

**2011 Modularization of Korea's Development Experience:  
Operation of Agricultural  
Cooperative for Rural Development**

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Ministry for Food, Agriculture,  
Forestry and Fisheries

**KREI**

Korea Rural Economic Institute



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2011 Modularization of Korea's Development Experience:  
**Operation of Agricultural Cooperative  
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Operation of Agricultural Cooperative for Rural  
Development

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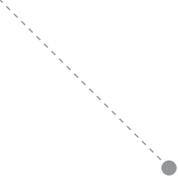
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Knowledge Sharing Program

2011 Modularization of Korea's Development Experience

# Operation of Agricultural Cooperative for Rural Development



# Preface

The study of Korea's economic and social transformation offers a unique opportunity to better understand the factors that drive development. Within one generation, Korea had transformed itself from a poor agrarian society to a modern industrial nation, a feat never seen before. What makes Korea's experience so unique is that its rapid economic development was relatively broad-based, meaning that the fruits of Korea's rapid growth were shared by many. The challenge of course is unlocking the secrets behind Korea's rapid and broad-based development, which can offer invaluable insights and lessons and knowledge that can be shared with the rest of the international community.

Recognizing this, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience and to assist its developing country partners. The body of work presented in this volume is part of a greater initiative launched in 2007 to systemically research and document Korea's development experience and to deliver standardized content as case studies. The goal of this undertaking is to offer a deeper and wider understanding of Korea's development experience with the hope that Korea's past can offer lessons for developing countries in search of sustainable and broad-based development. This is a continuation of a multi-year undertaking to study and document Korea's development experience, and it builds on the 20 case studies completed in 2010. Here, we present 40 new studies that explore various development-oriented themes such as industrialization, energy, human capital development, government administration, Information and Communication Technology (ICT), agricultural development, land development and environment.

In presenting these new studies, I would like to take this opportunity to express my gratitude to all those involved in this great undertaking. It was through their hard work and commitment that made this possible. Foremost, I would like to thank the Ministry of Strategy and Finance for their encouragement and full support of this project. I especially would like to thank the KSP Executive Committee, composed of related ministries/departments, and the various Korean research institutes, for their involvement and the invaluable role they played in bringing this project together. I would also like to thank all the former public officials and senior practitioners for lending their time and keen insights and expertise in preparation of the case studies.

Indeed, the successful completion of the case studies was made possible by the dedication of the researchers from the public sector and academia involved in conducting the studies, which I believe will go a long way in advancing knowledge on not only Korea's own development but also development in general. Lastly, I would like to express my gratitude to Professor Joon-Kyung Kim for his stewardship of this enterprise, and to his team including Professor Jin Park at the KDI School of Public Policy and Management, for their hard work and dedication in successfully managing and completing this project.

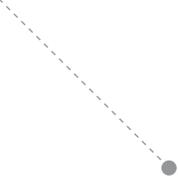
As always, the views and opinions expressed by the authors in the body of work presented here do not necessary represent those of KDI School of Public Policy and Management.

**May 2012**

**Oh-Seok Hyun**

**President**

**KDI School of Public Policy and Management**



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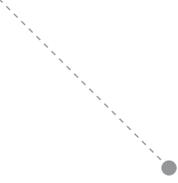
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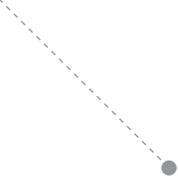
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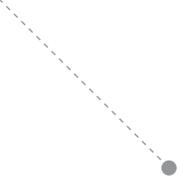
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# Summary

The purpose of this book is to describe experience of agricultural cooperatives of Korea (ACK) for 1945~1990, when was similar to the current situation of developing countries, and to suggest implications for developing countries. The ACK as policy assistant institutions have significantly contributed to agriculture and rural development since they were established. The Cooperatives implemented smooth money supply to the agricultural sector by successfully mobilizing savings in rural and urban areas and absorbed chronic usurious loans in rural financial markets. They supplied farm inputs and living goods, where markets were not fully developed, and thus elevated agricultural productivity and convenience of living. The Cooperatives led development of agricultural marketing by selling of members' agricultural products, expanding distribution facilities and providing information on them.

There had been many trials, errors and complications over a long period of time to reach the current state of the Agricultural Cooperatives of Korea. The Cooperatives went through a time of no hope due to poverty, debts, the tragic Korean War, no competent leaders, political selfishness and conflicts. It took 10 years from the start of discussing to the establishment of agricultural cooperatives, and did another 14 years from the birth to completing their organizational and managerial bases.

Korean government established separately the Agricultural Cooperative and the Agricultural Bank in 1958, which were specialized to economic businesses and banking business respectively. The two institutions were merged into a multipurpose agricultural cooperative in 1961, because of system inefficiency caused by conflicts between them. The organizational structure was three tier system, village Ri-dong cooperatives (village level), Shi-Gun cooperatives (county level), and National Agricultural Cooperative Federation (NACF). The Ri-Dong cooperatives were too small to be sustainable, thus were consolidated to a township (Ub or Myoun) level cooperative as a primary agricultural cooperative until 1972. This made the primary cooperatives start actively their own businesses with their offices and full time personnel. As the primary cooperatives grew, the functional duplication

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of primary cooperatives and Shi-Gun cooperatives became an issue. In 1980, the Shi-Gun cooperatives were abolished and the Livestock Cooperatives were separated from the ACK.

Korea did not wait to see the development and results of a few Cooperatives as farmers' self-help, independent and self-regulating organization. Instead Korea courageously utilized Agricultural Cooperatives as important policy partners to develop agriculture and rural society, from the socio-legal viewpoint for protecting farmers who were socially weak. The government allowed the ACK to handle exclusively the fertilizer, chemicals, farm machineries, and operation of government grains so that the ACK could take smoothly roots in the ground in rural markets. The government supported the ACK with business protection and tax exemption rather than direct subsidies.

The extension service promotion system of ACK as a strategic instrument for rural development demonstrated great effects during the period of take-off and growth of the national economy. The objective system, the organization system, the business system and the management system of the extension service of ACK made a great contribution to combining human resources, endowed resources and organization resources in rural areas into the cooperative business to comply with government's strong will of promoting economic growth.

The ACK successfully carried out agricultural supply business including fertilizers, agricultural chemicals and agricultural machinery to achieve self-sufficiency of food and to contribute to the continuous growth of agriculture. The ACK organized producers for members' innovated agricultural product sale and agricultural products and expanded distribution facilities including joint marketing centers and supermarkets in urban areas. The ACK invested in developing and disseminating packing materials, collecting and spreading agricultural product distribution information, processing agricultural products and operating the business. The ACK supplied vital commodities to remote rural areas for members and residents through the Chain Store business of ACK. The ACK employed the single supply price system across the country so that farmers and fishermen in unfavorable remote areas could buy materials and vital commodities at the same price as in urban areas. It would be hard to enforce this system without the cooperative management idea.

The credit business achieved the most outstanding outcome among the businesses of the Agricultural Cooperatives. The funds mobilized in urban areas were supplied to agriculture and rural areas to alleviate the limited credits and to enable positive investment. The system continued to normally operate by transferring the policy funds of the government to people to be supported and to normally recover them through appropriate management. The success of mutual credits is especially outstanding. Most people thought there was no room for saving because they were semi-self-supporting farmers in the 1970s. However, savings were mobilized from farmers to supply the money to farmers who needed it. The deposits of mutual credits increased by 14.2 times during the period from 1974 to 1980.

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Korea's model of agricultural cooperatives focused on organizational efficiency. The ACK got advantages of scope economies from operating multipurpose cooperatives rather than efficiency from specialization in economic and banking businesses. Although economic businesses such as buying farm inputs and selling farm products have shown minus income, they could have been maintained due to the income of banking business.

The model of Korea-type multipurpose Agricultural Cooperatives can be a model appropriate for developing countries in which most of the farmers are small-scale farmers. Most developing countries do not have time to wait smooth evolution of agricultural cooperatives like advanced western countries such as Europe or North America. Therefore, they may need strong leadership of government and collaboration of the government and agricultural cooperatives. However, it is also important to care about the weak point of Korea's model that strong government intervention deteriorated cooperative identity and voluntary development.



2011 Modularization of Korea's Development Experience  
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# Chapter 1

## Introduction: Understanding Korea's Agricultural Cooperative and Korea

1. Experience and Significance of Korea's Agricultural Cooperative
2. System of Agricultural Cooperative of Korea
3. History and Culture of Korea
4. Economy and Agriculture

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# Introduction: Understanding Korea's Agricultural Cooperative and Korea

## 1. Experience and Significance of Korea's Agricultural Cooperative

Korea's Agricultural Cooperatives have significantly contributed to agriculture and rural development since they were established. The Cooperatives are self-help organizations that have made every effort for agriculture and rural development by cooperating with the government as a partner for developing governmental policies, and enforcing policies as a policy assistant institution. The Cooperatives implemented smooth financial support to the agricultural sector by successfully encouraging savings in rural and urban areas and absorbed chronic usurious loans from the rural market. As a policy assistant institution, the Cooperatives have implemented smooth supply of agricultural materials including fertilizers and agricultural chemicals to improve agricultural productivity and contributed to self-sufficiency of rice, which is a main grain for Koreans. The Cooperatives have supplied vital commodities to rural areas where markets are not fully developed yet and thus to elevate the convenience of living. The Cooperatives contributed to increasing the income of members by their selling of agricultural products. They also worked to develop distribution of agricultural products by expanding distribution facilities and providing information on them. They also functioned as an agent for grain purchase and management of the government to national management of food supply and demand. The Cooperatives have also been a leader for improving the effectiveness of policies by means of policy PR, policy instruction and training from the government. The Cooperatives have not fully satisfied all the members thereof yet, but they are closely connected with farmer members since farmers say it is hard to imagine living and farming without the Cooperatives.

There have been many trials, errors and complications over a long period of time to reach the current state of the Agricultural Cooperatives of Korea. The Cooperatives went through a time of no hope due to poverty, debts, the tragic Korean War, poor recognition of the

Cooperatives, no competent leaders, poor government, policy failures, political selfishness and conflicts. The Cooperatives then went through stepwise growth and a structural change process led by political stabilization and economic growth.

Korea was liberated from Japan on August 15, 1945 but the US Armed Forces and the Soviet Armed Forces made an entry into Korea for the reason of disarmament of Japanese Military Forces. This resulted in the separation of Korea into South Korea and North Korea. In 1948, the Korean government was established but the Korean War lasted for 3 years and devastated the entire land and the economy of Korea. The Korean War was initiated by a southward invasion of North Korea in June of 1950, two years after the establishment of Korean government. Although the Korean War ended in 3 years, the aftereffects continued for a long period of time. Korea was one of the poorest countries in the world until early 1960s. Korea needed measures and methods for rising out of poverty and the low level of development. One alternative was the Agricultural Cooperatives.

Everyone agreed on the need for an Agricultural Cooperative for agriculture and rural development from the time of liberation but everyone had different opinions on the direction and methods. As soon as the government was established in 1948, discussions were held on the establishment of an agricultural cooperative. However, the National Agricultural Cooperative in charge of economic projects and the Agricultural Bank in charge of agricultural finances were established in 1958, 10 years after the establishment of the government due to poor recognition of the value of an agricultural cooperatives and conflicting opinions on the role of agricultural cooperatives, poor leadership, and the Korean War. However, conflicts between the two institutions resulted in integrating them to establish a multipurpose Agricultural Cooperative in 1961, three years after the initial establishment.

However, the Ri and Dong Agricultural Cooperatives, which are the foundation of the Agricultural Cooperatives, were not substantial cooperatives which had staffs and offices. The works of the Ri and Dong Agricultural Cooperatives were carried out by the Shi and Gun Cooperatives which were a regional federation of the Primary Agricultural Cooperatives. The lower structure of the Agricultural Cooperative system was strengthened by establishment of the Cooperatives, subscription of members and scale-up of Ri and Dong Agricultural Cooperatives. The Ri and Dong Agricultural Cooperatives were merged twice to integrate them into the nationwide Primary Agricultural Cooperatives based on Ub and Myoun in 1972. The integration took 11 years.

The Agricultural Cooperatives of Korea on a firm organizational foundation continued to grow and stabilize management through job adjustment among system cooperatives and development of new business. In 1970s, the Agricultural Cooperatives went through a stage of take-off and growth. The Primary Agricultural Cooperative took over four businesses (fertilizers, agricultural chemicals, funds and mutual aids for farming) from Shi and Gun Cooperatives and launched their own business for mutual credits and vital commodities. Active contact through business with farmer members gradually moved the center of

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Agricultural Cooperatives to Primary Agricultural Cooperatives. The business quickly scaled up and the capability of the Agricultural Cooperatives was highly improved.

The business of Agricultural Cooperatives was further promoted by means of changes in the economic and social environment of 1970s, which included the continuous economic growth of Korea, the Saemaul Movement (SMU) and the green revolution. The Agricultural Cooperatives continued to grow and widened their business in order to address local and nationwide issues in parallel.

For example, while building the public relations of the SMU, which is an initiative for modernizing poor rural areas, leaders can be trained in public relations while also instructing them on national policies for self-sufficiency of food and simultaneously contribute to the green revolution through smooth supply of agricultural inputs. The Cooperatives started to push out informal finances in the rural financial market, with rapid growth of the mutual credits. The scale of the purchase business for fertilizers, agricultural chemicals and agricultural machinery monopolized by the Cooperatives quickly grew, and the grain purchase scheme by the government was the one of the biggest business projects to date.

In less than 10 years the fast growth of the Primary Agricultural Cooperatives resulted in job redundancy dispute with the Shi and Gun Cooperatives. The new government of the 1980s reformed the Agricultural Cooperatives to be focused on reducing the system organization of the Agricultural Cooperatives and separation of the Livestock Cooperative. The National Agricultural Cooperative Federation (NACF) faced a crisis in management, with the policy switch of the government in early 1980s, but continued fast growth after tiding over the crisis by means of support by the government and a self-reform in management. The Agricultural Cooperatives were democratized, which was a long-cherished desire for the Agricultural Cooperatives. The Agricultural Cooperatives recovered the representative selection right which was lost by means of the Act on Temporary Measures in 1962 to restore its prestige as a self-controlling organization. In 1988, the Agricultural Cooperatives were democratized by abolishing the system for appointing the NACF chairman by the president and the system for appointing the presidents of Primary Agricultural Cooperatives by the NACF chairman, and further by discarding the government's controlling budgets.

Since the 1990s, Korean agriculture has been in turmoil to open the agricultural product market under the conversion to the WTO system. The Agriculture Cooperatives have been in the middle of changing and strengthening their role. Until the 1980s, the main strategy of Korea's agricultural policy was focused on developing growth within the framework of protection from other countries. However, the key challenge from 1990 is how to survive the unlimited competition faced in the global market. The required role of the Agricultural Cooperatives was to help farmer members sell their agricultural products at reasonable prices at reasonable time, which is more than a smooth supply of funds. In an open economy system, a major issue is excessive supply rather than low production, and how to win in competition with agricultural products imported from other countries are abundant in domestic markets.

The request for the Agricultural Cooperatives to cope with the open economy led to discussions on changing the Multipurpose Agricultural Cooperative to a specialized Agricultural Cooperative. Many people have criticized that the poor result of sales originated from being content with profits from credit business and therefore made no effort for the economic growth of business. They insisted that the NACF should separate and specialize the economic business from the credit business for both increased efficiency of the economic business and increased competitiveness of the credit business of the NACF in the current highly competitive financial market. The discussion on separation of the credit section from the economic business section of the NACF was ended for a long time when the revised Act on Agricultural Cooperative containing the draft passed through the National Assembly in March, 2011, 18 years after first being discussed.

It is considered that selection of the Multipurpose Agricultural Cooperative was right for operating purchase, sale, use, processing and credit business in parallel, taking into consideration the level of Korea's development and the features of the agricultural structure. It is not an economic and social environment in which the Agricultural Cooperatives could be separated into individual business sectors or Cooperatives for each to function. It is because concentration of all types of business on one institution rather than specialization for each business type can result in a minimum scale of business, and bring up the economies of scope among business types to implement economic growth.

The Agricultural Cooperatives of Korea (ACK) has been asked to take the role of an assistant institution to agricultural policies and an execution institution. The government let the ACK assume major policy works including all of the financial support for the agricultural sector, support of inputs, and management of grains for the government, and therefore make it a central institution for the rural economy. The ACK could then grow on the basis of this power. On the other hand, the government made a device with a great influence on the governance of ACK for the purpose of influence and control. Concerned people have disputed whether this scheme contributed to the development of ACK and the national economy from a long-term point of view. They insisted that less interference and control by the government could contribute to building up an even stronger foundation of development to allow the ACK to develop for itself, regardless of the criticism. However, the party who led the establishment of ACK has insisted that the circumstances of Korean society were not fully matured to implement voluntary and self-controlling Agricultural Cooperatives at the time when the ACK was established. Both sides are not perfect in terms of the dispute, but we cannot deny that today's ACK is attributable to the strong leadership of the government. The past path of ACK will be valuable for benchmarking by many developing countries. They could get much useful information from ACK's experiences, which passed through the various historical situations of Korea, which endeavored and succeeded through a lot of difficulties and hardships. This would be a different model than the experience of western Agricultural Cooperatives, which developed on a specialized basis of agriculture (scale up) in a society where the civic spirit of free individuals was established for self-responsibility.

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The purpose of this book is to describe how Korea, which is similar to other developing countries in terms of development stages and historical situations, has operated the ACK for developing agriculture and rural districts. It is considered that developing countries will learn useful ideas for selecting their policy directions and developing instruments from the experiences of the ACK operation. Mainly due to the large number of similarities in terms of the stages of development and historical experiences regardless of national land and natural conditions, cultural and people's characters, and historical differences.

This book describes the history of the ACK's growth and operation experiences from 1945 to 1990. Korea placed emphasis on protection of agriculture by the agricultural policy direction and principle until 1980, and the ACK was operated accordingly. However, with the progress of the Uruguay Round negotiation on agricultural products, the structural policy was promoted for intensively supporting open agricultural policies and relatively competitive farmers of medium-scale and large scale. That is, structural changes were made to open the market to other countries after the 1990s, and this is totally different from the conditions of the economic environment from 1945 until the 1980s. Therefore, the details after 1990s will not be covered in this book because the situation is different from that of developing countries. The main emphasis is that developing countries should protect and support their agriculture sector and Agricultural Cooperatives.

This book is composed of 5 chapters including the Introduction. The Introduction will describe the objective of this book and provide background information to help readers understand Korea and the ACK. The Introduction also will describe the ACK system and structure, national land, history, the economy of Korea, and the status of agriculture. Chapter 2 will be focused on how the ACK was formed and operated until 1980s and how it changed in each stage of development. Chapter 3 will describe the support by the government for operating the ACK as a policy instrument and the characteristics thereof. Chapter 4 will describe the process of transition and the outcomes of projects promoted by the ACK with focus on the three categories, instruction, the economy and credits. Chapter 5 will evaluate the general experiences of the ACK, and the important points for learning by developing countries.

The population of South Korea was 48,580,000 as of 2010, among which 82% are urban dwellers with only 18% in rural areas. The population of farmers was 6.4% at 3,063,000, and only 1/3 of the rural population was farmers. The capital of Korea is Seoul, which had the population of 10.31 million as of 2010. South Korea has a temperate monsoon climate with four distinctive seasons, where summer is hot and rainy and winter cold and snowy. The average temperature of Seoul is 12.2°C, with an average of 25.4°C in August and 2.5°C in January. Traditionally, the country has relied on rice farming with its hot and rainy summer.

## 2. System of Agricultural Cooperative of Korea

As of late 2010, there are 1,181 Agricultural Cooperatives, and the NACF that has the Cooperatives as members. The number of farmer members in the Agricultural Cooperatives is 2,100,000. The Agricultural Cooperatives are categorized into five Agricultural Cooperatives including: Regional Agricultural Cooperatives, Orchard and Horticultural Cooperatives, Regional Livestock Cooperatives, Livestock Cooperatives of each livestock type, and Ginseng Cooperatives. The aforementioned Cooperatives are multipurpose Cooperatives that deal with all aspects of purchases, sales, use, credits and mutual aid. Specialized Agricultural Cooperatives (Orchard and Horticultural Cooperatives, Ginseng Cooperatives, Cooperatives for each livestock type) other than the Regional Cooperatives (Regional Agricultural Cooperatives and Regional Livestock Cooperatives) could not perform the credit business until 1988. However, the credit business was allowed for the specialized Cooperatives in 1989 and that substantially became a multipurpose agricultural cooperative. The NACF functions as both a business federation of member Cooperatives and the apex organization representing the entire Agricultural Cooperatives.

The system of the Agricultural Cooperatives is organized based on the hierarchy of administrative zones [Figure 1-1]. The hierarchy of administrative zones is divided into Shi, Do, Shi and Gun, Ub and Myoun, and Ri and Dong. The Ri and Dong at the lowest level of the administrative zone hierarchy is a village unit. The Ub and Myoun is the at the other end of administrative zone hierarchy comprising a plurality of villages and placed with an administrative institution. One Ub and Myoun includes approximately 25 villages on the average. The Shi and Gun is a basic municipality. One Gun which is an administrative unit in rural districts included approximately 10 Ub and Myoun on the average, and a small and medium-sized Shi corresponds to a Gun. The Shi and Do is a metropolitan municipality. There are eight Do, one metropolitan city and six mega-cities in Korea.

The system of the ACK is organized to place the NACF at the nationwide stage, which has local head offices in each Shi & Do, and Shi & Gun branch offices in each Shi and Gun. Each Ub and Myoun has a member cooperative. A local Agricultural Cooperative that has members of crop farmers is established in Ub and Myoun. A local livestock cooperative that has members of livestock farmers regardless of the livestock type is established in each Shi and Gun. The Agricultural Cooperatives (for fruits, vegetables and floriculture), the Ginseng Cooperatives and the Livestock Cooperatives (for each livestock type including cattle, pigs, and chickens) are not limited in their regional coverage. Regional Agricultural Cooperatives of which the number is 981 and account for 83.0% of the entire member Cooperatives as of late 2010. The next largest Cooperatives are Regional Livestock Cooperatives with 118, followed by 46 Orchard and Horticultural Cooperatives, 24 Livestock Cooperatives for each livestock type, and 12 Ginseng Cooperatives.

The ACK was launched as two institutions of the Agricultural Cooperatives and the Agricultural Bank in 1958, which were integrated in 1961 though. The current ACK celebrates the day when the multipurpose ACK was established in 1961. At the time of

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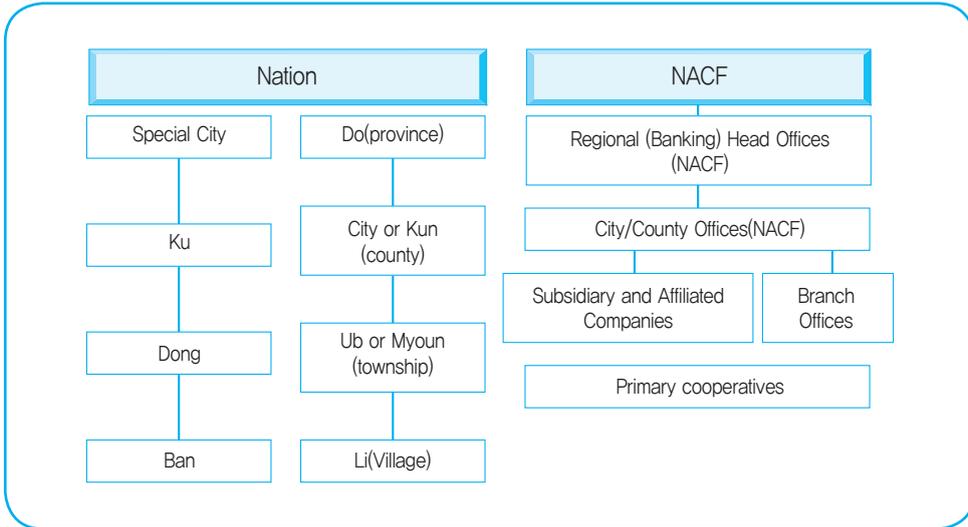
establishment, the ACK was an organization of three stages: Ri and Dong Agricultural Cooperatives, Shi and Gun Agricultural Cooperatives, and NACF. In the early 1970s, the Ri and Dong Agricultural Cooperatives were integrated with the Primary Agricultural Cooperatives established in Ub and Myoun. In 1980, the Shi and Gun Agricultural Cooperatives were abolished in order to be switched to the two-stage organization of Primary Agricultural Cooperatives-NACF.

The ACK performs most of the business related to agriculture, which is classified into economic business, credit business and instruction business. However, the term earning business refers to only the economic business and the credit business. The economic business includes sales, purchases, joint use and processing business. The sales business concerns selling agricultural products produced by members. The purchase business comprises purchasing agricultural supplies and purchasing consumer goods including the necessities of life. The joint use business comprises using agricultural machinery and facilities including warehouses. The processing business includes processing agricultural products or processing agricultural material or packing materials.

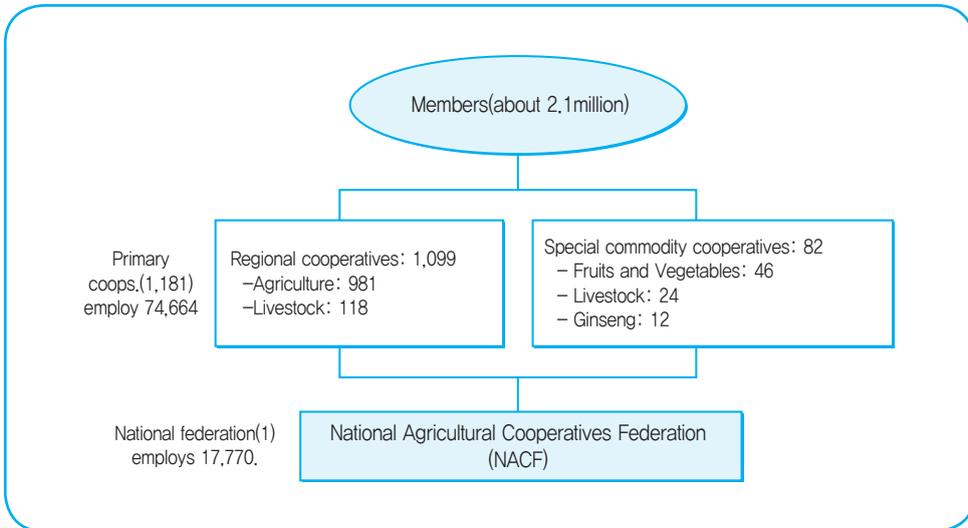
The credit business includes mutual credits of the banks under the NACF and member Cooperatives, policy loans, and mutual aid of the ACK. The NACF is operating banks for ordinary people and the member cooperatives are operating mutual credits, which is cooperative banking on the basis of financial transactions among members. The combination of bank finances and cooperative finances in one Agricultural Cooperative system is a feature characteristic of the ACK system. The NACF is the main office for the mutual aid business and the member cooperative is an agent thereof. The bank of NACF has approximately 1,000 branches across the country most of which are located in urban areas and some local branches in Gun of rural areas. The Mutual Credits has a few local branches in one jurisdiction of the Cooperative and cannot have local branches outside of the jurisdiction. The number of banks belonging to all member Cooperatives is approximately 4,400 as of late 2010. If that number is added to the number of banks belonging to the NACF, the number of total banks of the ACK is more than 5,000 and is the biggest banking group in Korea.

The NACF owns subsidiaries including: an agricultural product distribution company, a chemical fertilizer company, a publishing company, and facilities for supporting training including ACK University and a training institute.

**Figure 1-1 | Units of Administrative Zones and Organization of ACK**



**Figure 1-2 | Structure of ACK System and Types of Cooperatives**



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### 3. History and Culture of Korea

The Korean peninsula is located at the center of East Asia. It is bordered with China to the west, Russia to the northeast and separated from Japan to the east by the Korea Strait. The national land area of the Korean Peninsula is 220,000 km<sup>2</sup> in which the area of South Korea is 100,000 km<sup>2</sup> (10,003,000 ha) because of separation into South Korea and North Korea. The mountain area accounts for 63.7% and farmland is 17.1% (1,715,000 ha) of the land area of South Korea.

South Korea is affected by East Asian monsoon. It also has four distinctive seasons, with hot summers and heavy precipitation, and cold and snowy winters. Seoul's annual average temperature is 12.2°C and the average temperature is 25.4°C in August and 2.5°C in January. Summers are hot and humid, good for rice farming, and Korea has thus traditionally depended on rice farming.

Korea, which has its national basis on the Gojoseon founded in B.C.2333, is a country of long history and Korea's territory encompassed the Korean Peninsula and Manchuria. Relics discovered in the Korean Peninsula prove that people inhabited this area approximately 700,000 years ago. The territory became smaller and was limited to the Korean Peninsula with the appearance and disappearance of seven dynasties including Gojoseon (2333~108 B.C.) followed by the Three Kingdoms (57 B.C.~A.D. 676), the Unified Shilla (676~935), Balhae (698~926), Goryeo (918~1392) and Joseon (1392~1910). Joseon was annexed to Japan in 1910 and was under colonial rule by Japan until liberation in 1945.

Korea was liberated along with the surrender of Japan at the end of the World War II but was partitioned into South Korea and North Korea along the boundary of 38th parallel by the US Armed Forces and the Soviet Armed Forces that were stationed in the South and the North, respectively, for the reason of disarmament of Japanese Forces. The effect of US Armed Forces and Soviet Armed Forces occupation and ideological disintegration hampered unification of South Korea and North Korea, regardless of the effort for one unified Korea by nationalists. Consequently, the Republic of Korea was established in the south with the approval of UN in 1948 while the Democratic People's Republic of Korea was established in the north. North Korea invaded South Korea on June 25, 1950, two years later. The Korean War ended with the Armistice Agreement on July 27, 1953. During the war that lasted for three years, more than three million people died and the fighting effectively destroyed industrial facilities and most cities. The Korean War further hampered reunification into one nation in addition to the huge loss of lives and destruction properties. The Korean War is currently under cease-fire.

The presidency of Syngman Rhee, the first president of South Korea, ended in resignation following popular student protests against dictatorship in 1960. The second Republic of Korea failed to settle political chaos and was ended by a coup d'état staged by Park Chung-hee, the army general. President Park held the presidential post for 18 years until 1979. Park has been credited with the industrialization and rapid economic growth of South Korea

through export-oriented industrialization to take Korea out of the poorest nation group in the world to the middle-class nation group. Korea is now a democratized nation since 1987 after a long history of dictatorship and is the 5<sup>th</sup> biggest trade nation in the world thanks to continuous economic growth.

Korean is the official language of Korea. It is ethnically homogenous and Koreans are descendant from people that emigrated from Central Asia long time ago and are Mongolian ethnics. It is estimated that the population of South Korea is 48.58 million and the population of North Korea is 24.05 million as of 2010. However, modern trends are showing that many foreigners inhabit South Korea for the reason of international marriage and working for the fast progress of globalization, therefore Korea has become a multi-cultural country.

Koreans use the alphabet system called Hangeul which is unique to Korea. Hangeul is a phonogram that has 24 consonants and is recognized as an excellent system that is easy to learn and effective to represent.

In Korea, a lot of religions coexist, including Shamanism, Buddhism, Confucianism, Christianity, Catholicism, and Islam. Shamanism has descended as folk-beliefs. Buddhism was originated from China in the 4<sup>th</sup> century. Confucianism was accepted as the idea for ruling the country in the Joseon Dynasty and recognized as the norm for ethics and morals. Catholicism was brought in the mid and late 18<sup>th</sup> century and Christianity in the 19<sup>th</sup> century. The fastest growing religious group in modern Korea is Christians.

## 4. Economy and Agriculture

The population of South Korea is 48.58 million as of 2010, among which 82% of people inhabit the urban areas, and only 18% of people inhabit rural districts. The population of farm households is 3,063,000 people and that accounts for 6.4% in the entire population. The population of farm households in rural districts accounts for approximately 1/3 of the total population. The capital of Korea is Seoul and the population of Seoul is 10,310,000 people as of 2010.

GNI of Korea is \$10.15 billion and GNI per capita is \$20,759 as of 2010. Korea is an industrialized nation and has the economic structure of export to other countries. The volume of export in 2010 was \$466.3 billion and the volume of import was \$425.2 billion. Korea is globally in 13<sup>th</sup> place with respect to the scale of GDP and in 7<sup>th</sup> place with respect to the aggregated trade.

