

Report of the 3rd ICA-NACF Regional Seminar on  
**Agricultural Cooperative Business  
Development with special reference to  
Korean Experience**

Seoul, (Republic of Korea) : 6-15 May 1996



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Co-ordinator  
Guo Yong Kang

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**International Co-operative Alliance**  
**Regional Office for Asia & the Pacific**  
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**International Cooperative Alliance**

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# INTRODUCTION



# Introduction

## Proceedings

The 3rd 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 May 1996. 10 participants from seven countries, i.e. China, India, Malaysia, Mongolia, Myanmar, Philippines and Vietnam attended the seminar.

The broad 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.

The seminar was inaugurated by Dr. Kyo-Eun Kim, Dean, Agricultural Cooperative Junior College of NACF. In his inaugural address, he said that the main objective of agricultural cooperatives is to improve the social and economic status of farmers by exercising the spirit of cooperation among farmers. Therefore, the strengthening of agricultural cooperatives in every country, especially in developing countries, has been considered as one of the most important factors for agricultural and rural development. 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. Shil-Kwan Lee, General Manager, International Cooperation Office of NACF, welcomed the participants. Mr. Guo Yong Kang, Agricultural Cooperative Development Advisor, ICA ROAP, 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 Ohyang and Suanbo Region.

The participants felt that 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.

# Opening Address

**Dr. Kyo-Eun Kim**

President, Agricultural Cooperative College

Mr. Guo Yong Kang, Agricultural Cooperative Development Advisor of ICA Regional Office for Asia and the Pacific, distinguished participants, ladies and gentlemen!

It is my great pleasure to have the ICA/NACF Regional Seminar on Agricultural Cooperative Business Development with special reference to Korean experience in my campus and to be here with you at the opening.

On behalf of the agricultural cooperative college of Korea, I would like to extend my heartfelt welcome to all of you participating in this seminar.

I understand that the purpose of this seminar is to review the progress of agricultural cooperative movement of each country in Asian region and to help strengthen and improve agricultural cooperative business with special reference to Korean experiences.

As you know well, the main objective of agricultural cooperatives is to improve the social and economic status of farmers by exercising the spirit of cooperation among small farmers. Therefore the strengthening of agricultural cooperatives in every country, especially in developing countries, has been considered as one of the most important factors for agricultural and rural development. For this reason, most Asian countries have been encouraged to strengthen the functioning of agricultural cooperatives for the development of rural sector.

In Korea, the multi-purpose type agricultural cooperatives achieved a significant progress in various fields of activities in short period of time. It was made possible through the continuous efforts by cooperative leaders as well as the member's affirmative participation in the agricultural cooperative movement.

However, it is true that Korean agricultural cooperatives are now facing many difficulties in business operations because of rapid increase of imported farm products and unlimited competition with private enterprises caused by the liberalization of economy and

market opening. I hope the discussions and findings in the seminar will be very useful for you to improve the agricultural cooperative business in your country.

According to the views of many scholars and experts, it is reported that the world economy will face resource crisis, namely, crisis of food, water supply, and energy in the twenty first century.

Some of the scholars also say that the present capitalistic economy has reached the limit of economic growth, predicting that the capitalistic economy will collapse in the near future. In this connection, I fully agree with the views of some scholars asserting that the development of agriculture and cooperative system is most urgent to cope with the problems of the world crises.

In our country the self sufficiency rate of food grains is falling rapidly. During the past three decades, the self sufficiency rate has gone down to less than thirty percent, from 100 percent. During the same period, the number of farm households has decreased from 2.5 million in 1965 to 1.5 million in 1995. Furthermore, according to a survey, it is reported that about 75 percent of farm households will give up their farms in ten years.

In these circumstances, the main tasks of Korean agriculture can be explained as follows :

First one is to ensure self sufficiency in rice crop. Second one is to increase the competitiveness of Korean agriculture. Third one is to enhance the farm household income by developing farmer-oriented agri-business in the fields of agricultural marketing and food processing.

To do this, Korean government and the NACF are pushing forward the following strategies.

First, we are trying to cultivate and train the young prospective farmers by providing them with various kinds of supportive measures. Second, we have been working very hard to strengthen the farmer-oriented business function of agricultural cooperatives for the development of rural sector. Third, we put emphasis on strengthening rural-urban cooperation to ensure the sustainable development of cooperative movement.

This agricultural cooperative college was established in 1962 by the NACF. The main function of this college includes cultivating young cooperative leaders and training of officers and employees of agricultural cooperatives, and member farmers.

This college also conducts various kinds of research works at the Rural Development Institute and Food Processing Technology Research Institute which opened last year. During the past three decades, more than three thousand students have graduated from this college and around 7 thousand staff members of NACF attend a variety of training courses of the Central Training Institute annually. In future, we will put more emphasis on the cultivation of young prospective farmers and the strengthening of research activities in addition to the regular program of this college.

During your stay in this campus dormitory, I think the facilities and services will not be so satisfactory to you because the accommodation facilities of this campus have been focused on the training of local staff members. I and my staff will try to minimize your inconveniences. Lastly, I sincerely hope that this seminar turns out to be fruitful and rewarding one to all of you, and you all will have a pleasant stay in Korea.

Thank you.



# LECTURE PAPERS



# **Agricultural Cooperatives in Korea**

## **- A Broad Outline**

**Yong-Jin Kim**

Senior Advisor,  
National Agricultural Cooperative Federation  
Seoul, Korea

### **1. General Introduction of NACF**

#### **A. History**

- 1961 : The present multi-purpose cooperative organization was inaugurated by merging the agriculture bank and the agricultural cooperative, with a three-tier system of village coops, county coops and the national federation (NACF).
- 1981 : The nationwide organization was restructured into a two-tier system of member cooperatives and their national federation. The former county-level cooperatives were dissolved to be 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 the direct election of presidents of both the federation and its member cooperatives.
- 1995 : NACF was reorganized into two separate headquarters under the same umbrella : one for the banking and insurance service, the other for the supply and marketing enterprises.

#### **B. Characteristics**

- A farm producers organization democratically organized with their capital subscriptions
- Multi-purpose type of cooperatives engaging in supply and marketing enterprises, banking, insurance, and farm extension service
- Dual character of cooperative movement and business management
- A banking institution exclusively handling farm credit, with NACF serving as a deposit money bank and its member cooperatives as credit cooperatives

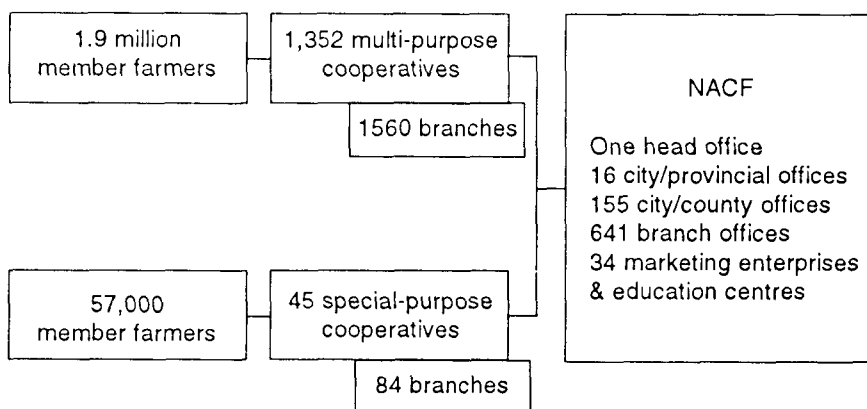


### C. Organization & Staff

#### *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 organizations.

#### *Organization*



#### *Staff*

<u>Member co-ops</u>	<u>No. of staff</u>	<u>Percentage</u>
Multi-purpose co-ops	48,568	70.7
Special-purpose co-ops	2,160	3.1
Sub-total	50,737	73.8
<u>NACF</u>		
Head office	1,072	1.6
City/provincial offices & business enterprises	3,162	4.6
City/county offices & branches	13,734	20.0
Sub-total	17,968	26.2
Total	68,705	100.0

**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 : Authorized to elect the NAFC president and one standing auditor.
- Representatives Meeting : Top policy-making body in lieu of the general assembly. consists of one multi-purpose 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 deputy chairman & chief executive officer, 12 presidents of member cooperatives, and 3 cooperative specialists. 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 & feedstuffs
  - Supply of consumer goods
  - Warehousing & transportation
  - Deposit & loan

Banking :

- Trust & securities
- Foreign exchange
- Farm credit guarantee
- Credit card

Mutual insurance :

- Life & damage insurance
- Health check-up service & scholarships refund
- Operation of farmer resort hotels

Extension service

- Farm management & home economics
- Implementation of rural structural improvement projects
- Promotion of grass-roots organizations
- Member farmer education
- Political & legislative activities
- Research & public relations

### ***F. Major facilities***

Marketing facilities  
in producing areas

2,598 simple farm produce collection  
points  
418 cold storage, improved warehouses  
73 fruit packing houses  
5,206 grain warehouses

Marketing facilities  
in consuming areas

86 coop marketing centres  
200 direct marketing outlets  
6 farm product distribution depots  
320 supermarkets

Processing facilities

172 food processing plants  
129 rice processing complexes

Farming-related facilities

5,343 fertilizer warehouses  
9 farm machinery parts supply centres  
723 farm machinery service centres  
137 gas stations

Welfare & utilities	650 gas transport vehicles 174 LPG shops 2,066 chainstores 3 farmer resort hotels 384 funeral service centres
Educational facilities	1 agricultural cooperative junior college 3 agricultural cooperative leaders training institutes 6 stall training institutes 6 technical training institutes for farmers
Banking facilities	796 NACF banks 2,912 member cooperative banks
NACF-invested establishments	1 farmer newspaper company 1 agricultural cooperative trading company 1 agricultural technology exchange centre 1 Korea agricultural cooperative marketing co. 1 Korea Coop-Agro Inc 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 organization.
  - Implemented as agents for the government such institutionalized business as farm loan, fertilizer supply, grains procurement, etc., mostly through county co-ops.
- 1970s : Developing the managerial viability of primary cooperatives
- Consolidated village-level primary co-ops (7,525 co-ops) into township-level co-ops (1,490 co-ops).
  - Expanded mutual credit, chainstore business, and support services for increased foodgrain production.
  - Transferred the key business items of county co-ops (farm

loan, fertilizer supply, product marketing, mutual insurance) to primary co-ops.

1980s : Diversifying and expanding cooperative business

- Strengthened the banking service (expanding the banking network, installing the on-line system, etc.) aimed to mobilize financial resources for farm loans.
- Initiated agricultural marketing improvement programs 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 Business Sectors**

	In billion Korean won*		
	1970	1980	1995
Marketing of farm products	35.2	692.7	7,155
Grains	58.1	127.9	3,163
Fruits & Vegetables	7.5	196.0	3,002
Other products	19.6	368.9	990
Supply of farm inputs	39.2	431.9	2,575
Chemical fertilizer	29.0	217.2	369
Other farm inputs	9.2	183.3	497
Mixed feed	1.0	31.4	491

Supply of consumer goods	1.9	80.4	1,218
Deposit (outstanding)	97.8	1,871.5	49,801
NACF	105.9	1,181.4	16,205
Member co-ops	2.8	528.0	23,842
Mutual insurance (policies sold)	69.7	540.3	35,580
Farm credit guarantee (outstanding)	-	90.8	4,478

\* At the end of 1994, one U.S. dollar was roughly equivalent to 800 Korean Won.

### **3. Basic policies for future development**

#### **A. Targets**

Competitive agriculture :

Cooperating rural community :

#### **B. Policy directions**

- Mobilize cooperative efforts and resources toward 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 organizational 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 programs to help improve the quality of life for farmers.
- Achieve top-ranking "community life banks" to unsurpassed customer satisfaction.

# **Training Strategies of Agricultural Cooperative for Manpower Development**

**Sang-Ho Choi**

Deputy Dean Professor,  
Agricultural Cooperative College

## **1. Agricultural coops. should survive and develop for farmers**

In one sense Korean farmers can be said to have been managed and controlled by the government to lead farming and living more effectively. Facilities for them have been also provided mainly by the government. Even referring to agricultural cooperatives, it had not been initiated or established by farmers themselves, but by the government from top to bottom. This has negatively affected the development of farmer's ownership.

But during the last 35 years agricultural cooperatives have made a remarkable progress in business volume and quality services. In terms of rural development also, agricultural cooperatives have such merits as self-help farmer's organization, playing multiple roles of farming and rural life, a big size of potential energy and a high level of publicity in doing business. Therefore it has succeeded in getting understanding and approval from farmers and in making them participate more in cooperative activities. The trend has been strengthened with the beginning of Local Autonomy in July 1995.

But in contrast to this brightness in change of social environment a world-wide opening of agricultural products-market to foreign countries has severely challenged the farmers even to survive. They will have to be in a position to be more active in finding more appropriate farming items, getting higher technologies, doing more efficient marketing and management skills as a whole, to more relative advantage.

As the biggest farming institution, agricultural cooperatives in Korea have been trying to handle their business more efficiently so that they may give more profits and better services to farmers. So agricultural cooperatives and their federation have to emphasize on the activities of training and guidance. The last year 1995 was called as "Year for guidance for farmers".

## 2. Development of manpower is the main factor for the development of farmers and their cooperative

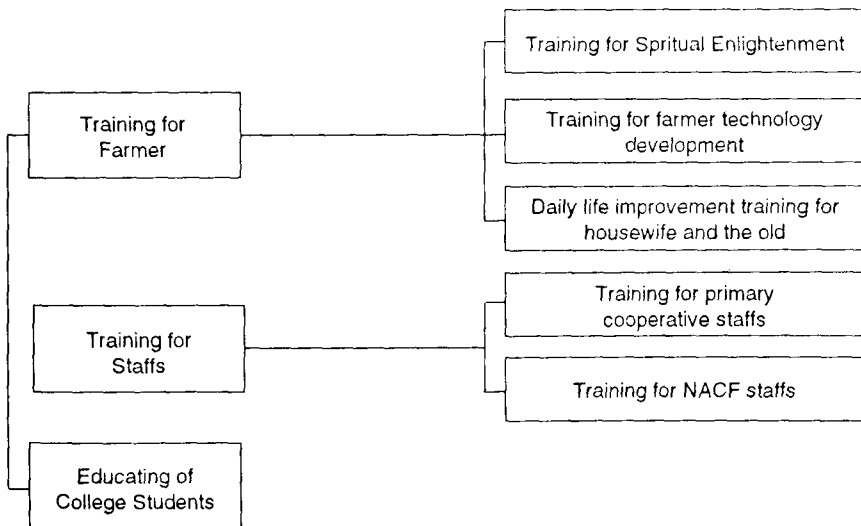
### (1) *Spiritual reinforcement and development training :*

We have to emphasize more on developing human resources for the higher attainment of our cooperative goals in every country. In line with this agricultural cooperatives in Korea also have tried to develop farmers and staffs since the early 1960s, establishing the present institutions.

Cooperative training here can be classified into three fields : (1) training for farmers, (2) training for cooperative staff, and (3) educating college students. Training for farmers is implemented under three basic different training programs : (1) for spiritual enlightenment, (2) for farming technology development, and (3) daily life improvement for housewife and the elderly people. Training for farmers has been implemented with strengthening of spiritual revitalizing and technology development. In the training for cooperative staff, management and attitude are the main fields to be focused on.

In some sense, education of college students is intended to develop basic cooperative movement elites through giving some advantages for them in this college. Therefore general system of the training of agricultural cooperative in Korea can be summarized as follows :

**Fig I : General System of Agricultural Coop. Training in Korea**





Spiritual revitalizing and enlightenment training for farmers can not be said to have been derived for cooperative but for farmers themselves. It means the program has been organized and implemented for the farmers.

This policy has been effective and successful. Seventy five to eighty five percent farmers have responded, admitting the training to be very effective.

Practical effects of this training on the cooperatives, has been the development or reinforcement of membership, willingness to cope with difficulties, problem solving abilities and so on. Also cooperatives can be happy to find farmers to be more understandable, friendly and cooperative to cooperatives through cooperative training for farmers. And cooperatives are able to build a supporting ground for them to develop many kinds of cooperative business from highly motivated farmers.

The effectiveness of farmer's training is found to be related with three training policies :

First, policy of training for farmers, "practical to farmers" has been kept from the beginning until now. So the institute has been very careful in organizing program subjects and lecturers, on the basis of practical needs affecting attitude changes.

To arrange training in "an atmosphere of autonomy" is the second policy for effective membership training. It means that trainers do not force or directly lead learners to do something or not to do something. They induce them to reflect on themselves to find out what and how to do.

The third policy of farmer's training is to handle learners "in a humane way". Trainers treat learners in a friendly way and give exceptional concerns for them in implementing every part of training program. On the side of learners, they can easily get the mind of the trainers and be easily motivated to actively participate in the training activities and to follow their advice and suggestions.

Therefore we can conclude that agricultural cooperatives try to build farmer's power from farmer's training, and have rightly named the Institute as Agricultural Cooperative Training Institute for Globalization of Agriculture (ACTING).

A new educational approach to develop "Region-based farming" was developed in 1995. It is carried on in a group comprising leading farmers, cooperative presidents and guidance staffs, farming guidance

chiefs and officials, local government chief and officials, local assembly head and its members, and representatives from many other organizations and institutes in the same region.

It aims at motivating all institutes and persons concerned with region-based farming, to acquire better understanding of and be more interested in, and make integrated efforts for the success of farming in the region. In the first year 1995, about one-fifth regions participated in the above-mentioned multiple training and it was appraised very successful to the extent that about 85% of participants called the training to be highly effective.

### *(2) Training for farming technology development*

Training in farm production technology is being arranged mainly by the government in Korea. But with the development of farming techniques, government-oriented farming guidance has not been enough to satisfy the needs of farmers. Particularly the number of government officials engaged in farm guidance is not enough to meet farmer's needs. Moreover, they have little experience of practical farming in the field.

Under the above-mentioned situation a farming production technology training program was developed by this cooperative college as an extra outside activity in 1984.

During the last ten years this technology training has been successful. It has become one of the most effective training program in the field.

Major factor of effective training can be found from the fact that the training is developed, organized and implemented to be practical on the side of farmers. It is reflected by the strong willingness of learners to participate in the training even with the condition of meeting a part of training cost by themselves. Encouraged by the success of production technology training, the cooperative college has undertaken some other training programmes for farmers. For example it does the training for farm mechanization from 1992, and a training program for processing techniques of farm products is being implemented since 1995.

### *(3) Cooperative staff training*

It's true that agricultural cooperatives emphasize on farmers training in this decade. But we also emphasise on the development of cooperative staffs particularly in cooperative idealism, modern man-

agement and practical know-how required.

The staff training ranges from 2 to 3 day's short term training to several week's courses according to staff's positions, roles and development purposes.

Most of the training for NACF staffs is done at agricultural cooperative central training institute in the college campus. Primary cooperative staffs is trained at 5 provincial agricultural cooperative training institutes mainly for the development of management knowledge and skills.

Since 1993 agricultural cooperatives are implementing a spiritual development training program for all cooperative staff attending along with farmers at the training programmes originally meant for farmers. It is intended for cooperative staff to better understand present rural situations, problems faced by farmers and to build we-feeling with them.

Cooperative college has been handling an advanced management program for primary cooperative presidents since 1993. It lasts six months, but actually participants are to be present at the college only for a few days.

It was organized and developed to be aimed at getting the sharp sense of changing environment, developing management power and getting practical knowledge and information about their cooperative.

### **3. Agricultural cooperative staffs should be more productive and devotional**

The best way to increase productivity in a short run in any sector is "good personnel management" while the best one in a long run is training and education. For the staffs to be highly motivated towards their job, they should be given salary and promotion on the basis of capability and job accomplishment.

Otherwise, they get into the habit and practice of doing job in a casual manner and they are apt to be less active to change of situations, enjoy as free rider, be less responsible for the job attainment, be authoritative and be less active in doing job.

Therefore Korean agricultural cooperative should introduce a personnel management system which easily be motivate the staff to devote themselves to doing jobs.

It means that the amount and level of result which each staff

receive should basically depend on his or her achievement in handling job. In other words, the harder they work, the more they receive. This is a "achievement-based reward personnel management system".

In other words, cooperatives have to adopt a free competition system, being away from the conventional practice of management on the basis of equal dividing. Through vitalizing the management atmosphere by giving cooperative staff a motive to work hard for more reward, agricultural cooperative should be successful in keeping up the quality of their services.

For the policy to be effective, agricultural cooperative staff members have to change their present authoritative manners and practices to service-oriented ones. They have to develop good attitude enough to induce customers to get willing access to the cooperative.

They also have to try to actively introduce the way of thinking, getting information and marketing strategies just like businessmen. 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 the staff indulge in achieving the cooperative goals.

A major strategy to increase productivity of cooperatives should be the merging of the present township-level primary cooperatives in county-level ones.

Through merging of the small scale cooperatives, they can save the fixed cost of management, get the benefits of economies of scale, easily specialize staffs in specific fields, encourage competent youth to be recruited by cooperatives, and prepare large-scale facilities needed 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 acquiring a 11 storey building with 8 floors above ground and 3 underground.

The building can be used as follows:

Ground	:	Parking lots, gas station
1st fl. underground	:	Supermarket for food and agri. products
2~3rd fl. above ground	:	Parking lots
1st fl. above ground	:	Banking offices
2~3rd fl. above ground	:	Department for goods except food
4~5th fl. " "	:	Staff offices

6~7th fl. “ “ : Travel agency, funeral parlour, wedding hall, meeting hall

8th fl. “ “ : Restaurant

Agricultural cooperatives should try to change their already-acquired image of agricultural producer's cooperative into regional cooperative. To do this, they have to develop a variety of such life-related business as paying loans to facilitate education and wedding needs for farmers' children, to help tours inside and outside the country and handle other non-farming business for residents regardless of farmers.

They have to expand cooperative movement even to non-farming residents by encouraging them to become cooperative's sub-members. Therefore, cooperatives should try to rearrange operating manners and principles of business which might give disfavour to them.

Consequently the main factor for development in any sector may be human factor. In line with this, cooperatives should succeed in retaining highly qualified cooperative presidents by encouraging member farmers to elect them without dropping into the hole of corruption and manipulations.

Cooperatives also should continuously emphasize on developing appropriate work ethics and attitudes to be relatively advantageous.

To sum up, the following are the strategies adopted by us for the successful operations of cooperatives and the same form the basis of our training programmes :

- i) The farmers be spiritually prepared to be loyal and intelligent members of their cooperative;
- ii) In addition to the agricultural development activities of the government, the cooperatives should also undertake farm guidance activity;
- iii) In the interest of efficiency, the staff salaries and promotion be linked to their performance;
- iv) The office and business premises of cooperatives should be more customer friendly.

# **Marketing Business of Agricultural Cooperatives in Korea**

**Young Kon Koh**

Professor, Agricultural Cooperative College

## **Introduction : Markets & marketing for economic development**

Market for farm products is essential for agricultural development in particular and economic growth in general. A market is considered from three angles. (1) Demand - There must be someone, somewhere who wants to and is able to buy farm products, (2) Marketing system - Someone through whom to sell farm products, and (3) Confidence - Farmers and consumers must have confidence to work with the marketing system.

It is widely understood that the word "marketing" has so many aspects and that we cannot define it in a few words. Drawing a boundary of marketing is bound to miss some aspect or the other of the marketing. As far as the definition of the marketing is concerned, it seems to be true that a professor proposes but the market disposes.

The role of marketing in an economic system was well illustrated by Peter Drucker. 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: (1) crystallizing and directing demand for maximum productive effectiveness and efficiency, (2) guiding production purposefully towards maximum consumer satisfaction, and (3) 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 or 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 on two aspects of marketing: the organizational 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: (1) data or information, (2) theory, (3) normative models, and (4) forms of management or implementation (see table 1)

**Table 1 - Micro and Macro marketing**

<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” theory on marketing
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 originally based on the “agricultural cooperative law” legislated in 1961. It was stipulated that any organization that does not follow the law shall not be called as an “agricultural cooperative”. The law regulates not only the organizational structure of the overall 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 the agricultural cooperatives in Korea have a unique feature of a government institution although they are basically a private enterprise. Therefore, their marketing business has been performed on the basis of the two different concepts of macro and micro marketing.

