


ROLE OF
COOPERATIVES
IN FOOD
SECURITY

ica

Prepared for
4th Asia-Pacific Conference of Cooperative Ministers on
"Cooperatives in a changing socio-economic environment"
19-22 March 1997, Chiang Mai Thailand

Presented by
Churll-Hee Won
Chairman and President

 National Agricultural Cooperative Federation (NACF)
The Republic of Korea

ICA Library
334.5 JO-C
ICA 01003

ICA 01003




CONSUMER COOPERATION IN RURAL KOREA

Prepared for
the 29th of the ICA Committee on
Consumer Cooperation for Asia and the Pacific
23 March 1997, Chiang Mai Thailand

33405
ICA

Presented by
Si-Hyung Jo
Research Officer
International Cooperation Office

 National Agricultural Cooperative Federation
Seoul, Korea



CONSUMER COOPERATION IN RURAL KOREA

Introduction

Urban consumer cooperation on a national scale is virtually non-existent in Korea. There is no legal basis for consumer cooperation. Only in several years, the government began to work on the legislation concerned.

However, even with no legal framework for consumer cooperation, there have emerged a great number of voluntary consumer cooperatives organized either on the basis of regional communities or by private and public organizations. For example, agricultural cooperatives, credit unions and the Government Pension Fund have organized consumer cooperatives of their own for the exclusive benefit of their member consumers.

In the early 1970s, the multi-purpose agricultural cooperatives and their federation (National Agricultural Cooperative Federation ; NACF) introduced a nationwide chainstore system as one of the most important services for their member farmers. It represents the first organized effort on a national scale for consumer cooperation in rural Korea. Since then, the chainstore system has recorded a rapid rate of growth in the number of stores and the sales turnovers.

Agricultural Cooperative Chainstore System ; Its Organization and operation

The nationwide multi-purpose agricultural cooperative organization we have today was inaugurated in 1961 by merging the Agriculture Banks and the Agricultural Cooperatives, both of which had existed since 1956. It soon turned out that the primary cooperatives, being organized on village basis and thus too small in size (with an average membership of 150 farmers), could not function effectively to serve their member farmers. They existed in name only, and without any direct business

dealings, merely acted as intermediaries between their member farmers and the county cooperatives at secondary level. The county cooperatives practically handled most of the cooperative businesses directly, including the supply of farm credit, farm inputs and consumers goods, the marketing of farm produce, mutual insurance, extension and education, etc.

In order to cope with the problem of "sleeping" primary cooperatives, we launched a nationwide merger drive in the late 1960s, successfully consolidating all the small-scale cooperatives into operationally viable units of township-level cooperatives by the mid-1970s.

Expanding the operational scale of a primary cooperative alone would not automatically assure its viable operation. Therefore, we developed two new strategic business ventures to be undertaken by the consolidated cooperatives : the chainstore business and the mutual credit or cooperative financing scheme.

Since the opening of the first chainstore by a cooperative in the central part of Korea and the completion of the NACF central depot in 1970, the chainstore system has recorded a rapid and steady growth. This reflects its overwhelming acceptance and patronage by the farmer-consumers as well as its competitive strength in the rural consumer markets.

Today, the nationwide chainstore system consists of a central depot at the NACF, 6 provincial depots, 2,446 chainstores and supermarkets. In addition, the NACF started to construct the Kiheong central distribution complex last year. The major consumer goods handled included foods, clothing, kitchenware, sanitary goods, housing materials, stationery, furniture, electronic products, etc. Total consumer good supplies reached 1,309 billion won in 1996, up 7.5% from the year earlier.

Effects of Chainstore Business of the NACF

- The business has been pushed forward with a view to upgrading the cooperative management efficiency by coordi-

nating its various functions. 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.

- Linkage between the NACF and primary cooperatives : The consumer goods supply business was carried out in close cooperation between the NACF and primary cooperatives. This strategy was aimed at improving the operational efficiency of chainstores by promptly and accurately distributing the goods and information between the NACF and chainstores.
- Over the last 20 years, the cooperative chainstore system has made a great contribution to the improvement of farmers' welfare and the stabilization of consumer prices in the rural markets. Through its direct contracts with manufacturers and its "bottom up" system of supply upon orders from individual member cooperatives, the chainstore system has benefited from a number of advantages : reduced prices, savings in distribution costs, timely supply of quality goods, and reduced inventories, among others.
- The business contributed to the development of the agricultural cooperative movement. Rural women's participation in the chainstore business helped expand the cooperative movement to the family members of each farm household and enhanced the social status and roles of rural women.

Future Prospects

In recent years, we are beginning to lose most of the past advantages because of an increasingly competitive business environment. Big manufacturers with national brand names have set up own stores and distribution agents in increasing numbers.

Many convenience stores and supermarkets with modern facilities and advanced management have invaded the rural markets.

The after-sales service for durable consumer goods, a serious weakness inherent to the cooperative chainstores, is becoming an increasingly important factor in consumer choice.