The major industries of Korea manufacture many different products that include: vehicles, ships, semiconductors, steel, electronics, communication devices, chemicals and fibers. The primary industries such as the agriculture, forestry and fishery industry account for 2.6%. The secondary industries such as the mining and manufacturing industries account for 39.3%, and the tertiary industries such as the service industry account for 58.2%. The portion of agriculture in the Korean economy is 2.3% of the gross national product. The

population involved in agriculture is 6.8%. The agriculture and forestry budgets account for 5.7% of the national budget.

**Table 1-1 | Macro Economy Index and the Proportion of Agriculture of Korea**

items	1970	1990	2000	2010
National GDP (billion US dollars)	8	270	534	1,014
GDP share of agriculture (%)	27.4	7.8	4.2	2.3
Population (thousand persons)	32,241	42,869	47,008	48,580
Population share of farm households (%)	44.7	15.5	8.6	6.8
Share of agricultural employees (%)	50.4	17.1	10.2	6.3
National Budget (billion US dollars)		3.9	7.4	253.3
Agricultural budget share (%)		9.6	7.0	5.7

Source: MFAFF (Ministry of Food, Agriculture, Forestry and Fisheries), Statistics of Agriculture, Forestry, Fisheries and Food, 2011

The current scale of the Korean economy is at its high level but Korea was one of the poorest nations in the world 50 years ago. In 1965, the GNP of Korea was \$3 billion and GNP per capita was \$105. In the 1960s, agriculture accounted for a great proportion of the national economy. The population of farm households accounted for 55.1% of the entire population. Employees in the agricultural and forestry sector accounted for 56.1% of entire employees. The proportion of agriculture accounted for 39.1% in GNP.

Korean gained independence at the end of the 2<sup>nd</sup> World War in 1945 and was partitioned into the South and the North by allied country power and the Soviet Armed Forces. The government of South Korea was established in 1948 but North Korea invaded South Korea two years later. The Korean War lasted for three years and devastated the Korean people and the national land. Koreans suffered from poor living conditions because of the high rate of unemployment, high inflations, and low income even in into early 1960. In particular, people in rural districts suffered from the worst conditions.

The government established and drove 5-year plans for economic development oriented toward export-led industrialization since 1962. Because there was no existing domestic capital, the government borrowed money from other countries to build factories and to encourage export. The annual average rate of economic growth was around 8% thereafter and the economy recorded high rates of growth for approximately 30 years until early 1990s. The Korean economy suffered from some difficulty for quite a whole, caused by the second Oil Crisis in late 1970s, when Korea switched the growth strategy from light industry to the heavy chemical industry. However, Korea continued to have fast growth while recording a current account surplus for the first time in its history along with the global boom in the mid 1980s.

Korea is a poor nation with small national land, but has utilized human resources to become a successful country that will soon enter the advanced country group. In 2010, Korea became a member country of the DAC (Development Assistance Committee) of the OECD and is the first country in the world that was assisted by advanced countries but now has grown to be able to assist poor countries.

The total farm land area of Korea is 1,517,000 ha, and the number of farm households is 1,177,000, which implies 1.46 ha per household with respect to farmland area. The rice field accounts for 57.4% in the farmland and the most significant crop is rice. With respect to agricultural production, the cultivation industry accounts for 58.1%, and the livestock farming accounts for 41.9%. However, with respect to the added values, the cultivation industry accounts for 64.5% and the livestock farming 18.7%. The reason behind lower added values than the proportion of production volume is because most of the feed, which is the intermediate material for livestock farming, is imported from other countries.

The most pressing need of Korea in the 1950s, which suffered from food shortage due to the Korean War, was to vitalize agriculture. Increasing agricultural production needed a large fertilizer supply and maintenance of infrastructure including irrigation facilities. The first thing driven with the money borrowed from other countries was to construct fertilizer factories. Agricultural production increased quickly from the early 1960s when the construction of fertilizer factories was completed and more fertilizers were supplied.

The agricultural industry started to be commercialized quickly because of the expanding population in urban areas and penetration of capitalistic market economy into rural districts. This resulted in the fast growth of cash crops including vegetables, fruits and livestock.

Korea's agriculture and rural districts in the 1970s significantly changed by means of factors including urbanization, industrialization, the green revolution and SMU. People left rural districts and moved to urban areas because of the fast progress of industrialization, and the capitalistic market economy quickly spread into rural areas. The green revolution based on bio-chemistry technology including fertilizers and agricultural chemicals contributed to self-sufficiency of food. The SMU driven for rural development was launched for the spirit movement, spread into local based income development movement to change rural districts and to enhance farmers' self-esteem. The Agricultural Cooperatives established in 1958 switched to the stage of constituting a management basis and take-off on the basis of the business foundation 10 years after its establishment.

Korea's industrialization was centered on major urban areas and caused workers in rural districts to gather in urban areas. The faster rate of economic growth resulted in fast migration of workers. As a result, a labor shortage in rural districts was felt from the mid 1970s. Therefore, farmers gradually mechanized farming and now almost 100% of rice cultivation is mechanized. However, the level of mechanization is not so high for field crops. Farmland of small scale is distributed here and there, and the management area per farm household is not great resulting in a little effect of mechanization.

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The debt borrowed for mechanized agriculture, investment in protected farming, livestock purchase and investment in livestock farming facilities accumulated and the income was not enough so that many farmers could not pay off their debt. The price of agricultural products produced by farmers' hard work also highly fluctuated depending on cyclic good and poor harvests. The issue of debts and fluctuating prices of agricultural products was one factor of farmers' complaints against the ACK. That is, farmers wanted the ACK to be further responsible for selling agricultural products and increasing farmers' income.

The government took measures for burden reduction programs in 1987. For example, repayment of farmers' debt was postponed and interest rates were lowered, but farmers wanted more effective measures. The government could not but take measures for additional debt reduction measures every year until 1990. The Uruguay Round Agreement on agricultural products was settled to open the agricultural market after 1990s. It triggered a large scale of investment and loan programs for the agricultural sector, which was intended to improve productivity by introducing new technology and promoting reconstruction and thus improve competitiveness in the open market.

Regardless of the investments from the last 20 years, Korea's agricultural sector is still suffering from difficulties because of the aging of the agricultural population and low prices caused by imported agricultural products. As the ACK was asked to fill the role of policy instruments to find a way out of difficult situations in agriculture and rural districts in the 1950s, it is still currently asked to play the important role in finding a way out of the impacts of an open global market and the difficulties of structure change.

2011 Modularization of Korea's Development Experience  
Operation of Agricultural Cooperative  
for Rural Development

## Chapter 2

### History of the Agricultural Cooperative of Korea

1. Background of ACK (1945~1957)
2. Birth and Basis of Agricultural Cooperatives (1958~1972)
3. Growth and Reorganization of Agricultural Cooperatives (1973~1990)

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# History of the Agricultural Cooperative of Korea

## 1. Background of ACK (1945~1957)

### 1.1 Unstable Politics and Economics of Society

#### 1.1.1 Political Situation

Korea was divided into the South and the North at the time of liberation from colonial rule by Japan on August 15, 1945. The Soviet Armed Forces, which were in the North, and the US Armed Forces, were stationed in the South, for the reason of disarmament of Japanese Forces hampered unification. The divided South and North Korea had serious ideological conflicts between the left and right wings. South Korea went through extreme political chaos for three years while the US Armed Forces ruled South Korea since liberation. In 1948, the government of South Korea was established with the approval of the UN and decided that communists' activity was illegal. However, some of communists deployed Partisan movement in South Korea to disturb public peace and order.

Division into South Korea and North Korea was the end product of the Korean War that was started by the invasion of North Korea into South Korea in June of 1950. The Korean Peninsula suffered from one of the fiercest wars on the earth for three years until an armistice signed in July of 1953. Korean society is still feeling the aftereffects. Although the war ended almost 60 years ago, South Korea is confronting North Korea along the armistice line, and a state of war is present, even in the state of a cease-fire.

Division of South Korea and North Korea and the Korean War urged South Korea to set anti-Communism as the first national policy. Such ideological deflection was a factor for some people to show their antipathy to the ACK. Many people misunderstood and thought that the ACK was an organization established by the people who had a liking for communism.

## 1.1.2 Economic Situation

Most of the industrialized zones of Korea were in North Korea at the time of liberation. When the electricity generated in power stations, the necessities of life and chemical fertilizers produced in the factories in North Korea were not supplied throughout the South and the North due to the partition, South Korea went through serious economic hardships due to insufficient vital commodities and agricultural supplies. Although public security and society gradually stabilized with the government established in 1948, the Korean War pushed the economic society into another time of extreme chaos in 1950.

The population of South Korea at the time of liberation was estimated to be 16.87 million people, among whom the population of farm households accounts for roughly 70%. But the people suffered from a serious food shortage (Investigation Team of Joseon Bank, 1949). North Koreans who escaped from North Korea and people returning permanently from abroad contributed to the sharply increasing population of South Korea, and further worsened the food shortage. Before the liberation, the only chemical fertilizer factory of Korea was located in North Korea, and division into two nations stopped the fertilizer supply to South Korea. The chemical fertilizer shortage significantly lowered agricultural productivity in South Korea. Reduced food supply reduced food consumption evidenced by the decrease in average grain consumption per person which was 1.41 seokl (89,464cm<sup>3</sup>) during the period of 1940 to 44 but just 0.98 seokl (89,464cm<sup>3</sup>) during the period of 1945 to 47. The prices of commodities sharply rose due to lack of power supply, insufficient necessities of life and food shortage. As a result, the wholesale price index was 241 in 1944, 22,100 in 1946, 40,200 in 1947, and 65,500 in 1948 on the basis of the index in 1936 (100.0) in Seoul (Survey Department of Joseon Bank, 1949).

Most of farmers at the time of liberation were peasants who did not own their own land for farming and almost always in deficits because of more expenditure than income. A study in 1948 revealed roughly 5% more expenditure than income on average per household. Although fertilizer cost accounted for the biggest proportion of expenditure (37.8%), it was very hard to buy fertilizers and to find cattle for assisting in farming, most of which was slaughtered because of food shortage.

The government attempted farmland reform in 1949 to control the chaotic political situation and to rebuild agricultural productivity. The reform finished in 1957 due to the Korean War. The farmland reform was implemented by purchasing landowner's farmland to distribute the land to peasants for a consideration. The government issued land price securities to land owners for payment and the peasants who were distributed with farmland repaid the government by cash or in kind. The farmland reform enabled most of farmers to own their own farmland but the main problem were inadequate size of farmland and too many farm households, resulting in average cultivation area of 0.6 ha. The government prohibited farmers from possessing farmland larger than 0.6 ha by law, to prevent farming of large scale and bringing about tenants again, and thus implement small-scale farmers.

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Although the Korean War ended in 1953, politics, economy and society all suffered from difficulties because of the post-War effects and poverty until the end of 1950s. In particular, farmers in the rural districts had many more hardships resulting from poverty contributed by food shortage, small income, low productivity, high inflations, all sorts of taxes and payments, and got into more and more debt each year. The government struggled with poor finances and issued more currency, which triggered high inflation and increased the burden on the living costs and agricultural costs for the farmers. Meanwhile, the large volume of free agricultural product surplus supplied by the US for relief lowered the price of domestic agricultural products. As a result, farmers were pressed from both sides of income and expenditure. Because of the impoverished conditions in rural communities, almost 70% of usurious loans were of at annual interest rate higher than 60%, and it was very hard to get funds in rural districts. Many farm families in rural districts had run out of provisions for meals. In particular, the period from February to May was a hard period and was called the spring lean season. The study carried out in February of 1957 revealed that 15.4% of farm families had run out of provisions for meals (Ministry of Agriculture and Forestry, August, 1958).

### 1.1.3 Social Situation

The chaotic period after liberation was also the time when the Korean society abolished the vestiges of the feudal society and switched over to capitalism. Although the feudal social standing system was demolished and a capitalistic market economy advanced from the late 19<sup>th</sup> century, a small number of land-owners owned most of farmland. That is, the rural communities kept the heritage of semi-feudal social standing system of the relationship of land-owners and peasants, and practices, ethics and morals of the communities were based on these traditional point of values.

#### Background of Farmland Reform

Most of Korean farmers in the colonial period were peasants who rented other people's farmland for farming. In 1945, 84% of South Korean farmers were peasants and 65% of farmland area was tenanted (Park, 1999). Korean farmers' dream and desire was to own their own farmland. They made a severe protest against landowners' exploitation in the colonial period through the peasant movement.

Korea was divided into the South and the North after the liberation, The US Military Government (1945-1948) ruled South Korea until the Korean government was established in 1948. In this period, North Korea first carried out farmland reform in the manner of free confiscation and free distribution. This stimulated South Korea to initiate discussion of a farmland reform but resulted in no conclusion. As soon as the government was established, it started discussion on a farmland reform officially to announce the Farmland Reform Act in June of 1949, which was amended in March

of 1950, and then enforced. Little farmland distribution was made just before the Korean War (June 25, 1950), but the War hindered the project from being enforced. The farmland reform finally finished in 1957.

The Farmland Reform contributed to most farmers owning their own farmland. It was investigated that the tenant land was only 8.1% in the entire farmland (Park, 1999). However, because most farmers owned farmland smaller than 1ha, it was not easy to get out of poverty. Some farmers sold their farmland to escape from poverty just after the Farmland Reform and more peasants appeared. Since the government was afraid of the appearance of the relationship of landowner-peasant, it barred farmland lease by law. However, it was inevitable to allow mortgages on farmland for helping farmers use funds. The only farmers' asset valuable as securities was just farmland. The government established the Farmland Security Act in 1966 to allow only the ACK and the Fisheries Cooperatives to lend money with the security on the farmland (Song, 2011).

Korean society had a dream of building up a new independent nation after the liberation. Thus Korea adopted a new culture and civilization to escape from the past and recognized the high value of democracy. The Farmland Reform promoted by the established government contributed to clearing out the relationship of landowner-peasant. The soldier culture based on the conscription system helped recognition of the social status forgotten and became a training field to teach new communities by observing the discipline of an organized society.

The campaign for enlightenment supported by intellectuals as one type of long-term movement for independence from the colonial period was considered as an important activity even after liberation. The objective for the campaign was mainly in rural districts. Recognition of its importance was demonstrated by the fact that many university students wanted to work for the ACK and Agricultural Advisory Centers. Every vacation, many university students participated in voluntary work to help people learn reading and writing, supporting agricultural activities, and cleaning up villages.

The movement for Agricultural Cooperatives by the private sector was carried out since 1920s and it was recognized by young people who expected construction of a new nation as an important mission. The successful nationwide organization for the Agricultural Cooperative campaign owes much to such social capital already formed. It seems that the Minister of the Ministry of Agriculture and Forestry and public officials concerned who led the campaign were representative campaigners, and most of the farmers selected as village representatives had shared the same opinion to participate in the campaign passionately.

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## 1.2 Organization in Rural Districts Related to ACK

The current ACK is based on Kye, which is a traditional organization for mutual aid, the Sachang system, which is an aid institution, and organizations related to the modern cooperative movement dating from the colonial period. Details regarding the above systems will not be described here, but the organizations involved in reorganizing the Agricultural Cooperative after the liberation will be described hereinafter <Table 2-1>.

### 1.2.1 Financial Cooperatives

In 1907, the Korean government accepted the proposal of a Japanese financial advisor to establish a local financial cooperative based on Kye, which is a traditional Korean mutual aid organization, the objective of Sachang system and the Reiffeisen Cooperative of Germany for farmers to use as a financial system who were not benefited by regular banking systems (NACF, 1963). The reason of this is because the Agricultural and Industrial Bank established in 1906 for rural development was used only for Japanese, some landowners, and industrialists, and was not used as a rural banking institution. As a result, an institution was required for small scale farmers who were not looked after by formal banking systems. Local financial cooperatives were an organization for farmers and covered one or several Gun.

Local Financial Cooperatives were based on western cooperatives including the Reiffeisen Cooperative. However, they were operated by Japanese directors from the beginning, and became governmental Cooperatives strictly supervised and controlled by the Government General of Joseon after occupation by Japan in 1910. Ordinary people considered the Local Financial Cooperatives as a government office or banking institution. On the contrary, the Government General of Joseon publicized them as a cooperative in every respect, and let personnel participate in the International Cooperative Alliance (ICA) (NACF, 1963; Kim, 2011). The Local Financial Cooperative was renamed as the Financial Cooperative in 1918, and it had urban financial Cooperatives for small and medium-sized industrial people, ordinary people and the Do-federations as a local federation, and became a nationwide organization covering both urban and rural areas. The Joseon Financial Cooperative Federation integrating the Do-federations was established as a nationwide central organization to be a central financial firm of the Financial Cooperatives and in charge of guidance and training.

Meanwhile, the Financial Cooperatives carried out purchase and sale business for members in addition to banking affairs which was their original business, but was in conflict with the Farmers Associations and the industrial cooperative that did the same business. The Financial Cooperatives stopped the controversial business from 1929. However, the Financial Cooperatives had another opportunity with the rural development movement launched for helping poor and deprived rural districts resulting from the Great Depression. The Financial Cooperatives cooperated with public offices for: guiding farmers to a variety of funds at low interests, joint purchases of agricultural supplies with farmers, and sales of

agricultural products. In this process, the Financial Cooperatives insisted on the need of organizations for each village and then established Agricultural Development Kye in 1935, and let Agricultural Development Kye carry out purchase and sales business in each village to be substantially involved in the economic business again.

The Agricultural Development Kye is a resident organization established by the Financial Cooperatives in each village and is a small cooperative for economic development, joint business and cosigning for members' debts on the basis of members' mutual aid. While the Financial Cooperative had the Agricultural Development Kye as a village-based organization, the system of the Financial Cooperative was organized as a 3-stage system of: village organization, Gun cooperative and nationwide federation. In addition, the Financial Cooperative could again carry out economic business, which was abolished for mismatched reasons to the objective of establishment. The Financial Cooperative Federation carried out business activities including commissioned sales of agricultural products sold by Agricultural Development Kye while justifying it as mediation of the economic business of Agricultural Development Kye. This created further conflicts with the Farmers Association and the Industrial Cooperative that also dealt with similar business (Lee, 2001; Kim, 2011; NACF, 1963). However, Agricultural Development Kye became an antenna for exhibition administration and the object of people's complaints by mediating compulsory delivery of grain to the government and distribution of daily necessities during the 2<sup>nd</sup> World War.

**Table 2-1 | Purpose and Business of Organizations Related to Agricultural Cooperative during the Colonial Period**

Organization	Objective of establishment	Business	Organization	Year of establishment
Financial Cooperative	Alleviate farmers' financial burden	Credit, purchase, sale	613 Cooperative (1944) 2,816,000 members	1907
Joseon Financial Cooperative Federation	Nationwide financial cooperative federation	Central finances, guidance, training, mutual aid, commissioned sale	628 Member cooperatives	1933
Agricultural Development Kye	Members' economic development (small industrial cooperative under Financial Cooperative)	Purchase, sale, industrial guidance	Agricultural Development Kye: 49,027 Members: 62 per cooperative	1935

Organization	Objective of establishment	Business	Organization	Year of establishment
Trade Association	Promote partners' profits	Non-profit business (offer & mediation)	20(1941) (most of them integrated with Farmers Association in 1926 and 1932)	1915
Farmers Association	Improve and develop agriculture	Guidance, investigation, research, purchase, sale, warehouse, joint purchase of fertilizers	Organized in each Do and Gun	1926
Industrial Cooperative	Members' economic business development	Processing, sale, purchase, joint use	117(1941) All disorganized in 1943	1926

Source: Kim (2011)

The Financial Cooperative that was very close to and dependent on the government for operation during the World War II lost the banking sector business supported by the government after liberation. The banking business of the Financial Cooperative was greatly reduced and management thereof was worsened. However, the Financial Cooperative recovered from the management crisis when the US Military Government that suffered from vital commodity shortage during the chaotic period of liberation allowed the Financial Cooperative to carry out purchase, storage and distribution of the major necessities of life. The Financial Cooperative was in charge of fertilizer business which were the responsibility of Daehan Farmers Association in 1947, and grain business for the government and straw goods in 1949. As a result, the Cooperative carried out less credit business and became a kind of an agent institution for government projects. However, while the agent business for the government was transferred to the government 5 to 6 years later, the Financial Cooperative carried out less business and less credit business. In rural districts at that time, the number of farm families whose provisions had run out because of food shortage increased and loan sharks were rampant. This situation called for urgent action to take quick financial measures in rural areas. The Financial Cooperative intended to take advantage of this opportunity for regeneration but it had already lost the government's trust. Therefore it was disorganized after transferring all of its work to the Agricultural Bank Incorporated when the bank was established, as a transient institution, until the Agricultural Bank Act was enacted in 1956.

While the Financial Cooperative was losing its power after liberation, the Agricultural Development Kye was dormant for a while. When the Financial Cooperative established the advisory Agricultural Development Kye for efficiently discharging funds for farmers, it

revived, so that the number of Agricultural Development Kye was 34,755 and the number of members was 2.2 million in late March of 1955. The Agricultural Development Kye owned assets of joint cultivation land, grain processors and water pumps as common facilities, but handed over the properties and jobs to the Ri and Dong Agricultural Cooperatives according to the Agricultural Cooperative Act enacted in 1957.

### 1.2.2 Farmers Association

The Government General of Joseon established agricultural associations that are in essence NGOs in each Gun in 1920 in order to integrate all sorts of industrial organizations in order to prevent too many NGO from being established. The Government General of Joseon enacted and promulgated the Act in 1926 to establish the Farmers Association as a national policy institution at 3 stages including Gun, Do and the nationwide level. At this time, the trade associations according to the Major Trade Association Act were the objects for the first and second industrial organization reorganization programs and most of them were integrated with the Agricultural Association. The Farmers Association aimed for: giving advice and encouragement of agriculture, improving farmers' welfare, research and investigation of agriculture, and assisting administrative institutions. However, the Farmers Association took over the properties and affairs of existing organizations including the Trade Association, and thus extended the scope of its work to the economic business including purchase and sales in addition to advice and improvement of agriculture.

The Farmers Association concentrated on advice and encouragement of agriculture at the initial stage of establishment but gradually on the role of a lower administrative institution. The Government General of Joseon designated the Farmers Association as an institution for lending, offering and recovering fertilizer funds, installing and operating agricultural warehouses, and supporting some of the management costs, while planning loans with low interest for increasing fertilizer input and expanding agricultural improvement programs. All of these contributed to effectively operating the Rice Production Increase Plan. The Farmers Association was engaged exclusively in the fertilizer purchase business and rice warehouse business after the China-Japan War to become the center of agricultural policies and a giant sale business organization. Furthermore, during the 2<sup>nd</sup> World War, the Farmers Association became an institution for compulsory delivery of agricultural products to the government to be a faithful administrative assistant while being in charge of selling goods for members.

The US Military Government after liberation reorganized the Farmers Association differently from the Association organization during the colonial period and renamed it to Daehan Agricultural Association but did not change its substantial details (NACF, 1963). Daehan Farmers Association succeeded the organization during the colonial period. For the executive institutions, mayors, governors of Gun and provincial governors held the post of head of Farmers Associations in Shi, Gun and Do. The minister of Ministry of Agriculture and Forestry held the post of chairman of the Central Agricultural Association. The Farmers

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Association was responsible for all business related to rural districts such as: distributing the necessities of life to rural residents, distributing supported fertilizers, purchasing and selling straw goods, and operating the fertilizer mixing factories. However, it encountered financial difficulties because of no financial support from the government as in the colonial period, and poor collection of membership fees.

Although the Farmers Association wanted to be the parent of the Agricultural Cooperative, newly established to be competitive with the Financial Cooperative, when reorganization of agricultural organizations was launched after the government was established in 1948. However, the Farmers Association transferred all business to the Financial Cooperative in 1949 and was then disorganized in 1951. While the Ministry of Agriculture and Forestry managed the property of the Agricultural Association, the Ministry handed over the job and property of the Farmers Association to the Agricultural Cooperative newly established in 1957 according to the Agricultural Cooperative Act.

### 1.2.3 Others

Other organizations involved in the Agricultural Cooperative include the Major Trade Association and the Industrial Cooperative. The Major Trade Association was a cooperative organized by trade people who were engaged in producing, manufacturing and selling grains, livestock and horticultural crops in 1915 by law. The Trade Association, which was not under obligation of investment, did not carry out its own economic business and only pursued members' profits. After official approval by law, the number of branches of Trade Associations sharply increased, but they were integrated with the Farmers Association launched in 1926 in order to prevent too many organizations involved in agriculture from being established.

Some Cooperatives not integrated with the Farmers Association operated until the liberation and were reborn as the Horticultural, Livestock and Specialized Agricultural Cooperatives according to the Agricultural Cooperative Act in 1958. As the Farmers Association was reorganized and the Livestock Act was enacted and promulgated in 1951, the livestock business sector of the Farmers Association was reorganized to be the Livestock Trade Association and then changed to the Livestock Cooperative.

The Industrial Cooperative was in charge of sale, purchase and business with the members who lived in the relevant business area of the Cooperative. The membership of the Industrial Cooperative was not limited to farmers but included anyone who wanted to become a member and who lived in the business area. The Industrial Cooperative was the most representative cooperative among other related organizations in terms of its operation including: the obligation of investment, election of presidents, the board of directors, and auditing (Lee, 2001; Kim, 2011; NACF, 1963). The Industrial Cooperative was created as a cooperative for the four business categories of credit, purchase, sale and joint use since the Financial Cooperative did not satisfy customers. It encountered the opposition of the

Financial Cooperative and was allowed to operate three categories other than the credit business.

The Industrial Cooperative operated business involved in local specialty products in the beginning but changed the management strategy to agricultural products to expand business because of reduced management profits resulting from the effect of the Great Depression. However, the Industrial Cooperative was not protected by the government as compared to the Financial Cooperative, and encountered evasion of fund supply by the Financial Cooperative that was in conflict for the sale and purchase business, and opposition of the Industrial Cooperative. As a result, the Industrial Cooperative could not get over poor management, and 80 of the 117 Industrial Cooperatives were disbanded in 1942. After the liberation, the Industrial Cooperatives were weaker than the Financial Cooperative or the Farmers Association, lost the competition for establishing Agricultural Cooperatives and switched to the livestock cooperative and the Horticultural Cooperative depending on the property of business of each cooperative according to the Agricultural Cooperative Act in 1957.

Since the Joseon Financial Cooperative Federation, the Financial Cooperatives, the Trade Association, the Joseon Agricultural Association, the Industrial Cooperatives, and the Agricultural Development Kye, which were established for colonial rule during the colonial period, it was natural to expect that they would be disbanded after the liberation but the US Military Government that ruled South Korea retained these organizations (Kim, 2011). The government established in 1948 observed the additional provisions of the Constitution for approving the effect of law by the US Military Government to retain the organizations involved in Agricultural Cooperatives. However, the organizations were integrated and liquidated according to the Joint-Cooperation Agricultural Bank Act enacted in 1956 and the Agricultural Bank Act and the Agricultural Cooperative Act enacted in 1957. That is, the ACK succeeded the organizations involved in Agricultural Cooperatives established during the colonial period.

### 1.3 Agricultural Cooperative Act

Everybody thought that it was necessary to organize a cooperative of small-scale farmers along with the farmland reform to vitalize the rural economy which was in difficulty after the liberation (NACF, 1963, 1991). President Rhee said that the government had a plan for the organization in the Presidential Speech in the National Assembly in September of 1949 (Kwon, 2009). Related organizations then competed with each other for leadership in establishing the new agriculture cooperative. The Financial Cooperative and the Farmers Association took advantage of their basis as an existing organization. The Daehan Farmers Association organized as a resistant organization against communists insisted, that they should be the subject for the new cooperative organization. Some of the leftist organizations set up a sign of Cooperative. Leaders who were in charge of private cooperative movement during the colonial period organized their own organizations to insist that they should lead

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the new cooperative. The Ministry of Agriculture and Forestry (MAF) announced that a new independent farmers' cooperative, not any the aforementioned organizations, should be established as seen in the document published in 1948 (NACF, 1991).

The government attempted to enact the Agricultural Cooperative Act several times during 1948 to 1953, but the attempts were not successful. The MAF could not reach an agreement with the Office of Planning (the former of Ministry of Finance) and attempted to enact the Agricultural Cooperative Act but it was unsuccessful. While the government was in disarray, the National Assembly made an effort for enacting the Act in 1954 but it was also unsuccessful.

While the government failed in enacting the Agricultural Cooperative Act, the MAF led the Rural Cooperative Campaign in 1952 during the Korean War to train leaders and then to organize voluntary cooperatives in rural districts. The Daehan Farmers Association organized the Agricultural Cooperative Committee in July of 1951 and submitted a bill, while organizing nationwide Cooperatives in Ub and Myoun, Do federations, and the national federation. The Rural District Cooperative Campaign by the MAF contributed to the Farmers Association losing its power and being in conflict with the MAF (NACF, 1963; Kwon, 2009). Meanwhile, the president renamed the Financial Cooperative as the Daehan Industrial Cooperative in November of 1953 and advised it to work for rural banking as it did. The Financial Cooperative then made a plan for embodying the president's advice but failed.

While the National Assembly constituted a special committee for satisfactory conclusion in 1955, the American Economic Mission to Korea got involved in this issue. The US Economic Aid to Korea (O.E.C) invited Johnson and his group who were in charge of agricultural finances in America to present his written opinion in 1955. However, as the report by Johnson and his group was negatively accepted, the O.E.C then asked the ICA for help. Cooper who was on the staff of the International Cooperative Alliance in the Philippines and was visiting Korea investigated the status of rural districts and presented the "Opinion on Korea's Agricultural Cooperative and Financial Legislation." The Cooper report initiated active legislation of the Agricultural Cooperative Act. The MAF and the Ministry of Finance established the Agricultural Cooperative bill and the Agricultural Bank bill based on the Cooper report, respectively, but could not arrive at an agreement.

## 1.4 Rural District Cooperative Campaign

Joong-Mok Shin, the new minister of MAF in 1952, noticed that there was no agreement in the government on establishing agricultural cooperatives and decided to establish agricultural cooperatives independently of other departments. He decided to help the voluntary cooperative campaign of people who had the same opinion in natural villages and to qualify the organizations by the people as an incorporated body (Kwon, 2009), without waiting for the enacted Agricultural Cooperative Act. He considered that an approach was

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required for training and supporting farmers to make an organization in rural districts rather than establishing the same agricultural cooperatives by law all over the country. To this end, he instructed the selection of one leader (agricultural expert) in every Ub and Myoun and then training of them in agricultural cooperative theory and agricultural technology, so that they could return their hometown to establish agricultural cooperative voluntarily.

The Dongrae Horticultural Experiment Station was selected as a place for training the agricultural leaders. Experts involved in agriculture were selected as instructors to teach organizations for cooperation in rural districts, agricultural economy, overseas cooperatives, dissemination of agricultural technology, issues of current situations, and anticommunism. Since it was in the middle of the War and funds were not sufficient, it was essential to get quick outcomes. The schedule was training for 16 hours a day from 6 o'clock in the morning to 10 o'clock in the evening for one week. TH Gwon in charge of the program at the time said, "people who completed this programs sent letters to the MAF to ask to continue the program because more people say and agree with agricultural cooperatives in rural districts after completing the program" (Kwon, 2009).

It was decided that the desirable unit area for establishing a cooperative would be natural villages or Ri and Dong. It was because people thought that it was important to encourage individual independent farmers to cooperate as the tenant farming system was abolished (Kwon, 2009). The goal was a multi-purpose production cooperative-organization including farming guidance business for helping crop cultivation, product handling and credit business for supplying each other's needs with funds within rural districts since there were basically not enough funds in rural districts. An organization was needed which could provide and input all of the funds, materials and technology so as to advise farmers' farming. It was emphasized that government's policy was needed because farmers were not strong enough yet to achieve the system on their own.

Staffs in charge of agricultural administrations in each Do, Shi and Gun were provided with additional training after finishing the training the agricultural experts. The guidelines for Agricultural Cooperative organization were codified to specify the criteria for approving the cooperative application from rural districts as a public corporation.

### Difference between Johnson Report and Cooper Report

Dr. E.C. Johnson, the agricultural finance expert of America, who was invited to Korea by (O.E.C) and visited Korea in 1955 investigated the state of Korea for one month and presented the following report on "Proposal on Development of Korea's Agricultural Credit".

- 1) Reform local Financial Cooperatives to Agricultural Cooperatives.
- 2) Reform the central organization and the federation of Financial Cooperatives to Agricultural Bank.
- 3) Organize Do federations in every Do for the Agricultural Cooperatives and establish Agricultural Cooperative Federation through the Do federations.
- 4) Allow the Agricultural Cooperatives to do credit, purchase, sale and joint use business in parallel.
- 5) Allow the Agricultural Bank to supply agricultural funds through the Agricultural Cooperatives.