A government organization is financed by tax revenue and exists for the benefit of general public. But a cooperative as a private enterprise must be self-financed (not by tax revenue), and its financial viability is critical for its existence and survival. The benefit of its member farmers is more important than that of general public for a cooperative. Fairness, transparency, and stabilization of general prices are important from the macro marketing point of view, while profit (or surplus), competitiveness, cost efficiency are critical to micro marketing.

Conflicts have been experienced between the two aspects of micro and macro marketing in Korea's agricultural cooperative history. What is desirable from macro marketing point of view may not always coincide with what is expected by member farmers or by cooperative managers from micro marketing point of view. Trade offs and compromises between the two types of micro and macro marketing must be made inside the agricultural cooperatives. Therefore assessment and evaluation on the performances of the agricultural cooperative marketing depends on which side one emphasizes.

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 establishment. The marketing business has faced enormous challenges not only from the changing agricultural economy but also from the changes in the political, social, and economic environments in which agricultural cooperatives exist and operate.

In the 1960's 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 were predominantly important staple foods in Korea. The marketing business of these food grains was based on the "food grain management program" of the government. Agricultural cooperatives performed the functions of buying, storing, milling, and releasing of



the staples according to the instructions given by the government and at the prices predetermined 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 staple foodgrains, the cooperatives handled various kind of cash crops under the name of raw material marketing programs. Commodities covered by the program included sweet potato for alcohol, silk cocoon, flax seeds, rape seeds, cotton, and rabbit fur , although the list underwent frequent changes due to the supply and demand situation of the commodities. 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 was same throughout the country, usually higher than the market prices and import prices. 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 allocate import quota of the raw material based on the quantity of domestic farm products they use.

In the situation of import liberalization of most agricultural commodities since mid 1980s, this type of cooperative marketing business becoming less and less important in terms of business volume and farmers interests.

### **Emphasis on retail outlets**

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, cooperative chain store, and Mutual insurance business. In other words, primary cooperatives began to be capable to secure the necessary funds, facilities and manpower for the promotion of marketing businesses.

The merger of the village level cooperatives into township level ones coincided with a rapid economic growth and urbanization of Korea. During the period of 1965-75, the non-agricultural population increased by 10 million from 13 million to 23 million and the ratio of

farming population to the nations' total population dropped from 55 percent to 37 percent.

Increase in per capita income brought about changes in the food consumption pattern and the demand for meat, fruits and vegetables grew rapidly. Decrease in farm population and growth of urban population coupled with increase in per capita demand accelerated the rate of increase in total quantity of farm products to be handled by marketing system.

These social and economic changes spurred the commercialization of agricultural production and boosted farmers' interest in cooperative marketing. As a result, the cooperatives strengthened efforts to invest in marketing facilities such as rice mills, transportation vehicles and retail shops for farm products. During the 1970-1975 period, cooperative sales of farm products increased by an annual average rate of 70 percent, excluding the government-entrusted sales of rice and barley.

As the volume of farm products sold by agricultural cooperatives increased, they began to pay great attention to the terms of trade between cooperatives (the sellers) and private merchants (the buyers). In other words, many cooperative leaders believed that private merchants were earning too much profits from their wholesaling and retailing. This was a major driving force that made cooperatives expand their wholesaling and retailing outlets in large cities. The retail sales networks established by agricultural cooperatives included food grain stores and mini-supermarkets. The number of the NACF food grain stores rose from 17 in 1975 to 1,000 in 1978. The sharp increase in the number of retail outlets was triggered by the government policy to prevent agricultural prices from rising.

The NACF food grain store and NACF mini-supermarkets were actually retail agents of the NACF and operated by private merchants. They were required to sell farm products supplied by the NACF at the prices predetermined by the NACF or by the government. In short, the NACF retail outlets were utilized as a tool for stabilizing retail prices at a certain level that was thought to be tolerable by government. However, market prices did not follow the government intention. It was recognized that the attempts to control retail prices through the NACF retail agents proved to be ineffective and most of them disappeared after a short life.

## **Marketing business in transition : Changes in 1980's**

Since the beginning of the 1980s, commercial farming became more prevalent. The government marketing policy began to switch from regulatory measures or administrative guidance to greater investments in marketing infrastructure. It was realized 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 (1) rapid urbanization, (2) specialization of production by region (3) specialization of production by individual producers, and (4) increase in per capita consumption. Marketing of fruits and vegetable, livestock products became more important than before. In response to changes in the food consumption and buying behaviour, supermarkets mushroomed in many large cities.

Adjustment of agricultural cooperative marketing business in 1980' can be summarized as follows. First, primary agricultural cooperatives and horticultural cooperatives in producing areas began to be 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, it was felt that voluntary participation of farmer members was one of the most important necessary conditions for its existence and success. Member participation was not very important when the role of a cooperative was focused at the government entrusted marketing. To encourage farmers to participate, agricultural cooperatives placed emphasis on the role of "cooperative farming/marketing groups" organized among farmers producing same crop at village level.

Third, producers and cooperatives began to introduce the concept of quality differentiation. As consumer income grew they became conscious of quality than price of a farm product. High-quality product sold well. Low quality than price of a farm product lost markets. Agricultural cooperatives began to use labels with their own brand of farm products they market.

Consequently, it was common to observe market competition between geographical areas of production.

In the case of rice, high quality japonica type rice began to receive a significant amount of premium price over indica type rice,

and rice produced in a certain region received a premium price over rice from other regions. The same was true for almost all kinds of farm products.

Other specific characteristics of agricultural marketing business were found in the 1980s. They included the operation of large supermarkets in urban areas, increasing risks and uncertainties of the business managements, growing attention to processing of farm products.

Growing concerns on domestic market opening in response to the changing world trade environments was also an important factor that influenced agricultural marketing business of agricultural cooperatives in Korea. It was reflected to their promotional activities to develop consumer reputation on the quality and reliability of domestically produced farm products over imported commodities.

### **Motivating farmers**

Basically, cooperative marketing business is a form of cooperation among farmers to promote the sales of farm products at more 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 the marketing business but farmers were not interested in it. Their voluntary participation in the cooperative marketing business was negligible. It was partly because farmers considered the cooperative as a government agency. However, more important factor for the low participation was that their farming at that time was basically subsistence one. With small quantity of marketable surplus and with little understanding on the need for cooperative action, farmers did not pay much attention to the cooperative marketing.

However, commercialization of farming means a decrease in number of crops each farmer produces and increase in quantity of production made farmers to think and behave in a way that seems to motivate cooperation among themselves.

Moreover, fruits and vegetable production or cash crops became more important part of farming for small farmers partly because of the increasing demand and partly because of decreasing profitability of food grain production. Prices of most food and feed grains, except rice, consumed in Korea are successfully suppressed by government

based on sufficient supply from abroad. Examples of those commodities are wheat, corn, and soyabean. Their self-sufficiency rates dropped from 27%, 36.1% and 100.0% in 1965 to 0.05%, 0.9% and 10.6% in 1995. Import of other commodities are also increasing. Livestock production, which has been an important income source for small farmers, are heavily dependent upon large scale specialized farms or agricultural farms.

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 their neighbours. Voluntary cooperation between themselves from the stage of investment and production planning is of mutual help not only for an efficient production but also for an efficient marketing of the output.

Agricultural cooperatives place heavy emphasis on motivating farmers to organize cooperative farming/marketing group among farmers producing same kind of fruits or vegetable crops in the same region. The concept of cooperative farming here actually means independent farming in the sense that each farmer makes his own decisions on his own farm management. But it is cooperative because group members collect and exchange information relevant to their decision making, buy farm inputs together, and engage in group bargaining. In this process coordination among farmers is indirectly made to a significant extent. Many leaders of rural agricultural cooperatives noticed that cooperation after harvest without coordination among farmers from 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 at a subsidized interest rate to these groups so that the group members decide the allocation of credit among themselves. From this stage, coordinations among farmers is expected. Some of the examples of the expected coordinations are selecting varieties to grow, introducing new production technologies, synchronization of seeding and harvesting, unifying the grading and packing methods, and so forth. Such coordination among farmers also enables agricultural cooperative management to learn what is required to support them.

However, there are a large number of cooperative farming marketing groups which are little more than a mere name. Mostly they were organized only to get the low interest farm credit.

## **Direct election of cooperative leaders**

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

Until recently, cooperative management used to believe that agricultural marketing is not a profitable business for a cooperative. Agricultural marketing business is not a major portion of the cooperatives in terms of the business turn over or business income sources. Credit or banking business has been the core part of multipurpose agricultural cooperatives. It was partly because agricultural cooperatives lacked management skills in the marketing business.

However, most member farmers have expressed their strong desire to have a cooperative leader who is energetic in marketing business. Such desires are reflected to their voting. Therefore, an elected cooperative leader tries to expand marketing business of the cooperative unless he gives up the desire to be re-elected for the next term.

As a result, the volume of marketing business grows at a fast rate and many of the elected cooperative leaders are successful in developing agricultural marketing business. But it is observed that there is, to some extent, a considerable waste of resources. Some of the reasons are as follows.

- 1) They invest money to get something that they cannot get. One of the examples is an attempt to reduce price fluctuation that was inevitable because of the factors that cannot be influenced by cooperatives.
- 2) Some cooperative leaders pay more attention to the next election and pay less attention to what is really desirable for the benefit of their members in the longer run.
- 3) Election is not the perfect method of selecting a leader who is best suited for decision making in cooperative marketing business matters.
- 4) Elected president of a primary cooperative assumes almost sole

responsibility in management decision making and the only way to call him to account is the next election.

**Table 2 - Major marketing facilities owned and operated by NACF and its member cooperatives (1993-1995)**

Facilities	1993	1994	1995
<b>Rural area</b>			
Collection points	389	400	405
Warehouses for cold storage	144	154	166
Warehouses for grains	5,154	5,176	5,201
Packing houses	53	65	73
Fruits and vegetable marketing complex	26	25	32
Vehicles for shipping	3,540	4,166	4,362
<b>Urban area</b>			
Cooperative Marketing centres	68	78	83
Distribution centre	6	6	6
Supermarkets	217	260	285
Direct retail shops	153	196	244
<b>Processing facilities</b>			
Processing plants	112	140	174
Rice processing complex	63	108	130
Rice mills	115	122	134

### **Rice policy and cooperatives**

Traditionally, rice marketing by agricultural cooperative has maintained a close relationship with government rice policy. However, participation of the cooperatives in milling and releasing of the government rice was not adequate. Upto 1993, government utilized private rice mills and private distribution channel in milling and releasing government rice, respectively.

A new rice releasing system was adopted in 1994. Government began to sell paddy/rice through auction organized by NACF. This change has three important implications. First, the release price began to be determined by market forces compared with former system under which the price was pre-determined by administrative process

within the government. Thus the market price is now controlled indirectly through the quantity of rice sold by government.

Second, rice quality and package, which is affected in the process of milling, is now the responsibility of individual millers who bought the government rice before milling. Formerly, private millers designated as government rice milling agents milled the government rice on charge basis. No incentives existed for them to improve rice quality and package.

Third, the NACF became an important institution not only for government rice purchase during harvest season but also for releasing the government rice during off seasons. Furthermore, agricultural cooperatives with milling facilities are now allowed to buy paddy from the government at the auctions organized by the NACF.

### **Marketing centres and auction-practised collection points**

As at the end of 1995, the agricultural cooperatives operated 83 cooperative marketing centres in major cities across the country and 99 auction-practised collection points in towns and townships. Out of the 83 marketing centres, 15 were operated by the NACF in the six largest cities in the nation and 63 were owned and operated by primary agricultural cooperatives or horticultural cooperatives. The auction-practised collection points were operated either by primary agricultural cooperatives or horticultural cooperatives.

The first cooperative marketing centre was set up in Pusan, the second largest city in Korea, in 1961 and 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 of farm product 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 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 of specific products specialized in the region.

In contrast, the collection points in the consuming areas operate in the towns with a considerable size of population. Therefore, they



are not a product specific market. They organize auctions almost every day throughout the year and deal with many items. In this respect, they are similar in function to the cooperative marketing centres in the consuming areas.

**Table 3 - Business turnover of the cooperative marketing centres & auction-practised collection points (selected years 1980-1994)**

	1980	1985	1990	1991	1992	1993	1994
Cooperative marketing centre (CMC)							
CMC of NACF	67	258	409	451	532	562	692
CMC of member coops	49	101	261	346	394	446	645
Total	116	359	670	797	926	1006	1337
Auction-practised collection point	3	32	138	176	217	254	316
<b>Total</b>	<b>119</b>	<b>391</b>	<b>807</b>	<b>973</b>	<b>1143</b>	<b>1260</b>	<b>1653</b>

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 canning of fruits and vegetables. 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 failed attempts in the processing business. Livestock related functions including milk processing, slaughter house and feed mills operation were handed over to the livestock cooperatives or the National Livestock cooperative federation in 1980. Processing of farm products has been a business area that was neglected by the multipurpose agricultural cooperatives until late 1980's

However, changes in economic and social environment opened a new horizon to the cooperatives. In 1990, the NACF formulated an ambitious "five-year plan for processing business development". Many of the primary and horticultural cooperatives began to be interested in the possibility of entering into the agro-processing business.

Background for the active participation in the processing industry by the agricultural cooperatives from the late 1980's could be summarized 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 addition by the processing business utilizing the productive resources at farm level.

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

Third, 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. They seemed to think that food processing industries owned by large private enterprises are inadequate for the benefit of agricultural producers mainly due to the non-competitive market structure and their heavy dependence on imported raw materials.

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 demonstrable 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 upto 50% of construction costs. In addition, government loan is available upto 30% of the investment costs at a low interest rate. With the favourable financial support for processing industry, agricultural cooperatives are increasingly interested in the processing of farm products.

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 133, respectively, by the end of 1994. The most frequently observed products from the cooperative food processing business are Kimchi (13 plants), rice products such as boiled rice and

rice cakes (12 plants), sauces and pastes (10), intermediate products for chinese medicine (10 plants), tea (10 plants), pickles (9 plants), and dried vegetables (9 plants). Some of the products including Kimchi and apple juice are exported to Japan, U.S., 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 first NACF supermarket was opened in Seoul the number of supermarkets operated by NACF and its member cooperatives increased to 266 by the end of 1994. There are many pros and cons about those supermarkets. The opponents argue that the NACF is not an organization for consumers protection but is an organization for farm producers. They also think that the NACF cannot play a genuine role of safeguarding the interests of farmers by entering into the retail 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 markets can contribute to modernizing the retail food distribution system and reducing the exorbitant distribution costs, this would eventually protect and promote the welfare of farmers as well as consumers. Because modernization of the distribution system may bring about 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 improvement of retail marketing. The proponents also argue that the supermarket operation can facilitate the 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 consumer's shopping behaviour.

### **Market information**

Marketing information is the most important marketing function

because the “invisible hand” may not be effective without it. Especially for the agricultural arena, efficient marketing information services must be provided to the general public including producers and consumers as long as the production and consumption of farm products is 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), the national federation of fisheries cooperatives (NFFC) 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 the processing and dissemination.

Dissemination of the agricultural market news may be classified into two types dissemination to the general public, and to 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, AFNC 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 utilization by their members.

The NACF data collection for the agricultural marketing information system covers 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 utilizes a nationwide on-line network connecting its 2,900 branch offices and member cooperatives; the farmers newspaper published once in two days; and automatic response system (ARS) with 72 lines at nine major cities; and other periodicals.

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 standardization of farm products through their extension activities. An example is to provide standardized packing material for various fruits and vegetables at subsidized cost.

### **Challenges of marketing business : Benefits from participation and competitiveness**

Marketing business of agricultural cooperative system in Korea has been under the close coordination of the government. It is observed that a significant portion of general public in Korea believes the agricultural cooperative as government agency. Some used to criticize the cooperatives as "servant of government". Not a single agricultural cooperative has experienced bankruptcy in cooperative history in Korea. Their survival seemed to be guaranteed by the government.

This historical background was one of the fundamental factors that restricts the competitiveness of cooperative marketing business. Most of investment in the marketing facilities of the agricultural cooperatives was subsidized by the government. Nevertheless, it is widely understood that marketing business of agricultural cooperatives in Korea has not been viable enough. It is true that most of the multi-purpose agricultural cooperatives have operated and survived on banking or mutual credit business in terms of income and financial sources.

For the healthy development of agricultural cooperative marketing in Korea it seems to be most urgent and important for farmers and cooperative managers to understand that a cooperative is a business enterprise and not an organization for everybody (or general public). It is not a charity organization nor an institution for the pursuit of

equity, but an organization for the benefit of farmers who participate in it.

The benefit must be generated from managerial efficiency and competitiveness at the market place. The benefits may be generated from government protection in the short run but in this case bureaucracy easily penetrates the cooperative management resulting in the waste of productive resources. Moreover, benefits for someone without competitiveness requires a sacrifice of someone else.

Changes in social and political environment of agricultural cooperative also emphasize the need for the improvement in operational efficiency of agricultural cooperatives. Political changes from an authoritative government to a more democratic one, from regulatory economic policy measures to those based on market mechanisms, and from centralized government administration to a decentralized one are important signals to cooperatives management that the norm of economic efficiency and competitiveness must substitute for bureaucracy in all of the process of cooperative management.

Changes in international trade from protective policies toward a more open market system are a strong pressure not only to Korean agricultural sector in general but also to agricultural cooperatives management in particular.

The concept of "marketing as a social discipline" will be applied not only to marketing business but also to every business activity of the multi-purposed 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. The "Declaration for the Second Takeoff of Economic Business" by the NACF last year was a symbolic events indicating that agricultural cooperatives in Korea began to put higher priority on micro marketing and operational efficiency.

### **Farm risks and price stabilization**

As a consequence of specialization in farming, individual farmers and individual cooperatives have to bear larger risks and uncertainties in their decision making. As a farmer specializes in a few crops his income becomes more prone to fluctuation by price changes of farm products. In Korea, fruits and vegetable producers has suffered from year to year price fluctuations.

Analysis proved that one of the most important reasons for the instability in those prices is the unstable acreage. It is not rare to experience the rates of annual average change exceed 50% for some vegetables such as onion, garlic, red pepper, cabbage and radish. Price changes typical to those implied by so called "corn hog cycle" or by "cob-web theorem" are common in Korea.

Producers and consumers blame government for its inability to stabilize the prices. Many people including farmers, government officials and, some intellectual believe that the NACF and agricultural cooperatives are responsible for the price instabilities.

For those reasons, efforts made by NACF to stabilize the acreage for a few crops proved ineffective. Farmers have freedom to farm. Free entry and exit is guaranteed. Individual farmer has freedom to decide his sown acreage of a crop which he selects to produce. A cooperative cannot handle "free rider problem" and thus cannot eliminate or reduce price fluctuations resulting from changes in supply and demand.

The NACF usually has initiated promotional activities to encourage consumption of a commodity when the price of which shows a sharp decrease due to over production.

Alternative forms of cooperatives specialized in specific crops have been proposed and attempts are made in Korea to strengthen the commodity-wise effort to control acreage. As farming becomes more specialized, Korean farmers gradually recognize that they are losing homogeneity among themselves. Harmonization of conflicting interests among farmers specialized in different crops will be more difficult and costly than before.

As a result, current multi-purpose agricultural cooperatives under strong government coordination and supervision will find a way to regional cooperatives. A sharp decrease in farm population will accelerate this trend. Alternative forms of cooperatives specialized in specific crops or business activities are expected.

It seems desirable to have those cooperatives which are specialized in specific crops and organized voluntarily based on "bottom up approach" instead of having them organized under the government initiation. In any case, they also will find that cooperatives are not capable to control acreage.

# **Development of Agricultural Cooperatives in Korea**

**Shil-Kwan Lee**

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## **Brief History of Agricultural Cooperatives in Korea**

As a modern country Korea began her history in 1948, three years after achieving independence from Japanese control for 36 years. From that time people as well as the government tried to organize two kinds of agricultural cooperatives, i.e., farm supplies and marketing based agricultural cooperatives, and the agricultural banks.

In the interest of farmers, above mentioned two functions should be successfully operated particularly in harmony. But the reality was far from their expectations. In 1961 military based government took a decision to amalgamate these two different institutes into the present multi-purpose agricultural cooperatives.

At that time we had 21,042 primary cooperatives most of which were based on one village. At county level, there were 141 county agricultural cooperatives which had many primary cooperatives within the county area as members. With the membership of county cooperatives the National Federation named NACF was established. These village based primary cooperatives were too small sized to handle cooperative business. So in fact county cooperatives played a major role.

In the 1970s, we undertook a nationwide movement of amalgamating village level primary cooperatives into township level ones. We succeeded in the movement. The number of primary cooperatives sharply decreased to 1,545 in 1977. (One cooperative at one township level.) With the institutional amalgamating of primary cooperatives 4 main functions of fertilizer, farm loans, government based farm inputs and marketing handled by county cooperatives were transferred to primary cooperatives in 1977. From that time primary cooperatives were able to be active in playing cooperative role for farmers.

At the beginning of 1980s, Korean agricultural cooperative made the second big institutional change. In 1981, by converting county cooperatives into branch offices of national federation, we have succeeded in shortening the process of decision making and handling



business. Since then, NACF has more direct relationship with primary cooperatives as members. From 3 tier system into 2 tier system is a big innovation in agricultural cooperative history.

Another big change is that the member farmers now elect their cooperative president through direct voting and cooperative presidents elect NACF president by themselves.

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

### **1990s, the era of cooperative to be collapsed ?**

In 1984 US weekly magazine Newsweek reported that world leadership in science, technology and commerce has passed to the Pacific from Europe perhaps forever. We can also find from an Italian author named Luigi Barzini 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 by reasons like excessive labor union activities and excessive social welfare. Most of European countries in 1970s thought that their development and prosperity would continue in coming years. So they allowed wages to increase 25% more than real economic growth and allocated more portions of national budget for social welfare. Therefore they had to enjoy 7% growth of industrial products in 1970s while US achieved 12% and Japan 28%

In line with this, we can understand that these two factors have led to encourage people to have the mind of free-ride in general. And it has resulted in failing to highly motivate them to work hard for better lives.

Because in the sense of workers too much portion of their earnings can be thought to flow to the government for the budget of excessive welfare.

In the same sense we can understand the reason why communist countries gave up their basic ideology of communism and began to adopt free market system in the late 1980s. We can say they have realized that it is almost impossible to motivate people to work hard in the social system of equal distribution even under difference of efforts and earnings.

Cooperative may have the same character with communism that it emphasizes on equitable distribution rather than free and competitive earnings. Therefore 1990s may be the year of cooperatives to be collapsed. In this sense, Korean agricultural cooperatives may follow the destiny with communist countries unless they bring about a big change in human and business development.

### **Present situations and tasks of Korean agricultural cooperatives**

In relation with the open-market policy around the world with UR, 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 from outside. For example, feed grains are imported mainly from China, the US and Canada, livestock products from the U.S. and Australia, and many kinds of agricultural and agri-business products from China recently.

So Korean farmers are finding it difficult to keep their farming and life together. Their problem begins with finding some profitable grain, vegetable or livestock items. Any item is not certain to have a relative advantage in the price competition with other countries' products even this year and in the future.

It can be said that most of Korean farmers have already shared high-level farming technologies of some items including rice and several fruit 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 remains around 36% in 1995 and 66% of gross income on the average per cooperative is taken from banking business. In other words agricultural cooperatives could survive owing to banking, not to marketing and service business.

The challenge may be more severe to cooperatives in rural area than urban cooperatives, because rural cooperatives still have small-sized business volumes. Eighty three percent (1126) of 1352 Korean agricultural cooperatives are located in rural areas of small size under township level. Banking business has been the major part for these cooperatives to enable them to operate cooperative activities for

farmers. The total gross profit per cooperative in 1994 amounted to 1.06 billion won, 67.6% of which, 0.7% billion won was achieved from banking business.

Comparing with 1992 achievements, we can find bright things. It means that total gross profit in 1994 showed an increase of 33% over that of the year of 1992, while there was 28% increase in banking business in the same period. In other words, the portion of banking business has decreasing relatively by showing the fact that primary cooperatives achieved 70% of gross profit from banking business in 1992, but 66% in 1993, a decrease of 4%.

