consumption pattern in Korea changed. They seek convenience, diversity, safety in every aspect of shopping, cooking and eating. Consumer demand for processed food has shown an increasing trend.

Thirdly, farmers and cooperative leaders are inclined to have an optimistic view on the possibility to recapture part of the domestic agricultural market through the development of processing industry by cooperatives. It is observed by them that existing food processing industries owned by large private enterprises are inadequate for the benefit of agricultural producers mainly due to their heavy dependence on imported raw material and monopolistic market structure.

The last and most important factor to encourage agricultural cooperatives to invest into the processing industries is government support and the election of cooperative managers through the direct vote of farmer members. Presidents of the rural cooperatives are self-pressured to perform something visible for their members. It is noticed that many Presidents of agricultural cooperatives think that construction of processing plant would be helpful in collecting votes from their members at the next election.

Financial support by the national and local government depends on the type of processing. In general, government provides subsidy to the extent of 50% of construction costs in addition to 30% of loan extension. At the end of 1991, the NACF operated three food processing plants, while its member cooperatives owned 48 plants. The number of processing plants owned by the NACF and its member cooperatives increased to seven and 106 respectively by the end of 1993. The most frequently observed products from the cooperative food processing business are Kimchi (12 plants), rice products such as boiled rice and rice cakes (11 plants), pickles (10 plants) and dried vegetables (10 plants). Some of the products

including Kimchi and apple juice are exported to Japan, United States and other countries. It is notable that apple juice produced by Kyong-buk Apple Cooperative won an International Award for food and beverages at an international food fair held in Barcelona, Spain in March 1994.

Based on the rather short history of agricultural processing business of Korean agricultural cooperatives, it is important to have a careful feasibility study before actual investment begins.

### **Cooperative Supermarkets**

Since 1976, when the NACF opened a supermarket in Seoul, the number of supermarkets operated by NACF and agricultural cooperatives increased to 217 by the end of 1993. There are many pros and cons about those supermarkets. The opponents argue that the NACF is not in a position to conduct a consumers protection movement because it is an organisation of farm producers. They also think that the NACF cannot play a genuine role of safeguarding the interests of farmers by entering into the retail food markets, and that the NACF cannot compete with private supermarkets in terms of management efficiency.

On the other hand, supporters of the supermarket operation contend that if the NACF entry into the retail market can contribute to modernising the retail food distribution system and to reducing the exorbitant distribution costs, this would eventually protect and promote the welfare of farmers as well as consumers by modernising the distribution system and producing a spillover effect of increased food consumption. It may be true in Korea that retail food distribution system had many weaknesses and the activities of agricultural cooperatives at retail level can stimulate the development of retail marketing. Agricultural cooperatives in Japan operate more than 2,000 "A-COOP" chain-stores across the country. More than 90 per cent of the chain-stores handle meat, fish, fruits and vegetables. The proponents also argue that the supermarket operations can facilitate collection of useful information on the changes in consumer taste and preferences for improving cooperative marketing strategies and farm extension.

Many of the cooperative chain stores operated by agricultural cooperatives in Korea began to change their store design so as to meet the changing consumers shopping behaviour.

### **Market Information**

Marketing information, a driving force of the economic behaviour of society members, is the most important basis of marketing function because the "invisible

hand” may not be influential without the marketing information. Especially for the agricultural arena, efficient marketing information services must be provided to the general public including farmers and consumers as long as the production and consumption of farm products are dominated by numerous small economic units. The agricultural marketing information services in Korea have consistently followed this policy direction.

Currently, many institutions are involved in the agricultural marketing information services. For the agricultural market news component, the Ministry of Agriculture, Forestry and Fisheries (MAFF) functions as a coordinator of the overall agricultural marketing information system based on the nationwide network of city/county branch offices of the Agricultural and Fisheries Statistics Bureau of the MAFF. The main computer of the MAFF is linked to the National Agricultural Cooperative Federation (NACF); the National Livestock Cooperative Federation (NLCF); and the Agriculture and Fisheries Marketing Corporation (AFMC). The NACF and the NLCF collect data on prices and trade volumes of agricultural commodities at rural markets and auction prices at the cooperative marketing centres in major urban areas. The AFMC, a subsidiary of the MAFF, is in charge of collecting data on prices at public wholesale markets and at retail shops in urban centres. Data collected by those institutions are fed into the main computer at the MAFF through about 150 city/county branch offices of the Agricultural and Fisheries Statistics Bureau of the MAFF on a daily basis for processing and dissemination. Dissemination of the agricultural market news may be classified into two types : dissemination for the general public, and for the institutions and respective interest groups. The former takes place through mass media including TV/radio broadcasting, newspapers and other periodicals, and the automatic telephone answering devices installed at the NACF, NLCF, AFMC and branch offices of the Rural Development Administration (RDA). Dissemination for the latter follows the reverse order in which the information is collected, i.e. dissemination of the information from the MAFF main computer to city/county offices of the Statistics Bureau of the MAFF, and then to the local cooperatives of the NACF and NLCF for the ultimate utilisation by their members.

The coverage of the NACF data collection for the agricultural marketing information system includes information on farm gate prices in major producing areas for 18 major commodities, and auction prices and trade volumes at NACF’s 17 marketing centres for 31 commodities. For the dissemination of the agricultural market news, the NACF utilises a nation-wide on-line network connecting NACF’s 2,900 branch offices and member cooperatives; the Farmers Newspaper published once in two years; and Automatic Response System (ARS) with 72 lines at nine major cities; and other periodicals. Other components of agricultural marketing information services such as crop and livestock estimates, situation and outlook services, food

consumption estimates, commodity exports and imports are also important, and thus diverse institutions in addition to the above mentioned ones are involved in such marketing information services. However, the role of the MAFF is most pivotal in the collection and dissemination of the relevant marketing information in Korea and further development is expected, particularly in the agricultural situation and outlook service.

An efficient marketing information requires a system of common language that allows easy communication of common idea on prices, quality, and quantity between economic agents. Agricultural cooperatives have been trying to improve packaging and standardisation of farm products through their extension activities. An example is to provide standardised packing material for various fruits and vegetables at subsidised cost.

### **Challenges of Marketing Business**

Marketing business of agricultural cooperative system in Korea has been under the close coordination of the government and its growth has been strongly supported by the government. It is observed that a significant portion of general public in Korea believes that the agricultural cooperative is a government agency. Some used to criticise the cooperatives as “servants of government”.

Not a single agricultural cooperative has experienced a bankruptcy in cooperative history. Their survival seemed to be guaranteed by the government. This worked as one of the fundamental factors for the development of multipurpose agricultural cooperatives based banking or mutual credit business in terms of the income and financial sources.

However, such criticism will be observed less frequently as a consequence of overall development of social environment such as political changes from authoritative government to a more democratic one, from regulatory economic policy measures to those based on market mechanism, and from centralised government administration to a decentralised one.

Changes in international trade from protective policies towards a more open market system will be a strong pressure not only on Korean agricultural sector in general but also on agricultural cooperative management in particular. The norm of managerial efficiency of agricultural cooperatives will be more and more important than ever. The efficiency norm will ultimately replace the norm of “fairer trade than profit seeking merchants”.

The concept of “marketing as a special discipline” will be applied not only to marketing business but also all business activities of the multipurpose agricultural



cooperatives in Korea. Faced with severe competition in the market, domestically and internationally, agricultural cooperatives will believe that increase in operational efficiency is the only survival strategy for cooperatives and member farmers. This implies that they will pay more attention to micro marketing than to macro marketing. Those changes will be accelerated by the development of specialised farming.

Consequently, individual farmers and individual cooperatives will find that they are losing homogeneity among themselves. Harmonisation of conflicting interests among themselves will be more difficult and costly. The multipurpose agricultural cooperatives under strong government coordination and supervision will find a way to a regional cooperatives. A sharp decrease in farm population will accelerate this trend. Alternative forms of cooperatives specialised in specific crops or business activities are expected. It seems to be desirable to have those cooperatives organised voluntarily based on “bottom up approach” instead of having them organised under the government initiation. The spirits of self-help and autonomy are essential to the success of a cooperative.

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# **Purchasing Business of Farm Production Inputs and Consumer Goods in Korean Agricultural Cooperatives \***

We are here today to review the historical development of purchasing business in Korean agricultural cooperatives to analyze the performance of farm inputs and consumer goods and strategies to improve the purchasing business in Korea.

As is well known, the Korean agricultural cooperatives were organised in 1961 as multipurpose type cooperatives. We have two-tier system of the primary cooperatives at the township level and the NACF at the national level.

Our agricultural cooperatives have greatly contributed to enhancing the economic and social status of member farmers and to develop agriculture through efficient delivery of farm inputs and production loans as well as to enhance the welfare of the rural communities through various business activities.

What is more serious to Korean farmers is the rapid market opening of agricultural products which were accelerated after the UR negotiations. Today the Korean farmers are trapped between the spiralling cost of living and deteriorating competitiveness in the wave of agricultural imports. Furthermore, it is very difficult to develop new income crops to substitute the imported items. Even off-farm income sources are limited and underdeveloped.

Under the circumstances, the Korean agricultural cooperatives have taken various measures to overcome the adverse effects caused by the expanded import liberalisation. Among them, we put a high priority on the development for the supply system of farm inputs and consumer goods.

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## 1. Trends in Agricultural Input Use in Korea

Production factors can be divided into conventional and non-conventional inputs. Conventional inputs include not only land and labour, but also animal draft power. Non-conventional inputs are broadly defined to include improved mechanical devices and biological/chemical materials purchased from the industrial sector. The increasing use of non-conventional inputs is a reflection of the science - based strategy and greater use of purchased inputs.

In table 1 the patterns of annual growth over the two periods are sharply differentiated between conventional and non-conventional inputs. Throughout the entire period, a substantial share of the total increase in output was accounted for by increase in productivity. Productivity growth seems to have been primarily due to the addition of non-conventional inputs which rose rapidly while conventional input use increased only slowly or declined during the period.

**Table 1 : Growth Rates of Agricultural Inputs Use**  
(Three-years moving average)

Inputs	Sub-Period		Entire Period
	1963-71	1971-85	1963-85
Conventional inputs	(%)	(%)	(%)
Area cultivated land	-0.95	-0.40	0.09
Male equivalent labour	-1.33	-1.29	-1.31
Animal power	-1.59	-7.54	-5.42
Non-conventional inputs			
Fertiliser	10.86	3.75	6.28
Machinery	27.66	15.63	18.07

The area of cultivated land increased during the early period and declined during the latest period. Cultivated land expanded before 1971 due to the Land Reclamation Act of 1962. After 1971 total cultivated area declined because of a reduction in upland area, and addition of cultivated land brought about by the reclamation programme was insufficient to compensate for the area converted for urban development, industrial sites and highway construction.

Labour inputs, as defined in this study, refer to the number of work hours per year used in agricultural sector expressed in flow terms. In these units, male equivalent labour hours devoted to agricultural production decreased rapidly over the whole period. The decline in both the labour force and animal power reflects the very rapid increase in use of farm machinery. The rapid growth and structural transformation of the Korean economy since the early 1960s provided substantial opportunities to absorb workers from agriculture; farm workers were attracted to the high wages in the non-agricultural sector.

The most important modern purchased inputs were farm machinery and commercial fertiliser. Prior to 1960 growth in fertiliser use was faster than that of farm machinery. But since 1960 farm machinery and equipment grew much faster than fertiliser. This implies that while land saving technology has received and continues to receive emphasis, labour saving technology has become increasingly important in recent years. The trends in use of the major production inputs are compared in Figure 1.

Trends in agricultural input use , three year moving averages , semi-log scale (1963 = 100).

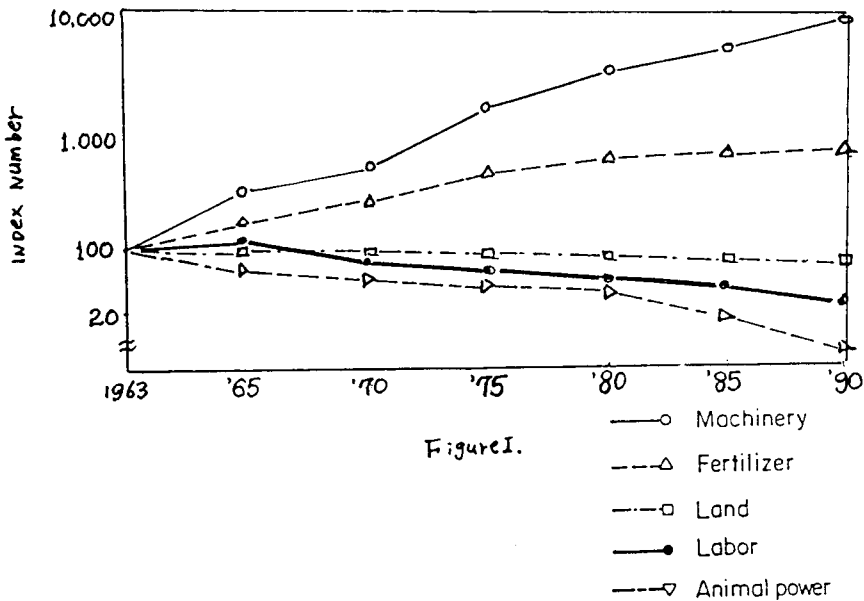


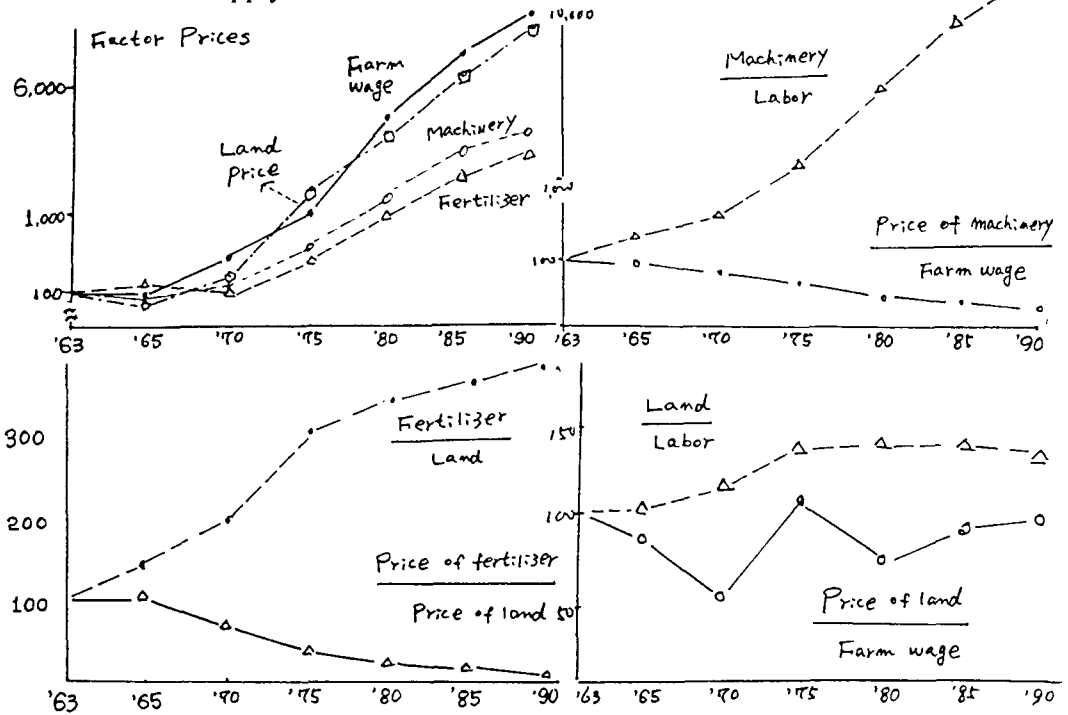
Figure 1.

## 2. Trends in Factor Price and Factor Use

Differences in factor price movements may influence the direction of factor use and productivity growth. The model of mechanical technology suggests that power per worker is closely associated with increases in land area per worker. Increased land area per worker is dependent on the increased use of machinery and power per

worker. Technical change leading to a decline in the price of machinery relative to labour would contribute to the expansion of the area cultivated per worker. Variations in factor ratios can be caused by changing relative factor prices. Thus, a rise in wage rates relative to the prices of land and machinery may result in the substitution of power for labour. Similarly, a decline in the price of fertiliser relative to the price of land can induce a rise in fertiliser use per hectare as a result of the development and introduction of more fertiliser responsive rice varieties. Also changes in the price of labour relative to the price of land can be expected to affect the level of fertiliser use per hectare. As the price of labour rises relative to the price of land, farmers will try to reduce labour input per unit of land by substituting improved husbandry practices.

The trends on relative factor use and relative factor prices are shown in figure 2. It is clear that trends in relative factor use were inversely correlated with trends in relative prices. Increases in power per worker and in fertiliser input per hectare were accompanied by dramatic decline in the price of machinery relative to the wage rate and the price of fertiliser relative to the price of land. These trends in factor price ratios, along with trends in the price of land relative to labour, are consistent with the accepted theory on resource allocation. Factor price movements in the Korean agricultural economy have influenced the process of technical change and the choice of inputs. However, the relationship between the trend in the land-labour ratio and the price of labour and land are not clear. This results from the inelastic supply of labour and land in Korea.



### 3. Methods of Purchasing Business of Korean Agricultural Cooperatives

#### 1) *Independent purchase and organised purchase*

##### (1) Independent (separate) purchase

- o Primary cooperatives purchase necessary consumer goods and farm inputs, and supply them to their members in compliance with their demand.
- o No relation with the NACF.
- o Carried out by primary cooperatives at their own discretion.
- o Be made among manufacturers, primary (or special) cooperatives and farmers.

##### (2) Organised purchase

- o The NACF collectively purchases and supplies, through the cooperative system, the farm supplies which it sees are in general demand by farmer members.
- o Three methods : (i) nation-wide purchases, (ii) provincial purchases, and (iii) county purchases.
- o Be made from manufacturers, and sold through the NACF, primary (or special) cooperatives and farmers.
- o Goes through a longer distribution process than the separate purchases.

Organised purchases are more profitable and advantageous than separate purchases.

The reasons are as follows :

- i) The NACF only estimates the nationwide demand but is not involved in physical distribution process. It is involved only in administrative process. This is unlike the distribution process of the private markets (producers - wholesalers - retailers - consumers). The NACF reduces the purchasing costs, transportation and market conveying expenses, and inspection fees etc. through the pooling the nationwide demand for large scale transactions. Therefore, it is able to supply at lower and more reasonable prices.
- ii) Minimising the total transactions in the entire marketing process - principal of minimum total transactions.

ex) separate purchase

10 manufactures \* 1,400 primary coop

= 14,000 (the number of total transaction)

organised purchase

NACF(1) \* 10 MAF = 10

NACF(1) \* 1,400 = 1,400

Total 1,410

Total distribution expenses of organised purchase system are reduced drastically.

iii) Reduce the entire cooperative inventories by adjusting shortages and surplus of supplies to their members. The principle of massed reserve or pooling uncertainties.

ex) Agricultural Chemical Centres at its provincial and county levels to adjust the overall supply and demand of chemicals.

## 2) *Consignment purchasing and direct purchases*

### (1) Consignment purchasing system

- o Cooperatives purchase and supply farm inputs and consumer goods at the request of their members.
- o The commodities and qualities to be purchased and prices are determined at the request of members, and members should purchase the whole lot. Therefore the losses and profits from the business accrue to members, and there would be no inventories unsold.

### (2) Direct purchase

- o Individual cooperatives purchase and supply farm inputs and consumer goods with no prior order from members.
- o Primary cooperatives themselves assume the risks involved in handling the purchasing and supply business on their own account. The inventories unsold and resulting losses or profits all accrue to the cooperatives.

(3) Usually, the cooperatives prefer the consignment purchasing method. But if the prices of some specific products are likely to rise and the purchase of specific commodities will be more difficult in the future for various reasons, the direct purchasing method is considered preferable.

## 3) *Intermediated purchase and commissioned purchase*

### (1) Intermediated purchase

- o The cooperatives display commodities at the request of the manufacturers and sell them to their members at prices fixed by the manufacturers.
- o The cooperatives then pay for the commodities sold and return the unsold ones to the manufacturers. There is no financial burden on the cooperatives.
- o This method can be applied to those newly developed commodities not so well known in the rural areas but deemed desirable to complement stocks.

## (2) Commissioned purchase

- o The request of the government and the NACF.
- o The cooperatives have only to execute the commissioned orders, report on the outcome of the businesses, and receive fixed commissions to pay part of the needed expenses. The losses or profits accrue to the commissioners.
- o The accounts are kept separately from those of the direct purchases in order to provide for necessary funds and possible losses to be compensated.

## 4. Purchasing Business of Korean Agricultural Cooperatives

The supply of farm inputs by agricultural cooperatives aims at curtailing agricultural production costs and productivity by providing farm inputs at reasonable prices, reducing unnecessary costs and exercising collective bargaining power against private farm input suppliers. In addition, the business of supplying consumer goods has contributed to the rural home economy and rationalise the consumer habits of farmers by providing quality goods on favourable terms.

The total turnover of farm inputs and consumer goods supplied by the NACF through its member cooperatives in 1993 reached 2,157 billion Won showing a 25% increase from the 841 billion Won in 1985.

As an essential production factor, the yearly turnover of fertiliser in 1993 was 2,186,000 M/T worth 331 billion Won, comprising 1,860,000 M/T of chemical fertilisers, 199,000 M/T of lime fertilisers and 127,000 M/T of silicic fertilisers. This shows a 10.5% decrease in quantity from the 2,443,000 M/T in 1990.

The NACF supplied 135,000 M/T of agricultural chemicals through its member cooperatives, almost 3.5 times level as 1990. This is due to the rapid increase of chemicals for horticulture and herbicides.

The agricultural cooperatives also supplied various kinds of farm machinery such as power tillers, tractors, rice transplanters, combines, and binders. Financial assistance by the NACF of 473 billion Won played a big role in achieving an annual supply turnover of 946,0000 units.

The NACF and member cooperatives supplied 2,084 M/T of feedstuff (417 billion Won) in 1993, a 7.5% increase from the year earlier. The supply of tax exempt oil reached 234 billion Won, a 28.6% increase from 182 billion Won of the previous year.



## **5. Purchasing Business for Farm Inputs**

### *1) Purchasing business initiated by city/county cooperatives (1961-1970)*

Between 1961 when the multipurpose cooperative system was founded and 1969 when village-level cooperatives were merged into town/township cooperatives, city and county cooperatives had carried out most of the cooperative purchasing business. During the period, total purchases quadrupled from 10.4 billion Won in 1962 to 40.5 billion Won in 1970. Fertiliser accounted for 75 - 90 per cent of the total purchases, accounting for most of the business turnover at city and county levels until 1968 when credit and banking became the most important cooperative business.

The fertiliser purchasing business played a pivotal role in developing the cooperatives as an enterprise and acted as a catalyst in linking the cooperative and farmers. Major factors worked to this effect. First, fertiliser was one of the most indispensable production inputs and always in great demand among farmers. Second, Korea was incapable of producing sufficient fertiliser around 1960. In those days, fertilisers were imported and distributed by both government agencies and private firms to meet domestic requirements. As a result, farmers suffered greatly from unstable and inadequate supplies and from the resultant dual price system. With the exclusive handling by the cooperatives since 1962, farmers have been assured of an equitable supply at uniform prices throughout the country. Third, in terms of organisation and facilities, the cooperative system had improved its handling capacity to such an extent that the government entrusted it with the important task of distributing fertilisers. This served as the basis of the cooperative purchasing business development thereafter.

### *2) Purchasing business initiated by primary cooperatives (1971-1980)*

As the 1970s set in, fertiliser purchasing and supply was transferred from city and county cooperatives. Since then, primary cooperatives have become the central organisation for dealing directly with farmer members. Supply of agricultural chemicals was also transferred to primary cooperatives at that time, paving the way for a better understanding of the role and importance of the cooperatives among the farmers. As part of the government policy to achieve domestic self-sufficiency of rice and other staple food-grains, which has a direct link to Korea's economic stability, the nationwide cooperative system became an exclusive supplier of agricultural chemicals in 1976, contributing greatly to expanding the scope of the purchasing business of primary cooperatives.

One of the major programmes in the Third Five-Year Socio-Economic Development

Plan (1972-76) was the agricultural mechanisation. Under the programme, the government released a considerable amount of funds to encourage the use of farm machinery. In compliance with the government policy, the cooperatives helped supply necessary loans and machinery through each primary cooperative, establishing after-sales service centres at each town or township level. In 1974, the government, well aware of the effectiveness of distributing machinery through the NACF nationwide network, allowed the NACF to monopolise the supply of the larger sized agricultural machinery, thereby accelerating its agricultural mechanisation programme.

The NACF was designated as a government agent for corn import in 1971 and for feed corn import in 1974. Between 1975 and 1980, the NACF set up mixed feed plants with a combined annual production capacity of 180,000 metric tons, thereby laying a firm foundation for successfully carrying out the cooperative business for livestock farmers.

Supply through the cooperative system increased sharply. They included polyethylene films, split bamboo, seeds and seedlings, and construction materials, such as slates and cement. Along with the rapid growth of supplies, the methods of purchasing and supply underwent gradual changes. The former government commissioned business were gradually replaced by farmer-oriented business.

In summary, cooperative purchasing business in the 1970s recorded a remarkable development in terms of both quantity and quality. With the revision of the agricultural law at the end of 1980, the nationwide cooperative organisation changed from the former three-tier system into the present two-tier system, and primary cooperatives have become the central agents of cooperative purchasing business.

