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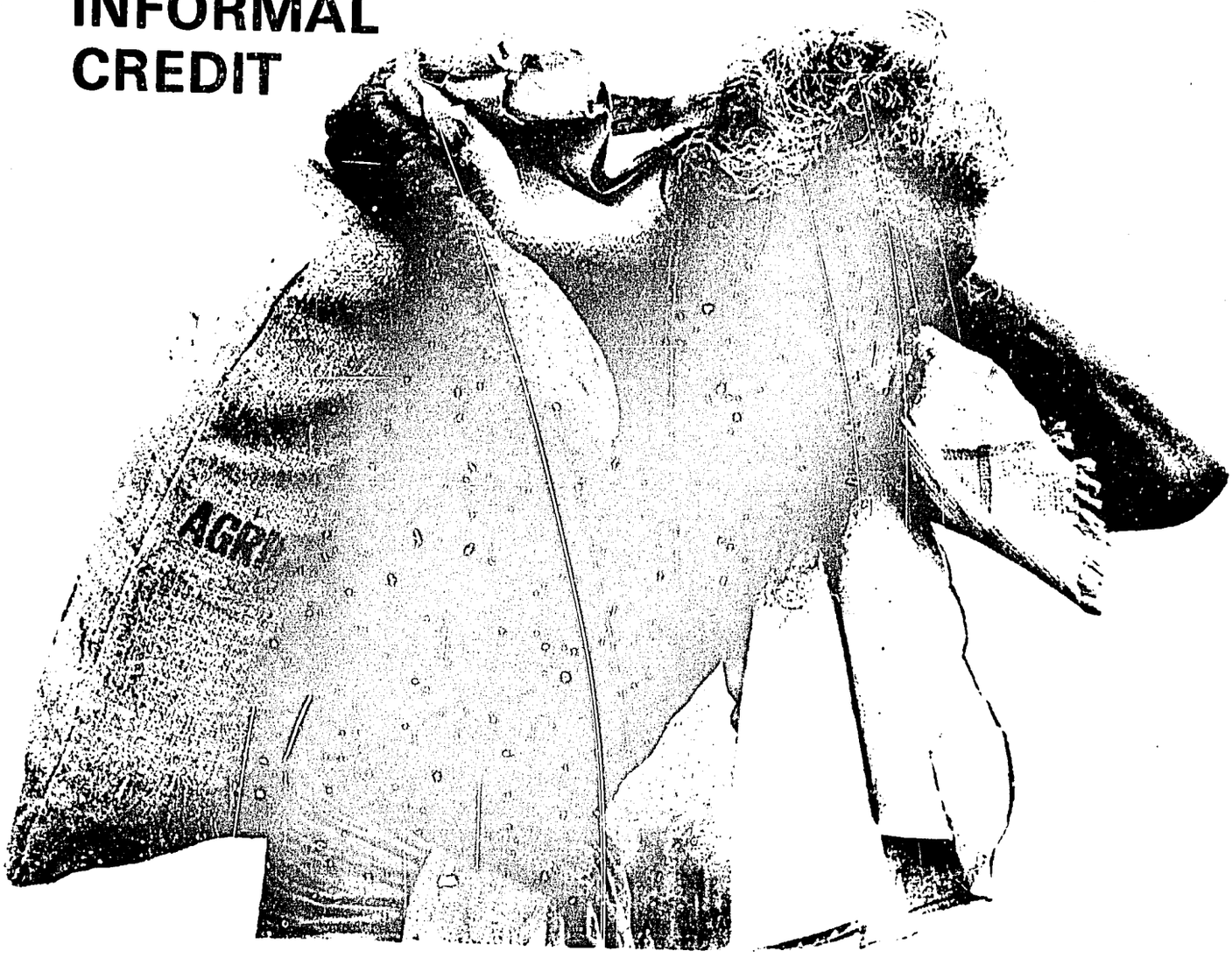

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Editors Note

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	Informal	Formal
Nisbet	several	
Roberts	several	credit union, banks
Long	several	banks
Burcroff	landlord	
Barton	merchants	
Roberts	several	
Geertz	rotating C.	
Norvell	rotating C.S.	
Kyu	rotating C.S.	coops
Williams		agri business
Gladhart	laborer	

INFORMAL LENDERS AS SUPPLIERS OF DEVELOPMENT CREDITS TO SMALL FARMERS IN DEVELOPING COUNTRIES: ATTRACTIVE OR DECEPTIVE ALTERNATIVE

Charles T. Nisbet
Evergreen State College

Olympia, Washington
January 1973

Informal Lenders as Suppliers of Development Credits to Small Farmers in Developing Countries: Attractive or Deceptive Alternative

Charles T. Nisbet*

I. INTRODUCTION

During the past 25 years concerted efforts have been made around the world to accelerate the pace of agricultural development. Advisors from rich Western countries have observed the underdeveloped state of capital markets in the developing countries and have pushed for the monetarization of these nation states through the expansion of financial institutions. The first and "traditional" approach was to establish more private and state banks in the hinterlands. This approach has serviced mainly the large farmers and made no noticeable progress at integrating small farmers into the money economy (Nisbet, 15). The second and "reformist" approach sought to bring agricultural credit to small farmers through newly created financial institutions (development banks, cooperatives, etc.). The majority of programs of this variety have been disappointments (Long, 12 and Sanderatne, 21).

Because of dissatisfaction with these two general approaches some interest has turned to a third alternative, that is, utilizing existing informal lenders as a conduit for public funds to small farmers. It is the purpose of this paper to explore the third alternative and evaluate it as a policy option for developing countries.

The second section describes the two rural credit markets that exist in developing countries. One must understand the supply and demand sides of both of these markets in order to evaluate alternative strategies. Section three presents various factors that appear to favor expanded utilization of informal lenders. Section four includes factors that seem to argue against the increased utilization of informal lenders as development agents for small farmers. Finally, section five suggests a policy position and summarizes the evidence presented earlier.

II. RURAL CREDIT MARKETS IN DEVELOPING COUNTRIES

Two Sector Agricultural Credit Markets

Rural credit markets in the developing countries are not well described by one sector models because of the absence of perfect or near perfect homogeneity on the supply side (lenders) and the demand side (borrowers). Furthermore, the substitution essential for free movement of borrowers and lenders to establish equilibrium within the agricultural sector does not take place. The heterogeneity on the supply side and on the demand side provides the necessary conditions for the existence of a two sector model credit market.

Heterogeneity of borrowers exists under the following circumstances: (1) the cost of granting credit to borrowers differs, and (2) borrowers vary as to degree and kind of personal ties with lenders.

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*Member of the Faculty - Economics, Evergreen State College, Olympia, Washington. This study was financed by the Agency for International Development (AID) as part of their 1973 Spring Review of small farmer credit programs in the developing countries. All views, interpretations, recommendations and conclusions expressed in this paper are those of the author and not necessarily AID. Responsibility for any shortcomings, of course, rests entirely with the author.

The first circumstance is a purely economic consideration. Some borrowers are large farmers, others small; some are owners, others renters; some are highly educated while others barely read and write. Borrowers possess balance sheets representing a range of different net worths. They may also differ as to their degree of entrepreneurial skill. The first circumstance, in addition, asserts that loan sizes vary, that in the case of several small loans the administrative costs will be greater; that borrowers live different distances from suppliers; that collection costs vary among borrowers; and that the lender does not have the same degree of knowledge about each borrower. The second circumstance assumes that lenders take into consideration some non-economic factors. Some borrowers have political and social friends, while others do not. Some applicants have no borrowing history and no record as a depositor.

Heterogeneity of lenders exists under the following circumstances: (1) the services offered by lenders vary, (2) the product offered by lenders differs, (3) the procedures for obtaining credit differ, (4) the lending operations are geographically limited, (5) the lending criteria change from lender to lender, and (6) locations among lenders differ. First, some lenders have facilities for mobilizing liquid funds and others do not. This indicates that some lenders could receive time and demand deposits and/or require membership shares while others do not. Second, lenders might offer cash and/or commodities or variations with extras (extension services, marketing facilities, exclusive buying contracts commitment to buy other products and more). Third, lending procedures could be written or verbal; they could involve other institutions or only the lender; they could take three minutes or three months. Fourth, a lender might be national in scope or only regional. Fifth, the lending criteria could be based solely upon economic considerations (e.g., balance sheets, mortgage co-signers) or some combination of economic and non-economic factors (e.g., being a neighbor of a lender, being an employee of the lender, being a business partner of the lender). Sixth, the lender might be an urban-based institution or an individual situated in a rural community.

Therefore, when the preceding two conditions of heterogeneity on the supply and demand sides are satisfied, there exists an agricultural sector with at least two credit markets. Let us turn to a discussion of these two credit markets.

The Institutional Credit Market

The instituional credit market comprises the conventional suppliers of loanable funds, e.g., private and public commercial banks, private and public savings and loan institutions, public financial institutions (cooperatives, development banks, etc.) and agrarian reform institutions and their clients.

In the institutional market most loans require that the borrower sign a promisory note that often demands a co-signer; some loans (mainly medium and long term) require a mortgage or other real collateral. Loans are backed by values which usually exceed the amount loaned. Nominal interest rates charged vary from 4 to about 25 percent annually depending on the rate of inflation in the country.[1] Rates in agricultural are typically below rates found in other sectors and less than the annual rise in the consumer price index. Most loans are short term (one year or less) but some medium and long term loans up to about eight years can be found. Application procedures vary among lenders but some form of commercial bank procedures predominates. The borrower goes to an office and

[1]About the most comprehensive study to date is Wai (19).

answers questions submitted by secretaries; then he is filtered through various white collar employees and finally he talks to a loan officer or maybe the manager. The borrower must present a series of forms (statement of financial condition, tax records, land titles, references, co-signers, etc.) all properly stamped. These forms may vary depending on whether this is the first loan he is requesting from the institution, whether he is a large or small farmer, whether he has friends and/or influence in the lending institution. In many cases the borrower is asked to come back in a few days, a few weeks or even a month or more to learn the preliminary decision on the loan application. Sometimes the farm is inspected by bank employees to evaluate the property and potential production.

Table I offers a comparison of the characteristics of clients (borrowers) within the institutional credit market with those of the informal market for one developing country. On the basis of the five characteristics shown we can see that over 60 percent of institutional borrowers are identified as landowners, controlling more than five hectares of land, having more than seven years of formal education, working farms that utilize modern machinery and equipment and producing a gross output of more than $650 a year.

The Informal Credit Market

The informal credit market consists of regionalized transactions of money, real goods and services among friends, neighbors, relatives, shopkeepers, itinerant traders, landlords, and moneylenders and their clients to facilitate consumptions, production and trade.[2]

In Table I notice that over 60 percent of informal borrowers are identified as landless farmers, operating farms of less than five hectares, having less than six years of primary education, exploiting their farms with only hand tools and an occasional horse or ox, and showing a gross farm output of less than $650 a year.

The supply side of the informal credit market is quite heterogeneous because of the variety of lender types, the diverse items lent and the regional character of credit transactions. To be classified as a lender operating in the informal credit market a lender must not: (1) have facilities for mobilizing liquid funds, (2) have formalized procedures for applying for credit, nor (3) be an urban based institution.[3] Stated positively the previous criteria could be used for the institutional credit market.

Basically, seven types of lenders exist within the informal market. There are four "non-commercial" lenders (friends, neighbors, relatives and landlords) and three "commercial" lenders (village stores, itinerant traders and moneylenders). The distinction is based upon the lender's reported reasons for extending credit. The "non-commercial" lenders extend credit to maintain friendship, land tenure and reciprocity relations, while the "commercial" lenders's primary concern is to receive a satisfactory return on loan capital. In Chile, the former group comprises 52 percent of the lenders while the latter claims 48 percent.

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[2]There exists another type of credit not covered here. This is "supplier credit." Some large manufacturers and/or distributors of agricultural inputs offer credit directly to farm operators. Supplier credit would represent a sub-category of institutional credit since these firms operate and depend upon the institutional credit market with few exceptions. Supplier credit is exclusively available to large farmers and thus of no interest for questions dealing with small farmers.

[3]This classification implies than an informal lender must not: (1) receive deposits and/or require membership shares, (2) require written application forms, balance sheets, notarized property deeds, nor inspections by credit supervisors, nor (3) have home offices in regional centers or capital cities.

Table I

Borrower Characteristics for the Chilean Informal and Institutional Credit Markets

Characteristics	Informal	Institutional	Totals
Farm Size:			
Less than 5 ha.	60.0		
more than 5 ha.		89.4	
Tenure Type:			
landless	64.0		
landowners		75.8	
Education:			
6 years or less	93.4		
more than 7 years		53.1	
Mechanization:			
light or none	86.7		
heavy or medium		63.6	
Gross output:			
less than $650	62.7		
more than $650		80.3	
Total number of borrowers	75.0	66.0	141[a]
Percentage of total borrowers	53.2	46.8	100.00

[a]The remaining 59 cases from the sample field survey were either non-borrowers (35 cases) or farm operators who utilized both the institutional and the informal credit market (24 cases).

