

**AIRGRAM**

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Credit Advisor, Rural Development Division

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*Ag. Coop + Credit*  
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The attached report is one of the last of a series of written communications submitted by Dr. Johnson during his lengthy career in public and private service at home and abroad.

Displeased with the status quo, the author expresses his dissatisfaction as he wishes. USON/K applauds his discerning and independent judgments, for he is more often right than wrong.

Dr. Johnson has given pause for thought to those who direct the cooperative movement in Korea. As such, he has served as a mentor of younger Americans on the RDD staff who are feeling their way toward a tolerable, understanding philosophy of our economic aid program.

As he approaches retirement, Dr. Johnson carries with him, and his wife Jo, our fondest best wishes for the future.

BROWN

Attachments: End-of-Tour Report V. Webster Johnson

*To FTEC 3-5*

National Agricultural Cooperative Federation  
in Financing Farmers of Korea (3 copies)

A.I.D.  
Reference Center  
Room 1656 NS

PAGE 1 OF 1

DRAFTED BY: *Handwritten name*

OFFICE: RDD

PHONE NO. DATE: 2401 7/29/65

APPROVED: *Handwritten signature*  
Frank H. Lambert, Acting

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DATE SIGNATURE PRINTED NAME

End-of-Tour Report (Control No. U-513)Name: V. Webster JohnsonJob Title: Credit AdvisorCountry of Assignment: KoreaTour of Duty Began: July 26, 1963Tour of Duty Ended: August 8, 1964Prior Country Assignment & Years:  
Iran, 1957 - 1961

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I have read USOM Manual Order No. 326.3 on the subject, "End-of-Tour Report" and shall endeavor to follow the suggested format as it applies to my assignment. However, it appears to be more suitable for one working on a specific project or program activity rather than for one engaged in a broad institutional field, such as agricultural credit. In the course of my remarks, I shall mention some of the issues as I see them.

**1. Summary**

As credit advisor to the National Agricultural Cooperative Federation (NACF) and for a short time to the Central Federation of Fisheries Cooperatives (CFFC), I have proceeded upon the assumption that it was necessary to secure a good understanding of the operations, problems and needs of these organizations, in addition to performing advisory services and chores. This I have tried to do. Not only has the gathering of data been of help to me, but I feel in this regard that the total value of my usefulness was extended and that something has been left of value for the months and years ahead.

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In the field of agricultural credit, an advisor in Korea can truly be but a part of a large program. Much of his impact, if any, is intangible, although he may be rather closely associated at times with obtaining funds for a needed purpose. However, unless an advisor can help change policy, the way things are done, good fellowship and associations - however, highly esteemed and cultivated - will leave no mark on the work to be done.

As an advisor, I have tried to be a good teacher in an atmosphere of trust and confidence, while standing firm for changes believed to be right; and not always saying what others would like to hear. I have not hesitated to take an affirmative position; but with full appreciation of the difference between the task of an advisor and that of an administrator.

In this setting, I would say that my main contributions have been: (1) to view credit as a means to increase agricultural production based upon well formulated plans; (2) to encourage a realistic intermediate and long-term credit program; (3) to reshape the existing program of supervised agricultural credit; (4) to discourage the use of credit as a relief measure for submarginal farmers; and (5) to use credit to a much larger extent in the marketing of farm products through NACF and its affiliated cooperatives. A start also was made in exploring the credit requirements of CFPC and assistance rendered in improving upon its financial resources and operations; i.e., the transfer of counterpart funds, budget needs for operating capital and investments, and credit procedures.

It is in these areas that I would recommend concerted attention and greatly expanded effort in the days ahead. Also increased recognition should be given

to agricultural credit as an essential part of programs or measures affecting land uses, occupancy and tenure that stem from custom, laws, administrative measures and land management practices.

B. Existing difference between U.S. and local practices and adaptations attempted and approach followed

The elements of a good agricultural credit program are much the same throughout the world. For example, a good agricultural credit system (1) must have a strong organization; (2) it must be provided with adequate loan funds that are used for productive purposes; (3) in time, a substantial part of the loan funds should come from the savings of farmers; and (4) the growth of farmers' cooperatives is of key importance in servicing the credit needs of farmers and in making for an expanding agricultural economy. Differences between countries are in degree, not in substance.

But, the services of an effective advisor cannot rest in a knowledge of sound principles of credit. I strongly feel that there is no substitute for a good understanding of the operations and functions of a credit agency. Thus I found it necessary, at an early date, to analyze the different loan accounts of NACF to determine the existing practices and procedures in making and collecting loans and the status of the loans. I found in the files practically a total void of even good descriptive material on credit operations; i.e., financing fertilizer sales, the rice lien program, anti-usury debt settlement or other major functions of NACF.

In the accompanying publication, "National Agricultural Cooperative Federation in Financing Farmers of Korea," I have brought together some material bearing on the credit situation and problems. This report summarizes the content of a number of my papers. It has been widely distributed and translated into Korean.