### *3) Cooperative purchasing business in transition (since 1981)*

Since the beginning of the 1980s, the cooperative purchasing business has faced many challenges.

- (1) The cooperative supply of farm machinery was discontinued in July 1982, and cooperative had only to provide the required loans to farmers. Until then, they had supplied more than 90% of the domestic requirements of farm machinery.
- (2) The administered monopoly of fertiliser supply began to break up in July 1982 when the sales of ammonium sulphate and some other fertilisers were liberalised. These adverse conditions, however, could not prevent cooperatives from expanding their performance. Rather, they served as a basis of future development.

- (3) The NACF pooled the nationwide split bamboo requirements for rice seedbed and supplied them in bulk beginning in 1983, thereby reducing the price to farmers by 20% and eliminating arbitrary acts of private merchants. Until then, split bamboo had been supplied by individual provincial offices of the NACF.
- (4) The NACF began to strengthen its supply of oil for agricultural use. Cooperatives used to operate their own after sales service centres for farm machinery and oil supply stations. A tax law revision in December 1985 exempted special excise taxes and value-added taxes on oil used for agricultural purposes. In an anticipation of sharp rises in oil demand, the NACF has set up a special department exclusively devoted to developing this new enterprise, and has extended active guidance services for primary cooperatives to build new oil stations or expand the existing facilities.

**Table 2 : Major Business Performance of Primary Agricultural Coops**

(in billion Won)

Year	Purchasing Business	Marketing Business	Mutual Credit	Cooperative Insurance	Others Business
1971	8.8	4.4	6.6	--	1.0
1974	100.1	121.9	59.7	--	4.0
1977	307.2	280.8	290.8	226.4	17.7
1980	562.1	426.4	823.8	556.0	31.3
1983	820.3	502.9	1,730.7	673.8	55.0
1986	1,168.2	1,205.3	3,522.2	1,575.8	49.3
1990	1,966.7	2,659.6	11,519.9	7,313.4	90.9
1992	2,731.3	4,338.0	18,239.8	10,868.2	154.4

#### 4) *Supply System of Major Farm Inputs*

##### (1) Fertilisers

Since the agricultural cooperatives began to exclusively supply fertilisers in 1962, the fertiliser supply system has undergone several changes. Fertilisers were supplied under a crop quota system (January 1962 - September 1970); a free sales system based upon standard quantities sold (October 1970 - July 1973); a consumer quota system (August 1973 - December 1975); and under a completely free sales system (December 1979 - July 1982). The current system effective since August 1982, allows the free sale of some specific fertilisers.

Under the current system, the sales of ammonium sulphate and some other fertilisers are not handled by the government, but are sold in free competitive markets. The government implemented the current system as part of its efforts to make up for the chronic deficits in its fertiliser management account. The current system is expected to apply to other fertilisers when the long-term contracts for the manufacture of fertilisers in joint ventures with foreign firms expire in 1987.

The prices and amount of fertilisers the NACF purchases from manufacturers at the government request are determined by the government itself. Even the prices of fertilisers to farmers, transportation costs, storage charges and handling commission fees annually are determined by the government. The government notifies the NACF of the prices and amount. In almost all cases, the prices to be paid by farmers are lower than the NACF purchasing prices. The difference is covered by government subsidies intended to boost rice production and farmer's income. Under the current system, the government has no other option but to suffer snowballing deficits in its fertiliser management account because it is obliged to take over fertilisers in excess of demand on the basis of the contracts with fertiliser manufacturers. As for ammonium sulphate which is not under the government policy control, the NACF is free to determine the purchasing and supply prices after accounting for the incidental expenses involved.

## (2) Pesticides and other chemicals

Up until 1980, the NACF had supplied agricultural chemicals for rice plants as one of its own cooperative purchasing business. But it implemented the business strictly under the government demand and supply programme. Under the circumstances, the project had become similar to a government-entrusted project. In 1970, the NACF received one billion Won appropriated from the government chemicals fund, and could alleviate an acute financial squeeze in its chemicals supply project. At the end of 1977, the chemical management law was revised and the NACF was forced to keep a chemicals management special account, separately from its own account. Under the chemical account management guidelines formulated by the MAFF, the purchase and supply of chemicals for rice plants became a government entrusted project.

The government determines the amount of chemicals to be purchased and supplied, based upon its own chemicals supply and demand programme and the recommendations from the regional plant protection councils. The NACF then determines the purchasing prices of chemicals based upon the government guidelines and through contracts with manufacturers. The handling commission fees are added to the prices to be paid by farmers. Operating losses from the irrecoverable interest free credit supplies of chemicals for joint prevention and stockpiles against

contingencies are also covered by subsidies from the government chemicals management account. In this respect, chemicals are subject to the government price subsidy programme. The amount of weed killer, horticultural chemicals and other to be purchased, being handled as one of cooperatives own projects, is determined upon the request from the farmers or at the cooperative's own discretion, and the purchasing prices are determined through contracts with manufacturers. Of course, incidental expenses are added to the final prices to be paid by farmers.

### (3) Farm Machinery

Agricultural cooperatives have played an important role in promoting the agricultural mechanisation programme. Since farm machinery began to be supplied on a large scale by manufacturers in 1974, they supplied more than 90% of the total machinery produced. They also extended all the long and medium term loans to finance purchases, and even open their own after sales service centres for financial reasons. Therefore, agricultural cooperatives have played a leading role in supplying farm machines, extending credit and in rendering after sales services.

Farm machinery was supplied through two channels in 1981 : the cooperative and the manufacturers. Beginning in July 1982, the later became the exclusive suppliers. Since September 1984 some primary cooperatives have been allowed to supply against some specific farm machinery on a limited basis.

According to the government policy change in September 1984, only those primary cooperatives equipped with after sales service centres are allowed to supply upto 40% of the requirements in specific regions. This partial allowance seems to have been intended to ease criticisms from the cooperative member farmers against the exclusive right given to manufacturers.

### (4) Feedstuffs

The NACF feed supply business started with feed imports in the 1970s. It also built a few feed manufacturing plants in Pusan, Inchon and Kunsan with a combined annual production capacity of 180,000 tons. The cooperative feedstuffs sales reached 41.7 billion Won in 1975 and 76.4 billion Won in 1978 and the succeeding NLCF in 1981, however, dealt a serve below to the NACF feedstuff project. But the expanded supply of feedstuffs by agricultural cooperatives was deemed essential to support the full-time livestock farmers in areas where livestock cooperatives were not organised as well as part time livestock farmer members. The NACF concluded supply contracts with feed manufacturers and began to handle feedstuffs in 1984. Total supplies reached 136.4 billion Won in 1985.

## (5) Other Materials

In addition to fertiliser, chemicals, farm machinery and feedstuffs, cooperatives handle split bamboo, seeds, seedlings, P.E. films for agricultural use, P.P bags and oil. Domestic production of split bamboo is not enough to meet domestic demand and the NACF imports annually a considerable amount of split bamboo from Japan to meet the domestic demand. It also supplies the seeds of rice, barley, corn and potatoes, all recommended by the government, to those farmers who want to grow them through contracts with the National Seed Supply Office. The NACF imports seeds of high-yield strains of garlic, onion, malting barley and other crops, or purchases them directly from farmers.

The supply of tax exempted oil is handled by all primary cooperatives across the country as a NACF entrusted project and even taxed oil is supplied by primary cooperatives operating their own oil supply stations.

### 5) *Effects and future improvement of farm input purchasing business*

#### (1) Effects of Farm Input Purchasing Business

- i. Farmers patronized their cooperatives through the purchasing business which in turn help improve their understanding of the importance and necessity of the cooperative organisation.
- ii. The business contributed greatly to promoting the merger programme of village cooperatives and to laying down a firm business foundation for the interested primary cooperatives at the town or township level.
- iii. The stable and timely supply of production inputs contributed a great deal to the increased production of staple foodgrains whose domestic self-sufficiency had long been the focus of the government agricultural policy.
- iv. The supply of production materials at reasonable prices also contributed to farmers' increased incomes.
- v. The cooperative purchasing business contributed to price stabilisation and fair trading practices in the rural areas.

#### (2) Future Improvement of Farm Input Purchasing Business

- i. The NACF and member cooperative should enter the production process by themselves. Along with the nation's economic development the production of farm inputs most likely will be monopolised by a few large business groups. This may make it difficult for the NACF to purchase quality input at low prices and supply them on timely basis.

- ii. The NACF and member cooperatives should further strengthen their purchasing and supplying capability for such promising farm inputs as oil, feedstuffs, construction materials and greenhouse farming requisites to meet growing demand.

## 6. Purchasing Business for Consumer Goods

The consumer goods supply business of the NACF and its member cooperatives has greatly contributed to rationalising consumption life in rural areas, to improving marketing channels and to stabilising prices by providing consumer goods of high quality at reasonable prices. The consumer goods are channelled through chainstores run by the primary agricultural cooperatives.

The NACF enlarged and modernised the facilities of the central distribution centre to meet the rapidly increasing demand for consumer goods handled by the NACF. Simultaneously, the NACF moved its distribution centres in province to new locations and renewed other facilities to improve efficiency.

The cooperative chainstore system, with its direct link with manufacturers, contributes to substantial savings in farm family expenditures and to higher standards of living. The chainstores run by agricultural cooperatives serve as rural department stores, supplying a wide variety of quality consumer goods to member farmers at competitive prices.

The total number of chainstores stood at 2,050 at the end of 1993. The major consumer goods handled included foods, clothing, kitchenware, sanitary goods, housing materials, stationery, etc. The total consumer goods supplies reached 980 billion in 1993.

**Table : Supplies of consumer goods (in billion Won)**

<i>Year</i>	<i>1980</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>
Primary coop	706	928	1,151	1,277
NACF	576	729	891	980

### 1) *Historical Development*

#### (1) Early Purchasing Business for Consumer Goods

Farmers as cooperative members are both producers and consumers. The cooperative

purchasing business for consumer goods may be regarded as a business in which farmers patronize their cooperative as consumers.

Despite the nation's economic development and rising national incomes, the consumer protection or consumer cooperative movement in Korea have not been sufficiently active. It was only in recent years that the laws governing the consumer cooperative movement and fair trading practices have been enacted.

Due to the production-oriented way of thinking among the farmers and their semi-subsistence farming structure, there was no room for such a consumer protection movement in the rural areas. Farmers had been forced to deal with traditional markets and suffer great losses in their family budgets.

Since its establishment in 1961, the multipurpose cooperatives have carried out the purchasing business for consumer goods to protect farmer consumers. Small sales stores were set up at many village cooperatives and a variety of consumer goods were supplied to farmers. But due to a host of constraints stemming from insufficient operational funds, inadequate management skills and poor understanding of the business on the part of farmers, however, the business did not produce tangible results in the 1960s.

## (2) Introduction of a Chain-Store System

With changes in the farmers' consumption patterns and many marketing innovations, the importance of and the need for cooperative efforts to supply consumer goods to farmers and function as consumer cooperatives in the rural areas began to be emphasised in the latter part of the 1960s. To comply with the need, the NACF introduced a nationwide cooperative chain-store system to innovate the project of supplying consumer goods. The reason behind the decision to adopt the chain-store system may be summarised as follows :

- (i) Changes in the farmers' consumption patterns : The consumption patterns in the rural areas were in the process of drastic changes in the latter 1960s. Farmers' incomes increased sharply as a result of the successful implementation of the two consecutive five-year socio-economic development plans. The level of consumption of farmers improved greatly and an increasing number of farmers needed cash in their household consumption expenditures. At the same time, a variety of consumer goods began to flood to the rural areas. Under the circumstances, the need for strengthening the cooperative functions in supplying consumer goods was emphasised more than ever before.
- (ii) The need to change the marketing system : The marketing system prevailing at the end of the 1960s was so underdeveloped that consumer goods were



distributed by only one retail store in a village with 10 households. Farmers, as well as the producers of manufactured goods, were ineffective in protecting consumers and encouraging the consumer cooperative movement in those days, and so the consumer goods markets in the rural areas and in the farm household economy risked falling victim to the large business groups. Therefore, the need arose for the NACF to strengthen and systematize its consumer goods supply functions.

- (iii) Merger of cooperatives and the need for new ventures : Several major factors acted favourably for the new venture to succeed as a business. First, as the village level cooperatives were merged into the town or township cooperatives, the volume of daily necessities purchased by their members became increasingly greater.

Secondly, the funds needed for the new project became more readily available due to increasing member capital subscriptions and deposits in the mutual credit account.

Thirdly, a large number of cooperative officers and staff received educational and training programmes to improve their skill in the management and operation of their cooperatives. As the business of the primary cooperative expanded, their financial status improved to such an extent that they could afford to pay adequate salaries to their staff members and employees.

- (iv) Improved understanding of cooperatives among farmers : Whenever the cooperative ventures into a new project, it inevitably has to face many opponents with vested interests. Through a variety of educational and training programmes, the farmer members began to learn that their support of cooperative activities was strong enough to cope up with various challenges, especially from many competing retail shops in the rural areas. This was the background behind the successful implementation of the new cooperative venture into the rural consumer goods market.

### 3) *Effects of Purchasing Business for Consumer Goods*

#### (1) Introduction of the chain-store system

The chain-store system developed by foreign private enterprises as a new management technique, was first introduced to Korea by the agricultural cooperatives. The cooperative chain-store has contributed greatly to the development of the nation's retail distribution industry.

## (2) Coordination of Multipurpose Cooperative Functions

Business has been pushed forward with a view to upgrading the cooperative management efficiency by coordinating its various functions. Business was worked out as a single consumer cooperative activity, but was carried out by taking advantage of and integrating other cooperative functions, making it possible to increase the business efficiency in terms of organisation, finance, manpower and facilities.

## (3) Linkage between the NACF and Primary Cooperatives

The consumer goods supply business was carried out in close cooperation between the NACF and primary cooperatives. This strategy was aimed at improving the operational efficiency of chain-stores by promptly and accurately distributing the goods and information between the NACF and chain-stores.

## (4) Adoption of the Active Pricing Policy

The NACF had to adopt the active pricing system in which daily necessities were offered at prices higher than the costs involved but lower than the prevailing market prices. By doing so, the cooperatives tried to attract as many members to chain-stores as possible, avert possible friction with private retailers, and accumulate the capital needed for surplus dividends, the depreciation of fixed assets and for the expansion of the business.

(5) The business contributed to the promotion of farmers' incomes and welfare. Consumer goods were purchased and sold in large quantities, and the distribution channel between consumers and manufacturers was shortened with sharply reduced incidental expenses.

(6) The business contributed to the development of the agricultural cooperative movement. Rural women's participation in the chain-store business helped expand the cooperative movement to the family members of each farm household and enhanced the social status and roles of rural women.

(7) In terms of the national economy, the successful operation of the cooperative chain-store system has brought about subsequent innovations in the distribution system in the rural areas.

# **The Financial Business of NACF and Primary Cooperatives \***

## **Introduction**

The NACF and its member cooperatives conduct financial business to mobilise and supply funds to satisfy the farmers' financial needs, to support the other cooperative business activities, and to finance regional development. We will call the business system as the Agricultural Cooperative Financial System (ACFS).

The Korean ACFS is a very unique model in comparison with those of other countries, especially different from Japanese system. The Korean rural society was a very poor deficit sector. Government, however, pursued the economic development policy focusing on the manufacturing sector. This situation lead us to choose the new strategy, the present system.

The system has been successful compared with the other competitive financial institutions. It has also played a major role in the development of rural finance. We may well say that ACFS means the rural financial system of Korea. Here we are going to introduce the characteristics of the system and its performances with emphasis on the strategies.

## **Historical Overview**

### **Before the Present System**

There had been various kinds of cooperative groups or activities in the rural area. Most of them were the village-level private associations like Kye to meet the financial needs of farmers. But those could not solve the financial problems of the

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\* by Mr. Kyoung-Soo Change, Deputy Director General, Research Department, NACF.

rural area because the members themselves were poor. Moreover, the Land Reforms in 1949 produced lots of small farmers owning their land but without funds. This made farmers fall into the hands of money lenders.

To ease the financial distress, government established the Agriculture Bank in 1956 as a private bank specialising in agricultural finance. This bank did not operate as it was expected to. One of the reasons was that as a profit-oriented bank it was reluctant to supply funds to the relatively risky rural sector with no sufficient collateral. Another reason was that it had some constraints to acquire the long-term funds.

To solve these problems, the government transformed the Agriculture Bank into a special bank in charge of agricultural finance supported by a special law in 1958. The bank could expand the agricultural loan with the funds it borrowed from the Central bank (BOK) and performed better in channelling the government funds to farmers. However, the fundamental problem of the rural finance left unsolved. The amount of the money from the bank was far from being sufficient to be independent of the private money lenders.

The more serious problem was that the Bank and the agricultural cooperative organisation did not work together well. The latter organisation was doing the marketing businesses of agricultural inputs and outputs. Without the close financial cooperation between the bank and cooperative organisation, the marketing business and extension activities operation suffered from lack of money.

### **The Present System**

With this background, the final solution was to introduce a new system - a cooperative-based financial system - combining the Agriculture Bank and the (old) Agricultural Cooperative. The new system started in 1961 when the NACF was established by the Agricultural Cooperative Law. The new system was comprised of the NACF, 140 county (kun) cooperatives, 101 special product cooperatives, and 21,042 village cooperatives. The county cooperatives had 383 branch offices.

For administrative stability, NACF started the merging of the small-scale village cooperatives into myon-level Primary Cooperatives (PC) in 1969. The number of the cooperatives decreased to 7,525 at the end of 1969; 1,567 at the end of 1972. The average number of member farmers per cooperative became 1,331 in 1972.

Along with the merging of the primary cooperatives, NACF helped the merged primary cooperatives to take up the financial business - the mutual credit based on the cooperative spirit of mutual help. Later the mutual credit was considered credit union business by the Credit Union Law of 1972.

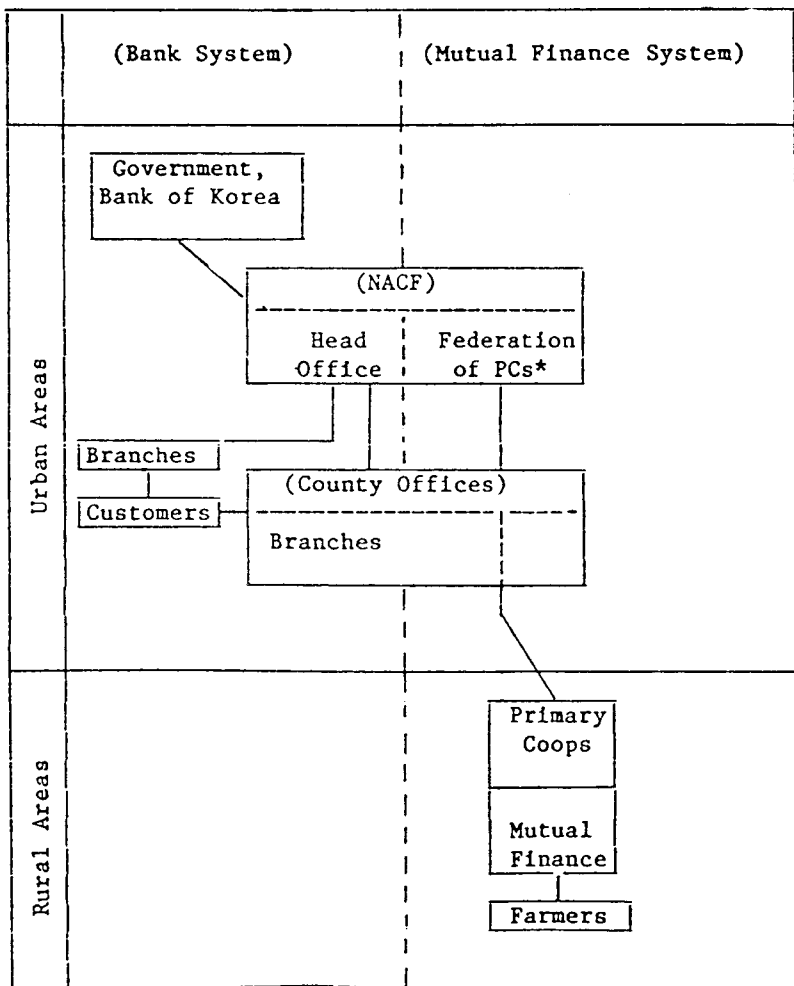
# The Operational Structure of ACFS

## Dual Financial System

As figure 1 shows, the financial system is composed of two systems in one organisational setting covering rural and urban areas. One is the financial business of the NACF. Another one is the financial business of the primary cooperatives. We will call the first NACF Bank and the latter PC's MC.

Figure 1

The Structure of Agricultural Cooperative Financial System



## **NACF Bank**

The NACF, which has a head office and 661 branches now, is considered a bank by the Bank Law. Like a commercial bank, it is conducting the various financial operations allowed by the Bank Law such as accepting deposits, lending loans, providing trust service. And also NACF is a special bank for agricultural and rural finance by the Agricultural Cooperative Law (see figure 1-a).

The NACF Bank specialises in agricultural finance for the farmers to financing farming and other agricultural projects. NACF Bank, as other special banks do, receives government funds and BOK funds as its financial sources. In supplying the agricultural credit to farmers NACF Bank works with PC's MC just like one financial institution. NACF Bank deals with financial sources such as government and BOK the Bank of Korea, and PC's MCs function as outlets for agricultural loans.

## **PC's MC**

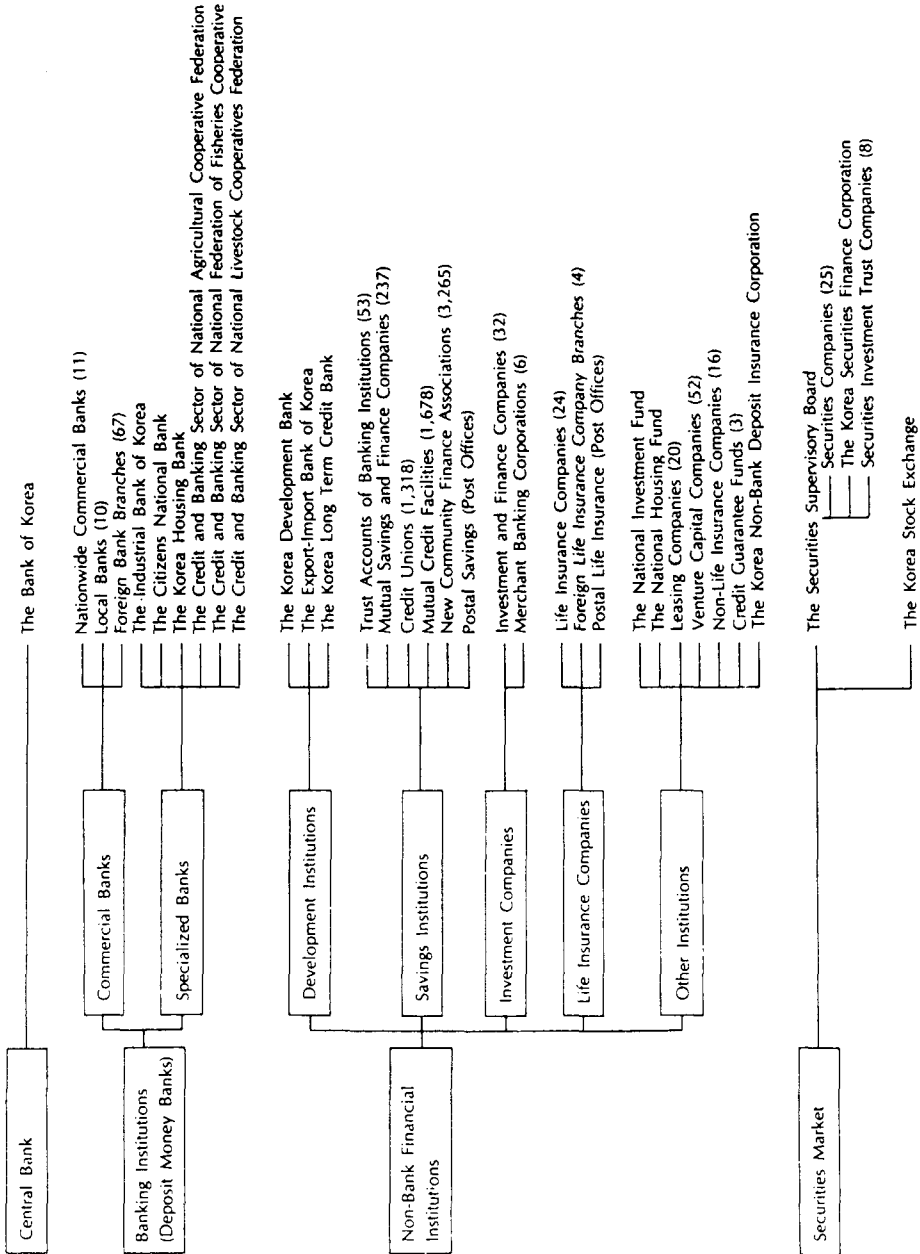
The financial business of PC is the mutual credit business. Only MC might be called the cooperative finance from the perspective of the credit cooperative. Each cooperative is considered a credit union by the Credit Union Law. So, there are 1,360 credit unions (with their branch offices of 1,299). For the credit union business, the head office of the NACF (the Mutual Credit Special Account) functions as a central bank.