The 24 farmers borrowing in both markets could be important from the view of market integration and market linkage. In general, borrowers from this group approximate the characteristics that describe borrowers from the institutional credit market or at least go beyond those that typify borrowers of informal credit. For example, farmers who borrow in both markets are principally owners of Comuneros (farmers having a joint right in common land), operators of medium-sized farms, and educated beyond the primary level. The 35 farm operators who were not operating with either credit market (non-borrowers) are very difficult to categorize by borrower characteristics because this group contains farmers who (1) cannot get credit for one reason or another, (2) prefer not to use credit unless absolutely essential, (3) do use credit but refused to give this information during the field survey, and (4) have tried unsuccessfully to obtain credit and do not wish to admit failure.

Source:

The empirical evidence presented in the table was obtained from a sample field survey. The sample field survey for the 1964-65 agricultural year was taken of two hundred farm operators (owners, sharecroppers, administrators, commoners, and renters). The sample was selected on a quota basis from ten of the most prominent agricultural provinces within the 25 provinces of Chile. The final result was a sample of 200 cases drawn from 50 sectors.

Numerically, the village store is probably the most significant single lender, at least in Latin America, because low income people spend up to 60 percent of their total income on food and receive the majority of their incomes only once or twice a year. This results in a high demand for regular credit from village stores.

Most loans in the informal market carry no conventional backing since the idea of providing collateral is foreign to the participants. Usually the guarantee for loans is the verbal promise of the borrower; a person's word takes the place of a mortgage or co-signer. Rural people trade frequently on their name which encourages a reputation for honesty, reliability and seriousness toward financial obligations.

The interest rate charged varies a good deal. Non-commercial informal lenders frequently lend at negative real rates or zero rates while "commercial" informal lenders charge positive real rates that range from 10 to 100 percent annually (Adams, 1; Wai, 26; Nisbet, 14; Campbell, 6 and Stitzlein, 23). The effective rates charged would be even higher if it were possible to account for "hidden charges".[4] Almost all loans are short term, that is, one year or less.

The application procedure for credit in the informal market is quite simple. The borrower talks directly to the lender about his financial needs.[5] There are no forms to fill out, no interviews to complete, no references to submit, no lines to stand in, no land titles to present, no taxes to pay or stamps to buy. Since the lenders and borrowers know each other, the borrower asks for credit directly without preliminaries and the lender usually accepts or rejects the request immediately.[6]

The zone of operation for the informal credit market varies considerably depending on the type of lender. Relatives might travel 100 miles to carry out a transaction; itinerant traders roam the countryside through entire provinces seeking clients; money lenders tend to operate within very small areas, and loans granted by neighbors and friends take place in the same neighborhood. Yet the zone of operation of the informal credit market is not limited to a radius around a population center; it is found everywhere around small villages and in dispersed settlements through the entire countryside. Informal lender zones exist next to, away from, and in the middle of the zone of operation of the institutional credit market. Generally, the informal market's zone of operation ranges from one-half to 15 miles depending on the type of lender and geographical conditions.

III: SOME FACTORS FAVORING EXPANDED UTILIZATION OF INFORMAL LENDERS

Size of the Market

Frequent reference (Adams, 1 and Fairchild, 7) is made to the "size" of the informal credit market. A credit market has two important size dimensions: (1) the volume of funds that flows through it, and (2) the number of individuals that participate within the market.

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[4]Hidden charges include: (1) requiring that the borrower pay a premium for the privilege of receiving credit, (2) lending in the form of a check that must be passed on to a third party to be cashed for an additional charge when borrower has no checking account, (3) demanding repayment in kind for a loan made in cash and undervaluing the commodity received, (4) demanding labor services for the favor of giving the loan and (5) giving no receipts so borrower can be required to pay more than the original amount. (Nisbet, 14).

[5]For an example of the dialogue between a moneylender and a borrower in Colombia see Nisbet, (17).

[6]A 1965-66 field survey in Chile by the author revealed that 64 percent of informal borrowers received the loan the same day and 36 percent from two to seven days afterwards.

Table II provides information on the two dimensions of size. One can see the informal market is a more important supplier of funds in Asian than Latin American countries. In Latin America, the informal market has more than 50 percent of total borrowers although the volume of credit is quite small. Also, Table II provides a hint of what is happening to the "size" of these markets over time. In the case of India and Pakistan the informal credit market is declining in importance although it remains by far the most important. There appears to be sample evidence from Latin America that indicates a rising importance for the institutional credit market (Oweis, 20). We must remind ourselves that all this data come from rather small and non-statistical samples.

One point about size is that the informal market either services a large number (50 percent or more) of the total rural population and/or supplies a significant (more than 50 percent) or non-significant (less than 20 percent) quantity of funds to the agricultural sector. If the bulk of rural people already deal with informal lenders would it not be easier to go through existing lenders than to switch over to new (institutional) lenders? If the quantity of funds to be supplied is small in total and per farmer, would it not be more economical to supply funds through the informal market than switch over to institutional lenders? If the quantity of funds is large would not the informal lenders be in a better position to expand their operations efficiently, rather than to set up new and more costly institutional alternatives?

Borrower Preference

One of the most obvious reasons for utilizing the informal market for channeling public funds is that rural poor prefer to deal with this market over the institutional market. Surprisingly, many rural people do prefer informal lenders. For example, in Colombia (Nisbet, 18) 53 percent favored dealing with moneylenders over commercial banks.

Some of the reasons for this preference pattern among small farmers can be drawn from the farmers' own statements:[7]

a. "They (informal lenders) don't require so much, if any, paper work."
b. "He (informal lender does not delay, he just says sign this note and take the money. . . . .all in the same day."
c. "Even though I must pay more interest he (informal lender) gives me more time to pay."
d. Informal lenders are not as difficult to deal with, they speak the same languate as the client.
e. "They (informal lenders) have more confidence in the small farmers."
f. A farmer often needs to anticipate his needs to obtain loans from the institutional credit market.
g. Loans from informal lenders "can be obtained more quickly and with less red tape."
h. "The bank is an all day trip from my farm while he (moneylender) is just down the road."
i. "He (village merchang) will also buy my crop at harvest time but the bank won't."
j. "The banks are just for the rich."

Some experts believe it is simply easier administratively and more efficient economically to go along with positive preferences in the direction of the informal credit market than to allocate the time and resources to alter preferences in favor of existing or new lenders within the institutional credit market.

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[7]These statements were obtained by the author during field studies in Colombia (1963), Mexico (1964) and Chile (1965-66), see Nisbet, 18, 19 and 14.

Table II

A Comparison of the Size of the Institutional and Informal Credit Markets

Percentage Distribution of the Volume of Loan Funds that Flow Through the Institutional and Informal Credit Markets in Selected Countries

Country	Year	Institutional	Informal
Chile	1966	85	15
Ceylon	1967-68	15	85
Ecuador	1966-67	90	10
India	1951-52	7	93
India	1961-62	17	83
Iran	1963	10	90
Mexico	1966	85	15
Pakistan	1951	16	84
Pakistan	1969	37	61
South Korea	1964	40	60
Taiwan	1965	65	35

Sources: Nisbet, 16; Oweis, 20; and Wai, 25

Percentage Distribution of the Number of Farmers Who Participate Within the Institutional and Informal Credit Markets in Selected Countries

Country	Year	Institutional	Informal
Chile	1966	46	54
Colombia	1962	43	57

Sources: Nisbet, 16 and 17.

Note: The above percentages are for those who receive credit. In terms of the total agricultural population anywhere from 20 to 40 percent of total farm operaters without loans from either credit market.

Lower Risk Premium

Most observers of rural areas (Agrawal, 2; Bottomly, 4) agree that informal lenders have an advantage over institutional lenders in terms of the risk premium portion of the interest rate. The lower risk premiums come to informal lenders via their own personal information about clients.

Having been born and raised in the rural area the informal lender has accumulated this knowledge over time. An equal stock acquisition by an institutional lender would be very costly to obtain. Also, the marginal cost of additional information is lower for the informal lender than for the institutional lender.

In terms of day to day lending activities, then, the informal lender knows personally the farmer who comes to him for credit. He does not need to have him fill out an application form or even waste time talking to him if he is an extremely bad risk. An on-farm-inspection is unnecessary because he already knows the size, condition of the farm, number of farm animals, etc. This type of information is available to most people who live within the rural community; however, the informal commercial lender has the incentive to catalog mentally and to keep such data current so as to minimize risks.

Ability to Adjust Interest Rate

The informal lender is able to adjust interest rates on all loans to reflect the costs and risks peculiar to the loan situation. Often there are no legal barriers to a freely adjusting rate, but even with usuary laws, lenders build this added risk into the interest rate structure. There are no public relations problems caused by differential rates of interest since, commonly, the borrowers lack alternative sources of funds. That is, the segmented informal lender market (imperfect competition on supply side) and lack of information[8] (on the demand side) create and maintain differential rates of interest among informal lenders and for the same lender.

Of course, theoretically, this adjustment feature of the informal lender would increase the number of farmers who could be reached with agricultural credit. But one must remember that this same adjustment feature allows for the extraction of monopoly rents.

The institutional lender on the other hand is usually locked into charging one intererest rate for all loan applications. This forces the institution, as a profit maximizer, to exclude most small farmers because a rate of interest corresponding to costs and risks cannot be levied.

Lower Collection Costs

Typically, it is not as difficult for informal lenders to collect outstanding loans as it is for institutional lenders (Wharton, 24). There are supply and demand side reasons for this pheonomenon.

On the demand sideborrowers tend to view the two loan markets differently. The rural peasant would rarely entertain the thought of not repaying a loan in the informal market even if it takes longer than he had planned originally. But often he views the institutional credit as a kind of gift, or as a right to assistance from the government after years of promises from various politicians.

On the supply side, the informal lender has more complete information on the true financial condition of the lender, where he can be found, who his relatives are, etc. The lender can apply indirect pressures through local religious, political or economic friends.

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[8]This lack of information can be attributed to the lack of incentive to produce information on the supply side, the regionality of the transactions, low levels of education of borrowers and economic immobility of borrowers.

Lower Transaction Costs

The average fixed and average variable costs are typically lower for the informal than for the institutional lender (Bottomly, 3 and Long, 10). The institutional lender will buy or lease a piece of the most expensive rural real estate, a section of the village plaze; a special building will be constructed or leased; plant and equipment will be purchased which all adds up to substantial fixed costs. The informal lender carries out business from his home or farm, from his village store, etc. and purchases no special plant or equipment for his lending operations.

The institutional lender will employ a doorman, secretaries, bookkeepers, loan officers, bank managers, farm inspecters, chauffeurs and maybe extension agents. The informal lender employs only himself, and when he needs the information, he drives himself to the farm for inspections.

Link Up the Two Credit Markets

If funds could be passed from institutional lenders through informal lenders to small farmers, these two credit markets could be linked. Once they are linked via informal lenders, monetary policy promoted by government financial institutions, (i.e., interest rate policy) would have a more direct effect on the entire agricultural sector. Presently, the informal lender is not directly tied to the institutional market since primarily he draws upon his own personal wealth as his source of credit funds (Oweis, 20, and Moore, 13).

Thus, such utilization of informal lenders might provide the cheapest source of credit to high risk small farmers and simultaneously integrate the entire rural sector.

IV. SOME FACTORS AGAINST EXPANDED UTILIZATION OF INFORMAL LENDERS

Absence of Inherent Development Goals

Within the informal lending process there is no inherent development goal that includes the economic improvement of the client. In fact, generally, it could be just the reverse. The informal lender could prefer to maintain the economic status quo or actually to promote the decline of the client so that he might acquire real assets or accumulate labor services and other valuable personal services (loyalty, voting proxies, etc.)

Institutional lenders, on the other hand, supposedly are lending solely for the purpose of advancing the economic status of the small farmer. The absence of inherent development goals on the lender side contributes to a perpetuation of the traditional agrarian society. Historically, in this stiuation the small farmer has been poor, politically, socially and economically.[9]

At least in the absence of a primary development goal the economic improvement of the client falls down to a low priority item or circumstantial outcome and does not promote rapid agricultural development. For example, there could be some absolute improvement in the living standards for small farmers while the relative gap between the rural rich and poor widens. . .not a very tolerable situation.

Probably only in a market situation approximating perfect competition would the goals of the lender not be of major importance to the economic prosperity of the small farmer clients.

Absence of Credit Supervision

Once credit is granted, usually there is no further contact between the lender and borrower until the time of repayment. What the borrower does with the funds or real goods is of no concern to the

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[9]Recently some research in Mexico (Ladman, 9) has found small farmers paid high interest rates to informal lenders because of high cost and risk factors but they could affort to pay up to 100 percent a year due to high marginal productivity of capital to these small farmers. This finding runs counter to what I generally have seen in the developing world.

informal lender. Thus, there is a complete absence of supervision in this market.

This opens up the problem of loans in money versus loans in kind or consumption versus production loans. With an informal lender there can be no distinction between the two types of loans; they are the same for him. If one is concerned about resources ending up in productive activities so that total real output can increase the informal market offers little hope for this outcome in any guaranteed sense.

Informal lenders do not provide technical assistance to their clients. There is no reason why they should be interested in this activity since it would only increase their costs of operations while having little, if any, effect on the demand for credit. Often informal lenders possess no technical agricultural knowledge themselves. Since it cannot be assumed that sufficient technology will be embodied within the inputs the lenders grants on credit to make technical assistance unimportant or that small farmers will on their own seek out and obtain technical assistance elsewhere, this presents a problem.

Some may argue that this service can be provided by a government agency, for example, and added on to the credit granted by the informal lender, maybe even for gratis. This grafting of institutionalism on to an informal arrangement would simply not work for obvious administrative reasons.