But through the marketing business in 1994, a cooperative was able to get a gross profit of 78 million won, a sharp increase of 63% over that of 2 years ago.

If the opening of banking business is effective in Korean banking field and the competition among banking institutes become severe, many agricultural cooperatives will not be able to survive.

Average margin between deposit and loan at Korean banking markets in 1994 was 2.3%. Korean agricultural cooperatives in rural area were able to enjoy 2.6% of gross profit rate, 4.1% in 1993, and 4.7% in 1992.

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

In the field of marketing business, Korea expect a big competition from foreign counterparts in a near future. We have already opened Korean markets for most agricultural products to foreigners. Rice, the prominent crop in Korean agriculture, followed the same destiny with other agricultural products.

During the last several decades we have created and developed many types of services, like insurance, agricultural processing, agricultural machinery, gas station, chain store for daily necessities, wedding, funeral needs and so on.

### **Development strategies to cope with the opening trend**

Cooperatives have to adopt a free competition system. Being away from the conventional practice of management atmosphere by giving cooperative staff a motive to work hard for more productivity,

agricultural cooperative should be successful in keeping quality services.

To this end, first of all personnel management should be based on achievements, not on seniority. Promotions should be made mainly on the basis of doing good jobs, not on the basis of working length. Achievement-based promotion system can be rooted through correct assessment of each staff's positive and negative workings. In line with this, present written test for promotion should be cancelled.

A similar policy needs to be adopted for recruiting new staff after graduating high school or university. We have to emphasize recommendation and interview than written test of knowledge itself. It means 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 characters and personality are much more important in achieving better and higher productivity.

Agricultural cooperative staff have to change their present authoritative manners and practices to service-oriented ones. They have to develop good attitude enough to induce customers to get willingly access to cooperative.

To win competition particularly in banking business, we should be more serviceable. Main points of service may be understood as kindness, promptness and correctness. Therefore cooperatives are introducing a movement to be more human and friendly with the treatment of customers, to handle cooperative business in the interest of customers and finally to be in the same boat with them.

They also have to try to actively introduce the way of thinking out, getting information and marketing strategies like businessmen. Cooperative staff should try to be more interested in information and facts in this world, to systemize them to be developed as new ideas, and to well apply them in doing their job. In some sense prosperity of cooperatives can be said to depend mainly on quantity as well as 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 cooperative should be found from merging the present township-level primary cooperative

with county-level ones. During the four years from 1985 to 1989, primary cooperatives decreased in number from 1464 to 1433 and within 2 years of 1989-1991, 8 cooperatives were merged with other cooperatives. However, 65 cooperatives disappeared during the recent 2 years. The fact reflects that most of cooperative staff and farmers have already realized 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'.

By merging of the small scale cooperatives, they can save the fixed cost of management, increase the benefits of economies of sale, easily specialize staff in specific fields, encourage competent youth to be recruited at cooperatives, and prepare large-scale facilities being needed 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 following 11 story building with 8 floors above ground and 3 underground floors.

The building can be used as follows:

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

At this centre farmers and customers come by cars, fill fuel or gas into their cars, park them, draw/deposit money, buy beef, vegetables and daily necessities including refrigerator, TV, shirts 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 restaurant in the sky lounge.

Agricultural Cooperatives should try to change their already-acquired image of agricultural producer's cooperative into regional cooperative. Farm population reached 45% of total population in 1970.

But through passing the portion of 28% in 1980, we had only 12% farm population of the whole in 1994. Therefore if we do not change our attitude to be more interested in rural life of residents, cooperatives are sure to face a difficulty even in surviving.

To do this they have to develop a variety of such life-related business as extending loans to facilitate education and wedding needs for farmers' children, to help tour inside and outside the country and handle other non-farming businesses for residents regardless of farmers.

They have to expand cooperative movement even to non-farming residents by encouraging them to become cooperative's associate-members. Therefore, cooperatives should try to rearrange operating manners and principles of business which may be unfavourable to them.

Faced with a sharp decrease in farm population, we introduced this associate-member system to draw non-farming rural residents to participate in cooperative business. As at the end of 1995, a primary cooperative on the average has 1,431 members and 2,851 associate-members. This situation is found more actively at cooperatives near urban areas.

## **Conclusion**

Consequently the most important factor for the development of cooperatives may be human factor. In line with this, cooperatives should succeed in keeping highly qualified cooperative presidents through making member farmers elect them without dropping into the hole of corruption and manipulation.

Cooperatives should continuously place emphasis 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 field, on the other hand they should be highly motivated to work hard to achieve institutional goal more efficiently. For the purpose of attaining the goal, cooperative managements should emphasize training and educating with practical programmes based on reality.

# **Credit and Banking Business of NACF**

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## **Introduction**

The NACF and its member cooperatives conduct financial business to mobilize and supply funds to satisfy the farmers financial needs, to support other cooperative business and activities, and to finance regional development. We will call the business system 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 led us to choose a 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 were 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 rural area because the members themselves were poor. Moreover, the Land Reform in 1949 produced lots of small farmers owning their land but without funds. This made farmers fall into the hands of money lenders.

In order to ease the financial distress, Government established the agriculture bank in 1956 as a private bank specializing agricultural finance. But this bank did not operate as expected. One of the reasons for this 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 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 remained unsolved. The amount of the money from the bank was far from being sufficient for farmers to be independent of the private money lenders.

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

### *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.

On the administrative stability, NACF started the merging of small-scale village cooperatives into Myon-level primary cooperatives (PC) in 1969. The number of the cooperatives decreased to 7525 at the end of 1969, 1567 at the end of 1972. The average number of member farmers per cooperative became 1331 in 1972.

Along with the merging of small primary cooperatives, NACF helped the merged primary cooperatives begin 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.

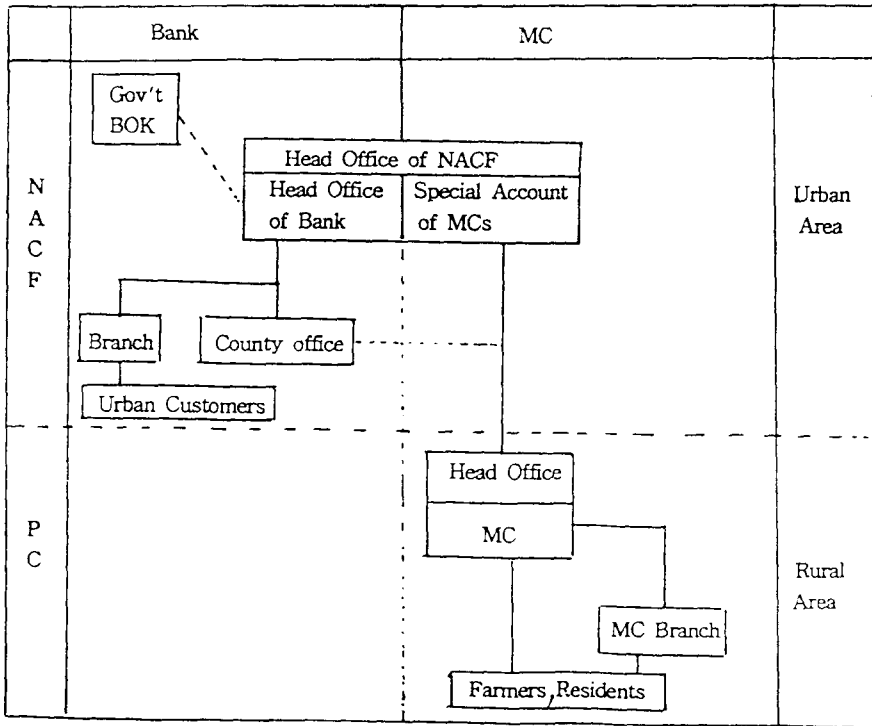


## The operational structure of ACFS

### Dual financial system

As Figure 1 shows, the financial system is composed of two systems in one organizational setting covering rural and urban areas. One is the financial business of the NACF. The other is the financial business of the primary cooperatives. We will call the former 'NACF Bank' and the latter 'PC's MC'.

**Fig. 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 financial business as allowed by the bank law including accepting deposits, lending loans, providing trust service etc. Moreover NACF is a special bank for agricultural and rural finance by the agricultural cooperative law. (see Fig 1-a).

The NACF bank specializes in agricultural finance for the farmers to finance 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 1360 credit unions (with their branch offices of 1299). 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 non-banking financial intermediaries, have been organized 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 low-income urban people or rural farmers. Therefore their business is restricted but they get some concessions such as tax exemption for the deposits, favourable interest policy treatment as later mentioned.

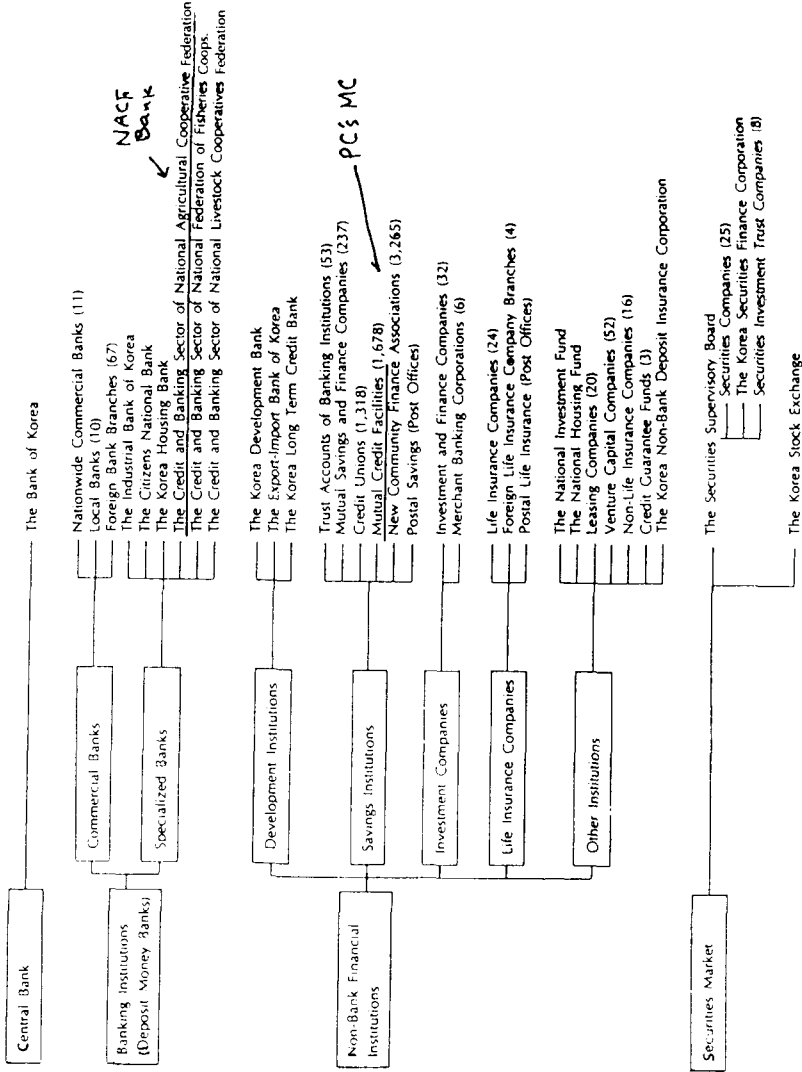
The business area of MC is restricted to the townships (myon) and the scope of the business is narrower than that of a bank. MC can accept deposits and lend the loans but cannot provide bank services such as the check account, trust services, foreign currency-related business. However, MC has enjoyed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

Figure 2 shows the differences and similarities of the two financial institutions.

### **The sources and uses of funds : NACF Bank**

Table 1 shows the funds raising and uses of them 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 BOD for agricultural policy loans.

**Fig. 1-a : Financial institutions in Korea**



NACF uses about 60 percent of the funds for loans; seventy percent of the loans is provided for farmers and agriculture-related business and the rest 30 percent for urban customers. About ten percent of the funds is supplied to the non-financial business of NACF. And the rest of funds available are used for investment in securities.

**Fig. 2 : Comparison of the financial businesses of NACF & PC**

	Banking of NACF	Mutual credit of cooperative
classified as	deposit money bank (specialized bank)	savings institution (mutual credit union)
governing law	the bank law	the credit union law
products & services	demand deposit	demand deposit
	time deposit	time deposit
	instalment deposit	instalment deposit
	check account	
	CD(certificate if deposit)	
	borrowing from BOK	borrowing from NACF
	borrowing from govt. loans, policy loans discounts securities	loans, policy loans
	deposit with BOK	deposit with NACF
	trust	
	credit	credit
domestic exchange	domestic exchange	
foreign exchange		
business area	nationwide	myon
reserve	to BOK (11.5%)	to NACF(10%)
rate (deposit)	1-yr: 8.5%	1-yr: 9.5%

Source : NACF

**Table 1 : B/S for Banking business of NACF**

100 million won

年月末 End of	利用 Utilization						調達 Resourcement					
	貸出金 Loans	現金 Currency	現金 支票 Due from B.O.K act.	現金 貸付 Loans for other Sectors	有 價 証 券 Secur- ities	其 他 Others	總 計 Total	預 受 金 Deposits	借 入 金 Borrowings			其 他 Others
									政 府 Borrowed from Govt.	借 入 金 The Bank's of Korea's funds	其 他 借 入 金 Borrow- ings act.	
1986	32,711	4,982	6,730	4,085	6,266	54,774	32,781	16,688	13,340	926	2,422	5,325
1987	44,216	4,745	3,237	6,966	10,627	74,791	45,919	24,259	18,077	3,339	2,843	4,613
1988	54,135	13,283	12,159	8,084	5,185	93,046	54,279	33,757	24,420	5,979	3,358	5,010
1989	87,216	14,582	11,494	6,541	16,846	116,579	70,563	39,123	29,290	5,843	3,990	2,903
1990	80,825	17,850	12,596	7,309	26,383	145,863	92,722	41,344	35,175	3,108	3,561	7,536
1991	92,122	21,613	14,788	13,250	24,509	166,682	113,500	47,372	39,045	3,300	5,327	5,810
1992	103,991	21,765	19,433	24,198	26,330	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	21,330	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	9,303	201,069	124,605	61,612	44,160	9,675	7,777	14,852
10	128,475	18,356	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	129,008	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 ninety percent of the funds are raised by from deposits from the member farmers and non-member residents (Non-member customers' deposits should be less than 30 percent of the total deposits of each cooperative). Borrowed money comes only from NACF and MC's special account. Just as the sources of MC are simple, so are it's uses. 65 percent of the funds are used for loans to member farmers and non-member customers (the 30 percent limit applied, also). The surplus funds are deposited with NACF (the special account) for 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**

100 million won

年月末 End of	利用 Utilization				調達 Resourcement		
	貸出金 Loans	現金 現金 Cash & Due from NACF	其 他 Others	總 計 Total	預 受 金 Deposits	借 入 金 Borrowings	其 他 Others
1986	25,322	11,076	2,447	39,845	35,222	2,712	1,911
1987	36,186	18,910	1,344	57,040	51,072	3,974	1,994
1988	49,368	23,169	1,280	75,815	68,789	4,951	2,075
1989	62,578	24,334	3,797	92,759	85,923	4,694	2,142
1990	84,285	33,735	6,473	124,493	115,199	7,028	2,263
1991	97,303	37,531	10,251	145,081	130,396	8,443	6,562
1992	129,343	52,926	20,317	203,186	184,358	10,048	8,180
1993. 5	146,068	53,458	13,721	213,227	197,718	13,568	1,941
6	147,682	54,860	12,461	215,003	199,349	13,619	2,035
7	150,276	55,402	12,040	217,720	202,909	12,865	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	12,884	1,988
10	156,123	57,794	12,570	226,587	213,012	12,583	992
11	157,291	58,914	14,452	230,647	217,084	12,420	1,143
12	156,593	60,336	22,519	240,148	220,874	11,296	7,978

Note: (1) includes amount 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 department 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 MCs (see table 3). And it develops new deposit and loan products, improves the procedures, and develops new operation systems such as computerization. In order to accelerate on-line computerization of MC which started in 1989, MCSA have subsidized the costs of PC.

**Table 3 : Sources and uses of the MC special account  
(bil. won, as of the end of June 1994)**

Sources		Uses	
Required reserve form MC	2,180.1	Loan to MC	1,129.6
Time deposit form 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

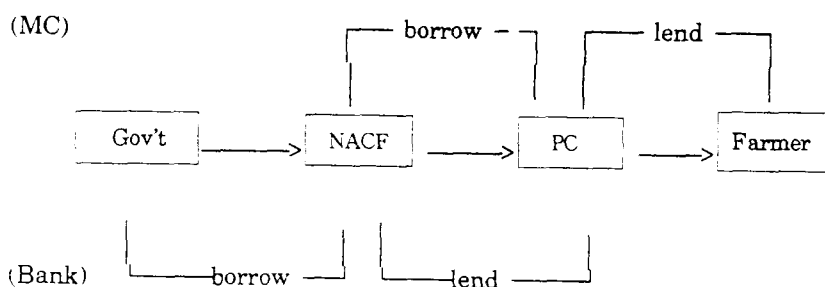
Source : MCSA

## 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 farmer and the financial mechanism for the loans.

### *Mechanism*

Having specialised in agricultural finance, NACF is incharge of the financial business related to agricultural policy loans. In the whole process of lending and collecting loans, NACF and PCs are working cooperatively like one institution. In the past when the PCs was 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 have been included in the policy loan to expand the low interest rate loan.

### *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. For example in table 4, the interest rate farmers pay is 5%, but the opportunity costs of NACF funds and PC funds are 12.5 %, 14.0 % thus the rate spread and administrative fee, 4.36%, is compen-

sated by government. Another important policy loan is farm mechanization loan. 51 percent of the loan amount was funded by NACF and compensated by government in 1992.

### *Lending procedure*

The lending procedure is very important because it affects the transaction cost and the use of loans. The low transaction cost lightens the financial burden on farmers and enhances the competitiveness of the ACFS. The productive use is the final end of the policy loan and decreases the possibility of default.

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

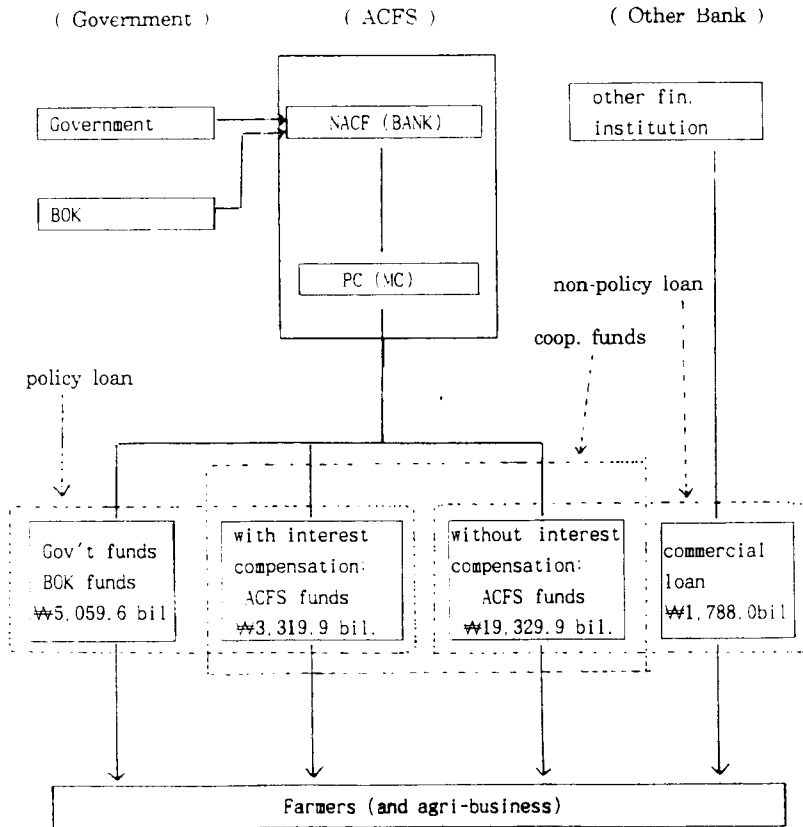
- 1) A farmer who wants to get the loan tells the village leader the amount of money he/she needs.
- 2) After the village leader decides the total amount for the village conferring with other leaders, he sends the application to PC.
- 3) PC consults the loan committee members to decide the appropriate amount of each village within the total loan funds allocated to the PC from NACF. Then PC informs each village leader of the decision.
- 4) 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.
- 5) 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 amounting to about 2 million won. Besides, the transparency of the procedure can ensure the fair distribution of the concessional loan.

As for the long-term loan, the productive use should be emphasized. So the procedure for the machinery loan is different from that of a 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.



**Figure 3 : Flows of agricultural finance  
(as of the end of 1933)**



**Table 4 : Source and rate of short-term production loan (1992)**

Source	Amount (bil. won)	Share (%)	Interest rate (%)
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 range spread compensation : 4.37%

The compensation rate, which includes the administrative fee (1-1.5%) is applied to total amount of the loan.

Therefore, there is no way for a farmer to spend the money on other things. The transaction cost (rate) might be higher than that of the short-term loan. The cost per year, however, is 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, fifteen times as much as the funds, can be guaranteed. The guarantee premium per year is 0.5 percent for the loan of maturity less than three year and 0.3 percents for the loan of longer than and equal to three year.

Government has increased the contribution and later NACF and NLCF participated in contributing the funds. In 199, the funds of guarantee system reached 172.6 bil. and the outstanding of agricultural loan guaranteed by the funds amounted to 2,358.4 bil.

**Performance of the ACFS**

*Growth of deposits*

As you see in table 5, both of NACF Bank and PC's MC have increased the deposits to become the largest 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:

	<u>PC's MC Deposit</u>	<u>NACF Bank Deposit</u>	<u>Consumer price Index</u>
1975-1985 :	39.84%	26.63%	12.1%
1985-1993 :	30.48%	15.86%	5.9%

The growth rate is very high even though we take into account the high inflation rate. MC deposit has grown faster than that of NACF bank since the middle of 1980s. NACF Bank is the third largest bank among twenty nationwide banks, having about ten percent of the

deposit market share. If we postulate MCs as a financial institution, it becomes the largest one among all financial institutions in Korea.

**Table 5 : Growth of AC Deposits**

Year	PC MUTUAL CREDIT				NACF BANK		
	Deposit		Loan		Deposit		A/B %
	Amount (A) W bil.	growth Rate %	Amount W bil.	Growth Rate %	Amount (B) W bill.	Growth Rate %	
1975	91.9	5.9	41.9	22.9	259.5	20.2	
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 the farmers grew as the deposits of MC increased. The total MC's credits have grown 373 times from 1973 to 1993, 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 policy loan for farmers. The short-term loan is 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 : W 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 mechanize rice production and diversify sources of agricultural income. For this purpose, the medium-and long-term policy loans have increased since then. Among them farm mechanization loan is a typical one having proved successful. The interest 3-8% per annum and the maturity is 7-10 years. Now government is pursuing the 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 goes, 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 of high interest. From table 7, we can recognize 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

Upto the end of 1970s, the private money lenders were the dominant supplier of funds covering over 50% of the funds demands in rural societies as shown in table 8. Entering 1980s, however, MCs began to outdo the money lenders in rural financial market. Surprisingly, MCs' share in rural credit market has increased to 80% in ten years after then. And the money lenders' position has been weakened to the extent of being negligible.

**Table 8 : Farmer's borrowing 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 low interest rate supplied through PC has freed farmers from the private money of high interest rate. The relatively higher interest rate of MC deposit also motivates the money lenders to use MC for their financial investment instead of risky private loans. (See table 9).

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 a result of the increase of the farmers' income in a way and a result of the efficiency of MC in providing farmers with attractive deposit products and services and services in another way.