The credit unions, one form of the non-bank financial intermediaries, have been organised as cooperative associations in churches, offices, and other private groups in order to facilitate financing for their members and to promote mutual economic benefits. The customers are the members who are usually the low-income urban people or the rural farmers. Therefore, their business is restricted but gets some concessions such as tax exemption for the deposits, favourable interest policy treatment as later mentioned.

The business area of MC is restricted to the townships (myon) and the scope of the business is narrower than that of a bank. MC can accept deposits and lend the loans but cannot provide some bank services such as the check account, trust services, foreign currency-related business. However, MC have enjoyed some advantages as compared with banks. It is relatively free from monetary control and can set a little higher interest rates for its deposit products.

Figure 1-a

Financial Institutions in Korea



Note : Figures in parentheses represent the number of institutions.

The figure 2 shows the differences and similarities of the two financial institutions.

Figure 2

**The Comparison of the Financial Business of NACF and PC**

	<i>Banking of NACF</i>	<i>Mutual Credit of Cooperative</i>
classified as	depositive money bank (specialised bank).	savings institution (mutual credit union)
governing law	the bank law -	the credit union law -
products & services	demand deposit, time deposit, instalment deposit, check account, CD.	demand deposit, time deposit, instalment deposit.
	borrowing from BOK borrowing from Govt.	borrowing from NACF
	loans, policy loans discounts securities deposit with BOK trust	loans, policy loans   deposit with NACF
	credit domestic exchange foreign exchange	credit domestic exchange
business area	nationwide	myon
reserve	to BOK (11.5%)	to NACF (10%)
rate (deposit)	1-year : 8.5%	1-year : 9.5%

Source : NACF



## The Sources and Uses of Funds

### NACF Bank

The table 1 shows the funds raising and their uses in banking business of NACF. The largest source of the funds is deposits from customers in urban area including deposits from the regional administrative offices of government. The next largest portion of funds comes from government and BOK for agricultural policy loans.

With most of the funds raised, NACF makes the loans; seventy per cent of the loans are provided for farmers and agriculture-related business and the rest 30 per cent for urban customers. About ten per cent of the funds are supplied to the non-financial businesses of NACF. And the rest of available funds can be used for investment in securities bonds.

Table 1  
B/S for Banking Business of NACF

單位：億圓 100 million won

年月末 End of	運 用 Utilization					總 計 Total	調 達 Resourcement					
	貸出金 Loans	現金 契 支 準 Currency, checks Due from B.O.K ect.	他會計 貸 越 Loans for other Sectors	有 價 證 券 Securi- ties	其 他 Others		預受金 Deposits	借 入 金 Borrowings			其 他 Others	
								政 府 Borrowed from Govt.	韓 銀 借入金 The Bank of Korea funds	其 他 借入金 Borrow- ings ect.		
1986	32,711	4,982	6,730	4,085	6,266	54,774	32,761	16,688	13,340	926	2,422	5,325
1987	44,216	4,745	8,237	6,966	10,627	74,791	45,915	24,259	18,077	3,339	2,843	4,613
1988	54,335	13,283	12,159	8,084	5,185	93,046	54,279	33,757	24,420	5,979	3,358	5,010
1989	67,216	14,682	11,494	6,541	16,646	116,579	70,563	39,123	29,290	5,843	3,990	2,903
1990	80,925	17,850	12,596	7,309	26,983	145,663	92,722	41,944	35,175	3,108	3,561	7,536
1991	92,122	21,613	14,788	13,250	24,909	166,682	113,500	47,372	39,045	3,000	5,327	5,810
1992	103,991	21,765	19,433	24,198	26,830	196,217	124,986	52,560	42,539	3,676	6,345	18,671
1993. 5	120,902	20,913	18,809	16,867	10,712	188,203	115,168	59,991	43,028	9,567	7,396	13,044
6	122,569	24,020	18,629	17,120	8,649	190,987	116,801	60,466	43,218	9,653	7,595	13,720
7	124,925	20,769	19,977	17,476	9,277	192,424	118,869	60,352	43,078	9,607	7,667	13,203
8	126,624	21,030	20,205	20,281	7,795	195,935	122,276	61,505	44,099	9,627	7,779	12,154
9	128,550	22,022	21,088	20,406	9,003	201,069	124,605	61,612	44,160	9,675	7,777	14,852
10	128,475	18,336	20,661	20,430	8,475	196,777	119,990	61,690	44,450	9,509	7,731	15,097
11	127,917	19,869	20,538	22,699	13,905	204,928	129,006	60,465	44,759	7,961	7,745	15,457
12	119,921	26,297	22,673	26,598	24,612	220,101	140,797	55,749	44,521	3,595	7,633	23,555

### PC's MC

The sources and uses of the Mutual Credit are shown in Table 2. Over 90% of the funds are raised by the deposits of the member farmers and non-member residents (non-member customers' deposits should be less than 30% of the total deposits of each cooperative). The borrowing comes only from NACF (the social account for Mutual Credit).

Just as the sources of MC are simple, so are its uses. 65% of the funds are used for loans to member farmers and non-member customers (the 30% limit applied also). The surplus funds are deposited with NACF (in the special account) for the required reserve and investments. The Mutual Credit of a cooperative also supports the non-financial business of the cooperative.

Table 2  
B/S for Mutual Credit of Primary Cooperatives

단위 : 億원 100 million won

年 月 末 End of	運 用 Utilization			總 計 Total	調 達 Resourcement		
	貸 出 金 Loans	現金 및 預置金 Cash & Due from N.A.C. f	其 他 Others		預 受 金 Deposits	借 入 金 Borrowings	其 他 Others
1 9 8 5	25,322	11,076	3,447	39,845	35,222	2,712	1,911
1 9 8 7	36,186	18,910	1,944	57,040	51,072	3,974	1,994
1 9 8 8	49,366	23,169	3,280	75,815	68,789	4,951	2,075
1 9 8 9	62,578	24,334	5,797	92,759	85,923	4,694	2,142
1 9 9 0	84,285	33,735	6,473	124,493	115,199	7,028	2,263
1 9 9 1	57,959	37,591	10,251	145,801	130,396	8,443	6,962
1 9 9 2	129,943	52,926	20,317	203,186	184,958	10,048	8,180
1 9 9 3 . 5	146,068	53,458	13,701	213,227	197,718	13,568	1,941
6	147,682	54,860	12,461	215,003	199,349	13,619	2,035
7	150,278	55,402	12,040	217,720	202,909	12,866	1,945
8	152,630	55,489	11,338	219,457	204,168	13,351	1,938
9	154,998	56,565	13,672	225,235	210,353	12,894	1,988
10	156,123	57,794	12,670	226,587	213,012	12,583	992
11	157,281	58,914	14,452	230,647	217,084	12,420	1,143
12	156,593	60,936	22,619	240,148	220,874	11,296	7,978

註 : 1) '92년 4월부터는 특수조합분 포함됨. Note : 1) Includes amounts of the Special Agricultural Cooperatives since april 1992

## MCSA

The MCs' Special Account (MCSA) functions as a head office as well as a central bank for MCs. As a central bank, MCSA impose the reserve requirement on deposit liabilities of MCs, control the credit ceilings and conditions of lending, set maximum interest rates on deposits and loans. Another important function as a central bank is the supervision for the sound operation which is performed by the special account with the help of the auditor's office and inspection dept. of NACF.

MCSA, as a head office, makes and implements strategic plans for MC's operation, and provides promotions and advertisements for MCs. It accepts the deposits from MCs which have surplus funds and makes loans to MCs which need outside funds. It can make investments in securities with excess deposits from the MCs (see table

3). And it develops new deposit and loan products, improves the procedures, and develops new operation systems such as computerisation.

**Table 3**  
**The Sources and Uses of the MC Special Account**  
 (Billion Won : as of the end of June 1994)

<i>Sources</i>		<i>Uses</i>	
required reserve from MC	2,180.1	loan to MC	1,129.6
time deposit from MC	3,578.4	investment in security	1,524.2
		rice bought	119.8
		others	266.6
total	5,758.5	total	5,758.5

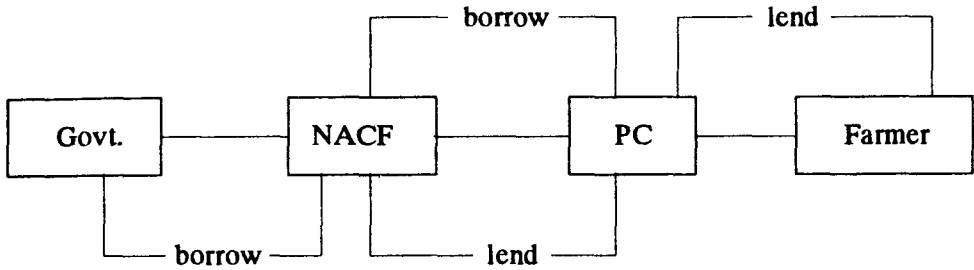
Source : MCSA

### **Agricultural Finance**

The financial business of ACFS should be called "Agricultural Finance of Korea" in a broad sense, but we are using agricultural finance in a narrow sense to indicate the agricultural policy loan in this paper. Then the agricultural finance means the policy loans for agriculture or farmers and the financial mechanism for the loans.

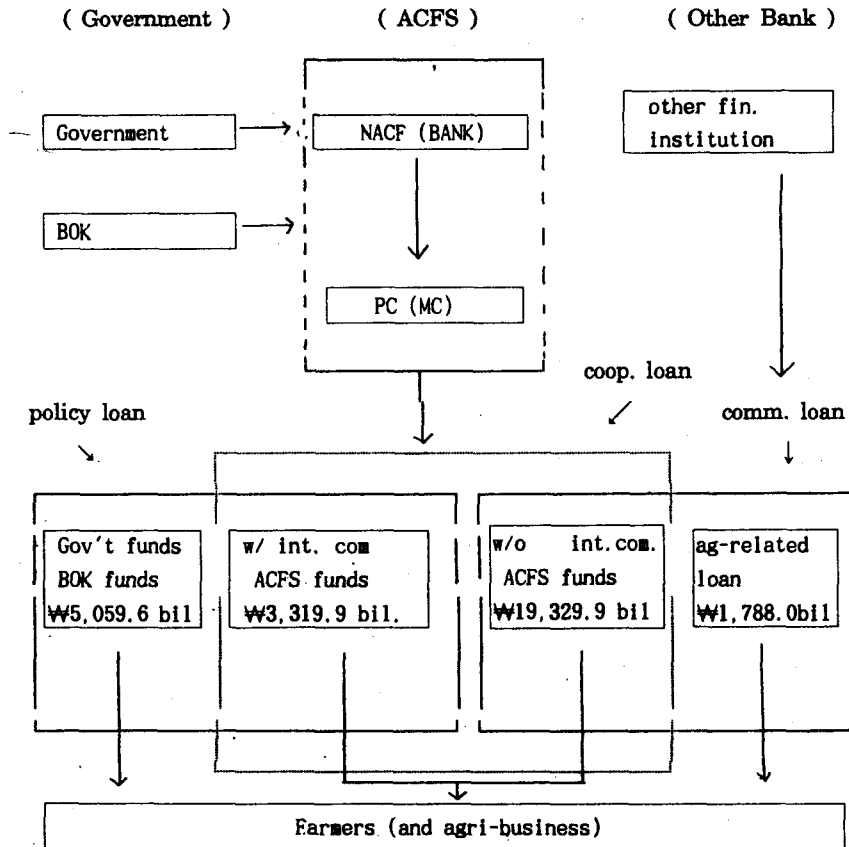
### **Mechanism**

As a special bank for agricultural finance, NACF is in charge of the financial business related to agricultural policy loans. In the whole process of lending and collecting loans, NACF and PCs are working in unison like one institution. In the past when the PCs were immature in financial business, the NACF had the responsibility of the loans and PCs played only as agents (brokers). Now PC is processing the lending operation on its own responsibility as an independent institution.



The sources for the policy loans are the government, BOK, and NACF Bank (and now sometimes the MCAS). When NACF Bank and PC's MC supplies funds for policy loans, government compensates for the spread between the normal lending interest rate and policy loan interest rate. In 1960s, the policy loan was funded only by government and BOK. Entering 1970s, NACF Bank began to put in the money to increase the agricultural loan. From the early 1980s, the funds of PC's MC has been included in the policy loan to expand the low interest rate loan.

Figure 3  
Flows of Agricultural Finance (as of the end of 1993)



## Pooling Funds

Among the agricultural loans, the typical one is the short-term production loan which shows how the funds of different sources are pooled well. The loan consists of funds from government, BOK, NACF, PCs. The interest rate farmers pay is 5%, but the opportunity costs of the NACF funds and PC funds are 12.5%, 14% respectively. The rate spreads, 4.36% between the opportunity costs and loan rate to farmers are compensated by government as Table 4 shows. Another important policy loan is farm mechanisation loan. 51 per cent of the loan amount was funded by NACF in 1992.

Table 4

Source and Rate of Short-term Production Loan (1992)

<i>source</i>	<i>amount</i> (bil. Won)	<i>share</i> (%)	<i>interest rate</i> (%)
Government	500	21.0	5.0
BOK	850	35.0	7.1
NACF	850	35.0	12.5
PCs	200	9.0	14.0
Total	2,400		

Loan rate (to farmers) : 5.0%

Interest rate spread compensation: 4.37%

The compensation rate is applied to the total amount of the loan.

## Lending Procedure

The lending procedure is very important because it affects the transaction costs and the productive use. The low transaction costs lower the financial burden on farmers and enhance the competitiveness of the ACFS. The productive use is the final end of the policy loan and decrease the possibility of default.

The procedure of the short-term production loan is as follows :

- \* A farmer who wants to get the loan tells the village leader how much he/she needs;
- \* After the village leader decides the total amount for the village after conferring with other leaders, he sends the application to PC;

- \* PC consults the loan committee members to decide the appropriate amount for each village within the total loan funds allocated to the PC from NACF. Then PC informs each village leader of the decision;
- \* An employee of PC visits a village and makes the loan contracts with individual farmers. Completing the contract farmers can get the money on the spot; and
- \* At the end of the year the employee of PC visits the village again and collect the matured loan.

In this way, farmers do not have to come to PC office even when they repay the loan. Therefore, farmers pay almost no transaction costs. If each farmer has to come to the office individually, the cost will be very high taking into account the small loan amount of about 2 million Won. Besides, the transparency of the process, which the collective procedure can give, ensures the fair distribution of the concessional loan.

As to the long-term loan, the productive use should be emphasised. So the procedure for the machinery loan is different from that of short-term loan. A farmer goes out to choose a farming machine at a machinery shop and gets the promise of the shopper to supply the machine. With this promise, PC makes a loan contract with him for purchasing the machine. The loan fund goes not to the farmer directly but to the shop to pay for the machine. Then the farmer can get the machine from the machinery shop.

Therefore, there is no way for a farmer to mis-utilise the money. The transaction cost (rate) might be higher than that of the short-term loan. The cost per year, however, will be small because the loan is long-term.

### **Loan Guarantee**

The loan guarantee system for agricultural finance is to help the small farmers who do not have enough collateral to get the agricultural loan. The loan guarantee system for farmers and fishermen was introduced in 1972 with contributions from government and NACF. The guarantee funds have been operated by NACF.

Agricultural loans, 15 times as much as the fund, can be guaranteed. The guarantee premium per year is 0.5 per cent for the loan of maturity less than three year and 0.3 per cent for the loan of long-term loan.

Government has increased the contribution and later NACF and NLCF participated in contributing the funds. In 1993, the funds of guarantee system reached Won 172.6 billion and the outstanding of agricultural loan guaranteed by the funds amounted to Won 2,358.4 billion.

## Performance of the ACFS

### Growth of Deposits

As you see in Table 5, both the NACF bank and PC's MC have increased the deposits to become the biggest financial institution as a whole. Especially, the growth of the MC deposits is a dramatic success story in financial industry considering that the PC is not a fancy place for deposit customers and the rural society is not an attractive deposit market.

The average annual rate of increase can be calculated from Table 5 as follows :

	PC's MC Deposit	NACF Bank Deposit	Consumer Price Index
1975-85	39.84%	26.63%	12.1%
1985-93	30.48%	15.86%	5.9%

The growth rate is very high even though we take into account the inflation rate. MC deposit has grown faster than that of NACF Bank. As a result, MC deposit has outgrown the deposit of NACF bank since the middle of 1980s. NACF bank is the third largest bank among twenty nationwide banks, having about ten per cent of the deposit market share. If MCs are postulated as an integrated financial institution, they become the largest one among all financial institutions in Korea.

Table 5  
Growth of AC Deposits

year	PC Mutual Credit				NACF Bank		A/B
	Deposit		Loan		Deposit		
	Amount (A)	Growth Rate	Amount	Growth Rate	Amount (B)	Growth Rate	
	₩ bil.	%	₩ bil.	%	₩ bil.	%	%
1975	91.9	5.9	41.9	22.9	259.5	20.2	35.4
1980	823.8	37.7	528.0	66.7	1,172.1	16.8	70.3
1985	2628.3	23.7	1,855.6	17.1	2,751.8	20.8	95.5
1990	11,600.3	34.8	8,475.6	35.4	8,092.5	20.4	143.3
1991	14,818.4	27.7	10,854.8	28.1	9,212.2	13.8	160.9
1992	18,495.7	24.8	12,994.3	19.7	10,399.1	12.9	177.9
1993	22,087.5	19.4	15,659.2	20.5	11,992.1	15.3	184.2

Source : NACF

## Expansion of Credit

It is natural that the loans to farmers grew as the deposits of MC increased. The total MC's credits have grown 373 times from 1973 to 1993 and 30 times from 1980 to 1993. The rural MCs could increase credits a little faster because the urban MC supplied surplus funds to small rural MC through MCSA.

More important credits are agricultural loans to farmers because of concessional interest and/or long-term maturity. Table 6 shows the trend of the short-term and long-term policy loans for farmers. The short-term loans are usually for the rice production. The interest rate is 5% per annum and the maturity is less than one year. The loan amount is covering 35% of the total rice production costs.

Table 6  
Agricultural Policy Loans

Unit : ₱bil.

Year	Short term funds		Long term funds		total	
	Yearly	Balance	Yearly	Balance	Yearly	Balance
1975	92.2	59.7	46.4	117.2	138.6	176.9
1980	345.0	168.3	268.6	704.5	613.6	872.8
1985	771.3	283.8	478.8	1,802.5	1,250.1	2,086.3
1990	2,400.0	781.6	1,365.1	5,185.6	3,795.1	5,967.2
1991	2,400.0	779.8	1,591.0	5,912.6	3,991.0	6,692.4
1992	2,400.0	824.8	1,659.9	6,723.9	4,055.9	7,548.7
1993	2,450.0	881.8	1,647.2	7,444.2	4,097.2	8,326.0

Source : NACF



From early 1980s, government tried to mechanise the rice production and to increase the sources of agricultural income. For this purpose the medium and long-term policy loans have expanded since then. Among them farm mechanisation loan is a typical one having proved successful. The interest 3-8 per cent per annum and the maturity is 7-10 years. Now government is pursuing the policy restructuring of agriculture and rural society to overcome the international competition. Therefore, the long-term loans are expected to expand rapidly in the near future.

### Farmers' Financial Condition

As a theory says, the rural society suffers from capital rationing of the commercial financial institutions. Korean farmers also underwent the same problem. Without enough institutional finance farmers had to depend on the private money carrying high interest. From table 7, we can understand how severely the private money lenders exploited the helpless farmers.

Table 7  
Interest rate of Private Money

Unit : % per annum

Year	1st qtr	2nd qtr	3rd qtr	4th qtr	MC loan rate
1972	-	54.0	-	54.0	22.5
1976	52.8	40.8	39.6	39.6	17.0
1980	43.2	46.8	44.4	46.8	14.5
1984	28.8	28.8	27.6	28.8	14.5
1988	21.7	22.1	21.8	21.8	14.5
1990	20.5	21.5	21.4	21.0	14.5
1991	21.4	21.2	20.5	21.1	14.5
1992	20.8	20.5	20.4	20.8	14.5
1993	20.5	20.1	20.0	19.5	12.5

Source : NACF

Until the end of 1970s, the private money lenders were the dominant suppliers of funds covering over 50% of the fund demand in rural society as shown in table 8. Entering 1980s, MC began to outdo the money lenders in rural financial market. Surprisingly, MC's share in rural credit market has increased to 80% in ten years after that. And the money lenders' position has been weakened.

**Table 8**  
**Farmer's Borrowings by Source**

Unit : %

Year	Total	NACF & PC	Other Institution	Money lender
1970	100.0	31.3	6.2	62.5
1975	100.0	30.3	6.1	63.6
1980	100.0	48.7	2.4	49.0
1985	100.0	66.1	5.1	28.8
1990	100.0	81.5	4.7	13.8
1991	100.0	80.7	5.7	13.6
1992	100.0	80.2	7.6	12.2
1993	100.0	86.4	5.4	8.2

Source : Ministry of Agriculture, Fishery and Forestry

Several reasons account for this situation. First, the cooperative movement and education helped farmers to participate in the cooperative business. Secondly, financial factor is considered to be more important. The increase of MC funds of low interest rate has freed farmers from the private money carrying high interest rate. The relatively higher interest rate of MC deposit also motivated the money lenders to use MC for their financial investment instead of the risky private loans.

The ratio of borrowing over financial assets of farmers gives us some information about the rural financial market. Table 10 shows that the rural society required outside funds. But the rural financial market has been changing from a deficit sector into a surplus sector at around 1990. This is the result of increase of the farmer's income and the efficiency of MC in providing the farmers with attractive deposit products and services.

**Table 9**  
**The Structure of Interest Rates** Unit : %

	1975	1980	1985	1990	1991	1992	1993
<Policy Loan>							
Short-term prod. loan	12.0	15.0	10.0	5.0	5.0	5.0	5.0
Ag.. development loan	-	18.5	10.0	8.0	8.0	8.0	8.0
House improvement loan	-	13.0	10.0	8.0	8.0	8.0	8.0
Farm mechanization loan	-	18.5	10.0	5.0	5.0	5.0	5.0
<Loan>							
Bank(=NACF) loan	15.5	22.0	11.5	12.0	12.0	12.0	12.5
Mutual Finance loan	22.0	25.5	14.5	14.5	14.5	14.5	12.5
<Deposit> (1 year)							
Bank(=NACF)	15.0	21.9	10.0	10.0	10.0	10.0	8.5
Mutual Finance	15.5	23.4	11.0	11.0	11.0	11.0	9.5

Source : BOK, NACF

**Table 10**  
**Financial Structure of farmers**

Unit : ₩thousand, (%)

	1985	1990	1993
Financial Assets (A)	1,762	6,526	10,466
Borrowings (B)	2,024	4,734	6,828
A - B	262	1,702	3,638
B/A(%)	(115)	(73)	(65)

Source : NACF

## Profit by Business

The financial business in multi-business cooperatives plays various roles. It is very important as a financial institution itself for farmers as we have discussed so far. Besides it gives energy to other unprofitable but important items of business; profits and funds. As we see in table 11, the financial business of AC is almost the only source of profits of NACF and PCs. In other words, it is indispensable for maintaining AC as a going concern.

Table 11  
Net Profit by Business

1993	NACF		PC	
	Amount	Share	Amount	Share
	₩ bil	%	₩ bil	%
Banking & Credit	37.7	290	285.2	341.2
Insurance	-	-	9.7	11.6
Farm Input	△6.0	△46.2	△95.8	△114.6
Consumer Goods	4.4	33.9	△37.4	△44.7
Ag. Product	△20.4	△156.9	△36.5	△43.7
Processing	△6.6	△50.8	△7.9	△9.5
Warehouse	-	-	9.1	10.9
Transporting & Others	3.9	30.0	△42.8	△51.2
Total	13.0	100.0	83.6	100.0

Source : NACF

# Cooperative Insurance Business of NACF \*

## I. Introduction

The NACF has been engaged in the cooperative insurance service since its establishment in 1961. It has developed cooperative insurance business to compensate farmers and customers under stipulated conditions for any unexpected losses from accidents and calamity, thereby ensuring stability for their families.

Characteristics of cooperative insurance compared to commercial insurance are :

- A. The objective of cooperative insurance is to enhance the welfare of member farmers through stabilising the farmers' life, not to pursue the profit as is the case in commercial insurance;
- B. As a distinct organisational characteristic, the owners of a cooperative are also the users of its business. The margin from the cooperative insurance are returned to the member farmers by dividend and/or through welfare programmes; and
- C. Cooperative insurance business is one of the various activities of the NACF including banking, agricultural product marketing. Therefore, the diversified business portfolio produces synergy effects. Cost sharing with other items of business makes it possible to lower the premium rate of cooperative insurance compared to those of the commercial companies.

In the period before the industrialisation of Korean economy, agricultural sector played the most important role in Korean economy. Therefore, the share of NACF in the life insurance market in 1970 based on the premiums earned was about 17%. However, the total volume of the insurance industry at that time was so small that its share could not be called significant. As the Korean economy becomes

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\* by Mr. Tae-Bong Lee, Division Chief, Research Department, NACF.

industrialised, private insurance companies based on urban area grew rapidly, resulting in the share of the NACF falling to 3.7% in 1990. As the financial deregulation goes on, the number of life insurance companies exploded from 6 in 1986 to 33 in 1993. Five foreign companies and 7 joint-venture companies are included in them.

To comply with the changed environment, the NACF puts the emphasis on the cooperative insurance business to become more active in 1990s. The share of the NACF in 1993 increased to 5.1%. Now a days cooperative insurance has grown to become a competitor of commercial insurance companies.