Absence of Supporting Services

Most institutional lenders provide some of the following supporting farm services: crop purchasing, price supports, pre-planting and post harvesting market information, storage facilities, transportation of produce to market, crop insurance and others. The informal lender provides none of the above services. However, some informal lenders take advantage of small farmers who find themselves without these services. The result is that some small farmers sell their crop a month or two before the harvest at 20 or 30 percent below the harvest price (Wharton, 24). Some farmers with small harvests and no means of transportation sell their output at harvest time to itinerant traders at large discounts (Nisbet, 15). In the absence of storage facilities the small farmers sell all their harvest precisely at the time of lowest price to local merchant-lender who has storage space.

The point is that small farmers, more than others, need these supporting services if they are not to forfeit a heathly percent of the profit margin to informal lenders. Since the informal lenders currently benefit from the absence of these facilities why should they provide them?

Increases Monopoly Rents to Lenders

Unfortunately, the supply side of the informal market is not characterized by perfect competition. Informal lenders in Latin America (Nisbet, 14) and Asia (Gamboa, 8) possess and exercise market power (Bottomly, 5). Increasing the supply of funds flowing through this market most likely would mean increases in monopoly rents. This would rend to exacerbate the already highly sensitive problem of income distribution. This approach would lack the social welfare component that most developing countries are taking toward the problem of rural poverty. There is no indication that informal lenders will re-invest increased earnings in rural development. There is no indication these informal lenders are the most economical way to finance rural development. In short, this approach would not seem justified on the basis of equity and/or efficiency.

Some might argue that the government should lend to the informal lenders at preferential interest rates and even guarantee their loans so these informal lenders could pass along the risk and cost savings to their clients. But it would not be of interest to the lenders to pass this full savings along. Interest rates to small farmers would fall only enough to allow the lenders to again maximize profits

(and increase their monopoly rents) at some larger scale of operation (assuming no changes in the existing demand curves). There is no economical way to police the lenders to insure the passing along of the full savings to the borrowers.

Reinforce the Rural Status Quo

Often rural areas of developing countries have been characterized as "traditional societies". That is a composite of socio-political, economic and religious ties and relationships that are static or slow to change. Roles are clearly defined and interdependent with others. Generally, the leadership or elites within the rural areas own the majority of wealth and income producing agents. For life to continue undisturbed the majority of the population must be kept poor and uneducated, ill informed, and unsophisticated for the minority to maintain their grip on rural society.

Rural informal lenders are in the upper echelons, not necessarily the top, of rural society. They and other non-lender members have no desire to abdicate their place or role in that society. If anything, they constantly fear change that could threaten their status and search for means to reinforce it.

Thus, additional monies flowing through informal lenders to the small farmers must be seen by the lenders as an additional opportunity to reinforce the rural status quo in their community which necessitates the continued poverty of the small farmers.

An informal lender who was truly a "development lender" would be a threat to rural stability. This lender would become an outcast from his own minority of privileged few. He would thus be acting contrary to his own self interest.

At present the existing institutional lenders that service small farmers represent the only source of competition, albeit weak and limited, to the informal credit market. A small number of the rural poor currently has a choice of where to borrow. If public monies were to flow through the informal credit market at the expense of existing institutional sources, the market power of the informal lenders would be strengthened relatively and absolutely.

V. A SUGGESTED POLICY POSITION FOR DEVELOPING COUNTRIES

This paper considered the possibility of utilizing the informal credit market as a conduit for public funds to small farmers. We have seen that this alternative appears attractive since there are many farmers to be serviced and the per farmer quantity of credit is small. Also, we have taken account of small farmers' own preferences and found they favor dealing with informal lenders versus institutional sources. In addition, the assignment of a risk premium will be less in the informal credit market due to the existing stock of information available to their lenders. There is the added attraction of interest rate adjustability within this market. Furthermore, informal lenders would operate with lower collection and general administrative costs relative to institutional lenders. Finally, we see this as an opportunity to link the two markets together and facilitate the macro operation of monetary policy. These considerations certainly seem persuasive.

But we also took a look at a list of reasons why this alternative might not be as attractive as it first appears. We took note that there is an absence of inherent development goals within the informal credit market. Also, we saw that informal credit is extended without any supervision as to purpose or most productive application. In addition, we took note that supporting services that small farmers lack and so desperately need to marshall profitable farm operations are not offered by informal lenders. Furthermore, such a channeling of funds could lead to an increase in monopoly rents for informal

lenders and aggravate income distribution problems. Finally, it was argued that this alternative would not bring an end to poverty or aid in the process of economic growth but contribute to a continuation of the existing status quo within the rural areas.

It is the author's opinion that the disadvantages outweigh the advantages so as to make this alternative not an attractive one for developing countries. I do concede that there may exist special cases where the reverse may be true, however, this will remain an exception to the rule and not a guide to a general policy position.

An end to rural poverty will come at the expense of the informal credit market. That is, this market will be by-passed by growth and development. It will not disappear but diminish in size and importance.

What then can the public sector do if it can't push funds through either the institutional or the informal credit market? Policy makers must first come to realize that credit may well be the critical variable for large farm operations, but by itself it is not for small farmers. This will open the door to considering that economic imporvement for the masses of rural poor in developing countries is a "package" problem. For any small farm projects to have a high probability of success all the variables that affect farm operation must be identified and manipulated during a particular agricultural season. Just leaving out one variable through ignorance and carelessness could easily spell failure for small farm operations attracting rural poverty.

What I am suggesting as the policy alternative is comprehensive development planning for the agricultural sector. Before this can take place national priorities must be established and national development plans written for the entire economy. From these plans output priorities will be established and comparative advantages noted for the agricultural sector. Regions of the country will be identified that are to fulfill these output priorities.

Within particular regions the tiny inefficient farm plots will be consolidated either through land or administrative reform. The newly defined and larger size farm operations will take advantage of the low shadow price of labor and utilize whenever possible labor intensive practices. This will not only conserve scarce foreign exchange but contribute towards soaking up rural under and unemployment. These new farming units will operate with year round technical assistance that begins with pre-planting soil preparation and continues through the harvest season. All the proper productive inputs will be applied to the agricultural operation in this way. Storage facilities will be constructed and transportation equipment purchased to facilitate the marketing process. Some form of federal price support or guaranteed pricing system will be utilized. In this way credit to small farmers will become one of the necessary ingredients in the "development package" that will bring an end to rural poverty.

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SOME ASPECTS OF THE UTILIZATION OF EXISTING CREDIT SOURCES BY INSTITUTIONS APPLYING PUBLIC FUNDS TO SMALL FARMER CREDIT PROGRAMMES IN AFRICA

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SOME ASPECTS OF THE UTILISATION OF EXISTING CREDIT SOURCES BY INSTITUTIONS APPLYING PUBLIC FUNDS TO SMALL FARMER CREDIT PROGRAMMES

SUMMARY

Credit institutions charged with applying public funds to small farmer credit programmes in Africa have often had difficulty in establishing satisfactory contacts with the farmers for whom they are attempting to provide a service. By contrast, other credit sources, both institutional and non-institutional, have frequently developed very satisfactory working relations with peasant farmers to whom they have made loans for a variety of purposes. This paper discusses some aspects of the utilisation by public-funded agricultural-credit institutions operating in rural Africa of the peasant-farmer links established by existing credit sources.

The limited evidence available suggests that although existing institutional credit sources such as commercial banks and registered cooperative societies can be of direct use in the operations of public credit institutions, it is unlikely that traditional credit sources can assist in a similar manner. However, the latter have a vast amount of experience and can thus contribute in various indirect ways to the success of the operations of public credit institutions.

(1) Introduction

Institutions handling public funds and charged with making agricultural production credit available to small farmers have been set up in many African countries in the last few years. However, it is recognized that much expansion of loan-provision facilities will be necessary if the farm-credit needs of this sector are to be satisfactorily met. These institutions have frequently had difficulty in establishing a satisfactory working relationship with small farmers. But other sources of credit exist and these, by definition, have already achieved such a relationship. In these circumstances it is useful to examine the extent to which existing credit sources can assist credit institutions handling public funds.

Before considering the relationships, actual and potential, between the existing credit sources discussed in this paper and small farmer credit programmes using public funds, it is necessary to define what is meant by the two latter terms. Small farmer credit schemes are those schemes which involve the provision of credit so that peasant farmers can utilize more or better agricultural-production inputs than would otherwise be the case. Thus the credit provided is production credit; either a change in technology is involved or, as is sometimes the case, a farmer already using improved methods and inputs to a certain extent is enabled to extend his use of improved technology. Public funds are those funds made available by a government. Such funds are usually administered by a government department, a state-owned bank or by a parastatal organization specifically charged with providing credit to farmers.

Four types of credit sources are considered as potential aids to credit institutions handling public funds. Two are traditional in the "indigenous" sense. These are the money clubs (also known as esusu-type societies) and money-lenders. The others are institutionalized cooperative societies (in particular credit unions) and commercial banks.

The assistance an existing credit source can offer to a credit institution handling public funds is of two broad types. Firstly there is general help in establishing a satisfactory link with farmers, particularly with regard to the disbursement and repayment of loans. Secondly, there is specific assistance with

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particular types of loans; this would take the form of advice. Institutional credit sources may well be able to assist with advice with respect to agricultural-production lending in particular localities, but, as will be shown below, indigenous credit sources, by and large, cannot do so.

However, it is the basic establishment of a link with small farmers that is the immediate concern both of new credit institutions and credit institutions wishing to expand into new areas. This is the main problem examined in this brief paper. The discussion in each section is by no means exhaustive and a shortage of empirical material has been a great handicap. Nevertheless some tentative guidelines are proposed at the end of the paper. These relate to the nature of the assistance existing credit sources can provide in the establishment of a link with small farmers, and have been formulated chiefly on the basis of Zambian experience. Further evidence, as and when it becomes available, may indicate the extent to which the guidelines apply to larger areas of the African continent.

The discussion begins with a consideration of institutional credit sources. This is followed by a section dealing with relevant factors concerning indigenous credit sources.

(2) Institutional Credit Sources

2.1 Commercial Banks

In the first wave of post-Independence development fervour in Africa, the emphasis was commonly on industrial development. The commercial banks played an important role here, a role which they found familiar and satisfactory. Now that the development spotlight has turned to rural development, and, in particular, to the small farmer, commercial banks may well feel less comfortable. Nevertheless, for reasons of maintaining good public relations, such banks have been keen to at least show that they are attempting to play a part in rural development. This is usually at some cost to the bank, but the cost is not as great as it might otherwise have been since it has often involved the staff and facilities of under-utilized rural branch offices. One considerable advantage which commercial banks have as opposed to some other credit institutions is that they have skilled personnel at their

disposal. Until recently, commercial banks had only rarely been involved with the individual peasant, whether for agricultural production loans or for any other type of credit. Therefore, unlike non-institutional credit sources, they are not associated with any custom-induced bias towards any particular type of lending to farmers in this sector of the economy 1/.

In the past, commercial banks were regarded by peasant farmers as being of relevance only to business and salaried persons. However, with the coming of independence, and the inevitable change of currency, contact was made between the banks and peasant farmers, since the latter were obliged to change their money. The amounts of money changed by farmers often surprised bankers and, indeed, encouraged them in rural savings drives which were, however, undertaken primarily as public relations exercises 2/.

These savings drives had mixed success as far as the quantity of savings collected was concerned, and the money involved tended to be invested in urban rather than in rural enterprises 3/. However in many cases a link between the banks and the peasant farming sector was developed as a result of these savings drives, particularly since bankers learned of the existence of a number of relatively successful farmers in various areas, the latter being people who had built up their farm enterprises from small peasant holdings to the stage where they were relatively heavy users of purchased inputs, including engine-powered machinery, and were thus potential bank customers.

1/ Non-institutional credit sources are customarily connected almost exclusively with consumption credit and credit occasioned by contingency expenditure. Lending for farming purposes is generally a new field for them.

2/ Many commercial banks operated rural savings drives. Some of these were based on rural branches; others used specially-equipped vehicles as mobile branches.

3/ See page 206 in Amogu, Okwara O., (1956), "Some notes on saving in an African economy", Social and Economic Studies, Institute of Social and Economic Research, University of West Indies, Vol. 5, No. 2, pp. 202-209, and page 353 in Porter, Richard C., (1966), "The promotion of the 'banking habit' and economic development", Journal of Development Studies, Vol. 2, No. 4, July 1966, pp. 346-366.

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In addition to this type of contact, which was experienced by many banks in African countries, some banks attempted to implement their own small-farmer credit programmes. One interesting example is the Family Farms Ltd. Project in the Southern Province of Zambia. The special features of this project, together with its on-going success, make it worth study. The project is due basically to the initiative of a Church of Canada missionary, advised by officers of Barclays Bank of Zambia Ltd. and the Zambian Ministry of Rural Development. The land involved in the project consists of farms once occupied by expatriate settlers. Many of the latter have moved away, allowing re-settlement by Zambian farmers from the neighbouring, over-crowded Trust and Reserve Land areas. The promoters of the scheme, which include the three bodies mentioned above, have formed a non-profit making company to organize both the re-settlement and the input supply, marketing, advisory and credit services to the new settlers.