To cope with this new competitive environment, we are trying very hard to streamline the nationwide chainstore system, train professional store managers, and develop new promising commodities and equipment related to housing, kitchen, toilet and heating improvement. We also plan to modernize the NACF central depot by installing an advanced system of automation.

We will pursue product differentiation by focusing on strategic commodities with our brand names. The system of transportation and after-sales service will also be given an increasing attention for continuing improvement.

ROLE OF COOPERATIVES IN FOOD SECURITY

Mr. Chairman,

Honorable Ministers and distinguished delegates, ladies and gentlemen, first of all, I would like to convey my cooperative's greetings to all of you, on behalf of five million family farmers in my country

And I am very grateful to the Chairman for giving me a great opportunity to present this speech. My gratitude of course goes to the staff members of the ICA Regional Office and the local organizers for hosting this meaningful conference.

Changes in socio-economic environment around cooperatives

My topic, Role of Cooperatives in Food Security, is one of the most profound and essential issues for cooperatives today, especially for agricultural cooperatives.

Because food security, as a basic human right, has been an identical goal of cooperatives, and it is the right time to re-examine the cooperative values being put for achieving this universal goal, which the World Food Summit urgently called for the full involvement of civil society and NGOs.

Since the Rochdale Cooperative was founded in Great Britain in 1844, the cooperative movement has greatly contributed to improving the welfare and solidarity of human society; most of which was to improve the food security directly and indirectly.

The cooperatives form of enterprise has been organized by more than 760 million individuals in the world, including farmers, to maximize the benefits of production, marketing and processing.

They provide the social benefits of ensuring food availability and distribution. Through creating employment and hence income, they also contribute in increasing food accessibility for people.

Particularly, in some developing countries where the green-revolution was taking place, agricultural cooperatives played a central role in achieving staple food self-sufficiency.

However, throughout its history, constantly changing socio-economic environments for cooperatives have re-oriented cooperative's role and contributions. Particular challenges have confronted the international cooperative movement.

Since the 1970s the market economy has expanded its impact dramatically around the world. Traditional trade barriers have been reduced significantly and many of those resultants, such as the expansion of free trade areas, the decline in government support for agriculture, and the deregulation of the financial industries, have threatened the economic framework within which many cooperatives have functioned for decades.

All of these changes require cooperatives to be more economically efficient.

Aside from those changes, cooperatives must recognize the most challenging task facing mankind as we enter into the twenty-first century, which is the eradication of hunger and food insecurity as its social goal and responsibility to human society.

In fact, the above mentioned changes in the socio-economic environments have worsened the food security in developing and food importing countries.

Indeed, in the era of an open market economies, tackling hunger and food insecurity, particularly for the rural poor, must be undertaken as a critical role for cooperatives.

FAO studies described the current food problems; 800 million people on the globe are still suffering from hunger and malnutrition.

And there will be 2.6 billion more people to feed by the year 2025. Thus, global food production needs to be increased by more than 75 percent over the next thirty years.

However, the global annual increase in grain production has stood only at 0.74 percent since 1985, which is far less than projected.

Cooperatives in Food Security

Ladies and gentlemen,

let me elaborate upon the potent contribution of cooperatives in ensuring universal food security.

The Plan of Action of the World Food Summit indicated the way of attaining food security at the country level.

“Increased production, including traditional crops and their products, in efficient combination with food imports, reserves, and international trade can strengthen food security.”

In implementing this plan, what can cooperatives deal with and to what extent can cooperatives be involved to improve the food situation ?

Cooperatives, by themselves often cannot be expected to be entirely involved in this country-level plan. Instead, the strong point of cooperatives lies in rather smaller places like local groups of people and households.

Cooperatives can produce and distribute good quality food at reasonable prices at such local levels.

With a membership of 400 million across the world, agricultural cooperatives assume over 60 percent of food production and marketing in most countries.

Particularly, this region, Asia and the Pacific takes a dominant part of the global cooperative movement in the agricultural sector with 86 percent of total farmer membership and 76 percent of the total number of agricultural cooperatives.

In being aware of this significant role that agricultural cooperatives play in food security, we should make greater efforts to promote agricultural cooperative movements as the way forward securing food, especially in the Asia-Pacific region where over 60 percent of the world population exists.

In fact, agricultural cooperatives in this region already stand at the frontier of global food security.

Role of Cooperatives in Attaining Food Security

Ladies and gentlemen !

In the Resolution adopted by the Agricultural Committee in June 1996, cooperative leaders in this region clearly stated that the best way to achieve global food security is to increase food production in each country by optimizing its available natural resources.

In many parts of the Plan of Action, adopted by the Summit last November in Rome, we cooperators and cooperatives were called to play our fundamental role with farmers in attaining food security.

In the ICA statement at the World Food Summit, the ICA recommended that the vital roles of family farms and farmer-owned agricultural cooperatives for global food security be reflected in the implementation of the Rome Declaration and the Plan of Action of the World Food Summit.