**Table 9 : The structure of interest rates**

Unit : %

	1975	1980	1985	1990	1991	1992	1993
<i>Policy loan</i>							
Short-term prod.loan	12.0	15.0	10.0	5.0	5.0	5.0	5.0
Eg.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
<i>Loan</i>							
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
<i>Deposit (1 year)</i>							
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 : W thousand, (%)

	1985	1990	1993
Financial assets (A)	1,762	6,526	10,466
Borrowing (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 a multi-business cooperative 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 business; profits and funds. As we see in table 11, the financial business of AC is almost only source of profits in business of NACF and PCs. In a word, it is indispensable in maintaining AC as a going concern.

**Table 11 : Net profit by business**

1993	NACF		PC	
	Amount W bill	Share %	Amount W bill	Share %
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

# Supply and Chain Store Business in Korean Agricultural Cooperatives

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## **I. Introduction**

### *1. Problems and significance*

We are here today to review the historical development of supply and chain store business in Korean agricultural cooperatives, to analyze the performance of farm input and consumer good, and strategies to improve the purchasing business in Korea.

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

Korean agricultural cooperatives have greatly contributed to enhancing the economic and social status of member farmers and to developing agriculture through efficient delivery of farm inputs and production loans as well as to enhancing 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 under the WTO system. Today the Korean farmers are trapped between the spiralling cost of production and deteriorating competitiveness in the wave of agricultural product 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 liberalization. Among them, we put a high priority on the development for the supply system of farm inputs and consumer goods.

### *2. 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



labor, but also animal draft power. Non-conventional inputs 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-base strategy and greater use of purchased inputs.

In table 1, the patterns of annual growth over the three 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 increases in productivity. Productivity growth seems to have been primarily due to the addition of non-conventional inputs which rose rapidly while conventional input use declined during the period.

**Table 1 : Growth rates of agricultural input use**  
(three years moving average)

Inputs	1963-1971	1971-1985	1986-1994
Conventional inputs	(%)	(%)	(%)
Area cultivated land	0.95	-0.40	-0.15
Male equivalent labor	-1.33	-1.29	-3.41
Animal power	-1.59	-7.54	-12.3
Non-conventional inputs			
Fertilizer	10.86	3.75	0.54
Machinery	27.66	15.63	14.60

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 program was insufficient to compensate for the area converted for urban development, industrial sites, public facilities, and highway construction etc.

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 labor hours devoted to agricultural production decreased rapidly over the whole period. The decline in both the labor 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 fertilizer. Prior to 1960, growth in fertilizer use was faster than that of farm machinery. But since 1960, farm machinery and equipment grew much faster than fertilizer. This implies that, while land saving technology has received and continues to receive emphasis, labour saving technology has become increasingly important in recent years.

### *3. 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. Technological change leading to a decline in the price of machinery relative to labor 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 or power for labour. Similarly, a decline in the price of fertilizer relative to the price of land can induce a rise in fertilizer use per hectare as a result of the development and introduction of more fertilizer-responsive rice varieties. Also, changes in the price of labour relative to the price of land can be expected to affect the level of fertilizer 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 2.3.4.5. It is clear that trends in relative factor use were inversely correlated with trends in relative prices. Increases in power per worker and in fertilizer input per hectare were accompanied by dramatic declines in the price of machinery relative to the wage rate and the price of fertilizer 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 econo-

my have influenced the process of technological change and the choice of inputs. However, the relationship between the trend in the land-labor ratio and the price of labor and land are not clear. This results from the inelastic supply of labour in Korea.

## **II. Methods of Supply Business of Korean Agricultural Cooperatives**

### *1. Independent purchase and organized purchase*

#### 1) Independent (separate) purchase

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

#### 2) Organized purchase

- The NACF collectively purchases and supplies through the agricultural cooperative channels, the farm supplies which it sees are in general demand by the members farmers.
- Three methods : i) nationwide purchases, ii) provincial purchases, iii) county purchases.
- Be made among manufacturers, the NACF, primary (or special) cooperatives and farmers.
- Go through a longer distribution process than the separate purchases.

The organized purchases are more profitable and advantageous than separate purchases. The reasons are as follows:

i) The NACF only estimates the nationwide demand, not involving a physical distribution process but an administrative process. This is unlike the distribution process of the private markets.

(producers → wholesalers → retailers → consumers).

The NACF reduced the purchasing prices, transportation and market surveying expenses, and inspection fees etc by pooling the nationwide demand for large scale transactions. Therefore it could supply at lower and more reasonable prices.

ii) Minimizing the total transactions in the entire marketing process -principle of minimum total transactions.

ex) separate purchase	organized purchase
10 manufactures * 1,400 primary coop.	NACF(1) * 10MAF -10
-14,000(the number of total transaction)	NACF(1) * 1,400
	Total 1,410

Total distribution expenses of organized purchase system are reduced drastically.

iii) Reduce the entire cooperative inventories by adjusting shortage 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 purchase*

### 1) Consignment purchasing system

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

### 2) Direct purchase

- Individual cooperatives purchase and supply farm inputs and consumer goods with no prior order from members.
- 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

- The cooperatives display commodities at the request of the manufacturers and sell them to their members at prices fixed by the manufacturers.
- The cooperatives then pay for the commodities sold and return the unsold ones to the manufacturers. This does not put any financial burden on the cooperatives.
- 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

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

## **III. History of Supply and Chain Store Business**

### 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 in to town/township cooperatives, city and county cooperatives 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. Fertilizer accounted for 75-90 percent of the total purchases, accounting for most of the business turnovers at city and county levels until 1968 when credit and banking became the most important cooperative business.

The fertilizer purchasing business played a pivotal role in developing the cooperative as an enterprise and acted as a catalyst in linking the cooperative and farmers. Major factors worked to this

effect. First, fertilizer was one of the most indispensable production inputs and always in great demand among farmers, second, Korea was incapable of producing sufficient fertilizer around 1960. In those days, fertilizer 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 organization and facilities, the cooperative system had improved its handling capacity to such an extent that the government entrusted to it the important task of distributing fertilizers. 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, fertilizer purchasing and supply was transferred from city and county cooperatives. Since then, primary cooperatives have become the central organization 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 programs in the Third five-year socio-economic development plan (1972-1976) was the agricultural mechanization. Under the program, the government released a considerable amount of funds to encourage the use of farm machinery. In compliance with the government policy, the cooperatives helped in the supply of 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 monopolize the supply of the larger sized agricultural machinery, thereby accelerating its agricultural mechanization program.

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 change. The former government-commissioned business was gradually replaced by farmer-oriented business.

In summary, cooperative purchasing business in the 1970's recorded a remarkable development in terms of both quantity and quality. With the revision of the Agricultural Law at end of 1980, the nationwide cooperative organization 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 1980s, the cooperative purchasing business has faced many challenges.

- 1) The cooperative supply of farm machinery was discontinued in July 1982, and cooperatives only provided 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 fertilizer supply began to break up in July 1982 when the sales of ammonium sulphate and some other fertilizers were liberalized. 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 agricultur-

al 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 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.

#### **IV. Performance and system of supply business in Korean agricultural cooperatives**

##### *1. Performance of supply business*

The supply of farm inputs by agricultural cooperatives aims at curtailing agricultural production costs and productivity 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 rationalize the consumer habits of farmers by providing quality goods on favourable terms.

Primary agricultural cooperative shops are always open regardless of the working hours and they deliver chemicals at the door of the farmers, if so requested. In particular, for rice farming, cooperative have encouraged farmers to make a joint effort to control diseases in order to maximize the chemicals effects and to minimize their costs.

The total turnover of farm inputs and consumer goods supplied by the NACF through its member cooperatives in 1995 reached 2,577 billion won showing a 30.4% increase from the 1,976 billion won in 1992.

As an essential production factor, the yearly turnover of fertilizer in 1995 was 2,170 thousand M/T worth 370 billion won, comprising 1,653 thousand M/T of chemical fertilizers.

The NACF supply of agricultural chemicals through its member cooperatives recorded 370 billion won in 1995. It also supplied various kinds of farm machinery such as power tillers, tractors, rice transplanters, combines, and binders. The NACF and member cooperatives supplied 492 billion won in 1995, a 13.6% increase from the year before.



**Table 2 : Supplies of Major Farm Inputs & Consumer Goods**

(in billion won)

Item	1992	1993	1994	1995
Fertilizer	335	329	334	370
Chemicals	114	121	91	81
Machinery	164	215	215	231
Feedstuff	387	417	433	492
Consumer goods	948	980	1,090	1,219
Others	28	86	132	184
Total	1,976	2,148	2,295	2,577

## 2. System of Supply Business

### 1) Fertilizers

Since the agricultural cooperatives began to exclusively supply fertilizers in 1962, the fertilizer supply system has undergone several changes. Fertilizers 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 fertilizers.

Under the current system, the sales of ammonium sulphate and some other fertilizers 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 fertilizer management account. The current system is expected to apply the other fertilizers when the long-term contracts for the manufacture of fertilizers in joint ventures with foreign firms expire in 1987.

The prices and amount of fertilizers the NACF purchases from manufactures at the government request are determined by the government itself. Even the prices of fertilizers 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 fertilizer management account because it is obliged to take over fertilizers in excess of demand on the basis of the contracts with fertilizer 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 program. 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 program 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 manufactures. 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 program. The amount of weed killer, horticultural chemicals and others to be purchased, being handled as one of cooperatives own projects, is determined by requests 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 mechanization program. 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 opened 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 latter became the exclusive suppliers.

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

### 4) *Feedstuffs*

The NACF feed supply business started with feed imports in the 1970,s. 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 farmers cooperatives were not organized as well as part time livestock farmer members. The NACF concluded supply contracts with feed manufactures and began to handle feedstuffs in 1984.

### 5) *Other materials*

In addition to fertilizer, chemicals, farm machinery and feed stuffs, 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 Taiwan.

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 station.

## **V. Purchasing Business for Consumer Goods**

### *1. Performance of chain store business*

The consumer goods supply business of the NACF and its member cooperatives has greatly contributed to rationalizing consumption pattern in rural areas, to improving marketing channels and to stabilizing 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 modernized 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 2,381 at the end of 1995. The major consumer goods handled included foods, clothing, kitchenware, sanitary goods, housing materials, stationery, etc. The total consumer goods supplies reached 1,219 billion won in 1995.

**Table 3 : Supplies of Major Consumer Goods**

(in billion won)

Year	Foods	Cloth- ing	Kitchen- ware	Sanitary goods	Housing materials	Statio- nery	Durable goods	Misc. goods	Total
1994	594	60	24	170	6	3	174	60	1,090
1995	655	64	22	197	10	3	200	67	1,219

## 2. *Historical Development of Chain Store Business*

1) The cooperative purchasing business of 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 multi-purpose 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, the business did not produce tangible results in the 1960s.

### 2) Introduction of a chain-store system

With changes in the farmer's 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 emphasized in the later 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 say be summarized 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 emphasized more than ever before.
- (ii) The need to change the marketing system : The marketing system prevailing at the end of the 1960's 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 systemetize 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 larger.  
Second, funds needed for the new project became more readily available due to increasing member capital subscriptions and deposits in the mutual credit account.  
Third, a great number of cooperative officers and staff received educational and training programs to improve their skill in the management and operation of their cooperative. As the scale of the primary coop. 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 programs, 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 in to the rural consumer goods market.

## **VI. Effects and Future Improvement of Supply & Chain Store Business**

### *1. Supply business*

- i) Farmers patronize their cooperatives through the purchasing business which in turn helps to improve their understanding of the importance and necessity of the cooperative organization.
- (ii) The stable and timely supply of production inputs contributed a great deal to the increased production of foodgrains, whose domestic self-sufficiency had long been the focus of the governments agricultural policy.
- (iii) The supply of production materials at reasonable prices also contributed to farmers' increased incomes.
- (iv) The cooperative purchasing business contributed to price stabilization and fair trading practices in the rural areas.

### *2) Future improvement of farm input purchasing business*

- i) The NACF and member cooperatives should enter the production process by themselves. Along with the nation's economic development the production of farm inputs most likely will be monopolized by a few large business groups. This may make it difficult for the NACF to purchase quality inputs 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.

## 2. *Effects of chain store business*

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

The chain-store system developed by foreign private enterprises as a new management technique, was first introduced in 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 function :

The 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 organization, finance, manpower and facilities.

### 3) Linkage between 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 an active pricing policy :

The NACF had to adopt an 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, averting possible friction with private retailers, and accumulated the capital needed for surplus dividends, the depreciation of fixed assets and for the expansion of 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 which 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 role 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.





**COUNTRY BACKGROUND PAPERS**



# CHINA

## China Supply & Marketing Cooperatives Undergoing Reforms and Development

**Cheng Qingxin & Ni Jing**

All China Federation of Supply & Marketing Coops.

China Supply and Marketing Cooperatives are cooperative economic entities established by farmers as shareholders on the principle of voluntary participation and mutual benefit, democracy and equality, purchasing and supplying production and living materials, marketing and processing farm and sideline products for farmers; providing farmers with various types of service needed by farmers to develop commodity production; undertaking tasks assigned by the state; developing exchanges and cooperation with international organizations of cooperatives.

Since their first appearance in 1920s, China supply and marketing cooperatives have undergone tortuous development. Now, these cooperatives (excluding those in Taiwan Province) have 160 million farmer households, as members, consist of 32700 ones at local levels including 2300 ones at county levels and 28 ones at provincial levels, employ 5.8 million people, and have self-owned capital worth 70.8 billion yuan, members share capital worth 14 billion yuan, 970,000 shops in cities and rural areas, over 4500 commodity bases of farm and sideline products, and 30,000 enterprises processing farm and sideline products with total annual volume of sales amounting to 452 billion yuan. These cooperatives have become complete, powerful and largest cooperative economic entities. During the past few years, China supply and marketing cooperatives, as the bridge and link between cities and rural areas, industry and agriculture, farmers and market, have played an important role in solving issues of agriculture, countryside and farmers. Especially since 1980s, the economic structural system reform have brought about a historic turn to China supply and marketing cooperatives.

### **I. Basic Process of Reform**

During the late 1970s and early 1980s, the world-famous China

economic structural system reforms were initiated in the countryside, focusing on cooperative economic system reform, all-round introduction of household contract responsibility system and adjustment of agricultural industrial structure. During the course of the reform of historic significance, in order to meet the needs of new economic circumstances in the countryside and productive force development, a series of reforms were carried out in the field of administrative system of supply and marketing cooperatives since early 1980s. The reforms were classified into the following four stages:

1. From 1982 to 1983, supply and marketing cooperatives were reformed to ensure organization of a mass character, democratic management and flexible operation for closer relations between cooperatives and farmers.
2. From 1984 to 1985, the reform was focused on share-holding practice, labour and personnel management system, distribution system, operational scope and pricing system to ensure greater right of autonomy.
3. From 1986 to 1987, reforms was introduced mainly to transform operational system including the following six aspects: to develop the series service system for the commodity production in the rural area; to increase rural service network; to develop education and science and technology in order to strengthen the operation and service of supply and marketing cooperatives.
4. Since 1988, reform has aimed at establishing and improving socialized service system of agricultural production under the relevant policy issued by the State.

## **II. Main Achievements of Reform**

The reforms have brought about remarkable achievements by resuming the character of cooperatives, establishing socialized service system of agriculture, strengthening internal control, transforming operating mechanism, enhancing their own strength and expanding exchanges with foreign countries.

1. Upholding the collective ownership of supply and marketing cooperatives and keeping its integrated system and collective management are the basis to realise the successful reform of supply and marketing cooperatives.
  - (1) Cooperatives are run by local people replacing the government by means of increasing share holders. So far, farmer members of these cooperatives have numbered 160 million

accounting for 80% of the total figure of this country with share capital of 14 billion yuan.

- (2) The cooperatives at all levels set up members representative assemblies and in June 1995, the national members representative assembly was held and during the conference, the experience of over 40 years was reviewed and the new development orientation was put forward and the new leading group was elected.
  - (3) In order to carry out the democratic management, the number of members representatives in the board of directors and the board of supervisors, must be kept over two thirds.
2. Production and service system of rural commodities are established and improved to promote the development of rural economy.
- (1) On the principle of giving first priority to technology but second to supply, great efforts have been made in technical service and supply of production materials, these efforts include building up a technical contingent, improving service system, guiding farmers to use chemical fertilizer and farm chemicals, and providing various forms of scientific and technical service.
  - (2) To establish commodity production bases in rural areas to develop the production to a certain scale.
  - (3) Specialized cooperatives are set up to provide various forms of service. These cooperative services are specialised cooperatives, relying on supply and marketing cooperatives. By the year 1990, such specialized cooperatives and societies have numbered 33,000.
  - (4) Comprehensive service is offered to producers in terms of information, technology, materials, processing, storage and transportation as well as marketing with economic contracts as links, The main procedure adopted is as follows: to offer information, seeds and materials to farmers before production; to provide farmers with technical guidance during the course of production; and to market products for farmers after production. The following five measures are adopted to protect interests of farmers: a) Contracts are signed with farmers to define rights and obligations of the parties concerned; b) Risk funds are established according to output of

farm and sideline products; c) Processing and storage are developed to ensure appreciation of processing; d) Wholesale markets of farm and sideline products are established in cities and townships as well as major production areas to reduce commodity circulation links; e) Profits gained from processing and sales are returned proportionally to farmers so as to protect their initiatives.

3. New operating system has been basically established with large-and-medium sized markets and professional firms playing the leading role in joint purchase and separate sales of industrial products, and separate purchase and joint sales of farm products as the basic service system.
4. Enterprises internal mechanism is reformed for improving management. The reform includes independent accounting self-reliance, paying tax to the state, engaging operating and management personnel, employing staff on contract basis, performance-based distribution and target-setting responsibility held by directors of enterprises and their staff.
5. Comprehensive service capacity of supply and marketing cooperatives is improved to contribute greatly to national economic construction, self-owned capital of cooperatives amounted to 70.8 billion yuan in 1994, two times as much as in 1982, including fixed assets worth 58.3 billion yuan.
6. Supply and marketing cooperatives have expanded their foreign exchanges and developed foreign-oriented economy, In February, 1985, China joined the International Cooperative Alliance and became the member country of its Executive Committee in 1988, and assumed the Chairmanship of the Asian and Pacific Commission of Cooperatives in 1992, Exchanges and cooperation have been conducted with economic and business circles in more than 30 countries and regions, such as the United States, the United Kingdom, France, Germany, Japan and Canada, China cooperatives have established over 3000 joint cooperative and equity ventures in China and some joint ventures and trade agencies abroad, In the recent years, Supply and marketing cooperatives have provided products worth 60 billion yuan for export, 25 cooperatives at provincial level and municipal levels have granted the right of import and export, which give the Chinese agriculture and farmers the good condition to the international market.

### **III. Directions of Deepening Reforms**

Supply and marketing cooperatives have made great contribution by serving farmers, promoting exchanges of materials between cities and rural areas, and guaranteeing market supply after more than ten years of reforms.

However, there are still some difficulties for the cooperatives, which affect their further development. In future, China supply and marketing cooperatives, according to the socialist market economy, should strengthen their own organization, improve the service system for farmers and train and bring up some of good management personnel and increase the international exchanges and cooperation.

The Decision on Deepening Reforms of Supply and Marketing Cooperatives released by the government in February, 1995 embodies clearly the general idea for deepening the reform, namely : in order to meet the needs of rural economic development, establishment of socialist market economic system and cooperatives themselves, the reform is focused on transformation of supply and marketing cooperatives into farmers cooperative economic entities indeed, rationalizing organizational system, improving service function and operating mechanism, strengthening supervision and administration, and providing protection and support.

Under the general idea, priority will be given to the following four reform objectives: to enhance organization of a mass character, democratic management and flexible operation of supply and marketing cooperatives; to speed up improvement of socialized service system for agriculture; to make supply and marketing cooperatives devoted to higher output of agriculture, higher income of farmers and rural prosperity; to undertake operations of major agricultural production materials, and farm and sideline products assigned by the government. In addition, ten guidelines should be followed: to make supply and marketing cooperatives farmers-oriented; to provide comprehensive service for farmers; to strengthen democratic management and rationalize management system of cooperatives; to share economic interests with farmers; to establish and improve rural comprehensive service network with county cooperatives at the core and lower-level cooperatives relied upon; to adhere to government macro control policy and improve service system of cotton and agricultural production materials; to improve operating mechanism and bring employees initiatives into full play so as to ensure maintenance of value and appreciation of assets owned by coopera-



tives; to strengthen building of leadership of local cooperatives; to expand international cooperation and develop foreign-oriented economy so as to make cooperative economy diversified and internationalized; to build up a fine contingent wholeheartedly devoted to the cause of supply and marketing cooperatives.

At the present time, China supply and marketing cooperatives are encountered with both new opportunities and challenges. Therefore, greater efforts should be made in deepening reforms so as to boom supply and marketing cooperatives and rural economy thereby.

# INDIA

## Agricultural Cooperative Business Development in India

**T.P.S. Tomar & C.B. Mishra**

Indian Farmers Fertiliser Cooperative Ltd.

India, a Sovereign Socialist Secular Democratic Republic, is a union of 26 states and 5 Union Territories with a total land frontier around 15200 Km. India ranks the seventh largest country in the world and is second to China in terms of population (920 million). It has an adequate supply of natural resources of various kinds and has a huge mass of population in working age group. Growth, equity and self-reliance are the three broad objectives of India's economic policy.

Agriculture continues to be the main stay of India's national economy. Its contribution to the India's Gross Domestic Product (GDP) is about 32 percent and almost two third of the population depends on this sector for their livelihood.

Indian agriculture is characterised by small farmers, high population density, cyclical pattern of peak and troughs. Constraints on extending production are (i) declining size of farms due to continuous sub-division of holding, (ii) over-exploitation of water in green revolution areas, and (iii) energy constraints.

Self sufficiency in foodgrain production has been the basic objective of India's policy paper presented in 3rd ICA/NACF Regional Seminar on Agricultural Coop. Business Development. SEOUL, KO-REA, May 6-15, 1996.

Agricultural production has been increasing at a compound rate of 2.7 percent. The production of foodgrains has increased more than three fold since 1951 (Annexure-I). By 2000 A.D., the foodgrain requirement of the country is estimated to be 230-240 million tonnes to feed the increasing population which is expected to reach one billion mark. Increase in agricultural production has to come from increase in productivity per unit of land because chances of bringing more land under cultivation are very remote. Foodgrain productivity has increased from 536 kg/ha in 1951-52 to 1487 kg/ha in 1993-94.

## **Role of Cooperatives in Agricultural Development**

India's Cooperative movement was originally aimed at extending and developing facilities of rural credit. The Cooperative Societies Act 1904 provided for the organisation of rural credit cooperatives by the cultivator-borrowers to tackle the problem of rural indebtedness which was the main cause of their economic backwardness. These cooperatives were to provide credit to the cultivators at reasonable rate of interest.

The national leadership of post-independent India realised that the development of agriculture on which the prosperity of the country was largely based, could be achieved only through the Cooperative Movement. The All India Rural Credit Survey Committee (1954), recommended introduction of an integrated scheme of rural credit which implied development of agricultural credit, cooperative marketing and processing of agricultural produce and training of cooperative personnel. It also recommended participation of the state in the share capital of cooperatives. As a consequence of definite policy directives and support of the Government, Cooperatives have emerged as an important instrument over a period of time for bringing about socio-economic development of farmers and rural poor. In all the Five Year Plans, the thrust has been to build-up the cooperative sector as a part of the scheme for planned economic development. The strategy for cooperative development has been to provide comprehensive services for strengthening of agricultural economy in the country, while meeting the all round needs of farmers from production to marketing. The diversified activities undertaken by cooperatives include credit, banking, input distribution, agro-processing, storage and warehousing, oil processing, sugar processing and fish production etc.

### **Agricultural Cooperatives - Present Scenario**

Indian cooperative sector has emerged as the largest in the world in terms of number of societies (395 thousands) and membership (189.6 million). They cover 100 percent villages and 67 percent of the rural population and having an aggregate working capital Rs 1186996.90 million (US \$ 33914.2 million).