The special features of the scheme are as follows:

1. The settlers are granted a fourteen-year lease on their land. Both grazing and arable land is fenced. The lease is renewable and marketable, and such is the demand for the newly-created small farms that settlers need have no fears regarding the soundness of their investment in long term improvements such as fencing and water supply.

2. Public funds provided by the government credit institution are utilized for medium and long term loans. A commercial bank provides seasonal credit for crop production.

3. All the settlers operate current accounts with the commercial bank providing the seasonal credit. Repayments of seasonal loans are made by stop-order arrangement with the parastatal marketing organization. Repayments of medium and long term loans are also to be made through the commercial bank.

The project involves 73 farmers to date, with the settlement of a similar number planned for the near future. During the first year of full operation the project recorded 100% repayment of seasonal loans. Farmers' current accounts were also building up rapidly and it is envisaged by the promoters that repayment of the medium and long term development loans will commence in the near future.

The Family Farms Ltd. Project demonstrates the possibility of channelling the efforts of promoters of rural development through a single controlling body whilst at the same time harnessing their various abilities and facilities for the scheme. In this connection Family Farms Ltd. utilizes the fact that the farmers already hold bank accounts at Barclays Bank to facilitate all monetary transactions including the disbursement and repayment of public funds. Clearly where such cooperation is possible there are considerable advantages for public-funded credit institutions in making use of the specialized facilities, skilled personnel and reputation of commercial banks, besides, where possible, building on the link between banks and small farmers by virtue of the customer status of the latter.

The Family Farms Ltd. situation is as yet unusual in Africa because of the land tenure aspect, that is, farmers hold a marketable lease on their land. Attention is given in the following section to credit operations with farmers operating under customary land tenure. Two credit sources are involved, a credit union loaning members' deposited savings and a credit union collaborating with a credit institution handling public funds.

2.2 Cooperative savings and credit societies

A cooperative savings and credit society (often called 'credit union') usually draws its membership from people having a common bond, for example church membership, a common employer or residence in a particular locality. It is thus identified closely with a specific area. Most credit unions in Africa are still relatively small and have a voluntary, part-time staff rather than salaried employees. Thus the administration is closely associated with the membership of the society. Credit unions are able to undertake most types of lending, within the limits imposed by their resources; the resources being, generally, the deposits made by their members.

Although, in most cases, African savings and credit societies do not have large pools of funds from which to make loans, this has not often been a constraint to lending. (Table 1 below illustrates this principle for two Zambian credit unions). Rather, many African credit unions have found that their loanable funds are under-utilized within the society and so have to be invested elsewhere.

TABLE 1

The extent to which the two Southern Province credit unions have channelled deposits into investment on members' farms, 1969

	Society 1		Society 2	
	Number of members	Aggregate amount $	Number of members	Aggregate amount $
Total deposits and shares	185	3200	170	7707
Farming loans	1	34	27	1529
Loans for non-farming productive purposes	2	168	8	2262
Loans for provident purposes 1/	25	1117	1	64
All loans	28	1319	36	3855
Percentage of savings channelled into productive investment	-	6.3	-	49.2
Percentage of savings channelled into farm investment	-	1.0	-	19.8

1/ Expenditure in this category includes that for the purchase of consumer goods, and for the payment of school fees and court fines.

Paradoxically this does not mean that the credit union members have sufficient access to farm credit. Often they do not and this is probably due to the fact that the credit unions are still in their infancy in that strong prejudices to the use of local money in farm investment still exist 4/.

A situation such as this is one where the use of a credit union as a channel of public funds for farm investment can be considered. An example of a credit union practising this in an indirect manner is given below, where the activities are described of two rural credit unions in the Southern Province of Zambia. One of these societies issued a considerable number of farming loans from its own funds, whereas the other chose to negotiate on behalf of its members for loans from the parastatal Credit Organization of Zambia.

The farmers involved in the Family Farms Ltd. Project described in section 2.1 above are relatively well-advanced, with high commercial motivation and farm-management ability, and have satisfactory access to farm-production inputs. By contrast, the credit union members' farms are in the reserve where customary land-tenure prevails. The farming is generally on a smaller scale and is less advanced than that of the farmers in the commercial bank project. Two cooperative savings and credit societies were formed in the locality in 1967. Prior to this the societies had been savings clubs, only commencing the issue of loans when the promoters considered that the members and, in particular, the office-bearers, were sufficiently well educated.

Both societies provided savings and loan facilities for their members. Table 1 gives details of the savings and loan position of each in November 1969. Society 1 issued virtually no agricultural-production loans whereas Society 2 was relatively active in this field. But Society 1 also acted as a channel for public funds, the details of which are given in Table 2. It is interesting to examine the reasons

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4/ Much peasant farming in Africa is conducted within a non-commercial milieu, such that farmers are reluctant to invest their own funds in farming. This is partly because of the risk, but partly also because it is simply not customary to do so. The latter reason is particularly applicable in areas where labour migration has been common. In these areas employment, not farming, is regarded as the means to a cash income. Farming is not seen as relevant to the cash economy and is certainly not regarded as a suitable enterprise for cash investment. (A more detailed discussion on this point is given in, Roberts R.A.J., 1972, The role of money in the development of farming in the Mumbwa and Katete areas of Zambia, Dept. of Agriculture and Horticulture, University of Nottingham, pp. 27-33.)

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TABLE 2

Credit Organization of Zambia loans negotiated by Society 1 officials on behalf of members of that society, 1968/69

	Number of members involved	Aggregate amount in $
Fertilizer, seed, insecticide	33	3584
Fencing materials	24	1137
Tractor hire	4	151
Implements	3	84
All farming loans	33	4956

for Society 1 concentrating on obtaining loans from the parastatal credit institution for its members rather than on providing loans from its own savings. After collecting data directly from the members, and interviewing the promoter of the society, the author considers that the following factors helped to bring about this situation:

1. The society was still very young at the time and, since it had started some years earlier as a savings club, it was more used to collecting savings than to making loans.

2. Public funds, from the parastatal institution, were available, and were available in larger quantities than the society itself could have afforded.

3. The society was not considered to be simply a savings and credit cooperative. Rather, it was regarded as a rural development club where self-help efforts by members were encouraged. Thus the arranging of institutional credit for members was not seen as being incompatible with the status of the society.

4. The promoter realized that members' keeness to increase their use of purchased inputs in their farming might be reinforced (for reasons associated with risk-sharing) if the money for their purchase were to be provided by the Government, rather than from the credit union.

The society negotiated the loans on behalf of its members and arranged for the transport of the harvested crops to the market. It did not stand as guarantor of the loans. In fact the total funds deposited with the society at the time were considerably less than the total credit negotiated with the government credit institution (see Tables 1 and 2). The total value of the loans negotiated was $4,956 and the value of crops marketed by borrowers $7,384. The repayment rate of these loans was 92% 5/. It is thought by observers of the scheme that although society members obtained the loans on their own merits, the intervention of the

5/ In the same year the national repayment rate for these types of loans was 12%.

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credit union on their behalf resulted in more loan arrangements being made, in greater individual loan-productivity (through assistance with supply and extension factors), and a much higher repayment rate than would otherwise have been the case. It may be said that this particular society provided a relatively satisfactory vehicle for the short-term investment of public funds in members' farming enterprises. The structure and environment of the credit union were both unexceptional and there seems to be no reason why societies elsewhere could not be used similarly as links between credit institutions and peasant farmers.

(3) Indigenous Credit Sources

3.1 Advice from indigenous credit sources on agricultural credit

The nature of traditional agriculture in many parts of Africa has meant that purchased inputs have rarely been used and therefore agricultural-production credit has been almost unknown 6/. As development and the greatly increased use of purchased inputs proceeds agricultural-production credit is becoming of increasing importance. However, because this is a relatively recent phenomenon, the indigenous credit systems have seldom become well-established in this aspect of credit. Conversely, credit for consumption purposes and for non-agricultural enterprises such as transport and small retail businesses is a concept and practice well-established in many African societies 7/.

This distinction between agricultural-production and other types of loans is important because it means that indigenous credit sources have little initial advantage over institutional sources with respect to farm-credit operations.

6/ Individual farmers have been obliged from time to time to make use of labour other than that of the immediate family. Where such practices have not been part of reciprocal labour agreements payment has usually been in kind, or by monetary arrangements which have not involved a third party providing credit.

7/ Although all production and consumption activities tend to be closely associated in family enterprises, money for different purposes remains clearly identifiable. This means that credit is obtained for specific purposes. A new type of loan, such as one for fertilizer purchase, might not be entered into readily by either the borrower or the lender, even though a loan for the purchase of a bicycle or of refreshments for an initiation ceremony might be.

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Clearly then the chief benefit which association with an existing indigenous credit source can confer on a credit institution wishing to operate in a given area is in the provision of a link with the farmers. Indigenous credit sources can only rarely offer special expertise in the field of farm credit *per se*.

3.2 Money clubs

Most of the money clubs (traditional savings and credit societies) in Africa are rotating credit associations, or developments of this type of club. The basic rotating credit association operates as follows. A group of people meet regularly to make a fixed monetary contribution and the aggregate amount thus realized at each meeting is distributed to the members in turn. In different parts of the continent this basic type of club is variously known as the *esusu*, the *ekub*, the *tontine* and the *kuu*. Although termed "traditional" it is clear that rotating credit associations have not been static in their form or their function in changing economic environments. Thus Seibel notes that until the early 1950's, when monetization became widespread, the rotating credit associations in Liberia dealt not in money but in rice and other commodities 8/. He notes that the substitution of money for goods began with the employment of people in the Firestone plantations in the 1920's and that this process gradually spread to clubs in other parts of the country 9/. This evolutionary change involved the commodity with which the societies operated.

Another development was concerned with the method by which the rotating credit associations operated. Thus, instead of the disbursement of the funds taking place after each regular meeting, they were sometimes allowed to build up over a period encompassing several 'depositing' meetings. Then at the end of an agreed period, the accumulated funds were distributed amongst the members. Seibel has noted that this takes place in Liberia, and the present author understands that this procedure is frequently followed in Nigerian clubs.

8/ Page 39 in Seibel, H. Dieter, "Indigenous economic co-operation and its developmental function in Liberia", *Co-operative Information*, Vol. 3/70, ILO, Geneva, pp. 7-53.

9/ Seibel, op. cit., p. 38.

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A further evolutionary development was that the esusu-type societies, having accumulated funds by postponing disbursement to members, used these funds to make loans. After an agreed period of time, during which the loans were repaid, the savings and profits (resulting from the interest on loans) were distributed to members. These societies have officers with specific tasks, including a loan committee. In all they are very similar to a credit union, except that their origins mean that they are constituted socially rather than economically.

Whilst much has been written on the restraining effects of traditional village life on rural development, attention has also been drawn to some elements within such society which may facilitate development. Thus Myint notes that "the value of a cohesive force of social discipline in promoting economic development is becoming increasingly recognized" and, more specifically, that "it would be an interesting task to find out how far the surviving traditional institutions in a continent like Africa are capable of serving this role in promoting economic development ... at the local or tribal level ... (through bodies) such as cooperative societies ..." 10/.

The evidence on this is both scanty and conflicting. Thus, in 1958 Isòng saw the esusu, with a few changes in its method of operation, as being capable of fulfilling an important role in the development of Nigeria 11/. Some observers have attributed the success of the credit union movement in the East Central State of Nigeria to the long tradition of rotating credit associations in that area.

On the other hand, a Food and Agriculture Organization report on credit and cooperatives maintains that traditional ties in a village tend to be social rather than economic and that this precludes easy adoption of Western co-operative principles when economic activity is based on the village unit 12/. In addition, a traditional rotating credit association may have attractions with which the institutional

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10/ Page 258 in Myint, Hla, "Social flexibility, social discipline and economic growth", International Social Science Journal, Vol. 16, No. 2, pp. 252-260.

11/ Isong, C.N., "Modernization of the esusu credit society", Nigerian Institute of Social and Economic Research, Conference Proceedings, Dec. 1958, pp. 111-120.

12/ Food and Agriculture Organization (1965), Agricultural credit through cooperatives and other institutions, F.A.O. Agricultural Studies, No. 68, Rome, pp. 34, 36.

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cooperative society cannot compete. For example, the meetings of the traditional clubs are frequently enjoyable social occasions and are valued for that reason. A further attraction is that some societies allocate the "fund" by gambling. Sourong maintains that the establishment of credit unions in Senegal has been hampered by the popularity of the gambling type of tontine in that country 13/.

Thus if active participation by traditional clubs in development projects, including credit programmes, must be preceded by the translation of these clubs into institutional societies, then the nature of the traditional clubs should give a good indication of the degree of success which might be expected from the endeavour. For example, if a study reveals that a credit union could not compete with the attractions of the traditional club, then attention might be given to promoting institutions which may be more remote from the traditional club, but which, perhaps for that reason, may be popular and successful. An example which comes to mind is the savings bank.

So far the discussion has been confined to indirect use of traditional societies, because they have been regarded as precursors of institutional societies which may then be involved in public-funded credit programmes. The possibility of making direct use of traditional societies is now considered. For example, the case of a credit union negotiating loans for its members from the Government credit institution, described above in Section 2.1, might be emulated by a traditional society, for the Zambian credit union in no sense relied on its legal status and it did not issue guarantees for the loans. The credit institution benefitted because it dealt with only one or two experienced men instead of with more than thirty inexperienced and somewhat bewildered peasant farmers, whilst the chief advantage to the borrowers was the fact that the society's office-bearers were able to relieve them of a good deal of worry over making dealings with an institution whose method of operation was totally foreign to them. Although such an arrangement might be possible with some traditional societies, the author does not know of any instances where this has been done. Moreover, one would be more likely to find suitable negotiators within a credit union than in a traditional society since specialized education of members and, especially, of office bearers, is an important facet of the promotion of the former type of society.