Cooperative insurance has produced net gains and its volume has been growing. The net gain is used to support other activities of the NACF for farmers.

### Market share in life insurance market (Premiums earned)

*Unit : Billion, %*

Year	NACF (A)	Whole Market (B)	A/B
1970	3.0	17.9	16.9
1975	6.8	74.5	9.1
1980	53.2	656.9	8.1
1985	176.0	4,282.8	4.1
1990	638.6	17,462.5	3.7
1991	798.0	21,131.8	3.8
1992	1,002.9	24,794.5	4.0
1993	1,347.1	26,439.2	5.1

## II. Brief History of Cooperative Insurance Business

### 1. 1960s

When the NACF was established in 1961, it took over the cooperative insurance services for livestock farmers, from the defunct Agricultural Bank, and it embarked on a fire insurance service. The NACF set about seriously introducing cooperative insurance business in 1965 when life insurance business was started. The NACF joined the International Cooperative Insurance Federation in 1969. The basic organisational arrangement was established during the decade of 1960s.

## **2. 1970s**

Primary cooperatives were engaged in selling life insurance policies as agents for city and county cooperatives in 1970. They were allowed to handle directly the life insurance service in 1977. In 1979, the cooperative insurance accident deliberation committee was set up, which was renamed the Arbitration Committee. A rapid quantitative growth of cooperative insurance business was achieved in 1970s.

However, most of the products were the endowment policies with purposes of stabilising the living of the family members and the education of their children if the family head died or was disabled.

## **3. 1980s**

In 1981, the three-tier structure of agricultural cooperatives was reformed into two-tier structure. Hence the NACF and its branches completely suspended handling the life insurance programme. In 1982, the Zillmer-type instalment deposit scheme was replaced by a purely premium-style instalment deposit system in order to raise the rate of refund payment on policy contracts terminated. Financial deregulation prevailed in this decade, which is in vogue to date. Financial market became competitive.

On-line computerisation of life insurance business processing was launched in 1986. A lot of new cooperative insurance products were introduced in 1980s, such as Mugungwha savings insurance in 1982, Group savings and fidelity guarantee insurance in 1983, Accident security and savings security insurance in 1985, etc. Therefore, the product portfolio covered almost all stages of one's life cycle. Most of them are short-term oriented and close to pure savings policies.

## **4. 1990s**

Korean insurance industry is left to a free competitive market in 1990s and a number of private insurance companies, as well as foreign insurance firms emerged. Private firms try to penetrate the rural markets and the NACF enters many urban markets, deepening the phenomenon of market duplications. Life insurance accounts for 99% of total premium earned by the NACF, which means non-life insurance is the minor part in the cooperative insurance business of the NACF. The types of insurance, classified by the purpose of contracts of 1993, are shown below.

Mr. Churll-Hee Won took office as the 16th Chairman and President of the NACF this year. At his inauguration ceremony, he expressed to introduce separate management systems for banking and non-banking sectors including the cooperative insurance business.

Kinds of Insurance by Purpose of Contract (1993)

Unit : Million Won, %

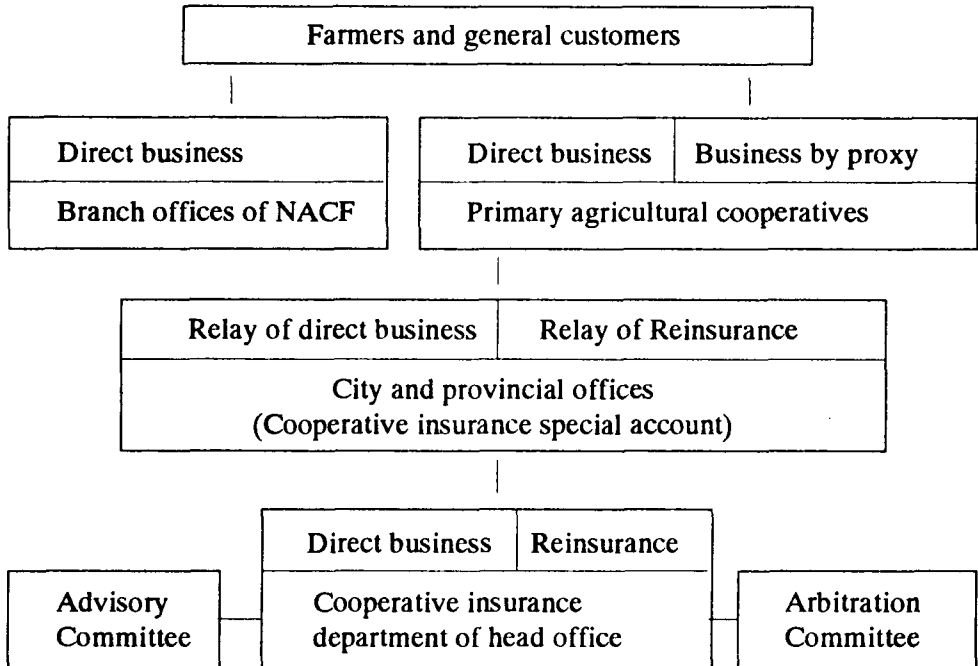
Purpose of contract	Kinds of insurance	Permiums earned	%
Education	Schooling insurance	13,057	0.96
	College insurance	1,061	0.08
Saving	Savings security insurance	817,095	60.18
	Free reserve insurance	182,203	13.42
Stablization of family livelihood	New life insurance	175,904	12.96
	Moogunghwa savings insurance	25,186	1.85
	Whole life inheritance insurance	292	0.02
Stablization of old age livelihood	Old age annuity insurance	33,593	2.47
	Annuity insurance	186	0.01
	Parental health insurance	9,593	0.71
	Security by interest insurance	195	0.01
Provision against accident	Accident security insurance	12,238	0.90
	Farming accident insurance	6,094	0.45
	Cancer insurance	23,254	1.71
	Family insurance	36,302	2.67
Damage insurance	Fire insurance	7,342	0.54
	Long-term fire insurance	2,093	0.15
	Special livestock insurance	1	-
	Fidelity guarantee insurance	551	0.04
	Cash security insurance	667	0.05
	Farm machinery accident insurance	19	-
Others	Group savings insurance	8,116	0.60
	Employee accident insurance	2,742	0.20
	Others	14	-
Total		1,357,798	100.00



### III. Promotion System of Cooperative Insurance Business

#### 1. Promotion System

Cooperative insurance business is carried out through a two-tier structure : primary cooperatives and the NACF. Primary cooperatives, acting as direct underwriters, reinsure all policies with the NACF for the purpose of covering the risks.



The NACF is not only the reinsurer of the insurance contracts completed by primary cooperatives, but also the direct insurer of the policies accepted by branch offices of the NACF. City and provincial offices conduct and relay direct insurance contracts and reinsurance contracts between the NACF head office and primary cooperatives.

Insurance department of the NACF is composed of 6 division and 1 special task force for the education of the insurance.

#### (1) Insurance planning division

It sets up and coordinates insurance business plan. It also controls and manages the insurance regulations.

*(2) Insurance development division*

Introducing new products to meet with the diversified demands of the customers is the main task of this division. It also deals with actuarial business and settlement of accounts, statistical research and analysis.

*(3) Insurance fund operation division*

It sets up and coordinates a plan to manage current assets. It deals with insurance fund management, purchasing, disposition and repair of real estate.

*(4) Insurance promotion division*

It establishes and guides the sales promotion programmes such as public relations, education and training.

*(5) Insurance welfare division*

It plans and manages welfare programmes such as providing policyholder's health care programmes, granting and managing scholarship funds.

*(6) Insurance contract and appraisal division*

It screens proposals of new contracts, underwrites control. It also screens claims and determines payment.

**2. Sales Promotion Activity**

Cooperative insurance sales methods employed by agricultural cooperatives are quite different from those of commercial insurance companies. In sales promotion, agricultural cooperatives make the fullest possible use of their existing organisation and all staff members while commercial insurance companies employ professional sales people. Therefore, cooperative insurance premiums are cheaper than those of commercial insurance companies.

Staff education and training on the cooperative insurance business is one of the most important factors in carrying out cooperative insurance business. The NACF provides lectures for the staff, and also distribute some reference materials to them for their use. The lectures usually cover all sorts of cooperative insurance business including marketing strategy, sales skills and sales promotion activities.

**3. Public Relations**

The cooperative insurance department supports direct underwriters, primary

cooperatives and branch offices of NACF by promoting public relations. The cooperative insurance department avails of mass media such as TV and radio networks, newspapers and magazines for the purpose of enhancing public understanding on cooperative insurance.

Every year, advertising materials such as video tapes, posters, pamphlets, leaflets and circulars are prepared and distributed widely all over the country through the nationwide network of agricultural cooperatives, in order to help primary cooperatives and branch offices with sales promotion.

#### **IV. Welfare Programmes**

Agricultural cooperatives have conducted cooperative insurance business with a view to providing methods of long-term savings as well as compensation for unexpected losses. In addition, cooperative insurance has the function of redistributing its surplus through various welfare enhancing activities. The welfare programmes implemented by the NACF include medical treatment schemes, scholarships, and the operation of recreational facilities.

Under the cooperative insurance medical programmes, primary cooperatives pay member farmers' medical expenses by proxy, thus allowing them to attend hospitals without having to have "cash on hand". Cooperative insurance also provides policyholders with health check-ups free of charge. Scholarships are granted to students whose parents are cooperative insurance policyholders.

#### **V. Future Outlook**

Demand for insurance is increasing a lot as personal accumulation of financial resources by per capita income bulge, drastic increase in occupational disease and accidents due to economic development and industrialisation, growing interests among people in provision for their old age, etc.

On the other hand, there is deepening of sharp and keen competition in the domestic insurance market, caused by invasion of both foreign and local insurance companies into the present market.

The cooperative insurance business of the NACF has been diffused with doing its other related businesses and activities by its own general personnel until now on. However, upon deregulation and open market policy in the insurance industry, effective from 1992, the NACF's cooperative insurance business will have hard time with present way of disseminating insurance and management.

To cope with the challenges of the new environments, the NACF has to expand the scope of its services and to strengthen its competitiveness.

To this end, it is urgent to bring up specialists for insurance, to enforce the sales promotion in the urban market while deepening in the rural market, to develop better items and sales strategies while emphasising the role in protecting and improving the welfare of member farmers.

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# Cooperative Education \*

## 1. Introduction

Education is important in the cooperative movement because a cooperative consists of members and not of mere shareholders, and education is an indispensable element in cooperation. In fact, education is essential for the very existence of the cooperative. It is also necessary for the understanding and practical application of other cooperative principles to the working of cooperative organisations. There can be no cooperative without cooperators and the cooperators are not born. They are developed through continuous education.

### The Cooperative Principles

- i. Voluntary association and open membership;
- ii. Democratic control;
- iii. Limited interest on capital;
- iv. Equitable division of surplus;
- v. Cooperative education; and
- vi. Cooperation among cooperatives.

In applying the principle of **education**, the cooperative is not obliged to provide every kind of education to its members and officers. Its responsibility is simply to ensure that cooperators are educated in the ways and to the degree that their functions in the cooperative movement demand for efficient performance.

The cooperators need to be educated so as to be able to work happily and

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\* by Mr. Shil-Kwan Lee, Dy. Director-General, International Cooperation Department, NACF.

successfully as members of a team towards practical attempts to solve common problems through joint action.

All cooperators need information, i.e. accurate knowledge of facts and events having a bearing upon the practical tasks and decisions to be reached or executed. All cooperators need the technical knowledge which relates to working of cooperatives, particularly the movement's democratic machinery. The general assembly, for example, if it is to serve effectively as the supreme authority in the cooperative, must be familiar with its purpose, powers, procedures and standing orders.

Therefore, cooperative must consciously employ suitable methods of education to achieve its end. Cooperative education must include much more than the ordinarily accepted types of academic instructions in order to develop the cooperators' capacity for working with others according to the cooperative principles. The cooperative education, therefore, must be a synthesis of the knowledge, technical training and social discipline of cooperators' functions in the cooperative movement, whether as members or staff members.

To perform the principle of cooperative education, NACF has adopted various types of education systems. It has set up a network which provides effective education and training to member farmers and staff members in order to increase agricultural productivity through promotion of cooperative movement. The target groups for education and training by the agricultural cooperatives can be divided into three groups - member farmers, cooperative staff and general public.

### **Education Institutions of NACF**

- \* The Central Training Institute
- \* Five Provincial Training Institutes (Kangwon, Chungbuk, Chungnam, Jeonnam, Kyungbuk).
- \* Three Cooperative Leaders' Training Institutes (Ansung, Jeanju, Changnyeong).
- \* The New Farmers Technology College
- \* The Agricultural Cooperative Junior College
- \* The Agricultural Technology Cooperation Company
- \* The Korea Institute for Cooperative Management Training.

Education programmes conducted by the NACF up to early 1980s had been focused on nurturing the managerial ability of the staff members for the purpose

of consolidating the management base of the agricultural cooperatives. Since the beginning of 1980s, NACF has started laying more emphases on member education and facilities for member education have been rapidly expanded.

Agricultural cooperatives in Korea are now known to have one of the best education systems for its members and staff in the world.

## **2. Staff Training**

It is reasonable that the educational activities of agricultural cooperatives should be focussed on the education of member farmers, but education of staff members is also very important part of cooperative education because the staff can in turn educate the members. Staff training programme is aimed at enabling the staff serve member farmers to the fullest possible extent through their business accumen and ability to manage the cooperative for the benefit of members according to the cooperative ideology.

The cooperative ideology cannot be realised without sufficient qualified staff members at all levels, as required by the more and more complicated tasks to be carried out in the course of cooperative development. As society is becoming diversified and specialised, and as the demand for specialised knowledge to keep pace with such a trend is rising, the staff training should be subdivided and specialised accordingly.

NACF staff training can be generally divided into two parts, training for NACF staff at the Central Training Institute and training for member cooperatives' staff at the five Provincial Training Institutes. Training courses can be classified into three parts, basic courses held by occupational tanks, courses by business functions and special courses organised for presidents of member cooperatives.

The basic courses for manager level emphasize cultivation of the capability of management rather than the ability to handle practical business. A participatory educational method called MPT, and other similar methods have been employed since 1981 for staff above the rank of divisional chiefs of NACF, generating a high level of interest and producing high educational effects.

Courses by business functions are designed to train specialists in respect to business items such as auditing, loan management, marketing, personal computer, international banking, cooperative insurance, teachers' training, etc. Additionally, overseas training and correspondence training opportunities are offered to the limited number of staff members and various types of on-the-job training are organised at the individual office levels.

## **Contents of NACF Staff Training**

- 1. Cooperative ideology and management guideline**
  - Renovation of way of thinking and cooperative management
  - Agricultural policy
  - Strategy under opening policy of domestic finance market
  - National economy and agriculture
  - Strategy under opening policy of domestic agricultural market
- 2. Spiritual and attitude change**
  - New cooperative movement
  - Etiquette and attitude as cooperative staff
  - Customer service
- 3. Cooperative management**
  - Technique for achieving business targets
  - Creativity of business
  - Technique for problem solving
  - Management strategy of modern organisation
- 4. Cooperative business**
  - Practice and theory by business
  - Success story
  - Case study
  - Study tour
- 5. Training in cooperation**
  - Camp training
  - Cooperation activity
  - Physical exercise

For better understanding of NACF training curriculum, training subjects of middle class for male staff are illustrated as follows :



## **Curriculum**

<i>Subjects (hours)</i>	<i>Subjects (hours)</i>
Development policy of agriculture under market liberalisation (2)	Agricultural coop accounting (4)
Self development as coop staff (2)	Documentation (2)
The art of conversation (2)	Loan (4)
New cooperative movement (1)	Deposit (4)
Songs (1)	Exchange (3)
Customer service (2)	Farm inputs supply (3)
Sales techniques (2)	Agricultural marketing (3)
Cooperation training (7)	Cooperative insurance (3)
Five minutes speech (5)	Cooperative taxation (2)
Preparation for cooperation training (3)	Credit card business (2)
Meditation (1)	Guidance activity (2)
Audio-visual education (2)	Legal claim (4)
Labour union (2)	Trust fund management (2)
Case study (4)	Evaluation (1)
Cooperative theory (2)	Physical exercise (2)
Agricultural coop law (2)	Training introduction (1)
Laws of check and bill (2)	Ceremonies (2)
Accounting principle (2)	

In 1993, NACF offered various training courses to 7,354 and 13,397 staff members of NACF and member cooperatives respectively at its Central and Provincial Training Institutes. In 1994, the Central Training Institute will conduct 91 training courses for 8,110 staff members, and five Provincial Training Institutes will open 140 courses for 15,450 board and staff members of member cooperatives.

The following is the training plan of the Central Training Institute in 1994.

**Staff Training Plan**  
(The Central Training Institute)

Courses	No.of courses	Course periods	No.of trainee
Orientation class	5	4 days	700
Basic class	2	2 weeks	284
Middle class	4	3 weeks	646
High class	4	1 week	600
Manager class	13	1 week	300
Top manager class	4	1 week	120
Teachers' training	2	1 week	100
Credit	3	1 week	450
Sales & Customer service	9	4 days	500
Personal computer	25	1 week	550
International banking	1	1 week	140
Audit	1	1 week	150
Cooperative president class	10	3 weeks	1,670
'94 Business plan	3	3 days	650
Management	5	3 days	1,250
<b>Total</b>	<b>91</b>	<b>-</b>	<b>8,110</b>

The cultivation of future elite staff of agricultural cooperatives is done through student education at the Agricultural Cooperative Junior College which is two year course for about 200 students. The educational objective of the college is to produce elite staff armed with a firm conviction and spirit of service for the development of rural community through cooperative movement.

Eligible for admission are those sons and daughters of member farmers who are qualified for admission to college and are interested in agricultural and rural development. The students who are granted free registration by NACF, are required to reside in the student dormitory. They are given preference in employment as leading staff of member cooperatives at graduation.

### **3. Member Education**

The agricultural cooperatives were established in order to increase agricultural productivity, to enhance the economic and social status of farmers, to construct high income welfare rural community, and to ensure a balanced development of the national economy through the voluntary organisation of farmers.

To attain the objectives mentioned above, NACF and its member cooperatives conduct diverse business activities related to almost all aspects of rural life through the multipurpose cooperative system in Korea. Without sense of belonging and loyalty by member farmers, an agricultural cooperative cannot achieve its objectives. A cooperative is a self-help and self-reliant organisation, and the cooperative spirit which is essential to any type of cooperative can be cultivated through continuous education.

The concepts of member education include several target groups : cooperative members, members' families, prospective members and general public which influences member farmers, and the education should cover a wide range of general knowledge including ideology of cooperative, technical training and social discipline.

NACF and member cooperatives have been providing education facilities not only through education programmes designed by them but through meetings, conferences and publications since early 1960s. In line with the development of the national economy and improvement of transportation and communication system in rural area, farmers economic activities have rapidly expanded and diversified, and demand and expectations of member farmers from the cooperatives has increased.

To meet these trends, NACF has developed two new education systems for member farmers in the beginning of 1980s : the agricultural cooperative leaders' training institutes for strengthening ideological education and the New Farmers Technology College for providing advanced farming technique.

#### **A. The Agricultural Cooperative Leaders' Training Institute**

The ideological education of agricultural cooperatives for their members is

basically purported :

- i. to make farmers recognise that the agricultural cooperative is their own self-help organisation so as to strengthen their sense of ownership and their sense of responsibility toward the cooperative;
- ii. to make member farmers become aware why they should positively take part in the activities of the cooperative and how they should develop their cooperative into an organisation honestly representative of them; and
- iii. to make them firmly determined to seek lives worthy through their cooperatives by improving their economic and social status.

In order to realise the purposes of member education, NACF designed new education system and established the training institutes for member farmers, one in Ansong in 1983, the other in Jeonju in 1984. In 1992 NACF established another training institute in Changnyeong. The three cooperative leaders' training institutes have a capacity of accommodating 700 trainees.

In general the regular courses provide education in a collective form for ten participants per cooperative, usually two leaders of farming societies, two leaders of women's clubs, two chiefs of farming groups, one leader of youth club, a board member and president of the cooperative, and a manager of guidance or women department of the cooperative. The cooperatives participating in the education are selected and grouped in consideration of regional distribution and cooperative development, so as to increase the effect of mutual education based on the comparison of different region and different level of cooperative development. For case study and panel discussions, the participants are teamed in small groups by types of their clubs or farming patterns.

#### 1994 Education Plan of Leaders' Training Institutes

Courses	No.of courses	Course period	No.of participants
Regular course	36	4 days	8,720
Farm management	7	3 days	51,520
Extension service	7	6 days	1,400
Rural & urban cooperation course	7	3 days	1,680
Total	57	-	13,320

Autonomous education is emphasised in the course because the ideological education for farmers is a sort of spiritual education designed to induce a change in consciousness, attitudes and views of farmers. All the trainees and teaching staff have to reside in the dormitory during the course of five days with a view to developing the spirit of cooperation.

On the basis of educational needs of farmers, the curriculum is devised by considering the objective of organisation, to infuse the ideology of the agricultural cooperatives and a sense of ownership into farmers, and the need of social discipline education to bring about human development for a better life. The contents of the education include spiritual development, national economy and agriculture, agricultural cooperative movement, leadership of self-help organisation and farming technology. The costs of the education is shared by NACF and participating cooperatives.

## **B. The New Farmers Technology College**

The college provides special technology courses on advanced farming for farmers who are interested in high-income crops such as horticulture, floriculture and livestock breeding. The college was established in 1984 to increase the farming income by boosting agricultural productivity through the propagation of advanced farming techniques and information of farm management, and to enhance the consciousness of participation in the cooperative business and a sense of ownership as members of cooperatives.

The curricula are provided for each farm product and participants are teamed into groups according to the levels of farming. The course emphasises mutual education by way of presentation of cases and panel discussion, and on-the-field education such as visits to advanced farm households, ranches experimental station.

Those who are eligible for the education are member farmers, their family members and prospective young farmers. The college announces the course on the Farmers Newspaper with detail course contents including subjects and lecturers, and aspirants are required to submit their application to their cooperatives. The lectures on farming technique are provided by invited researchers and advanced farmers in the related fields, thus contributing to propagating up-to-date technique, and emphasis is put on the task solving of technical problems and on diffusing practical know-how based on the experience of advanced farmers.

The course generally takes 6 days and participating farmers and cooperative share the education expenses which is approximately 60,000 Won per participant. Besides the Technology College courses, NACF provides on-the-spot lectures on

new farming technology through the Agricultural Management and Technology Guidance Groups organised at national and provincial levels.

#### 1994 Plan of the New Farmers Technology College

Courses	Participants	Course	Participants
Floriculture	200	Sweet persimmons	150
Herb crops	150	Cattle breeding	200
Mushroom	500	Pig raising	200
Greenhouse vegetables	400	Apple	100
Grape	290	Pear	200

#### C. Other Educational Activities

Besides the ideological and technical education by NACF institutions, diverse types of educational activities are conducted for member farmers including education through cooperative business, education programmes designed by member cooperatives and general education for non-members by using printed materials and mass communication media. At the level of member cooperatives, various programmes are arranged for their member farmers in the form of lectures, workshops, meetings, discussions in the field, study tours and distribution of printed material including newsletters.

NACF publishes the Farmers Newspaper, issues every other day with a circulation of 500,000 and monthly New Farmers magazine to provide up-to-date information on agricultural policies, farming technology, agricultural marketing, agricultural cooperative movement, culture and health care as well as other pertinent articles of interest to farmers and their families. For the general public, NACF adopts various channels of mass media to inform the importance of agricultural cooperatives for the development of agriculture and national economy.



**COUNTRY BACKGROUND PAPERS**





# Bangladesh

Bangladesh is mainly an agricultural country. Cooperative Movement started in this country in 1904 during the colonial period under British rule. It was not started at the initiative of the people of this country from the grass-root level. It was intended to solve the credit problems of the farmers of the country. Village based Agricultural Credit Cooperative Societies were formed and they raised funds by means of shares from members and deposits from members as well as non-members and issued loans to the needy farmers. In spite of many impediments a good percentage of farmers were saved from the clutches of money-lenders through cooperative credit societies.

Cooperatives in Bangladesh have, since 1971, been functioning in two streams namely, those under the sponsorship of Cooperative Department and those organised by the Bangladesh Rural Development Board (BRDB). At the beginning of the Movement it was limited to agriculture banking and consumers' cooperatives. Gradually the cooperatives covered almost all activities of the economy, such as, agriculture, banking, industries, transport, fisheries, housing, milk processing, small scale industries, women's cooperatives, insurance and other income-generating activities of the rural poor.

The main success of agricultural cooperative societies is rapid increase of agricultural production. Introduction of high yielding variety of paddy like IRRI has helped much in this sector. Use of chemical fertilisers and insecticides has also helped to modernise agriculture. As a result of the execution of a number of development projects in agriculture, cooperative sector has helped achieve a near self-sufficiency in food in the country.

In the field of general cooperatives, there is an apex level cooperative bank (Bangladesh Samabaya Bank Limited) to finance the village level agriculture cooperative societies. Since inception, the Bank has till 30th June 1994 disbursed

total loans of Tk. 3,850.82 million and a sum of Tk. 3,424.88 million (including interest) had been recovered during the same period. On the other hand, the BRDB has, till December 1993, issued loans of Tk. 10,599.30 million and recovered an amount of Tk. 7,525.57 million.