The Agricultural Cooperatives may be grouped into four categories:-

#### *1. Input Supply Cooperatives*

Primary Agricultural cooperative Societies (PACS)/ Large Sized Multipurpose Cooperative Societies (LAMP) and Farmers Service Socie-

ties (FSS) operating at the grassroot level having 93.6 million members. These societies are affiliated with Central Cooperative Banks (352) at district level which in turn are affiliated with State Cooperative Bank (28) operating at the state level. These societies are involved in the distribution of short and medium-term credit and other agricultural inputs viz. fertiliser, seeds, machinery etc. Institutional frame work of long-term agricultural finance consists of Primary Land Development Banks (709) affiliated with central Land Development Banks (20) at provincial level. The entire organisational set-up of agricultural finance linked with National Bank for Agriculture and Rural Development (NABARD). This bank supports cooperative agricultural financing system by providing refinance at concessional rate of interest. Cooperatives account for over 43 percent of agricultural credit disbursements. The quantum of agricultural credit disbursed through cooperatives during 1989-90 was Rs 52561.1 million (Approx US \$ 1501 million) out of the total institutional credit of Rs 101875.1 million (US \$ 2910 million) and increased to Rs 119160 million (US \$ 3404 million) out of the total of Rs 211130 (Approx US \$ 6032 million) in 1994-95. (Rs 35=1 US \$).

## *2. Marketing Cooperatives*

The cooperative marketing network comprises 5923 general purpose marketing societies/special commodity marketing societies at primary level, 172 regional and central marketing societies coering all the important markets at regional level, 29 general purpose and 16 special commodity/State Marketing Federations at the state level and National Agricultural Cooperative Marketing Federation of India (NAFED) at the national level. These societies are engaged in marketing of agricultural produce, supply of production inputs and essential consumer articles at the doorstep of the farmers. These cooperatives also undertook procurement operations procuring 27 percent of total wheat, 21 percent of jute.

## *3. Agro-Processing Cooperatives*

These co-operatives are also known as value-adding cooperatives, which ensure that the producer gets the legitimate share in the final price paid by the consumer. The most vital segments of such cooperatives are sugar cooperatives, cotton ginning and processing cooperatives, dairy cooperatives, oilseed cooperatives etc. There are 212 cooperative sugar factories in the country producing 60 percent of the total sugar production, while out of 435 cotton ginning and

pressing units, 284 are exclusively ginneries, 146 ginning and pressing units and one pressing unit. There are nearly 18000 weavers cooperatives with a membership of 1.78 million, share capital of Rs 858 million (US \$ 24.5 million ) and working capital of Rs 5100 million (US \$ 145 million) and turnover of Rs 6700 million (US \$ 191 million) In textile sector, their share is 11 percent with 2.97 million spindles. They produce 240 million Kg of yarn which is 16.4 percent of the total and export 10 million Kg of cotton yarn which is 11 percent of the total. There are 150 oilseeds processing units in the cooperative sector with an outlay of Rs. 1616 million (US \$ million).

In the dairy sector, the cooperatives have a significant presence. There are over 70000 primary milk producers cooperative societies with a membership of over 8 million, share capital of Rs 2978.7 million (US \$ 85 million) and working capital of Rs 14119.2 million (US\$ 403 million). There are over 9000 fisher cooperatives, about 3000 poultry cooperatives, 113 oil mills, 598 rice mills, 72 pulses processing mills, 39 fruit and vegetable units in the country.

#### *4. Fertiliser Cooperatives*

In early 1960s, cooperatives had virtual monopoly in fertiliser distribution accounting for more than 70 percent of total distribution. The action for demonopolisation of fertiliser business and the entry of private trade led to the reduction in the cooperative share. Thus the share of cooperatives in total fertiliser distribution which was around 59 percent during 1969-70 declined to 34 percent in 1994-95.

Till mid seventies, the fertiliser supplies to cooperatives were totally from private/public sector manufacturers. The suppliers used to exploit by not making timely supplies and were not passing on full distribution margin. This made cooperatives think of having their own manufacturing facilities leading to the establishment of IFFCO and KRIBHCO, the two fertiliser giants in cooperative sector.

Indian Farmers Fertiliser Cooperative Limited (IFFCO) and Kṛishak Bhariti Cooperative Limited (KRIBHCO) have performed very efficiently during the past quarter of a century in manufacturing and sale of fertiliser. As both these organisations have to route their entire production through cooperatives, they provide very strong and sustained support to cooperative distribution system. Today IFFCO and KRIBHCO taken together have a total capacity of 15.3 million tonnes of N and 0.31 million tonnes of P205 and accounting for as much as 21.2 percent of N and 15.1 percent of P205 production in the country (Annexure II).

## **Business Development Planning in Pacs**

Primary Agricultural Cooperative Societies (PACS) are the backbone of cooperative credit structure at the grassroot level. They are playing important role in raising the socio-economic status of rural poor and farmers. Most of these institutions are non-viable and are not functioning as efficient service organisations due to low business turnover, high operational costs, inadequate member participation, lack of business skill, inadequate infrastructural facilities and linkage with other cooperatives etc.

At the instance of Government of India, a group was constituted in the Department of Agriculture and cooperation (DAC) to work out strategy to operationalise the Agricultural Credit Review Committee (ACRC) report. The report of the group was presented for information at different levels i.e., PACS, District Central Cooperative Banks (DCCB), state coop. banks, state secretaries incharge of cooperation, different state and national federations and other concerned organisations, NABARD cooperative training colleges and concerned Ministries and departments of Government of India.

One of the most important recommendations of ACRC report relating to the need of evolving Business Development Plans (BDP) for each and every PACS in the country as a measure to revitalise the cooperative structure from grassroot upward. Training programmes to sensitize the faculty members of different training colleges located all over the country and through them sensitizing sufficient number of District Cooperative Credit Banks (DCCB) personnel have been initiated. It was expected that in the year 1991-92 each DCCB in the country would be able to workout business development plans for atleast one PACS in each development block located in the district. In case of blocks where less than 30 percent arable area is under assured irrigation the PACS chosen for evolving a Business Development Plan may be one lying in the micro watershed project area under the National Watershed Development Project for rainfed areas.

As essential component of the BDP would be adequate deposit mobilisation by PACS which would be able to attract an equivalent amount of institutional finance for the purpose of implementing the business development plan. It is expected that a BDP of PACS would be implemented over a period of 3 to 4 years during which time the society would be expected to become commercially viable. It would be reasonable to expect that entire operation of revitalisation of PACS which need revitalisation would be able to implement the BDP

evolved with the help of their respective DCCB personnel by the end of this decade.

An action programme, not extending over more than five years, should be drawn up for each PACS. All PACS which have not reached a loaning business of Rs one million should be taken up for specific attention. The programme of development of each PACS should deal with increasing loan business, enlarging its package of profitable non-credit activities, augmentation of resources (deposits) and reduction of overdues.

### **Reorientation of Cooperatives for Open Market Economy**

Cooperatives in India are getting constant patronage from the state by way of equity, concessional loans, subsidies on various counts and policy decision. In the process, state also started exercising control over the working, decision making and even management of cooperatives. Under the new market oriented economy the protection and support in term of preferential treatment, hitherto available to cooperatives, has dried up and is being withdrawn slowly. Cooperatives, therefore will have to operate in a competitive economy and face tough competition from private enterprises both domestic and global. Cooperatives must take necessary steps to develop themselves into autonomous marketing agencies and business institutions. The first and foremost task of the cooperatives is to mobilise their internal resources to strengthen themselves financially so that their dependence on Government support is reduced. One way to build financial strength is to withdraw restriction on the rate of dividend paid to the members on equity capital to attract more and more members to widen the share capital base.

Cooperative should provide maximum benefit to its members in terms of remunerative prices for the goods they procure for them and charge minimum prices for the services they render so that cooperatives may elicit more support from their members. Federations must also consider passing appropriate sales margin to lower tier societies. In a market oriented economy certain degree of professionalism is required to face competition successfully. Cooperatives should make all out efforts to improve their operational efficiency. For fertiliser cooperatives the strengthening of the cooperative credit structure is of vital importance as the bulk of the fertiliser sales are made against "B" component credit. Therefore, the fertiliser cooperatives in order to sustain in the market have to seriously think in linking various credit schemes for utilisation of the same for the supply of fertilisers.

Professional management also calls for a strong Market Information System comprising of data on trends of production, demand potential, prices trends etc. Initiative will have to be taken by state and national level cooperative federations in building Data Banks to provide relevant information to cooperative societies at all levels so that they can take time and effective decisions in implementing diversified marketing activities. The Cooperative movement is trying to organise itself and addressing many issues to itself which are confronting the cooperatives at present.

National Cooperative Union of India (NCUI), is the national apex of the Indian Cooperative Movement representing all sectors of the movement and acts as the spokesman of the movement.

Cooperative planning is centralised and the government plays a vital role in this. With a view to give substance to planning process and to make an appropriate financial inputs, the NCUI set up a National Cooperative Data Bank (NCDB) at its head office in New Delhi. This data bank was started in 1989 with technical support made available by the ICA regional office. The main aim of Data Bank is to gather information on all aspects of cooperative development from various sources, analyse it, document it and disseminate it among users. This service aims at creating awareness among member organisations of the NCUI of the role and importance of Management particularly in decision making and planning process at various level of management, development of education and training materials etc.

## **Conclusion**

The self-sufficiency in food production has been the thrust point in India's Agriculture Policy. The country has achieved it. The cooperatives have played a vital role in bringing up rural economy. The network of cooperatives is wide spread and thus caters to a large populace, in terms of supply of agri-inputs and various other consumer oriented services.

The business development plan, operative at PACS level, has been initiated and quite fruitful results are visible. It should be possible to revitalise the grassroot societies through the implementation of BDPs. The changing market scenario of open market economy have necessitated reorientation in cooperative management. Cooperatives in Asia and Pacific with a common cultural heritage and harmonious out look can deal with new challenges with collective wisdom and experience sharing.



*Annexure - I*

**Area, Production and Productivity of foodgrains - India**

Year	Gross cropped area(million/ha)	Production (million/tonne)	Productivity (kg./ha)
1951-52	96.9	51.9	536
1961-62	117.2	82.7	705
1971-72	122.6	105.1	858
1981-82	129.1	133.2	1032
1991-92	121.8	168.3	1382
1993-94	122.4	182.1	1487

*Annexure - II*

**Share of Co-operatives in Fertiliser Capacity, Production and Capacity Utilisation - 1994-95**

(‘000 Tonne)

Item	Capacity	Production	Capacity utilisation (Percent)	Percent Share in All India Prod.
<i>Nitrogenous</i>				
All India	9178	7944	89	
-Iffco	864	1028	118	12.7
Kribhco	668	674	101	8.5
Total Coop.	1532	1702	111	21.2
<i>Phosphorous</i>				
All India	2842	2560	92	
-Iffco	309	377	122	15.1

## MALAYSIA

# Business Development Plan of National Rubber Smallholders' Co-operative (NARSCO)

**Mohd. Ghazali A. Aziz and  
Rusli B. Yaacob**

National Rubber Smallholders Coop. (NARSCO)

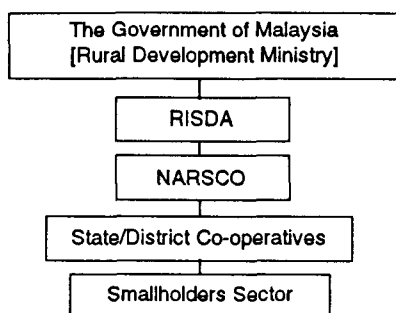
### **1. Profile : NARSCO and RISDA**

1.1 NARSCO is a national corporate body established on 16th April 1981 under the Cooperative Act Ordinance 1948 (revised 1983) and under the Laws of Malaysia Act 502 (Co-operative Societies Act 1993). Its main function is to monitor and guide the economic activities of 64 state and district Smallholders Co-operatives located all over the Peninsular of Malaysia.

1.2 The establishment of NARSCO was the brainchild of RISDA, or Rubber Industry Smallholders Development Authority, a quasi-government agency, responsible for the administration of rubber replanting cess and funds, to plan and implement rubber replanting programmes and to develop and modernize the smallholders sector in all aspects as to upgrade and strengthen their socio-economic standards. There are around 420,000 rubber smallholder-families under the patronage of RISDA.

1.3 One of the roles and functions of RISDA is that "The smallholders sector is to be fully and actively involved in entrepreneurial development, investments, rural and cottage industries and in co-operative movements". It was with this understanding that NARSCO was formed to help RISDA in modernizing the smallholders sector.

1.4 The linkage of RISDA, NARSCO and the 64 state and district co-operative bodies is pictured as follows:-



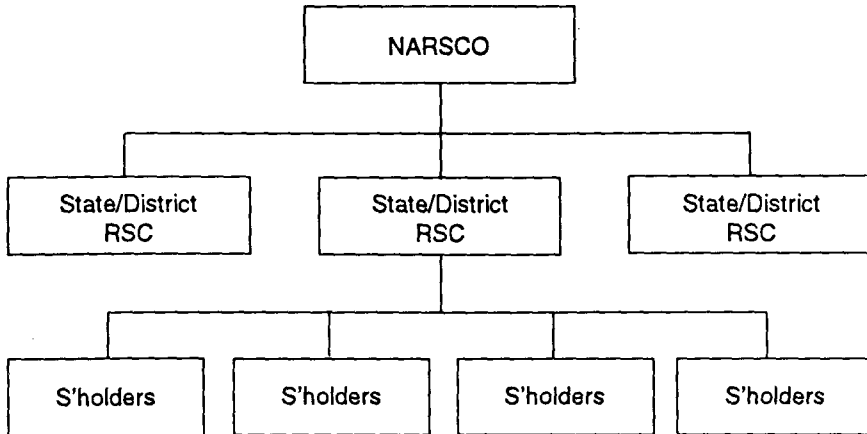
1.5 In accordance with its by-laws, NARSCO has the following objectives:-

- 1.5.1 To actively promote and encourage savings by its members;
- 1.5.2 To channel these savings towards profitable investments and activities; and
- 1.5.3 To continuously enhance the economic standing of its members through these savings, investments and activities.

1.6 As in December 1995 there are 64 district and national Rubber Smallholders Cooperatives (RSC) have been registered with the Cooperative Department of Malaysia. The details of membership and share capital are as follows:-

State	No. of Co-op	Membership	Shares (RM)
Perlis	1	1,501	116,223.20
Kedah	10	19,342	1,542,605.30
Penang	1	1,356	108,291.70
Perak	14	25,875	2,072,495.82
Selangor	8	7,680	474,941.00
Negeri Sembilan	1	11,427	1,074,921.00
Malacca	1	8,743	967,979.00
Johore	8	29,361	2,456,464.84
Pahang	8	25,028	89,99.27
Trengganu	6	24,179	1,796,558.43
Kelantan	6	40,190	3,209,889.59
<b>Total</b>	<b>64</b>	<b>194,682</b>	<b>15,610,547.15</b>

1.7 Membership of RSC's comprises of smallholders grouped together through smallholders development center (SDC) in the districts. The linkage between NARSCO and district RSC's is shown below:-



1.8 The two-tier structure of RSC is developed to enable cooperatives to carry out viable economic activities at their respective levels. Although the activities implemented are interrelated, the administration and management of individual RSC and that of NARSCO is independent of each other. The management of RSC's lies in the hands of Board of Director who are elected at the annual meeting.

1.9 In the early stage of development, RISDA provided the expertise to implement business activities for the cooperatives, until such time as the RSC's are expected to be on their own.

1.10 The involvement of RSC's in the smallholders sectors commences from core business of rubber marketing. The cooperatives now have diversified their activities in other related fields such as planting material-supplies, agricultural input and other infrastructural projects. However RSC's have to refer to NARSCO Management-Cooperative Development to render advice in matters related to laws and regulation of RSC to ensure that they are adhered to.

1.11 To date, the smallholders' cooperatives have shown encouraging achievement. The overall profits have increased substantially in 1995 as compared to that of 1994.

The detail is shown in the following table:-

## **Progress Report on the Profit of Rubber Smallholders Coop.**

State	Profit 94	Profit 95	Difference	Percent
Perlis	136,190.43	91,367.94	(44,822.49)	-32.91
Kedah	263,979.60	746,873.48	482,893.88	182.93
P. Pinang	41,386.02	102,889.45	61,503.43	148.61
Perak	1,550,251.98	3,156,600.95	1,606,348.97	103.62
Selangor	143,704.00	174,490.00	30,786.00	21.42
N.Sembilan	93,363.36	153,727.18	60,363.82	64.65
Melaka	78,529.31	231,353.00	152,823.69	194.61
Johor	865,555.96	1,304,656.68	442,100.72	51.08
Pahang	968,554.79	1,769,177.69	800,622.90	82.66
Terengganu	229,763.90	1,003,204.40	773,440.50	336.62
Kelantan	592,764.15	1,467,225.04	874,460.89	147.52
<b>Total</b>	<b>4,964,043.50</b>	<b>10,201,565.81</b>	<b>5,240,522.31</b>	<b>105.57</b>

### **2. Profile: NARSCO Holdings Pte. Ltd.**

2.1 NARSCO Holdings Pte.Ltd. or in Malay known as NARSCO Holding SDN. BHD. (NHSB) is a subsidiary company established under NARSCO with the main objective of managing NARSCO's commercial activities through wholly-owned or joint-venture companies.

2.2 Presently, NARSCO is proud to note that NHSB has been able to smoothly and successfully administer its subsidiaries as listed below:-

2.2.1 NARSCO Trading And Supplies Pte. Ltd., synchronamed as NTSSB, is distributing agricultural inputs such as fertilizers, chemicals, farm tools, machines and accessories and also manufacturing ethephone-based yield stimulants for rubber and pineapple plantations. It also caters and distributes industrial chemicals and machinery-parts for the oil-palm mills.

2.2.2 NARSCO Commodities Pte. Ltd., NCSB, acts as a marketing agent for RISDA's rubber and palm oil plantations, mini estates and smallholders' produce especially in rubber commodity. Commodities traded rubber of various grades and specifications, such as Ribbed Smoked Sheets (RSS), Standard Malaysian Rubber (SMR), Latex Concentrate (LC) and Skrimmed Rubber, Oil Palm Fresh Fruit Bunch (FFB) and local fruits (bananas, jackfruits, pineapple, starfruits ect.). Rubber

commodities are mainly export-oriented which include markets in the UK, Japan, South Korea, China and India as well as for domestic consumption.

2.2.3 NARSCO Plantations And Services Pte.Ltd., NPSSB, manages rubber and oil palms plantations belonging to RISDA, under the various replanting schemes, namely, Mini Estates, Group Replantings, Coordinated Replanting, individual replanted-holdings as well as RISDA's plantations and private estates. The plantations management undertaken by NPSSB covers various scopes starting from land-preparation, planting, maintenance, crop harvesting and produce marketing. This subsidiary company also ventures in the legislation of immigrant labour and supplies this workforce to the estate sector.

2.2.4 NARSCO Management And Travel Services Pte.Lte., NMTS, deals in corporate management, travel services, insurance agent and acts as our national airline's, Malaysian Airline System (MAS), ticketing agent. Services available include ticketing (domestic and overseas destinations), tour packages (domestic and overseas), Umrah and Haj packages to Holy Mecca, hotel accommodation reservations, car and van rentals, tour bus services and general, life, motor and brokerage insurance services.

2.2.5 NARSCO Trading Pte.Ltd., NTSB, markets and distributes food products in line with our government's rural industrialization policy. The supply includes ready cooked foods and chips, ketchups, chilli sauce, cordials, rice vermicelli and a wide variety of gravies. The company has been able to market its products through retailers as well as through selected giant-supermarkets all over the peninsula.

2.2.6 NARSCO Information Technology Pte. Ltd., NIT, engages in the supply of computer hardwares and softwares. It also handles computer system and package developments for government agencies, including RISDA, for the corporate sector and for individuals. It has its own learning institute that caters for professional management and advanced computer trainings.

2.2.7 NARSCO Fruitchips Industry Pte. Lte., NFCISB, manufactures dehydrated tropical fruitchips, such as, jackfruit, pineapple, banana and starfruit or carambola. This company is the pioneer and the only manufacturer of dehydrated-fruitchips products in Malaysia. The fruitchips produced, taste the same as the fresh fruits including, aroma and nutrients except water-content, as it has been drawn out by the dehydrating processes. So far the local market up-take is very

encouraging and the company anticipates to export the products in the near future.

2.2.8 NARSCO Transport Pte. Ltd., NTPSB, undertakes the transport of commodities and agricultural inputs. The company is, at present, actively considering to take RISDA's transport activities under the privatisation concept of "Malaysia Incorporated" as heralded by our beloved Prime Minister.

2.3 Other than the above subsidiaries, we are proud to say that NARSCO Holdings Pte. Ltd. is seriously active in joint-ventured business and manufacturing. With the joint-efforts of our corporate-partners and our own expertise, a few joint venture companies (JVC) have been set up, namely as follows:-

2.3.1 SENTRY-NARSCO Pte.Ltd., short-formed as SNSB, manufactures rubber gloves and latex- dipped products for the world market. This factory which has been set up in the early eighties was recently expanded to produce a wider range of rubber gloves which include household gloves, black industrial gloves, natural rubber industrial gloves, unlined industrial and agricultural gloves and powder-free cleanroom gloves.

2.3.2 NARSCO-KPR Pte. Ltd., NKPR, is a rubber-processing factory which produces latex concentrate (LC) for the export markets. The latex, marketed by NPSSB and NCSB, our subsidiaries responsible for plantations management and commodities marketing, is channeled to this company to ensure the constant supply of raw material.

2.3.3 NARSCO-KUOK Pte. Ltd., NKSB, manufactures various types and grades of fertilizers for rubber and oil palm plantations. Most of the fertilizers is supplied to NTSSB which, in turn, distributes them to the various government and private plantation agencies as has been contracted.

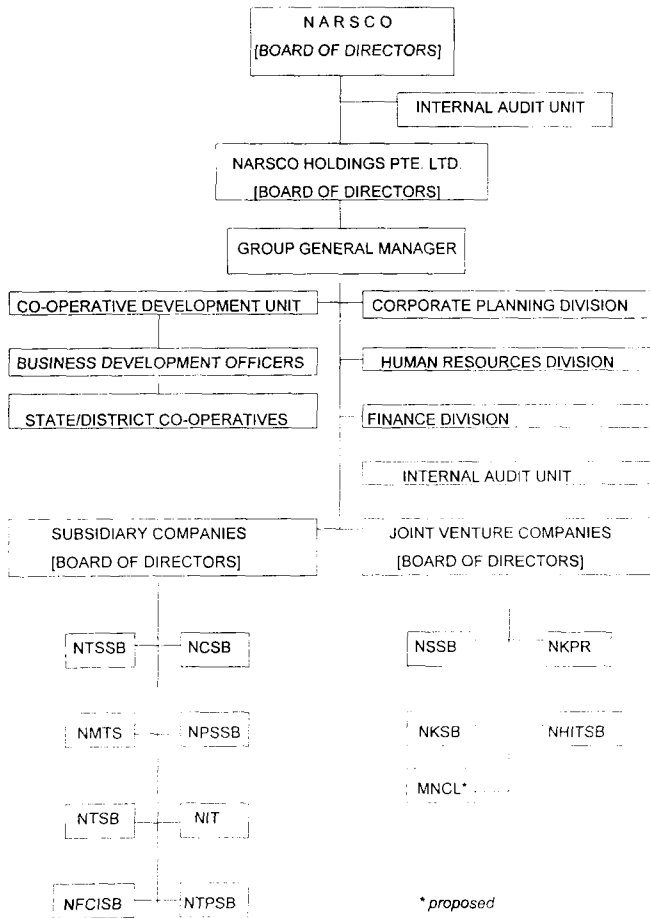
2.3.4 NARSCO-HAFAZATI ISLAMIC TOURS Pte. Ltd., NHITSB, is a newly formed joint venture company which mainly deals in Umrah and Haj pilgrimage packages to Holy Mecca. It also handles tour packages to Islamic countries as well as produces and distributes Islamic books and readings, cassettes and video-tapes.

2.3.5 MYANMAR-NARSCO COMPANY LIMITED, MNCL, is a new joint-venture company based in the Republic of Myanmar due to be formally establish in March 1996. Its main functions will be in the supply of agricultural inputs, particularly rubber seedlings, and land development for rubber plantations.