13/ Private communication from Sourong, A.B., President of CONACAP, the credit union league of Senegal.

But there is an important social objection to traditional societies being utilized as channels of public funds for small farmer credit programmes. Geertz, in a comprehensive study of the role of rotating credit associations as a "middle rung" on the ladder of development, makes it clear that no matter how far the traditional society has advanced along the road to complete commercialization, its network of social ties is still a major unifying factor 14/. A substantial influx of funds from outside the socially-tied and intra-obligated membership, might very well destroy the balance of trust, personal influence and obligation which constitutes the foundation of such a society, and it would make little difference whether these funds were handled directly or indirectly. In these circumstances, not only would the public funds be at risk, but the society itself might well collapse.

Nevertheless, there is little doubt that the traditional savings and credit clubs, such as the esusu, and the various modifications of the basic principle, have played an important role in the development of the areas in which they are situated. This role has been three-fold.

1. It has been the means whereby entrepreneurs in various fields have obtained initial capital.

2. It has promoted the savings habit and, to the extent that funds passed through the esusu have purchased capital goods, capital formation has been assisted.

3. It has furthered the commercial education of the people involved in its activities. Geertz sees the rotating credit association (esusu-type society) as being essentially "an education mechanism in terms of which

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14/ Geertz, Clifford, "The rotating credit association: a 'middle rung' in development", Economic Development and Cultural Change, Vol. 10, No. 3, April 1962, pp. 241-263.

.../...

peasants learn to be traders (entrepreneurs), not merely in the narrow occupational sense, but in the broad cultural sense ..." 15/.

These valuable services can continue, and although the traditional society may not have a direct role to play in channelling public funds, in some areas it may well pave the way for the creation of credit unions and multipurpose cooperative societies which, because they are constituted economically rather than socially, may be better placed than traditional societies to participate fully in the financial structure of the country, and hence to assist in the use of public funds in rural development.

3.3 Moneylenders

The term 'money-lender' covers a wide range of people, from the strictly professional, registered money-lender in, say, Ghana, who has no other business, to the small consumer-goods retailer in East Africa who makes the occasional loan to a customer well-known to him.

An additional type is the private trader in agricultural supplies or produce. He may frequently make loans to farmers, with the arrangement that the borrower's crops are marketed through him. But this amounts to credit by a supply/marketing body and therefore falls outside the scope of this paper 16/. The discussion which follows is confined to a consideration of the professional moneylender, whose principal business is making loans.

Although the moneylender in Africa and elsewhere has been considered undesirable because of the high rate of interest he charges, it is realized by many people that

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15/ Page 260 in Geertz, op. cit. Also the UNZALPI (Universities of Nottingham and Zambia Agricultural Labour Productivity Investigation) research project observed that many so-called farmers are in fact primarily villagers, that is they are people who, living in rural areas, farm only with the intention of obtaining their food rather than with the aim of obtaining a cash income from farming. Without a commercial attitude towards farming the productivities of factors of production were lower and extension advice was far less effective. (See Elliott, Bossell, Roberts and Vanzetti, [1970], Some determinants of agricultural labour productivity in Zambia, UNZALPI Report No. 3, University of Nottingham, pp. 7-9).

16/ These businesses are not primarily concerned with making loans. Many do so only in order to secure the supply and marketing custom of the debtor.

the interest rate may be realistic in view of both the productivity of capital at the margin in many situations 17/ and in view of the risk and high administration costs faced by the moneylender. Moreover, it is clear that in many communities moneylenders of all types perform a useful service, one that is not provided by other credit sources.

The General Report of the All-India Rural Credit Survey 18/ demonstrates that the moneylender in India is able to maintain his position in society because:

1. He has an intimate knowledge of his area of operation.
2. He is able to bring social sanctions against defaulters. These, in many circumstances, are more effective than legal sanctions 19/.
3. He is in a position to readily defer the repayment date if this proves necessary.
4. He is able to be completely flexible as to the actual operation of lending, so that the terms of each transaction may exactly suit the circumstances of that transaction. Each arrangement is also private.
5. If borrowed funds are urgently required, then they can be disbursed quickly.

In view of these characteristics it is understandable that moneylenders are successful in India. African moneylenders have broadly similar characteristics and they also experience considerable success in their particular field of operation.

17/ See Ladman, Jerry R., "Some empirical evidence in unorganized rural credit markets", Canadian Journal of Agricultural Economics, Vol. 19, No. 3, Nov. 1971, pp. 61-66. Ladman produces evidence demonstrating the high marginal productivity of capital in peasant farming in an area of Mexico.

18/ Reserve Bank of India, The General Report of the Committee of Direction, All-India Rural Credit Survey, 1955, Bombay, Abridged Edition, pp- 64-65.

19/ A moneylender is usually an important man in village society. His displeasure directed against a defaulter may result in the latter and his family being made socially unacceptable. In India the unofficial, but nonetheless powerful caste panchayat (a local council) may be involved, whereas in Africa the defaulter may well fear revenge by witchcraft.

.../...

However, it is useful to consider which of these characteristics would remain if a moneylender were to be enabled to boost his working capital through an injection of public funds. The first characteristic would remain unchanged, but, because of his association with the Government credit institution, the moneylender's ability to invoke social sanctions against defaulters (the second factor given in the list above) would be greatly reduced. In addition, the placement of public funds at the disposal of the moneylender would be accompanied by certain terms; these would be likely to constrain the moneylender to operate in such a way that a good deal of the flexibility which forms the basis of the remaining characteristics would no longer apply.

Thus a moneylender operating with Government funds is likely to be deprived of most of the characteristics responsible for his success and which, indeed, are the justification for his existence 20/. Consequently, although the concept of utilizing a moneylender's unique position in society for the benefit of a government credit scheme is attractive, this would have to be done in a way other than by directly placing public funds at his disposal. Indeed it is difficult to see any role for him apart from direct utilization of his local knowledge by making him a credit institution employee. But the moneylender is likely to find business in his traditional types of lending - contingency and consumption - for many years to come, so changes of this type would be part of a long term process of institutionalizing the supply of credit.

20/ A further problem is that in many African countries the continued operation in the rural areas of private businesses of this type (and of the type providing supply and marketing services) is not politically acceptable.

.../...

(4) Conclusions

Further work in this field and, in particular, the gathering of additional empirical material would strengthen the force of the conclusions, and policy implications for credit institutions, summarized below. Nevertheless the evidence as it stands suggests that, in Africa, legally constituted bodies such as commercial banks and credit unions can successfully act as channels of public funds for the provision of credit to small farmers, and that they can contribute in other ways to such credit programmes. On the other hand, it has been shown that the various grounds for the existence of indigenous credit sources are likely to preclude the use of the latter as channels of public funds. However, traditional rotating credit associations are seen as valuable precursors to institutional savings and credit societies in certain circumstances.

The implications for credit institutions handling public funds for small farmer credit programmes may be summarized as follows.

1. When a credit programme is planned in a given area, attention should be given to the possibility of collaborating with commercial banks or institutional cooperative societies. Besides the help which these bodies can provide as regards a link with farmers, collaboration may lead to the desirable state whereby any given farmer's loans are all issued by a single lender 21/. In addition, valuable advice on local aspects of agricultural-production lending may be obtained from these institutions.

2. Without more evidence to the contrary it would appear that the role of indigenous credit sources, both esusu-type societies and moneylenders, should be regarded as being passive rather than active. That is, they should not be considered as potential collaborators but rather as objects of study before a credit scheme is formulated in any given area. Such a study would provide information as to the potential for using registered cooperative societies as channels for public funds since it would assist in the assessment of the ease by which these societies might be established, and would also provide useful guidance as to prevailing money usage in the area.

21/ This position is considered desirable because:
(i) attention can more readily be given to balancing a farmer's productive loans between seasonal and medium/long term, thus assisting repayment capacity, and
(ii) administrative procedures can be streamlined so that more efficient use can be made of loans officers. These officials are frequently in very short supply in developing countries.

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CREDIT FOR SMALL FARMERS: INDONESIA, MALAYSIA, THAILAND

Millard F. Long
Harvard DAS

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Introduction

During the summer of 1972 I undertook an investigation of credit programs for small farmers in Indonesia, Malaysia and Thailand. My study was not a comprehensive review but an evaluation of programs utilizing the private sector as a conduit for public loans to small farmers. Using the private sector to administer credit programs is an idea that has gained some popularity among aid-giving agencies desirous of channeling funds into agriculture but discouraged by the high administrative costs and default rates of government programs in this field.

Privately administered credit programs for small farmers can be appraised at two levels: the first assess the differences between private and public sector administration of credit programs. The second examines the more fundamental issue of whether private or public credit programs are an efficient way of dealing with the problems of the small farmer. Section I considers the costs and comparative efficiency of public and private credit programs for small farmers in three countries--Indonesia, Malaysia and Thailand. Section II discusses the difficulties inherent in using the private sector as a conduit for public funds to small farmers. In a second paper I intend to explore the question of the conditions under which the benefits from a credit program for small farmers will justify the expected costs.[1]

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*Though this research was financed by the Agency for International Development (AID), the views and findings are solely those of the author.

[1]Later in the Fall the data from a worldwide survey of credit programs for small farmers, now being conducted by AID, will become available. I hope to use this material for analyzing the benefits and costs of credit programs.

Section I: Credit Program in Indonesia, Malaysia and Thailand

There is much that is similar in attitudes, objectives, programs and experience with credit for small farmers in Indonesia, Malaysia and Thailand. Prior to recent reforms, the agricultural credit programs in the three countries were similar. A fraction of small farmers received institutional credit from semi-public cooperatives; larger farmers and agro-businesses could borrow directly from commercial banks. To the extent they borrowed, most small farmers depended for loans on non-institutional sources, such as friends and relatives or merchants-cum-money lenders. (Thisyamondol, et al. 9) Small merchants in turn, received credit from larger merchants; for example, wholesalers extended credit to retailers, millers to padi purchase agents, etc. (Geertz 4).

In none of the three countries are the cooperatives considered to be a successful credit program, primarily because of poor repayment records. Lack of success is blamed primarily on inefficient management and failure of farmers to use credit for productive purposes.[1]

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[1]Little consideration has been given to whether cooperatives are culturally an appropriate form of organization in these countries; whether joint liability is a reasonable sanction against non-repayment; and whether low interest rates may not actually discourage repayment. Many of these features have been retained in the new programs.

To overcome these deficiencies new programs have been developed in all three countries to supervise the farmers' use of credit.

The programs are somewhat different, but in each greater emphasis is being placed upon increasing output and securing repayment than upon redistributing income in favor of small farmers. In fact farmers with less than average holdings tend to be underrepresented in the newer programs. To prevent farmers from "misusing" credit for consumption purposes, in Indonesia and Malaysia farmers are given coupons for fertilizer, pesticides, etc., rather than cash, and in Thailand, each borrower's operation is supposed to be supervised by a lending officer.

These new public credit programs are to be the subject of separate papers by other authors and, therefore, will not be described or evaluated here in any detail. However, it is useful to note certain salient features. Except for the emphasis on production and repayment, the program in Thailand, which is operated by the Bank for Agriculture and Agricultural Cooperatives (BAAC), differs little in structure from the older credit cooperatives. Farmers are still organized into small groups with joint liability for repaying loans; most loans are for one year and the interest rate is 12 percent. To administer the program and supervise the farmers, the apex bank has set up provincial and district offices which roughly duplicate the organization of the Department of Cooperatives, still responsible for the administration of cooperative credit. In addition to public programs in Thailand, three of the commercial banks have voluntarily started credit programs for small farmers. These are very much like government programs--small groups of farmers, joint liability, 12 percent interest, etc. At present

the credit outstanding from the commercial banks amounts to $7.5 million[1] loaned to 42,000 participants.

The new Indonesian and Malaysian programs are similar in their use of a coupon system rather than cash loans. The credit agency gives the farmer an amount of coupons dependent upon the area farmed. These can be surrendered by the farmer to obtain fertilizer, pesticides, etc. The merchant who receives the coupon then surrenders it for payment to the authorities. The loans are supposed to be repaid at the end of the cropping season.

The two programs differ in interest rates--18 percent per year in Malaysia[2] and 12 percent in Indonesia--and in terms of administration at the local level. In Indonesia under the Improved BIMAS program the government has established village units manned by public officials to select participants and administer the program. In Malaysia those operations are delegated to local credit centers (lcc's) who are chosen from existing cooperatives, farmers associations and private traders. In 1971, the last group consisted of 36 individuals who administered about 35 percent of outstanding loans. It is the lcc's responsibility to select participants and to assure repayment. For this they receive the difference between the 18 percent interest paid by the farmers and the 6 percent interest charged by the apex bank, the Bank Pertanian.

My assignment was to look at credit programs for small farmers in which the private sector served as a conduit for public funds. Only in the case of the Malaysian program is the private sector used.

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[1] Except where noted money figures are in U.S. dollars.