Milk is one of the agricultural products of rural areas of Bangladesh. There is an ample scope to meet the need of protein of the country. With this end in view an apex milk producers' cooperatives union (Milk Vita) was organised and is now successfully functioning. It has five dairy plants for processing milk in different parts of the country. There are about 195 primary milk producers cooperative societies having membership of about 40,000 milk producers around the plant areas. With the procured milk the Union produces butter, ghee, ice-cream, milk powder, pasteurised milk, etc. and markets these under the trade name of Milk Vita. The Union also has initiated a cattle development programme and supplies improved semen, mobile veterinary services, fodder, etc. The Union through its successful business in the market sector has created an extra earning opportunity for the poor and landless rural people.

Fishermen are the third largest occupational group of agriculture in rural Bangladesh. Fish meets both food and protein in Bangladesh.

With a view to increasing fish production in the country and to free the fishermen from the clutches of middlemen, one apex cooperative society; 89 central fishermen's cooperative societies; and 3,307 primary cooperative societies having 353,000 individual members have been established. The apex society, Bangladesh National Cooperative Fishermen's Society Limited, constructed one boat yard, one net making factory and one repairing workshop with a view to supplying fishing materials to the poor fishermen members of cooperatives. It has also two freezing plants, 1,500 mechanised boats and trawlers, 275 carrier vessels and 21 ice plants. Under a development project in 1975-78 costing Tk. 91.10 million, the apex society supplied nylon-twine, boats, carrier vessels, etc. to primary fishermen cooperative societies. The apex society has already earned huge amount of foreign exchange through exporting shrimps and frozen fish.

Another national society, Bangladesh Cooperative Marketing Society Limited, is carrying on business in agricultural products throughout the country. The society established 4 rice mills; 4 cold storage; and 7 godowns in different parts of the country.

Number of various types of cooperatives in agriculture sector, now functioning in the country, are shown below :

A. National Society (as stated above) : 4

## B. Central Societies (secondary level)

i. Central Banks	:	73
ii. Central Coop Multipurpose Societies	:	76
iii. Central Fishermen Coop Societies	:	89
iv. Sugarcane Growers' Central Coop Societies	:	12

## C. Primary Societies

i. Land Mortgage Banks	:	55
ii. Union Multipurpose Coop Societies	:	3,307
iii. Sugarcane Growers' Coop Societies	:	611
iv. Krishi Samabaya Societies	:	18,826
v. Milk Producers Coop Societies	:	195

The aforesaid societies are working for agricultural development in our country and about 2,720,683 individual cooperators with a share capital of Tk. 1,047.90 million are directly or indirectly involved with their business.

Besides these, there are BRDB sponsored 447 Thana Central Cooperative Associations and 220 Central Bittaheen Cooperative Societies in the secondary level and 57,223 Krishak Samabaya Samities and 16,675 Bittaheen Cooperative Societies at the primary level which are also engaged in the field of agricultural cooperative business.

In this context, it is worthwhile to mention here that there are as many as 77 Central Cooperative Banks directly involved in agriculture business development in Bangladesh. Of them, the Dhaka Central Cooperative bank Limited was established in the year 1909 to save the agriculturists from the exploitation of money-lenders, middlemen, etc. At present it has 872 primary cooperative societies as its members. From its inception it issued an amount of Tk. 85,000,000 and so far recovered loan of Tk. 74,700,000. The purpose of issuing the above loans was to produce food products like paddy, jute, potato, pulse, etc. and it helped much to produce food grains, which contributed to improve the economic condition of the member cooperators.

In Bangladesh there are many problems of business development in agricultural cooperatives. The main problems standing in the way of efficient agricultural

business operation are as follows :

- \* Inadequate supply of agricultural inputs;
- \* Inadequate transport and communication facilities;
- \* Lack of warehouse storage facilities;
- \* Poor holding capacity of the farmers;
- \* Lack of proper grading and standardisation of products;
- \* Role of intermediaries or middlemen;
- \* Lack of organised marketing facilities;
- \* Inadequate market information;
- \* Lack of cooperative education among the members;
- \* Lack of adequate capital: and
- \* Lack of efficient managerial personnel.

During the period of present Democratic Government of Bangladesh more emphasis has been given to remove the problems of the farmers by remedying all the problems as specified above. For this purpose, various development schemes and plans have been taken and implemented to boost up agricultural production through cooperatives. Due to the positive steps taken by the government the country has attained near self-sufficiency in food production and farmers have become very much inspired. To attain the success of business development in agricultural cooperatives, principles of cooperation among cooperators adopted by the ICA (International Cooperative Alliance) may be followed and linkage can also be established not only among the cooperators nationally but also for regional, inter-regional or international cooperatives.

# China

## 1. Shaanxi Provincial Supply and Marketing Cooperatives

### Outline of the Shaanxi Provincial Supply and Marketing Cooperatives

The Shaanxi Provincial Supply and Marketing Cooperatives (SPSMC) is an economic entity with a 50 year history. The past 14 year reform and opening up has seen remarkable development of SPSMC. Up to now, it includes 10 supply and marketing cooperatives at the prefectural level; 104 cooperatives at the county level; 1,347 cooperatives at the grassroot level. SPSMC owns 466 specialised companies; 2,842 sub-cooperatives; 1,763 comprehensive service stations at village level; 6,003 commission agents. All its 18,000 operating organisations have formed a network all over Shaanxi Province. The total number of workers and staff members is 112,000 and its own possessed capital and fixed assets amount to RMB 1.1 billion (US\$ 720 million).

Up to now, about 4.5 million peasant households have become members of SPSMC, account for 70 per cent of all the peasant households in this province. The fund pooled by its members amounts to 101 million Yuan. More than 4,700 peasants have been elected leaders at different levels. They directly take part in marketing operation decision and supervising the management of SPSMC.

The operation range of SPSMC includes : providing agriculture means of production and technique service, the producing, purchasing, processing, storing, and sale of agricultural and sideline products, the purchasing, reforming and exchanging of old and waste materials, the supply of daily necessities and other materials, the providing of services on commodity storage, transportation, etc. The annual turnover of SPSMC reached 15 billion Yuan.

In a word, SPSMC is a big enterprise with unique characteristics. It owns the largest number of operation organisations, provides the most wideside service

items and connects cities and countryside, citizens and peasants, industry and agriculture.

### **The General View of the Agricultural Products of Shaanxi Province**

Shaanxi Province lies in the inland of China. It can be divided into three geographic regions - northern Shaanxi plateau, Guanzhong plain, and Qinba mountainous region. Climatic conditions of Shaanxi Province ranging from subtropical to temperate zone vary greatly from south to north. The favourable conditions of geography and climate guarantee rich resources of agriculture and sideline products. The main products include: cotton, ramie, silkworm cocoon, tea, apple, orange, walnut, chestnut, Chinese date, red pepper, fungus, honey, mushroom, garlic, day lily, cashmere, wool, sheepskin, raw lacquer, tung oil, palm fibre and all sorts of straw-woven, bamboo-woven, rattan-woven products. Some of them, such as apple, dried red pepper, tea, walnut, chestnut, raw lacquer, fungus enjoy high reputation both at home and abroad. They are the region's major export products. SPSMC is the biggest unit in this province. More than 1 billion Yuan are spent by SPSMC yearly in purchasing agriculture and sideline products.

### **The Construction of SPSMC's Service System for Agriculture**

Sticking to the principle "based on agriculture and serving peasants", SPSMC gives more attention to strengthen its serving ranges and provide serial services. As a result, the construction of the socialised service system has achieved great development.

#### ***A. Service System of Providing Production Means and Technical Guidance and Consultation***

Under the leadership of SPSMC, more than 500 crops hospitals and 1,700 comprehensive service stations at village level have been set up. All these hospitals and stations have formed a service network among province, prefecture, counties and villages. Several different and efficient ways are adopted to provide services for peasants. For example, hospitals sell proper chemical fertilisers and examine crops in the field. The service stations rent and repair farm machineries for peasants and provide technical guidance. In addition, SPSMC exerts all possible efforts to store an ample supply of all kinds of production means to satisfy the demand of agriculture production.

#### ***B. The Service System of Producing and Operating Agricultural and Sideline Products***

1,480 service organisations for agricultural commodity production have been

established and 8,000 full-time staff and workers engage in this field. All these organisations provide for the production of agricultural commodities services on information, technique, fund and material. SPSMC helps peasants to set up 1,300 production bases for agricultural commodities including tea, mushroom, walnut, apple, red pepper, raw liquor, etc. And the number of the bases continues to grow. To meet the new developing situation, SPSMC has established 600 specialised production cooperatives and associations by uniting specialised households. By means of providing a complete set of services before, during and after the production of agricultural and sideline products, SPSMC tries to push the development of agricultural commodity production into the way of being socialised, specialised and in large scale. SPSMC owns 200 operation organisations and 1,700 comprehensive service stations at village level. 8,000 workers carry on the purchasing and selling of the agriculture and sideline products. They exert all possible efforts to purchase agriculture and sideline products and help peasants to promote the sale of their products. The best way to unclog channels for the sale of agricultural products is to sign future contracts and the implementation of these contracts is legally guaranteed. Protective minimum prices are set in contracts concerning such products as grain, tea, raw silk and ramie, etc. Peasants can get profits according to the amount they sale. That is, the more peasants sell their agriculture products to SPSMC, the more profits they will gain. This way is particularly good in arousing peasants' enthusiasm to sell their products to SPSMC.

### *C. The Service System of Supplying Manufactured Goods for Daily Use*

Eighty per cent of Chinese population lives in the countryside. So the countryside market is huge. Taking advantage of this, SPSMC has built up its independent and complete sale system of manufactured goods. By means of this sale system, many manufactured goods suitable for daily use of peasants enter the countryside market. Being in line with the features of the countryside market and the consumption of peasants, these manufactured goods are popular among peasants. SPSMC has extended great efforts to expand the range of operation of manufactured goods to meet the many-sided needs occurring in peasants' production and daily life. Of recent years, with the assistance of SPSMC, 13 wholesale and socialised markets for agricultural and sideline products and manufactured goods and 72 comprehensive shops have been newly built up all over the province. All of them play an important role in promoting the manufactured goods into the countryside market.

### *D. The Service System of SPSMC's Industrial Enterprises*

SPSMC's industrial enterprises focus on the processing of farm produce. There are 330 odd industrial enterprises with 200 million Yuan fixed assets. All these



enterprises mainly engage in the fields of processing of cotton, local products and livestock products, reforming and reusing of old equipment and waste materials, machinery manufacture, spinning and weaving, costume, furniture, mineral products and food processing. The development of these industrial enterprises promotes the deep processing of agricultural and sideline products and increases their competitive power in the market. As a result, some of the commodities produced by these enterprises won many prizes and were considered high quality goods. At the first Chinese Food Fair, our products won 3 gold medals, 1 silver medal and 1 bronze medal.

### **The New Development under the New Economy Situation**

In 1992, Xian city was listed in the Opening Inland City by the state Council and granted all preferential facilities. Taking these advantages, SPSMC has made great development. It has successfully expanded its market and projects to some foreign countries and regions. Many of its commodities such as Shaanxi hot pepper, walnut, honey, black rice wine, red fushi apple, date, etc. are sold very well in Japan and the United States market.

The achievements of SPSMC are noteworthy. However, as time passes, some problems are arising. Particularly after the nation's reforms and opening up, SPSMC is facing a new problem - how to carry on the economic systems reform. As all the other enterprises of the nation, SPSMC is undergoing transformation from planned economy to market economy. It is a big challenge. The previous status of SPSMC, dominating farm produce of the province is being broken. SPSMC, is being pushed into the competitive market. To catch up with the new economic situation, SPSMC must improve its administration and serving efficiency. On the other hand, SPSMC must expand the operation range, for example, the deep processing of farm produce, the establishment of specialised farm. Xian is one of the important tourist cities of China. SPSMC may take advantage of the abundant tourist resources of Shaanxi province and its characteristic of alliance to develop its own tourism. With the nation's opening to the outside world, how to strengthen its cooperation with international cooperative organisations is becoming a new and important task. To push the farm produce of Shaanxi province into world market is the aim we are striving for. A great deal of work have been done in this respect by SPSMC.

## **2. The China Supply and Marketing Cooperatives**

The China Supply and Marketing Cooperatives (SMC) came into being over 70 years ago. Over the past several decades, it has made great contributions to the

improvement of farmers production and living standards, the prosperity of urban and rural economies.

By the end of the 20th century, the SMC has extended its business from rural area to urban area, from agricultural sideline and industrial products to diversified products, from mere commodity circulation to the field of commercial production, and from home to abroad. Having adopted an open economic system which integrates trade, industry and agriculture, the SMC has strongly promoted the prosperity and development of the third industry line in the national economy.

### **Organisational Structure**

The China Supply and Marketing Cooperatives adopt a four-tier structure consisting of national federation; provincial (municipal, autonomous regional) federations; county federations; and primary societies were organised by farmers through buying share on voluntary basis, and from grassroots upto apex, cooperatives are affiliated into federations layer by layer. The members congress at each level has the highest power in cooperative affairs at its level, and the cooperative committee elected by the congress is the executive organ. The SMC practices the system of independent accounting, self-responsibility for profit and loss, autonomous operation and democratic management. ACFSMC (All China Federation of Supply and Marketing Cooperatives), as the national organisation affiliated by cooperative federations at different levels across the nation, is responsible for the cooperative reform programme, its development strategy and policy coordination, etc. Under the ACFSMC, a few big corporations were set up to organise the SMC's activities in the nationwide commodity circulations and exchanges. These corporations are as follows :

The China National Corporation of Agricultural Production Means; China National Corporation for Development of Agricultural Produce and Native Products, China Waste Materials Recycling Corporation, and the China Supply and Marketing Cooperatives Foreign Trade Corporation.

The China SMC (Supply and Marketing Cooperatives) is a collective economic organisation formed by farmers on a voluntary, mutually beneficial, democratic and equal basis. Its main tasks are as follows: to supply consumer goods and production inputs for farmers and rural enterprises; to market and process agricultural and sideline products, extend to the farmers all kinds of social services for agricultural commodity production; to undertake the business entrusted by the government and to promote exchange and cooperation with foreign cooperative organisations.

Serving farmers being its sole purpose, the SMC links farmer households with the

market, and acts as the main force in promoting the development and prosperity of the rural areas in China.

Members are the masters of the SMC. They have the right to participate in the management and to exercise supervision over SMCs operation. Besides, members enjoy the rights to receive education and dividends, and to have preference in purchase and sale activities. There are 160 million farmer member households nationwide, making up 85% of the total farmer households in China. With the development of SMC's social services and the improvement of members' welfare, SMCs have more and more attraction to farmers.

### **The Development of Rural Areas in China**

After the rural economic reform started in 1978, small-scale farmers stood in need of an organisation of their own like the SMC, to guide them into the large market and to organise them to conduct efficient commodity production. China is a vast country with different natural conditions and the SMC supports farmers to develop commodity productions, and leads farmers to a well-off life through extending comprehensive services in information, technology, processing, storage and transportation, and other supply and marketing activities, etc. The SMCs supported farmers across the country to set up more than 4,000 commodity production basis. From 1992, the SMC designated 105 counties specialised in 13 different kinds of commodities and business models for standardised and integrated services in production, supply and marketing activities. The SMC provides a lot of effective services to farmers such as, to introduce good strains of seeds, to disseminate technical knowhow, to make new scientific and technical experiments, to train scientific and technical personnel, to popularise science and new technology, and improve traditional method of farmer and livestock production, so as to achieve high stable yield in the agro-production. The SMC has set up a number of tractor-ploughing and plant protecting centres. They dig wells for irrigation, organise the breeding and supply of excellent strains, and coordinate the spray of chemicals so as to help farmers overcome difficulties in their household production. The SMC provides rural enterprises with market information, and subsidiary and raw materials, meanwhile it helps them adjust product structure, open up market and increase sales. It has made positive contributions to the rapid development of the rural township enterprises. So far, with the key products as the 'dragon head' leading products, specialised villages (townships) as the basis and SMCs as the prop, 33,000 specialised cooperatives (associations) have been set up in the field of diversified agricultural and sideline production.

The China SMCs, with more than 3,800 wholesale markets for agricultural products, has formed an initial wholesale market structure of three-tiers with

market facilities at primary, regional and top level. These wholesale markets purchase individually and sell jointly to reduce intermediate stages. The SMC supplies the farmers with food, clothes and daily necessities through its over 700,000 service centres spreading in urban and rural areas across the country.

The SMC has established an industrial system with processing agricultural and sideline products as the principal part. Its over 20,000 processing enterprises in the whole cooperative sector made a turnover of 36.5 billion Yuan in 1991, doubling that in 1982. The cooperative industry not only is an important link of social service in agro-production but also becomes the backbone industry of the SMC.

The China SMC, as the main organisation of waste materials recycling industry, has a nationwide network of 120,000 purchasing and sale centres and over 1,200 processing factories. In 1991, the SMC recollected 19 million tons of waste materials, valuing more than 11 billion Yuan.

### **Social Services**

With its own facilities and means for interflow of commodities, the SMC stores, transfers and transports agricultural aids, disaster reliefs, and carries famous and native farm products to the cities, and industrial products to the rural areas. The storage and transportation facilities of the SMC are opened to the society to serve domestic and foreign customers.

The SMC has built a large number of guest houses, hotels, restaurants and other social welfare facilities to attract tourists from home and abroad. These facilities are scattered all over the urban and rural areas.

### **Science and Technology/Education/Information**

The SMC has more than 80 scientific research institutions to tackle key problems occurring in the development of SMC and rural economy. By 1991, the SMC had been given 389 national and ministerial awards, among which were three national and thirty ministerial awards of science and technology for populization.

The SMC has 3 colleges and universities, 93 technical schools, and 1,142 training centres for cooperative leaders and staff members with a total of 12,000 instructors. These facilities have trained a large number of talented personnel for the SMC and the whole society.

The SMC largely publicises its reform and development through mass media and 50 kinds of newspapers and magazines of its own to raise its popularity in the society. The SMC has also established a market information service system

throughout the country to provide information and consulting services to producers and businessmen.

### **Export Trade and International Exchange**

The SMCs make much efforts to promote export in many flexible ways. With introduced foreign capital and advanced technology, the SMC has set up a number of export-oriented enterprises.

All China Federation of Supply and Marketing Cooperatives (ACFSMC) established friendship with cooperatives in many countries as early as in 1950s. ACFSMC joined the International Cooperative Alliance (ICA) in 1985 and entered ICA Executive Committee in 1988. It plays an important role in international cooperative movement. Along with the increase in the exchanges and cooperation with other countries in the field of economy, technology and education, the international status of the ACFSMC is steadily growing.

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# Indonesia

## Setia Kawan Cooperative

The working territorial of Setia Kawan Cooperative covers the area of sub-district Tukur, while its office is in Wonosari. Sub-district Tukur-Nongkojajar is under the regency of Pasuruan, East Java Province, located at western slope of scenic mount Bromo at the height of 400 - 2,000 meters above sea level.

Temperatures range from a low of 16 degree celsius to a high of 24 degree celsius, with the average of rainfall is 3,650 milli-meters per annum.

District of Tukur covers an area of 94 square kilometres, consist of 12 villages, which are: Wonosari, Gendro, Tlogosari, Blarang, Kayukebek, Pungging, Tukur, Kalipucang, Sumberpitu, Ngembal, Andónosari and Ngadkrejo.

The population is more than 42,000 persons with the means of living as farmers 95.5%, employee and army 2% and merchant 2.5%. Farm products other than fresh milk are vegetables such as cabbage, potatoes, carrot, legumes and garlic. While fruit products are apple, orange, coffee, banana and kapok.

The cooperative was established on 31st December 1977 as a result of amalgamation of 8 primary cooperatives. Status as primary cooperative was given on 2nd August 1978 and was changed to KUD (Koperasi Unit Desa) on 21st February 1990. Thereby the business orientation also was changed from single-purpose to multipurpose business.

On Wednesday, 16th May 1979 the cooperative created a collaboration with PT Food Specialities Indonesia (now PT Nestle Indonesia) in Waru, Sidoarjo. The first delivery was only 349 kilograms of fresh milk. By now the production has reached 63,000 litres per day.

To give you an idea of the achievements of the cooperative, we would like to show you the following table.

The Achievement of Setia Kawan Cooperative (1978-1993)

<i>Items</i>	<i>1978</i>	<i>1993</i>
Fixed Asset (Rp)	9,226,455	9,021,786,054
Member Saving (Rp)	1,678.476	1,088,749,492
Net Profit (Rp)	58,650	760,235,129
Cattle population (heads)	430	15,289
Members (persons)	140	7,459
Employees (persons)	7	207
Fresh Milk (litres)	268,814	21,185,073

Fresh milk is the main business of the cooperative. The other items of its business are banking, feedmills, horticulture, shop and rearing. To develop the business, we are trying to apply following methods :

- To increase the skill of management periodically through local and foreign training;
- To increase cooperation with either cooperatives and companies;
- To increase a technical achievement including genetic factors such as embryo transfer, artificial insemination, progeny test programme, rearing, etc.;
- Minimising the loss through efficiency in all units; and
- Diversify the business, etc.

The main challenges of the cooperative are capital, management, technology including research and development.

# Malaysia

## Introduction

The Malaysian economy registered stronger growth in 1993 with real GDP growing at an annual rate of 8.5% (7.8% in 1992). The stronger outturn was attributed to the buoyant performance in the manufacturing sector, coupled with higher activity in the construction and service sectors. At the same time, the agricultural sector expanded at a moderate pace. Activity in the agricultural sector rose, moderately, by 3.9% (4.3% in 1992), following sharp increases in the production of palm oil (16.1%).

Below are major agricultural commodities production in Malaysia.

### Production of Major Agricultural Commodities

	1992	1993p	1992	1993p
	'000 tonnes		Change in %	
Rubber	1,217	1,160	-3.1	-4.7
Padi	2,070	2,103	6.4	1.6
Saw Logs*	43,511	37,758	9.2	-13.2
Sawn Timber*	9,458	9,152	7.4	-3.2
Palm Oil	6,373	7,400	3.8	16.1
Palm Kernel Oil	812	968	3.8	19.2

p - Preliminary. \* - Expressed in thousand cubic meters.

Source : Dept. of Statistics, Ministry of Agriculture, PORLA, Forestry Departments.



## **Government Development Programmes**

### **1. Settlers/Smallholders Participation Programmes**

In line with a comprehensive long-term National Agricultural Policy (NAP) which was formulated in early 1984, Malaysia has coordinated integrated approach to help smallholders in this sector. Services from various government agencies have shown a tremendous result in implementing these policies. Some of the major agencies involved in the development of agricultural cooperatives are :

- a. Federal Land Consolidation and Rehabilitation Authority (FELCRA) - (Ministry of Rural Development);
- b. Federal Land Development Authority (FELDA) - (Ministry of Land and Cooperative Development); and
- c. Rubber Industry Smallholders Development Authority (RISDA) - (Ministry of Rural Development).

These agencies were established with the following objectives :

- a. Developing unused land for agriculture and settlement;
- b. Relocating of suitable landless persons with the objective of raising their standard of living through modern agriculture;
- c. Organising and implementing systematic development of land by the provision of training, credit facilities, supervisory and management services;
- d. Introducing and operating modern processing facilities in order that settlers obtain better returns; and
- e. Guiding the development of settler communities such that attitudes and sense of values are consistent with the developmental needs.

### **2. Land Development Scheme**

Land Development and Settlement is a socio-economic programme with social and economic objectives. In implementing land development and settlement programme a restructuring of a traditional economic organisation and social life is required so that both its economic and social objectives are realised besides providing settlers with economic agricultural holdings. Every settler's family is allocated ten acres of agricultural land and a quarter acre of house lot. The crops grown are rubber, oil palm, cocoa and sugar. Each scheme is provided with basic infrastructure facilities and amenities like roads, water supply, school, health clinic, community hall, mosque, shop houses, transportation and communication services.

### **3. Social Development Programmes in the Scheme**

The objectives of Social Development Programme in the Scheme are :

- to establish a harmonious society;
- to establish a resourceful and trained society in practising modern agricultural practices;
- to establish a progressive rural society acceptable to modern day challenges; and
- to establish a self-reliant and cooperative society.

### **4. Cooperatives in Land Development Schemes**

- i. The cooperatives for Land Development Schemes were started in the 1960s. Cooperative societies are formed when the number of settlers in the particular scheme reaches 100. Under the Malaysian Cooperative Act, the minimum number of persons required to form a Cooperative Society is 100.
- ii. Application for the formation of a cooperative society is made to the Registrar-General of cooperatives. Each cooperative has its own by-laws approved by the Registrar-General (the Cooperative Development Department of Malaysia). The cooperative society operates within the scope of their own By-Laws and the Cooperative Act and Rules.

### **5. Business Activities in Agricultural Cooperatives**

The agricultural cooperatives play a vital role in the economic activities of the scheme community. The main activities of agricultural cooperatives are transportation of FFB (oil palm fresh fruits bunches) from the field to the mills, running of cooperative sundry shops, engaging in agricultural contract works and operating school buses and taxis. Transportation of FFB comprises 70% of the activities of agricultural activities. In the land development schemes, operation of sundry shops represent 25% while the rest engage themselves in other small economic activities.