Here, I would like to approach with the cooperative's values, identity and principles in putting the Plan into our action.

Above all, we, agricultural cooperatives in the region should strive to organize small family farms more effectively so as to fulfill their vital role in food security and other resourceful functions, and to enlarge their management scale to gain economic sustainability.

Second, we should make our cooperative business active, and thereby enrich the economic potential of member farmers in a way that we would enable them to participate fully in our activities.

While we should make efforts to reduce their production costs by supplying farm inputs and credit services at reasonable prices, we should also improve cooperative marketing facilities in rural and urban areas in order to facilitate food distribution and access.

Third, we should try to make the people formulate a national consensus on the importance of food security, and continue to emphasize extension services on production technologies as well as education programs on nutrition, particularly for children and women.

To reach our full potential, we should ensure that equal opportunity be provided for women farmers whose various roles in agriculture and cooperative development have become increasingly important.

Fourth, we should strive to contribute to the sustainable development of the local communities through the development and dissemination of sustainable food production technology and information related to environmental conservation in rural areas.

Finally, the most essential factor in fostering food security is to consolidate cooperation among cooperatives. We have to share the cooperative spirit of caring for others, exchange information and technology on processing and marketing in the region.

It will be practical to adopt collective action in regions that have similar diet and food preferences, and between cooperatives in developing and developed countries.

**Experiences of
Korean Agricultural
Cooperatives**

Distinguished delegates!

I would like to take this opportunity to briefly convey the experiences of Korean agricultural cooperatives in contributing to national food security.

Established in 1961, Korean agricultural cooperatives started with a multi-purpose system which carries out diversified activities integrally related to agriculture and rural development.

Its diversified functions include marketing, supply inputs, credit and banking, and extension to cover the various needs of member farmers who carry out multi-crop farming with rice being dominant.

We believe our approach has decisively contributed to increasing agricultural production, especially a stable supply of rice, the Korean staple food.

In order to promote group farming of family farms, cooperatives have organized crop-based farming groups at the village level nationwide.

This grass-root organization of cooperatives has received the credit, technical assistance and farm-inputs for their specific crop farming while acting as the majority in cooperative marketing in Korea.

In particular for rice production, the numbers of group have increased sharply because of policy emphasis on rice production.

In addition, the numbers of 'corporate farms' among family farmers are increasing, while cooperatives try to enlarge the management scale of farmers' collective farming.

With respect to food processing and distribution, we recently completed construction of over 140 Rice Processing Complexes. This modern type of post-harvest technology allows farmers and consumers to have good quality rice and good economic returns.

We also emphasize food distribution through the establishment of distribution centers and retail outlets like supermarkets and hyper-markets in consumer's area.

In order to provide additional income for farmers, food processing has been another stream line of the cooperative business in Korea. In total, 182 processing plants are in operation to generate and return the added value of farm products for member farmers.

At the same time, we have endeavored to safeguard the environment through promoting quality standards and 'soil revitalization movement' in order to encourage farmers to produce safe and quality products.

In order to finance various development programs and credit projects including cooperative business, the total deposit to cooperative banking reached over 85 billion US dollars, and the National Agricultural Cooperative Federation ranked as the top deposit bank in Korea.

Despite the rapid growth in the cooperative business, we are facing a more challenging task. Since Korea was further obliged to open the domestic food market under new trade

rules, the self-sufficiency rate in food grain dropped drastically to under 30 percent in 1996 from over 80 percent in 1970.

There was also a sharp decline in the farming population from 14 million to 5 million over the same period.

We, agricultural cooperatives in Korea, together with two million small family farms, will continue to make every effort to improve national food security.

Conclusion

Distinguished delegates!

This Ministerial Conference of cooperatives is specially meaningful because it provides us with an opportunity to reaffirm our collective will to achieve food security in the Asia-Pacific region.

I wish to call for the favorable support of governments in the region; to make policies to provide family farmers and their organizations with incentives to promote their vital role in food security.

International communities should also approach the agricultural trade issue not only by acknowledging the different stages in economic development and social and cultural differences among nations, but also by considering the multifunctional character of agriculture.

As the world economy become more privatized, decentralized, and commercialized, food production and trade are further concentrated in the limited number of food exporters and exporting countries, while food security in developing and food importing countries does not show any sign of improvement.

We, cooperative leaders in this region must take a leading role and a responsibility for small family farms with the cooperative

spirit, and thus establish firm bases of self-reliant food production in the region.

Considering the dominant size of the population in this region of the world, we all know that no other region can feed this region. We must rely on the cooperative spirit of self-help and self-reliance.

Thank you very much.



**NATIONAL AGRICULTURAL
COOPERATIVE FEDERATION**

75, 1-ka Chungjeong-ro, Jung-ku

Seoul 100-707 Korea

Tel (822) 397-5281~9

Fax (822) 397-5290

Web site <http://www.nact.co.kr>

E-mail intcop@nact.co.kr

ICA Library



ICA 01003