[2] In Malaysia the interest rate during the first two years of operation was 24 percent on unsecured loans, 16 percent on secured loans. This was later reduced to 18 and 12 percent. Experience has shown that almost all loans are unsecured.

directly as a channel for government money. However, in the case of Thailand, the central bank allows the commercial banks to discount loans to small farmers at favorable rates. But because of their very liquid position, the three commercial banks involved in farm credit have made only limited use of this facility,[1] but this channel represents a potential conduit for public credit. In addition, in all three countries there are loans to agro-businesses by government agencies and indirectly by the central bank through discounting of loans by commercial banks. Without these loans there would probably be less private credit for small farmers. However, in the absence of detailed flow of funds data, it is not possible to evaluate these flows; it is quite likely, however, that they constitute an important component of the credit picture for small farmers.

Experience to date in these three countries is too limited to reach any firm conclusion about the relative efficiency of publicly and privately administered credit programs for small farmers. Piecing together what data is available indicates that the commercial bank program in Thailand is the least costly to adminster. Of the commercial banks, only the Bangkok Bank could supply figures, but their program is the oldest and accounts for roughly two-thirds of all commercial bank loans to small farmers. They report their administrative costs to be four percent of outstanding loans. At the other extreme

[1]Presently the World Bank is considering a loan to the central bank, the Bank of Thailand, to establish a fund for discounting loans to farmers of more than two years' duration. Loans by both commercial and public banks would be elligible.

is the Improved BIMAS program in Indonesia. Calculations reported in Turnier (11) and the Fertilizer Study (13) indicate that administrative costs exceed 25 percent of outstanding loans. In 1972 the administrative costs of the Bank Pertanian in Malaysia will be roughly 20 percent of average loan volume, while I estimate that in 1971 the administrative costs of farmers' program of the BAAC in Thailand was roughly 8 percent.

Administrative costs are always high for small loan programs, whether in developed or developing countries. Still there is substantial difference between the commercial bank experience in Thailand and the programs in Indonesia and Malaysia. There are several factors that help explain this difference. In Indonesia and Malaysia the average size of loans is considerably smaller than in Thailand; in Indonesia the average size is $15, in Malaysia $70, in Thailand $160 at both the commercial banks and the BAAC farmers' program. In addition, in both Indonesia and Malaysia they are using a coupon system as against the more traditional cash loans in Thailand. I would expect the former to be more expensive, but in addition the system is new and innovations usually entail additional administrative outlays in their early years. Third in Malaysia, in particular, the program is still small in size compared to its administrative superstructure. While in Malaysia costs will undoubtedly fall with growth, it is not clear that the hoped-for savings from dealing with lcc's rather than directly with farmers will materialize.

Perhaps most difficult to explain is why the commercial banks in Thailand should have half the administrative costs of the very

similar semi-public program run by the BAAC. Part of the explanation is overstaffing by the BAAC in anticipation of expansion. For the remainder of the difference I do not have the information to judge whether the BAAC is providing more in the way of services to less accessible farmers.

In addition to having the lowest costs, the commercial banks in Thailand report by far the best repayment record. Again only the Bangkok Bank could provide detailed information; for this program arrears amount to between 3 and 4 percent. In its first two years of operation the BAAC had a similar record - 4 percent arrears; subsequently this increased to 28 percent in 1970 and 49 percent in 1971. Officials at the BAAC blame the decline on poor harvests and low farm prices. But spot checks conducted this summer indicated that in areas in which both the BAAC and Bangkok Bank were operating, the commercial bank had maintained a high level of repayment with the same output and price conditions.

Officials in the commercial banks believe it is the better preparation and incentives to field officers in the form of promotion that has helped them achieve their better repayment record. Very rapid expansion in the BAAC program has undoubtedly led to a decline in the quality of field personnel; regional directors complained of the poor training of new recruits. Secondly, the BAAC's program now includes 250,000 farmers; perhaps expansion has forced the BAAC to accept less creditworthy clients. Third, new loans can be used to repay old. In the early stages of a credit program, that is as long as individual farmers are getting larger amounts of credit each time period, they will make repayments. Their repayments slow however, as soon as expansion stops.

Among the different types of lcc's in the Malaysian program the cooperatives and farmers associations have better repayment records, averaging 10 percent arrears against 20 percent for the private lcc's. However, of the present 36 private lcc's, two are responsible for all the arrears, while among the semi-public lcc's many have overdue loans outstanding. Officials of the Bank Pertanian believe that when the fraudulent operators have been removed, private lcc's will, as expected, prove to be better collection agencies than the semi-public lcc's.* Because the program is only in its third year the overall repayment rate, 14 percent arrears, is hard to appraise. The Bank Pertanian is attempting to avoid administrative and repayment problems by expanding slowly. Only experience will show whether it can avoid the high level of arrears of the BAAC in Thailand. In Indonesia, arrears under the Improved BIMAS program amount to 19 percent. This is a vast improvement over earlier credit schemes, but this record refers to only 1½ years of operation and it is too early to judge whether this record can be maintained.

In terms of resources used, defaults are a transfer payment, not an operating cost. In fact they constitute a transfer to some of the small farmers the credit program was designed to help. However, governments in South-east Asia are not so sanguine about defaults, considering them a cost not a benefit of the program.[1] Their behavior suggests that administrators of public credit programs do not consider a dollar of defaults to have the same social cost as a dollar of administrative outlays. In each of the public programs reviewed, additional expenditures on administration would probably

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[1]One official told me that his organization had incurred expenses to collect overdue loans that exceeded the amount of the loan. This was necessary to establish good credit habits among farmers.

* See the appendix for a comment on the Chinese merchants involvement as lcc's.

have led to more than an equivalent reduction in defaults. The cost coefficient public administrators implicitly assign defaults appears to be less than one. This should be borne in mind in comparing the efficiency of public and private credit schemes and of credit and possible alternative programs.

Though all of the programs stress their semi-commercial nature, it is clear that only the scheme of the Thai commercial banks comes close to covering costs. The Bangkok Bank has a combined administrative cost and default rate between seven and eight percent against interest charges of 12 percent.[1] To break even in the long run the commercial banks would require a return over costs of seven percent, the rate they pay for time deposits. However, as the banks presently have excess liquidity they are not too concerned about the immediate return as long as they cover operating costs. Each of the three banks stated their loans to small farmers were not profitable, but that they had entered the program for service reasons and to build a position with the farm community that in the long run might prove profitable. However, given the lack of profitability and the growing doubts (discussed below) that the program is really helping farmers, there is little incentive for the banks to expand. In recent years no additional banks in Thailand have started credit programs for small farmers, and two out of the three banks presently making loans have decided to hold their programs to the present size.

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[1] Banks can now rediscount agricultural loans at the Bank of Thailand at 5 percent. However, they must then limit their interest charges to farmers to 10 percent.

In the other programs costs plus defaults greatly exceed earnings. Only in the case of the BAAC in Thailand do interest earnings at 12 percent cover administrative costs. At 12 and 18 percent in Indonesia and Malaysia respectively, interest rates do not cover administrative costs of between 20 and 30 percent, let alone provide an allowance for bad debts or a return on capital. I have argued earlier that governments do not and probably should not consider a dollar of bad debts on agricultural loans as equivalent to a dollar of administrative costs. But even if a zero cost is assigned to bad debts in Indonesia and Malaysia, the programs still do not cover administrative costs. In commercial terms, with the full costs of defaults considered, none of the three government programs come close to breaking even.

Thus far the evidence from Malaysia and Thailand on the supposed advantages of using the private sector is mixed. In Malaysia the administrative costs remain high and the private lcc's repayment record is spotty. From the standpoint of budgetary efficiency, the agricultural credit program of the commercial banks in Thailand has proved more efficient than any of the other programs reviewed. But the reasons for its success are not fully understood and might disappear were the program to expand. Only further experimentation with private sector credit programs tailored to the specific needs and institutions in each country will test their efficacy against publicly administered alternatives.

Section II

To generalize about private sector credit programs for small farms is difficult because the programs themselves are so different in objective, in approach and in specifics of administration. Private sector credit schemes run the gamut from those like the program of the commercial banks in Thailand which, while independent of government control, differs little from the operations of the semi-public BAAC; to the Malaysian credit scheme in which private lenders operate as the agents of the Bank Pertanian; to a very loosely controlled scheme suggested for Pakistan in which commercial banks would lend to traders against agricultural paper. The following statements, however, may serve as a guide to the limitations, as I see them, of various types of programs using the private sector as a conduit for government funds for credit to small farmers:

1) Private institutions, such as the commercial banks, face the same difficulties in making loans to farmers as do public institutions. Loans to small farmers are costly to administer and difficult to collect, particularly for institutions. At interest rates that commercial banks can reasonably charge, it is profitable to lend only to the larger farmers and the very best of the smaller ones. Without subsidies, institutional programs are limited in scope, as expansion into lending to smaller, less conveniently located or less well motivated farmers brings rapidly rising costs. However, governments opting for an institutional program should consider the alternative of subsidizing private banks rather than establishing public or semi-public banks to make loans to

small farmers. The evidence from Thailand suggests there may be a gain in efficiency and repayment rates through using commercial banks. To keep costs down and repayments up commercial banks are likely to do less extension work and out of any group to select as customers the larger, less risky farmers. However, with their emphasis on output expansion and repayment, the newer credit programs run by the governments also tend to concentrate on the larger farmers.

2) Programs using noninstitutional lenders have greater potential for expansion. Unlike the banks, noninstitutional lenders are in all Southeast Asian countries already conducting a widespread program of lending to small farmers. Moneylenders usually have other business dealings with farmers, as shopkeepers, crop buyers or landlords. Knowing the potential borrowers personally, eliminates the costly administrative task of assessing risk; it also establishes a relationship that makes repayment more likely. Furthermore, through their other dealings, moneylenders-cum-shopkeepers are better able to secure repayment of their loans.

3) However, private noninstitutional lenders are concerned primarily with profit; not with helping small farmers produce more. Governments may hope to reduce the interest rate charged farmers by moneylenders by lowering the rate at which moneylenders themselves can obtain funds. However, given the profit motive of the lenders and the nature of the market, this is unlikely to be successful unless carefully controlled. If unsupervised, moneylenders will charge the market rate turning to their personal advantage the difference

between the market rate and the rate at which they obtain subsidized funds. Cheap loans channeled through moneylenders will benefit them not farmers.

On this issue public programs may be little better than private ones. In both Indonesia and Thailand, the interest rate charged on institutional loans was subsidized. Despite the higher costs of agricultural loans the institutional interest rate was only half that on commercial loans in Indonesia and about 0.8 of the rate in Thailand. In Indonesia, particularly, I was told that not all of the subsidy was passed on to the farmers. Some was diverted to the pockets of officials. In a detailed study of the "true" cost to the farmer of official credit in East Pakistan, Shahjahan (8) concludes that a combination of application fees, travel and entertainment costs, and loss of working days in getting loans made public credit as expensive as private borrowing.[1]

In Malaysia the interest rate on agriculture loans under the new government program is between 1.5 and 2 times that on commercial loans. At that rate there is little subsidy involved and there is correspondingly limited demand. Farmers have not rushed to join the program, and those that have joined, do not utilize all the allowed credits. Of the vouchers issued to farmers only 55 percent have been cashed. Actually the interest subsidy may have been of greater advantage to the lcc's than to the farmers. The rate charged by the Bank Pertanian was 12 percent per season of six months with no

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[1]In Indonesia, it was reported that the "real" rate to farmers on institutional credit was almost as high as on loans from money lenders.

surcharge for late repayment.[1] Most of the loans were late being repaid and officials of the Bank Pertanian thought the delay rested with the lcc's not the farmers. All the private lcc's were padi buyers who require credit for working capital at the harvest season, that is, at the time the farmers' loans were due. By delaying the repayment for several months, the lcc's got interest free loans just at the time of year they most needed credit (Long, 5).

4) Private lenders care but little how borrowed funds are used and will not provide farmers extension services which increase the lenders' costs. To the extent that the government wishes to insure the funds are employed for production rather than consumption, it will have to provide the supervision. Like institutions, private noninstitutional lenders seek to minimize risk by lending to the most creditworthy farmers. In any group these are not likely to be the smallest farmers. Through careful control and supervision, the government can partially overcome the disadvantages of private lenders listed above. The Malaysians have attempted to do this through their voucher scheme. However, this raises costs; in the case of Malaysia administration has proved as costly as a program of direct government lending.

5) It is sometimes argued that using the private sector as a conduit for public funds would only increase the money lenders control of the rural economy. This is of course a danger where the middleman has a monopsonistic position. Wharton sees control over the credit market as the key to middlemen's monopsonistic power in rural Malaya. Bottomley argues that much of the

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[1]At the time the rate was reduced from 12 to 9 percent per season, a penalty charge of one percent per month was introduced on overdue loans.

difference in interest rates between commercial and agricultural loans can be explained by higher administrative costs (1) and loss through default (2) but still believes there is an element of monopoly rent (3).