### **6. Major Activities**

#### *a. Oil Palm*

In oil palm schemes, the ripe oil palm fruits have to be processed within 24 hours after they are harvested. Failure to do so will adversely effect the quality of the palm oil. The transportation of FFB from the field to palm oil mills involves a

considerable number of lorries and tractors. Normally a scheme of 4,000 acres would require a fleet of 10 vehicles to efficiently transport the FFB. However, this again depends on the distance of the mills, road condition and terrain. As more areas are cultivated with oil palm, more business opportunities can be developed by cooperatives through government agencies. In 1993, the total area cultivated with oil palm rose by 3.8% to 2.3 million hectares of which the area under mature palms accounted for 88.1% or 2 million hectares. Production and yield for oil palm as at the end of 1993 is shown in the table below :

	1992	1993P	1992	1993P
			Change in %	
<b>Area ('000 hectares)</b>				
- Planted	2,197	2,281	4.9	3.8
- Mature	1,890	2,009	20.2	6.3
<b>Production ('000 tons)</b>				
- Palm Oil	6,373	7,400	3.8	16.1
- Palm Kernel Oil	812	968	3.8	19.2
<b>Yield (Kg. Mature Hectare)</b>				
- Palm Oil	3,372	3,683	-13.7	9.2
- Palm Kernel Oil	430	482	-13.5	12.1

P = Preliminary

Source : Department of Statistics, PORLA.

#### *b. Rubber*

RISDA (Rubber Industries Smallholder Development Authority), a government agency, is responsible for the marketing set-up to distribute rubber products through cooperatives. Smallholders or members of the cooperatives will process rubber from rubber plantation in the form of latex (a thick white liquid produced by the rubber tree). It is the cooperatives duty to market latex to local or overseas

markets. Besides this, cooperatives are also involved in contracts in rubber plantation areas, nurseries (seeds), stockist (fertilisers), transportation of latex, agricultural inputs and other agricultural development projects. Normally, most projects from RISDA are being offered to the respective agricultural cooperatives. As a whole, Malaysia remained as the third largest natural rubber producer with a share of 20.4% of the total world natural rubber production, following Thailand (share of 26.8%) and Indonesia (share of 24%).

Below are rubber activities extracted from Central Bank of Malaysia Annual Report 1993.

### Rubber : Area, Production and Yield

	Estates		Smallholdings	
	1992	1993P	1992	1993P
'000 hectares				
Planted area	335	321	1,480	1,470
High-yielding area	322	317	1,245	1,234
Mature area	275	268	1,105	1,068
Replanting	9	10	61	62
Newsplanting	8	6	9	9
Production ('000 tons)	334	304	883	852
Yield (kg/mature hectare)*	1,235	1,152	933	932

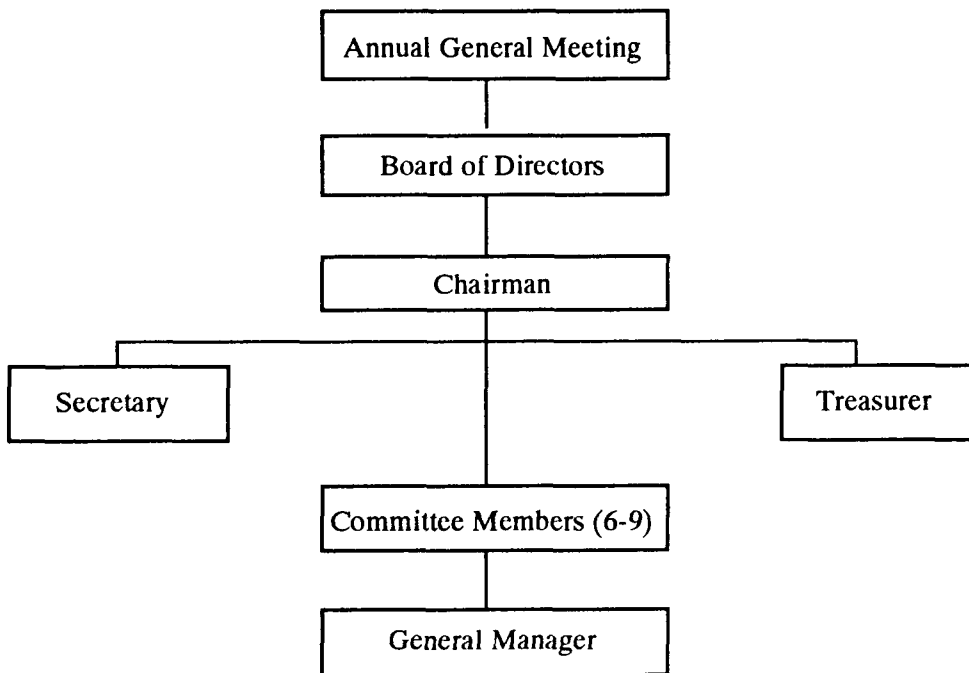
\* Peninsular Malaysia

P = Preliminary

Source : Malaysia Rubber Research and Development Board, Department of Statistics, Sabah Rubber Fund Board, Department of Agriculture, Sabah and Sarawak.

## Management of an Agricultural Cooperative

Each agricultural cooperative has its own Board (of Directors) elected during the Annual General Meeting. The Board normally comprises 9 or 12 members. The Board from among themselves elect the Chairman, Secretary and Treasurer. The organisational structure of the agricultural cooperative society is as follows :



The Board (of Directors) is the policy-making body of the cooperative. For executing the day-to-day functions of the cooperative in line with the policies laid down by the committee members of the Board, a management group is appointed.

The management group normally comprises of the Manager, assisted by 2 clerical staff and a number of other front-line workers depending on the activities undertaken by the particular cooperative. The manager is directly responsible to the Board (of Directors) and he reports the monthly progress to the Board through its meetings which are normally held monthly and/or when urgent matters require immediate attention.

The General Manager who is responsible for managing the plantation administration is also responsible for the efficient running of the cooperative by virtue of his position as the ex-officio member of the Board.

## **Financial Assistance/Loan Facilities**

In order to increase working capital, the cooperatives in the agricultural sector apply for loans not only from banks or financial institution but also from the Cooperative Development Department of Malaysia under the Revolving Capital Fund of the Government. These cooperatives which have the potential to extend and develop their activities and have viable projects would be considered to be given financial assistance at low interest rates. The maximum amount of loan is RM 2 million depending on the projects that they are involved in. The Cooperative Development Department provides loan facilities for buying equipments, transport for agricultural purposes like tractors and lorries, agricultural development projects and other agro-base business. Upto 31st December 1993, the Cooperative Development Department of Malaysia had approved loans to agricultural cooperatives amounting to RM 2.865 million.

## **Ensuring the Success of Agricultural Cooperatives**

In view of the fast expansion in cooperative activities, priority areas that need to be looked into are as follows :

- a. Board members must be identified for a new force trained in entrepreneurship programmes. Other programmes to be considered are : motivation; leadership; and business enterprise training + exposure through visits to successful enterprises/cooperatives local and overseas.
- b. Dedicated full-time managers with managerial skills and vision must be appointed or training in these areas should be given to those already appointed.
- c. Coordinated and integrated approach in giving various types of assistance by the government agencies so as to avoid overlapping functions and wastage of resources.
- d. Regular planned guidance in production to meet market needs.
- e. Advisory and consultancy services in technical and managerial aspects of managing a business enterprise.
- f. Regular maintenance of premises, machinery and equipment.
- g. Regular planned orders and prompt payment by the agencies who offer contracts or purchase from the cooperatives.

## **Conclusion**

For a better and continuous success in business development in agricultural cooperatives, members can participate more actively contributing not only material but also in exercising rights and responsibilities by contributing time, effort and ideas to the cooperative. With a whole-hearted commitment and participation in the cooperative affairs and activities and in line with Cooperative Act, Rules and its By-law, it will then be possible to succeed in providing the right kind of services to fully meet their members' needs.

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# Myanmar

## Introduction

Union of Myanmar is situated in South-East Asia and geographically is the largest in land-mass area. It shares common borders with Bangladesh, India, China, Laos and Thailand. The total area of the country is about 261,228 square miles and stretches for about 1,275 miles from north to south and 582 miles from east to west. The capital of the Myanmar is Yangon.

The population of Myanmar according to 1993-94 estimate was 43.13 million, registering a growth rate of 1.88 per cent. Of the total estimated employment of 16.82 million, the largest portion totalling 10.97 million or 65.24% were engaged in agriculture. Myanmar is a Union of nationalities with as many as 135 ethnic groups speaking different languages and dialects. Burmese who make up to 68 per cent of the Myanmar population is the largest of the nationalities.

The provisional data for 1993-94 shows that the total crop area of the country was 29.23 million acres. Mixed and multiple cropping area was 7.46 million acres, with an increase of 2.03 million acres over the previous year. Main agricultural products of the Myanmar are as follows :

paddy, wheat, maize, bean and pulses, groundnut, sesame and other crops.

The Union of Myanmar enjoys a favourable tropical climate with three seasons. The rainy season ranges from mid-May to mid-October, the dry cool season starts from mid-October to mid-February and the warm hot season occurs from mid-February to mid-May. Myanmar, formerly Burma, is known as the golden land not only for its golden pagodas and temples enriched with gold leaves, golden plates and precious gems but also for its rich minerals and natural resources.



## **The Cooperative Movement in Myanmar**

### **Changes in the General Economic Policy**

Myanmar, which was formerly known as Burma, practised centralised economy up to the later part of 1988. On 18th September, new government came into power and economic liberalisation took effect. In other words the centralised economy was dismantled and a new market-oriented economy was introduced. To harmonize with the market-oriented economy every necessary steps towards improvement of domestic and foreign trading activities were undertaken by the authorities concerned. New foreign Investment Law to attract outside investors was enacted on 30th November 1988. Moreover, other necessary changes and new adoptions were also made. With this new economic policy private enterprises as well as cooperative societies have been allowed to take part in foreign trade, which in fact have accounted for 50% of the total exports of the country within a period of 5 years.

### **Economic Liberalisation and Cooperatives**

With the shift of economic policy to market-oriented economy, a new Cooperative Law was promulgated on 22nd December 1992. This new Cooperative Law provides the opportunity for cooperatives to be more independent and autonomous. Cooperative can now function according to the member needs and aspirations in augmenting local economic activities in support of the national economy. The change in economic policy coupled with the new Cooperative Law have in fact strengthened the basic structures of the cooperatives, as defined in the basic principles to be mainly formed by voluntary participation. For better footing and strengthening of their economies the cooperative societies at the primary level of the same categories are forming into syndicates at the secondary level. These societies are financially more sound and are capable of withstanding the new economic challenges within the framework of cooperative principles.

Myanmar cooperatives after more than two decades of absence from international cooperative community are back in full momentum and are involving itself in development under the new Cooperative Law. This new Cooperative Law was promulgated on 22nd December 1992. The general basic features of the new Law are :

- voluntary participation;
- democratic organisations;
- restricting the benefits to be derived from the shares subscribed;

- apportion the profits according to the decisions of the members;
- dissemination of cooperative concept and techniques;
- active cooperation among cooperatives at the national and international levels;
- to raise the standard of living of the members;
- to enable members to participate in the economic and social activities of the society; and
- to enable the society to be administered according to the wishes of the majority.

### **Present Situation of the Cooperative Movement**

A total of 20,103 societies have been registered under the old 1970 Cooperative Societies Law. Out of this total 6,682 societies as on 1st July 1994 have now been reconstructed in accordance with the provisions of the new 1992 Cooperative Societies Law and the remaining societies will be reconstructed in due course. New societies formed under the 1992 Cooperative Law are over 3,427. Therefore, the overall number of registered societies now totalled over 23,530. The different level of societies are (1) Primary level; (2) Secondary level; (3) National level; and (4) Apex level. The grassroot societies constitute the Primary level and the syndicates have been formed by the Primaries at the Secondary level. Unions of syndicates formed by the syndicates are the National level. The Apex level is the Central Cooperative Society which will be reconstructed by the Unions of syndicates.

The following is a sectorial break-down of cooperative societies as of 30th June 1994.

- Agricultural Cooperative Societies	:	2,078
- Consumer Cooperative Societies	:	2,525
- Credit Cooperative Societies	:	2,172
- Industrial Cooperative Societies	:	2,219
- Others	:	14,536

In Myanmar the performance of the cooperatives in general is very encouraging. In the face of numerous difficulties encountered, the movement as a whole has been able to withstand the winds of market economy. Notwithstanding this situation, there were a few cooperatives that had made commendable headway in new ventures, making full use of the opportunities provided by the market-oriented economy. Due to lack of funds, inactive members participation and lack of members' patronage, some of the consumer and the village tract cooperatives suffer serious setbacks.

## **Role of Cooperatives**

Cooperatives must respond effectively to member needs and build up their image as peoples' organisation. Increasingly cooperatives are finding their competitive positions being eroded. The societies now feel the need to increase their size, skills and products, so as to be competitive on a national stage. At present the primary societies are merging into syndicates and the syndicates into unions. These Unions will be financially strong and on better footing for competitive strength. Also the Myanmar cooperatives are strengthening their management capacities and simultaneously bringing about effective integration, both vertical and horizontal, by actively exercising the principle of "cooperation among cooperatives".

A Cooperative is not only an economic unit. It has social ideology as well. However, the cooperatives are socially fruitful only after they have achieved success in the economic sphere. The success of a cooperative society largely depends on the quality of management. It is imperative that the cooperative plans out its future with realistic understanding of current situation, with clear awareness of challenges, opportunities and prospects emerging from the new socio-economic order.

## **Status of Central Cooperative Society**

The Central Cooperative Society is an apex body of Myanmar Cooperative Societies. It was formed in 1975 with a membership of 272 societies. Membership has since increased to 302 by March 1992. Presently, the Central Cooperative Society is a business-cum-promotional organisation. The Executive Committee of the Society composes of a Chairman, a Vice Chairman, a Secretary, a Joint Secretary, and 4 Executive Committee Members. In accordance with the 1970 Cooperative Societies Law, each member society shall subscribe 10 qualified shares worth Kyats 100 to the Central Cooperative Society and pay annuities as prescribed by the Ministry of Cooperatives to the Central Cooperative Society to meet the expenses in implementing its declared and committed goals.

The objectives of the Central Cooperative Society are :

- (a) to coordinate and supervise for the successful economic undertakings of members as well as non-member societies;
- (b) to coordinate and educate the activities of cooperative societies in member education;
- (c) to disseminate cooperative education; and
- (d) to strive for the development of cooperative societies in Myanmar.

In accordance with the market-oriented economy and in line with the new cooperative law, the Central Cooperative Society has engaged itself in domestic trading, undertaking imports, exports business and joint ventures with foreign companies. Also Central Cooperative Society has established banking business, with the objective of giving loans and financial assistance to cooperatives.

But in the near future the Central Cooperative Society formed under the 1970 Cooperative Law will have to be reconstructed in accordance with the 1992 Cooperative Society Law. The new Central Cooperative Society will have members from cooperative syndicates and from unions of cooperative syndicates. Moreover the reconstructed Central Cooperative Society may recover proportionately from the member societies expenditures incurred for the work undertaken in respect of dissemination of cooperative concept and technique, promotion of cooperative spirit and coordination among societies.

### Function of Cooperative Societies

Production, procurement and distribution of cooperative societies as of 1993-94 are shown in the table below :

S/No.	Particulars	1993-94 (Kyats in million)
1.	Production	4,917.0
-	Agricultural products	1,246.1
-	Livestock	89.5
-	Meat and animal products	469.3
-	Fish and fish products	160.9
-	Forest products	99.9
-	Mineral products	14.0
-	Industrial products	2,837.3
2.	Procurement	14,676.5
-	Domestic	14,603.5
	* State owned organisation	1,635.9
	* Cooperative societies	4,245.2
	* Private	8,722.4
-	Foreign	73.0
3.	Distribution	17,280.5
-	Domestic	17,190.0
-	Exports	90.5

## **Cooperative Agriculture Production**

Under the old 1970 Cooperative Societies Law the village-tract cooperatives and urban agricultural producers cooperatives undertook farming business. Three years prior to 1988, village-tract and farming cooperatives cultivated within a range of 2.05 to 2.81 million acres of land and grew multi-crops. During the period 1988-1992, the cultivated land area of said cooperatives decreased to 1.29 to 2.76 million acres because of the liquidation of armed forces cooperatives. Now under the new 1992 Cooperative Societies Law, we are organising and motivating the farmers to form the cropwise agricultural producers cooperatives and marketing cooperatives on the basic of cooperative principles.

## **Aiding Agricultural Cooperatives**

With the foreign exchange earned through exports, the Central Cooperative Society and Yangon Division Cooperative Syndicate imported goods for the use of agricultural cooperative like 960 Units of hand-driven tractors and 20,000 metric tons of urea fertilisers.

Agriculture being the mainstay of the national economy, the government of Myanmar made all out efforts to step up agricultural production. Reform measures focusing on five factors namely extension of cultivated area, provision of sufficient water supply, encouragement of agricultural mechanisation, increased use of improved agro-practices, and increased production and use of quality seeds, have been emphasised. Under these government schemes the agricultural cooperatives can make efforts to increase agricultural production depending on the type of land, weather conditions and market demand.

## **Business Opportunities**

In accordance with the trade liberalisation policy of the market-oriented economic system and in addition, with the promulgation of the Foreign Investment Law in November 1988, the cooperatives can set up joint ventures either in the form of a partnership firm or a company with a foreign partner.

With these business opportunities, the agricultural cooperatives which are formed under the new 1992 Cooperative Society Law can strive for their business development in conformity with the changing environment in economic and social fields.

## **Training**

Training is the predominant tool to improve the competence of all persons

participating in the cooperative process and must be used effectively. In Myanmar training for members and managerial staff is conducted in six cooperative training institutes and schools. More emphasis is giving on the training of the managers.

To meet the demand of growing number of activities being carried out by the cooperative societies and increasing demand of managerial and technical skill for the executive committee members and staff of the cooperatives to run the business efficiently and successfully, Myanmar had recently constituted one Central Cooperative College and two Regional Cooperative Colleges in addition to the existing four cooperative training schools. These colleges will equip trainees with professional and practical training of modern business management in all aspects.

### **Conclusion**

The cooperatives of Myanmar formed under the new Cooperative Societies Law are undergoing many changes. With the market-oriented economy policy, the cooperatives have faced increased competition from the private sector. So far the cooperatives have withstood by all the challenges and have moved into the future. But, like other cooperatives in the region Myanmar cooperatives needs genuine leadership, structural changes, competitiveness and innovative approach so as to organise themselves collectively and build their own protective strategies to avoid exploitation.

The Central Cooperative Society will strive for the business development of agricultural cooperatives in all aspects. As the Central Cooperative Society is a new member to the International Cooperative Alliance, it will take this opportunity to strengthen its participation in all possible international field of cooperation and to work hand in hand with other brother and sister cooperative societies especially those within the South-East Asia region for a cooperative friendly environment.

# Pakistan

## Introduction

Pakistan is an agro-based economy of South-East Asia with an area of 796,096 sq.km and population of about 12 crores. India, Afghanistan, Iran and China are the neighbouring countries. Pakistan has been gifted with high mountains (like K-2, second highest peak), green fields and beautiful rivers. Pakistan is a Federation of four provinces viz., Punjab, Sind, North West Frontier Province (NWFP) and Baluchistan.

Agriculture is the foundation of economy in our country which accounts for over 23% of Gross Domestic Product (GDP), employs about 50% of the labour force and fetches about 70% of export earnings including processed agricultural products. Agriculture provides livelihood to over 70% of the rural population.

The major crops of Pakistan are wheat, cotton, rice, gram, pulses, fruits and vegetables. Pakistan exports raw cotton and cotton related products, rice, fruits and vegetables to the other countries. The cotton products of the country are popular around the world. Pakistan imports wheat to meet its food requirements.

## Cooperatives

Pakistan inherited the Cooperative Movement on her independence in 1947, which was in operation in the Indo-Pakistan sub-continent since the Indian cooperative societies Act of 1904. The Movement had passed through many ups and downs for nearly 50 years with a mixture of having performed useful work in combating poverty in the midst of illiteracy on one hand and experiencing difficulties on account of inter alia illiteracy and the peculiar social, cultural, economic and politico-administrative set up on the other hand.

Cooperation in Pakistan is a provincial subject. The Registrars of Cooperative Societies regulate and register cooperative societies. Apart from registration, audit and inspection, the Registrars are responsible for settling disputes among members of cooperative societies. He enjoys virtual control over the cooperative institutions.

There are 59,119 cooperative societies in the country of 16 types, i.e. agricultural credit, multipurpose, tube-well, farming, service, farm service, marketing, sugarcane, fishermen, rural supply, cycle, industrial, women, house building, consumer and insurance etc. The agricultural credit societies are more common, nearly two-third of the total.

Agricultural cooperative societies in Pakistan are organised for different purposes although they sometimes perform overlapping functions. They are divided into two broad categories : agricultural credit societies and agricultural non-credit societies. The functions of the two categories overlap as some of the credit societies also perform the functions of supply and marketing and some of the non-credit societies also give credit to their members. Credit societies are by far the largest and the oldest sector of the cooperative movement as the movement started basically as a credit agency. Non-credit societies would include such societies as are organised primarily for purposes other than credit such as supply of agricultural inputs or marketing of farm produce or rearing of live-stock or irrigation by tube-wells.

Although the by-laws of credit societies permit the performance of functions other than credit, most of these are content to disperse credit only. With the increasing demand for fertiliser, quite a number of credit societies have added the function of supply to their business. This is true generally of the Punjab and NWFP where loans are given in kind. In Sind and Baluchistan loans are given mostly in cash and, therefore, supply business has not developed. In AJ&K and the northern areas both types of loans are given, but more in cash than in kind.

### **Area of operation**

The area of operation of a primary credit society in all provinces except Sind is usually a village but there are some cases of more than one society in a big village - more so in the Punjab than elsewhere. This practice of having more societies than one in a village has increased in the recent past as a result of Government policy to give loans to small farmers without interest.

There is wide scope of expanding the business through agricultural cooperatives in Pakistan as her economy based upon agriculture. The grading and packing plant and cold storages for fruits and vegetables, the bulk storages for agricultural inputs and produce, the fertiliser, seed and pesticides formulation plants to meet the



agricultural requirements of the farmer members are the areas which need cooperation. In the early period after independence, efforts were made to introduce the cooperative system in the country in a systematic way. The plan was to establish one cooperative society in each village of the country to provide complete coverage of cooperatives to agriculture. The following table reflects the number of cooperative societies in different periods :

Year	Number of Coop Societies
1947-48	15,242
1969-70	23,744
1988-89	57,990
1989-90	56,390
1990-91	55,906
1993-94	59,119

### **Business Development**

For the development of business in the field of agriculture, the following schemes were introduced/organisations were created :

- i. In 1948, Cooperative Farming Schemes in Punjab were introduced with the following objects :
  - (a) To rehabilitate landless refugees from east Punjab and local landless tenants on state land;
  - (b) To increase agricultural production through improved methods of cultivation, credit, supply and marketing facilities and supplementing canal irrigation by installing tube-wells; and
  - (c) To develop facilities like education, medical aid, storage, recreation etc., on self-help basis.

Almost 140,000 acres of state land were allotted to 132 Cooperative Farming Societies organised in the four districts of which 120,000 acres were leased to 10,898 farmer members in units of 12.5 acres. The remaining 20,000 acres were utilised for village sites, water channels, etc.

Up to Rabi 1959-60, Cooperative Farming Societies received 40% of produce from their members in lieu of lease money on behalf of member allottees for development and management. Conditions of allotment of land were changed

in Kharif-1960. Government decided to grant proprietary rights to members against payment of price @ 20 PIC in 30/40 six monthly instalments through societies.

Partial mechanisation was introduced by the farming cooperatives in 1961. This was, however, restricted to seed-bed preparation by tractors. The remaining operations including sowing, inter-culture, threshing were left to conventional methods. Farming societies could not undertake mechanisation effectively. These were consequently federated into the Colony Cooperative Farming Union Limited, Khanewal in 1962. The objects of forming the Union were : (a) to decrease use of bullock power by 50%; (b) to replace 50% bullock power with milch cattle; and (c) to increase agricultural production through a package deal.

The Union is providing fertilisers, seeds, pesticides, etc. to its members on crop basis i.e., biannually. The Union is managed by a Board of 15 Directors with a General Manager as its Chief Executive. Each Coop Farming Society has an elected Managing Committee and a paid Manager to administer its affairs.

- ii. Multipurpose and Development Cooperative Societies since 1950s.
- iii. Cooperative Farm Service Centres since late 1960s.

Service Societies were federated into secondary level Cooperative Farm Service Centres to coordinate their supply function to assist in the mechanisation of agriculture by providing workshops for repair and overhaul of machinery, and to help set up processing units. According to the scheme each Centre was to federate 50 primary societies to serve a population of sixty to seventy thousand. It was to raise shares of Rs.25,000 to be increased to Rs.50,000 in five years. A Government subsidy of Rs.4 to 5 lakhs for capital investment and recurring cost was given for each Centre. There are 58 such centres in the four Provinces.

The Scheme was imaginative in conception and had great potential but it has suffered on account of inefficient execution and management. Most of the valuable machinery for overhauling tractors is lying idle and rusting. The godowns and workshops built for storage of agricultural supplies and produce at a huge cost to government were lying unutilized. These centres are ideally situated with valuable assets in the form of land, buildings, machinery and other equipment, but owing to inefficiency of the staff, apathy of the managing committees and lack of supervision they are being totally wasted.

- iv. Union Council Cooperative Supplies and Service Societies of early 1960s (basic democracies) and of early 1980s (local Councils particularly in NWFP).