A research study on agricultural credit in Korea is now in the process of publication. This was a major undertaking. Progress in the preparation of this report was hindered by personnel changes within the Research Division of NACF and by some weakness on the part of the staff of this Division in analyzing data. However, as a whole, they have done well. The published report undoubtedly will be lacking in several respects. But it will shed light on the agricultural situation and credit problems in Korea - information of timely significance. And the voluminous tables of 195 pages in the appendix might well be a fertile field for additional study by graduate students and others. It was a pleasure to work on this research project.

A pilot project in intensive supervised agricultural credit was carried on in Nakha-Ri natural village area. Excellent cooperation existed between Ministry of Agriculture and Forestry (MAF), NACF and the Ri Cooperative. A letter of appreciation was received from the villagers.

For the Fifth Far East Agricultural Credit and Cooperative Workshop held in Seoul last May, I assisted officials of NACF and others in the preparation of basic materials, papers and reports. Of these and other of my efforts, my associates in NACF have often expressed their appreciation and gratitude.

In addition to an understanding of the credit situation and problems of NACF, it was necessary to arrive at judgments as to good lending practices, and to have a viewpoint of the course of agricultural developments in projecting credit requirements. Credit does not function solely within the elements of a good credit system. It is necessary to think of credit in relation to agricultural development in Korea and of credit as a part of a total land resource development program.

In this regard credit can be an effective tool for up-grading farm units, and the extension of credit through cooperatives with guidance has a most significant place in land resource developments on existing farms and newly established farms.

If agricultural expansion is strategic in the economic development of Korea - and few would doubt this - then cooperatives that extend credit and supplies to farmers are of key significance in the economic development of the country. For it is only through cooperatives that the credit needs of farmers, the furnishing of farm supplies, and the introduction into agriculture of large amounts of capital may be physically achieved and on reasonable terms. Also, without the cooperative-credit function, it is most difficult to visualize a process of rather rapid capital accumulation by farmers, which is so important to rural development. Thus a well functioning agricultural credit program is at the heart of a viable economy for Korea.

Central Federation of Fisheries Cooperatives (CFFC)

During the past six months, a part of my time was spent with the CFFC as credit advisor. My approach to the task was similar to that followed with NACF.

In 1962 CFFC was established by raising the status of the Central Fisheries Federation; and, worthy of mentioning here, CFFC was designated as the financial organization for all cooperative fisheries credit activities. Previously, a number of agencies - mainly NACF and Korean Reconstruction Bank (KRB) - handled the credit activities for fisheries.

The fishermen of Korea are poor, very poor, indeed, but poor people who hold a key place in the economy of the country. Indicative of their status is the fact that 70 per cent of thereabouts of their credit is costing approximately seven per cent a month. On the economic front, the rich fisheries resources of Korea provide a major source of food for the people. Also, in 1964, foreign exchange earnings amounted to \$23,660,000, or approximately 20 per cent of all the earnings. And the fisheries industry is of paramount importance in the total economic growth of Korea.

During the past 18 months loan accounts and some cash funds were transferred to CFFC from NACF and KRB. Around 65 per cent of these accounts were delinquent, and although a good job is being done in collections - through marketing agreements - the fact remains that CFFC, is at this time, very short of operating capital.

The forthcoming Korean-Japanese settlement provides for a grant from Japan of the equivalent of \$100 million in boats and fishing equipment over the next ten years. As this capital is sold, funds will accrue that can be used, at least in part, for operating purposes. Also as a part of the settlement, it is anticipated that loan funds in the value of \$90 million will be extended by Japan to Korea, ~~and~~ CFPC has no banking funds. It cannot discount paper with the Bank of Korea (BOK), but relies on bank credit from NACF at 16 per cent per annum. The present amount borrowed is more than  $\frac{1}{3}$ 00 million. In the immediate months ahead CFPC will be faced with a need for careful and timely finance planning, particularly in raising operating capital, providing badly needed facilities and in carrying-out essential training programs. Otherwise, it will be most difficult to use effectively the available capital goods and commercial credit forthcoming from Japan.

C. Suggestions and relevant thoughts

1. It is my feeling that guidance in the use of loan funds and the extension of credit are functions of NACF. There is ample place in Korea for the Office of Rural Development (ORD) of the MAF to carry on demonstrations and training activities for improved farming practices and better rural living. The lending and guidance functions of NACF and the guidance activities of ORD should be closely integrated in the use of credit. These two independent agencies should work together as a team.

It is of paramount importance for a successful program of supervised credit that the agency responsible for making and collecting ~~lending~~ guidance

as to how the funds are used. The extension of credit and its supervision can best be done if both are a package deal. Herein lies an opportunity for a vastly improved program of supervised agricultural credit by NACF. Supervised credit also should be introduced in the lending practices of CFPC, and steps have been taken to do so.

2. Both NACF and CFPC are eager to expand materially the cooperative marketing services. The opportunities are most promising. Improved marketing would make for a more orderly movement of products, increased incomes of cooperative members and support price stabilization.

Marketing and credit services should go together. Otherwise, it is not possible for a borrower to receive the full benefit of a loan nor, under the cooperative system in Korea, to raise the level of cooperatives to that of truly farmers' or fishermen's organizations.