J.L. Cooper, the cooperative expert of International Cooperative Alliance, presented a report on "Proposal on Korea's Legislation on Cooperative Banking" as follows.

- 1) Reform the Financial Cooperatives to Credit Cooperatives, and the Financial Cooperative Federation to the Agricultural Bank.
- 2) Organize the Agricultural Cooperative to have 4 stages of village cooperatives: agricultural cooperatives, special cooperatives and Shi-Gun farmers association, and a central cooperative.
- 3) Allow the village cooperatives, agricultural cooperatives and special cooperatives to do comprehensive business including credit business. Allow the Shi-Gun farmers association and a central cooperative to do the business other than the credit business.
- 4) Allow the credit cooperative to supply agricultural funds to the agricultural cooperatives, the specialized agricultural cooperatives and the village cooperatives.
- 5) Allow the Agricultural Bank to lend money to the credit cooperatives.

Source: NACF, 『History of Agricultural Cooperative for 30 Years』, 1991, pp.84~85

The procedure was provided for entrusting the power of the minister of MAF to mayors and country governors (Kwon, 2009).

Approximately 38,000 village leaders were trained until February of 1953 and they returned to their hometown to establish rural district Cooperatives, which are the Ri and Dong based Rural Practice Cooperatives (RPC). The Shi and Gun RPCs with members of the Ri and Dong RPCs were also established. By the end of 1953, the number of Ri and Dong RPC was 13,628, the number of Shi-Gun cooperative was 146. However, these organizations were corporations according to the Civil Law and were not admitted by the Agricultural Cooperative Act, which is a special act in 1957. All of them were then dissolved (NACF, 1991). The Rural District Cooperatives were a grass-roots organization for the Cooperative Campaign in rural districts and born again as the Ri and Dong Agricultural Cooperatives according to the Agricultural Cooperative Act. Many of the leaders who were trained to lead organizations of the Practice Cooperatives continued to lead activities in rural districts.

## 2. Birth and Basis of Agricultural Cooperatives (1958~1972)

### 2.1 Birth of Agricultural Cooperatives: Separation of Agricultural Cooperative from Agricultural Bank

Many farm families in rural districts ran out of food starting in February of 1950, and even sold rice before the harvest in order to get loans. Selling rice before the harvest was to get loans by offering grains to be harvested in autumn as a security, and the interest rate of the loans was extremely high. The money that farmers got by selling rice before the harvest was just 21.1% of the government purchasing price in August, 1954 (Park, 1999). Although there were Financial Cooperatives as a formal financial institution in the agricultural financial market, their role was insignificant and usurious loans dominated the market. Once farmers borrowed money by the usurious loans, it was almost impossible to pay back the money. An investigation in 1956 revealed 86.7% of farmers were in serious debt. Farmers' debts of which the annual interest rate was higher than 60% were 60.1% in cash and 54.5% in kind.

The president who was given details of the rural financial situation and the spring food-short season in March of 1956, thought the first thing to do was to supply funds to rural districts, and instructed the quick establishment of Agricultural Bank to address the situation. The Agricultural Cooperative bill was lively discussed on the basis of the "Proposal on Korea's Legislation on Cooperative Finance" presented by Cooper who was invited by the O.E.C and visited Korea in February of 1956. Each department had different opinions and a conclusion could not be reached. The president then instructed establishment of an agricultural bank without waiting for the legislation of the Agricultural Cooperative Act. The government then decided to disorganize the Financial Cooperatives and its Federation

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thereof and establish the Agricultural Bank Incorporated according to the Bank Act. However, the Strategy and Finance Committee of the National Assembly opposed the scheme because the Agricultural Bank Incorporated could not address the issues involved in agricultural finances. It was already decided to disorganize the Financial Cooperatives and the Federation thereof, and the busy farming season was coming. Therefore, there was a worry that there might not be an institution responsible for distributing agricultural funds resulting in great chaos. The Agricultural Bank Incorporated was rapidly established, to be a transient financial institution until the cooperative bank was established according to the Special Act. However, some problems were soon discovered. Although it was a transient agricultural financial institution, it was thought that the Agricultural Bank should support future cooperative finances and contribute to the leading financial system, but the reality was different (Jin, 1999; NACF, 1963). The Agricultural Bank Incorporated avoided mid-and long-term funds of low interest rate or risky loans essential for agricultural development. Although it was established as an agricultural financial institution, the Agricultural Bank Incorporated did not unify agricultural finances. The Industrial Bank dealt with 36% of agricultural funds and general commercial banks also dealt with agricultural funds at that time.

The reason for the deferred enactment of the Agricultural Cooperative Act was a disagreement on whether to separate the credit business from Agricultural Cooperatives or to allow both of sides of economic business including purchase and sales along with the credit business. The background of this issue implied who would take over the property of the Farmers Association and the Financial Cooperatives if a new Agricultural Cooperatives were established, and which department would be the competent institution in the government for the new Agricultural Cooperative. The MAF and the Agriculture and Forestry Committee of the National Assembly presented a scheme to allow both the Primary Agricultural Cooperatives and the NACF to do credit, purchase and sale business. However, the Ministry of Finance and the Strategy and Finance Committee of the National Assembly presented a scheme to allow the Primary Agricultural Cooperatives to do all of the above business, but not allow the NACF to do credit business so another financial institution could do the credit business. The reason for the former scheme was that the Cooperatives could normally operate as long as the funds from the credit business were connected directly with the economic business while the Cooperatives did not have enough funds on their own. On the contrary, the latter scheme for separating the credit business of the federation from the economic business of the Agricultural Cooperatives was based on the point that the credit business at that time could not but depend on financial funds from the government. If so, supervision and intervention of the government was inevitable to interrupt self-regulation of the Cooperatives. In this dispute, while the government and each competent committee of the National Assembly presented different opinions, scholars also presented different opinions result in further disagreements on this issue.

In February of 1957, the Agricultural Cooperative Act and the Agricultural Bank Act passed the National Assembly as individual acts. The amended versions of the Acts were

promulgated in March of 1958, in order to establish the Agricultural Cooperatives and the Agricultural Bank. According to the Acts, the Agricultural Bank Incorporated established on the basis of the Bank Act was reformed to the Agricultural Bank, a special bank based on the Agricultural Bank Act. The Agricultural Cooperatives established according to the Agricultural Cooperative Act started service from October, 1958. The Ri-Dong Agricultural Cooperatives took over Agricultural Development Kye which was a rural organization. The Shi-Gun Cooperatives took over the services and property of the Shi-Gun Farmers Association. The NACF took over the general service and property of the Daehan Farmers Association.

The Primary Agricultural Cooperatives in the organization of the Agricultural Cooperatives were the Ri-Dong Agricultural Cooperatives based on villages. The Shi-Gun Cooperatives whose members were Primary Agricultural Cooperatives were under the NACF as a nationwide federation so as to form a 3-stage cooperative organization. The Primary Agricultural Cooperatives were categorized into four types of general Agricultural Cooperatives organized in each Ri and Dong for crop farmers: Horticultural Cooperatives based on livestock, horticulture and special crop farmers, Livestock Cooperatives, and Specialized Cooperatives (bee-farming cooperatives, silk-raising cooperatives). The coverage of a cooperative was based on the administrative zone thereof as follows: the Ri-Dong Agricultural Cooperatives were based on Ri and Dong; the Livestock Cooperatives and the Horticultural Cooperatives were based on Shi and Gun; but the Specialized Cooperatives were not limited in coverage. The Ri-Dong Agricultural Cooperatives were allowed to do loan business for the credit business, and all other economic business. The Shi-Gun Cooperatives were not allowed to do credit business but were allowed to do economic business. The National Agricultural Cooperative Federation was allowed to do economic business, along with guidance and training for members. The Horticultural, Livestock and Agricultural Cooperative act for Specialized Cooperatives were obliged to follow the regulations for the Shi-Gun Cooperatives.

The MAF distributed pamphlets for the articles of Ri-Dong Agricultural Cooperatives to every village starting in April of 1957, for public relations and information. The Cooperatives were established in 43% of villages entitled to have an Agricultural Cooperative one year after making the effort. Agricultural Cooperatives were established in 92.3% of villages by late 1960, two years after making the effort (Jin, 1999).

Although the Agricultural Cooperatives were established, there were no funds for business. Therefore it was inevitable to borrow most of required funds from the Agricultural Bank. Since the Agricultural Cooperatives were not allowed to do the credit business, they did not have enough funds of their own. As a newly established institution their business system was not completely finished, nor their management system. However, the NACF had some earnings by purchasing agricultural supplies including fertilizers, agricultural chemicals and agricultural machinery, system supply business, and sales business including straw goods, eggs, and mint. Such business had been carried out by the Farmers Association and the Financial Cooperative as an agent for the government.

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The NACF and Shi-Gun Cooperatives had some profits from agricultural material sales and some sales business for farm households, but the Primary Agricultural Cooperatives were open but had no profit at all. The government designated some business as a model business for promoting and instructing business practices but this had little visible outcome. The Agricultural Cooperatives needed the funds from the Agricultural Bank, which did not lend money. The Agricultural Bank thought that the Agricultural Cooperatives did not have reliable securities for return, and did not trust their competence for business. Such an attitude by the Agricultural Bank made people then doubt the objective of the Bank.

The chapter on the NACF in the ‘History of Korean Agricultural Finances (1963)’ explains that ‘the Agricultural Bank was not an institution for profits as ordinary banks are, but could not ignore earnings and expenditures because they are a bank, and thus tended to stick to their conservative prudence. They were more likely to welcome big loans than smaller loans, and security loans more than credit loans. This was unacceptable from the point of view of farmers, as most were small-scale farmers. Loans from the Agricultural Bank through the Agricultural Cooperatives were only at 7.1% in late March of 1961. This section illustrates the reasons for conflicts between the Agricultural Cooperatives and the Agricultural Bank.

## 2.2 Switch to Multipurpose Agricultural Cooperatives and Constitution of Basis

### 2.2.1 Integration of Agricultural Cooperatives with Agricultural Bank

While the old Agricultural Cooperatives established through long discussion could not carry out intended services because of conflicts with the Agricultural Bank, it was still necessary to integrate the two institutions. The military government that came into power in a military coup d’état in May, 1961, executed the integration. The military government first amended agricultural policies. The Act on Usurious Loan in Rural Districts and Fishing Villages was first amended and the second act was to integrate Agricultural Cooperatives and the Agricultural Bank. The Act on Usurious Loan in Rural Districts and Fishing Villages was enacted to free farmers from usurious loans which caused vicious circles of poverty in rural districts. This measure, which will be described in the following, failed due to insufficient financial capacity and incompatible policy instruments.

The military government which seized power in a military coup d’état on May 16, 1961, announced the ‘Reform Agricultural Cooperatives to improve the rural economy’ in the basic policy of the Revolutionary Government on May 31 and established a basic plan for integration of the two organizations on June 15 of 1961. The military government abolished the Agricultural Cooperative Act and the Agricultural Bank Act on July 29, and enacted and promulgated the new Agricultural Cooperative Act. As a result, the new Agricultural Cooperatives were established on August 15, while celebrating the 16th anniversary of independence. The reason that the military government hurried to establish new Agricultural Cooperatives by integrating the Agricultural

Cooperatives with the Agricultural Bank and to launch the new Agricultural Cooperatives was because the government laid significant emphasis on agricultural policies and the role of Agricultural Cooperatives.

### 2.2.2 Organization and Business of New Agricultural Cooperatives

The organization of the new Agricultural Cooperatives was structured to have 3 stages: the Ri-Dong Agricultural Cooperatives, the Gun Agricultural Cooperatives and specialized Agricultural Cooperatives, and the NACF. The Ri-Dong Agricultural Cooperatives were members of the Gun Agricultural Cooperatives. The Gun Agricultural Cooperatives and specialized Agricultural Cooperatives were members of the NACF.

The specialized Agricultural Cooperatives<sup>1</sup> included all of the Horticultural Cooperatives, livestock cooperatives, and specialized Agricultural Cooperatives. Therefore, the basic structure of the organization was the same as that of the old Agricultural Cooperatives.

A Primary Agricultural Cooperative and Gun Agricultural Cooperatives had general meeting, general assembly, a board of directors, a cooperative president, and auditors as sub-organizations. However, the NACF had a general meeting and a board of representatives, whose members were the Gun Agricultural Cooperatives and the specialized Agricultural Cooperatives to have the same organization as the member Cooperatives, but had an operation committee instead of the board of directors. The operation committee, which functioned as a board of directors, had members who were the president of NACF, the minister of MAF, the minister of Ministry of Finance, the governor of the Bank of Korea, and 5 persons selected from the representatives. Heads of departments concerned in the government rather than internal staffs were also placed. It was specified that the NACF should undergo supervision by competent ministers as well as inspection by the Board of Audit and Inspection of Korea, and inspection by the Bank of Korea, and even inspection by government offices, which was not specified by law.

The new Agricultural Cooperatives carried out both the credit business and economic business, unlike the old Agricultural Cooperatives, and became a Multipurpose Agricultural Cooperative of Reiffeisen type. The Ri-Dong Agricultural Cooperatives were allowed to do most of the business required in rural districts including production, advice on living, purchase, sales, credit business, mutual aid, and joint use. Gun Agricultural Cooperatives were allowed to do almost the same business as the Ri-Dong Agricultural Cooperatives, but the Gun Agricultural Cooperatives were allowed to also do the credit business for deposits and loans. The Ri-Dong Agricultural Cooperatives were allowed to collect funds and offer good offices for loans. As most business, other than the credit business, carried out by the Ri-Dong Agricultural Cooperatives was the same as the business carried out by the Gun Agricultural Cooperatives, there might be competition

<sup>1</sup> In the old Agricultural Cooperative Act, the bee-farming cooperatives and the silk-farming cooperatives were referred to as special agricultural cooperatives. However, in the new Agricultural Cooperative Act, the specialized agricultural cooperatives cover all of horticulture, livestock, bee farming, and silk raising.

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between the Ri-Dong Agricultural Cooperatives and the Gun Agricultural Cooperatives if the Ri-Dong Agricultural Cooperatives carried out the business specified by law. While the Ri-Dong Agricultural Cooperatives and the Gun Agricultural Cooperatives were allowed to do business for all types of farming including crop farming, the specialized Agricultural Cooperatives were allowed to provide service only for special farming compatible with the purpose of their establishment and was not allowed to do the credit business.

The NACF as a nationwide federation for business of member Cooperatives was allowed to do a variety of business including: advice, training, investigation, purchase, sale, credit, mutual aid, and act an agent for the government. One noticeable thing was the credit business for banks in both rural districts and urban areas. That is, the NACF was not a cooperative bank for cooperative finances for providing loan service to members on the basis of deposit resources of members, but a commercial bank for deposit taking and providing loan service to non-members. This is based on the previous Financial Cooperative Federation-Agricultural Bank Incorporated-specialized bank, but this is the case unique to Korea because the cooperatives are operated as an ordinary bank.

### **2.2.3 Constitution of Basis for Primary Agricultural Cooperatives**

The new Agricultural Cooperative made a campaign for establishing Cooperatives and joining the Cooperatives in parallel with launching business. Cooperatives were established in places with no cooperatives, and farmers who were not members were encouraged to join the Cooperatives. As a result, the number of Ri-Dong Cooperatives was 18,906 in late 1960, but increased to 21,042 in late 1961 and 21,518 in late 1962. In 1962, the number of Agricultural Cooperative members was 2,227,000, which was more than 90% of entire farming households. However, regardless of the trend of increasing numbers of Cooperatives, each cooperative organization and business thereof was still on a small scale.

In 1961, the number of members in one Ri-Dong Agricultural Cooperative was only 100 on average, which is effectively too small for the economic activity of a cooperative. As the management scale of individual members was small and their contribution to the cooperative business was not so high as well, it was natural that a Ri-Dong Agricultural Cooperative was not ensured of an optimum and reliable volume of business.

The Ri-Dong Agricultural Cooperatives developed plans for helping farmer members understand the Agricultural Cooperative movement and encouraging their participation while expanding the infrastructure for business. They developed a movement for improving management of Agricultural Cooperatives so as to protect farmers' interest while ensuring members' consciousness as a subject and also improving cooperative management. This movement was focused on farmers' leadership, consciousness as a subject, ensuring management for Agricultural Cooperatives, and enhancing the competence of primary organizations. To achieve this, the Cooperatives established and promoted a 4-year program (1964-67) for integrating Ri-Dong Agricultural Cooperatives. This program aimed at more than 200 members per cooperative and to

reduce the number of Cooperatives from 21,239 in 1963 to 8,045 in 1967 by 62%. However, this process of integration resulted in members' opposition and some other side effects. As a result, only 18% of Cooperatives targeted for integration were reduced, and only 16% of large-scale Cooperatives that had more than 200 members were reduced.

At that time, most of Ri-Dong Agricultural Cooperatives had no staffs but one president. In a village with approximately 40 to 50 households, the head of Ri or Dong was responsible for administrative work. While the president of a cooperative was in charge of receiving and supplying fertilizers, agricultural chemicals and the agricultural funds required for farming to the farmers (NACF, 1991). That is, since the Ri-Dong Agricultural Cooperatives had no substantial power and were limited in terms of direct support of farmers, the NACF and the Shi-Gun Cooperatives were responsible for

**Table 2-2 | Establishment and Integration of Primary Agricultural Cooperatives (PAC)**

	Number of PAC	Members (1000 members)	Members/ cooperative	Remarks
1961	21,042	1,727	82	Early stage
1962	21,518	2,176	101	
1964	18,963	2,242	118	First overhaul
1967	16,963	2,243	132	
1969	7,525	2,241	298	Second overhaul
1972	1,567	2,183	1,393	
1973	1,549	2,062	1,331	After overhaul
1981	1,476	2,076	1,407	

Source: NACF, History of Agricultural Cooperative for 20 years, 1982, p.135

the affairs not looked after by the Ri-Dong Agricultural Cooperatives. Heads of Ri or Dong visited Myoun Offices near their villages for administrative work but the president of Cooperatives was not entitled to do administrative work. While the Shi-Gun Cooperatives operated 3 to 5 branches for the work with the Ri-Dong Agricultural Cooperatives, it was not as effective as the Primary Agricultural Cooperative system integrated on the basis of Ub and Myoun.

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Until late 1960, it was the task of Agricultural Cooperatives to establish Ri-Dong Agricultural Cooperatives and to secure the president for operation thereof and to promote policy programs. While the issue of integrating Ri-Dong Agricultural Cooperatives was discussed, the first thing required was to establish a 5-year program for independent Primary Agricultural Cooperatives and to set the direction for integrating Primary Agricultural Cooperatives. The program was focused on establishing a bottom-up organization of Agricultural Cooperatives on the basis of voluntary members' participation. Then gradually the job and right of the NACF were transferred to the member Cooperatives, thus avoiding dependence of Shi-Gun Agricultural Cooperatives on the NACF and gradually transferring the job thereof to the Primary Agricultural Cooperatives for raising funds by system cooperatives and expanding self-help cooperation of members.

The second integration of Ri-Dong Agricultural Cooperatives was focused on one cooperative per Ub and Myoun according to the 5-year program for Independent Primary Agricultural Cooperatives (1970~74). As a result of the program for integration into 1,500 Cooperatives by 1973, the number of Cooperatives in 1973 was 1,549 and the number of members per cooperative was 1,331 thus finally achieving the goal. The established organizational basis of Primary Agricultural Cooperatives as conceived in this program enabled offices and staffs to be secured, infrastructure of warehouses and purchase places to be expanded, and their own funds to be raised to ensure a basis for taking over the job and right from the NACF and the Shi-Gun Cooperatives. The Primary Agricultural Cooperatives could introduce and promote new business and take off to a stage of growth on the basis of the achievements at that time. The current basis of Primary Agricultural Cooperatives is still based on the framework of the Primary Agricultural Cooperative organization set 40 years ago.

### **3. Growth and Reorganization of Agricultural Cooperatives (1973~1990)**

#### **3.1 Take-off**

##### **3.1.1 Policies Focused on Agriculture and Expansion of Agricultural Cooperative Business**

The government in 1962 set the direction of economic policies to: increasing export through industrialization, improving productivity through established agricultural production bases, and laying emphasis on agriculture for self-sufficiency of food. The achievements in the 1960s included: increased supply of fertilizers and agricultural chemicals, development of places for producing major products, and introduction of the Dual Price System for Rice. The achievements in the 1970s include: SMU, the Green Revolution for self-sufficiency of food, and supply and expansion of policy finances. President Park expressed his strong will for complete self-sufficiency of food in the end of 1970, and for improving rural and urban areas in parallel by means of policies for both of agriculture and industry.

Many outcomes of the economic development policies enforced through the 1960s were visible in the 1970s. The agricultural sector further developed and the living conditions in rural districts were positively improved. On the other hand, a large number of human resources in rural districts were drained to urban areas along with fast urbanization and industrialization. Tongil rice, the newly introduced high-yield rice variety, contributed to increasing yields and self-sufficiency of rice was at last achieved in 1977. The population of farmers peaked in 1967 and then started decreasing to the point where labor shortages started to appear in busy farming seasons from the mid 1970s in rural districts. The positive effects of the Dual Price System for Rice and barley imported to ensure farmers' income were becoming clearly visible and farmers had increased income and fewer debts. That is, Korea's agriculture and rural districts changed very dynamically in the 1970s, and the Agricultural Cooperatives had constituted their robust management base in this process.

The primary task of agricultural policy even in the 1970s was gaining self-sufficiency of food. The government established the price support policy for rice and barley to encourage increased food production and to encourage farmers to cultivate new high-yield varieties, and urged administrative authorities and institutions involved in agriculture for timely supply of fertilizers and agricultural chemicals. The price support policy for rice and barley refers to the Dual Price System for Rice for purchasing grains at higher prices from farmers and selling them to consumers at lower prices. The purchasing prices were increased every year at a high rate for stimulating greater production and supporting farmers' income. The purchasing price for rice in 1974 was raised by 38.5% as compared to the previous year. The purchasing price for rice in 1978 was doubled as compared to the price four years before. Meanwhile, the Tongil rice variety was developed and more fertilizers and agricultural chemicals were supplied to increase yields of rice. A lot of investment was made in overhauling the infrastructure in order to reduce damages caused by droughts, storms and floods. For example, farmland was greatly improved by construction of reservoirs and drainages for irrigation. The varieties of crops not recommended by the government were monitored. All civil servants in rural districts and all staffs of institutions involved in agriculture including the Agricultural Cooperatives were mobilized for public relations, and monitoring the varieties of crops.

The Agricultural Cooperatives became an institution responsible for supplying fertilizers and agricultural chemicals for increasing food production, and were in charge of purchasing and storing rice and barley on behalf of the government. While the government was responsible for enforcing the policies for increasing food production, the Agricultural Cooperatives were in charge of supplying input for increased food production. They also managed the purchasing, storing, processing and releasing of products. This was reflected on the business scale and income of the Agricultural Cooperatives and contributed to enlarging the organization. The Agricultural Cooperatives constructed warehouses and factories for all aspects of grain and rice production including: purchasing, storing, polishing, releasing, and milling.

In 1970, the government launched SMU which is an initiative based on the idea of self-governing and collaboration of farmers and thus potentially improving living conditions. The government provided some iron bars and cement and the local people provided labor and land for improving their living conditions. Some of the projects included for example, maintenance of roads, construction of bridges, mending fences and improving roofs of houses in the village. The government assessed the outcomes to give incentives to successful villages. This incited inter-village competition and spread SMU all over the country in a short time. Thus small financial support by the government significantly changed the entire rural districts. Farmers were proud of themselves while improving their villages and practicing the spirit of thrift and diligence.

The Agricultural Cooperatives were in the center of the SMU. The most important key to continuing SMU was to train leaders and the Agricultural Cooperatives were in charge of this. The NACF established training institutes for training Saemaul leaders in 1972 and assumed leader training by designating their staff as instructors. The Primary Agricultural Cooperatives supported SMU by contributing materials and funds for improving the environment of the villages participating in SMU. From 1974, the Agricultural Cooperatives implemented a program for selecting one village per Shi and Gun to support as a collaborative Saemaul village. The Agricultural Cooperative from 1977 implemented the Saemaul Income Development Program centered on the Primary Agricultural Cooperatives. The Saemaul Income Development Program aimed for efficient and planned production and sales and comprehensive development covering wide areas of Ub and Myoun not just individual village development. The Saemaul Income Development Program worked to achieve these aims by: gradually escalating increased food production, improving distribution, increasing farmers' income and welfare, and finally, concentrating and specializing and scaling up local production of specialized items.

**Table 2-3 |** The Economic Situation and Growth of the Agricultural Cooperative Business in 1970

	1965	1970	1975	1980	Annual average increase	
					'65~'70	'70~'80
Macro index					%	%
Population (thousand persons)	28,705	32,241	35,281	38,124	2.4	1.7
Farmer population (thousand farmers)	15,812	14,422	13,244	10,827	-1.8	-2.8
Farm households (thousand households)	2,507	2,483	2,379	2,155	-0.2	-1.4

	1965	1970	1975	1980	Annual average increase	
					'65~'70	'70~'80
GNP (billion won)	806	2,684	9,793	34,322	27.2	29.0
Agricultural production (billion won)	266	620	2,124	4,644	18.4	22.3
Agricultural production index ('74~'76=100)	59.9	76.1	96.0	96.4*	-	-
AC business (hundreds of million won)						
Deposits of NACF	106	954	2,595	11,721	55	28.5
Deposits of mutual credits	-	24	899	8,238	-	79.5
Volume supported for agricultural machinery	1	2,9	155	888	93	41.0
Agricultural products sale	83	624	1,513	7,346	50	28.0
Joint sale	144	352	2,992	6,927	20	34.7
Vital commodities supply	-	173	10,367	54,381	-	77.7

Note: In 1980, great damage due to severe cold weather contributed to 20% of reduction in agricultural production. The production index in 1979 was 123.8.

Source: NACF, Summary of Agricultural Statistics, Investigation Team, 1983

The government increased the volume of supplied long-term agricultural funds for agricultural development from early 1970 as the financial capacity was increased by the growing economy. Funds were prepared for supporting mechanized farming, stabilizing prices of agricultural products, and improving houses in rural districts. More funds were added for developing the livestock-farming sector such as: increased dairy farming, livestock improvement, introducing artificial insemination, and construction of feed factories.

### 3.1.2 Take-off of Agricultural Cooperatives

The framework of one cooperative per Ub and Myoun to be completed by 1973 enabled the Primary Agricultural Cooperatives to conduct their own business. The Primary Agricultural Cooperatives took over fertilizer supply, agricultural fund related jobs, mutual aid, and agricultural product sales from the Shi-Gun Cooperative for farmers. They independently developed mutual credits and the chain store business for purchasing and supplying vital

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commodities. The Primary Agricultural Cooperatives had their own offices and employed staffs to function as a cooperative. At last, the Agricultural Cooperatives could fulfill the substantial cooperative movement led by the Primary Agricultural Cooperatives.

In 1972, farmers were advised to organize Farming Groups, which are farmers' production organization for joint production and joint marketing centers. Four hundred model Farming Groups were organized all over Korea and were first provided funds. The existing joint marketing centers were expanded in urban areas. Agricultural product supermarkets were established for direct retail. Warehouses for grains, fertilizers and other materials were further constructed, maintained, repaired and scaled up to improve efficiency.

As the business scale of the Cooperatives was expanded and more staffs were employed, the managing director and executive directive system was introduced to enhance the specialized management system. The number of staffs of the Primary Agricultural Cooperatives increased 40% in 1980 as compared to the number in 1974.

While the economy of farm households was improved through 1970s, the Double Investment Campaign by members was made for expanding the cooperative facilities and capital. It encouraged members to invest one bag of rice and to set aside a given amount of money when using the cooperative business to be switched to investment. As some farmer members complained of too much compulsory investment, the compulsory investment was mitigated but soon strengthened again. The equity capital of the Primary Agricultural Cooperatives increased 6 times during the period from 1974 to 1980 (NACF, 1991).

The greatest engine for the quick growth of the Primary Agricultural Cooperatives was the introduction of mutual credits. From 1973, all of the Primary Agricultural Cooperatives across the country employed the mutual credits introduced as model business in 1969. Mutual credits contributed to leading the rural financial market in which informal finances prevailed to the formal financial market. The mutual credits are the cooperative finances for taking members' deposits and loaning the money to members. On the other hand, since the banks operated by the NACF took deposits from non-members and loaned the money, and were not cooperative banking institutions, the Agricultural Cooperatives could become a cooperative banking institution true to its name by operating the mutual credits.

**Table 2-4 | Management Basis and Outcome of Primary Agricultural Cooperatives (per Cooperative)**

	1974(A)	1977	1980(B)	B/A (times)
Organization				
Number of Cooperatives	1,545	1,519	1,485	0.96
Number of members	1,240	1,282	1,302	1.05
Number of staffs	12.3	16	17.6	1.43
Equity capital				
Per cooperative (million won)	18,136	45,729	111,641	6.16
Per members (won)	14,626	20,160	85,743	5.86
Facilities				
Amount (million won)	28	47	105	3.75
Number of buildings	7.5	12.1	12.7	
Management performance				
Net profit of current period (thousand won)	861	3,800	10,410	12.09
Dividend rate (%)	3.3	5	6.4	
Number of cooperative with loss	79	8	2	
(Rate)(%)	(5.1)	(0.5)	(0.1)	

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991

The deposits of mutual credits increased 9 folds in explosive growth during the period of 1975 to 1980. The interest rate of mutual credits at that time was higher than the interest rate of banks but lower than the informal financial market. Therefore, people had greater profits through deposits in the mutual credits than in ordinary banks. Since more profits were ensured in the informal financial market but there was a high probability of losing the principal, more and more customers used the mutual credits each year. Improved supply capacity of the mutual credits implied expanded capacity of fund supply to farmer members and contributed to fast growth of the Cooperatives.

Increasing profits from the mutual credits allowed other economic business to be operated, although it incurred some loss. Looking back, operation of economic business with the profits from the credit business was surely one of the great advantages of the multipurpose Agricultural Cooperatives. Expanded business of the Primary Agricultural Cooperatives and increased profits from the credit business led cooperative management into a stabilized wave of growth. The net profits of the current period in 1980 increased

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12 folds, compared to that in 1974. In 1972, 269 (17.2%) Cooperatives were in the red but by 1980 only two Cooperatives were in the red. The 1970s was the take-off era of the Agricultural Cooperatives.

## 3.2 Agricultural Policies in a Transition Period and Reform of the Agricultural Cooperatives

### 3.2.1 Reform of the Agricultural Cooperatives in 1980

The Korean economy and agriculture showed high growth through the 1970s and led to phenomenal changes in the industrial structure. People left rural districts to go to urban areas and the growing urban population wanted farmers to produce more vegetables, fruits and meat. The success of the Green Revolution contributed to self-sufficiency of rice and ended the fear of food shortage. Labor shortage in rural districts was common in the mid 1970s and quickly pushed up wages in rural districts. Potential unemployment in rural districts was an old story, and some people insisted that agriculture should be evaluated from the viewpoint of international comparative advantage. Korea's agriculture and rural districts were then in the transition period different from the past, and some people agreed about the agricultural theory of the transition period. The theory explained that agricultural policies should respond to such changes and market-oriented reform was required. The same logic applied to the Agricultural Cooperatives who were the important partner of agricultural policies.

The Agricultural Cooperatives went through another change in 1980 following 1970s which was the period of take-off and growth. The new government in 1980 reformed the organization of the Agricultural Cooperatives for reforming agricultural policies. The 3-stage organization system made of Primary Agricultural Cooperatives, Shi-Gun cooperative, and NACF was reduced to the 2 stages of Primary Agricultural Cooperatives and NACF. The Livestock Cooperatives were separated from the Agricultural Cooperatives to be in charge of the role of specialized Livestock Cooperatives. The Shi-Gun Agricultural Cooperatives were abolished and reformed in to NACF branches. The National Livestock Cooperative Federation (NLCF) was newly established and the Livestock Cooperatives were separated to be member Cooperatives of the NLCF.<sup>2</sup>

The Primary Agricultural Cooperatives based on Ub and Myoun integrated in early 1970 gradually expanded the management basis thereof to introduce and expand new business. Most of business carried out by Shi-Gun Cooperatives was transferred to the Primary Agricultural Cooperatives by the mid 1970s. Developments in transportation and communication contributed to expanding the zones of life. Some issues emerged,

<sup>2</sup> Separation of the livestock cooperatives returned to their origin 20 years after the beginning of independence when the NLCF and the Cooperative Federation were integrated with the NACF in the process of agricultural reform in 2000.

related to redundancies in the areas of coverage, business and functions between the Shi-Gun Cooperatives and the Primary Agricultural Cooperatives. The NACF constituted the Agricultural Cooperative Operation Improvement Committee in 1977 for research on the operation and organization of the Agricultural Cooperatives with the goal of developing a scheme for reforming the organization of the Agricultural Cooperatives to 2 stages of the NACF and the Primary Agricultural Cooperatives. However, discussion of 2-stage reform did not advance further because it was not supported by the government policy.