Supply societies have more than one category but the biggest and best known called the service societies. These were organised at the Union level for supply of production aids to farmers. They have been dealing mainly in the business of fertiliser, seeds, and pesticides.

Only 312 out of 1,837 societies in the Punjab, 4 out of 174 in Sind, and 178 out of 236 in NWFP are active. Baluchistan did not report the number of active societies. Their membership, share capital, reserves and working capital look impressive but the volume of supply business transacted is relatively small. Their internal resources are practically static in the Punjab when compared to those in previous years.

### Marketing Societies

Agricultural Marketing Societies commonly known as Supply and Marketing Societies are secondary societies performing marketing functions. Their membership includes societies as well as individuals. Their position is given below :

	Punjab	Sind	NWFP	Baluchistan
Number	46	43	23	24
Membership	4,856	1,359	129	880
Shares & reserves (Rs/million)	2.86	0.64	1.09	0.22
Working capital (Rs/million)	5.55	0.96	12.78	0.32

The above figures show the financial resources of these societies but do not reflect their business performance. There has been a progressive decline in their numerical strength, finances and business activity.

In spite of the growing awareness of the role which marketing societies can play in increasing the income of the farmer, the progress in the field of cooperative marketing remains very limited. There are several factors responsible for this. There is, first of all, the absence of an adequate marketing structure at the secondary level to support the primary societies. Such marketing societies as exist at the secondary level are extremely weak. Secondly, the marketing societies have to face competition from private traders. Some societies have become more involved in supply and distribution of inputs which is an easier activity. To be more effective, marketing should include storage, grading and packing to get the best prices. Lack of supervision and guidance and non-availability of competent and trained staff to manage their business operations have handicapped their growth and expansion.

While cooperative marketing of agricultural produce in general has made little progress, societies organised for marketing of special commodities like sugar-cane, potatoes, wool, and fish have shown good performance.

### **Potato Growers Society, Okara**

The Cooperative Potato Growers Society, Okara (Punjab) has been working very efficiently. It used to import potato seed from Holland and other European countries and supply to the members on cheaper rates. The society is not working successfully for the last two years.

### **Sugar-Cane Societies**

Sugar-cane societies were organised for the sale of sugar-cane produced by their members to the mills. They are more active in NWFP where primary sugar-cane societies and their secondary associations were organised for marketing sugar-cane to the factories in Peshawar and Mardan districts. The sugar-cane (factories) Control Act was amended to give monopoly to cooperatives for supply of cane and sugar-beet to the Khazana Sugar Mill at Peshawar. In the case of other mills, cooperatives were allowed a quota of 30% of the produce of cane in the zone of the mill. In 1982-83 these societies supplied nearly 400,000 tons of sugar-cane and 106,523 tons of sugar-beet to the mills. There were 10 sugar-cane sale associations (secondary societies) with a share capital of Rs.1.60 million and working capital of Rs.2.05 million. The primary sugar-cane societies numbered 517 with 18,357 members, a share capital of Rs.120,000 and a working capital of Rs.667,000. These sugar-cane societies of NWFP seem to be working quite well.

### **v. Village Agricultural Cooperative Societies under Integrated Rural Development Programmes during 1970s (particularly in NWFP and Punjab).**

The said schemes have not only promoted cooperatives but have also broadened their scope and added to their activities which though revolving round credit have yet promoted agribusiness in the cooperative sector. The IRDP (Integrated Rural Development Programme) in NWFP, in particular, devised new ways and means of carrying out the activities. It practised the concept of supervised and introduced revolving fund for credit and interest free loaning tied to cropping pattern and genuine need of the farmers. In fact rural development programmes and projects like the following have modified the methodology of motivating and mobilising rural communities for group order and discipline, savings and capital, management of credit, execution and maintenance of physical development projects, social forestry, rural energy, supply of agricultural inputs, marketing of produce, etc.

### **Other Farming Societies**

Fifteen cooperative farming societies for collective farming under the National Farming Scheme were organised under a special law in 1976. Each society was to get a subsidy of Rs.5 lakhs from the Federal Government and 5 lakhs from the Provincial Government. The scheme has made no progress.

### **Dairy Farming Societies**

Five cooperative dairy farming schemes were started in Rawalpindi district to solve the problem of supply of fresh milk to the residents of Islamabad - Rawalpindi area. The government gave a grant of Rs.24 lakhs to 5 societies for land, buildings, laboratory equipment, transport and revolving fund for purchase of animals and feed to be recovered from the borrowers. These societies have not only helped in ensuring supply of milk for the Islamabad Milk Plant but also raised the income of the underemployed members of the societies. A Cooperative Milk Producers Union has been organised for coordinating the development of the dairy industry on a large scale.

### **Fishermen's Cooperative Societies**

The Fishermen's Cooperative Society, Karachi, was registered in 1945 for the benefit of fishermen, for marketing of their catch and to provide fishing gear to them at economical prices. It is one of the largest cooperative organisations in the country with 4,654 individual members and a working capital of Rs.18,299,000. It remained dormant from 1947 to 1955 when it was revived with the help of the Ministry of Agriculture and Cooperation. A fish harbour was built in 1959 with foreign assistance which provides elaborate infrastructure for the catching and sale of fish by the fishermen. The society took over management of the fish harbour in 1962 through the efforts of the Cooperative Development Board. Foreign aid was also obtained for marine diesel engines, nylon twine, floats, and spare parts for sale to members on no-profit no-loss basis. The fish marketed by the society is earning Rs.1,000 million foreign exchange from exports annually. The society is running schools, dispensaries, and supplying fresh water to fishermen's colonies and to launches. It is also giving stipends and scholarships for higher studies to fishermen's children. In 1980 the society's share capital and reserves stood at Rs.3.25 million and its trading profit was Rs.144 million. The business potential of the society is much greater than its present performance with better entrepreneurial and managerial talent to direct its operations, the society can do much more for the fishery industry and fishermen than at present.

### *1. The Agha Khan Rural Support Programme (1980)*

This programme is working very efficiently and contributing in the improvement of economies of the members in the hilly areas.

### *2. Sarhad Rural Supply and Marketing Federation*

The Sarhad Rural Supply and Marketing Federation was set up in 1971 for supply of fertilisers and other essential commodities to cooperative societies in NWFP. It has 369 members, a share capital of Rs.376,000 and working capital of Rs.4,743,000. Besides agricultural supply it is dealing in other essential commodities and doing substantial marketing business at 1% commission. It supplied 216,768 bags of fertiliser; 188,176 bags of cement; 45,799 tins of vegetable oil and also sold 20 tractors. Its commercial operations are well-managed under a non-official elected Chairman.

At present, there are about 35,000 agricultural cooperative societies in the 47,000 villages of Pakistan which are catering to the needs of the farmer members by giving them credit mainly for two crops in a year. The credit is provided through the provincial cooperative banks which take grants from the Federal Bank for Cooperatives. The credit was interest free upto 1987 and after that 8% mark-up (interest) is charged. The members of societies directly purchase their agricultural inputs from the private dealers at local level and similarly market their produce.

### **Federal Bank for Cooperatives**

The Federal Bank for Cooperatives was established in 1976 for the following purposes :

- Expansion and supervision of capital formation by the cooperatives;
- Restructuring and strengthening the Provincial Cooperative Banks and improve their working;
- Train the field staff and make them effective;
- Improve and extend training facilities; and
- Conduct research and produce necessary required literature.

The Federal Bank for Cooperatives follows the following procedure in extending loans to small farmers through their cooperatives :

- Advance estimation of genuine credit needs of the farmers;

- Supply credit at the required time;
- Supervise the use of credit for the required purpose; and
- Steps ensuring timely repayment/recovery of loans.

The Federal Bank for Cooperatives has vigorously pursued its objectives and achieved appreciable progress particularly in extending loans.

Prior to 1976, there were Central Cooperative Banks at Tahsil and District levels which used to extend loans to their members. They borrowed funds from State Bank of Pakistan through the Provincial Cooperative Bank. These Banks were dissolved in 1976 and Federal Bank for Cooperatives at federal level and Provincial Cooperative Banks in four provinces were established.

The main activity of cooperative business is being carried out in the province of Punjab, because 65% of the country's agriculture is in this province.

All the agricultural inputs, machinery and produce are being marketed by the private enterprises. Cooperatives in Pakistan have no monopoly over any single area of the business although they are single largest buyers of agri-inputs and it is the cooperatives which introduced the use of chemical fertilisers in the country.

The following organisations of cooperatives are engaged in business presently.

#### **(a) The National Cooperative Supply Corporation Limited**

The National Cooperative Supply Corporation Limited is an apex cooperative society at national level with its area of operation throughout Pakistan. This society deals in agricultural inputs, pesticides, fertilisers, agricultural machinery, tractors and spare parts, sprayers, etc., cotton ginning and pressing, crushing of cotton oil seeds, cotton lint, oil and oil cake.

The corporation was registered with the Registrar, Cooperative Societies, West Pakistan at Lahore in 1961 under the Cooperative Societies Act 1912. The main object of the society is to provide agricultural inputs to its member societies in particular and the farming community in general. It introduced the use of chemical fertilisers in 1962 when farmers were not familiar with its use. It has rendered valuable services and played a very important role in the development of agriculture by educating the farmers in the use of chemical fertiliser. The corporation during the year 1962 to 1978 distributed 13,84,000 metric tons of fertiliser to the farmers.

The Corporation imported 8,130 fiat farm tractors from Italy during the year 1978-

80 under the scheme “Scheme for Development of Small Farm Agriculture” sponsored by the Government of Punjab and distributed the same through the member-societies at subsidised rates and passed on financial benefits of crores of rupees to the member-societies. Thus it emerged as pioneer in the field of mechanised farming in the country. Cutter-binders in large numbers were also imported from Italy to overcome the paucity of manual labour during the harvesting season and to facilitate cutting and binding of wheat crop.

The Corporation owns a cotton ginning and pressing factory at Hasilpur which is equipped with most modern machinery and superior quality of cotton lint is produced. The cotton growers of the surrounding area bring their produce direct to the factory for marketing against cash payment. They are thus saved from the clutches of commission agents. The factory has also a complete independent unit of cotton seed oil expelling which also produces superior quality of cotton seed oil and oil cakes. Job opportunities to local skilled and unskilled labour are extended on seasonal basis and labour is also provided other financial benefits as are admissible under the labour laws.

The Corporation is engaged in the following business activities :

- i. Booking of fiat tractors as agents of M/s. Al-Ghazi Tractors Limited;
- ii. Sale of genuine spare parts of tractors;
- iii. Distribution of chemical fertilisers;
- iv. Marketing of pesticides (products of multi-national companies);
- v. Marketing of sprayers (manual and motorised); and
- vi. Production and marketing of cotton lint, cotton seed and oil cakes.

The Corporation plans to establish agro-based industrial units at Lahore, Sargodha, Hyderabad, Mardan and other places. The product of these units will be marketed through the cooperative institutions so that the financial benefits are passed on to the member cooperative societies. Feasibility reports for setting up these projects are under preparation. These projects are likely to be set up very soon. The Corporation proposes to expand the network sale points in the interior of agriculture area<sup>4</sup> for the sale of fertilisers, pesticides, seeds. Agriculture inputs at these sale points are ensured free from adulteration and sale of these products is made on no profit no loss basis. The service of the farming community is the prime aim of the Corporation.



## **(b) The Punjab Provincial Coop Supply and Marketing Federation Limited**

The Punjab Provincial Cooperative Supply and Marketing Federation Limited, Lahore, was registered on 14th April 1985 as an apex ADP Project under the Cooperative Societies Act of 1925 vide No.1222 dated 14.4.1985. It is a three tier structure. At the base level are the village cooperatives which are affiliated at the secondary level with the respective District Cooperative Supply and Marketing Federations which in turn are members of this apex Provincial Federation.

The principal objectives of the Federation as given are as follows :

- To regulate the supply of agricultural inputs to farmers through the cooperative structure;
- To provide agricultural extension service through publications, seminars, etc.;
- To acquire, take on lease, hire, sell or lease land, buildings and to build godowns, houses, etc. and to let the same;
- To help the growth of rural cooperatives and to arrange educational assistance to the members of Cooperative Societies;
- To act as commission, clearing and forwarding agents;
- To help the Cooperative Department/Government in formulating development project in the cooperative sub-sector;
- To collect statistical data, monitor and evaluate the working of cooperative societies; and
- To explore home as well as foreign markets for beneficial disposal of the produce of farming community.

The Boards of Directors of Punjab Cooperative Federation includes 16 elected and 7 ex-officio members. The Registrar, Cooperatives, Punjab, is Chairman of the Federation.

The Federation arranges the supply of Punjab Seed Corporation certified seed and Pioneer Pakistan Seed Limited, Lahore, to farmer members of cooperatives through respective District Cooperative Federations.

This Federation is working to meet the agricultural requirements of the farmer members. Its business activities are increasing with the passage of time as the federated set up is strengthening its roots among the members. It has the best available set up right from grass root level to provincial level in the biggest province of the country. There is need to channelise the available resources in the right directions.

# Philippines

## Introduction

A cooperative can be defined simply as a business enterprise with social objectives. Therefore, the viability and sustainability of the cooperative is preconditioned by the success of its business ventures, so it can have the necessary capital to finance its community development efforts.

Business or enterprise development for cooperatives is affected by the nature of its membership, the political climate of the area of its operations, the economic environment of the region and the cultural dictates of its society. Coops are affected by these factors more than corporations are.

This paper seeks to be able to present a bird's eye view of business development of agricultural cooperatives in the Philippine setting. First, a macro view of the Philippines as a country is presented, followed by statistics on coop history in the area and the most recent relevant updates.

Second, various models of business development are then discussed, together with its positive and negative points.

Third, future directions and thrusts are discussed, incorporating therein recommendations based on past experiences.

These are then capsulized in the summary. For information purposes, and for the user to be able to contextualise this paper, a brief description of VICTO (Visayas Cooperative Development Center) is included.

At this point, it is important to note that this paper defines "agricultural cooperatives" as those which are engaged, or whose members are engaged, directly in the cultivation of land, producing crops, raising livestock or in getting income from

aquaculture activities. These are the lowland and upland farmers, fisherfolks and animal husbandry practitioners.

Business development as a process shall be construed as the identification, planning, implementation, monitoring, evaluation and documentation of a business activity.

Special attention is given to non-traditional business activities of cooperatives, which has risen significantly over the last five years. This is seen as a positive development in that cooperative leaders and managers are opening upto new ideas and taking a lot of risks.

Non-traditional enterprises are collective endeavours not usually associated with coops and the common people. They include, but are not limited to, coop hospitals, funeral parlours and alternative tourism.

This paper focuses largely on developments in the NATCCO network since the author is a member of such network. This paper will also try to analyze these developments in the light of sustainable development vis-a-vis ecology, gender, savings and local governance.

## **The Philippine Cooperative Movement : Overview**

### **A. The Philippines**

The Philippines has a total land area of 115,831 square miles in an archipelago of 7,107 islands (in high tide), flanked by Indonesia and Thailand in the south, and Taiwan in the north. March to May is usually hot and dry, June to October is rainy, while November to February is cool.

The education scheme is a six-year primary course, followed by a four-year secondary school and college. Higher education and specialised courses are offered by a wide range of universities, colleges and specialised schools (i.e. vocational).

### **B. The Philippine Cooperative History**

The roots of cooperativism in the Philippines can be traced back to the pre-colonisation years. Tribal Filipinos had and continue to have a cooperative lifestyle, very much like that of coop communes like the Kibbutz (in Israel).

However, the first recorded successful cooperative organisation was the one founded by the National Hero, Dr. Jose Rizal, while he was exiled by the Spaniards

in southern Philippines. In 1893, he organised an “agricultural marketing cooperative” based on ideas he learned during his travels to Europe.

1907 saw the first attempt of the government to introduce coops as a modern economic institution. The first law on coops, Act No.2508, was passed in 1914. The Agricultural Credit Cooperative Law of 1916 was passed for the organisation of rural coop associations.

The first registered agricultural cooperative was organised in Cabanatuan, Nueva Ecija, Luzon. The first Raffeyen-type credit union was organised in Vigan, Ilocos Sur, Luzon in 1936 by the Rev. Allen Huber.

Republic Act No.821 was enacted into law in 1952. This created the Agricultural Credit and Cooperative Financing Administration (ACCFA) which resulted to the hurried organisation of at least 900 Farmers’ Coop Marketing Associations (FACOMAS). Only 23 remain today.

Then President Ferdinand Marcos declared Martial Law in 1972. Presidential Decree (PD) 175 was issued in 1973 to repeal all past laws on coops. It focused on the organisation and supervision of Samahang Nayons and Kilusang Bayans (pre-coop associations).

On 22nd January 1977, five coop education centers covering the whole of the Philippines between them united to form the National Training Center for Cooperatives of NATCCO.

The government-initiated Cooperative Union of the Philippines (CUP) was created in 1978 but did not start operations until 1979.

Republic Act 6938 and 6939 was passed by the then President Corazon Aquino in March 1990. They were the Cooperative Code of the Philippines and the latter created the Cooperative Development Authority (CDA) which was tasked with the registration and supervision of all cooperative societies operating in the Philippines. The CDA’s first major activity was the confirmation of cooperatives registered under previous legislation, and the registration of cooperatives organised after the approval of RA 6938.

Recorded history of cooperatives in the Philippines show that it is now in its 9th decade.

As of 31st December 1993, there are a total of 22,379 confirmed and registered cooperatives in the Philippines.

The high number of multipurpose coops organised and registered after 1990 is the

result of a not necessarily forward-looking strategy of simplifying registration requirements to accommodate possible multiple functions (usually credit and consumer services).

The presence of pre-coops under the NATCCO network is the result of its various coop development projects involving the organisation of coops.

## **Business Development**

Business development processes used in the Philippines can be categorised into four : membership-driven; NGO-led; fund-oriented; and government inspired. These are from the viewpoint of who initiated the business.

### **A. Membership-Driven**

Cooperative organisations require, inter alia, a common bond of interest or felt need which usually dictates the nature and form of business it will undertake. Characteristics of a membership-driven business development process include comparatively slow growth (in its infancy stage), a consultative project cycle, strong sense of commitment and ownership as evidenced by intensive capital share growth and reluctance to avail of external credit.

Necessarily, they were able to design their own unique consultative and participatory processes because membership support is the key element in all their undertakings.

As a result, members get to have a very strong sense of commitment to and ownership of the cooperative. At the same time, most of these coops experienced growing up pains when the coop expanded its business volume and membership base. “Commitment” was translated into, at worst, selfishness or, at best, clannishness.

These business activities are usually gender-blind or gender-neutral. For instance, lending policies are not really discriminatory of women, but an analysis of the totality of the mechanics of lending will show that women do not necessarily enjoy equal access to resources nor control of benefits.

### **B. NGO-Led**

The social development community in the Philippines remains one of the strongest in the region in terms of pioneering ideas and in maintaining the democratic spaces it needs in order to survive.

The 80s saw the shift of NGO organising efforts to cooperative organising. This

is apparent in the number of registered coops during the period which consists of 84% of the total coop population.

NGO-led business activities are basically determined by the bias and limitations of the NGO. Hence, almost all NGO-led coop businesses are in the areas of providing social credit and consumer stores.

A slight advantage in this type is the availability of expertise at the NGO level providing assistance to the coop, if such is not available from within the coop membership. And, more importantly, the NGO can provide access to outside financing to provide seed capital for the coop's business activity.

Generally speaking, economic activities that are NGO-led tend to grow faster (in terms of figures and peso value) in the formative years, are initiated by outside financing, and are NGO-dependent (in terms of processes and mechanisms).

Funds for community development are available from various sources and in various forms. And, in the Philippines, there is a need to distinguish between the many kinds of NGOs.

Gri NGOs are government-initiated NGOs, organised by government units. BiNGOs are business-initiated NGOs, owned by big business. Then there are the PoNGOs, those organised by certain politicians.

Gender sensitivity of these businesses depends largely, if not solely, on the level of awareness of the NGO assisting the coop.

In most cases, a coop or NGO having a programme or fund for women's activities can and do lay claim that they are gender-responsive. Although it is a vital component of gender and development, this is not necessarily true.

Environment issues become blurred at the community level. For example, one NGO is promoting the return of composting as an alternative to commercial fertilisers. Another NGO in the same area is saying that composting breeds a lot of germs and viruses which could be dangerous to family health. The household is then at a quandary, whom to believe? What to do?

All this means that, for any analysis on Philippine cooperatives, one very important feature must be factored in. And that is the nature of the cooperative in study (i.e. genuine, quasi, pseudo and pre-coops).

### **C. Fund Oriented**

The least difficult and most practical way to proceed with business development

is to access funds available for cooperatives. Business development, therefore, is determined by the nature, type, limitations and demands of numerous funding agencies operating in the country.

Hence, the mushrooming of “coops” in the late 80s to the 90s - organised for getting funds.

Since funds for environment projects are made available, these are accessed by coops; if funds for women are available, coops will have projects for women, or organise women into cooperatives. Millions are available for production credit, therefore, practically all farmers in the Philippines have accessed such via farmers’ credit cooperatives. Some agencies specialise in providing funds for small, cottage industries, and so cooperatives are formed along this line.

Fund-oriented business development generally involves the availability of a certain fund, and followed by organising the “beneficiaries” into cooperatives and providing capability-building activities, not necessarily before funds are made available.

The common bond of interest necessary to organise has become the “want to borrow”, and not necessarily cheap credit, at that. Coops are organised simply as fund conduits and to ease the loan portfolio of the funding agency.

Gender as a development issue is dictated by the terms and conditions set by the funding agency. In this case, most foreign funding agencies, especially from the European Union (EU), have very strong biases for gender to be incorporated in development projects; ditto with environment.

#### **D. Government Inspired**

There are many who say that the coop movement in the Philippines has been largely determined by the series of legislation passed to promote and support it. In other words, a particular law is followed by massive organising efforts by a government agency.

Initially, coop legislation focused on agricultural cooperatives based on the assumption that, since the Philippines is an agricultural country, then the farmers should be given preferential option in government assistance.

After World War 2, coops were organised through the Emergency Control Administration (ECA) for the distribution of relief goods. At least 1,500 coops were registered but they became dormant as soon as the Relief Goods Distribution Programme (RGDP) ended.

An innovative milestone was Republic Act 821 creating the Agricultural Credit and Cooperative Financing Administration (ACCFA) to provide credit to farmers without collateral except their productive capacity.

By the end of the five years of the programme, at least 455 FACOMAs (Farmers' Cooperative Marketing Associations) were operating. Aggregate paid-up capital reached Pesos 5,125,007 representing 259,027 farmers in 50 provinces. During its peak years (1956-57), the FACOMA system handled Pesos 98 million worth of production inputs and around Pesos 6 million of consumer goods.

The steady decline of the system can be attributed to a lack of comprehensive education and training, poor financial management, inadequate loan portfolio management, and, in many instances, mismanagement.

In support to the Agrarian Reform Programme, Presidential Decree 175 was passed on 14th April 1973, allowing for the massive organising efforts by government itself. Samahang Nayons (SNs) were created, barangay-based farmers' associations which were envisioned to be pre-cooperatives, without any economic activity.

Clusters of these SNs were to mature into Kilusang Bayans (KBs) which will perform the economic functions of the farmers.

The rapid growth, and resulting rapid decline of the whole programme, has been attributed to (once again) poor education and training, especially on the principles and practices of cooperatives, lack of good governance of its funds and the conflict arising from government organising.

Government-inspired business development resulted in cooperatives being organised by government instrumentalities to act as conduits of its programmes and recipient of its allocated funds.

Thus, the Department of Agriculture organised farmers' cooperatives, the Department of Health organised the mothers into health cooperatives, the Philippine Coconut Authority organised coconut farmers into cooperatives also, the Department of Trade and Industry likewise, and so on and so forth. And all of these intensive efforts are concentrated on more or less the same areas - low income municipalities.

Cooperatives of this type are usually specialising in one business area which is determined by the assisting government agency.

Issues relating to gender, local governance, environment and savings vis-a-vis cooperative development have seldom been if at all, integrated.

Still another way of looking into the business development activities of Philippine



cooperatives is to analyze the two major types of economic activities coops are into, viz. traditional and non-traditional.

### **Traditional**

Business development for traditional coop-associated activities usually revolve round credit and store operations. Primarily because technologies on these two major activities are freely and abundantly available, even at the barangay level.

More importantly, they are easier to start and implement, considering the limitations of the knowledge and skills of the members who will directly manage commercial operations.

To start with, little or no feasibility studies are required to start social credit services at the local level. Second, commercial operations can start with as low as Pesos 1,000 initial capital. More importantly, it caters to a perceived common felt end need, which is the need for additional capital for productive and providential needs.

It is estimated that no less than 54.3% of all loans granted (under the NATCCO network) are providential in nature i.e., death, hospitalization, education, house improvement, purchase of appliances.

Production loans are generally confined to purchase of commercial production inputs, with the assumption that the coop can generate the numbers necessary to avail of bulk discounts. This is usually coupled with a provision for the acquisition of so-called support facilities e.g., warehouse, trucks, farm tools and machineries.

Very minimal (and isolated) interventions are provided so these coops can acquire the skills needed to lobby for policy reforms impacting on their production capacities, nor to consolidate or streamline marketing operations.

Traditional business development processes usually start with strong cause-oriented community organising efforts. There are two development tracks for this.

One is that the group cannot transcend their causes, finding it difficult to integrate these issues in their economic activities. Coops in this rut die a slow and natural death because they cannot financially sustain group efforts.