3. In fisheries the two broad aims of planning and programming by government should be: (a) to do for the fisherman what they cannot do for themselves and that which is socially necessary, and (b) to encourage and coordinate activities that fall within the sphere of private initiative. The next few years will be a critical period in the development of the fishing industry in Korea. To handle effectively and to use wisely the capital goods and loan funds from Japan are gigantic tasks. Service facilities must be substantially expanded and the staff of CFPC substantially enlarged and up-graded. Although funds are being budgeted for these purposes, a danger is that this will not be done as fast as needs require, nor will adequate operating capital be made available to service

properly the increasing volume of loan funds and investment capital. The use of additional counterpart funds might well be considered in relation to CFFC's needs and in promoting the private enterprise sector of fisheries.

D. 4. To carry out the projected land resource development program in Korea, a greatly expanded program of intermediate and long-term credit will be required. Some progress has been made in this direction. However, there is a tendency, or, one might say a practice, for resource planning to move faster than finance planning in Korea. Thus physical activities for land development are, at times, begun without adequate funds to finance them. Land resource developments and the up-grading of farms to economic units or better will require a large amount of capital set in motion through credit. As a part of development programs, new legislation is also necessary. For example, legislation to permit NACF to take a land mortgage as security for a long-term loan; and comprehensive legislation for paddy land rearrangement and upland developments, including financing arrangements.

Credit operations to achieve certain goals, are good programs provided they are a part of a good total program. At times, NACF has been requested to support undertakings ~~not~~ of which the financing was <sup>not</sup> a part of the planning process; nor as it has happened for some undertakings was there an acceptable basis for extending credit.

Closely related to agricultural credit, I would say that Korea is in need of a comprehensive land policy. A policy that would encompass land resource planning and programming, land tenure measures and agricultural credit,

A land policy should be concerned with the utilization of, and tenure rights in, present farm lands and for new agricultural land brought into use by development programs. Forest and recreation lands and the conservation of watershed lands must also be an integral part of any comprehensive land policy for Korea.

In addition to a growing demand for production credit for more and better fertilizers, insecticides, improved seeds and other short-term uses of credit, capital investments in the agriculture of Korea will loom high in the years ahead. In the first place, the need is great for land and water developments, and secondly, even though yields can be increased substantially <sup>by</sup> improved farming practices and better plant varieties, the very low average annual capital investment in agriculture is not encouraging.

One cannot go into village after village in Korea without noting the meager physical improvements, the poverty and, on the other hand, the hundreds of school children on the march. The rising expectations of the younger generation will demand a much better rural life and some of the comforts of the time. An opportunity to do much better must be a part of the way of life. If not, the future may be fraught with explosive social unrest.

5. Farm indebtedness is increasing. According to the recent NACF credit survey, indebtedness increased by 40 per cent during the period 1963-1964. However, the proportion of the debt to total assets per farm household remains low about five per cent at the end of 1964. This relationship is largely because farm land values, which account for around 81 per cent of the value of all farm assets, have been increasing at a rate of some 20 to 30 per cent per annum during the past five years.

The ratio of indebtedness to farm income was found to range from 15 to 30 per cent, with the smaller farms having the larger proportion. It is this relationship of indebtedness that calls for close observation, for both farm indebtedness and credit delinquency have been creeping up to higher levels.

This increase in indebtedness has arisen from the use of credit at times: (1) As a measure of farm relief; (2) inadequate supervision and guidance; (3) financing of questionable undertakings; and, of course, (4) because of adverse weather conditions and other similar hazards. However, the latter causes are more likely to give rise to temporary delinquency in contrast to chronic delinquency arising from loans that are economically unsound.

It should not be forgotten that farmers often view NACF as a government agency, not as a farmers' organization, and that some 65 per cent of the farmers farm to exist and not for the market. But they well know that fertilizer and insecticides, with reasonably favorable weather, are necessary for good crop yields.

If the credit burden becomes unbearable to farmers from high priced fertilizer and other needs supplied by NACF, they may well endeavor to shift at least, a part of the burden to NACF through credit delinquencies. Under the present system of government barter for grain, particularly for rice and with a government fixed price, the creditor-debtor relationship of NACF and farmers takes on characteristics that are different than in a purely loan transaction.

6. No better way exists for cooperatives to become farmers' cooperatives than for farmers to acquire a substantial equity interest in them. NACF has

set up several savings schemes for the accumulation of farmer capital. Under projected plans, by 1972 farmers will own ¥19 billion of share capital in NACP's affiliated cooperatives. This is only ¥8 billion less than the total volume of loans made in 1964. To date, savings are accumulating somewhat faster than the programmed scheduled amounts.

In closing, I wish to say that I have enjoyed very much my stay in Korea. My Korean associates were earnest and intelligent public servants with an understanding of the task ahead. They have been good folks with whom to work and live. My associations in RDD have been pleasant. My experiences have been truly interesting and challenging, and I trust that I have contributed a small bit to a better agricultural credit program in Korea and something helpful to the credit operation of CPFC.

BROWN