The new government in 1980 amended the Agricultural Cooperative Act to set the Agricultural Cooperative organization to a 2-stage organization and to transfer the affairs for supporting livestock farming to the NLCF, which was newly established according to agricultural policy reform. According to the amended Act, the Shi-Gun Cooperatives were abolished and the Primary Agricultural Cooperatives took over all facilities including agricultural machinery customer centers, facilities for selling agricultural product, and branches of Shi-Gun Cooperatives owned by the Shi-Gun Cooperatives. The Do branches of the NACF were responsible for advice, training and auditing of Primary Agricultural Cooperatives which was the responsibility of the Shi-Gun Cooperatives. Accordingly, the capacity of the Do branches was strengthened as an intermediary institution for connecting the NACF to the Primary Agricultural Cooperatives. Furthermore, the Primary Agricultural Cooperatives were made to be the center for promoting the business of Agricultural Cooperatives. The NACF was made to be a federation for comprehensive planning, advice and training, research and investigation for supporting business of the Primary Agricultural Cooperatives.

Meanwhile, the Shi-Gun branches switched to the operation system centered on the credit business and were put in charge of fund intermediation between the NACF and the Primary Agricultural Cooperatives along with agricultural fund supply. The Shi-Gun branches were allowed to do the business, provided that it was inevitable to carry out the economic business based on Gun to avoid functional redundancy with the Primary Agricultural Cooperatives.

The Primary Agricultural Cooperatives and the specialized Agricultural Cooperatives established and embodied 5-year plans for efficient operation. The NACF adjusted the allocation rate of business fees between Agricultural Cooperative organizations from 40% for the NACF and 60% for the member Cooperatives to 20% for the NACF and 80% for the member Cooperatives, so as to support efficient operation of member Cooperatives. The NACF supported self-regulation of Cooperatives for business planning and budgeting, enhanced staff training and strengthened the capacity of cooperative management. Both the NACF and Cooperatives increased the cooperative support funds.

Although the Agricultural Cooperatives had discussions on the 2-staged organization thereof, most people did not expect actual reform of the 2-staged organization. Because it was hurriedly passed as an agricultural reform task in the new government, many people doubted the adequacy thereof. However, the reformed Agricultural Cooperative organization enabled personnel expenses and other expenses to be saved and implemented a more efficient working office of the organization. The reduced system organization shortened the path for

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communication between the NACF and the Primary Agricultural Cooperatives. Since the NACF could get more information on actual situations and trend of rural districts, it could effectively support the Primary Agricultural Cooperatives. It was evaluated that this reform implemented efficient business operation and contributed to improvement and efficiency of the Primary Agricultural Cooperatives (NACF, 1991).<sup>3</sup>

The NLCF was established in 1981 and was responsible for supporting livestock farming which had been the responsibility of Agricultural Cooperatives. At that time, there were 100 specialized Cooperatives based on livestock farming all over the country. The Agricultural Cooperatives supported assorted feed factories and model livestock farms including the joint marketing centers for livestock products.

Separation of Livestock Cooperatives from Agricultural Cooperatives accelerated specialization and rapid growth of the livestock industry. It was the beginning of specialized Agricultural Cooperatives by members of the same agricultural industry. The Livestock Cooperatives continued to grow until mid-1990s but were integrated for industrial efficiency when the Korean economy was in difficulty due to the Currency Crisis of 1997. The currency crisis also led to the integration of Agricultural Cooperatives, the Livestock Cooperatives and the ginseng cooperative federation into the NACF in 2000.

### **3.2.2 Dissolution of Policy Programs and Expansion of Business**

While the Agricultural Cooperatives continued to grow since the take-off in 1970, the policies for the Agricultural Cooperatives changed. In the 1980s, the government started to withdraw the monopoly on business based on policy programs, for example, fertilizers, agricultural chemicals and agricultural machinery, which were the great engines for the growth of Agricultural Cooperatives.

Some fertilizer business for fruits and horticultural purposes were allowed to be sold in retail shops from 1982 on in order to break the monopoly system by the Agricultural Cooperatives. All types of fertilizers were allowed to be sold in retail shops by 1988. The government classified the agricultural machinery to be disseminated according to policy programs from 1974 to 1977 as the strategic agricultural machinery, to allow the Agricultural Cooperatives to be in charge of supplying and loans for the agricultural machinery. As the agricultural machinery manufacturers then complained about the system, they were allowed to sell new agricultural machinery until 1980. Starting 1981, free transactions of agricultural machinery were allowed in the market.

The reason for such dramatic changes was because people thought that it would be more efficient for the market mechanism to dominate the business according to the government

<sup>3</sup> Some people had an opinion to integrate the primary agricultural cooperatives from the Do, Ub and Myoun basis to the Shi and Gun basis. However, it was not adopted because it was too soon to conduct integration again and the system needed time for stabilization since 10 years had not passed since integration based on Ub and Myoun (Kim, Jeung-Un).

developed policy programs and the market also getting bigger. It seems that the growth of Agricultural Cooperatives was recognized not to need further protection. It was thought that the Agricultural Cooperatives should find a new way for survival and to cope with such changes in the political environment.

The Agricultural Cooperatives confronted a management crisis resulting from significantly reduced profits due to domestic and overseas economic depression and changes in the political situation in 1980 (NACF, 1991, 2001). It was because deficits of 41% of the gross capital were predicted from the provisional settlement of accounts at the end of June of 1982. The deficits originated from reduced bank profits due to sharp reductions in interest rates on deposits and loans of the banks, and from reduced profits due to livestock support transferred to the Livestock Cooperatives according to the Agricultural Cooperative reform in 1980. The sharp reduction on interest rates was intended by the government to encourage investment in these enterprises. The Agricultural Cooperatives established management improvement programs to overcome crises to implement self-help measures including new business development and personnel adjustment while they also requested the government to support expense sharing and loss sharing related to the business according to government policy programs. The Agricultural Cooperatives evaluated that they achieved more than expected from the effort for management improvement. That is, they thought they constituted a more efficient management basis by means of the enhanced management system, efficient job processing by staffs, and implementation of necessity for adaptability to cope with changes (NACF, 1991).

Through the 1980s, the business of the Agricultural Cooperatives diversified. The Agricultural Cooperatives supported joint marketing centers and grain sale business for improving distribution of agricultural products. Joint marketing centers showed an annual average increase of 30.4% during the period from 1984 to 1987. More freight stations were constructed for auction type sales of agricultural products in each chief production district. Also, more supermarkets were established for selling the agricultural products in the places of production. The oil supply business of Agricultural Cooperatives grew fast with the increasing dissemination of agricultural machinery. For smooth supply of oil to rural districts, 846 oil stations were installed in member Cooperatives all over the country from 1980 to 1987.

The Agricultural Cooperatives implemented positive strategies for the credit business. The Agricultural Cooperatives faced intense competition in the financial market resulting from the new Financial Act, with more financial offices, joint banks with foreign banks, and regional banks, established in 1980. The NACF established more banks to cope with the tough situation, implemented an on-line banking system in all branches, developed new products, developed and disseminated credit cards, and encouraged collection of deposits for mutual credits. The specialized Agricultural Cooperatives were allowed to do the credit business from 1989 to allow all member Agricultural Cooperatives to be multipurpose Agricultural Cooperatives.

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### 3.2.3 Operation of Agricultural Cooperatives

The new Agricultural Cooperative Act enacted while integrating the Agricultural Cooperatives with the Agricultural Bank tried to adhere to the main principles for operating the Cooperatives. According to the Act, presidents of the Ri-Dong Agricultural Cooperatives were to be elected from the board of directors; and directors and auditors were selected from members in the general meeting. The presidents and the auditors of the Gun Agricultural Cooperatives were selected from the members of Ri-Dong Agricultural Cooperatives, and directors were selected in the general meeting to allow the governance structure of the Shi-Gun Cooperatives and the specialized Agricultural Cooperatives to comply with the principle of a cooperative.

However, the chairman of the NACF was not elected by representatives of member Cooperatives but appointed by the president, which implies non-compliance with the principle of self-regulating Cooperatives. The NACF did not have a board of directors but an operation committee for decision making, for example, recommendation of the chairman of the NACF. Since heads of departments concerned in the government participated in the operation committee as operation members, the government intervened in the decision making of the NACF. The governance structure of the Agricultural Cooperatives requested that all Agricultural Cooperatives comply with the guidance of the NACF. Therefore, the government almost controlled the entire Agricultural Cooperatives. The government then enacted the “Provisional Act on Appointment of Executives of Agricultural Cooperatives” in 1962 to significantly weaken the self-regulation ability of Agricultural Cooperatives. This Act contributed to government’s controlling the Agricultural Cooperatives because the chairman of the NACF had to have an approval of the MAF minister to appoint the presidents of the Primary Agricultural Cooperatives and the Gun Cooperatives. This enabled the government to further control the Agricultural Cooperatives.

The government explained the necessity of the Provisional Act saying that the appointment system was inevitable since the basis for self-reliance of the Cooperatives was not strong enough and members were not fully independent and self-reliant yet. The government also suggested it was necessary to avoid disadvantages and argument following direct election of the president of Cooperatives. A few people agreed with this opinion but many more people opposed this opinion since the Cooperatives are a field for demonstrating democracy. The opponents said that it was good to make people learn and experience the democratic method of operation and management for themselves regardless of trials and errors, and the president of Cooperatives should be elected and one who the members wanted.

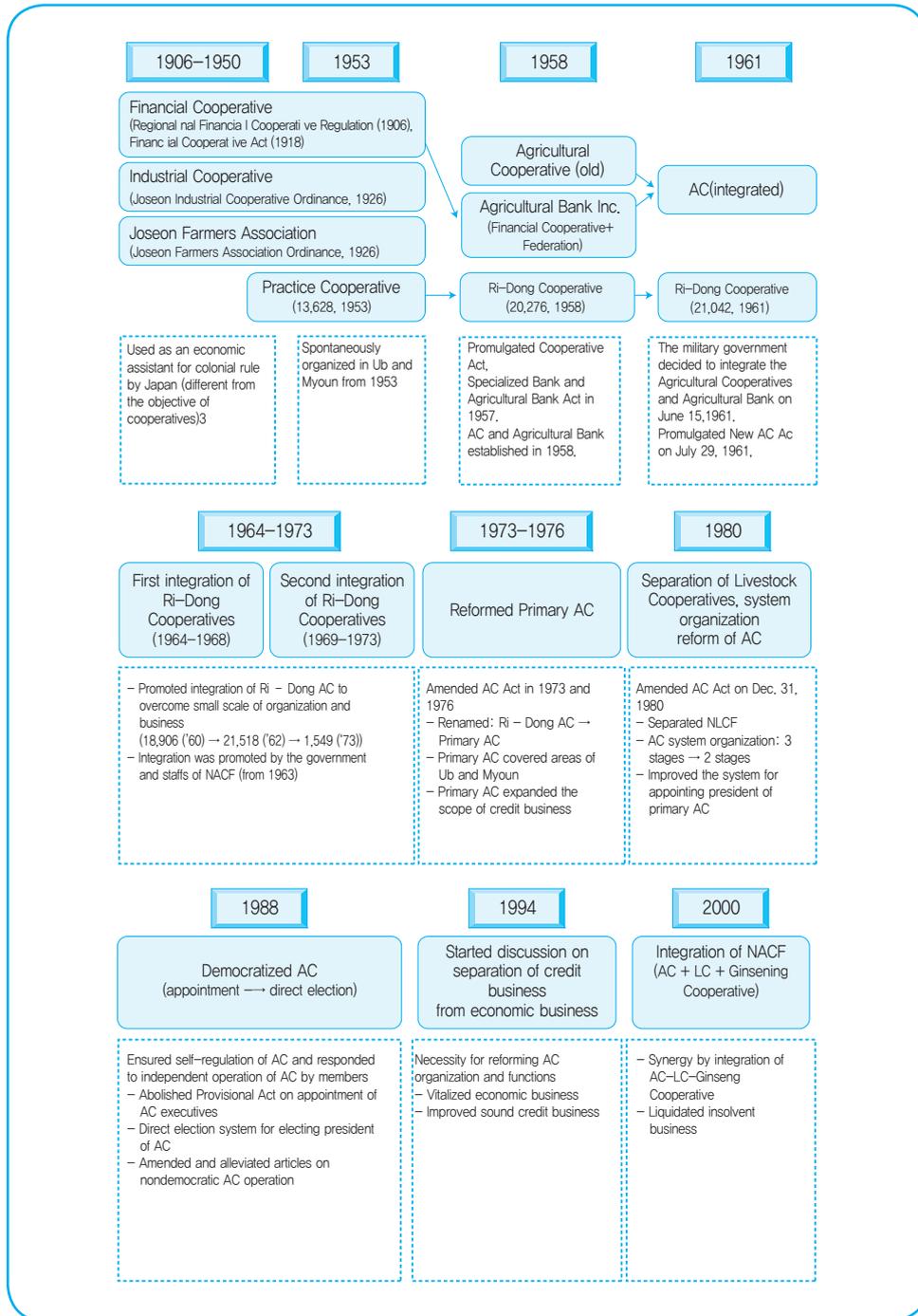
The Provisional Act continued to exist and provided the ground of government’s controlling the Agricultural Cooperatives. As time elapsed, the basis of the Cooperatives for independence was strengthened and members were more independent and self-regulated but the Provisional Act was retained for 27 years. People who supported the government in the beginning gradually criticized the government and democratic operation of the Agricultural Cooperatives was one theme of the democratization movement supported

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in the 1980s. Democratization of the Agricultural Cooperatives was implemented in the direction for achieving self-regulation of the Agricultural Cooperatives away from the government and was completed when the Agricultural Cooperative Act was amended on December 31, 1988.

The Agricultural Cooperative Act was amended in 1988, specifying the return of the right of selecting the president of Cooperatives and the chairman of the NACF to the members. Many non-democratic articles that restricted self-regulation in operation of the Agricultural Cooperatives were amended and alleviated. Major details of amendment are as follows: 1) abolish the article for the approval of the government for business plans and budgeting earnings and expenses; 2) abolish the article for the supervision of member Cooperatives by the regional administrative institutions; 3) enhance the article for self-regulation of the Agricultural Cooperatives by asking the government to an agreement on the business entrusted by the government; and 4) abolish the article for amendment approval system when amending articles of the Cooperatives.

Figure 2-1 | History of Agricultural Cooperatives



Note: AC: Agricultural Cooperatives, LC: Livestock Cooperatives

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The amended Act allowed the president of Primary Agricultural Cooperatives to be elected by the members and the chairman of the NACF to be directly elected by the presidents of member Cooperatives. This was interpreted in the way that the right of members who were the subject could be ensured to be accepted without any dispute in amendment of the Act. This originated from the fact that Koreans could not directly elect their president for a long time. However, this kind of president election of Cooperatives is an unusual case that is hardly found in Cooperatives in other countries. It was democratic in a way that the opinions of members who were the subject of Cooperatives or member Cooperatives were reflected. However, people said that this exposed the operation of Cooperatives to be political. Many people said that it was necessary to abolish the system for electing presidents of Cooperatives because of a lot of adverse effects around the system for electing presidents of Cooperatives. But the system is still valid and many people say it should be retained because many people think of the direct election system for president of Cooperatives as a symbol of democratized Cooperatives.<sup>4</sup>

<sup>4</sup> One person who participated in amending the Agricultural Cooperative Act in 1988 said that employment of the direct election system was the most regrettable thing.



2011 Modularization of Korea's Development Experience  
Operation of Agricultural Cooperative  
for Rural Development

## Chapter 3

### Support by Government

1. Support of Law and System
2. Support of Business

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# Support by Government

## 1. Support of Law and System

### 1.1 Legislative Support

A government can use the law, finances and business as policy instruments to support Cooperatives. These three policy instruments can be packaged but can also be used as individual instruments. A country that protects cooperatives through policy programs uses financial support and business support in parallel. It might not be important to divide them, but relief loans and subsidies are pure financial support and are different from business support. Since Korea's Agricultural Cooperatives have little pure financial support, this chapter will describe the legislative aspects and the policies for supporting business.

The law is the most powerful policy instrument for regulating the agricultural cooperatives with respect to the grounds of existence, the operation system, the scope and features of business, and regulations of the agricultural cooperatives. The Cooperative Act can be interpreted in different ways. One way is to describe why the Cooperatives should be protected, unlike general enterprises (investor's enterprises), which are not protected. The other point of view is to consider cooperatives as enterprises, which is a European viewpoint and different from the American viewpoint, which views them as an organization of the weak that needs to be protected.

The former viewpoint is that the Cooperatives and investor's enterprises are categorized into private enterprises, but have different purposes and operation principle and therefore need different regulatory criteria. Cooperatives are enterprises for mutual aid aiming to increase members' profits and to protect their interest, and follow the nonprofit operation principle, unlike joint-stock corporations, which aim to maximized profits. If the government needs to support the Cooperatives as partners for enforcing policy programs, the corresponding law and systems should be ensured.

In the latter viewpoint, Europeans consider a cooperative as a merchant according to the principle of civil law to apply the commercial law, and as an independent organization of the policy programs of the government. In the US, cooperatives are considered as an organization of the weak and are thus protected (山岡英也, 1988). By the way, cooperatives originated from Europe. Korea follows the social law principle to recognize Cooperatives as an object to be protected and supported in the society. Korea does not have general law for Cooperatives and employs the individual legal principle to implement specific laws for each of the agriculture, fisheries, forestry, credits, consumers and small & medium-sized enterprises.<sup>5</sup> The Fair Trade Act is not applied to the Cooperatives in Korea as in the Capper-Volstead Act of the US that applies the Anti-monopoly Act to protect consumers from the evil of monopolists and oligopolists. It but does not apply it to the cooperatives organized for the weak in the society to protect themselves with self-help measures.

The Agricultural Cooperative Act of Korea specifies that it is the obligation of the government to protect and support the Agricultural Cooperatives. Article 11 of the Agricultural Cooperative Act enacted in 1961 specifies that “Ministers of each ministry in the government should cooperate with the Cooperatives and the NACF for their business. The government and public organizations should support the Cooperatives and the NACF”. It was specified that the government can support expenses required for business of the Cooperatives and the NACF within the limit of budgets and that the chairman of NACF can present his/her opinion to the government on the development of the Cooperatives and the NACF. In addition, exceptional regulations regarding the business of the Agricultural Cooperatives are provided for transportation business and wholesale markets to support the Agricultural Cooperatives.

## 1.2 Support with Tax System

Many countries have established support policy programs for cooperatives, one of which is to use taxes. The reason for alleviating the cooperative’s tax burden is, first, that the cooperative’s business profits that may look similar to the profits of a general enterprise are not really profits. The business of a cooperative aims at increasing members’ income through transactions among members. Therefore the income of the cooperative minus expenses is not profits but a surplus to be returned to members. The operation at cost principle specifies that a cooperative should provide services at cost (direct cost + indirect cost) occurring in a transaction from members to members. Therefore, if a cooperative has profits more than the cost then the profits should be returned to the members. The embodiment of this is the dividend on purchase for refund in proportion to the member’s use of business. Therefore, although the business surplus of a cooperative looks similar to profits of joint-stock corporations at first appearance, it is actually a reduced expense

<sup>5</sup> The National Assembly enacted the Cooperative Act to allow a group of more than five persons to organize a cooperative in late 2011, and this was not applied.

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occurring from transactions among members. Therefore, the logic of exempt income tax is that it is not reasonable to levy an income tax to the business surplus. Also, if a cooperative is identified as an organization to be protected and supported by means of policy programs, tax exemption can be a substantial support instrument of the government.

However, a tendency of reduced tax benefits for cooperatives in advanced countries for cooperatives in the 20<sup>th</sup> century has been shown (Davidovic, G. 1963). It is most likely due to the negative viewpoint about cooperatives held by many people and spread of opinions opposing cooperatives by enterprises whose interest was opposite to the cooperatives. One reason of opposing cooperatives was that there was less need for keeping the initial level of protection while the cooperatives have grown and developed.

In Korea, Agricultural Cooperatives were exempted from tax obligation at the initial stage of establishment but such benefits were gradually reduced over time. The Agricultural Cooperative Act of 1961 protected Agricultural Cooperatives by specifying exemption of taxes and levies imposed by the government or regional municipalities for the business and property of Agricultural Cooperatives. However, the “Tax Exemption and Reduction Act” (1965) was applied to the Cooperatives to then pay most of taxes and an additional tax other than the corporation tax from 1966 on. The Differential Tax was enforced which requested Agricultural Cooperatives to pay the corporation tax of which had a tax rate that was lower than a general enterprise (Choi, 1983). The current Agricultural Cooperative Act (Article 8) specifies that “Cooperatives and the NACF are exempted from levies for the job and property thereof other than the taxes of the central government and regional municipalities”.

## 2. Support of Business

### 2.1 Support of Credit Business

The support of the credit business of Agricultural Cooperatives by the government was a growth engine with which the Korea’s Agricultural Cooperatives could develop into multipurpose Agricultural Cooperatives. The government allowed the Agricultural Cooperatives to monopolize agricultural finances. The government supplied agricultural policy funds only through Agricultural Cooperatives, and allowed only Agricultural Cooperatives, fisheries Cooperatives and Livestock Cooperatives to use the Credit Guarantee Fund for Farmers and Fishermen (CGF) to discriminate between the Cooperatives and other commercial banks. The government allowed only the Agricultural Cooperatives to support input to agriculture and purchase agricultural products to therefore make related funds flow through Agricultural Cooperatives and thus contribute to the fast growth of the credit business.

The Agricultural Cooperatives were designated as the only financial institution for dealing with policy finances of the government. Most of the funds for support of agriculture and rural districts were delivered to the relevant site through the system organization of Agricultural

Cooperatives. Therefore, since no transactions with Agricultural Cooperatives implied exclusion from the support by the policy programs of the government, the Agricultural Cooperatives played the role of a central financial institution of rural districts.

The military government enacted and promulgated the Act on Anti-usury in Rural and Fishing Villages which was the first policy after the military coup d'état (1961) and instructed the Agricultural Cooperatives to conduct the project. It encouraged reporting of informal finances whose annual interest was higher than 20% in rural districts. It said the financiers should withdraw the money at the interest rate of 20% through Agricultural Cooperatives and borrowers should pay back the money at the interest rate of 20%. The Agricultural Cooperatives had a duty of repayment for financiers and the duty of collection for the borrowers. The Agricultural Cooperatives issued the Agricultural Finance Bond to complement finances required for the program. The cost of this process was supported by the government.

Policy funds for rural development were supplied through Agricultural Cooperatives. In the 1960s, funds were supplied for: agricultural improvement, measures against agricultural damages, farmland improvement, and stabilizing agricultural product prices. Mid-and long-term funds were supplied in addition to the aforementioned funds for supporting agricultural machinery, irrigation facilities and income development projects, in the 1970s. In the 1980s, the loans of the Agricultural Cooperatives were replaced by new loans guaranteed by the government while also taking measures such as: deferred repayment, writing off interests, and lowering interest rates for alleviating the heavy debt burden of farmers in the 1980s.

The mutual credits of the Agricultural Cooperatives were introduced as cooperative finances for lending money to members with the deposits of members in 1969. The mutual credits acted as a growth engine for stabilizing the management basis of the Primary Agricultural Cooperatives and for supporting continuing growth. This was implemented with systematic support. Application of higher interests was allowed, which is different from bank finances, and tax exemption was applied to interest income.

CGF is a credit guarantee institution introduced to allow farmers and fishermen of weak financial circumstances to be guaranteed for credits and thus enable them to borrow money on credit from financial institutions. Although this system was introduced in 1974, a substantial outcome was not revealed until the measures against farmers' debts in 1987. However, in the measures against, farmers' informal loans were converted to the mutual credits of Agricultural Cooperatives and guaranteed by the CGF, which highlighted the value of CFG. The government identified new policy instruments by using such systems, and the Agricultural Cooperatives could make profits by expanding loans attributable to CGF's guarantee (government's guarantee substantially). The CGF guarantee has been used for deferred repayment in the measures against debts.

The government utilized the system of using the deposits supplied by the Agricultural Cooperatives and covering the interest as finances for supplying policy funds. Finances of policy funds can be supplied by various means such as: means of budgets, loans from the

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central bank (Bank of Korea), issuing bonds, borrowing from financial institutions, and introduction of loans. Most of the finances were initially introduced by means of budgets and loans from the Bank of Korea. As the credit business of Agricultural Cooperatives grew after the 1970s, a large proportion of the deposits of the Agricultural Cooperatives (in particular, NACF) had been used as finances for policy funds.

The Agricultural Cooperatives became one of the biggest financial institutions after the 1980s. One of the important reasons for this growth was the capability of gathering a large volume of public deposits of which the cost was cheap. The share of Agricultural Cooperatives dominated other banks in the public deposit market where the government and public institutions deposited their funds. This was implemented by positive support of the government. The Agricultural Cooperative started to deal with military chests from 1961 and the president instructed the NACF to deal with the account for managing the school system in 1964.

## 2.2 Support of Economic Business

The Agricultural Cooperative highly depended on the government's power for economic business. All of the initial business, for example, supplying fertilizers, managing grains, and supplying agricultural chemicals and agricultural machinery, was implemented through policy programs. Lots of straw goods based on rice straws were used for packaging and transporting agricultural products. Purchasing and using straw goods from farmers was one of the major businesses of the Agricultural Cooperatives.

The government prohibited free distribution of fertilizers in the market in 1962 and thus made the Agricultural Cooperatives have a monopoly on the whole volume thereof as an agent of the government. The private sector was allowed to do the fertilizer business in 1982 while the Agricultural Cooperative also did this business. The fertilizer business was converted to self-regulated distribution in 1988.

The volume of supplied agricultural chemicals was increased to support the policy program for increased food production. In 1962, only the Agricultural Cooperatives were allowed to supply agricultural chemicals for the same reason as the fertilizer business. The private sector was allowed to deal with agricultural chemicals in 1966 to result in competition between the Agricultural Cooperatives with private sellers. The agricultural chemical business was converted to the business of Agricultural Cooperatives from a government business, which was governed by the market mechanism.

The government allowed the Agricultural Cooperatives to monopolize fertilizer and agricultural chemical supply business for implementing the increased food production policy. The government faced with that the suffering caused by an extreme food shortage set the first task of the agricultural policy to gaining self-sufficiency of food. It also made every effort for maintenance of production bases and creating a smooth supply of input materials including fertilizers and agricultural chemicals. It was essential to apply fertilizers

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and agricultural chemicals timely to improve agricultural productivity. The government then left the matters related to supply thereof to the Agricultural Cooperatives who could control the system well. Once in the 1970s when agricultural chemicals were not properly produced and a shortage of agricultural chemicals was predicted, the staffs of Agricultural Cooperatives went to the agricultural chemical factories to support production thereof and agricultural chemicals were supplied as planned (witnessed by Goh).

Labor shortage was seen in rural districts as many people migrated to urban areas. The government instructed supply of some types of agricultural machinery in 1974 according to a policy program for agricultural machinery supply business and allowed the Agricultural Cooperatives to be in charge of supplying the agricultural machinery. That is, manufacturers of agricultural machinery delivered all of their agricultural machinery to the Agricultural Cooperatives who were responsible for supplying the machines and for loans. This continued until 1977 (NACF, 1991). The agricultural machinery business was liberalized from 1981.

The government considered the Agricultural Cooperatives as a first applicant when supporting production and distribution facilities, most of which are currently being operated and were constructed with government's funds and support. The Agricultural Cooperatives became the most important distributor in the agricultural product market with government's support.



2011 Modularization of Korea's Development Experience  
Operation of Agricultural Cooperative  
for Rural Development

## Chapter 4

### Business and Outcome of Agricultural Cooperatives

1. Extension Service
2. Economic Businesses
3. Credit Business

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# Business and Outcome of Agricultural Cooperatives

## 1. Extension Service

### 1.1 Scope of Extension Service

The scope of the extension service was settled in a fixed area through specialization, extension and integration while promoting a variety of extension services after the Multipurpose Agricultural Cooperative launched in 1961. The scope is divided into 4 areas of the policy: the business sector, supporting member Cooperatives, training staffs and supporting farmer organizations.

First, the area of business according to policy programs is for carrying out the extension service for smooth promotion of economic growth and rural development policies of the government. Second, the area of supporting member Cooperatives is for distributing the resources of extension service to member Cooperatives so that member Cooperatives can develop into an independently management body. Third, the staff training area is for carrying out training of staffs so that the staffs of the system organization can be equipped with common cooperative ideas and working capability to serve farmer members. Fourth, the area for supporting farmer organizations is for supporting internal primary cooperative organizations of each crop, by age and sex groups so that farmer members can participate in cooperative programs to efficiently carry out farming and to reasonably manage the economy of farm households.

The aforementioned extension service started in the simultaneous process of overhauling the organizations and the business system so that they would be compatible with the guidelines of the government and of constructing system organizations. Business and management bases of the Agricultural Cooperatives were established in a top-down way according to the guidelines of the government. The area of extension service was externally expanded and internally specialized with the progress of economic growth, settled

market economy, changing rural economy, and newly changing needs and requests of the government, the market and farmers. As the outcome of economic growth was accumulated and democratization made progress across society from the late 1980s, the center of the extension service practice focused on the previous area for carrying out the business of the government as an agent moved to member-centered extension service focused on the need and request of member Cooperatives and farmer members. As a result, the extension service was further expanded and specialized.

## 1.2 Extension Service for Carrying Out Business according to Policy Programs

The main focus of the extension service in the early stage of Agricultural Cooperatives in 1960s was development of services for members' awareness, especially farming guidance and organization basis overhaul. Farming guidance was centered on supporting agricultural policies as well as increased food production. The government placed emphasis on ensuring raw agricultural products and increased production of agricultural products for import substitution, following increased food production in the 2<sup>nd</sup> Economic Development 5-Year Plan in the mid-1960s. The government promoted agricultural policies including: the main production area project, the farmers' and fishermen's income increase project, and the independent farm household project. The Agricultural Cooperatives had outcomes in: seed improvement and dissemination project for rice, barley, potato and corn; installation and operation of agricultural machinery centers for tillers and sprayers; contract farming of special crops; and hosting agricultural product fairs. The government promoted the main production area project for the purpose of selectively increasing profitable crops and crops for export and import substitution on the basis of proper areas and proper production. The Agricultural Cooperatives supported this project by collecting data required for building up main production areas for corn, sweet potato, peanut, silk-raising and button mushrooms, and livestock farming areas for pig farming, chicken farming, angora farming and dairy farming.

The Korean government placed the first emphasis of agricultural policies on increased food production in the 1970s and enforced policies to this end. The government established increased food production targets and increased production strategies. Two examples are the '150-day Operation for Rice Farming' in 1973 and the 'Record-breaking Operation of 30 Million Seokl (89,464cm<sup>3</sup>) of Rice' in 1974. The targets and strategies were achieved by means of emphasized policies such as: encouraging new varieties, installing heat-insulated rice nurseries, controlling diseases and insects, encouraging collective cultivation, improving soil fertility, and increasing production of whole food crops. The Agricultural Cooperatives installed Increased Food Production Monitor Teams in all of the system Cooperatives, checked agricultural funds, fertilizers and agricultural chemicals every day for timely supply thereof, secured and supported vinyl films and split bamboo for heat-insulated rice nurseries. The Agricultural Cooperatives lent disease control machines of the Agricultural

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Cooperatives used together for free to organize joint disease control teams in each production unit so as to improve the prevention of diseases and insects attack on new varieties of high yield crop which were less disease-resistant than conventional varieties. They also supported some of the cost of agricultural chemicals. The Agricultural Cooperatives hosted compost production competitions to improve soil fertility and to encourage farmers to use organic fertilizers. They created the Soybean Campaign for planting soybeans on levees of rice paddies so as to increase production of whole food crops. The Agricultural Cooperatives designated and operated model areas for unified mechanization for the process of planting paddy rice→controlling diseases→harvesting→drying so as to handle rural labor shortage. The Agricultural Cooperatives guided installation and operation of farming mechanization centers in 382 Primary Agricultural Cooperatives from 1977 to 1981. This contributed to increased food production and construction of agricultural production bases from villages to the whole country.

As SMU was switched from the environment improvement campaign to the production income campaign from 1973, the Agricultural Cooperatives installed a team in charge of Saemaul projects in the NACF in order to provide a support system. The plan was followed to construct 1,500 leading Saemaul villages from 1972 to 1975. In 1972, 150 villages and 13,000 farm households were selected to support business involved in farmers' increased income such as: livestock farming, economic crops, orchards, nurseries, processing and using agricultural products, and side-job complexes.