2.4 It is important to note that Malaysia is enjoying a very conducive and encouraging economic growth due, mainly, to the political stability of our country. Thus, in relation to this positive environment, NARSCO plans to expand in new ventures. At present, NARSCO is actively participating in landscaping and related projects, property investments and developments and develop its own rubber and oil palm plantations.

### 3. The Helm of NARSCO

3.1 The helm of NARSCO is administered by a 15 member Board of Directors of whom 11 are elected from amongst members of the co-operatives at the Annual General Meeting, 3 from RISDA and 1 is a representative of the Ministry of Rural Development. The organizational structure of NARSCO Holdings Pte. Ltd. is portrayed as follows :



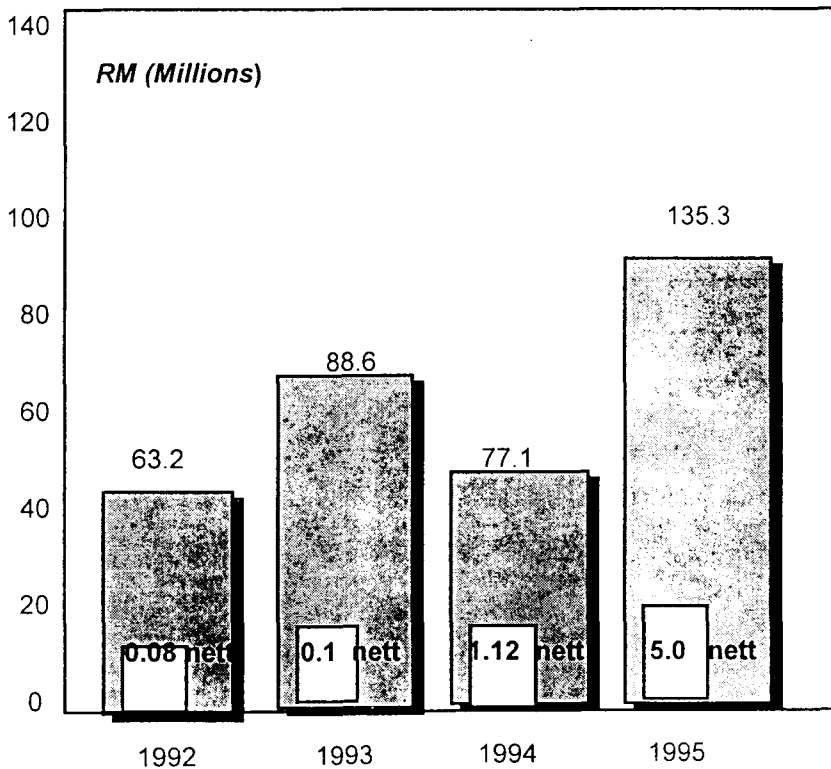


#### 4. Records and Achievements

4.1 Through its 64 co-operatives and subsidiary companies, NARSCO has supplied 15 million rubber and oil palm seedings to RISDA, developed smallholders estates worth hundreds of million Malaysian Ringgit (MR) and delivered fertilizers to RISDA worth 70 million MR annually, in addition to its other commercial activities which cater to the various needs of its customers all over the Peninsular.

4.2 Since NARSCO Holdings Pte.Ltd. was incorporated in 1992, it has been able to perform successfully what has been forecaste. Gross group-sales is targeted to cross the hundred million RM mark this year as shown below:-

**NARSCO Sales-Profit Performance**



#### 5. Future Prospects

5.1 Malaysia with an open economy and free enterprise system, where the rule of law prevails and where social and political stability

predominates, the private sector is not only flourishing but is greatly facilitated to become partners, with the public sector, in achieving the overriding objectives of national unity and development. To further reinforce the pro-private sector stance of the government, the Malaysia Incorporated Policy and the Privatization Policy were introduced. A business oriented and business-friendly atmosphere is thus created towards realising the goal of making Malaysia a developed and industrialised country by the year 2020 – enunciated as Malaysian Vision 2020.

5.2 With this frame of mind and the country's economic growth track at the rate of an average of 8 per cent per annum, NARSCO is aware that it has to do a lot to achieve this status - necessary investments have to be made and done - enhance R & D for process and product improvement, technological innovation, fine-tuning marketing strategies as well as recruiting a resourceful manpower. With this confidence, determination and commitment of all members, Narsco is sure to realise its own vision – a new vision for greater achievement.

## MONGOLIA

# Business Development in Agricultural Cooperative Movement in Mongolia

**G. Zandanshatar**

National Association of Mongolian Agricultural Cooperatives (NAMAC)

### Introduction

Before 1990 Mongolia, which was then officially called the Mongolian People's Republic, was a centrally planned, single party state controlled by the Mongolian People's Revolutionary Party. Its political, economic and social institutions were based on Marxist-Leninist ideology.

In the years since 1991, Mongolia has moved from a position of political and economic isolation within the former Soviet Bloc to a free democratic society and market economy where opportunities for trade and investment are becoming increasingly promising. About seventy percent of former state owned businesses have been privatised, the national currency, the togrog, has been allowed to float and it has stabilised, and new principles and techniques of management are beginning to penetrate all levels of national life as a result of commitment to the democracy and the free market system.

Until the end of the 1950s Mongolia was dependent on a single economic resource, i.e. livestock. Mongolia was divided into three zones for economic development, the eastern, central and western. Industrialisation was concentrated in the north of the central zone. In the 1960s it was based on agricultural raw materials and mining and mineral processing developed in the 1970s and 1980s. The rapid growth of industry was made possible by Council for Mutual Economic Assistance (COMECON) loans and technical assistance. However, it was not intended to make Mongolia self-reliant but to integrate the country with COMECON, in effect the USSR.

The new constitution was approved in January 1992 and came into force in February 1992. At the same time the Government embarked on a programme of market economic reforms. Mongolia

has signed new treaties and many economic agreements with states of the former Soviet Union, Asian and Pacific countries and the European Union. It has also joined multilateral organisations such as World Bank, the International Monetary Fund and Asian Development Fund and is in the process of becoming a party to a wide range of international conventions. In this way Mongolia's long-standing isolation is coming to an end and country is moving towards real integration in the global community.

Mongolia's most valuable material resources include the products of herding economy; wool, cashmere, meat and leather, and country's considerable mineral wealth, copper molybdenum, fluospar, gold, silver, oil and many other minerals. The potential can be realised through semi-processed products and as finished goods. At present, many of the privatised plants and industry are old, inefficient, in need of up-to date technology and appropriate managerial practices. A potential workforce with levels of education suitable for training is readily available.

What is lacking at present is sufficient capital for investment and therefore, foreign partners are encouraged to invest in Mongolia. The Government has passed a foreign investment Law and necessary legislation and administrative structures are now in place to facilitate foreign investment. Tax and customs benefits are offered particularly to companies investing in mineral production and processing and those producing goods for exports.

Another important priority in the medium-term is creation of small and medium enterprises both to serve export and domestic needs which are also in need of technology. The Government has policies of supporting the small and medium enterprises within private sector which now produce over half of GDP and this share in GDP is expected to grow in the future.

Planners face two important tasks: devising systems that take into account Mongolia's characteristics of severe climate, great distances between centres and low population; and planning for the medium-term with a view to long-term sustainable development of the economy and society.

The rural population is scattered and there can be considerable distances between centres which are accessible only by dirty roads or cross-country. Many herding families are still nomads in most seasons except winter when they pitch their felt tents (ger) near small rural centres.

The age distribution of population is both an asset and a weakness. Life expectancy is 61 and the proportion of aged people is low. At present about 40% of the population is below the age of 15 and workforce is no more than a million. Because of transition and the recession there is a great pressure on the social sector in terms of education, health and social security provision. The entire working population is in need of some retraining to function in the democratic and market led system for the minimum benefits. An additional complication at present is unemployment which reached 70,000 (registered unemployment) in January 1995 after three decades of virtually full employment. This has caused some decline in morale and contributed to a rise in crime as well as poverty. However, there are signs that the job market will improve in 1996 and this can be expected to continue as a result of the government's recently launched Poverty Alleviation Programme.

The traditional economy depends on five kinds of livestock: camels, horses, cattle, sheep and goats. Until 1991, most were raised extensively on collectives (negdels) although some were owned by state farms. Privatisation of the herds began in 1991 and now 91.5% are officially in private hands.

The role of the rural economy is of great importance in the national economy as a producer of export commodities such as wool, cashmere, leather and meat, and a supplier of raw materials to domestic industries such as carpet, garment and other textile industries, and leather goods.

In the 1980s livestock and finished goods made from agricultural products accounted for over half of the volume of exports. The quality of some animal products is now said to be poorer than elsewhere in the world market. To some extent this can be and is being addressed through veterinary and other programmes.

In a historically short period of time the crop production has turned into an independent branch of agriculture occupying an important place in satisfying domestic needs in wheat and cereals and supplying fodder. Arable land is 1.3 million hectares.

### **Latest Development of Agricultural Cooperatives in Mongolia**

During the transition period of Mongolian economy to market system, the problem of reorganisation of the Union of Mongolian Agricultural Negdels (Collective farms) has necessarily arisen. Former negdel's livestock was distributed to the rural people through their

vouchers. Former agriculture negdels were privatised and a policy to develop new economic entities on the basis of former negdel's assets which was guaranteed by vouchers. To support this policy were established agricultural cooperatives and companies. In 1991-1994 about 300 economic entities, cooperatives and companies were established by contributing the capital and labour of private individuals on the basis of their initiatives.

According to "Economic Entities Law of Mongolia" adopted in 1991 there were established three types of economic entities namely, company, cooperative and sole proprietorship. The companies and cooperatives engaged in agricultural production and service activities. The foundation of a chapter fund of these two entities are different. In a company it amounted to more than 500 thousand tugrugs. However, there are common objectives for these entities as to provide business activities to coincide with members interest and well-being. In July 1995 Mongolian Parliament has enacted the "Partnership and Companies Law", "Cooperative Law". These now are on the way to be enforced. These laws reflect general international ideas and principles of cooperation. The "Cooperative Law" states that Cooperative business activities shall be settled to coincide with common economic interest and needs of their members. Cooperatives shall be organised and operated on following principles:

1. Cooperative shall be established in basis of initiatives of their members and admission to and exclusion from cooperative membership shall be free.
2. Each member is entitled to manage the cooperative.
3. The member of a cooperative shall personally participate in its activities by joining their labour and property.
4. Cooperative should clearly distribute the total profit to its members in proportion to the amount of capital contributed by them.
5. Cooperatives shall provide their business independently but according to the law.
6. Cooperatives shall take the responsibility for development of member's education and qualification.

The cooperatives have three types of activities i.e. production, service and utilisation. By the direction of activities the cooperatives are of the following types namely, agricultural marketing and procurement, livestock, raw processing, crop farming, domestic services, insurance, loan credit, education and culture, health service etc., and their mixed activities.

The National Association of Mongolian Agricultural Cooperatives (NAMAC) is built in 3 levels of the structure of the main Mongolian administrative units. All of NAMAC's branches and member-organisations are self-sufficient and based on a non-governmental property. The NAMAC is a non-governmental organisation whose major task is to protect the common rights of its members and branches and all agricultural cooperators and, to coordinate with Governmental and other organisations in order to support the development of cooperation.

The general meeting of NAMAC is summoned every 4 years. The meeting of aimag association of agricultural cooperatives is called every 4 years and meeting of all member's of a member-company or member-cooperative is called every year to discuss and solve the appropriate issues according to the Rules of each Association or a company or a cooperative.

By the end of 1994, 22.8% of the directors of 300 member-companies or member-cooperatives were people up to 40 years of age, 45.6% - 40-50 years old, 31.2% were people of over 50 years of age. The average age of directors is 44 years. As for the director's education and specialisation: 34.4% of directors are economists, 31.2% are specialised in agricultural sciences and 10.4% are engineers. 76% of all directors had University level education. 36% of all directors previously were working as directors of companies and other economic entities, 26.4% were involved in professional and 20.8% in administrative management.

However, 37.6% of directors were not practising in the management of agricultural cooperatives. Therefore, most of managing staff of agricultural cooperatives needs to be re-educated and their abilities to manage the cooperative organisations in market economy system should be strengthened.

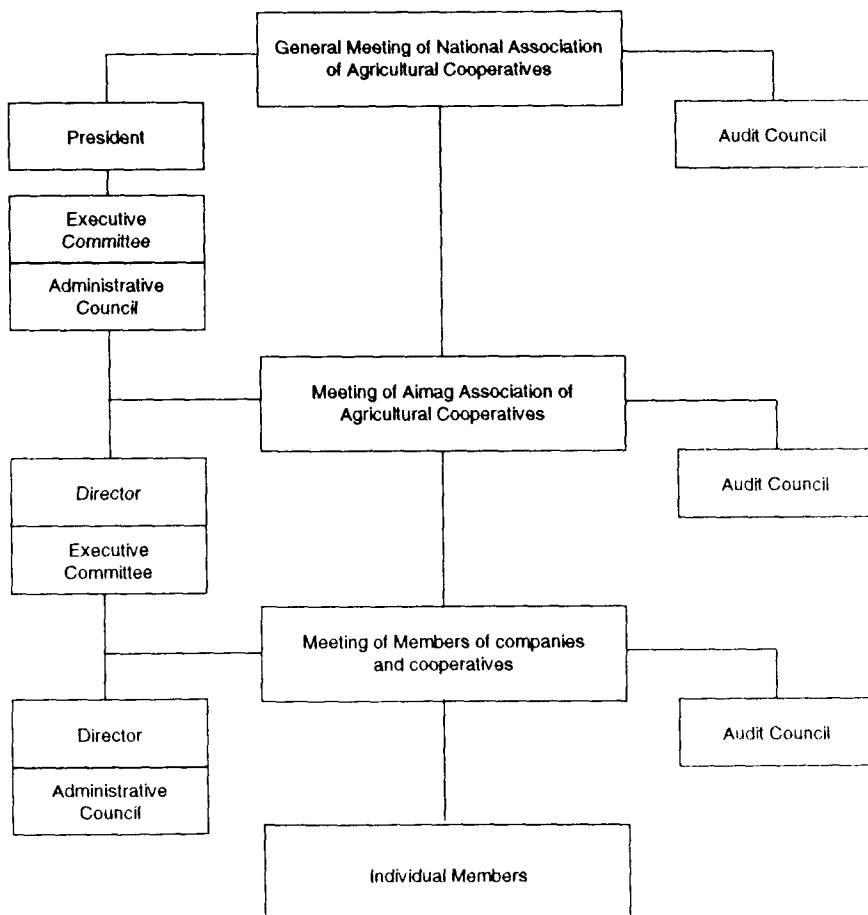
Among Mongolian agricultural cooperatives and companies the process of reunification, enlargement, disintegration or getting insolvent is going on. However, the directions of their business and services do not change.

This can be seen on the following table showing the main indices of the agricultural cooperatives and companies:

	1993	1994
Number of families	211	240
Number of members	367	418
Number of employees of companies	151	65
Registered capital	8.2 ml.tgs*	10.4 ml.tgs
Revolving capital	6.3 ml.tgs	8.0 ml.tgs
Income from sale of raw materials	8.9 ml.tgs	11.3 ml.tgs
Products distributed among members	3.3 ml.tgs	5.5 ml.tgs
Profits	2.4 ml.tgs	2.4 ml.tgs

\* ml.tgs-million tugrics (1 US\$=465 tugrics)

### The structure of NAMAC





The main directions of business activities of member-companies and member-cooperatives are:-

- livestock and crop production;
- marketing of agricultural products and supply of goods for everyday necessity to its members;
- providing social and cultural services for rural population;
- run subsidiary production by utilisation of available equity and manpower.

If we take the operation ratio and total profit:

- sale of livestock products - 56.0%;
- sale of crop products - 14.5%;
- sale of consumer's goods - 27.3%;
- subsidiary production and other services - 2.2%

Under the new socio-economic policy as applied to the Mongolian agricultural cooperatives, arise problems of selection of a suitable type of its structure, organisation and management and of a beneficent business direction for further development. The solution of issues listed below is essential:

1. Following undeviatingly the principles of democracy within cooperation, modernise the Mongolian cooperatives in conformity with general principles of the international cooperative movement.
2. Increase the living standards of the cooperators and strengthen their social security through support of existing agricultural cooperatives and companies to build up their financial capability and to augment their business incomes and profits.
3. Develop cooperation for the satisfaction of the cooperators' everyday needs and for the solution of infrastructural instruments in rural areas by leaning upon the traditional mode of neighbourhood such as herdsmen families groups and using their combined efforts.

For the solution of above mentioned problems it is necessary to take the following measures:

1. Make basic study on the ways of further development of agricultural cooperatives and work-out a master plan.
2. Extend the business of cooperative to producing and processing agricultural products and rendering the different kind of services. Dealing with following business activities could be beneficent:

- 2.1. Production of breeding males, seeds, hay and fodder;
  - 2.2. Consumer goods production for every day needs of herdsmen;
  - 2.3. First stage processing of agricultural raw materials of livestock-breeding and land cultivation;
  - 2.4. Gathering the agricultural raw products which are available at the herdsmen families in remote areas and profitable re-sale thereof on centralised market;
  - 2.5. Arrangement of educational and training courses in aspects of legislation, economy and agricultural technology;
  - 2.6. Providing herdsmen with main food-stuff and consumer goods;
  - 2.7. Rendering the social services to rural population.
3. Assist the managing staff of cooperatives to obtain information relevant to their activities and to increase their organisational abilities.
  4. The voluntarily joining of agricultural cooperatives into partnerships could make their operations more profitable and increase their effect upon market.
  5. Deepen the internal audit on enforcement of legislation within all levels of cooperative organisations, make audit functions more regular and productive.

Finally, it can be concluded that the Government support to the cooperative movement in agricultural sector is really insufficient.

## **UNION OF MYANMAR**

# **Business Development in Agricultural Co-operative Movement in Myanmar**

**Kyi Tint**

Union of Agricultural Producers Co-operative Syndicates

### **Introduction : The Land**

Myanmar is known as the Golden Land for its golden pagodas, minerals and natural resources. Geographically, Myanmar is situated in South-East Asia sharing borders with Bangladesh, India, Laos and Thailand. Myanmar stretches for about 1275 miles from north to south and 582 miles from east to west. The total area of the country is about 676, 577 square kms. More than half of the country is bounded by mountains and mountain ranges and mostly covered with forests. There are seven states and seven division in Myanmar. They are Kachin, Kayah, Karen, Chin, Mon, Rakhaing and Shan States, Sagaing, Tanintharyee, Bago, Magway, Mandalay, Yangon and Ayeyarwaddy Divisions.

### **Climate**

Myanmar enjoys a tropical climate with three seasons. The rainy season starts from mid-May to mid-October, the dry cool season from mid-October to mid-February and the warm hot season from mid-February to mid-May. In the central plains it is generally dry and there is plenty of sunshine during the rainy season. Humidity is high from mid-April to December. Average temperature in the coastal and delta zones, which include Yangon, are 32°C (90°F) in the hot season and 21°C (70°F) in the dry, cool season. The best time to visit Myanmar is from October to February.

### **People**

The population of the Union of Myanmar in 1995-96 was estimated to be 44.74 million with an annual growth rate of 1.88 percent and average annual growth rate between 1973 and 1983 was 2.02 percent.

The total estimated employment was 16.47 million and the largest portion totalling 10.78 million or 65.45 per cent were engaged in agriculture. Total work force in industrial sector was 1.10 million or 1.26 percent of the population.

Myanmar is a union of many nationalities, as many as 135 ethnic groups, many languages and dialects. The largest nationality is formed by the Bamars, who make up 68 percent of the population living mainly in the low lands. Seven other nationalities are Kachins, Kayahs, Kayins, Chins, Mons, Rakhines and shans.

## **Religion**

Over 80% of the Myanmar are Buddhists. There are also Christians, Muslims, Hindus and even some animists. However, there is full freedom of worship for followers of other religions. Christian missionaries have been active in Myanmar for over 150 years. Among them, the American Baptists were first on the scene.

## **Culture**

Myanmar lies on the crossroads of two of the world's great civilization-China and India. Its culture is a blend of both interspersed with Myanmar native traits and characteristics. Buddhism has great influence on daily life of the Myanmars. The people have preserved the traditions of close family ties, respect for the elders, reverence for Buddhism and simple native dress. Myanmar are known for their simple hospitality and friendliness.

### *Rural Setting of Myanmar :*

There are 12624 village-tracts situated in over 300 townships. Hamlets ranging from 3 to 5 in number each, constitute a village-tract which is the last rung in the administrative ladder.

Speaking from the point of views of agriculture, a village-tract may consist of 3 to 5 kwins each of which is a continuous stretch of land capable of being physically demarcated and to certain extent ecologically differentiated. At the widest, village-tract is 3 miles across not more than a man's walk distance in an hour.

Roads are fair weather and mainly cart tract and communications are largely by postal system and per natural resources concentrate. Forests and Fisheries are there: mines and mineral resources are just underneath. Crops and other types of processing plants scatter conspicuously.

At least a State primary school belongs to each village-tract. Half dozen or more village-tract may possess a State Middle School of their own strategically located. In a township, which consist of 50 to 100 village-tracts depending upon size, there is at least one State High School generally situated in urban town. It is no more peculiar to see some State High School in some big village-tracts. Depending upon people's enthusiasm and capability every village-tract can have any level of attached schools of its own. Besides, private tuitions of every kinds of academics are mushrooming in divisional and District townships to help the learners of all ages to catch up the lost opportunities.

Economic infrastructures are increasing by leaps and bounds because of concerted efforts both of the Government and the people. Investments in the form of agricultural instruments and machinery canals and irrigation works, cottage industries and minimarkets are discernible in every strategic locality. Motorised vehicles are nowadays capable of reaching those places. Radios, TVs and Cassettes are nothing new in villages. Videos and bicycles are no more luxuries for a few. Dwelling houses are roofed with CI sheets mostly.

Religious edifices become glistering with various hues. Monkhood, also becomes enviable with generous charities and offerings. Old stupas are repaired and new ones constructed. Monasteries are seldom silent with one or other meritorious deeds.

Philanthropic associations such as Maternity and Child Welfare, Fire Fighters, Ambulances and Red-cross get donations from different sources.

#### *Agro-ecological conditions :*

Agriculture contributes highest proportion to GDP. It earns more F.E for the country and employs highest proportion of work force. Density of work force in agriculture is probably due to less capital intensity and quick and easy returns from farm production. Among others, major and constant objectives are:-

- 1) To meet the need of domestic consumption
- 2) To substitute imports, and
- 3) To promote exports

The objectives are consistent with SLORC's Four, economic aims viz: development of agriculture as the base and all-round development of other sectors of economy as well. Proper evolution of market-

oriented economic system; development of the economy inviting participation in terms of technical know-how and investment from sources inside the country and abroad and; the initiative to shape the national economy must be kept in the hands of the State and the national people.

Myanmar's agriculture is eighty eight percent rain fed, the climate is temperate in limited areas of northern part and tropical in the rest. There are nine geographical regions, the agricultural importance of which differs from one region to another. Central Myanmar is dry zone. Ayeyarwaddy delta and Shan plateau rank high in importance, while Radhaing coast, northern hills. Tanintharyee coast stand medium, with western mountains, Bago yomas (ranges) and Sittang river valley remain low in agricultural importance.

Paddy remains predominantly an important crop in all regions. So summer paddy becomes popular among farmers under Government guidance. Maize is still important in western mountains, central Myanmar Bago Yoma and Sittang valley. Sugar cane is most thriving in northern hills, central Myanmar dry zone and Shan plateau. Increasing animal breeding activities popularise sorghum plantation in dry zone, which is naturally advantageous for oil crops. Ayeyarwaddy delta, Sittang valley and Shan plateau follow suit in oil and cereal crops. Beans and pulses grow well in central dry zones, Sittang valley and because of export potential, prospering everywhere, as second crop. Cotton is favourable in Central Myanmar. Side by side with paddy, which of course is by far the largest, jute is encouraged for industry in Ayeyarwaddy. Upland paddy is peculiar to Bago yoma only, just as potatoes are to Shan plateau though some attempts have been underway in dry zones to grow potatoes during summer along dry creeks.