The second one is that coops can overcome their beginnings to experience more than just small winds, but, in fact, become major players in their communities. Most of them, however, fall into the founder's trap.

This is characterised by overstaying officers, lack of second-liners, extreme vigilance of its own resources and turf (sometimes to the detriment of its

membership), difficulty in networking and alliance building, and a growing insulation of the coop's growth, from other coops and from the community itself.

The most common and glaring dynamics of these businesses are that they are not organised at the regional or national levels so the economies of scale work against it.

This is not to say that no success stories can be found because there are a lot of them. The failures, on the other hand, could have been avoided.

### **Non-Traditional**

Several large cooperatives (i.e. total assets more than Pesos 5 million) are now feeling the need to go into alternative business activities not only to supplement their main programmes but also as a better investment area than banks and the stock market and to tap opportunities made available to them.

These non-traditional business activities include coop-owned funeral parlours, alternative tourism, manufacturing plants, water, transport, janitorial services, social services and others.

In the NATCCO network, much headway has been achieved towards joint ventures between and among NATCCO's RDC's and their affiliate coops. For instance, a coop-owned and operated funeral parlour has been started in Bohol. Davao city boasts of the only coop hospital in the country. A community-based cooperative in Palompon, Leyte offers day care services and owns a fleet of buses for public transport. The Coop Life Mutual Benefit Society (CLIMBS) is engaged in life and non-life insurance.

Just recently, cooperatives made headline news due to the start of a multi-million project involving strawboard manufacturing (housing material made of rice stalks, an alternative to wood and cement) in Iloilo province.

Initial project development activities have been undertaken by VICTO towards the establishment of a coop-owned holding company to manage a variety of commercial endeavours including managing a beach and upland resort, women's enterprises, ice plant and others.

### **A Glimpse into the Future**

Over the last three decades, the Philippine economy has, at average best, stagnated. The Local Government Code, despite biting criticism on its flaws, at least provides the general framework for cooperation, participation and integration of cooperatives

and other self-help groups in matters of local governance.

The trail-blazing Philippine Development Plan for Women (PDPW) also provides government support in various forms towards gender equality. The Philippine Council for Sustainable Development (PCSD) has also been organised, which serves as a lobbying platform for NGOs and coops to discuss with government officials on Philippine policy directions.

Community organising efforts have borne strong networks and coalition at all levels, not to mention the strong presence of big and progressive cooperatives all over the country.

Meantime, there is a decline of assistance from the international development community. Also, GATT, APEC and the local political movements will definitely impact on trade, investment, and agricultural production volume, among others.

This is the complexion of the environment in which cooperatives will operate in the 90s till the year 2000 where the need for and role of viable, genuine cooperatives in socio-economic recovery and stability remains crucial.

Given this, it is projected that the mushrooming of cooperatives will peak by then. This will be brought about by three factors.

One, the saturation point in coop organising will have been reached - there will simply be no more communities that can be organised, considering the long history of organising efforts. Two, natural competition and limited expansion possibilities will result in the natural death of small cooperatives who do not attach themselves to big ones, either through mergers or consolidations. Three, this massive organising programme cannot be adequately sustained over long period of time, especially with minimal returns.

This would mean that the future of business development of agricultural cooperatives will depend, to a large extent, on their capability to tap the opportunities offered by this decade. To the extent that cooperatives will be able to consolidate their monies and human resources, to the degree that they can venture into large scale and non-traditional business enterprises in order to attain economic clout, and to the extent that coops can make themselves part of the mechanisms of local governance, that will be the level of their viability.

The very future of agriculture in the country, especially farming, is in a flux with the implementation of GATT which could mean the extinction of agricultural cooperation as we know it.

## Summary

This history of business development in Philippine cooperatives is replete with instances of small coops emerging as winners in the war against poverty and oppression, albeit overshadowed by the sheer number of coops that have failed.

Honed like swords in the fires of dictatorial oppression and business cartels, these cooperatives have made significant inroads in changing dispensations, in the process becoming nationally and internationally recognised.

For cooperatives to prosper in and beyond the year 2000, this paper recommends that the coop sector address itself to the following (presented in no order) :

1. **The Dole-Out Mentality.** This counter-productive attitudinal problem, which can be seen as a vestige of feudalism and colonial mentality combined, needs to be systematically attacked.

Response to this can be two-pronged, at the **value level** and at the **programme level**.

*Continuing education and training should go beyond so-called value formation seminars which may be too limiting (in that they are usually theorizing), but rather, to integrate concepts of self-reliance and interdependence in all training modules and social animation strategies.*

At the programme level, the coop's programmes and services must be reengineered or designed to facilitate the sustainable generation of local equity. This does not discount the need for pump-priming, which should be viewed as the ad-hoc function of external borrowing or grants.

The dole-out mentality expands outside the perimeters of the coop offices. For instance, instead of clamouring for full tax exemptions, coops may be well advised to propose alternative tax schedules based on different indicators than those used for corporations. This will eliminate a "loophole" in legislation resulting in corporations or individuals organising cooperatives for the "tax exemption of it". Although coops may be tax-exempt for a number of years (or until it reaches a pre-determined volume of business), this can actually create a false sense of accomplishment for the coop because they are usually not prepared to cope with the eventuality of paying taxes, especially in the light of over-all community development.

2. **The Lack of an Indigenous Sustainable Development Model.** Business development for agricultural cooperatives need to be undertaken in the context of an overall sustainable development model. After all, the business of the coop is

viewed as the fuel it needs to run its engine (its social services).

In this respect, cooperatives need to be given the chance to come together more often to discuss matters other than their common denominator of ideological beliefs or service delivery mechanisms, but to be able to visualise a common future based on the highest level of aspirations.

**Theory/Model building** can thus be addressed via the operationalisation of consultative processes that tap the vast reservoir of learning and experiences at the barangay level.

This will allow the cooperatives to be able to go beyond criticising existing norms of development, but offer alternative models than those being promoted by Bretton Woods institutions.

**3. The Lack of Business Acumen.** For lack of a better word, “lack” of business acumen should be read as the inordinate, nay, stubborn refusal of a big number of cooperative leaders and managers to adapt common practices used by big business.

This is the result of a wrong interpretation of the motto which reads that “a coop is not for profit, not for charity, but for service”.

Where “not for profit” is taken to mean that a coop should not earn as much as any other business of the same volume and nature.

This can be addressed by a series of business management training and on the job coaching. Good governance of funds, adequate publicity and promotion of successful cooperatives can be elements of a programme to address this concern.

Cooperatives should graduate from the “sari-sari store” mentality, a way of thinking that is limited to the operations of a very small retail store with leaders concerned only with dividends and patronage refunds.

The **professionalisation** of cooperative management must be given priority. This can be done through formal schooling, management advisory services, standardisation of systems and procedures, efficient data banking, automation, and in tapping the information superhighway via computers.

**4. Weak Networking and Linkaging.** Most cooperatives have organised themselves into, or have become members of, federations from the barangay to the national level. They are predominantly motivated by funds that can be accessed by affiliation; the building of a political or trading bloc using the same numbers is seldom, if ever, discussed.

Although an increasing number of cooperatives have realised the need to ally themselves with groups outside of the formal coop movement, their number is still insignificant to impact on policies and programmes.

One area that the coops really need to improve on is their skills in lobbying and collective bargaining, especially in view of the Local Government Code. Or else, they will, again, lose by default.

Coops must learn to adapt to the changing environment which necessitates the cooperation of government and private bodies. The traditional political activism (extra-parliamentary) of cooperatives must be graduated into the mainstream.

Effective and critical partnerships will give the coops the numbers required to beat the economies of scale in their business activities.

**5. Gender Responsiveness of Businesses.** In all aspects and levels of business development for cooperatives, the question of gender relations must be factored in.

Many studies have suggested that women, more often than men, are the frontline casualties of national and cooperative programmes that fail.

The role of women in the reproductive and productive systems of both the household and the community cannot be over-emphasised.

Along this line, gendersensitivity training can be a good start. Project development and service delivery mechanisms must be reviewed, reformulated and designed in such a way as to eliminate all possible gender bias.

**6. Environment.** The issue of sustainable development poses a seemingly unsolvable dilemma for the country; how to utilise the environment to satisfy the needs of an ever-growing population while conserving the already severely depleted and damaged resource for the sake not only of the present but, more importantly, of future consumers.

Especially in a third world country such as the Philippines, the issue of environment and sustainable development must be addressed.

Various technologies to address several elements of the environment are available and shown to be successful. Coops can tap and promote these.

To address this issue, strategic business plans must consider the limitations of the resources available in the areas where coops operate, personal consumption lifestyles examined, new indicators and parameters of development adopted and tools designed to gather data, monitor and evaluate the differential impact of coop

businesses on men, women and the environment.

Especially for agricultural cooperatives, their business must be designed in such a way that only surplus resources be exported, not the capital resource. This is the concept or tool of carrying capacity.

Essentially via continued forming and multi-media information, education and communication materials, coops must get more involved in environment issues - not just to respond with relief activities during calamities. Issues such as toxic waste dumping, zero-waste management, recycling, sustainable agriculture and similar concerns must be given more than just passing attention.

## **A Description of VICTO**

The Visayas Cooperative Development Center, or VICTO, as it is more popularly known, is a secondary, non-profit, non-stock cooperative organisation whose membership comes from the broadest spectrum of coop types in the whole Philippines : credit, consumer, marketing, producer, worker, coop rural banks, transport, housing, water and multipurpose coops. It currently has a total of **292 coop affiliates** composed of farmers, fisherfolk, small entrepreneurs, teachers, homemakers, students and more.

VICTO has grown in size and complexity since its **founding in 1970** when a group of enthusiastic people organised a modest training center for coops as a result of the overflow of the coop development efforts led by the Scarboro Fathers (Canadian Missionaries) in Southern Leyte.

By 1976, the Center's corporate structure was changed, and it was incorporated by primary coops. In the years between then and now, services were expanded from purely education and training, to include audit, bookkeeping assistance, project development, consultancy, inter-coop trading, electronic data processing, housing, coop organising and the Visayas Central Fund (VCF).

VICTO currently employs a total of 150 staff for its regular programmes and special projects. It maintains thirteen (13) offices all over the three regions of the Visayas as part of its decentralisation scheme.

VICTO gained further recognition for its efforts to promote cooperativism as a way of life by being the (first) winner of the **1991 Award for Development Management**. This was presented by the Asian Institute of Management (AIM), World Executive's Digest (WED) and Japan Air Lines (JAL).

The award is "presented to a non-government organisation, government agency or

people's organisation which has created considerable impact on its beneficiaries through innovative and effective management in a sustainable manner".

Its advocacy thrusts are focused on gender, savings, local governance, ecology and sustainable development.

### **A. Vision, Mission and Goals**

**Vision :** Strong, viable cooperatives in the Visayas unified by a common aspiration to promote cooperativism characterised by self-reliance, mutual assistance, democracy, justice and nationalism to achieve total human development.

**Mission :**

1. To instill cooperativism as a way of life.
2. To act as a catalyst and unifying force in the promotion, development and cooperation of cooperatives at all levels towards the improvement of the quality of life.
3. To seek ways and means of achieving self-reliance, integration and mutual assistance.

**Goals :**

1. To promote and develop cooperative values and ideals.
2. To strengthen primary cooperatives by ensuring their management effectiveness and accountability through programmes and services.
3. To promote the organisation, development and integration of cooperatives.
4. To assist cooperatives in the development of programmes and projects that will enable members to become independent and productive.
5. To enhance the economic viability of cooperatives.

### **B. Affiliations**

VICTO is affiliated with the National Confederation of Cooperatives (NATCCO). It is also an incorporator, a member and/or officer of various networks and coalitions at all levels, from the barangay to the national level.

Among these organisations are : Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHARRA), Women's Action Network for



Development (WAND), Green Forum Philippines (GFP), Caucus of Development NGOs (Code-NGOs), and the Philippine-Canadian Human Resource Development (PCHRD).

### **C. Pioneering Efforts**

VICTO has spearheaded various programmes and projects which can be considered ahead of its time.

For instance, it undertook a Cooperative Women in Development (CWID) Project in 1987, when it was not yet in vogue to discuss women's issues in cooperative development.

It is currently offering an Associate Course in Cooperative Management (ACCM) and an Associate Course in Cooperative Accountancy (ACCA).

These two-year courses are being piloted in Panay Island, with 21 enrollees. Its curriculum is 30% theory and 70% practicum. This means that the classroom activities are limited while focusing on on-the-job training or coaching with a tutor-consultant assigned to each enrollee to see to it that, in fact, the enrollee does produce results at the coop level. Accreditation of the said courses with the Department of Education, Culture and Sports (DECS) is on-going, in partnership with several large universities and colleges.

VICTO is also undertaking the conduct of Farmers' Field Schools on Integrated Pest Management (FFS-IPM) for cooperatives. This four-month long on-field training involves the production of 'Green Rice' (pesticide-free) on both rain-fed and irrigated rice lands.

The FFS-IPM is pioneering also because of its farmer-to-farmer education exchange mechanism where one farmer learns from his/her own experience and that of others.

# **Vietnam**

## **General Introduction**

Rural area in Vietnam is very large, with 80% country's population and more than 50% million farmers. Throughout the country there are more than 10 million agricultural households with 27 million labour force. Rural area in Vietnam generally and agriculture in particular play a significant role and directly affect the development of country's socio-economy.

Almost 50 years have passed since the first agricultural cooperative was set up. Vietnamese State has, in this period, undertaken different policy measures to promote the development of agriculture making many changes in Vietnamese countryside. Agricultural cooperatives have been provided with the advanced techniques and science (irrigation planning, new rice seed with high productivity and high anti-insect capability, new methods in cultivation and new agricultural equipment have been provided). Thus, the agricultural output is increasing day by day making the living standards of farmers significantly better.

After some years of implementing the economic renovation programme during the transactional period, despite many difficulties, many changes have appeared in Vietnamese economy, which came out from the centrally planning economy with two principal sectors : state-owned and cooperative to be the market economy with multi-sectors. During the renovation period, cooperative economy has seen substantial ups and downs. Many primary cooperatives quickly taken up new mechanisms and catch up very fast with the developments, making their role in national economy growth more important.

## **Development Process of Agri Cooperatives in Vietnam**

The formation and development of agricultural cooperatives in Vietnam may be

divided into two periods : 1955 - 1987 years, and 1987 - up to now. (Years of renovation in agricultural cooperatives along with the renovation in national economy).

### **i. 1955 - 1987 Period**

From 1955 to 1957, Vietnamese Government developed the idea of forming and developing the exchange brigades in agriculture for the purpose of setting up small and voluntary groups just to help each other in rural cultivation. Within only two years, more than 100,000 such groups appeared in the north consisting of 600,000 members.

In October 1957, Vietnamese Government decided to organise the pilot low-level model of agri cooperatives in the countryside, taking 8 coops to be formed to begin with. After a short time, the number of coops increased to 45 with average 16 households per 12 hectares of land (each household had 0.75 ha cultivated land).

At that time, the exchange brigades and low-level coops existed along side but the farmer's consciousness in management was very backward; their life was too difficult because of low income.

During 1958 - 1960 period, low-level coops had positively affected the agri production. In December 1959, Prime Minister enacted the Law on Agri Coops. By the end of 1960, the farmers had voluntarily organised 40,422 coops (out of which 4,316 high-level coops had been formed).

The coop movement had attracted 84% of total farm households to participate in management of more than 68% total cultivated land. Average, each coop had 59 households with 150 labour force and more than 33 ha cultivated land.

Coop activities began to have effect on irrigation planning, preventing disasters, increasing the number of crops and managing the ploughing forces. However, the coops had just been set up and their number had increased very fast, so many faults and mistakes appeared in management; coop managers were not educated and they had very low knowledge; cultivation techniques were backward which led to unstable production; cultivated area and size were very small; the important voluntary principle had not been observed; anti-democratic management and unfair product distribution could not improve the living standards of farmers. Generally, the low-level coops had increased very fast in number but also had very low economic effect. The condition of coops went from bad to worse and could not meet the demand of the farmers.

During 1961 - 1974 period, high level coops had been formed. In 1965, their

strength reached 18,560 coops, covering 74.4% of total agri coops. The important issue during this period was that Vietnamese Government invested substantial funds in coops (supply of machine and equipment, such as tractors, ploughing machines, rice distributor, irrigation system and construction of material - technical base). The coop activities began to improve with increasing production. However, due to the fast increasing number of coops, the following issues remained unresolved :

- Coop-size was large but coop managers were not trained and educated to meet the qualifications needed for managers.
- Price of products was unstable which led to shortening of funds with coops.
- Farmers' living standards did not much improve.

In 1975, south of Vietnam had been liberated with hard consequences of war on economy. Only after 5 years, 1,518 coops and 9,350 agri groups had been set up, out of which there were 1,065 high level agri coops. By the end of 1985, the number of coops had decreased very fast; only 367 coops existed. The agri coops was a more suitable model; therefore they developed quickly reaching 12,036 units within a short time. After this, Vietnamese State again adopted the policy to strengthen and reorganise the agri coops. Due to this decision, the agri coops began to get certain results : Self-control rights of farmers were paid more attention; and Material - technical base was used more effectively.

### **1988 - Up to Now**

This is the period of all-sided renovation in agriculture following the Decision No.10 of Vietnamese State. The renovation in agri administration is implemented in all fields :

- Farmer's household is considered to be the economic unit in countryside;
- Many new models of agri coops with specialised functions had been set up, meeting the demand of direct supply to each household;
- Coop members receive income according to their productivity; and
- The bulky administration staff of coops was reduced by 50%.

The economic renovation in Vietnam changed the face of rural area very fast. Farmers households have the right to self-control and self-management on their land area in cultivation. Thus they are encouraged in production, compete with each other and improve their living standards. Agri output increased very fast. In 1993, country produced 24 million tons of food. So, from the position of

permanent food shortage and always having to import food, Vietnam has begun to export rice. In 1993, it exported more than 1 million tons of rice.

However, even now we are facing many difficulties in agri production :

- Too big size of some agri coops in some areas; they are short of funds and in administrative knowledge in market economy.
- Agri products cannot be fully processed due to backward processing industry. This leads to low quality of processed food for export. Also coops' marketing capability is very limited.

### **Some Key Solutions for Development and Improvement of Agri Coops in Vietnam**

- In order to develop and improve the agri coops in Vietnam, presently we pay attention to studying the activities and organisational models of agri coops in other countries undertaking suitable methods for the economic renovation in Vietnam with reference to promoting and supporting the development of economic activities in each farm household.
- Applying the most advanced technical science to each household, creating conditions for coops and their members to process their products; expanding opportunity to find out market channels.

For the implementation of above solutions, the Government should have detailed policy in the following :

- Providing funds to farmers and coops in different forms;
- Making favourable conditions for intensive farming;
- Paying more attention to training affairs and education of coop managers and other management staff, as well as each household; and
- The Government's role is decisive. Therefore, Vietnamese Government should have a correct policy to promote and develop the agri coops in order to help the rural socio-economy.

The agri coops in Vietnam play a very important role in organising production and in helping farming households in rural areas to develop. In other words, they are trying to make an improved and fully competitive agri production process just to bring the effects of economic development to the society. In the all-sided economic renovating process of Vietnam, the role of agri coops is more important; and they will develop continuously, and become stronger in the coming years.

## Summary of Evaluation

1. Do you think that the Seminar has achieved its objectives? Yes : 11
2. Do you consider the topics discussed in the seminar were informative & useful for upgrading your knowledge & skills? Yes : 11
3. Please indicate the topics you found to be very useful.
1. Banking and Credit.
  2. Cooperative Insurance
  3. Agricultural Cooperative Marketing
4. Please indicate any additional topics you would like to be included in future seminars.
1. Fruit processing in Korea
  2. Agricultural machinery use.
5. What specific topics/areas you would prefer to exclude in the subsequent seminars? (Please indicate specifically).
- Nil
6. What is your opinion about the overall teaching techniques and training methods adopted for coverage of topics?
- | Very Good | Good | Satisfactory | Not Satisfactory |
|-----------|------|--------------|------------------|
| 8         | 2    | 1            | 0                |
7. Could you give specific suggestions for improvement?
1. The duration of the semeinar should be more.

8. Do you consider that the outside practical study visits were useful and relevant?

Yes : 11

*Specific Comments*

1. First hand experience and practical exposure.
2. Study visits are important to have a clear picture of agricultural activities and to talk with farmers about their jobs.

9. How was the practical arrangements in relation to conduct of the study visits?

Very Good	Good	Satisfactory	Not Satisfactory
8	3	0	0

10. What is your opinion about the physical facilities provided by the Agricultural Cooperative College with regard to :

	Very Good	Good	Satisfactory
a. Lodging arrangements	9	2	0
b. Boarding arrangements	9	2	0
c. Classroom arrangements	10	1	0

*Specific Comments*

Nil

11. Give your opinion about the conduct of the seminar and training material.

Very Good	Good	Satisfactory	Not Satisfactory
9	1	1	0

12. Do you have any other suggestions and remarks?

Good seminar for learning Korean experience.

# Seminar Programme

<b>5th Sept, Mon.</b>	Arrival of Participants
<b>6th Sept, Tue.</b>	
0900-1000	Registration
1000-1030	Opening Session :
	<ul style="list-style-type: none"><li>* Opening address by Dr. Kyo-Eun Kim, Dean of Agricultural Cooperative Junior College.</li><li>* Remarks by Mr. Guo Yong Kang, ICA ROAP.</li><li>* Introduction of Seminar Participants.</li><li>* Taking Group Photo.</li></ul>
1030-1100	Coffee break
1100-1200	Country Paper Presentation (Bangladesh, China).
1200-1400	Lunch break
1400-1500	Proceed to the headquarters of NACF.
1500-1700	Slide Presentation on Agricultural Coop in Korea & Lecture 1 : Agricultural Cooperatives in Korea - a Broad Outline by Mr. Yong-Jin Kim.
1700-1730	Visiting the Agricultural Museum.
1830	Welcome dinner hosted by NACF.
<b>7th Sept, Wed.</b>	
0930-1100	Country Paper Presentation (Indonesia, Malaysia and Myanmar).
1100-1120	Coffee break
1120-1230	Country Paper Presentation (Pakistan and Philippines).
1230-1400	Lunch break



- 1400-1540      Lecture 2 : Tasks and Development of Agricultural Cooperative in Korea by Dr. Sang-Ho Choi.
- 1540-1600      Coffee break
- 1600-1800      Lecture 3 : An Overview of Agricultural Cooperative Marketing in Korea by Dr. Young-Kon Koh).
- 8th Sept, Thu.**
- 0900-0903      Country Paper Presentation (Vietnam).
- 0930-1130      Lecture 4 : Purchasing Business of Farm Production Input and Consumer Goods in Korean Agricultural Cooperatives by Dr. In-Sik Shin.
- 1130-1150      Coffee break
- 1150-1230      Lecture 5 : The Financial Business of NACF and Primary Cooperatives by Mr. Kyoung-Soo Chang.
- 1230-1400      Lunch break
- 1400-1540      Lecture 5 (continued).
- 1540-1600      Coffee break
- 1600-1800      Lecture 6 : Cooperative Insurance Business of NACF by Dr. Tae-Bong Lee.
- 9th Sept, Fri.**
- 0900-0930      Country Paper Presentation (China).
- 0930-1200      Cooperative Education by Mr. Shil-Kwan Lee.
- 1200-1300      Lunch break
- 1300-1430      Proceed to the Chainstore Department/
- 1430-1600      Visit to the Central Distribution Complex of Consumer Goods of NACF.
- 1600-1700      Visit to the Yangjae Farmers' Weekend Market.
- 10th Sept, Sat.**
- 0930-1030      Field Trip
- 0930-1030      Visit to the Byuckjae Primary Agricultural Cooperative.

<b>1100-1200</b>	<b>Visit to the Koyang City Office.</b>
<b>Afternoon</b>	<b>Visit to the Unification Park.</b>
<b>11th Sept, Sun.</b>	<b>Sight-seeing in Seoul (Kyung-Bok Palace and Chamsil Lotte Center).</b>
<b>12th Sept, Mon. -</b>	<b>Field Trip</b>
<b>0800-0930</b>	<b>Proceed to Garak Agricultural Wholesale Market.</b>
<b>0930-1100</b>	<b>Visit to the Garak Agricultural Wholesale Market.</b>
<b>1100-1230</b>	<b>Proceed to Echun County.</b>
<b>1230-1400</b>	<b>Lunch break</b>
<b>1400-1530</b>	<b>Visit to the Rice Processing Complex of the Moga Primary Agricultural Cooperative in Echun County.</b>
<b>1530</b>	<b>Proceed to the Sorak Mountain.</b>
<b>13th Sept, Tue.</b>	
<b>0900-1130</b>	<b>Visit to a Farmer's House.</b>
<b>1200-1330</b>	<b>Lunch break</b>
<b>1330-1800</b>	<b>Sight-seeing in Sorak Mountain.</b>
<b>14th Sept, Wed.</b>	
<b>0830-1500</b>	<b>Return back to Seoul.</b>
<b>1600-1800</b>	<b>Preparation of Report.</b>
<b>15th Sept, Thu.</b>	
<b>0900-1000</b>	<b>Presentation of report by participants.</b>
<b>1000-1200</b>	<b>Evaluation and Closing Session.</b>
<b>Afternoon</b>	<b>Free</b>
<b>16th Sept, Fri.</b>	<b>Departure of Participants.</b>

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27. Mr. Jong-En Kim  
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