The Comprehensive Income Development Project based on Ub and Myoun were positively guided from 1977. This project was a comprehensive income development project that started from farming guidance based on individual farmers. It was developed on the basis of Ub and Myoun and was gradually expanded to include the following: supporting independent stabilized farmers; constructing main production areas based on villages; developing special business for increasing farmers' and fishermen's income; and constructing leading Saemaul villages. For this project, 133.5 billion was invested to support 321 districts for five years from 1977 to 1981, and 921 districts were supported until 1990. The Agricultural Cooperatives achieved great outcomes such as: the Composite Farming Project in 1983, the Comprehensive Regional Development Project in 1985, and the Region-based Special Product Development Campaign in 1989.

**Table 4-1 | Outcome of comprehensive Saemaul Development Project based on Ub and Myoun of ACK**

(Unit: million won)

		1977	1978	1979	1980	1981	Total (%)
Number of new project areas		30	71	99	50	71	321
Investment		5,444	19,709	39,785	30,750	37,780	133,478 (100.0)
Payment by PAC and residents		1,514	3,989	9,885	6,521	8,207	30,116 (22.6)
Loan		3,604	14,006	24,556	22,010	26,577	90,753 (68.0)
Subsidy		326	1,714	5,344	2,229	2,996	12,609 (9.4)
(comprehensive development funds in loan support)		(1,965)	(4,260)	(4,877)	(6,074)	(8,804)	25,980
Each business	Production basis	481	1,997	6,074	2,292	3,018	13,862 (10.4)
	Production facility	1,152	4,532	9,164	6,396	10,802	32,046 (24.4)
	Crop planning	2,064	10,270	19,547	12,578	15,944	60,403 (45.3)
	Distribution facilities	920	1,371	1,434	1,862	3,020	7,607 (5.7)
	Mechanized farming	706	1,539	3,566	7,632	5,996	19,439 (14.6)
	Culture and welfare	121	-	-	-	-	-

Source: NACF

### 1.3 Extension Service for Supporting Member Cooperatives

The extension service of the Agricultural Cooperatives for supporting member Cooperatives was to create and support Ri-Dong Agricultural Cooperatives and to deploy the campaign of Primary Agricultural Cooperative improvement in 1960. As a result of the program for establishing Ri-Dong Agricultural Cooperatives, the number of Ri-Dong Agricultural Cooperatives significantly increased from 18,906 in late 1960 to 21,042 in late 1961 and 21,518 in late 1962. Also in late 1962, the number of members was 2,227,000 which accounted for more than 90% of all farmers.

The campaign for improving Primary Agricultural Cooperatives was to support Ri-Dong Agricultural Cooperatives to have facilities, funds and management skills to vitalize business

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thereof. The Ri-Dong Agricultural Cooperatives were supported for three years at the early stage of the Agricultural Cooperatives. This campaign comprised a 10-year plan (1964~1973) for raising capital adequacy centered on deposits in kind and increased investment (1964~1973) and a 4-year plan (1964~1967) for integrating the Ri-Dong Agricultural Cooperatives. In parallel with this campaign, the NACF started to transfer the task of fertilizer supply and agricultural funds which was the responsibility of Shi-Gun Cooperatives at that time to the integrated Ri-Dong Agricultural Cooperatives from 1965 on.

As a result of these plans, the number of Ri-Dong Agricultural Cooperatives decreased from 21,239 in 1963 to 16,089 in 1968. The capital adequacy increased from 30,000 won in 1963 to 430,000 per cooperative in 1968. The independent Cooperatives equipped with a reasonable basis were only 9% of the entire Ri-Dong Agricultural Cooperatives in late 1968, and most of Ri-Dong Agricultural Cooperatives were incompetent.

During the period from 1969 to 1970, an effort was made for independent Primary Agricultural Cooperatives to be switched to the bottom-up system based on independent and self-helping efforts and capacity thereof. The effort included ensuring an optimum management scale through integration of Primary Agricultural Cooperatives based on Ub and Myoun, and introduction and development of new key projects. As a result, the number of Primary Agricultural Cooperatives significantly decreased to 1,549 in 1973, and the number of members per cooperative increased from 139 in 1968 to 1,400 in 1973.

Transferring NACF's business including fertilizers, agricultural funds, mutual aid, policy purchase and sales was carried out, which was the key tasks of the Shi-Gun Cooperatives to expand and support the basis for independent Primary Agricultural Cooperatives. The support process was carried out to: install general facilities including offices and chain stores, support long-term loans of low interest and salaries of agricultural managers, and strengthen the management including business planning and settlement guidance.

The Plan for supporting independent management was established to help Primary Agricultural Cooperatives equipped with a management basis to be responsible for business concerned with farmers. As a result, the entire 1,519 Primary Agricultural Cooperatives were equipped with the capacity for independence in terms of management in 1977.

### Contribution of ACK to SMU through Training (S.H.Choi, former vice president of AC College)

The goal of agricultural cooperatives was economic and social improvement of farmer members which was the same as the goal of SMU driven as an initiative based on improving living conditions of rural people. SMU is a movement aimed at self-help and independence of farmers which is the principle of cooperatives. The government provided a kind of calling water of which the power was used by farmers to practice the movement for improving living conditions. Such similarity enabled the Agricultural Cooperatives to contribute to the practice of SMU.

President Park thought raising as the key task of SMU, and tried to find people who could do the job well. Joon Kim, professor of AC College, was recommended, who led farmers' movement in Younggwang, Jeollanam-do. The president who recognized his character and personality left all the matters concerned with the training to him. The principal Kim designed the curriculum and directed the training. At that time, around 30 professors participated in the training and all of them were at a position higher than an assistant manager in the Agricultural Cooperatives.

The SMU training was carried out first in the Outstanding Good Farmer Training Institute of AC College but then in the SMU Training Institute of Rural Development Administration. The training consisted of spiritual development, technology training, small group discussion, presentation of cases, and meditation. Participants woke up at 6 in the morning and had time for exercise, jogging, breakfast and meditation. Training started at 9 o'clock in the morning. The training period in the afternoon was from 1 to 6 o'clock. After 7 o'clock in the evening, they had small group discussion. They went to bed at 11 o'clock in the evening.

The goal of SMU training was to achieve mutual dependence. The certain belief was if there is no motivation for independence and then there will be no achievement. The SMU training was to inspire the goal to identify it through presentation of cases and small group discussion. They returned to their village to implement the outcome of training. This training scheme was rapidly diffused throughout the country. The SMU training was expanded from rural leaders to public servants, executives in public institutions and in private enterprises. This developed into a nationwide movement with parallel promotion of rural SMU, urban SMU and enterprise SMU.

**Note:** AC: Agricultural Cooperatives

**Table 4-2 | Outcome of the Plan for Supporting Independent Management of ACK During the Period from 1973~1977**

	1972	1973	1974	1975	1976	1977
Number of Agricultural Cooperatives	1,567	1,549	1,545	1,545	1,535	1,519
Independent AC	104	320	635	1,003	1,359	1,519
Semi-independent AC	495	580	910	542	176	-
Supported AC	301	400	-	-	-	-
AC in preparation	667	249	-	-	-	-
Capital adequacy (100 million won)	149	196	280	384	498	695
Contribution	115	159	241	314	406	560
Reserve	34	36	39	70	92	135

Source: NACF

The plan for supporting independent Primary Agricultural Cooperatives was promoted so that Cooperatives could grow to be fully independent Agricultural Cooperatives, which had the basis for independent management from 1977. The Primary Agricultural Cooperatives undertook life insurance business, loans for mid-and long-term rural development, loans for mutual aid, and agricultural machinery supply, which was the responsibility of Shi-Gun Cooperatives to facilitate improvement of management competence and expansion of investment. As a result, the capital adequacy per cooperative increased from 46,000 won in 1977 to 112,000 won in 1980.

**Table 4-3 | Capital Adequacy of Primary Agricultural Cooperatives of ACK (1977~1980)**

	1975	1976	1977	1978	1979	1980
Investment (million won)	31,422	40,584	55,911	74,821	99,138	126,212
Reserve (million won)	7,001	9,212	13,491	19,022	26,894	39,576
Total	38,423	49,796	69,462	93,843	126,032	165,788
Capital adequacy per cooperative (1,000 won)	24,869	32,441	45,719	61,861	84,586	111,641
Capital adequacy per member (won)	20,150	26,498	35,660	48,112	65,642	85,743

## 1.4 Extension Service for Training Staffs

The training of staffs was divided into training by Cooperatives' own staffs and outsourced training. The training by their own staffs was divided into short-term irregular training and long-term regular training. Table 4-4 shows the outcome of extension service for training staffs including all of the aforementioned training. It is shown that 593,000 staffs completed the training course during the period from 1961 to 1980.

Because it was urgent to stabilize the organization basis of the Primary Agricultural Cooperatives in the 1980s, most of the staffs of Primary Agricultural Cooperatives completed the short-term training courses based on Gun for one to two days. For 20 years, 448,000 staffs completed the Gun-based training courses to account for 75.5% with respect to the staffs who completed the aforementioned courses. However, the Gun-based training was the initial form of training and was substituted by regular training when the business of ACK was expanded.

**Table 4-4 | Outcome of Extension Service for Training ACK staffs (1961~1980)**

(Unit: persons )

	1961~1965	1966~1970	1971~1975	1976~1980	1961~1980 Total
NACF-based training	7,722	6,911	12,057	14,489	41,179
Do-based training	10,917	12,973	38,309	41,679	103,878
Gun-based (B)	228,023	97,664	110,029	12,119	447,835
Total	246,662	117,548	160,395	68,287	592,892
Share of Gun-based training (B/A, %)	92.4	83.1	68.6	17.7	75.5

Source: NACF

As the management basis of the Primary Agricultural Cooperatives was stabilized and business thereof was expanded in early 1970s, there was a request for systematic, high quality training for improving the practical business ability of the Primary Agricultural Cooperatives and the specialized Agricultural Cooperatives. Accordingly, more training based on NACF and Do was provided for the staffs of the Primary Agricultural Cooperatives and the specialized Agricultural Cooperatives during the period from 1971 to 1975. <Table 4-4> shows the increasing number of staffs who completed the training courses based on NACF and Do.

During the period from 1976 to 1980, more Do-based training facilities were constructed in each region, and the previous Gun-based training was abolished in 1978. The AC College based on NACF and Do-based training institutes were then in charge of training staffs. As a

result, more staffs completed the training based on NACF and Do, and the previous short-term irregular training was switched to long-term regular training during this period.

Table 4-4 shows the outcome of mid-and long-term training according to the extension service for training staffs for 20 years from 1961 to 1980. On the basis of annual number of staffs who completed the training courses, the opportunity of training was provided to 40,000 staffs every year, 20.3% of the entire staffs of NACF, amounting to 198,000 staffs in total. The opportunity of training was provided to 80,000 staffs every year, 29.0% of the entire member cooperative staffs, amounting to 280,000 staffs in total.

The outcome of regular training for staffs in each organization shows more NACF staffs (including Gun Cooperative staffs) completed the regular training courses in the 1960s. The NACF staffs that completed the regular training courses by its own staffs were 17,000 staffs, 46.9% of the entire 36,000 staffs. Short-term irregular training courses were provided to the member Cooperative staffs, and 201 presidents of the Primary Agricultural Cooperatives and the specialized Agricultural Cooperatives completed the regular training by the staffs thereof.

**Table 4-5 | Outcome of Extension Service for ACK staffs (1961~1980)**

(Unit: persons )

		1961~ 1965	1966~ 1970	1971~ 1975	1976~ 1980	1961~1980 Total	
Number of staffs	NACF staffs (A)	36,835	50,564	50,428	60,218	198,045	
	member Cooperative staffs(B)	17,943	40,378	81,582	140,700	280,603	
Outcome of training	NACF staffs	Nationwide	7,136	5,199	5,566	3,778	21,679
		Do-based	10,134	5,782	1,508	1,158	18,582
		Subtotal (C)	17,270	10,981	7,074	8,496	40,261
		Share (C/A, %)	46.9	21.7	14.0	14.1	20.3
	Member Cooperative staffs	Nationwide	201	1,174	5,442	4,842	11,659
		Do-based	-	5,512	29,526	34,584	69,622
		Subtotal (D)	201	6,686	34,968	39,426	81,281
		Share (D/B, %)	1.1	16.6	42.9	28.0	29.0
Member Cooperative executives		1,168	2,217	8,324	8,246	19,955	

Source: NACF

However, the trend was inverted from the 1970s, and the proportion of NACF staffs that completed the training courses reduced from 46.9% (1961~65) to 14.1% (1971~75). The proportion of member cooperative staffs that completed the training courses increased from 1.1% to 42.9%. This is evaluated as a successful case of expanding the demand for training the Primary Agricultural Cooperative staffs and of accordingly switching the training system.

This contributed to developing extension service for supporting farmer organizations on the basis of training capacity developed in the process and the training facilities regionally constructed from the late 1970s.

## 1.5 Extension Service for Supporting Farmer Organizations

The outcomes of extension service for supporting farmer organizations are divided into training, organizations and support service for farmer members. Training farmer members was divided into non-field training in a training institute based on Gun or larger region and field training for Primary Agricultural Cooperatives. The non-field training was divided into Gun, Do and Nationwide training, and most of the training was based on Gun by 1975. Table 4-6 shows the outcome of training farmer members until 1980.

The first farmer member training carried out by the nationwide training institute was the training for study group leaders and new farmer award winners in 1972 and 1973. The training for study group leaders was for those in the priority support Cooperatives, so that farmer members were voluntarily encouraged to learn to recognize all aspects of the Agricultural Cooperative movement and to maximize their self-help collaboration capacity. The training for new farmer award winners was for the winners of General Award, Independence Award, Science Award, Cooperation Award and Effort Award. They were selected as new farmer models from across the country and invited to dinner and then for training. The nationwide training for farmer members was provided to 1,174 farmers in the early 1970s. The Do-based training for farmer members was provided to 266 young rural leaders for five days (1966~67) with respect to the tasks of the Agricultural Cooperatives. One day training was then provided to 12,270 leaders in the Primary Agricultural Cooperatives and collaborative organization (1971~73). Do-based training institutes were established in 1980 to have more dedicated training institutions and 1,499 rural leaders were trained with respect to the concept and business of Agricultural Cooperatives. The Gun-based training for Ub and Myoun-based members and 4-H leaders was carried out in the manner of a discussion after 1963 for integrating Primary Agricultural Cooperatives. Next the Ub and Myoun-based Primary Agricultural Cooperatives were integrated and the guidance system of Gun Cooperatives was established. Then the heads of Gun Cooperatives who had completed the nationwide courses for training teachers carried out Gun-based non-field training for: trained presidents of agricultural associations, heads of Farming Groups, leaders of rural women's associations, 4-H members, and agricultural high school students. The training covered: the concept of Agricultural Cooperatives, improvement of farming, improvement

of living conditions, how to use cooperative business, participation in operation, the role of rural leaders, knowhow of guiding farmers, and SMU in rural districts.

The extension service for supporting farmers' collaboration organization of Agricultural Cooperatives was promoted for expanding the business volume of Cooperatives after the 5-year plan for independent Primary Agricultural Cooperatives that started in 1969 and for encouraging members' participation. For the first time in 1970, 397 Cooperatives

**Table 4-6 | Outcome of Training Farmer Members of ACK (1961~1980)**

(Unit: persons )

	1963~70	1971~75	1976	1977	1978	1979	1980
Nationwide	-	1,174	-	-	-	-	-
Do-based	266	12,270	-	-	-	-	1,499
Gun-based	657,460	459,825	71,000	117,938	118,882	130,487	103,700
Total	657,726	473,269	71,000	117,938	118,882	130,487	105,199

Source: NACF

organized 1,484 Farming Groups and evaluated and analyzed the result of model operations hypothesized for 1972 to establish directions for supporting Farming Groups. In 1973, the guidelines for operating the organization of the Primary Agricultural Cooperatives and collaborative organizations were established and enforced so as to establish village-based centers for using the business of Agricultural Cooperatives. <Table 4-7> shows the outcome of supporting collaborative organizations of ACK in late 1990.

The number of agricultural associations was 39,256 in late 1990, and 28 per cooperatives. Under the agricultural associations, 16,887 Farming Groups, 4,336 agricultural machinery units, and 20,368 joint Farming Groups were operated. The number of rural women's associations was 39,967 and 28 per cooperative and the number of members thereof was 1.32 million. The 4-H Club was a rural youth organization, and the number thereof was 13,726 and it had 300,000 members.

In addition, the Agricultural Cooperatives participated in the Project for Supporting Promising Farmers and Fishermen enforced by the government according to the Act on Funds for Supporting Promising Farmers and Fishermen since 1981, so as to ensure agricultural human resources and to support promising members and leaders of Agricultural Cooperatives. As a result, 45,000 farmer leaders were provided with 322.7 billion won by 1990 and 9,419 farmer leaders were trained during the period from 1986 to 1990. Agricultural training was provided to more than 100,000 agricultural leaders through the New Farmers College and the Agricultural Management Technology Support Center. In late 1990, 2,678 agricultural leaders were cooperative executives, and 8,501 agricultural leaders

were presidents of organizations internal to the Agricultural Cooperatives, for example, the president of agricultural associations. This implies that the extension service for supporting farmer organizations of Agricultural Cooperatives contributed to the process of switching to the next agricultural generation. The Agricultural Cooperatives then provided the extension service for supporting agricultural corporations to cope with the trend that agricultural human resources and incorporated agricultural subjects were formed.

**Table 4-7 |** Outcome of Supporting Collaborative Organization of ACK (late 1990)

	Number of organizations		Number of members		Joint funds	
	Nationwide	Per cooperative	Nationwide (1,000)	Per organization	Nationwide (100 million won)	Per organization (1,000 won)
Agricultural association	39,256	28	1,963	50	1,041	2,633
Rural women's association	39,967	28	1,324	33	762	1,907
Farming Group	16,887	12	378	22	324	1,917
4-H Club	13,726	10	305	22	58	424
Agricultural machinery unit	4,336	3	78	18	45	1,044
Joint work unit	20,368	14	800	39	56	276
Total	134,810		4,848		2,286	

Source: NACF

## 1.6 Management System of Extension Service

The management system for the extension service of ACK carries out the function of keeping the finances and reforming both the organization and business systems for promoting the service. The management system of the extension service is comprised of a method of supplying finances and managing the balance of business so as to carry out detailed items of the business plans. The management system of the ACK extension service is divided into capital, budgets and funds.

The ACK is supplied with funds required for the extension service in three ways. Firstly, the funds supplied in the process of carrying out the credit business and the economic business other than the extension service can be used for the extension service. For example, the policy funds supplied for the business concerned with government policies can be used for the extension service carried out according to government policies. The short-term funds loaned from the Bank of Korea or the national treasury reserves can be used as short-

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term agricultural funds by the extension service for supporting farmer organizations. The ACK was supplied with loans from the credit business, loans from foreign funds, and loans for carrying out business according to policies and these can contribute to improving the outcome of the extension service.

The second financial source of the extension service is the budgets of the extension service itself. The ACK is an enterprise, which establishes business plans of its own, and budgets for the extension service as part of the budget of earnings and expenses of these business plans. The budget for the extension service is specified to be executed through the special accounts of the annual extension service. This budget is used for covering interests of the funds loaned for the extension service.

The third financial source is the fund saved in corporation. The ACK established the fund for supporting Primary Agricultural Cooperatives in 1977 for the purpose of balanced development of Cooperatives. The fund was established by contributions, including 3% of revenue by the ACK and 1% of the revenue by the Shi-Gun Cooperatives. The first volume of established fund was 10 billion won, and it was 14.2 billion won in 1981. This fund was supported by both the cooperatives of poor management and the cooperatives of practicing comprehensive development. The number of Cooperatives benefited was 71 in 1977 and 294 in 1981. The amount of support was 700 million won in 1977 and grew to 10.5 billion won in 1981. The fund was integrated with the mutual support fund for Cooperatives in 1982 and supported to cover the bad management results of cooperatives with poor management in a short-term. The fund was switched for expanding the business for increasing farmers' convenience and supporting management innovation in the short term. The fund was operated to be invested into production business, for example, agricultural supplies and packing materials, which are useful for all members in the long term.

## 1.7 Outcome of Extension Service

The extension service of ACK continues to be promoted and its outcome has accumulated over the long term. Therefore, it is difficult to pinpoint its outcomes to specific time frames but we outline Table 4-8 the outcome for each of the details of the promoted extension service in each decade.

The outcomes of extension service in the 1960s are as follows: construction of a system for supporting farm household-based increased food production at the stage of launching the economic development plan, conversion of Ri-Dong Agricultural Cooperatives to the Myoun-based Cooperatives, stabilization of human resources in charge of the guidance and structure for system business, stabilization of farmer models, and creation of support basis for new farmer associations. The outcome in the 1970s is as follows: constructed a system for comprehensive village-based income development, improved the capacity of member Cooperatives, improved the training system, and constructed the system for supporting Saemaul village-based collaborative organizations. The outcome in the 1980s is as follows:

construction of the system for region-based comprehensive rural development, enhancement of competitiveness of member Cooperatives in the domestic market, enhancement of the market competitiveness of the staffs, and construction of the system for supporting wide-area based collaborative organizations and agricultural leaders.

**Table 4-8 | Outcome of Extension Service of ACK in Each Period**

	<b>Extension service for carrying out business according to policy</b>	<b>Extension service for supporting member Cooperatives</b>	<b>Extension service for training staffs</b>	<b>Extension service for supporting farmer organizations</b>
Launched economic development in 1960s	Constructed support system for farm household-based increased food production	Successfully switched to Myoun-based Cooperatives	Successfully stabilized human resources for guidance and system business organization	Presented excellent farmer models and supported new farmer associations
Promoted economic development in 1970	Constructed the system for village-based comprehensive income development	Successfully improved the capacity for fund supply and business performance	Stabilized training system for each system organization, position and region	Constructed the system for supporting Saemaul village-based collaborative organizations
Implemented economic growth in 1980	Constructed the system for developing region-based comprehensive agricultural development	Established management basis for ensuring competitiveness in the domestic market	Stabilized the training system for enhancing market competitiveness for ACK business	Constructed the system for supporting wide-region based collaborative organization and agricultural leaders

## 2. Economic Businesses

### 2.1 Agricultural Product Sale Business

#### 2.1.1 Growth of Sales Business

The sales business of the ACK includes some or all aspects of collection, transportation, inspection, storage, processing, sales and adjustment of agricultural products produced by farmers. The purpose of the sales business of the ACK is to organize the farmers' agricultural product sales to enhance market negotiation and to reduce distribution costs in order to stabilize the prices received by farmers.

At the early stages of multi-purpose Agricultural Cooperatives, the sales business was not fully vitalized because of the immature circumstances for business. However, this basis was gradually strengthened from late 1960s. The Ri-Dong Agricultural Cooperatives based on Ub and Myoun were integrated so that the Cooperatives had offices and staffs, and took over the business from the Gun Cooperatives in order to enhance business experience and capability. From 1972, "Strengthening production and sales of agricultural products" was set as one of the 3 main strategies for operation of Agricultural Cooperatives to promote the sales business.

**Table 4-9 | Outcome of Joint Sales Business**

		1965	1970	1975	1980	1985	1986	1987	1988	1989	1990
NACF	Joint marketing center for agricultural products	4,509	9,092	41,156	67,079	139,336	200,065	239,635	320,788	383,292	384,156
	Joint marketing center for livestock products	-	-	11,487	41,847	-	-	-	-	-	-
	Materials for processing	4,784	14,103	74,471	125,626	144,211	108,908	135,072	148,202	158,714	181,853
	Purchased coarse grain					70,583	78,590	95,371	64,140	32,025	86,702
	Purchased minor cereals					11,654	19,380	24,248	27,258	71,621	-
	Purchased barley							149,254	170,978	174,278	187,758

		1965	1970	1975	1980	1985	1986	1987	1988	1989	1990
NACF	Military purveyance	537	2,042	7,015	40,306	28,306	30,736	33,231	36,957	40,212	-
	Export	470	1,220	7,290	3,252	2,648	2,328	3,455	5,127	5,298	-
	Others					79,198 <sup>1)</sup>	26,858	25,069	26,727	44,153	79,308
	Subtotal	9,850	26,457	141,419	278,098	475,933	466,865	705,335	800,177	909,593	919,777
Member cooperative	Primary AC	386	445	72,248	198,005	528,028	779,809	964,829	1,296,741	1,537,921	1,763,154
	Special AC	2,224	3,028	41,832	179,791	116,925	141,083	167,999	209,611	248,092	324,620
	Shi & Gun branch <sup>2)</sup>	1,988	5,310	43,703	36,834	-	-	-	-	-	-
	Subtotal	4,598	8,783	157,774	441,630	644,953	920,892	1,132,828	1,506,352	1,786,913	2,087,774
	Total	14,448	35,240	299,193	692,740	1,120,886	1,387,757	1,838,163	2,306,529	2,695,606	3,007,551

Note: 1. 1985 other government procured grain 44,891, procured glutinous rice 14,087 included

2. With organizational restructuring in 1981, city/Kun branch performance reflected in the performance of National Agricultural Cooperative Federation

Source: National Agricultural Cooperative Federation, The 30 year history of NACF, 1991

The ACK expanded distribution facilities in the production places and the urban areas and enhanced the capacity for collecting and selling agricultural products. Meanwhile, the ACK made every effort to improving distribution of agricultural products including: support of joint marketing centers in production places, enhanced collection and propagation of distribution information, and improved, standardized packaging of agricultural products. As a result, the volume of sales business continued to grow and the result of joint sales was 14.4 billion won in 1965, 299.2 billion won (21 times) in 1975, and 3 trillion and 7.6 billion won (208 times) in 1990.

### 2.1.2 Development of Sales Business

The early sales business of the Agricultural Cooperatives was focused on the business by the government policies for raw agricultural products to be processed and on increasing joint marketing centers for agricultural products. However, not much emphasis was placed on the sales business. Most of the crops were barley and wheat of semi-self-sufficiency and were not for sales. Most of farmer members' interest was focused on being supplied with agricultural funds and fertilizers.

Since Ri-Dong Agricultural Cooperatives were not capable of doing business, the sales business of Agricultural Cooperatives was led by the NACF and the Gun Agricultural Cooperatives. The items and the volume of sales business increased over time to include sweet potato, cocoon for silk and rape purchase business in 1961, beer barley in 1962, and corn in 1964. However, these crops were specialty items, which account for a very small proportion in the entire farming and the sales thereof did not affect most farmers.

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The NACF opened five Agricultural Cooperative marketing centers in five big cities for expanding the infrastructure for agricultural product sales by 1962. Ten branch centers were established by 1968 to improve the basis for sales of agricultural products in urban areas. The military purveyance business which started with supplying eggs to UN Forces in Korea in 1959 was expanded to include the purveyance business to Korean Armed Forces so as to have more stable buyers. The basis for the grain sale business was ensured by dealing with the government-stock rice for controlling rice prices.

Rapid growth of the Korean economy continued in the 1970s, contributing to extension of urban areas and commercial farming was thus also expanded including major products of vegetables, fruits and livestock products. The distribution environment for agricultural products was highly improved mainly attributable to developed transportation and communication means including the opening of the Gyeongbu Expressway. The business of Agricultural Cooperatives started to be switched to the system centered on the Primary Agricultural Cooperatives. With the mutual credit business introduced and policy finances expanded, the sales business of Agricultural Cooperatives was at a qualitative and quantitative turning point.

The Agricultural Cooperatives established one of three major projects of “Improve production, sales and treatment of agricultural products” in 1972. They also developed a distribution business plan for improving agricultural product sales and treatment in 1974. It installed marketing advice centers in each of the Shi-Gun Cooperatives, Primary Agricultural Cooperatives and specialized Agricultural Cooperatives and held marketing meetings. New systems became operative for facilitating agricultural product sales through the Cooperatives, including the ‘Rice Reserve System’, the ‘Round Collection System’, and the ‘Marketing Ticket System’. The Primary Agricultural Cooperatives had distribution facilities including milling factories, transportation vehicles, and sales centers to improve their sales business capacity.

Meanwhile, the NACF established joint marketing centers for agricultural and livestock products in medium-sized cities including Seoul and Jeonjoo to improve its wholesale capacity. The NACF established and enhanced its retail organization including rice sales shops and general sales shops including supermarkets in urban areas all over the country. The NACF started to manufacture and supply corrugated cardboard for packing fruits in 1972 and expanded the packing improvement business. The NACF newly established and operated the ‘Agricultural Product Distribution Information Center’ in 1975 to collect and distribute nationwide information on the prices and marketing trends of agricultural products.

Commercial farming spread at higher speed in the 1980s, and specialized and scale-up farming continued to grow mainly for income crops. In addition, concentration of population in urban areas and increased income resulted in suddenly increasing the need for agricultural products distribution policies. Major policy challenges included the imbalanced demand and supply and the fluctuating prices of some agricultural products including vegetables and

livestock products. Most of the farmer members wanted to sell their agricultural products at reasonable prices and the Agricultural Cooperatives had to take measures for ensuring their request.

The Agricultural Cooperatives believed the importance of improving farmer members' transaction negotiation capability in the market through the joint marketing centers. The Agricultural Cooperatives focused on supporting the joint marketing centers and expanding local distribution facilities. They organized 200 model joint marketing centers in 1981, and increased the number thereof to 274. They selected and supported excellent centers from existing farming groups and local marketing organizations as joint marketing centers from 1983.

Meanwhile, they also made efforts to improving sales and treatment in urban areas and for encouraging consumers to purchase agricultural products produced in Korea. They improved the capability of existing joint marketing centers in urban areas, and encouraged farmers to do business in the Agricultural Cooperative marketing centers located in public wholesale markets. Since the Agricultural Cooperative marketing center in the Seoul wholesale market was opened in 1985, Agricultural Cooperative marketing centers were opened in other major cities by 1987 and eight supermarkets were established. In 1990, construction was begun on a large collection center in the Seoul Agricultural Cooperative Distribution Complex. To standardize agricultural products and improve packing thereof, the Agricultural Cooperatives enacted and enforced the Standard Marketing Specification since 1980 and operated the Specification Marketing Model Cooperative. A compatible Standard Marketing Specification of Agricultural Cooperatives was established and provided, as the Standard Transaction Unit for agricultural products of the government was enacted in 1983.

#### Cases of Sales Business Innovation in the 1970s

The Agricultural Cooperatives developed schemes for strong connection with other businesses including guidance, credits, purchase, processing, joint use and mutual aid to improve the effect of sales business. Exemplary schemes include the Round Collection System, the Rice Reserve System, the Marketing Ticket System and Direct Payment to Seller's Account, newly devised in 1970s.

The Round Collection System for connecting transportation vehicles in the local Agricultural Cooperatives with the sales business is carried out as follows: when farmer members place their agricultural products in their farm or at the entrance of their village where the vehicles can enter, the transportation vehicles of Agricultural Cooperatives go round the villages to collect and deliver the agricultural products to the places for sales thereof. To this end, while the number of vehicles required increased, this system was generally expanded. The nationwide number of vehicles owned by Agricultural Cooperatives was only 50 in 1968, but 716 in 1970, and increased to 1,500 in 1979.

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The Rice Reserve System for connecting the storage business and the processing (milling factories) business with the sales business is as follows: the members store their rice in the Primary Agricultural Cooperatives who then mill the commissioned rice according to member's request. They could be paid in kind or sell the rice and then pay it depending on the current price thereof. The members do not pay storage fees to the Cooperatives. This system started in some Cooperatives in 1970 and gradually became a nationwide system.

The Marketing Ticket System and Direct Payment to Seller's Account System for connecting the credit business with the sales business is as follows. When a member commissions selling his/her agricultural products, the Cooperatives issue a marketing ticket instead of paying cash to the member. Then the money is paid to the member's account when the agricultural products are sold in the market. This system started in 104 Primary Agricultural Cooperatives and specialized Agricultural Cooperatives in 1973, and grew to 620 by 1975. This was beneficial to both the members and the Cooperatives because it was not needed to settle the money whenever members marketed their agricultural products and the Cooperatives had the money until the members withdrawn it as deposits.

For stabilizing the prices of spice vegetables including garlic and hot peppers, an agreement for cultivating spice vegetables with farmers who produced hot peppers was made in 1986. This agreement also helped in stabilizing demand and supply by ensuring optimum cultivation areas. In 1990, a project for production and marketing of onions to be produced in 1991 was enforced in the onion villages according to the Act on Special Measures for Development of Agricultural and Fishing Villages. It guaranteed the Price Floor for a given volume of products produced by farmers who complied with the agreement.