Horticultural crops thrive most in western and northern hills and Shan plateau. Endowed with favourable climate, the habitually plant lover indigenous people in Myanmar are inclined to grow floral plants around their habitats; medicinal plants are usually meant for distribution to needy people, just like green vegetables which are available gratis in rural zones for household consumption.

Until recently in urban areas, but still prevailing in most rural villages, source of power for domestic use is firewood of which Myanmar forests offer plenty. With increase in population and change of weather conditions the practice of firewood as a source of power is being discouraged though with little success.

### *Soil Texture*

As far back as 1959, scientists classified 18 classes of soil in Myanmar. Later on Myanmar scientists regrouped them into some more details according to years, day classification. It is hoped that a reference to this classification would serve the purpose.

#### *Soil-Crop Suitability for Main Soil types of Myanmar*

Soil	Crop Suitability
1. Red brown forest soils	Rubber, pineapple, orchard forest.
2. Mountainous red brown	Forest.
3. Red earth	Potato, garlic, orchard, maize, sugarcane, pulses.
4. Mountainous Red earth	Forest, upland rice, maize, pasture.
5. Yellow brown forest soil	Rubber, pineapple, orchard.
6. Mountainous yellow brown forest soil	Orchard, forest.
7. Red brown Savanna soil	Sesamum, groundnut, pigeon pea, sunflower, maize, pulses.
8. Cinnamon soils	Cotton, sugarcane, groundnut, sesamum, sunflower, maize, pulses.
9. Dark compact soil	Paddy, wheat, sugarcane, cotton, maize, onion, chilli, pulses, gram, sunflower. groundnut, sesamum.
10. Dark meadow soils (UM)	Paddy, cotton, maize, onion, chilli, sugarcane, pulses and beans, vegetables
11. Complex light colour meadow soil (LM)	
(a) Meadow soil	Paddy, jute, sugarcane, maize, groundnut, chilli, vegetables.
(b) Meadow grey soil	Paddy, jute, maize, sugarcane, cotton, sesamum, groundnut, chilli.
(c) Meadow degraded soil	Paddy, chilli, pasture.
12. Meadow Swampy soils	Paddy, jute, sugarcane, maize, vegetable.

13. Swampy soil	Paddy, dhani.
14. Meadow alluvial soil	Paddy, groundnut, cotton, sugarcane, pulses and beans, maize, sesamum, chilli, onion, sunflower.
15. Laterite and lateritic soils	Rubber, pineapple, orchard, paddy, sugarcane, jute.
16. Saline Soils	
(a) Sandy tidal sea saline (slight/moderate soils)	} Paddy, jute, maize, tobacco, groundnut, vegetables.
(b) Meadow grey saline (slight/moderate soils)	
17. Salty mud	
(a) Sandy tidal sea alluvium	} Dhani, mangrove.
(b) Salty mud swamps	
18. Soils of mangrove forest	
(a) Saline soils of mangrove forest	} Dhani, mangrove.
(b) Saline grey soils of mangrove forest	
(c) Saline muddy tidal soils	
19. Turfy primitive soil	Forest, orchard.
20. Primitive crushed stone soils	Forest

### *Land utilization*

During 1994-95, the net sown acreage of crop land totalled nearly 21.7 million, with current fallow acreage of a little over 3.3 million, while culturable waste remained 20 million acres. Reserve forest area stood at 25.52 million acres besides other forest areas of 54.51 million acres. In addition, Myanmar has unclassified land, not suitable for crop of about 42 million acres. It can therefore be seen that the sum total of net sown and fallow areas constitutes cultivated areas. Fallow lands in some cases are left out of cultivation as part of a well defined rotation system for conservation of fertility and as such, will come under crop production in the following season.



Culturable waste lands cover nearly as much as the currently cultivated areas. Grants have been given for agriculture, livestock farming and rice-fish farming enterprises throughout Myanmar. Total amount so far granted for the purposes is 81195 acres.

*Population and farmers :*

Estimated total population in 1994 stood approximately at 43.92 million with annual increase of 1.87%. Of this, 75% are believed to be living in rural areas where 4.4 million farm families are working on agriculture. The total labour force is estimated at 17 million, 65% of which are engaged in agriculture sector.

In Myanmar, the right to till belongs to the actual tiller. The tendency however is towards decrease in number of farmers with large holdings and increase of farmers with smaller holdings. Nearly 2.8 million farmers with less than 5 acres are tilling over 6.6 million acres. Those holding between 5 to 10 acres on nearly 8 million acres total over 1.1 million.

Only about half a million farmers with 10 to 20 acres are working on about 7 million acres of land. Barely 100 Thousand of farmers possess 20 to 50 acres holding working on a little over 2.7 million acres. Nearly less than a thousand farmers own 50 to 100 acres each, working totally on about 95,000 acres. There are about 2,000 farmers with about 100 acres holding working on 579 thousand acres of land.

*Basic objectives of agriculture in Myanmar :*

The objective is generally, overall enhanced production of crops with special intent to promote cereal crops, to have surplus in paddy, selfsufficiency in edible oil with a view to meeting rising demand by increasing population Besides, it is also intended to promote such crops as to meet the requirement of domestic agro-based industries and lastly to increase exports. Major crops in Myanmar are rice, oilseed crops, peas and beans and other cash crops.

*Co-operative Organization :*

As of 31st December 1995, there were altogether 5,431 societies newly formed under 1992 Co-operative Societies Act. They are as follows :

Sr No.	Type of Co-operative	Total Number
1.	Government Employees Co-ops	65
2.	Co-op Stores	48
3.	Agricultural Producers Co-ops	2870
4.	Wholesale Co-ops	172
5.	Industrial Co-ops	915
6.	Services Co-ops	202
7.	Crop Purchasing, Processing and Marketing Co-ops	45
8.	Bazaar Co-ops	86
9.	Government Employees Co-ops (Education)	368
10.	Saving and Credit Co-ops	131
11.	Construction Co-ops	38
12.	Myittashin (Benevolence) Family Development Co-ops	10
13.	Other Co-ops	481

There remained also 20,163 (old) Co-operatives established under the previous Co-operative Society Law of 1970. Of them, 14,873 societies have been restructured according to 1992 Co-operative Societies Act.

*Co-operative Agricultural Production :*

At the commencement of Revolutionary Council in 1962, the agricultural Co-operatives were called Agricultural and Multipurpose Cooperatives under 1956 Co-operative Societies Act. After promulgation of 1970 Co-operative Law, they were reorganised, as village-tract Co-operatives, and urban agricultural producers. Co-operatives in fact were multipurpose in character. Three years prior to 1988, they cultivated within a range of 2.05 to 2,81 million acres of land and grew various crops. During the period 1988 to 1992, the cultivated land area of those Co-operatives decreased to a range of 1.29 to 2.76 million acres because of the liquidation of armed forces Co-operatives. Now efforts are afoot to agitate, motivate and organise farmers to form cropwise or multipurpose Agricultural Co-operatives with a view to helping each other in the works of production, servicing and marketing. Under the functional apex body of Federative Union of Agricultural Cooperatives, the momentum of Co-operative Agriculture in Myanmar is assured of success.

## **PHILIPPINES**

# **Business Development in Agricultural Cooperative Movement in the Philippines**

**Aurea B. de Ramayo**  
Cordova Multipurpose Coop.

### **Introduction :**

It is a rare opportunity for a Filipina Coop Leader to participate in the 3rd ICA/NACF Regional Seminar on Agricultural Cooperative Business Development with special reference to Korean experience in the Agricultural Cooperative College at Seoul. A Seminar of this kind generates enriching experiences that would inspire participants to replicate in their own countries. Sharing the facts, figures, practices, policies, business ventures and the latest programs, services and technologies from the country's coop business development in Agriculture by representatives would be one of the enriching activities.

### **Review on Philippine Agriculture - National Level**

In the Philippines, one of the motivating move and gesture of the Department of Agriculture is the yearly celebration of the Farmers and Fisherfolks month, every May. The motivative works and contributions have ensured sustainability and growth in Agricultural Production.

Philippine Agriculture has evolved and will continue to evolve amidst the changes and challenges. Food security, sustainability, global competitiveness - are some of the challenges that confront Philippine agriculture today.

### **Towards Sustainable Agriculture :**

To ensure sustainable agriculture some key factors, moves, policies, technologies, programs, markets and productions should be in place.

The proposed medium term Agricultural Program is considered an answer to the challenges. In this plan, Philippine Agriculture has to be transformed into a machinery of growth, through these strategies :

1. The Key Production Approach (KPA) :

Where the Government identifies areas wherein the Agro-climatic features and market conditions are favorable for producing, processing and marketing specific products. In essence, it means planting the right crop for the right market at the right place at the right time.

2. By adopting Integrated Farming Systems, maximum use of agricultural lands and coastal areas increase farmers and fisherfolk's incomes.

3. The Integrated Pest Management (IPM)

Farmers found safer and cheaper alternatives to harmful insecticides - letting nature take care of its own harmful insects. IPM empowers our farmers to determine the means by which they manage their farms and enterprises.

4. Protection from Wanton Destruction in our farms and in our seas, to avoid depleting our rich fishing grounds through over-fishing and the use of harmful chemicals like cyanide and explosives.

5. The Legislative Measures - Amending existing laws and enacting bills to fast-track agriculture sustainability. We need to work for the enactment of several legislative measures to further enhance the competitiveness of the agriculture sector and to comply with our GATT commitments. Foremost in the agenda are :

Legislation on Agriculture Tariffication which will amend the Magna Carta for Small Farmers, the Seed Industry Act, and the National Grains Authority Act; and repeal two laws and a presidential decree imposing quantitative restrictions on the import of onions, potatoes, garlic, cabbage and coffee, and centralizing the import of cattle and beef products.

Other measures that need to be enacted, amended, or repealed in compliance with our GATT commitments are as follows :-

The amendment of Section 401 of the 1979 Tariff and Customs code which would enable the President to effect additional safeguard duties up to one-third of existing tariff rates;

The Plant Variety Registration and Production Bill which seeks to protect plant breeders interests and rationalize the use of seeds and other planting material.

We are also urging the Senate and the House of Representatives to pass other measures along with the Irrigation Crisis Act for the

long-term objective of enhancing the competitiveness of the sector. These are as follows:

- a) A bill which seeks to put in place a presumptive input tax on agricultural products used by agricultural processors in order to correct the over-taxation of farmers and agricultural processors;
- b) A bill amending the Agri-Agra Law by prohibiting banks from using the agri-agra fund to buy government securities using the funds set aside for rural credit;
- c) A Fisheries Code to provide the judicious use of the fishery and aquatic resources and the Exclusive Economic Zone, as well as to provide for support service for municipal fisherfolks;
- d) A General Appropriations Act for the budgetary requirements of about 18 million pesos per year to carry out the GATT Action Plan;
- e) A tax reform bill that would cover the key areas of tax administration, income taxation, fiscal incentives, and the excise tax;
- f) Bill to improve the nutritional status of Filipinos towards strengthening our human resource.

The Mid-Term Agricultural Program envisioned to modernize Philippine Agriculture. It seeks to enable the farmers to increase their yield per unit area. With more volumes produced, they would be able to offer a lower price for their products and still manage to earn higher incomes. Thus, they would be able to buy more industrial inputs to further enhance their productivity a situation that will spur us on to our goal of agri-based industrialization.

The ratification of the GATT-UR Agreement and the coming into force of the World Trade Organization should serve as catalyst for this modernizing process. Since the objectives of this new trade arrangement is to open up economies to the rest of the world concerned - member countries have been enjoined to reduce their production and export subsidies, or tariffs quantitative import restrictions on agricultural products; Thus, for example, proposals have been made to bring down the tariffs on such vital inputs of packaging materials and the cost of money, and to reduce government interference in the private sector.

## **Challenges in Modernizing Agriculture**

What we need to work harder on, is to generate the political will to consolidate support for agriculture. This requires implementing policy reforms that will, for instance, lower tariff protection on the agricultural inputs, and minimize government regulation of private business. It also requires increasing public investments that will provide us the vital support services and infrastructures that will move farm inputs and produce straight and fast, to and from the market.

Specifically, we need to come up now with production technologies comparable with those of other GATT-member countries, reduce the costs of doing business, and enhance the productivity and efficiency of agriculture. To do these, government must be able to carry out the following measures:

In the Area of infrastructure, we need to Provide:

- i) A more efficient system of farm-to-market roads, ports and cargo handling services, postharvest and processing facilities, power and telecommunications; and
- ii) More and better irrigation and drainage systems.

In the area of policy reforms, we need to :

- i) Enact specific legislation that will be supportive of agriculture in the brave new world of greater free trade;
- ii) Devote more government resources for such rural infrastructure as I have mentioned;
- iii) Lower interest rates and provide more funds for credit guarantee schemes;
- iv) Lower the tariff rates on industrial inputs vital to agricultural production;
- v) Dismantle monopolies and other regulations creating inefficiencies in shipping and port management;
- vi) Provide for a presumptive input tax for agri-processors;
- vii) Streamline government regulations that discourage private investments and add to transaction costs;
- viii) Improve the coordination of concerned national and local agencies involved in the delivery of agricultural extension services; and

- ix) Provide support for the development of the farmers cooperative movement.

### **Regional Level : Central Visayas**

Being a Philippines representative, specifically from the Visayas, I may have delved more on the agricultural profile in Central Visayas.

Visayas, inspite of its being a major industrial and trade center, remains predominantly rural and agricultural. About 40% of its total land area is agricultural. The agriculture and forestry sector accounts for a fifth of its Gross Domestic Product. The region also has contributed significantly to the country's agricultural production. It ranks second in total sugar output, fourth largest in mango production, fifth in corn harvest and second largest in its cattle industry.

The predominance of agriculture and the rural sector in the region's economy explains why poverty persists in the rural areas of the Visayas. This situation is the result of factors which have limited the growth and development of the rural sector and agriculture in the Visayas.

Prime agricultural land is scarce and whatever is available is rapidly being converted to non-agricultural uses.

Production inputs such as fertilizers, feeds, quality breeder stocks are generally not available to small agricultural producers and whenever such inputs are accessible, these are so at high costs. Basic infrastructure such as irrigation systems, farm to market roads, post harvest facilities, class A abattoirs, fish ports/landing centers, and cold storage facilities are also inadequate to address these limiting factors for growth and development although beset with these constraints but motivated with a vision of dynamic rural communities with farmers/fisherfolks entrepreneurs doing profitable business out of agriculture, the Department of Agriculture formulated the Visayas Agricultural Development Plan to implement this agenda :

- Agricultural Research
- Institutionalization of Research System for DA researchers
- DA's Grain Production and Enhancement Program
- Commercial - Scale Type of Rice Seedlings
- Corn Research and Development
- Scientific Career System
- Mango Industry

Common Problems identified due to the depletion of natural resources and limited knowledge and training on resources management technologies are

1. Lack of appropriate technology and illegal logging
2. Lack of capital, lack of irrigation water, diminishing mangroves and nipa planted areas
3. Soil erosion
4. Land Conversion
5. Swampy Areas

### **Common Concerns**

The achievement of the twin goals of sustainable development and food security. The task of ensuring food security and production of surpluses is a complex and formidable challenge. Since most of the Philippine Agriculture is done by small farmers working on lands which hardly reach a hectare in size and which they do not own.

Philippines Secretary of Agriculture, Sec. Roberto S. Sebastian stressed the country's goal to transform the philippine rural economy into a bustling network of agri-business and agro-industries. He further discussed the Philippine government desire to attract U.S. investors in agri-business to beef up the economy as the country moves towards global competitiveness and Nichood.

### **Cooperative Movements in the Philippines : (NGO)**

The National Confederation of Cooperatives (NATCCO) is an apex organization of the cooperatives nationwide. The coop. leaders organized NATCCO in April, 1977 to prove that the task of Coop. Development lies in the hands of the voluntary sector in Cooperatives.

NATCCO consists of the affiliates which are the different types of cooperatives in both urban and rural areas, whose members are farmers, fisherfolks, professionals, private or government employees self employed and other small and medium entrepreneurs as well as the poorest among the poor. To enhance effective and efficient NATCCO services and programs, Regional Development Centers were organized.

In the Visayas region, Cooperatives are affiliates to Visayas Cooperative Development Center (VICTO). VICTO enhances and facilitates NATCCO's program and services to the coop affiliates as:



1. Strengthening of human resources development program for coop leaders and staff.
2. Integration of efforts with other coop. organizations and coop-promoting organizations with similar values and orientation.
3. Participation and taking public stand on social, economic and political issues affecting Filipino society.
4. Strengthening of the financial base of the network for self-reliance and sustainability.
5. Development and strengthening of business activities complementing and supporting the business activities of the cooperatives. this includes:
  - Setting up financial and marketing organization to complement business activities within the network.
  - Promotion of the establishment of regional liquidity pools
  - Launching of the deposit guarantee fund.
  - Organization of the marketing grid as a cooperative
  - Intercargo Trade
  - Facilitating the sourcing of external funds

#### **Cordova Multipurpose Cooperative :**

Although basically it is not an agricultural cooperative, its operation has alleviated and responded to the needs of fishermen, farmers in small scale and the people of Cordova who are generally poor in terms of poverty alleviation and augmenting mini-agri source of livelihood.

#### **Conclusion :**

With this seminar we expect to gather clear and workable experiences which would serve as inspiration as we go back and help our people in their cooperative business ventures. May the knowledge and experiences we have, be the grinding principles as we shift to a new paradigm.

## VIETNAM

# Renovation of Agricultural Cooperatives in Vietnam

**Duong Van Phan**  
(VICOOPSME)

Mr. Chairman, Ladies and Gentlemen,

I am particularly grateful to be here with you and wish to thank the representatives of the International Cooperative Alliance Regional Office for Asia and the Pacific.

I also wish to thank Mr. Shil Kwan Lee, General Manager International Cooperation Office, NACF.

I also wish to express sincere thanks to the Republic of Korean Government for its facilitation to carry out in this seminar.

Now I would like to represent general situation of agricultural production and renovation of agricultural cooperatives in Vietnam.

### **I. Situation of Agricultural Production and Agricultural Cooperative Renovation in Vietnam.**

For many nations, agriculture is very important for their economy. This is equally true of Vietnam, a country which has 80% of the population living in the country side.

Because of its strategic position and great significance, the Vietnamese Government has paid more attention to agriculture in the renovation process of the national economy.

Vietnam has implemented the open door policy on economic renovation since 1986. In the past ten years, economy of Vietnam has changed remarkably at all levels namely industry, agriculture, construction, transportation and infrastructure etc.

#### **1. Situation of Agricultural Production.**

Since the renovation process, the household economy has mushroomed. Farmers have used lands, labours, materials, capitals, process

of science and technical and ecological advantage of every region effectively.

Beside, the emphasis on cereal growing, more and more households have carried out business multiform agricultural products. All the people have aimed at targets: employment creation, income increasing, living standard improvement of their families. The country side has been changing step by step.

The cereal yield of next year often increased higher than previous years. Average speed growth is about 10% annually. Earlier, Vietnam had to import cereals from other countries but now it has exported about 2.000.000 tons of paddy.

According to the survey of General Department of Statistics accounting an average income per capita in the country side (August 1994) increased 1,16 times higher in 1993, over that of 1992 and in comparison with 1991 (2,1 times) and in 1990 (3,3 times).

## **2. Situation of the Agricultural Cooperatives Renovation.**

In 1987 there were 17,022 agricultural cooperatives and 36,352 production groups. Since carrying out economic management renovation, the house hold economy has become basic production unit, standing in the fornt of that situation, the old cooperatives were not suitable any more. Many Cooperatives and production groups have disintegrated. Many cooperatives are existing under the forms which haven't brought into play the household economy effectively. Only about 10% to 20% can be renovated. And almost all these cooperatives have shifted to services field.

Renovation of old cooperatives is very difficult. We have used a lot of ways to renovate content and active methods but we have not achieved good results.

In rural markets which have been expanding, there are more and more private enterprises which have served as buying and selling with farmers.

However, this is a fact which is suitable to agricultural economic structural transfer. But farmers have to establish cooperative organizations themselves. If not, they will not be able to avoid the monopoly of the private enterprises.

In real life, such as the following have been set up voluntarily in the cooperative sector :

Groups of science and technology.

Groups of breeding.

Gardening Associations.

Cooperatives of supply and consumer goods.

Cooperatives of Credit.

In these groups, members have to pay capital (share) and labours to enable them to carry out their business activity according to principles of Cooperatives.

From the situation of Vietnam, we have affirmed that the existence of cooperatives is the foundation for developing the rural economy. Based on the survey recently, the agricultural cooperatives should be organised to perform multi functions.

## **II. Role of the State and of the Central Council of Union Cooperatives and Small and Medium sized Enterprises of Vietnam (Vicoopsme).**

### **1. Role of the State:**

The National Assembly of Vietnam passed many laws to support the development of agricultural field and agricultural cooperatives. And the legal system has been more and more strengthened by passing new laws like the Law on land, and Law on encouragement of domestic investment. In March 1996, the National Assembly also passed the Law on Cooperatives. It creates favourable conditions for the cooperative movement.

The Government has established more Governmental and Non Governmental organizations in order to promote and support farmers and Cooperatives in the country side e.g.:

Organization of Agricultural Bank.

Organization of Breeding and Plants Protection.

Organization of agricultural encouragement.

These organizations have been established into a system from Center to local level. The support of the government is a key of successful cooperative renovation process.

### **2. Role of VICOOPSME**

Major function of Central Council of Cooperatives Union and

Small/Medium sized Enterprises of Vietnam (VICOOPSME) is representation and promotion of Cooperatives and Small and Medium sized enterprises.

After the National Congress (November 1993), it has gained a lot of important achievements.

Guiding Cooperatives have realized renovation properly with the market economy. Up to now, the Cooperative movement has overcome the declining stage. Let our experts now concentrate on research and compile the Cooperative Law.

At the same time, VICOOPSME, together with the Governmental bodies, has made some recommendations on some policies to encourage cooperative economic sector as follows: Lending capital from the National fund to solve employment, taxation, export and import and training for the boards of Cooperatives and about the Cooperative Law and others.

However, VICOOPSME has some difficult problems : Officers are lacking in capacity and material basics are also weak. Many officers have not understood the ideology of the Cooperative movement. VICOOPSME's assistance on materials is also limited.

### **III. Conclusion :**

At present, Agricultural cooperative movement has overcome a difficult stage. But many more obstacles still have to be crossed.

Most of Cooperatives have not got enough capital to expand their business. The Boards of Cooperatives lack knowledge and experience of business administration in the market economy which envisages lot of activity and competition. Perhaps, marketing is the biggest difficulty of our cooperatives.

In this seminar, I would like to study your experience of competitive capacity of Cooperatives with private enterprises about price and service methods.

We expect your cooperation in all levels, exchange of experience, research, study tour and cooperation in the economic aspects.

I wish to express my gratitude to the organizers of the seminar once again.

Thank you for your kind attention.

## **REPORTS BY PARTICIPANTS**



## Cheng Qingxin, China

It is a pity that we are two days late on the seminar. But we are glad that we have learnt a lot about agriculture cooperative business development in this training period.

In the seminar, Koreans gave us good opportunities to learn the experiences of Korea's coop development and also to visit many cooperative organizations.

We are highly impressed by the Korean experiences about developing the agriculture cooperatives. I think the main measures are banking and merging which we can introduce and use in our countries coop movements. On the other hand, we also think that marketing is very important as the Korean and other participants discussed in the seminar.

In the seminar, we also gained a lot of information about other countries coops; about which we knew very little before. Through this country paper presentation, we got a good chance to let other countries know and understand China, and our efforts to develop our CSMCS.

Besides the above, we communicated with each other. I think it is a good opportunity to establish friendship with neighbouring countries. And I think the friendship will promote our cooperation in future.

Just before our departure, I should give my thanks to Korean, NACF and also for supplying comfortable conditions for training. I think it is my duty to use the experience from this seminar in our coop. movement.