Still this view is less than universally accepted. In an earlier paper (Long, 5), I attempted to show that observed high interest rates on agricultural loans in India and Thailand were consistent with competition in the credit market and a relatively free flow of capital among sectors. Very likely there are isolated individuals or whole villages in which the credit market is monopolized but that is not a primary cause of high interest rates. Rather rates on agricultural loans are high because capital is scarce, because farm loans are costly to administer, because the rate of default is high, and because the demand for credit is seasonal, causing loanable funds to be employed only part of the year. Penny (6) supports this view of Asian credit markets. Sansom in his study (7) of Vietnam also concluded that the interest rates on agricultural loans in that country were consistent with a competitive market and mobility of capital.[1] Neither absolutely high rates on agricultural loans nor disparity in rates is in itself proof of monopoly. The

[1]During my stay in Indonesia this summer I was on several occasions told of men who were financing investments in service industries in Djakarta from the profits on agro-business undertakings in other areas of the country, which suggests both sectoral and regional mobility of capital.

more sophisticated analysis which will enable us to distinguish cost differences from monopoly rents is only just beginning. On the question of the organization of the market[1] and the mobility of capital, the evidence is too sketchy to be conclusive.

6) In Pakistan it was suggested that dealers in agricultural inputs should be able to borrow at favorable rates from banks against proof of purchase of inputs. The Central Bank would both insure and rediscount such loans. While the initial loans went to middlemen, it was thought dealers would pass on credit to farmers. Such a program would be easy and inexpensive to administer, but whether it would have advantages for small farmers would depend completely upon the market as described above. In fact under these conditions traders would make additional loans to farmers only to the extent such loans constituted the best use of capital. Alternatively they might use bank credit to reduce their own borrowing from other sources or for investment in other businesses.

7) Item six raises a general question for all programs utilizing private moneylenders. In the absence of a government program these lenders use their own funds for loans to small farmers. To what extent will government funds channeled through moneylenders be an addition to agricultural credit and to what extent will it be a substitute with lenders diverting their own funds to other uses?

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[1] In addition to the credit market studies, there are a growing number of reports (see for example Tongpan, 10) revising the view that agricultural markets in Asia are monopolized. More researchers are concluding that exit and entry into these markets is easy, and that prices charged and paid farmers are on the whole competitive.

The difficulties inherent in lending to small farmers are not easy to overcome. Institutional programs face one set of difficulties, noninstitutional another. Institutional programs are expensive to administer and have high default rates. Private institutions are probably better than public institutions on both counts, but in part this is because they select the "better" farmer and provide less services. Unsupervised, noninstitutional programs are considerably less costly to administer, but then the government cannot control the recipients, the uses of the funds or the interest rate charged. These difficulties can be overcome through supervision but only at considerable expense. Furthermore, with any credit program, even one that is publically administered, private funds which might have been loaned to farmers, may be diverted to other uses. When private noninstitutional lenders are used as conduits for public funds, this diversion is likely to be more serious. This question of diversion as well as other issues dealing with the overall advantages of credit programs for small farmers will be explored in a second paper.

A priori one cannot say that public administration of credit programs is less beneficial than private or that one type of private program is clearly superior to others. The preferred type of administration depends both upon objectives and the conditions in the particular country.

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APPENDIX

The authors of the Malaysia Country Paper* were asked to comment on the following issue:

> Real and exaggerated problems occasioned by minority class private sector LCCs (if any). We are looking into the Chinese merchant/Viet farmer relationship in Vietnam, and the BPM experience in MUDA may push our understanding further.

The next page gives their response.

Short Term Padi Production Credit Scheme in the Muda Irrigation Project Area of Malaysia. Leong King Wai and Robert G. Hoover. Kuala Lumpur: Bank Pertanian Malaysia, September 1972

Real and Exaggerated Problems Occassioned by Minority Class Private Sector LCC's (If any)

The nature of difficulty experienced in this regard is somewhat different than one might expect. The minority class, for the most part, has chosen not to participate as LCC's. Only 4 of the 33 private sector LCC's in Muda are Chinese. These five currently entertain only 134 of the 4868 borrowers.

Most of the population of registered padi buyers, from which LCC's are selected, are Chinese. It was initially assumed that most of the private sector LCC's would thus be Chinese. An aggressive effort has been made to obtain their participation. The basis of reluctance to become LCC's is straight forward in some respects. They view the risk they would be assuming and the amount of service work required as related to the relatively low interest earnings that are allowed by Bank Pertanian policy. It just dosen't look like a very profitable business venture to them.

Underlying this reluctance is perhaps a much more complex issue dealing with traditions of the Chinese and, more specifically, their traditional ways of conducting middleman credit operations. The Bank Pertanian Program requires putting out credit for purposes and under terms and conditions not typical of middleman credit. Probably even more importantly, it requires collection of principal and interest in a formal and systematic way which often requires rather aggressive insistence upon repayment. In the wake of a serious racial disturbance in early 1969, they as a minority group are most wary of exerting pressure upon borrowers, especially in any obvious way. Traditional procedures for collecting overdue amounts can include more subtle ways, such as short weight or overcharging for goods but these methods are not encouraged by Bank Pertanian Policy. Interest charges typically are not even identified as such which, by the way, is a subterfuge many farmers also find to their liking.

At this point of comment, the question shifts from problems of a minority class as such to another and much broader question of middlemen in general. And the Muda area is no different than other areas of the world regarding the tendency to mistrust middlemen, or to blame them for things ranging from low farm income to disorganized markets. Some middlemen have been found as deserving of the criticism directed toward them but very little is available by way of objective study to support broad scale conclusions. Some would even suggest that middlemen in some cases have been subjected to such pressure that they must cheat a bit to survive!

A STUDY OF AGRICULTURAL TENANCY IN THE PHILIPPINES, CHAPTER IV: USURY

Richard Burcroff
University of Washington

1972

NOTE

This chapter is excerpted from a paper entitled "A Study of Agricultural Tenancy in the Philippines: Implications for Land Reform Policy." The study was approved by the Economics Department of the University of Washington, partly financed by the Agency for International Development, and assisted by staff of USAID/ Philippines among others. The preface and table of contents are reproduced along with Chapter IV.

PREFACE

Land tenure relations have been a subject of political concern and manipulation in many less developed countries in the past thirty years. Economists have long been interested in the economic implications of different land tenure arrangements. Such arrangements are examples of a more general economic phenomenon: The variety of organizational forms for combining factors in production and distribution activities. The comparative efficiency of particular organizational forms in particular circumstances is an area of increasing theoretical interest.

In this research, the existing theory has been applied and extended as it related to organization in agriculture and a number of implications of the theory have been tested using data on Philippine rice production. Specifically, the conditions for static efficiency of tenancy contracts, both share and fixed-fee are examined and it is proposed that the choice of contractual form is related to the technology of the crop and to the managerial tasks associated with that technology. In statistical tests it is found that the managerial tasks of tenant and landlord are significantly different. It is also found that sharecrop contracts are relatively more prevalent, and fixed-fee tenancy less prevalent, when rice production uses irrigation techniques than when dry cropping techniques are used.

Landlord usury is analyzed and various policy implications are developed. Theories are also examined which relate contractual form to dynamic efficiency, specifically, rates of adoption of new technology. A test of the theory is proposed using the spread of "miracle rice" technology in the Philippines

but data was found to be inadequate at the present time.

In all of these topics, my finds are related to problems of public policy.

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CHAPTER IV

USURY

1. Economic Analysis
2. Non-Economic Factors

In this chapter Proposition (4) will be examined with reference to materials from the Philippines. Proposition (4) states that landlords are usurious in credit relations with their tenants.

Economic Analysis

Given the confusion and emotion that usually accompanies discussions of usury, a tight, working definition will aid in structuring testible hypotheses.

Colloquial usage seems to be:

> u·su·ry ... 1. an exorbitant amount of or rate of interest, esp. in excess of the legal rate. 2. the lending or practice of lending money at an exorbitant rate of interest 129

Bell offers a more historical view of usury:

> One of the "vulgar" trade practices against which we have biblical and Aristotelian admonition was usury. It will be recalled that about A.D. 325 usury was forbidden to the clergy only, but by the end of the twelfth century it was forbidden to the laity. It was declared absolutely illegal in 1311 at the Council of Vienna. Aquinas invoked his authorities - the Scriptures, the philosophers, and Church dogma - to which he added his own arguments to condemn usury, mainly because a payment in excess of the loan itself took advantage of the borrowing poor and because money was held to be barren. Lending at interest was considered in fact, one of the worst forms of exchange and the most unjust, for it was an act of injustice in itself. The function of capital was either misunderstood or not clearly understood, and the borrowers were usually the poor and needy. 130

From the two passages quoted above, lending or extending credit is considered usurious if interest rates are exorbitant - that is "higher than

usual" - or if lending "takes advantage of the borrowing poor." In other words "usury" implies that the rate of return in lending to poor people is higher than from pursuing other lending or investment activities because of restrictive practices on the supply side of loanable funds and credit markets.

With regard to credit extended by Philippine landlords to tenants, the presence of usury requires that landlords charge higher rates of interest than other suppliers of tenant credit. For the presence of higher interest charges implies that landlords can (and probably do) have sufficient bargaining power vis-a-vis tenants to tie an exploitative loan to the tenancy agreement even when better terms can be obtained from other lenders.

An ideal data design for testing purposes would group tenancy loans by source and interest charges.

One large sample data source which lends well to these stratification requirements is the 1967-68 BAEcon credit survey. The 8904 farm level observations released for this study were collected in 11 important rice producing provinces.[131] But unfortunately only 317 observations could be utilized, and the interest stratum from this sample proved nearly empty as can be seen in Table 4.1.

Table 4.1

Value of Farm Loans, By Interest Rate, By Tenure of Farm Operator, 11 Philippine Provinces, 1967-68[a]

interest rate/annum (1)	Share Tenanted[c] value[b] (2)	Share Tenanted[c] # observations (3)	Lease Tenanted Value[b] (4)	Lease Tenanted # observations (5)
0.00- 9.99	79648	296	8292	20
10.00-19.99	400	1	-	-
20.00-99.99	-	-	-	-

a Source: 1967-68 Crop and Livestock Survey
b Σ cash and crop, all lenders (ACA (Facoma), Commercial and Rural Bank, Development Bank of the Philippines, Landlord, Private)
c cash and kind

A weaker test of Proposition (4) had to be devised in conjunction with more dated large-sample surveys.

Methods of farm financing that were sampled throughout the Philippines from April 1954 to June 1955 were analyzed by Leopoldo De Guzman in a project conducted by the Department of Agricultural Economics of the University of the Philippines College of Agriculture (UPCA).[132] When reporting of this study, De Guzman states that:

> Of 5144 farmers studies, 74% used credit and 26% did not. Fifty-seven per cent of all farmers used store credit, and 6 per cent used long-term credit.
>
> Short-term loans were extended mostly by private individuals and landlords ... Store credit was used mainly for obtaining food supplies by most farmers during the production months.. The long term mortgage loans were mostly secured by real estate. 133

Short-term loans are defined as "ordinarily having a repayment period of one year. In this study, however, it was convenient to include loans which provide for repayment within three years."[134] He then goes on to explain that less than ten per cent of the short-term loans had repayment periods longer than one year. Long-term loans are solely mortgage loans. Since it is clear from the context of De Guzman's report that short-term loans are employed to augment production or to tide the cultivator and his family over until the crop is harvested,[135] we will concern ourselves only with these loans.

Table 4.2 reprints De.Guzman's summary of short-term loans by source and by interest charged.[136]

Table 4.2. Percentage of Short-Term Loans Transacted, by Annual Rate of Interest and by Source, Philippines, 1954-1955 a,b

SOURCE OF LOAN	INTEREST RATE PER ANNUM						
	None	1-9	10-19	20-49	50-99	100-over	Total
Landlord	53	8	14	14	6	5	100
Private individual	51	3	7	12	9	18	100
ACCFA	-	b	100	-	-	-	100
Relative	92	-	3	3	2	-	100
Merchant	94	-	-	3	3	-	100
Government agency	38	50	12	-	-	-	100
Bank	-	28	72	-	-	-	100
Insurance company	-	100	-	-	-	-	100
All loans	49	5	20	11	6	9	100

a source: De Guzman, op. cit., p. 14, Table 10
b includes 2, 412 loans

Table 4.3 reprints the actual number of short term loans by source.

Table 4.3 Number of Short-Term Loans, By Source Philippines, 1954-1955a

SOURCE OF LOAN	NUMBER OF LOANS
Landlord b	936
Private Individual b	993
ACCFA	260
Relative b	148
Merchant b	34
Government agency	8
Bank	24
Insurance Company b	8
All Loans	2411

a source: De Guzman, op. cit., p. 11, Table 6.
b. private, non-bank lenders

Landlords and private individuals clearly dominated the supply of loanable funds from private sources in the sample, therefore testing to determine if landlords charged relatively higher rates of interest will be confined to these two credit sources only.

Table 4.4 Number of Short-Term Loans, by Annual Rate of Interest and by Source, Philippines, 1954-1955[a]

	Interest Per Annum						
Source	None	1-9	10-19	20-49	50-99	100 and over	Total
Landlord	496	75	131	131	56	47	936
Private Individual	506	30	70	119	89	179	993

[a]source: derived from Tables 4.2 and 4.3

Inference on the statistical hypothesis

Ho: The average rate of interest charged by landlords equals that charged by other private individuals.

was gained in the following way: reclassify data in Table 4.4 so that intervals for interest rates are renumbered, but relative position on the numbering scale is preserved. (An ordinal transformation is necessary because a midpoint for the last category ("100 and over") cannot be determined from the data as reported by De'Guzman.)