## 2.2 Supplying Agricultural Production Materials and Vital Commodities Fertilizers

The Agricultural Cooperatives tried to supply materials required for farming timely, and to minimize the intermediate distribution cost to supply them at a low price and thus contribute to increasing members' income. Most of the purchase business for agricultural production materials (for example, fertilizers and agricultural chemicals) at the initial stage was the business commissioned by the government. The proportion of the materials in the purchase business was more than 80% until 1960. Because fertilizers and agricultural chemicals were important inputs for self-sufficiency of food, the government controlled the supply thereof and selected the Agricultural Cooperatives as an agent therefor.

In the 1970s, the rural districts and the agricultural sector were vitalized. Economic growth and changes in the agricultural structure, the Dual Price System for Rice, and promotion of SMU through the 1960s all contributed to farmers' enthusiasm for producing agricultural products and switching semi-self-sufficiency agriculture to commercial agriculture. The agricultural material and vital commodities business of the Agricultural Cooperatives was gradually accelerated and stably grew during the mid 1970s.

Chemical fertilizers were recognized as the most important means for improving agricultural productivity. Chemical fertilizer factories were first constructed when Korea had aid donation from other countries. The government tried to have aid donation from the mid 1950s. Two fertilizer factories were constructed in the early 1960s. Farmers had a tough time in securing fertilizers after the liberation and the market did not properly function to solve the problem of deficient supply. The government controlled the price so that fertilizers could be supplied through Agricultural Cooperatives. It was a valuable business in that the Agricultural Cooperatives carried out a vital national strategy absolutely required for increased food production. It was an important business for the Agricultural Cooperatives because they did not have another good business of a reasonable scale to ensure their business. Free distribution of fertilizers was banned from 1962 and supply thereof was centralized to the Agricultural Cooperatives. Unified posted prices were applied. The fertilizer sales price was set to be lower than the price that the Agricultural Cooperatives paid the factories. The difference between production costs and the sales price was supported by the government from its finances. The same fertilizer price was applied across the country without regard to the transportation distance and was contributed to by the network of the Agricultural Cooperatives and the Price Support Policy.

**Table 4-10 | Agricultural Production Material Supply**

(Unit: 100 million won)

	Fertilizer	Agricultural chemicals	Agricultural machinery	Tax-exempted oil	Seeds & saplings	Formula feed	Other materials	Errors, etc.	Total
1962	...	2	...	-	0.3	1	2	...	...
1965	...	8	...	-	6	2	3	...	...
1970	301	37	22	-	15	9	7	17	408
1975	1,097	174	246	-	19	417	49	560	2,562
1980	2,528	639	1,001	-	20	313	357	3	4,861
1985	3,558	713	-	-	123	1,363	645	-	6,402
1986	3,465	715	-	582	118	1,611	583	-	7,074
1987	3,456	648	-	661	131	2,147	589	-	7,632
1988	3,014	603	108	708	147	2,703	557	-	7,840

	Fertilizer	Agricultural chemicals	Agricultural machinery	Tax-exempted oil	Seeds & saplings	Formula feed	Other materials	Errors, etc.	Total
1989	2,828	637	206	788	153	3,276	595	-	8,484
1990	3,293	755	796	1,122	162	3,114	619	-	9,861

Note: Grains for feed (such as corn and wheat) are included in the data before 1980.

Source: NACF, History of Agricultural Cooperative for Thirty Years, 1991

High yielding, new varieties were introduced successfully during the Green Revolution in the 1970s that contributed to self-sufficiency of rice, which was a long cherished desire. This success was also based on successful use of bio-chemical technology including fertilizers and agricultural chemicals. The government policy for supplying fertilizers contributed to increasing the volume of supplied chemical fertilizers from 563,000 tons in 1970 to 828,000 tons in 1980, a 47.1% increase. The government guided the Agricultural Cooperatives to sell fertilizers on a 24/7 basis from 1977 in order to timely supply fertilizers to farmers who wanted them, while also enforcing the system for directly selling fertilizes in villages or commissioning fertilizer sales to Saemaul agricultural associations in villages.

The agricultural material and vital commodities business of Agricultural Cooperatives faced overall restructuring in the 1980s. Further agricultural mechanization resulted in increased supply of agricultural machinery and tax-exempted oil. The proportion of the business commissioned by the government decreased in the purchase business to be lower than 30% in 1990. On the other hand, their own purchase business including formula feed and tax-exempted oil was more emphasized. The Agricultural Cooperatives monopoly in the fertilizer business was broken by allowing shops to sell fertilizers for fruits and all shops were allowed to sell fertilizers from 1988.

The Agricultural Cooperatives functioned as a channel for fertilizer distribution. But they also bought and operated the biggest chemical fertilizer company in Korea in 1990 as a subsidiary, to be a producer of fertilizers. However, the market decided how to supply fertilizers and fertilizer supply increased by just 18.2% from 828,000 tons in 1980 to 979,000 tons in 1990 for 10 years.

### 2.2.1 Agricultural Chemicals

The government promoted the agricultural chemical supply as an important policy program together with fertilizer supply so as to improve agricultural productivity. The agricultural chemicals imported were supplied through the Agricultural Cooperatives in the 1960s because they were not produced in Korea. The volume of agricultural chemicals was 5,000 tons in 1965 and sharply increased to 10,000 tons in 1965, and this amount was maintained through the 1970s. 97% of agricultural chemicals were used for producing rice.

Agricultural chemicals were produced in Korea from the 1970s and the agricultural chemical business grew fast. The agricultural chemicals were used mainly for cultivating paddy rice but gradually increased to be also used for horticultural and other purposes. The volume of used agricultural chemicals in 1980 was increased by 21.8% as compared to the volume in 1970, but by 135.0% for horticultural purpose.

The agricultural chemical business of the Agricultural Cooperatives was the same as the fertilizer business since the business was at a growing stage from 1980s and it was also slow in terms of growth. The volume of supply seldom increased during the period of 1980~90, but the amount of sales increased by 28%. Gun-based agricultural chemical centers were established from 1981 to implement smooth demand and supply between Primary Agricultural Cooperatives. Distribution centers were established in agricultural associations to improve service quality including interest-free credit transactions.

Agricultural chemicals were supplied at the same prices all over the country similar to fertilizers. The 24/7 sales and agricultural chemical monitoring system was introduced as for fertilizers from 1974 when the government tried every effort to achieve self-sufficiency of food and analyzed the preferences of agricultural chemicals and information. The government monitored and encouraged the Agricultural Cooperatives and agricultural chemical production companies to timely supply agricultural chemicals.

### 2.2.2 Agricultural Machinery

Agricultural machinery was an important business item of Agricultural Cooperatives since the 1970s. Many of the rural population were unemployed in 1960s and agricultural mechanization was not highly needed then. However, the government supplied small agricultural machinery including water pumps, threshers, straw bag machines and straw rope machines. In particular, the water pumps were a very important item because drought and flood damages repeated almost every year due to poor irrigation facilities.

With the start of the rural exodus to urban areas, labor shortages began to appear in busy seasons for farming in the mid 1970s and mechanized farming was further needed.<sup>6</sup> The government specified agricultural mechanization as a national policy program in 1972 to increase use of more small agricultural machinery including cultivators. The number of agricultural machinery including cultivators and tractors supplied through Agricultural Cooperatives was 38,000 in 1975 and 80,000 in 1980, which is an increase of 110%. Small agricultural machinery, mainly cultivators, was supplied through the 1970s but larger agricultural machinery (such as tractors, rice planting machines, and combines) was the main machinery supplied during the 1980s. Tractors increased by 2.0 times, rice planting machines by 9.5 times and combines by 4.7 times during the period from 1980~90 but cultivators which are small agricultural machinery decreased by 87%.

<sup>6</sup> The proportion of Korean farm households decreased since 1968.

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The system for supply agricultural machinery changed several times as compared to the scheme for fertilizers and agricultural chemicals. Manufacturers of agricultural machinery sold the machines and the Agricultural Cooperatives were in charge of loans until 1973. The system then changed during the period from 1974~77. The Agricultural Cooperatives supplied all types of the machines and manufacturers were in charge of after-sales services. The manufacturers were then in charge of new machines and the Agricultural Cooperatives were in charge of supply thereof to be a dual supply system. From 1982, manufacturers supplied all of the machines. This implies poor adjustment of interest among agricultural machine manufacturers, the Agricultural Cooperatives and the government, and unstable role of the Agricultural Cooperatives.

The government intended to use the Agricultural Cooperatives as a new model for agricultural mechanization. It was inefficient for small-scale farmers whose farmland was approximately 1 ha to own all types of agricultural machinery required for farming. Joint use of agricultural machinery was essential. The government introduced the Agricultural Machine Model Village and specified the Primary Agricultural Cooperatives as an agent for managing joint use of agricultural machinery in 1977. It was a system in which the Primary Agricultural Cooperatives owned all types of agricultural machinery to carry out farmers' agricultural work. The government supported the Agricultural Cooperatives for some of the cost of purchasing agricultural machinery. This scheme operated through the early 1980s but was a failure. The demand for using the agricultural machinery was concentrated in the short busy farming season and it was thus impossible to deal with members' demand. The Primary Agricultural Cooperatives could not pay the cost for buying agricultural machinery and the depreciation thereof.

More agricultural machinery was disseminated, but the market did not satisfactorily function in the sector of repairing the machinery. It was because the initial investment was too much for poor private companies to pay and there was a high operation cost due to the high number of types of agricultural machinery needed. Many of the Primary Agricultural Cooperatives operated agricultural machinery repair centers for providing agricultural machinery repair services so as to support their members. The Primary Agricultural Cooperatives established agricultural machinery service centers mainly in remote rural villages where private companies did not want to provide services for the purpose of smooth repair and agricultural machinery parts supply services. In the late 1990s, 27% of Primary Agricultural Cooperatives operated repair centers all over the country and the number of repaired machines was annually 435 per center.

As more agricultural machinery was supplied, more oil was supplied to rural districts. The Primary Agricultural Cooperatives led installation and sales of oil stations in rural districts from 1979. The government exempted the special value-added tax and the consumption tax and guided the Agricultural Cooperatives to be in charge of the affairs related to oil supply. The oil business then became the major business of the Agricultural Cooperatives. Tax-exempted oil sharply increased from late 1980 because of the increasing number of oil

stations operated by Primary Agricultural Cooperatives together with the expanded supply of agricultural machinery. In 1990, tax-exempted oil worth of 112.2 billion Korean Won was supplied and the effect of reduced farmer's management cost was approximately 24.7 billion across the country.

**Table 4-11 | Supplied Major Agricultural Machinery**

Year	Cultivator	Tractor	Rice planting machine	Binder	Combine	Others	Total
1975	29,728	240	-	-	-	8,309	38,277
1980	65,636	525	484	418	264	12,271	79,598
1985	2,235	14	62	116	41	1,239	3,707
1986	3,733	136	508	266	62	1,475	6,180
1987	4,568	134	606	427	134	1,939	7,808
1988	6,248	312	1,550	661	347	8,450	17,568
1989	6,706	384	2,445	902	694	16,943	28,074
1990	8,539	1,057	4,618	1,354	1,243	27,481	44,292

Note: 1. During 1982-84, manufacturers were fully in charge of supply.  
 2. From 1985 to 1988, the result of member Cooperatives supply.  
 3. Others include motorized sprayers, dryers and managing machines.

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991

### 2.2.3 Vital Commodities

The vital commodities business was operated by Ri-Dong Agricultural Cooperatives from the stage of launching the multipurpose Agricultural Cooperatives in 1961. The shops in the Ri-Dong Agricultural Cooperatives sold nine items of cotton cloth, towels, matches, rubber shoes, soaps, alkaline solution, school supplies and salt to village people. Most of the items other than luxuries were sold from 1964. Because members operated the shops without cooperative staffs in charge, the business did not smoothly operate. The factors for poor operation include members' low consciousness for contribution to social good, un-established business promotion system, non-experience and small funds for shop management. The nationwide sales amount in 1965 was only 200 million Korean Won and the transaction scale was just 2 million Korean Won in 1969. The shops of Ri-Dong Agricultural Cooperatives were then not substantially operated.

The NACF introduced a new business scheme by establishing vital commodity purchase department under the NACF to install and operate chain stores in the member Cooperatives in 1970. Modern large-scale stores named "Chain Store" opened in rural districts in 1970. In

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1970, 225 chain stores opened, and transactions thereof were 2 billion won almost the same as the volume of supplied agricultural machinery.

The NACF Vital Commodities Business Center which was a headquarters of the chain stores directly purchased vital commodities to supply them to the chain stores in a top-down way. However, stocks of goods whose sales were not good accumulated caused the risk of poor management. Accordingly, the headquarters made an agreement with each manufacturer on the purchase cost and other transaction conditions from 1971. It then guided the chain stores of Primary Agricultural Cooperatives to apply the required volume to avoid the issue concerned with accumulated stocks and this scheme is still applied.

For the vital commodities business, infrastructure including logistics centers was expanded while changing the organization together with growing the business. Logistics centers were established in major strongpoints across the country from 1970 to 1978, for the purpose of ensuring goods in advance and helping Primary Agricultural Cooperatives in terms of easy purchase. The number of established chain stores of Agricultural Cooperatives was 1,446 in 1980, which was 5.7 times the number 10 years before.

The chain store business grew sharply through the 1970s but slowed down its growth due to intensive competition with supermarkets in the market during the 1980s. The volume of business that grew by an annual average of 34% during 1975~80 dropped to an annual average of 13%. The Agricultural Cooperatives diversified the items available for transactions and improved the quality thereof to be competitive in the market. Goods required for wedding were also sold in the chain stores to aid in reducing wedding expenses for farmer members' children in 1983. Agricultural, fishery and livestock products were supplied to the chain stores in urban areas from 1986 to enhance collaborative business between the Agricultural Cooperatives in places for selling the products and the Agricultural Cooperatives in the place where products were produced.

The volume of supplied vital commodities in 1990 increased 7.6 times, compared to that of 1980. This growth was contributed mainly to transactions of expensive goods including durable goods, sanitary purpose goods and cloths. In late 1990, 98.9% of Primary Agricultural Cooperatives ran chain stores and their items were diversified to including 27,000 items. It was evaluated that the vital commodities business of Agricultural Cooperatives gave rural consumers direct benefits of low-priced goods, reduced travelling distance for purchase, and return of business profits and dividends, and the indirect benefits of stabilized prices in the market through controlled prices in the rural markets (NACF, 1991).

**Table 4-12 | Chain Stores of Agricultural Cooperatives in Operation**

Year	Chain stores				Primary Agricultural Cooperatives supermarket
	Main shop	Branch shop	Total	Increase	
1970	255	-	255	-	-
1975	931	...	...	...	-
1980	1,446	...	...	...	-
1981	1,439	...	...	...	-
1982	1,435	...	...	...	-
1983	1,425	...	...	...	-
1984	1,425	350	1,775		1
1985	1,430	353	1,783	8	4
1986	1,447	353	1,800	17	15
1987	1,434	404	1,838	38	17
1988	1,432	451	1,883	45	22
1989	1,396	514	1,910	27	24
1990	1,393	546	1,939	29	28

Note: The mark - indicates no result and ... indicates unknown.

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991

### 2.3 Processing Agricultural Products

The agricultural product processing business is for processing goods required or agricultural products produced by members and it contributes to lowering production costs of members and increasing income. In addition, the business alleviates deficiencies and surpluses of agricultural products to contribute to stabilizing agricultural product prices.

The processing business of the Agricultural Cooperatives was promoted by the Agricultural Cooperatives including NACF, Shi and Gun Cooperatives, Primary Agricultural Cooperatives, and specialized Agricultural Cooperatives. But it was not successful when compared to other business. In the 1960s, the NACF and the Shi and Gun Cooperatives ran the formula feed business. The Livestock Cooperatives ran the dairy processing business. The horticultural Cooperatives ran the canned food processing business. The Ri-Dong Agricultural Cooperatives ran the grain milling business; none of which achieved great outcomes. In 1960, approximately 10 Ri-Dong Agricultural Cooperatives and 10 Shi-Gun Cooperatives ran the milling factories but approximately 10 specialized Agricultural Cooperatives ran other processing business. In late 1960s, the government established

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the direction of policy programs to support dairy farming and the agricultural and fishery processing industry as a part of a program for increasing farmers and fishermen's income. The Agricultural Cooperatives then actively started processing business including dairy product processing, formula feed processing and canned food processing.

In the early 1970s, the specialized Agricultural Cooperatives and the NACF ran the canned food processing business and the dairy product processing business and the Primary Agricultural Cooperatives ran rice-milling business. However, the canned food business was discontinued due to difficulty in raw material supply and ensuring consumers after 1973. When the government specified rice milling factories for the government rice in the mid 1970s, the rice milling factories of Primary Agricultural Cooperatives not specified by the government were gradually liquidated. On the other hand, the dairy product processing business and the formula feed processing business grew fast, attributable to the continuous livestock support policy programs of the government and increasing demand therefor.

Meanwhile, the livestock system Cooperatives that belonged to the Agricultural Cooperatives were separated when the NLCF was established in 1981. The dairy product processing business and the formula feed processing business was then transferred to the Livestock Cooperatives. The processing business of the Agricultural Cooperatives ran by the specialized Agricultural Cooperatives gradually shrank and the volume of the rice milling business ran by the member Cooperatives gradually reduced.

## 2.4 Joint use Business

The joint use business is to equip facilities required for farming or agricultural production to therefore use them together to reduce farmers' expenses and to increase farmers' income. The exemplary businesses that utilize production facilities include storage business, transportation business, and joint use of agricultural machinery. The exemplary business for using living facilities include beauty salons, barber shops, wedding halls, day care centers, preschools, and member halls. The joint use business of using living facilities exhibited a great difference depending on the Cooperatives, but the business of using production facilities ran in almost all of the Cooperatives.

The joint use business requires a high level of collaboration for the high degree of facility investment and promoting the business. This allows for a close relationship between the Cooperatives and the members by allowing members to easily use facilities, and enables internal organizations to be easily supported. The Agricultural Cooperatives carried out the joint use business in a variety of fields including storage, transportation and livestock market management since 1960, but the outcome was not as good as compared to other business.

For the storage business and the livestock market management business, the multipurpose Agricultural Cooperatives took over facilities from the old Agricultural Cooperatives at the time of launching to construct the basis from the early stage and they grew fast.

However, other joint use business did not achieve great development due to small economic resources and the small scale of Cooperatives. From 1970 when the system was switched to the Ub and Myoun-based Primary Agricultural Cooperative system, various joint use businesses were vitalized. For the storage business, the 3-Year Storage Plan was established in 1972 to expand storage facilities. As the types of approved freight that the Agricultural Cooperatives could deal with were extended, the number of vehicles owned by Agricultural Cooperatives significantly increased, and the transportation business developed fast mainly with the member Cooperatives on the basis of the increased vehicles. From late 1970, the joint use business for agricultural machinery and the AS business were added as new joint use businesses.

In the 1980s, the joint use business was further vitalized. The storage business mainly for storing government grains was stabilized. Also, the number of vehicles and the volume of transportation greatly increased as the sales and purchase business were vitalized for the transportation business. The joint use business for agricultural machinery further developed from the business operation of the model type to support village-based organizations.

## 2.5 Outcome of Economic Business

The economic business of Agricultural Cooperatives greatly contributed to promoting national policy programs and demonstrated many achievements. With emphasis on the direction of agricultural policy programs of the government of which the priority was increased food production, the Agricultural Cooperatives were fully responsible for supplying fertilizers, agricultural chemicals, materials and agricultural machinery from the initial stage of establishment.

The economic business of Agricultural Cooperatives contributed to supplying agricultural supplies and the necessities of life to rural areas without developed markets and to modernizing transactions of goods in rural districts. At the early stages, the government gave a monopoly on fertilizers, agricultural chemicals and agricultural machinery to the Agricultural Cooperatives to protect them. The government changed the policy in the direction to competition with private sellers as the market scale gradually became great and developed.

The Agricultural Cooperatives operated the economic business at the same prices all across the country for even benefits to areas of adverse conditions including remote rural areas. This could only be feasibly implemented by the Cooperatives and greatly contributed to the growth of ACK.

However, the economic business of the Agricultural Cooperatives did not grow as a profitable business for themselves. Since the business for carrying out policy programs of the government depended on fee and commission income, it was a relatively safe business. However, some economic business was conducted for members' convenience in spite of deficits and operated at a minimum scale just for political purpose. The losses from such

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deficit business were covered by the profits from the credit business. This is the major advantage of the multipurpose Agricultural Cooperatives and contributed to improving the image of Cooperatives and of supporting members. However, it was imprinted in the mind of the public that chronic deficits of the economic business are inevitable in ACK. The business capability or inefficient management was hidden behind such impression to result in the side effect of reducing the effort for overcoming or developing the situation.

## 3. Credit Business

### 3.1 Agricultural Finance System of Korea and Credit Business of Agricultural Cooperatives

#### 3.1.1 Agricultural Finance System

It is necessary first to understand the financial system and the agricultural finance system of Korea so as to understand the credit business of Agricultural Cooperatives. The basic structure of the financial system of Korea is not highly different from other countries. However, the system of agricultural finances is very close to the financial system of the Agricultural Cooperatives, which is not discovered in other countries.

[Figure 4-1] shows Korea's agricultural finance system with the economic subjects and their network including the government, agricultural finance institutions, financial assistance institutions and users. In the rural financial market, rural residents, farmers and enterprises are both of the end consumers and suppliers of funds. Financial mediation institutions are member Cooperatives, the NACF, the credit Cooperatives, the Saemaul Finance Firm (SFF), and regional banks. The government supplies agricultural policy management funds through the Agricultural Policy Fund Management Board Foundation established in 2002. The funds were supplied through the Commercial Bank that made an agreement with the Agricultural Policy Fund Management Foundation (APFMF). However, the proportion of the Commercial Bank is not great. The Credit Guarantee Fund for Farmers and Fishermen (CGF) is an institution to guarantee the credit of farmers and fishermen whose credit is not high enough to borrow money from financial institutions.

The rural financial market is classified into the formal financial market in which financial transactions are carried out through formal finance institutions, for example Agricultural Cooperatives or banks, and the informal financial market in which financial transactions are carried out personally or financial companies not formally approved. The recent tendency is that informal private finances are increasing again. The proportion of farmers' debts to informal finances increased from 4.6% in 1998 to 19.4% in 2010.

The government employs two methods in parallel for supplying policy funds, one of which is to use the government funds to purvey funds and then to deliver the funds to people who want them through the Agricultural Cooperatives; and the other is

Figure 4-1 | Korea's Agricultural Financial System

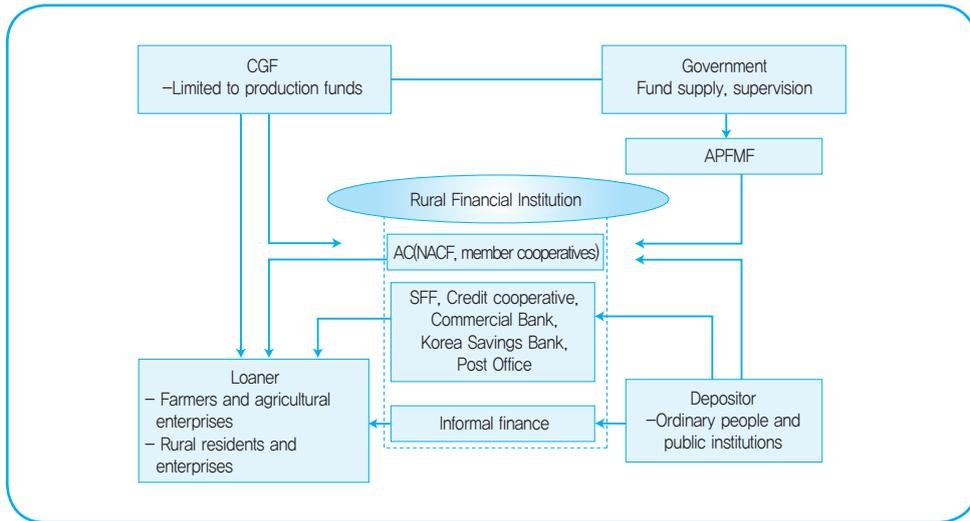
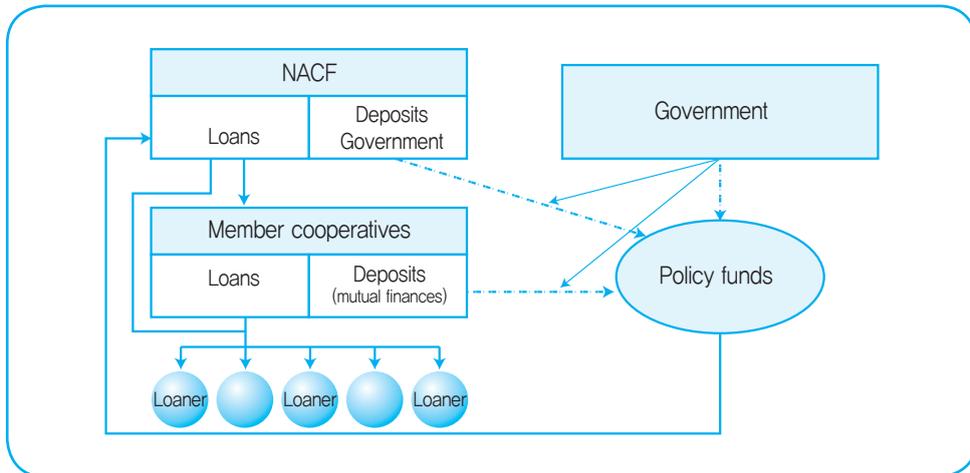


Figure 4-2 | Supplying Agricultural Funds through Agricultural Cooperatives



Note: The government compensates interest gap between lending rate and production cost

to use deposits of the Agricultural Cooperatives to supply funds to people who want them, and to cover the difference between the supply interest rate and the loan interest rate. The latter is called an interest subsidy. The funds by the Agricultural Cooperatives include the bank funds of the NACF and the mutual credits of member Cooperatives. Most of the funds of NACF are used because of a low supply interest rate and the mutual credits are auxiliary. The reason of using the mutual credits whose interest rate is high is to support the small-scale member Cooperatives.

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In this scheme, the Agricultural Cooperatives had three benefits from the policy finances system. Firstly, the Agricultural Cooperatives had a monopoly on supplying agricultural finances so that the Agricultural Cooperatives could gain competitive advantages in rural districts with respect to other business including economic business and the credit business. Secondly, the government is the buyer of no risk who guarantees the funds of the Agricultural Cooperatives to be safely operated. Thirdly, the CGF guarantees small-scale farmers, large-scale farmers and fishermen of high risk to increase loans and to reduce recovery risks. Actually, it is not easy for small-scale farmers or large-scale farmers and fishermen to make a loan.

### 3.1.2 Structure and Characteristics of Credit Business of Agricultural Cooperatives

For the credit business of the ACK, the Cooperatives and the NACF have their own financial institutions. This system is unique to Korea.

The member Cooperatives run the mutual credits that are the cooperative finances for receiving and making loans using the deposits of members. The central organization of the mutual credits is the Special Accounting of Mutual Credits under the NACF. The current mutual credits are operated by approximately 1,100 member Cooperatives including regional Cooperatives, item-based Agricultural Cooperatives, regional Livestock Cooperatives, item-based Livestock Cooperatives and Ginseng Cooperatives. The deposits total of all members is 196 trillion won as of 2010 and the mutual credits are one of the biggest single financial institutions in Korea.

The Special Accounting of Mutual Credits (SAMC) is a central bank of mutual credits that receives reserves of the mutual credits of the member Cooperatives and the extra funds of member Cooperatives to make loans to Cooperatives who need the funds. It also guides financial operation. The current funds deposited in the SAMC correspond almost to the amount of income of a medium-scale bank in Korea.

The NACF runs a special bank that is required to comply with both the Bank Act and the Agricultural Cooperative Act. Its branches are based mainly in urban areas and Ub, which is a center of rural districts. The number of branches is approximately 1,000 across the country. The income of the Agricultural Bank of the NACF is 145 trillion won putting it in fifth place in the bank system. The income of the Agricultural Cooperative finances including the banks of the NACF and the mutual credits of Cooperatives is more than approximately 340 trillion won as of late 2010. The number of branches is 5,000 making it the biggest financial institution in Korea.<sup>7</sup>

<sup>7</sup> The financial system of Korea comprises the first financial category including the commercial banks regulated by the Bank Act and the special banks regulated by both the Bank Act and the Special Act. The second financial category includes the mutual credits, the mutual deposit bank and the post office deposits for small and medium-sized business people and ordinary people. The mutual credits are Cooperative financial institutions. Therefore, the banks of NACF and mutual credits of the member Cooperatives are each different type of financial institutions.

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## 3.2 Informal Finances in the 1960s

### 3.2.1 Informal Finances before Launching Multipurpose Agricultural Cooperatives

Before establishing the Agricultural Bank in 1958, formal financial institutions in rural districts were the Financial Cooperative who concentrated on business by the government policy programs rather than financial affairs, which is not desirable for a financial institution. The critical reason for this is the Farmland Reform in 1949. The Farmland Reform did not allow farmland to be mortgaged. Therefore, the Financial Cooperative did not want to make loans to farmers resulting in difficult operation of the credit business. The Financial Cooperatives concentrated on business by the government policy programs (such as fertilizer supply, straw goods and grain management) in order to gradually lower the proportion of credit business.

In the 1950s, one reason for the worsened rural financial market is that land-owners who were fund suppliers in rural districts disappeared because of the Farmland Reform. Informal finances of high interest rate began to rise due to reduced fund supply. The Financial Cooperatives did not function properly and money-lenders in rural districts, mainly land-owners, disappeared. On the other hand, farmers who were distributed with farmland according to the Farmland Reform needed funds to pay back the cost of farmland. Farmers needed more funds; hence the Cash Sale System was introduced for chemical fertilizers.

The government was too impatient to wait for the launch of the Agricultural Cooperatives because of the urgent conditions in the rural financial market, so it launched the Agricultural Bank Incorporated to which the general Bank Act was applied. It switched it to the Agricultural Bank according to the Agricultural Bank Act that was a special act in 1958. It was possible to loan out financial funds from the Bank of Korea, which was not previously allowed. A positive financial fund supply by the government contributed to a greatly increased agricultural fund supply. However, the amount of supplied formal finances by the Agricultural Bank was very small as compared to the demand for funds in rural districts.

### 3.2.2 Launching Multipurpose Agricultural Cooperatives and Addressing Usurious Debts in Rural and Fishing Villages

The new Agricultural Cooperatives born by integrating the old Agricultural Cooperatives and the Agricultural Bank on August 15, 1961 carried out the usurious debt project in rural and fishing villages which was promulgated three months ago. It was the first policy project carried out by the new Agricultural Cooperatives. The most urgent issue in agricultural administration was to cut off the bad loop of poverty rising from to usurious debts in rural and fishing villages. Once a farmer made a usurious loan, normal repayment was almost impossible. It was the Policy No.1 announced by the Military government, which came into power by military coup d'état on May 16, 1961, 10 days after coming into power.

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The usurious debt project in rural and fishing villages was enforced as follows. The government encouraged farmers and fishermen to report debts of which the annual interest rate was higher than 20% to decide whether it was a usurious debt. Then the Agricultural Cooperatives paid a debt decided to be a usurious debt at an annual interest rate of 20% to the creditor concerned and received the money from a debtor concerned at an annual interest rate of 12%. Since the average interest of informal finances in rural districts at that time was higher than 50%, it was a phenomenal action that freed debtors from the burden of repayment by lowering the interest rate of the debts by at least 38% or more (NACF, 1965). To this end, the Agricultural Cooperatives issued agricultural finance bonds of an annual interest rate of 20% guaranteed by the government to secure funds. It paid the debts to creditors as surrogate payment, and demanded a bond of debt of annual interest rate of 12% from debtors. The government paid the finances as much as the difference between the interest rates for surrogate payment and the interest rate to be paid (8%), and the fee for the transactions of the Agricultural Cooperatives.

It was a good political idea to sweep off the usurious debts in rural and fishing villages, but the consequence was not as good as desired. The government did not have enough funds. Accordingly, it was not easy to have finances for surrogate payment and almost impossible to pay the interest difference. This project was enforced just once in 1961. It was more difficult for farmers who were the debtors to get required funds. It was because neighbors with money considered farmers as unreliable people and did not lend money. It made neighbors in rural communities estranged and deepened fund stringency in the rural financial market. Many farmer debtors could not pay the money to the Agricultural Cooperatives who handled the debts as loss. The government could not pay the interest difference and the fees to be paid to the Agricultural Cooperatives just at the right moment. The bad debts attributable to this project were completed 15 years later in 1976.