## **Ni Jing, China**

I'm very lucky to have opportunity to take part in this seminar. I'm very satisfied with accommodation which the seminar secretariat provided. I gained the best impression and great benefit from the seminar during these days in Korea. The main information that I gained is as follows :

I learned through the lectures in the seminar, about the structure and business activities of agricultural cooperatives in Korea, such as credit and banking, supply and chainstore business in Korea and I was also guided to make study visits to supermarket Kimchi plant and computer centre, agricultural leaders' training institute, motor company in Korea and so on. I learnt about modern computer system and advanced management in agricultural coops business development from Korea. I think the seminar is successful very much.

It was also important for me to know the participants in the seminar. I also got a chance to exchange development and problem in coops of our country with each other. I gained new information that I didn't know before.

I am grateful that the seminar organizers arranged city tour for us and guided us to do shopping. I really had a happy time in Korea!

I will offer a detailed written paper about advanced management experience of Korea to our director when I go home. I believe that we will devote most of our efforts to improving operating mechanism of China supply and marketing coops after learning Korea's. In the end, I give my heartfelt thanks to the organizers of the seminar.

## **C. B. Mishra, India**

The 3rd ICA/NACF Regional Seminar on agricultural cooperative business development with special reference to Korean experience held at Seoul from 6th to 15th May 96 was very educative and useful to me. The programme was inaugurated by Ms Kyo-Eun Keis, Dean of Agricultural Coop. College. Ms. Shil Kwan Lee, General Manager for international cooperative office NACF graced the occasion by her presence. NACF which was established in 1961 as an apex organisation of the country has made tremendous progress in all spheres mainly credit and banking, insurance, marketing of agricultural produce, supply of farm inputs and consumer goods. Really NACF has played a vital role in enhancing the economic and social status of farming community. All these achievements became possible due to hard work, sincerity, devotion of the managers of NACF and faith and cooperation of member farmers. Following are the key points which can be applied under Indian conditions :

1. The secret of success of NACF is banking business. NACF provides comprehensive banking services to members and extend funds required for development of agriculture and related business. Banking business in future can further be strengthened.
2. NACF has given stress on training and education of cooperative staff and member farmers, cooperative leaders to improve their competitiveness in order to increase farm productivity and managing the cooperative business more effectively. I visited Segyehwa Agricultural Cooperative Leaders Training Centre (An-Sung) where along with imparting training to cooperative leaders innovative works like bio-green technology, green music agriculture and cubic water method is being carried out. This can be applied in my country to impart training to cooperative leaders so that they will take active part in all activities of cooperatives to improve their economic and social status.
3. Marketing of agriculture produce mainly fruits and vegetables can help farmers to get attractive price of their produce and urban population will also get the fruits and vegetables at reasonable price. Establishment of such agricultural cooperative markets in my country can be very useful.
4. Processing of agricultural produce has been undertaken by NACF on large scale. It helps producers to get benefit from added value

to farm products and contributes to adjust demand and supply for farm products and stabilising their prices. The rice processing plant at Skambo and Kimchi plants have inspired much. These can be applied in my country.

5. Various country papers pertaining to China, Malaysia, Mongolia, Myanmar, Philippines and Vietnam were presented in the seminar by which I could come to understand the cooperative movement in these countries. Good points can be applied in my country. This seminar enabled me to understand the culture, traditions, socio-economic development in participating countries.
6. The various lectures delivered by learned professors on development of Korean agriculture cooperative movement; Training strategies of agri-cooperative for manpower development; Agricultural cooperative marketing in Korea; Cooperative education and training; Banking and credit business of NACF; and Agri-coop supply and chainstore business were of immense value. By these lectures I could understand the various aspects of managing cooperative business effectively and liberalised economic situation.
7. Preservation of nature is of great importance on which Korea is giving much emphasis.
8. There are quite a few features of the Korean cooperative movement which need discussion by the cooperative policy-makers in India. They are :
  - a) Integration of banking, marketing and supplies in a single cooperative organisation. In India, our Banking Regulations Act prohibits the banking institutions to take up trading activity. At primary level, however, such integration has already taken place.
  - b) Personnel policy : The Korean movement has adopted the system and policy of linking the salary and promotion of employees with their performance - not with seniority. This has paid rich dividends in Korea, but how far we can adopt it in India needs a country-wide debate.
  - c) Amalgamation of small cooperatives with viable units is another important feature of Korean movement. This policy was adopted in India long back and needs to be carried forward further.
  - d) Training of staff and cooperative education of the board

members is an essential feature of the Korean movement. In India, large number of employees and board members of cooperatives need training. How to make this training compulsory is an issue which needs discussion.

- e) In Korea, the policy is to let the primary level cooperatives undertake most activities, the federation retaining only such activities as cannot be undertaken economically at lower level. This policy also needs discussion in India, where of late the trend has been towards centralisation at the federal level.

I could understand the great culture, traditions, customs, sincerity, hospitality and devotion of Korean people which has inspired me much.

## **Tejpal Singh Tomar, India**

Form the 3rd ICA/NACF seminar on business development of agricultural cooperatives held in agricultural cooperatives college, Seoul (Korea) from 6-15 , May 1996, I had the opportunity to learn about the development of agricultural cooperatives in Korea and also shared the experiences of other participating Asian countries. The important points I could get out of the seminar and visits are :

1. Agricultural cooperatives in Korea developed very fast in a very short period. Cooperatives are developing themselves according to the changing economic environment of the world.
2. Koreans are giving due importance to the member's education and training and staff and leaders training and NACF and Govt. has developed very good education and training facilities throughout the country and inducing cooperative spirit amongst the members and cooperatives.
3. Since small primary cooperatives cannot face competition in present open market and economic policies, the small cooperatives have merged together and are further planning to merge and become large, viable and financially strong societies to face competition successfully.
4. All societies are well equipped, having large membership. NACF has very sophisticated modern computer centre, providing on line service to cooperatives. Such a modern system is necessary to compete with other banks and is highly appreciable.
5. Coops in Korea are getting full support from the Government. Their recovery of loans is very high and they are getting help form NACF. Financially very strong, NACF banking insurance business is very impressive.
6. NACF has confined its banking activities to urban areas whereas primary agricultural cooperatives are doing banking business in rural areas. There is thus no competition amongst coops. This is a very healthy sign of cooperation. Marketing and processing, supply of inputs and credit distribution work is done by the societies in rural areas.
7. Large membership, dedicated and loyal staff, dynamic leadership, cooperation amongst coops. well developed processing packaging, education system are the strong points of Korean coops.

Efficient and modern management system are the main causes of their success. In the changed open market economy and competitive market situations coops are progressing well and are preparing for the challenges likely to be faced. Adoption of modern techniques of agricultural development by farmers specially of green houses is a new experience for me.

From the experiences gained in this seminar, the following points can be taken into consideration for adoption in our country :

- (i) More emphasis may be laid on farmers, members and staff education and training.
- (ii) Working atmosphere may be changed in offices by creating cordial working conditions. A sense of belonging to their coops be created amongst members and farmers to make them more responsible.
- (iii) I shall try to convince my higher management to improve packaging, timely supply of fertilisers and sending more staff for such seminar to gather more information.

The seminar has been very educative, informative and thought provoking and effective. Thanks to the NACF for providing dynamic leadership to Korean coops and wish you all success.

## **Mohd. Ghazali A. Aziz, Malaysia**

The choice of Korea, NACF in particular, to host seminar of this nature is indeed relevant and proper. Agriculture coop movement in this country is very advanced and can provide good examples to member delegates from various countries. Field visits organised by seminar secretariat were indeed informative and educative. Summary and overall comments on lectures, country papers and field visits are as follows :

1. Lecture materials that range from agricultural coop. movement in Korea especially pertaining to NACF, training, marketing, banking business and supply and chain store business have been very impressive and extremely beneficial. Various Korean experiences in these fields provide us the guidance to adopt or improve existing business activities of our cooperatives back home.
2. The core business of NACF, i.e. banking, marketing, processing and last but not the least well being welfare of member coops. should be the tend undertaken by coop. bodies throughout the world. Through such business activities, member farmers realise the importance of cooperative movement and make them fully committed and have confidence and loyalty towards the coop.
3. Dedicated nature of the B.O.D and management staffs or NACF and primary coop in the various township and villages have been the prime criteria for the great success of the cooperatives. Besides that percentage of member farmers in agricultural cooperatives is very high -above 95%. Membership drive and increase of capital shares among smallholders should be emphasised to the farmers.
4. Training of coop chairmen and other B.O.D and management staffs are inevitable in order to maintain efficient and effective managerial skill. Regular training of the above carried out by NACF college has achieved remarkable success. This state of affairs will be highlighted to coop. officials in Malaysia who are mostly reluctant to undergo regular training in coop. college.
5. The efficient services offered by NACF to member coop. and farmers have achieved in giving field satisfaction to them. This has created a strong sense of belonging and commitment towards NACF and the primary coops.

6. Adoption of modern Agricultural technologies among Korean farmers are common. This assures high productivity and quality produce. That the problem of marketing and regular supply will not arise, if the quality of produce is high and supply is regular, should be stressed on rubber smallholders who have already been organised under the ministates and group replanting scheme of the Malaysian government.
7. It is observed that government intervention in coop. movement in Korea is minimum. This contributes to the success of the business development of NACF. Ministry of land and cooperative development in Malaysia should review its rules and injunctions so that whatever regulations and procedure is enforced in the coop movement, are for the betterment of coops. For better coordination Ministry of Coop. Development in Malaysia should be under ministry of sericulture and fisheries. Last but not the least, on behalf of Malaysian Government and my organisation (NARSCO), I express my thanks and appreciation on the invitation extended to us to participate in this seminar.

The seminar proceedings, accommodation and meal facilities and our welfare were extremely taken care of with great concern, by the secretariat.

With cooperative greetings, thank you.



## **Rusly Bin Yaacob, Malaysia**

The establishment of NACF as a cooperative body at the national level, contributes a lot to the development of the Korean agricultural cooperative movement. The activities that impressed me and I think should be applied in my country are :

### **1. Role of NACF as a National body in the Korean Agriculture Cooperative structure:**

- (a) Its ability to bring institutional change in cooperative structure in Korea are really impressive.
- (b) Its ability to develop managerial viability of primary cooperative through:
  - consolidation of village level primary cooperatives
  - expansion of cooperative business
  - transferring the key businesses to primary cooperatives
  - diversifying and expanding cooperative business
  - and democratizing cooperative operation.

### **2. Credit and Banking business:**

NACF manages to conduct the financial business (banking and mutual credit) to mobilise and supply the fund to support the member cooperatives and their member farmers. This would ease the financial problems of small farmers and stop them from being exploited by money lenders and other private bodies. This would make the member farmers feel that the cooperative are beneficial to them and they would thus, give more support to the cooperative movement.

### **3. Supply and chain store business:**

NACF ability to develop a well structured supply and chain store business should enable cooperatives to have their own processing centre to process their members produce. This would give added value to the farmers product and enable them to compete in the open market. By establishment of their own supermarket the cooperatives would be able to market their member-farmers produce in the city and urban areas. By having a good marketing line the cooperatives could buy the members produce at higher prices.

#### **4. NACF Training programmes:**

The ability of NACF to have their own training centre for their member farmers and staff is also a good example to be adopted. With their own training centre the cooperatives could set their own training programmes according to their members need. The visit to the cooperative college and central training institute in Shnsung gave us better ideas of how an effective training for farmers could be organised. Through an effective training, the cooperative would have a more understandable, friendly and cooperating members in the organisation. This would enable the cooperative to build a supporting ground for them to develop many kinds of cooperative business for their members.

#### **5. Country papers presented by various countries in the area:**

- The country papers presented by the delegations from various countries gave me a lot of information about the cooperative development in Asia.

## **G. Zandanshatar, Mongolia**

The 3rd ICA/NACF Seminar was organized on a high level and has achieved seminar objectives. Participants gained a lot of experience of NACF in the following areas :

- Development of agricultural cooperative movement
- Training strategies of agricultural cooperatives
- Agricultural cooperative marketing
- Banking and Credit business of agricultural cooperatives
- Agricultural coops supply and chain store business.

Participants of the 3rd ICA/NACF regional seminar on agricultural cooperatives business development with special reference to Korean experience understood the structure and business activities of agricultural cooperative in Korea, learned modern computer system and advanced management in agricultural cooperative business development, introduced with business development in agricultural movement in India, Malaysia, Myanmar, Vietnam, China, Philippines.

Applicable Korean experiences on business development to agricultural cooperatives of the Mongolia are the following.

- In Mongolia profitability and liquidity of agricultural bank of Mongolia is good, but financial condition of agricultural coops is bad. So, multipurpose cooperative development of Korea is applicable in Mongolian conditions
- Advertisement experience (methods)
- Agricultural museum
- Comparison of national agricultural products with foreign products
- Description of agricultural products
- Agricultural finance mechanism
- Lending procedure of NACF
- Methods of supply business of cooperatives
- Purchasing system of cooperatives
- Training strategy of ACC
- Training system of ACC
- Achievement and reward-based personnel management system
- Marketing procedures of cooperatives

## **Kyi Tint, Myanmar**

I attended this seminar for the first time and we gained experienced and knowledge about the Korea cooperative. But some facts were not known in detail because of limited time. So I suggested that we discuss more in the coming seminar. I am sure, the Korean cooperatives will be more successful in the future.

In my country cooperative movement and agriculturist are inseparable since cooperative activities began in 1904. At the grassroots level, the farmers are the main motivators of the movement. Moreover the cooperative system is better suited for agricultural development since most of the farmers lack one or the other means of production. Mutual assistance method is a tool by which the business activities of agriculture are carried out.

Prior to 1992, not less than 10 farmers could form a cooperative at primary level. After 1992 new act permits formation of any coop : by at least 5 persons. So in a village tract, there are many agricultural coop today. Also, the primary agricultural coops perform many functions. Also, it is no more compulsory to establish a cooperative on regional basis. If the conditions so require, the agricultural coops; can proceed to form a functional apex body on national level. Currently the apex society's name in Myanmar is Union of Agricultural Producers Cooperative Syndicates Limited.

The activities of agricultural coops: in Myanmar are production, services, and marketing. By "production" we mean member's individual production as well as societal ones side by side. Supplies of inputs and marketing of farm produce are primary functions while agricultural machinery and implements are generally owned by the societies and leased for individual requirements on rent. Steps are under way to establish cooperative farmers bank in the near future. Capital formation has been mobilised and license has been granted to run the coop agricultural financing.

It is my first encounter with such a large and knowledgable group of experienced personnel from various nations. Returning home to my country, I will try my best to promote Agricultural Cooperatives like the ones in South Korea (NACF).

## **Aurea B. de Ramayo, Philippines**

I am indeed very happy to be invited to the 3rd ICA/NACF Regional Seminar on Agricultural Cooperative Business Development.

Due to some policy problem on visa procurement, special holiday and a plane engine trouble I arrived in Seoul late in the evening and could not attend the opening and first few sessions. NACF faced some difficulty and trouble due to this delay. My anxiety and fear to be in Korea for the first time had made me promise to myself not to go for another overseas trip. However, the ever ready and solicitous NACF officers, Mr. Si-Hyung Jo and Mr. Ho-Kyam Lee, as well as the ever suggestive ICA ROAP officers, Mr. Guo Yong Kang and Mr. K. Sethumadhavan and the other participants have lessened my anxious feelings and have changed my impression in just a short time.

The sharing of country papers provided me the knowledge on how other Asian countries succeed in their agricultural coop movement. I am delighted and happy to know that some of the participants and the speaker, Professor In-Sik Shin, are graduates from the University of Philippines' agricultural courses. But I feel sad to note that the Philippines cooperative movement has not fully made use of what the country taught to these people. Now I am in Korea learning and appreciating the outputs of one of the inputs U.P. Los Borios has produced.

The most profitable Korean experience, not counting on the satisfaction or delight I got for the hospitality and excursion, are the NACF's credit and banking, marketing chain store business and some farm products processing and farming expertise.

I have to recommend to the Philippines Cooperative Movement, specifically (NATCCO) National Confederation of Cooperatives to develop a strong identity and networking as an apex organisation not only for education and training but also financial support to member-coops. NATCCO has to convince primary coops like the Cordove Multi-purpose Cooperative to pool resources - deposit funds to the NATCCO Bank and at the same time continue the mutual credit among the primary coops.

NATCCO with strong financial institutions and networking, would generate more bargaining power to any government policies and intervention especially with the departments of agriculture, of Trade and Industry and of Finance.

I earnestly hope that this action plan will merit consideration and support from NACF and the ICA ROAP so that the goals and objectives of this 3rd ICA/NACF Seminar would be achieved in the Philippines.

Finally I thank the organisers on behalf of the Philippines delegates for the excellent arrangements and hospitality.

# 3rd ICA-NACF Regional Seminar on Agricultural Cooperative Business Development

Seoul, 6-15 May, 1996

## SUMMARY OF EVALUATION

1. What is your opinion about the overall arrangement of the seminar?

Very Good	Good	Fair	Not Satisfactory
<input type="text" value="9"/>	<input type="text" value="1"/>	<input type="text"/>	<input type="text"/>

2. Do you consider the topics discussed in the seminar were informative and useful for upgrading your knowledge and skills?

Yes	<input type="text" value="10"/>	No	<input type="text" value="0"/>
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3. Please indicate the topics you found to be very useful.

1. Development of Agricultural Cooperatives in Korea.
2. Banking and Credit Business of NACF.
3. Agricultural Cooperative Marketing in Korea.

4. Please indicate any additional topics you would like to be included in future seminars.

1. Insurance Business of NACF.
2. Processing
- 3.

5. What specific topics/areas you would prefer to exclude in the subsequent seminars? (Please indicate specifically).

1. Agricultural Coop Supply and Chair Store Business.
- 2.
- 3.

6. What is your opinion about the presentations of resource speakers for coverage of topics?

Very Good	Good	Fair	Not Satisfactory
<input type="text" value="4"/>	<input type="text" value="6"/>	<input type="text"/>	<input type="text"/>

7. Could you give specific suggestions for improvement?
1. Over Head Project during presentation.
  2. Audio-Visual Aids during presentation.
  3. Distribution of lecture papers in the beginning of the seminar.
8. How was the field visits arrangements?

Very Good	Good	Fair	Not Satisfactory
8	2		

*Specific Comments*

1. We were exposed to the real situation as what is being discussed in the seminar room.
9. How was the practical arrangements in relation to conduct of the study visits?

Very Good	Good	Fair	Not Satisfactory
8	2		

10. What is your opinion about the physical facilities provided by the Agricultural Cooperative College with regard to:

	Very Good	Good	Fair	Not Satisfactory
a) Lodging arrangements	9	1		
b) Boarding arrangements	8	2		
c) Classroom arrangements	9	1		

*Specific Comments*

1. Very caring, concerned and extensively hospitable.
  2. Excellent hospitality.
11. Give your opinion about the conduct of the seminar and training material.

Very Good	Good	Fair	Not Satisfactory
5	5		

12. Do you have any other suggestions and remarks?
- Offer at least two seats for each country.



# Programme

## May 6, 1996 (Mon)

Arrival of Participants

## May 7, (Tue)

09:00 - 09:30

Registration

09:30 - 10:00

Opening Session

Opening Address : Mr. Kyo-Eun Kim, Dean of Agri. Coop. College

Congratulate Address : Mr. Guo-Yong Kang, ICA ROAP

Welcome Address : Mr. Shil-Kwan Lee, General Manager for Int'l Coop. Office, NACF

Introduction of Participants

Taking Group Pictures

10:00 - 10:20

Coffee Break

10:20 - 10:40

Introduction of Agri. Coop. Collage and its Campus

10:40 - 12:40

Lecture I (The development of Korean Agricultural Cooperatives Movement)

by Mr. Yong-Jin Kim, Senior Advisor for NACF

13:00 - 14:00

Lunch

14:00 - 15:00

Country Paper Presentation : (India)

15:00 - 16:00

Departure for NACF Head Office

16:00 - 17:00

Visit to NACF Head Office

- Viewing Introductory Multivision and Discussing

17:00 - 17:30

Departure for Korea House

17:30 - 20:00

Welcoming Dinner (Korea House)

20:00 -

Return to the College

**May 8, (Wed)**

09:00 - 10:30	Country Paper Presentation : (Malaysia, Mongolia)
10:30 - 10:50	Coffee Break
10:50 - 12:20	Lecture II (Training Strategies of Agricultural Cooperatives for the Manpower Development) by Dr. Sang-Ho Choi, Deputy Dean of Agri. Coop. College
12:20 - 13:00	Country Paper Presentation : (Myanmar).
13:00 - 14:00	Lunch
14:30 - 16:00	Lecture III (Marketing Business of Agricultural Cooperatives in Korea) by Dr. Youn-Kon Koh, Prof of Agri. Coop. College
16:00 - 16:20	Coffee Break
16:20 - 17:50	Lecture IV (Development of Agri. Coops in Korea) by Mr. Shil-kwan Lee, General Manager of NACF
19:00 - 20:00	Dinner

**May 9 - 11**

Study Visit to Ohyang and Suanbo Region

**May 9, (Thu)**

08:00 -	Departure from Agri. Coop. College to Management Information System Center (MISC)
10:00 - 11:00	Visit to MISC (Computer Center)
11:30 - 12:30	Visit to Hanaro Club (Supermarket)
13:00 - 14:00	Lunch
14:00 - 15:00	Move to Ahnsung
15:00 - 16:30	Visit to Ahnsung Agri. Leaders Training Institution
16:30 - 17:30	Move to Ohnyang
17:30 -	Hotel Check-in
18:30 - 19:30	Dinner

**May 10, (Fri)**

09:00 - Departure for Ahsan  
10:00 - 11:00 Visit to Kian Motor Company (Kia-motor)  
11:00 - 14:30 Move to Suanbo (Lunch)  
14:30 - 16:30 Visit to Iroo Agri. Coop. and Farmers in Suanbo  
16:30 - 18:30 Excursion in Suanbo  
18:30 - 19:30 Dinner  
19:30 - Hotel Check-in

**May 11, (Sat)**

09:00 - Departure from Suanbo to Salmi Agri. Coop.  
09:30 - 10:30 Visit to Kimchi Processing Plant fo Salmi Agri. Coop.  
10:30 - 14:00 Move to Yongin  
14:00 - 15:30 Visit to Yongin Folk Villege  
15:30 - 17:30 Return to Agri. Coop. College  
19:00 - Dinner

**May 12, (Sun)**

Excursion in Seoul

**May 13, (Mon)**

09:00 - 10:00 Country Paper Presentation : (China, Vietnam)  
10:00 - 10:20 Coffee Break  
10:20 - 11:50 Lecture V (Banking and Credit Business of NACF) by Dr. Kyung-Soo Chang, Prof of Agri. Coop. College  
11:50 - 12:30 Country Presentation : (Philippines).  
13:00 - 14:00 Lunch  
14:30 - 16:00 Lecture VI (Agri. Coops. Supply and Chain Store Business) by Dr. In-Sick Shin, Prof Agri. Coop. College  
16:00 - 16:20 Coffee Break  
16:20 - 18:00 Preparing Workship Reports  
19:00 - 20:00 Dinner

**May 14, (Tue)**

09:30 - 11:00	Presentation of Workshop Reports
11:00 - 11:20	Coffee Break
11:20 - 11:50	Valediction
13:00 - 14:00	Lunch
18:00 - 20:30	Farewell Party

**May 15, (Wed)**

Departure for respective countries

## List of Participants

### CHINA

- 01. Mr. Cheng Qingxin**  
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All China Federation of Supply & Marketing  
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Beijing-100801, China.
- 02. Ms. Ni Jing**  
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### INDIA

- 03. Mr. Tej Pal Singh Tomar**  
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- 04. Mr. C.B. Mishra**  
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- 06. Mr. Rusli B. Yaacob**  
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- VIETNAM**      **10. Mr. Duong Van Phan**  
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## International Cooperative Alliance

### Statement on the Cooperative Identity

#### DEFINITION

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

#### VALUES

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

#### PRINCIPLES

The cooperative principles are guidelines by which cooperatives put their values into practice.

##### 1st Principle : Voluntary and Open Membership

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

##### 2nd Principle : Democratic Member Control

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

##### 3rd Principle : Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

##### 4th Principle : Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

##### 5th Principle : Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

##### 6th Principle : Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

##### 7th Principle : Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

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