### **3.2.3 Supporting Rural Development Programs and Expanding Policy Finances**

The government established the 5-Year Plan for Economic Development in 1962 to enforce policy programs for industrialization and increased export together with the agriculture-first policy. As a result, a lot of rural development plans were established and financial support was increased.

The government specified farmers, thus holding them at a level higher than a previously held level, to be a principal axis for rural development and supported them with funds, fertilizers, agricultural chemicals, seeds, and the purchase of small agricultural machinery. In 1967, the government enforced the Main Product Project to encourage farmers to collectively cultivate crops suitable in relevant areas. As a variety of policy programs were enforced to increase the policy funds for supporting the programs. The government unified the loan interest system for finance funds to be annually 10% for funds shorter than one year, 9% for funds from 2 to 5 years, and 8% for funds longer than five years. At that time,

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since the Ri-Dong Agricultural Cooperatives, and the Primary Agricultural Cooperatives, did not do the credit business, the NACF and the Shi-Gun Cooperatives were in charge of this business.

The Interest Subsidy was enforced from 1968 to use the deposits by the Shi-Gun Cooperatives, who played a role in the bank of NACF and branches of the NACF, as resources for policy funds. The government subsidized the difference between the supply interest and the loan interest with government finances. This program contributed to reducing the government's financial burden while supplying more policy funds. Since the Agricultural Cooperatives lent the funds to the government, they had a customer of the most reliable credits.

### **3.2.4 First Saving Campaign**

The key purpose of NACF bank business is to collect funds from ordinary customers to supply them to rural districts. That is, increasing deposits was the most important work of the bank. To this end in 1965, the NACF established and promoted the 5-Year Plan for increasing deposits. The target of increasing deposits was 8.8 billion won for 5 years to ensure a deposit balance of 15.3 billion won in 1969. This project had outstanding results. The target was achieved in only two years and investment of 75.9 billion won, almost five times the target, was collected in the target year.

The major means of supplying funds was loans at the early stage of the Agricultural Cooperatives. In 1965, the deposits were 10.6 billion won while the loans were 18.7 billion won. The biggest proportion of loans was from the government funds. They accounted for 78.6% of total loans in 1965 and were followed by the loans from the Bank of Korea. Most of the funds supplied by the Agricultural Cooperatives were borrowed for agricultural funds. The proportion of agricultural funds was 93.1% in the funds borrowed in 1965.

## **3.3 Launching the Cooperative Finances and Take-off in the 1970s**

### **3.3.1 Introduction of Mutual Credits of Primary Agricultural Cooperatives**

The credit business of the Agricultural Cooperatives in 1970 had the dual structure of the mutual credits of Primary Agricultural Cooperatives and the bank business of the NACF. The NACF and the Shi-Gun Cooperatives were in charge of affairs concerned with banks and the Primary Agricultural Cooperatives were in charge of mutual credits. The specialized Agricultural Cooperatives (horticultural, livestock, special Agricultural Cooperatives) did not operate mutual credits.

The model mutual credits were operated by some Cooperatives in 1969 and gradually expanded. In 1973, all of the Primary Agricultural Cooperatives operated the mutual credits. Introduction of mutual credits acted as a great turning point in the agricultural finance

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system of Korea. In rural and fishing villages where many farmers and fishermen suffered from usurious debts, the formal finance institutions started full-scale fund mediation. The banks of NACF were operated in Shi-Gun Cooperatives, but they were located in Ub areas which were the center of rural districts. Therefore, for most farmers in rural districts it was not very easy to use the system. However, since receiving deposits and lending money was carried out in all of Primary Agricultural Cooperatives, the one-day financial service system was implemented.

The NACF is a mutual credit federation of member Cooperatives and carried out fund mediation among Cooperatives for receiving funds from rich Cooperatives and then lending money to Cooperatives who needed it. Extra funds left after lending the money were deposited for investment in securities and in the NACF to return the operation profits thereof to member Cooperatives. The Fund Team of the NACF carried out the job of this federation until 1972. The mutual credit office and the Special Accounting for Mutual Credits were newly established to operate the funds separately from the funds of the NACF.

Introduction of the mutual credits system contributed primarily to gradually switching the agricultural finances from dependence on the government or the central bank to dependence on cooperative fiancés. Secondly, the idle funds and some funds in the informal finance market in rural districts were absorbed into the mutual credits, to lower the interest rate of the informal financial market and contributed to addressing the problem of usurious debts in rural and fishing villages. Thirdly, the system contributed to encouraging farmers and fishermen to deposit money in the banks and enhanced the basis for independent Primary Agricultural Cooperatives.

### **3.3.2 Expanding Policy Finances**

In 1970, Korean society was rapidly being industrialized and urbanized. The economy continued to grow, showing an annual average growth rate of more than 8%. In the agricultural sector, the stable supply and efficient distribution of food was needed and policies were established for increasing farmers' income and vitalizing the rural economy. Demand for mid-and long-term rural development funds increased and were needed for improving the agricultural structure and agricultural mechanization. The government established systems for introducing the Interest Subsidy and establishing the funds for agriculture so as to meet the demand for funds from the agricultural sector.

The Interest Subsidy enforced according to the instruction of the Ministry of Agriculture and Fisheries in 1968 was used as a policy instrument to effectively cope with the demand for funds of limited scale. However, the Interest Subsidy did not have a strong legal ground. This resulted in some cases that the budget support of the government was not smoothly carried out for the reverse margin of the funds by the Agricultural Cooperatives input to the policy funds. Because of the Interest Subsidy's vexatious administrative procedure, the Account Pooling method was mainly used from 1977 instead of the Interest Subsidy. The

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Account Pooling method is to pool all of government funds, loans from the Bank of Korea and the deposits of the Agricultural Cooperatives to implement a uniform supply interest.

Another method of stable supply of policy fund is to create different type of funds. The funds are created using the resources of donations by public institutions, e.g., banks, including government funds and operation profits to support intended projects. This has the advantage of stably promoting mid-and long-term projects as compared to budgets. The funds were used for investment in agricultural mechanization, stabilization of agricultural product prices, and creation of a livestock business basis.

The policy finances in the 1970s were used to support cover a wide range of objectives; agricultural production, distribution of input materials, improvement of rural housing, regional development, and development of income crops. Policy finances were delivered through the Primary Agricultural Cooperatives by lending money to farmers and carrying out post-management and recovery thereof. Therefore they were the central organization for the finances, as they were capable of carrying out the business, instead of the Gun Cooperatives.

### **3.3.3 Overhaul of Agricultural Finance System**

The Farmland Security Act was amended in 1970 so that the Agricultural Cooperatives could use farmland as a security. The Credit Guarantee System was introduced for easy use of guaranteed funds for the credits of farmers of low credits. The Primary Agricultural Cooperatives were allowed to deal with policy finances. They are the main system changes in this period.

The Farmland Security System was introduced to supply agricultural funds to aid farmers with too small securities other than farmland. In 1949, as farmland securities were limited according to the Farmland Reform Act, farmers had difficulty in getting agricultural funds because securities were too small. As the Farmland Security Loan was enforced from 1970 to settle this issue, farmers could get agricultural funds by providing farmland as securities.

CGF was introduced in 1972 to improve the level of farmers and fishermen's security. Farmers and fishermen had difficulty in obtaining loans because of low level of securities, and therefore faced vexatious procedures for security loans and too many added expenses. The government enacted the Credit Guarantee Act for farmers and fishermen in 1971 and enforced the CGF system for which the NACF was the managing institution from 1972. This system guaranteed that farmers, fishermen, livestock farmers, and people in the forestry sector who had no or insufficient securities and thus previously had difficulty were able to borrow money. This system also helped agricultural, forestry and fishery organizations including special Agricultural Cooperatives, forestry Cooperatives, farmland improvement Cooperatives. It was implemented by installing the CGF to use the donations by the government, municipalities, financial institutions and agricultural and fishery institutions as resources.

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### 3.3.4 Second Saving Campaign and Development of New Products

The credit business of the Agricultural Cooperatives started to take-off in the 1970s when the mutual credits were launched and had continued growth. The NACF started the Saving Campaign in 1964 with great success. It started the second Saving Campaign for one trillion won 10 years after the first Saving Campaign from 1974 to 1980. This campaign was promoted together with SMU which was a nationwide initiative, and led by the government with the Agricultural Cooperatives and the fishery Cooperatives. The Agricultural Cooperatives organized saving encouragement organizations at each stage while the Primary Agricultural Cooperatives were the substantial axis.

The Agricultural Cooperatives vitalized the Saemaul Women's Association in each village to be the central body of the rural saving campaign. Saving organizations appropriate for the level of village growth were established. One trillion Safe was organized in independent villages of low growth levels. The Saemaul Saving Team was organized in the self-help villages and the primary villages of high growth levels.

The Agricultural Cooperatives created the saving campaigns of 'Many drops make a shower' including Ant Saving, Saving by Recycling and Saving by Reducing Consumption so as to lead farmers' to extra funds to saving. They sold saving stamps for the resources not used because they were too a small amount to be saved. They developed and disseminated new products including Kye type reserves, agricultural installment, and monthly deposited installments. They also encouraged the use of bank-books for the money from selling agricultural products for farmers to become accustomed to using bank-books. As a result, the target was overachieved by 22% in late 1980 which was the target year. The deposit balance of the mutual credits increased 14.2 times from 57.9 billion won in 1974 to 823.8 billion won in late 1980. The deposits of the NACF increased 3.5 times during the same period.

The Primary Agricultural Cooperatives took over the deposits of the insolvent Post Office in 1977 to become the central financial institution for rural districts. At that time, the Post Office dealt with only deposits. It was an advantage to collecting saving resources since post offices were scattered all over the country and staffs thereof met farmers directly. However, since the operation was not successful and unnecessary competition with the mutual credits appeared, the government suspended the deposits in the Post Office made the Agricultural Cooperatives take over it.

The mutual credits of the Agricultural Cooperatives, in particular, the Primary Agricultural Cooperatives, had great success in absorbing saving resources of the rural districts by positive saving campaigns thus ensuring a foothold for growth. Such a case of great success was mentioned as a case for breaking the typical view that 'saving resources cannot be collected in rural districts because people in rural districts are poor, and the rural district cannot develop unless funds are not supplied from the outside.'

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## 3.4 Continued Growth in the 1980s

### 3.4.1 Changes in the Agricultural Finance Environment

Korea had a new turning point in politics, economy and society in the 1980s when President Park who was a president during the development period for 18 years was tragically assassinated. President Jeon's Regime, which came into power, advocated a policy direction for gradual opening based on the idea of comparative advantage for protecting agriculture, from the high growth basis to a stable growth basis, and from the government-led market protection economy to the private sector-led market opening economy. Jeon's regime specified the first policy strategy to stabilize prices so as to avoid the high inflations seen in 1970s. It also lowered the high increase rate of the government purchase price for rice applied for protecting farmers and froze the government purchase price for autumn grains at the level of the previous year, 1983.

Jeon's regime announced a series of measures for self-regulated banking including privatized national banks. It lifted regulations for bank management by the government, diversified banking institutions and then expanded the scope of business. For agricultural finances, the Livestock Cooperatives was separated from the Agricultural Cooperatives and initiated the mutual credits. The Saemaul Finance Firm, the Credit Cooperatives and regional banks competitively opened their own branches in rural districts. The Chesin Deposit of the Post Office was opened to add further competition in the rural financial market and many new financial products were developed. The rural financial market looked like a flood of financial institutions. The financial institutions from the non-agricultural sector, those other than agricultural, livestock and fishery Cooperatives, operated the funds supplied from rural districts in non-agricultural sectors in urban areas thus drain funds from rural districts to urban area.

Meanwhile, the prices of vegetables and livestock products highly fluctuated. This was mainly attributable to commercialized farming that started in mid 1970s and investment failure that resulted in insolvent farmers. In particular, while the regime switched the policy direction to stabilize prices in the 1980s and the agricultural product price level was thus lowered, the speed of increased farmers' income was decreased and farmers' debts were rapidly increased causing farmers to complain. The increasing farmers' debts were based on the highly changing agricultural product prices, the increasing number of farmers who had failed investment, and the government's withdrawal from price support and increasing debts contributed by poor investment. Farmers' debts then became a social issue and the government had to announce farmer's debt reduction programs every year from 1986 to 1990.

### 3.4.2 Phenomenal Growth of Mutual Credits

The mutual credits that started and took off through 1970s grew fast in 1980s. In spite of intensive competition in the rural financial market, the deposits of the mutual credits were more than one trillion in 1981. The mutual credits developed new products and services in order to enhance competitiveness in the challenging market. The deposits were more than two

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trillion won four years later in 1984. The deposits were more than three trillion won in June of 1986, and more than three trillion and 500 billion won in the end of 1986 and overtake the amount of the NACF for the first time.

The NACF reorganized its system as the mutual credits grew fast to install the Mutual Credits Team and continued the saving campaign. In 1989, the Primary Agricultural Cooperatives completed installation of online banking system across the country in order to have an efficient business system. As a result, the deposits were more than seven trillion won in February of 1989 and reached 11 trillion and 600 billion won by the end of 1990. The volume of mutual credits was the greatest in Korea for a single financial institution from the end of 1988.

Smooth supply of funds contributed to the mutual credits improving their loan service. In 1986, the period of general loans was extended from within one year to within two years, and the loan limit per person was raised from 10 million won to 20 million won. Customers had more benefits from the raised loan limits and lowered interest rates.

In 1988, some resources of the mutual credits were input to agricultural funds to contribute to expanded supply of agricultural policy finances. Farmers' debts were substituted by mutual credits according to the Farmers' Debt Program in 1987 to establish the Special Long-term Loan System in the mutual credits to support the programs of the government.

### **3.4.3 Credit Business and Policy Finances of NACF**

The NACF installed an online network in all of their banks to improve its infrastructure while developing new products and improving service quality in the highly competitive financial market. The deposits of the NACF accounted for 10.4% of all deposit banks in 1975. They were 9.5% in 1980 and decreased to 8.8% in 1985 suggesting that they were losing in market competition. However, the share gradually grew and the market share in 1990 was 12.4%.

The volume of NACF loans was 7.7 times higher in 1990 as compared to 1980. The annual average increase was 22.6%. The agricultural funds from the loans slightly increased from 61.8% in 1980 to 68.2% in 1990. The proportion of its own loans to policy loans was 26.1: 73.9 in 1980 and 34.4: 65.6 in 1990, suggesting an increasing proportion of its own loans. This is because increased deposits were more than the demands from policy funds.

In the 1980s, the side effects of the industrialization-oriented economic development policy until then were becoming visible. The relative gap between urban areas and rural districts became a social issue. Farmers' debts emerged as a key task of agricultural policies. The agricultural policy finances had to do something to address these issues. From 1986, programs for vitalizing the rural economy and reducing farmers' debts were established every year. Policy instruments for reducing farmers' debts included lowered interest rates, extended repayment periods, interest write-offs, and substitution of informal finance debts by formal finance debts. The aforementioned instruments were performed by the

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Agricultural Cooperatives. The CGF was used as an auxiliary means for the debt program and considered as an important means in the agricultural finances. The CGF was not used so much until then.

The agriculture related funds that started to be installed from the mid 1970s to support the agricultural sector continued to be installed in the 1980s and contributed to expanding and supporting mid-and long-term funds in the agricultural sector. The Agricultural Mechanization Fund established in 1980 contributed to implementing agricultural mechanization. The Farmer and Fishermen Support Fund established in 1980 was used to select young people engaged in agriculture and fishing as Future Leaders for Farmers and Fishermen to support them with the mid-and long-term agricultural funds to fully enforce the human resource support policies. The Development Fund for Rural and Fishing Villages established in 1987 was used for purchasing farmland, developing rural areas, constructing rural industrialization complexes and creating sidelines in rural and fishing villages. The fund for purchasing farmland is a super-long fund with 20 years of repayment period and contributed to increasing income by expanding cultivation areas. The rural industrialization and sideline projects for rural and fishing villages were enforced for vitalizing the rural industry and increasing off-farm income. It created small-scale industrial complexes in rural districts and provided incentives to support enterprises that wanted to move therein. Funds related to rural and fishing villages were integrated into the Development Fund for Rural and Fishing Villages and the Farmland Management Fund according to the Special Act on Rural and Fishing Village Development in 1990. With respect to the NACF loans used as resources for policy funds, the proportion of government funds was slightly decreased from 37.5% in 1980 to 33.9% in 1990. Loans from the Bank of Korea were decreased from 15.5% to 7.4% while the proportion of funds to loans increased from 47.0% to 58.7%, suggesting that the government used funds as a major policy instrument.

## 3.5 Outcome of Credit Business of the Agricultural Cooperatives

### 3.5.1 Outcome of Mutual Credits of Primary Agricultural Cooperatives

It was evaluated that mutual credits contributed to mobilizing savings in rural districts, funding rural districts, stabilizing the business basis of the Primary Agricultural Cooperatives and alleviating funding gaps among regions.

**Table 4-13** | Growth of Deposits in Mutual Credits and Deposit Banks

(Unit: 100 million won)

	1973	1980	1985	1990	Annual average increase (%)			
					'73~ '80	'80~ '85	'85~ '90	'73~ '90
Mutual credits of Agricultural Cooperatives	277	8,238	26,283	116,003	62.4	26.1	34.6	42.6
NACF	1,694	11,721	27,167	97,309	31.8	18.3	29.1	26.9
National banks	10,384	65,283	143,951	390,952	30	17.1	22.1	23.8
Regional banks	1,355	11,992	33,672	112,548	36.5	22.9	27.3	29.7

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991, 474

The mutual credits continued to grow fast from introduction until the 1980s. The rate of growth was very fast as compared to the NACF or national banks <Table 4-13>. The phenomenal annual average growth rate of the deposits of mutual credits was 42.6% from 1973 to 1990. The deposits of mutual credits started in 1973. They grew very fast as compared to the average growth rate of 24~30% for the NACF, national banks and regional banks.

As the mutual credits successfully mobilized savings in the rural financial market, they could naturally enhance their funding capability in rural districts. Accordingly, the rural informal finances competing with the mutual credits had less and less influence. In addition, the increasing mutual credits accounted for higher proportion in entire agricultural fund loans and overtook the proportion of the NACF. The proportion of agricultural fund loans of the mutual credits was 16.3% in 1973 and 57.6% in 1990 to overtake the proportion of the NACF.

**Table 4-14 |** Proportion of Mutual Credits in Loans for Sgricultural Sector

(Unit: 100 million won)

	1973	1980	1985	1990	Annual average increase in '73~'90 (%)
Entire financial institutions (A)	1,653	12,742	41,583	147,126	30.2
NACF (B)	1,232	7,082	18,298	55,956	25.2
Mutual credits loans (C)	270	5,280	18,556	84,756	40.2
B/A	74.5	55.6	44.0	38.0	
C/A	16.3	41.4	44.6	57.6	

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991, 475 (some supplemented)

The most important outcome of the mutual credits is absorption of usurious informal finances in rural districts into formal finances. In early 1970, approximately 60% of farmers' funds were from informal finances of which the interest rate was almost 54% annually. The interest rate of the mutual credits was 28%. Therefore, if farmers used the mutual credits funds, they would have fewer burdens. However, since the mutual credits were at the initial stage, they could not meet farmers' financial demand. While the mutual credits continued to grow and had more funding capability, the rural informal finance interest rate was significantly lowered. The informal finance interest rate was 49.2% in 1975, 46.8% in 1980, and 21.0% in 1990. In this process, the loan interest rate gap between the rural informal finance interest rate and that of the mutual credits was reduced so that the mutual credits could substitute the informal financial loans, and led to lowered interest rates in the informal finance market.

The mutual credits had a significant influence on the management of the Primary Agricultural Cooperatives. The mutual credits further expanded their business as a local banking institution for the rural resident customers as well as member farmers.

**Table 4-15 |** Dependence of Farmers on Informal Finances and the Informal Finance Interest Rate

(Unit: %)

		1971	1975	1980	1985	1990
Dependence of farmers' debts on informal finance			63.6	49.0	28.9	13.9
Comparison of interest rate	Informal cash finance interest rate in rural districts (A)	54.0	49.2	46.8	26.4	21.0
	General loan interest rate of mutual credits (B)	28.0	22.0	22.0	14.5	14.0
	Interest difference (A-B)	26.0	27.2	24.8	11.9	7.0

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991, 476

While economic business was risky business, had low profits and did not highly contribute to Cooperative management, this did not apply to the mutual credits. Contribution of the mutual credits to cooperative management was 22.0% in 1973 and 53.6% in 1990 on the basis of the volume of business. The proportion on the basis of revenues increased from 32.7% to 62.1%. That is, the mutual credits as a main engine contributed to raising the Primary Agricultural Cooperatives in terms of business scale and revenues, and added more to the revenues.

**Table 4-16 |** Contribution of Mutual Credits to Management of Primary Agricultural Cooperatives

(Unit: 100 million won)

	Business scale			Revenue			Net profit and loss in late 1990s
	1973	1990	90/'73 (fold)	1973	1990	90/'73 (fold)	
Credit business, Mutual credits (A),	580	190,094	327.7	18	4,576	254	1,784
Policy finances, others	-	45,560	-	-	654	-	
Economic business	2,051	119,041	58	37	2,134	58	-961
Total (B)	2,631	354,695	134.8	55	7,364	134	823
Proportion of mutual credits (A/B)(%)	22	53.6	-	32.7	62.1	-	-

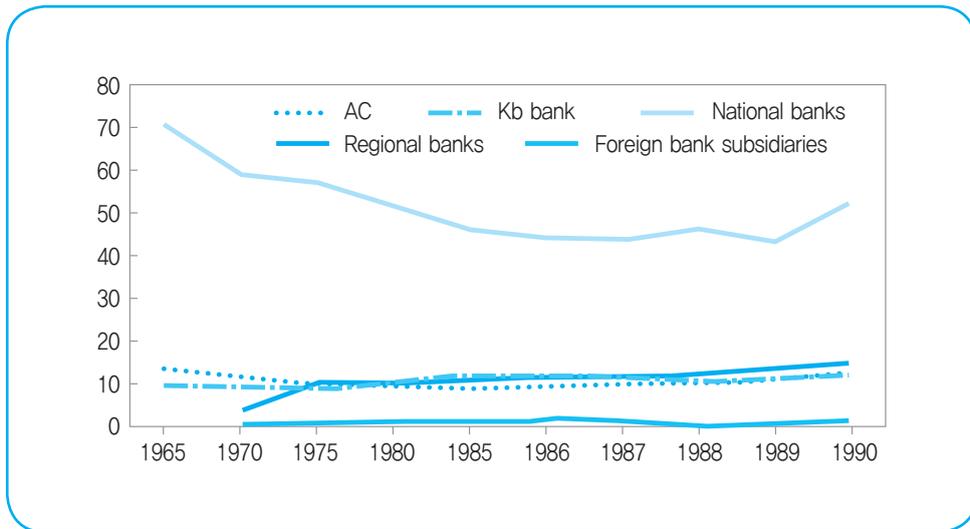
Source: NACF, Thirty Years of Agricultural Cooperative History, 1991, 477

One major factor for improving the outcome of mutual credits was to alleviate funding gaps among areas through the Special Accounting of Mutual Credits which was a federation of the mutual credits. The funds established in Cooperatives in urban areas with relatively plenty of funds were used in the Cooperatives in rural areas that had more demand for funds and thus addressed imbalanced funding among areas. This increased fund productivity and efficiency.

### 3.5.2 Outcome of Credit Business of NACF

The outcome of credit business of the NACF was its full performance of delivering funds from urban areas to the rural areas as originally intended. The NACF was the only financial institution in charge of agriculture before the mutual credits were established to make the Saving Campaign in rural districts. It made the Saving Campaign in Rural and Fishing Villages with the mutual credits after 1970s to achieve a great outcome.

Figure 4-3 | Market Share of NACF Deposits



**Table 4-17 |** Proportion of NACF Loans and Loan Type

	Loans (100 billion won)	Loan types (%)	
		Loans of its own	Policy loans
1965	233	42.9	57.1
1970	1,054	41.6	58.4
1975	2,841	37.7	62.3
1980	11,815	26.1	73.9
1985	28,542	26.9	73.1
1986	32,712	28.2	71.8
1987	44,217	26.7	73.3
1988	54,335	27.1	72.9
1989	67,216	31.3	68.7
1990	90,925	34.4	65.6

Source: NACF, Thirty Years of Agricultural Cooperative History, 1991, 477

When market competition was intensified while the Korean economy grew and the banking industry developed, the NACF made a positive investment in new product development and financial infrastructure to hold its market share and to grow into one of the two major banks in Korea. The NACF had a relatively high market share in 1960 when there were not many banks in Korea. It showed low market shares in the 1970s when more regional banks were established and again in the early 1980s when some new banks entered the market. But it recovered its market share in the late 1980s.

While the NACF held its market share in competition with other banks and continued to grow, fund inflow from urban areas to agriculture and rural districts increased. The proportion of deposit of the NACF for funds used for policy loans was 50% in the 1960s and gradually increased to 70% by the 1980s.

2011 Modularization of Korea's Development Experience  
Operation of Agricultural Cooperative  
for Rural Development

## Chapter 5

### Implications of Experience for Developing Countries

1. Operation of Systems
2. Operation of Business
3. Korea-type Agricultural Cooperative Model and Applicability to Developing Countries

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# Implications of Experience for Developing Countries

## 1. Operation of Systems

### 1.1 Agricultural Policies and Agricultural Cooperatives

Korea used the Agricultural Cooperatives as an important policy partner for enforcing policies for agriculture and rural districts to great success. At a time when food self-sufficiency was an important national challenge, the Agricultural Cooperatives were a successful institution in charge of many aspects including: supplying agricultural supplies including fertilizers, agricultural chemicals and agricultural machinery; in guidance for persuading people about the importance of self-sufficiency of food and asking farmers' cooperation; and purchasing and managing grains for the government. The Agricultural Cooperatives brought up leaders for SMU, which was an initiative with an idea to become financially independent out of poverty and enervation, and developed a rural development campaign and led the regional development campaigns such as the Saemaul Development Project. The Agricultural Cooperatives as a cooperative banking institution introduced mutual credits to effectively mobilize saving resources in rural districts and got rid of bad usurious informal finances in rural districts. Mutual credits were an engine to raise the Agricultural Cooperatives.

Korea did not wait to see the development and results of a few Cooperatives as farmers' self-help, independent and self-regulating organization. Instead Korea courageously established Agricultural Cooperatives all over the country from the socio-legal viewpoint for protecting farmers who were socially weak and from the political viewpoint for implementing rural development according to the Special Act. The Korean government designed the government-controlling cooperative to change some of the viewpoints of a cooperative as a self-regulating organization and lay emphasis on political efficiency. The governance structure of the Ri-Dong Agricultural Cooperatives, the Shi-Gun Cooperatives and the specialized Agricultural Cooperatives in the Agricultural Cooperative Act in

1958 and the Agricultural Cooperative Act in 1961 was made to follow the principle of Cooperatives while the government controlled the governance structure of the NACF. The government thought it was not enough and introduced the appointment system for presidents of Cooperatives including the Primary Agricultural Cooperatives to strengthen the government control scheme.

Such selection by the Korean government was negatively evaluated in terms of self-regulation and damaged the identity of the Cooperatives but was based on the calculations of the situation that a voluntary and self-help organization of Cooperatives by farmers was not expected. Some people opposed this opinion while insisting that the Cooperatives were the sector for learning democracy and that should be learnt even while addressing challenging issues. The government insisted that it was an inevitable strategic selection to use the Agricultural Cooperatives as a strong policy instrument for developing agriculture and rural districts.

The government then demonstrated the logic of protection and control in enforcing its policies. In 1958, the system with the Agricultural Cooperatives and the Agricultural Bank was launched and the two institutions came into conflicts without cooperation. The two institutions were then integrated in 1961 to be switched into the multipurpose Agricultural Cooperatives. The Agricultural Cooperatives were then responsible for the business of government project programs such as: supplying agricultural supplies including fertilizers, agricultural chemicals and agricultural machinery; purchasing grains required by the government; and purchasing raw agricultural products. The Agricultural Cooperatives were specified as an agricultural finance institution for supplying funds to rural districts. The NACF was responsible for the work of banking in urban areas to make a mechanism for delivering funds from urban areas to rural districts. The Agricultural Cooperatives were exempted from all sorts of taxes. This was a strategy for maximizing the effect by concentrating business support on the Agricultural Cooperatives according to the rural development policy.

The Agricultural Cooperatives made steady progress while expanding business with legal and institutional protection and the support of the government. The Primary Agricultural Cooperatives constructed Ub and Myoun-based organizations and their business basis then was to introduce mutual credits and promote the vital commodity business, the purchase and sales business, and the joint use business to rapidly grow. Meanwhile, the Agricultural Cooperatives participated in the Green Revolution for self-sufficiency of food in the 1970s and led SMU, which is a rural development initiative, to further enhance the close relationship with the government.

The government could effectively enforce, monitor and supervise policies even in rural districts through the Agricultural Cooperatives. Because the Agricultural Cooperatives had a monopoly on funds and agricultural input materials and also supplied the necessities of life they could implement a one-stop service for rural residents. This enabled the Agricultural Cooperatives to be competitive in rural districts and the information of rural districts was

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accumulated in the Agricultural Cooperatives. Therefore, the government then had a system for effectively monitoring rural districts and adjusting policies through the Agricultural Cooperatives. That is to say, a very effective policy promotion system was constructed through the relationship between the government and the Agricultural Cooperatives at the government-led development stage.

The strategy for operating the Agricultural Cooperative system, which focused on cooperation between the government and the Agricultural Cooperatives, can be a good lesson to developing countries that are in similar environment and have similar issues. It should be noted that dependence of the Agricultural Cooperatives on the financial support of the government might potentially result in a negative effect of too much financial burden rather than improving the policy effect. It is necessary to also fully contemplate the opposite side effect that such a system may impede the normal development of Cooperatives with respect to self-help, independence and self-regulation thereof.

## 1.2 Selection of Multipurpose Agricultural Cooperatives

Korea's initial Agricultural Cooperatives were separated into the Agricultural Bank in charge of agricultural finances and the Agricultural Cooperatives in charge of the economic business for the purpose of specialized business but it was a failure. The Agricultural Cooperatives wanted fund support from the Agricultural Bank, which did not want to give loans because of the low level of credits thereof. The Agricultural Cooperatives criticized that the Agricultural Bank focused on commercial operation which does not conform to the objective of their establishment. Consequently, the two institutions were integrated by the new government in 1961, three years after their launching, and became the multipurpose Agricultural Cooperatives.

It is generally accepted that the Korean government's decision to make the multipurpose Agricultural Cooperatives was inevitable and right. National urgent issues were self-sufficiency of food, disconnection of the bad loop of debts and poverty and a stabilized rural society. Most of Korea's agriculture at that time was carried out by semi-sufficient small scale farmers who cultivated small multi-items of small quantity. It was not an agricultural structure to implement the specialized cooperative system for each item, business type and function on the basis of specialized and large-scale agriculture as in Western countries. Farmers were not capable of voluntarily organizing and operating Cooperatives. The government established strategies for effectively promoting agricultural and rural development policies through the Agricultural Cooperatives and concentrated its support on the Agricultural Cooperatives. The government had the opinion that it was efficient to organize and support the unified Agricultural Cooperatives rather than those diversified with respect to items and functions, which allowed for easy supervision (Seo, 1992). Furthermore, the government was in urgent need of agricultural development and needed a unified system for the Agricultural Cooperatives to assist administration.

The multipurpose Agricultural Cooperatives had lots of advantages with respect to cooperative operation. The first major advantage was utilizing the benefit in terms of economies of scope through combined management of a plurality of business. It is possible to reduce costs and increase revenues through information sharing and use of common assets by carrying out a plurality of business in parallel as compared to the independent performances of individual businesses. Korea's Agricultural Cooperatives implemented a one-stop service which is to get funds and purchase agricultural supplies, purchase vital commodities, and sell agricultural products in one place, so as to attract more users and thereby contribute to increasing the profits of the Cooperatives and thus giving more benefits to users. The second major advantage was that it was possible to provide services that could not be provided to members by individual calculation because all of the business revenues and costs were comprehensively calculated; when the cost is larger than income in sales and purchase business, if they are individually calculated result in deficits. For such a situation in the Cooperative the revenues from the credit business are used to compensate for the deficits. That is, the economic business of the Agricultural Cooperatives could not be operated without the multipurpose Agricultural Cooperatives. The third major advantage is that the extension service cost can be internally supplied (Seo, 1992).

Most of the people agreed with the multipurpose Agricultural Cooperative system until the 1980s, but some people started discussion on the limit of multipurpose Agricultural Cooperatives in the 1990s. Seo (1990) insisted that full development of the Agricultural Cooperatives could not be achieved only through the multipurpose Agricultural Cooperative system while the economic situation changed in the 1990s. Firstly, a disadvantage of multipurpose Agricultural Cooperatives is that they cannot reasonably operate all of the businesses. A trend analysis shows that they concentrate on business of high profitability or less risk among a plurality of businesses. Secondly, the comprehensive management system makes the multipurpose Agricultural Cooperatives function as an administrative assistant. Korea's Agricultural Cooperatives could have some management profits although they did not promote independent business or do responsible work in the process of performing the role of an auxiliary institution of the rural development policies.

Another criticism was that the multipurpose Agricultural Cooperative system focused on management profits to concentrate on the credit business and to be positive for the sale of agricultural products that members wanted. Such criticism was further intensified while the agricultural product market of Korea was at the stage of oversupply together with market opening. Some people then insisted that it was necessary to separate the credit business from the economic business so as to switch the Agricultural Cooperatives to those who sold the products produced by members. However, since it was considered that independent economic business was impossible without the credit business by the member Cooperatives, one option was to separate the credit business from the economic business in the NACF. This idea was discussed for 18 years and separation thereof was finally decided on in 2011. Accordingly, the business structure of the NACF will be switched to the system in which the economic business and the credit business are operated by different holding companies in March of 2012.

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The experiences in Korea of operation of the multipurpose Agricultural Cooperatives system reveals that the multipurpose Agricultural Cooperative system is a better option than the specialized Agricultural Cooperative system, taking into consideration the agricultural structure, the policy direction and strategies of the government and members' consciousness. These experiences would be applicable in developing countries in which the situation is similar to that of Korea during the period from 1960 to 1970. It is because the multipurpose Agricultural Cooperative system has enough advantages for concentrating government's support on the Cooperatives and protecting the multipurpose Agricultural Cooperatives system so as to encourage farmers to make voluntary efforts while inspiring farmers to be collaborative. This structure is beneficial in conditions when: agricultural and rural development is in an environment where emphasis is laid on the leading role of the government, most farmers are small-scale farmers who produce multiple crops of small quantity and it is a challenge to establish commercial financial institutions in rural districts. However, it is necessary to note a disadvantage of the multipurpose Agricultural Cooperative system described in the above to monitor and be prepared to properly switch direction according to different stages of development.

### 1.3 Establishment of Cooperatives and Basis Thereof

The grass root of Korea's Agricultural Cooperatives has a long history and experience and a material base. Korea previously had cooperative organizations, e.g., the traditional Kye system and Sachang. The government-operated Cooperatives including the Financial Cooperative and the Industrial Cooperative in the colonial period were retained after the liberation. Korea experienced a Cooperative Campaign by the private sector made into a nationalism movement in 1930s. The Rural Practice Cooperative Movement that aimed to establish a voluntary organization by the Ministry of Agriculture in 1952 produced approximately 38,000 leaders within a short period of time. The property of the Financial Cooperative and the Federation thereof and the property of Farmers Association were transferred to the Agricultural Cooperatives to form the initial capital. Regardless of this, it took a long time for the Agricultural Cooperatives to stabilize the basis thereof.

The government established in 1948 intended to create rural Cooperatives, but the government and the National Assembly had different opinions. The outbreak of the Korean War in 1950 deferred establishment of an agricultural cooperative. The Agricultural Cooperative was finally established in 1958, 10 years after the idea was proposed. The communists who acted with the sign of Cooperatives just after the liberation made the idea of Cooperatives to be misunderstood. The government's decision making was affected by: conflicts among the existing organizations that heard of the policy for a new rural cooperative organization and were involved in the Agricultural Cooperatives to take the initiative, and different opinion among the departments of the government on the combined operation of the credit business and the economic business. The government did not take a leadership role in effectively adjusting such opinions and conflicts.

It took 14 years after their launching (1958~1972), until the Primary Agricultural Cooperatives, the central basis of Agricultural Cooperatives, could work properly. The first idea for the system operation was a 3-stage organization consisting of Ri-Dong Agricultural Cooperatives-Shi-Gun cooperative-NACF because villages were considered as a unit for easy cooperation of farmers. However, the Ri-Dong Agricultural Cooperatives could not properly carry out business. Approximately three years had passed since establishing the Cooperatives and encouraging farmers to join at the initial stage of establishment. It was then decided that the Cooperatives were too small, and the first integration was made to expand the scale but failed. Even a cooperative with more than 200 farmer members which was the target for integration could not have an optimum scale for business. The Primary Agricultural Cooperatives did not have offices, staffs and business to prepare for take-off until the second integration plan (1970~1974) that aimed at one cooperative per Ub and Myoun with approximately 1,300 members and was successful.

Most of the businesses of Agricultural Cooperatives were businesses according to policies of the government. Because the Ri-Dong Agricultural Cooperatives, the basic organization of the Agricultural Cooperatives, were not capable of carrying out business, business was carried out by the NACF and the Shi-Gun cooperative. The Agricultural Cooperatives established support policy programs for each level of Ri-Dong Agricultural Cooperatives, and transferred some of the policy business which the Shi-Gun Cooperatives were in charge of, to the Cooperatives who achieved a given scale to be capable of doing business. However, it was decided that this method is not an optimal method and the Ub and Myoun-based Primary Agricultural Cooperatives were then integrated to construct a basis for business. From 1973 when the basis for business of the Primary Agricultural Cooperatives was completed, four policy businesses including fertilizers, agricultural chemicals, mutual aid and agricultural funds were transferred to the Primary Agricultural Cooperatives. The Primary Agricultural Cooperatives launched the mutual credit business and the vital commodity business as their own business in order to gradually shift the focus of Agricultural Cooperative business from NACF-Shi-Gun Cooperatives to NACF-Primary Agricultural Cooperatives. Such shift of business structure among the system organizations of the Agricultural Cooperatives led the Agricultural Cooperatives to grow and take off.

Korea was politically, economically and socially unstable before the birth of multipurpose Agricultural Cooperatives, and the tragic Korean War weakened government leadership. The new government that came into power in 1961 switched the Agricultural Cooperatives to the multipurpose Agricultural Cooperatives and explicitly specified their role for agriculture and rural development. The government supported the multipurpose Agricultural Cooperatives with policy programs and provided a formal protective means. This system was consistently retained and contributed to the growth of the multipurpose Agricultural Cooperatives along with sudden growth of the Korean economy. The following describes the lesson of Korea's experience for use by developing countries.

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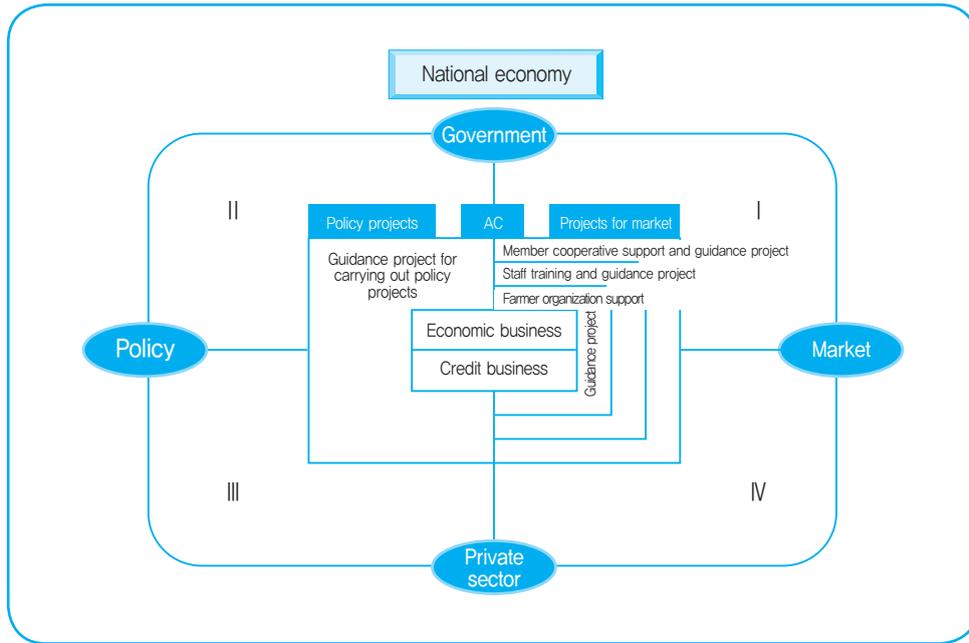
First, the government should trust the cooperatives. Strategies are required for effectively integrating resources in rural districts in order to overcome low level of development, poverty and vulnerable finances. To this end, the cooperatives are the most efficient policy instrument. Second, powerful and consistent policies are required for training cooperative leaders and improving farmers' view of cooperatives. Korea had a long tradition and experience with respect to grass root organizations for cooperatives but experienced a lot of trials and errors until the Agricultural Cooperatives solidified their footing. Government leadership is therefore required to reduce such trials and errors. Third, the minimum scale of cooperatives should be ensured for proper functioning as an organization and for business. It is necessary to make every effort to decide the optimum scale of the cooperatives and to ensure that scale. Fourth, since it may be difficult to find their own good business at the initial stage of establishment of cooperatives, it is effective to use the business for government policy programs. It is necessary that local federations or national organizations carry out the business if the capacity of the Primary Agricultural Cooperatives, the basic organizations at the lower level is not fully matured for business. It is thus necessary to wait for fully matured capacity of the cooperatives, support and bring them up. Fifth, the system organization of the cooperatives should be restructured as the economy develops and the social environment changes. There is no permanent organization that applies to any and all circumstances.

## 2. Operation of Business

### 2.1 Extension Service

[Figure 5-2] shows the classification of divided national economy into the government and the public sector from the viewpoint of the subject of economic activities, and into policies and the market from the viewpoint of organizations. Referring to the classification of the national economy, emphasis was laid on the activities on quadrant II for the initial extension service of ACK. In the government-led national economy in which the government organizes economic activities, the extension service of ACK was carried out by enforcing policy projects mainly for government policy linkage projects, supporting member Cooperatives, training staffs, and supporting farmer organizations. Development of the extension service was expanded into the quadrants I, II and III to contribute to developing all the areas of the national economy together with economic growth and changes in circumstances. That is, complete interchange was not intended for the market and the private sector.

**Figure 5-1 | Classification of the Areas of National Economy and Characteristics of ACK**



The ACK achieved outstanding outcomes for improving the rural development by the strategies of the government and the economic and social standings of farmers in each field since their establishment in 1961. Lessons for developing countries are described below with respect to the extension service promotion system of ACK which achieved such great outcomes.

First, it is evaluated that the extension service promotion system of ACK as a strategic instrument for rural development demonstrated great effects during the period of take-off and growth of the national economy. The objective system, the organization system, the business system and the management system of the extension service of ACK made a great contribution to combining human resources, endowed resources and organization resources in rural districts into the cooperative business to comply with the strong will of the government to promote economic growth. In particular, the management system was constituted to supply and operate financial resources through capital, budgets and funds. This can be a model for developing countries.

Second, we can examine the route of changes in the extension service over time. In the history of ACK, the farmers are classified on the basis of crop farming, livestock farming and management scales as ACK business grows and the national economy grows. The extension service of ACK has changed to respond to a variety of farmers' request to follow such changes over time. In this context, it is considered that the process of changing the

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extension service promotion system of ACK suggests that it is necessary for developing countries to predict the route of switching the extension service promotion system of ACK. It is then important to develop a method of overcoming restrictions and to design a method of vitalizing the factors for development along the steps of national economy growth.

Third, there is a lesson about structural weakness that may be encountered in the process of switching the extension service promotion system of ACK. When the market is expanded resulting in intensive competition, and members request lots of things from the democratic point of views in the society, the extension service promotion system of ACK originally devised as government-led type may exhibit structural shortcomings to create a new extension service promotion system for itself. In this context, the extension service promotion system suggests that it is necessary to devise methods for getting over transient structural shortcomings so that the agricultural cooperatives switch fast to a self-regulating and resident-friendly extension service promotion system.

## 2.2 Economic Business

The ACK has made a great contribution to agriculture and rural development through the economic business. The ACK successfully carried out agricultural supply business including fertilizers, agricultural chemicals and agricultural machinery to achieve self-sufficiency of food and to contribute to the continuous growth of agriculture. The ACK organized producers for members' innovated agricultural product sale and agricultural products and expanded distribution facilities including joint marketing centers and supermarkets in urban areas. The ACK invested in developing and disseminating packing materials, collecting and spreading agricultural product distribution information, processing agricultural products and operating the business. The ACK supplied vital commodities to remote rural areas for members and residents through the Chain Store business of ACK. The ACK employed the single supply price system across the country so that farmers and fishermen in unfavorable remote areas could buy materials and vital commodities at the same price as in urban areas. It would be hard to enforce this system without the cooperative management idea.

The business according to the government policy programs is evaluated as the most successful business of the economic business by the ACK. The business for supplying input materials for agriculture and the business for purchasing, storing, processing and managing the grains made a great contribution to achieving the government policy objectives. The business by the government policy programs had clear business objectives, and less business risk to be a stable income source. However, the ACK incurred loss from most of economic business promoted as their own business, and became positive for the business of loss.

The ACK organized joint marketing farming groups for the agricultural product sale business in the places of production to try route sales through the joint marketing centers in urban areas so as to improve the value added and competitiveness to meet requests from the market. However, this kind of effort was successful in some cooperatives located in

urban areas but had less outcome or failed in most of the rural districts. It was impossible to present the prices members wanted. The sales business of ACK is still the object of members' complaint. The sales business of ACK did not take leadership in the market, but made a great contribution through: expanded distribution facilities, standardized and modernized distribution logistics and transparent transaction practices. However, the ACK did not create their own income models and made up for loss with the earnings from the credit business to be a chronic deficit business. This made the sales business of ACK to be considered a failed business.

The processing business is an important business to produce value added products, but it is hard to find successful cases of the ACK. It is considered that the high price of raw agricultural products to be processed as compared to the imported agricultural products was one major factor. But it is generally accepted that the low level of management mind of the ACK, low level of technical power and insufficient specialized human resources were greater factors. From 1970, the ACK made a great investment in processing agricultural products or agricultural materials but most of the business failed.

The lessons from the economic business experience of the ACK are as follows. First, the business by the government policy programs was very important for the survival of the Agricultural Cooperatives at the early stage of establishment. It may be difficult to do their own business because of low market competitiveness with respect to all aspects including capital, technology, management and experience. In this case, if the agricultural cooperatives carry out the business of the government policy programs as an agent of the government, this might be a win-win strategy for both of the government and the agricultural cooperatives.

Second, priority is given to the purchase business for input materials including agricultural materials and to the consumer goods purchase business for supplying the necessities of life among the economic businesses. The sale business for agricultural products is not needed so much and members or cooperatives will have a small effect if commercial farming is not developed yet. Therefore, the purchase business has priority over the sales business in terms of investment priority.

Third, it is better to select the multipurpose agricultural cooperative system for developing the economic business unless the agriculture is scaled up and specialized. The case of ACK proves this.

Fourth, the economic business of agricultural cooperatives is closely related to the development of infrastructure for agricultural product distribution. The development of distribution infrastructure depends on investment according to the government policy. In Korea, Agricultural Cooperatives' investment in distribution infrastructure, for example, distribution facilities and informatization, was made with government's absolute support and assistance.

Fifth, good linkage is essential between producers' organizations, e.g., the joint marketing centers, and sellers, so as to vitalize the agricultural product sales business. For negotiation

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capacity in the market, it is essential to organize production places to ensure a given volume of marketable products, uniform quality and good grading. Since a stable number of consumers should be ensured so that farmers' effort can be compensated, it is necessary to make every effort to be connected with sellers. To achieve this, it is essential to continue to train members, bring up leaders, develop, innovate, guide and evaluate systems on a long term basis. A lot of efforts and expenses are required, and the ACK has a long way to go for full development in this respect.

### 2.3 Credit Business

The credit business achieved the most outstanding outcome among the businesses of the Agricultural Cooperatives. For the rural districts, the funds collected in urban areas were supplied to agriculture and rural districts to alleviate the limited credits and to enable positive investment. The system continued to normally operate by transferring the policy funds of the government to people to be supported and to normally recover them through appropriate management.

The success of mutual credits is especially outstanding. Most people thought there was no room for saving because they were semi-self-supporting farmers in the 1970s. However, savings were mobilized from farmers to supply the money to farmers who needed it. This is the result of good decision for needs of times and positive promotion of work. The village-based women's associations were the center of Saving Campaigns, and organizations appropriate for each village level were created to effectively encourage farmers to save money during the period from 1970 to 1980. In this period, the One Trillion Won Saving Campaign was the greatest contributor to take off the mutual credits. The deposits of mutual credits increased 14.2 times from 1974 to 1980.

The success of mutual credits enabled the economic business of the Primary Agricultural Cooperatives to be retained at a given level. Because most of economic businesses were not profitable, they may not have been promoted if they were not made up for with the revenues from mutual credits. Therefore, the mutual credits were a great growth engine of the Cooperatives.

NACF's banking business was successful as well. NACF used the background that it was the only financial institution for agriculture and rural districts to collect saving resources in urban areas to achieve successful outcomes. Although the government explicitly and implicitly supported the NACF, the NACF was one of the two greatest banks in Korea until the 1990s. The deposits supplied by the NACF were used as loan resources for agricultural enterprises and member cooperatives. More than half of the deposits were used as financial resources for policy finances. The government could effectively expand policy finance supply only with the Interest Subsidy thanks to the deposits of NACF without using lots of finances.

The success of the credit business of ACK has a dark side. The success of credit business was attributable to formal support to allow monopoly on the agricultural finances and the

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conservative management strategies to reduce risk as much as possible. Therefore, it is true that the credit business of ACK has a negative aspect on the other side of expanding the credit business.

Members criticized that the cooperatives were too profit-oriented and passive for the economic business that members wanted. The ACK had hard time to expand investment in growing commercial farming and resulting accumulated debts from late 1970 to early 1980, and the expanded investment and loans in agriculture and forestry to handle market opening in early 1990s. In this process, the ACK was passive for addressing the issues and was in conflicts with insolvent members suffering from difficulty due to debts. In a similar situation to Korea in 1980s, the agricultural finance institutions of America and Japan who suffered from the agricultural finance crisis made every effort to support farmers but Korea's counterpart did not do the same thing. The ACK tried its best within the limit allowed by law and systems but had the opinion that the issue of farmers' debts was not the problem of ACK but the agricultural policy of the government and farmers' problem who were the subject of fund operation. However, ordinary people thought it was not right for the ACK to continue to grow through the credit business although farmers were suffering from difficulty due to increasing debts.

A case unique to the agricultural finance policy that Korea experienced is the Usurious Loan Project in Rural and Fishing Villages. The government decided that financial transactions of which the annual interest rate was higher than 20% were usurious and stopped transactions thereof in 1961. Instead, it was made known that ACK lent the money for repayment with government guarantee and the interest rate was specified to be 8%. The ACK paid the creditor at 20% and the government made up for the interest difference and the transaction fee. This was an action to control the market by means of instruction but was applied only once because the ACK was incompetent to pay the cost, to monitor and to supervise the operation of instruction. A person who wanted to borrow money in rural districts was thought of as a 'bad person who borrowed the money he/she needed but did not want to pay it back' and nobody wanted to lend money to those people. A policy that ignored the functions of the market was a sample of failed policy as in 'good intentions and unintended evil' (Kane, 1983).

Developing countries can learn the following lessons from Korea's experience from the credit business. First, introduce the funds from urban areas to supply them to rural districts that do not have enough funds. Korea's NACF collected deposits in urban area and utilized them as resources of policy finances for agriculture and rural districts. The Agricultural Cooperative Act which is a special act for transactions with ordinary people of non-members and the general Bank Act to carry out banking work were applied to the NACF for business. It was because it was impossible to carry out such a function as a cooperative finance that has transactions with members. Because of this, the ACK has a dual structure in which the member cooperatives carry out cooperative banking and the NACF carries out commercial banking (bank).

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Second, the market mechanism should be used for successful cooperative banking. From 1970 to 1980, many developing countries focused on supplying low-interest funds for the agricultural sector of low profits and operated financial systems. Many cases ended in failure. Korea's financial policy authority fixed the interest rate of mutual credits between the informal financial market of high interest rate and high risk and the bank interest rate of low interest rate and no risk. Depositors thought that the informal finance was highly profitable but also highly risky, and banks were safe but returned small profits. As a result, many people deposited money in the mutual credits. The government gave tax benefits to the mutual credits to raise the incentive of mutual credits and this worked in the market.

Third, it is necessary to diversify the method of finance supply and use for the policy finance. Korea used various financial resources, e.g., the budgets of the government, loans from the Bank of Korea (central bank), deposits in Agricultural Cooperatives, funds, and loans from other countries. The method of operating the finances includes the Interest Subsidy and the Integrated Account system to meet the circumstance for the funds. The agriculture related funds were recognized as a system appropriate for supplying mid-and long-term funds because of stable operation thereof, unlike the government's budget, and were used a lot from the late 1970s. From the 1990s, people criticized that there were too many similar funds resulting in stiff operation of national finances and high possibility of resource waste. Many funds were then merged and adjusted. Developing countries can select schemes for operating policy finances by referencing Korea's experience.

Fourth, when the economy grows and capital is accumulated, the issue is then the operation of funds rather than supply thereof. It is necessary to have a system ready to handle such a circumstance. The ACK experienced such an issue on a regional basis and then nationally. The mutual credits effectively addressed the issue of fund demand and supply inconsistency among regions through special accounting of mutual credits since their launching. After the late 1990s, the special accounting of mutual credits operated funds in the capital market, e.g., bonds, to address the operation of surplus funds that the cooperatives could not lend. The cooperative financial system of Korea and Japan had a system for effectively carrying out the function of cooperative finance federation, but Taiwan did not and suffered from great difficulty in early 2000. If this system is established after a problem is found, it is too late. Therefore, it should be designed well from the beginning.

Fifth, the successful result of ACK's Saving Campaign was attributable to breaking the prejudice that 'Poor, then no savings'. The staffs of NACF promoted a saving campaign in the mid 1960s to great success. 10 years later, the NACF constituted a collaborative system with the government and administrative institutions concerned to make the One Trillion Won Saving Campaign led by the Primary Agricultural Cooperatives to make the mutual credits grow. It was a case that everyone wants to save money, but the type is different. And, the size can be different depending on the provided incentive.

Sixth, an institution may be required to guarantee members whose credits are low. The CGF of Korea was used according to policies after the mid-1980s. It might have been very difficult to effectively support farmers without the credit guarantee of the CGF.

Seventh, members may dislike cooperative finances if they stick to the financial logic. Financial institutions generally tend to do conservative operation focused on safety and do not make a full consideration of customers. The ACK is not free from such criticism. The Agricultural Cooperatives achieved growth through the credit business, did much work for smoothly supplying agricultural finances and terminating usurious loans in the rural financial market, but were still criticized by some who thought ‘ACK is devoted in money lending.’

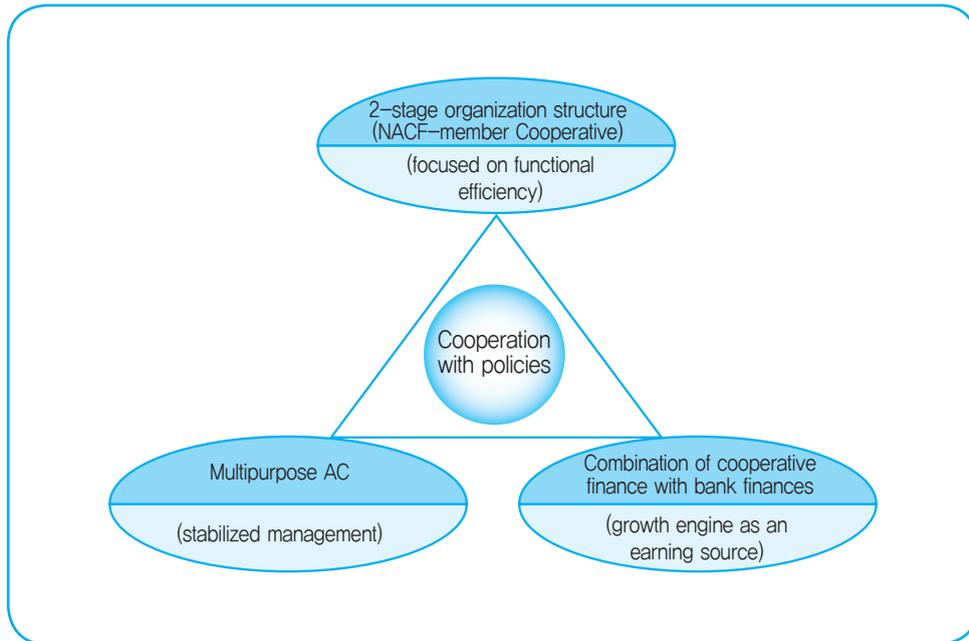
### **3. Korea-type Agricultural Cooperative Model and Applicability to Developing Countries**

#### **3.1 Korea-Type Agricultural Model**

The major characteristics of the Korea-type agricultural cooperative model are that it was made by the government and grew through cooperation with government policy programs. Some of these characteristics are shown in 3 East Asian countries (Korea, Japan, Taiwan), but the structure of Korea-type is a unique Korea-type model. The Korea-type agricultural cooperative model has a 2-stage organization structure of NACF-member Cooperatives to achieve functional efficiency. The business of Korea-type cooperative is based on multipurpose Agricultural Cooperatives for operating all of the economic, credit, policy business and guidance and it grew with the a stable management structure by using cooperative finance and bank finances as a source of earnings. Such a structure was based on cooperation with government policy programs. The 2-stage structure of NACF-member cooperatives was made in 1980 to avoid possible job redundancy between the Primary Agricultural Cooperatives and the Shi-Gun Cooperatives in advance. In Europe, the regional federations tended to be integrated with primary agricultural cooperatives or the national federations from late 1980. Hyun federations of Japan were integrated with the national federations or the primary agricultural cooperatives from late 1990s. Korea’s restructuring was made quite early in comparison of the cases.

The multipurpose Agricultural Cooperatives were the type appropriate for Korean agriculture of small-scale farmers who produce multiple items of small quantity and allowed economic and guidance business to be implemented with the positive earning source of credit business. Combination of cooperative finances (mutual credits) and bank finances (NACF) is unique to Korea and was implemented by means of the government policy for supplying the funds created in urban areas to rural districts. The aforementioned organization structure, business structure and combination of credit business are systems designed and retained in close connection with government policies for agriculture and rural districts.

Figure 5-2 | Model of Korean-type Agricultural Cooperatives



The characteristics of Korea-type agricultural cooperative model are described below. First, they are somewhat public cooperatives that are closely connected with the government policy programs. Since the Korean society was dominated by self-supporting small agricultural economy when the Agricultural Cooperative was launched, their business policy was focused on food production and supply according to the national demand. The Agricultural Cooperatives were in charge of supplying input materials, and storing and supplying grains. Although the role of ACK was asked to change as the Korean economy grew, the role was fixed through cooperation with government policies.

Second, multipurpose Agricultural Cooperatives were focused on implementing the functions of cooperatives. The multipurpose Agricultural Cooperatives were selected to make a business structure which enabled cooperatives to do business. The business according to government policy programs ensured a profitable volume of business and the 2-stage structure of NACF-member cooperatives was embodied at the earliest time in the world for an efficient organization structure. Emphasis was laid on stabilized organization management and the energy for promoting policy programs, but self-regulation and democracy of cooperatives was severely damaged by government's control.

Third, the engine for start-up was business according to government policy programs and the Cooperatives continued to grow on the basis of the success of credit business. If the Agricultural Cooperatives did not carry out business by the government policy programs, it might have been hard to launch agricultural cooperatives in the 1950s. This is proved in that

the Farmers Association lost the business by the government policy programs to result in insolvent management and was then liquidated. The Financial Cooperatives depended on the business by the government policy programs after the liberation to exist. The Agricultural Cooperatives achieved independent management on the basis of bank finances of NACF and the earnings of mutual credits of the Primary Agricultural Cooperatives. The mutual credits became a central financial institution in rural districts to absorb the informal financial markets. The NACF became competitive while the government was a stable client for fund operation and public deposits supplied major financial resources. The government protected the mutual credits by fixing the interest rate of mutual credits between bank finances and informal finance markets according to government policies to attract depositors who wanted to avoid the risk of informal finances.

Fourth, recover the identity of cooperatives on the basis of management success. Independent management is the ground for retaining cooperatives and the starting point for self-regulated management. The Agricultural Cooperatives were organized by the government and grew by means of government's protection and the business by the government policy programs, but tried to reduce governmental intervention. This was highly affected by political democratization, but management success proves this.

### 3.2 Applicability to Developing Countries

The model of Korea-type multipurpose Agricultural Cooperatives can be a model appropriate for developing countries in which most of the farmers are small-scale farmers. Korea's model can be more advantageous than models of any other country for developing countries where an urgent issue is self-sufficiency of food and development of rural financial markets. It is because the first task of agricultural policies in Korea was self-sufficiency of food and termination of usurious informal finances and the Agricultural Cooperatives were the advance guard for such policies. The scheme was highly successful. Members' competence should match the stage of agricultural development to organize and develop cooperatives according to members' need as in European cooperatives which are the original form of cooperatives. However, developing countries have no time to wait for the results.

The Korea-type guidance model was made by leading stabilization and growth of cooperatives through customized guidance compatible with the development level of the Primary Agricultural Cooperatives. This can be a good implication for developing countries. Agricultural cooperatives function well after organization by the support of principles of: organization of operation, staffs' competence, sound business planning of the cooperatives and leadership. It is hard to have human resources to guide all cooperatives at the same time.

Korea's model of agricultural cooperatives focused on organizational efficiency can be a good benchmarking case for developing countries which have inefficient resources for quick stabilization of an agricultural cooperative organization. The typical organization system of cooperatives is a 3-stage business organization of Primary Agricultural Cooperatives,

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regional federated cooperatives, and national federation. The NACF is a special organization as a representative specialized in lobbying to government, training, and investigation. For efficient organization operation, the regional federations (or Federation) are liquidated and the organization is being now reduced to the 2-stage organization of Primary Agricultural Cooperatives. Generally, national agricultural cooperative federations of other countries depend on membership fees of member cooperatives to carry out their roles. However, in Korea's Agricultural Cooperatives, the NACF is integrated with the national federation as one and the same, and this integrated organization implemented efficient organization operation, but it is also criticized regarding its unique cooperative functions.

### 3.3 Disadvantages of Korea's Model

Although the ACK made a great contribution to growth and development of agriculture and rural districts and had a business success, it is true that it has weak points with respect to self-help, independence and self-regulation, specific to cooperatives. Since the ACK was controlled by the government and in addition had government intervention since its establishment, people presented a question about its identity. A few members think that the cooperatives are not their own cooperatives in which they are the focus and the cooperatives are instead a government organization that provides public services.

The success of credit business contributed to making a solid management basis of ACK at the early stage, but made the cooperatives depend on the profit thereof. Accordingly, the habit of dependence hampered the development of economic business including sales of agricultural products that farmer members wanted. The Agricultural Cooperatives did not properly respond to the trends of commercial farming since 1980s and the open market in 1990s and failed to be an agricultural cooperative that sells farmers' agricultural products. Farmer members had more complaints, and the task for reforming the agricultural cooperatives became a political issue and was an object for innovation whenever the political regime changed.

The ACK was not a western-type cooperative voluntarily organized and operated by members, but was established as a government policy instrument to be a policy assistant. The government sometimes approved the ACK as an organization to improve the policy effect for agriculture and rural districts and as an organization flexibly operated rather than as a government institution. This was an advantage of Agricultural Cooperatives to lead the growth of agriculture and changes in the rural society. The Agricultural Cooperatives efficiently worked for supplying and managing fertilizers and agricultural chemicals, and purchasing and managing grains for the government. For SMU in the 1970s, the Agricultural Cooperatives were the center of training leaders to be tuned with the government. However, the aforementioned characteristics were far from the characteristics of cooperatives as a self-regulating organization by members.

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However, the Agricultural Cooperatives who were used to cooperation with and intervention of the government slowly evolved to establish an independent development model as a true cooperative. Participation in the business based on members' consciousness as an owner and the governance structure by members was not explicitly established. Most of members tried to benefit from the Cooperatives and never thought to view the Cooperatives as their own cooperative. They agree to have support from the government according to policies, but are not used to bring up their own business through collaboration with colleague members. This is a disadvantage of the Korea-type cooperatives that has a strong cooperative relationship with the government and it is an important challenge to be overcome in the future.

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