Table 4,4a Number of Short-Term Loans, By Interest Category and By Source, Philippines, 1954-1955a

	Interest Category						
Source	1	2	3	4	5	6	Total
Landlord	496	75	131	131	56	47	936 $=N_1$
Private Individual	506	30	70	119	89	179	993 $=N_2$

[a]source: derived from Table 4.4

Next structure a means test to see if the difference in mean interest rates from the two categories of lenders ($=\bar{x}_1 - \bar{x}_2$) comes from a normal population of differences with mean = 0 and standard deviation

$$\sigma_{\bar{x}_1 - \bar{x}_2} = \sqrt{\sigma_1^2/N_1 + \sigma_2^2/N_2}$$

σ_1^2 = variance of observations in the ith sample

$i = 1 \rightarrow$ landlord loans

$= 2 \rightarrow$ loans by private individuals

Since each sample is large, the σ_i^2 can be estimated by computational formulas for sample standard deviation without much bias.

A one-tailed test with the normal distribution was employed to test H_0 above. Computed $z = \dfrac{\bar{x}_1 - \bar{x}_2 - o}{\sigma_{\bar{x}_1 - \bar{x}_2}} = -3.97$

$z_{.05} = -1.96$. Therefore reject H_0 with 95 per cent confidence when testing with transformed data. The average rate of interest charged by landlords in De Guzman's sample is less than that charged by the other major source of

private non-bank loans.

Another study -- one which considers among other things sources of credit for 78 cultivators in Munoz, Nueva Ecija (Central Luzon) -- was conducted by Jose Gapud in 1958.[137]

Table 4.5 presents summaries of his findings about short-term credit contracted for by cultivators in 1958.

Table 4.5 Short-Term Loans, By Annual Rate of Interest and by Source, Munoz, Nueva Ecija, 1958[a]

INTEREST RATE IN PERCENT PER ANNUM	ALL LOANS		SOURCE OF LOAN							
	No.	Percent	Landlord[b]	Other Landlords[b]	Private Individuals[b]	Relatives[b]	Merchants[b]	FaCoMa	Rural Bank	PNB
TOTAL No. of loans	224		125	35	20	18	6	9	10	1
					per cent of loans					
None	44	20	22	3	30	50	17	-	-	-
1-14	29	13	10	-	10	-	-	44	100	100
15-29	19	9	12	-	-	-	-	44	-	-
30-59	21	9	10	6	10	17	-	12		
60-99	31	14	13	29	10	5	33			
100-199	45	20	18	43	15	11	33			
200-299	21	9	9	11	15	17	-			
300 & over	14	6	6	8	10	-	17			
Total		100	100	100	100	100	100	100	100	100

[a] source: Gapud, op. cit., p. 35, Table 4.
[b] private, non-bank sources

Note that in stratifying loans from private individuals, Gapud separated loans from one's own landlord and loans written by other landlords. In this case, all of the former clearly represent tenant borrowing, while the latter may or may not.

It can be seen from Table 4.5 that landlord credit to their own tenants overwhelms other sources of private credit in number of loans. For testing

purposes, 75 observations "other landlords, private individuals, relatives and merchants" were combined in contrast with the 125 "landlord" observations by interest rate. "Rural Bank" observations were excluded because private banks that conduct lending operations in rural areas normally require collateral (usually land) before a loan is approved, which suggests that Gapud's rural bankers were operating in a different (i.e. more secure) credit market than other private short-term lenders.[138]

Transformed data is contained in Table 4.5a which was derived by working backwards through Table 4.5 to obtain number of individual observations in each interest category.

Table 4.5a NUMBER OF SHORT-TERM LOANS, BY ANNUAL RATE OF INTEREST AND BY SOURCE, MUNOZ, NUEVA ECIJA, 1958 a/

	interest per annum							
Source/	none	1-14	15-29	30-59	60-99	100-199	200-299	300+
landlord to own tenants	27	13	15	13	16	23	11	7
other private non-bank lenders b/	17	2	0	7	15	22	10	6

a/ source: Table 2.9
b/ ≤ loans from "other landlords, private individuals, relatives and merchants"

A x^2 test was used to draw inference of the statistical hypothesis

H_0: There is no difference in the proportion of loans by landlords and private individuals when stratified by interest rates as in Table 2.8.

Computed x^2 from data in Table 4.5a is 18.25. $x^2_{.05}$ (df = 7) = 14.1

Therefore reject H_0 with 95 per cent confidence. Because of the hypothesis

structure, implications from this test on the nature of interest rates in landlord credit remain elusive until more information is provided. But it is clear from visual inspection that landlords charge their tenants less, on average, for short-term loans that other private parties charge cultivators when 4.5a is converted into percentages, as in Table 4.5b. The x^2 test suggests that this difference is significant.

Table 4.5b PERCENTAGE OF SHORT-TERM LOANS, BY ANNUAL RATE OF INTEREST AND BY SOURCE, MUNOZ, NUEVA ECIJA, 1958 a/

	interest per annum							
Source/	none	1-14	15-29	30-59	60-99	100-199	200-299	300+
landlord to own tenants	22	10	12	10	13	18	9	6
other private non-bank lenders	21	3	0	9	19	28	13	7

a/ source: Table 4.5

Implications from the De Guzman and Gapud studies regarding landlord behavior in tenant credit markets are reinforced by "spot" observations elsewhere in the Philippines. Takahashi notes in "his" barrio in Bulacan (Central Luzon) that "today (1963) most tenant farmers borrow cash rather that palay or cleaned rice from landlords . . . the annual rate (of interest) is 60 to 90%."[139] He continues, "When landlords lend money to tenant farmers, interest usually is not demanded if the money is used for such farming expenses as planting, but usually interest is demanded if the money is used for non-farming expenses."[140] On the other hand, "the interest rate for cash borrowed from moneylenders is usually 10 percent per month."[141]

Since it appears that tenants can secure better terms on short-term

credit from their landlords than from other private, non-bank lenders, it is tempting to reject Proposition (4) as a useful guide for policy.

But such a conclusion seems premature in that only numbers of loans transacted were reported within each interest stratum by De Guzman and Gapud, and not total value in pesos or amount in kind. Our conclusions would be rather misleading, for example, if the bulk of landlord loans by value were associated with higher interest rates in comparison with loans from other private lenders, even though relatively more "landlord" transactions took place further down on the interest scale. Secondly De Guzman's sample is not entirely random (see appendix A under "Von Oppenfelt"), whereas details of Gapud's sampling procedure are unclear.

Other data from BAEcon's credit sample that was processed in this investigation might be useful when structuring further inquiry into landlord lending practices. Firstly, some summary aggregates are presented below in tabular form, then a few hypotheticals are developed.

Table 4.6

Value of Farm Loans, by Source, 0.00-9.99 Interest Rate Category[a], By Tenure of Farm Operator, 11 Philippine Provinces, 1967-1968[b]

Source (1)	Share Tenanted value[e] (2)	% (3)	#obs (4)	Lease Tenanted[f] value[e] (5)	% (6)	#obs (7)	Owner operated[g] value[e] (8)	% (9)	#obs (10)
ACA (FACOMA)[c]	3075	3.9	17	240	2.9	1	10345	27.0	11
Commercial and Rural Bank	235	0.2	7	-	-	-	8725	22.8	11
DBP[d]	500	0.6	1	-	-	-	-	-	-
Landlord	47959	60.2	151	4645	56.0	7	612	1.6	3
Private	27879	35.0	120	3408	41.1	12	18653	48.7	57

a contains bulk of sample loans reported; See Table 4.1

b source: 1968 Crop and Livestock Survey

c ACA = Agricultural Credit Administration

d DBP = Development Bank of the Philippines

e cash and crop

f cash and kind

g full-owner

Table 4.7

Why Credit Source Preferred, By Source, By Tenure of Farm Operator, 11 Philippine Provinces, 1967-1968[a]

Source (1)	No collateral, little paper work, immediate delivery (2)	good terms (interest) (3)	others[b] (4)	#obs (5)
		Share Tenanted		
ACA (FACOMA)	7	0	11	18
Comm. & Rural Bank	5	1	5	11
DBP	1	0	9	10
Landlord	33	2	108	143
Private	44	2	60	106
		Lease Tenanted[c]		
ACA (FACOMA)	13	0	1	14
Comm. & Rural Bank	1	0	0	1
DBP	0	0	0	0
Landlord	0	2	5	7
Private	2	0	11	13
		Owner-operated[d]		
ACA (FACOMA)	0	0	5	5
Comm. & Rural Bank	9	0	6	15
DBP	1	0	1	2
Landlord	0	0	4	4
Private	27	2	23	52

a source: 1969 Crop and Livestock Survey

b includes "never heard of bank, ACA"; and "others" (BAEcon usage - not defined in BAEcon's operations manual)

c cash and kind

d full-owner

Table 4.8

Purpose of Loan, By Source, By Tenure of Farm Operator, 11 Philippine Provinces, 1967-68[a]

source (1)	production[b] (2)	other[c] (3)	#obs (4)
	Share Tenanted		
ACA (FACOMA)	11	5	16
Comm. & Rural Bank	7	0	7
DBP	1	14	15
Landlord	102	47	149
Private	88	20	108
	Lease Tenanted[d]		
ACA (FACOMA)	0	1	1
Comm. & Rural Bank	1	0	1
DBP	0	2	2
Landlord	4	3	7
Private	7	3	10
	Owner Operated[e]		
ACA (FACOMA)	8	5	13
Comm. & Rural Bank	8	1	9
DBP	0	1	1
Landlord	2	11	13
Private	37	12	49

a source: 1969 Crop and Livestock Survey

b includes "seeds", "land preparation", "transplanting", "weeding", "fertilizer", "farm chemicals"

c includes "consumption at home","others" (undefined in BAEcon Operators Manual)

From Table 4.6 it is apparent that (1) the bulk of tenant loans (share and lease) by value came from landlords, while loans to owner-operators by value were more-or-less evenly divided between private non-landlord and governmental/bank sources. (2) The average loan value from private non-bank lenders for tenants is greater than from government/bank sources while the pattern is revised for owner-operators. In Table 4.7 it appears that (3) relative to owner-operators, tenants utilize private non-bank sources for reasons other than low interest or expediency. From Table 4.8, (4) tenants apply private non-bank loans for production purposes to a greater degree than owner-operators. The pattern holds up in relative value terms also if the fraction of private non-bank loans to total in Table 4.6 by tenure is weighted by the fraction of observations under "production" from private non-bank sources by tenure in Table 4.8 (tenant (share and lease) - 0.75; owner-operated = 1.35).[142] (5) Tenants, however, tend to utilize private loans for production to a greater degree than credit from landlords.

With reference to Proposition (4), point (5) above implies that tenants are permitted greater flexibility with landlord credit than with loans from other private lenders. If so, a more detailed investigation should first partition credit observations by purpose before testing for relative interest charges by source unless there is compelling reason to believe that all private non-bank lenders treat tenant's production and consumption loans as synonymous.

Thus far the usury investigation has examined potentially restrictive lending practices by landlords to tenants.

If however further research reveals that competition with moneylenders,

etc. in fact constrains landlord exploitation in what essentially is the unsecured tenant credit market, it may be useful to ask if owner-operators are in different credit markets from tenants when borrowing from private non-bank sources as well as when making rural bank loans because their land can serve as collateral. Relatively lower interest charges, on average, for owners from landlords would provide fairly strong evidence.

This research proposal is supported by Montemayor's argument in footnote 138 above which implies that landowners operate in different credit markets than tenants. It also receives support from the observation in Table 4.6 that owner-operators utilize bank credit sources relatively more than tenants, since banks, with their collateral requirements,[143] are generally understood to offer better terms than private non-bank lenders.

If further investigation reveals that collateral does in fact allow owner-operators to receive better terms from landlords for secured than for unsecured loans (and if landlords are not able to tie loans to a tenancy agreement at exploitative interest rates vis-a-vis other non-institutional lenders), policy makers would have fairly strong evidence that contrary to Proposition (4), landlords probably provide a very real service by extending unsecured credit, in the absence of which levels of tenant welfare would be lowered. The theory of exchange certainly implies such a thing. It is this point that we will examine next.

Non-Economic Factors

Even if further investigation proves that landlords do not keep short-term interest rates artificially high, the very fact of land ownership creates differential credit advantages for landowners vis-a-vis tenants

in the context of Philippine credit institutions. Lower cost bank credit is available from rural banks, the Philippine National Bank and the Development Bank of the Philippines when one has collateral.[144] It is a short step from here to a more sociological argument that the banking institutions discriminate in favor of certain citizens because of inheritance laws. That is, some people have unjustly gained access to preferred credit markets by accident of birth.[145]

In counterpoint, it seems reasonable to hypothesize that if collusion by landlords to prevent tenant entry into lower priced credit markets can't be proven, then landowners[146] have differential access because they are more skilled farmers. No doubt entry into "secured" credit markets is gained both by fortune (i.e. inheritance) and by management which leads to purchase of good farm land (rather than, say, long-term leasing of land) for the pecuniary and societal advantages formal ownership provides in the Philippines. But sound credit policy[147] requires an understanding of which raison d'ownership predominates, thus I have raised the counterpoint.

If landowners and tenants are not differentially productive, however, the "exploitation by accident of birth argument" argument may be correct, which suggests a sort of "global usury" that is tied in with economic class even if "usury" in the sense of exploiting tenants within the unsecured credit market is not evident.[148]

Several features of landlowners and tenants in general should be examined when suggesting that the former are better farmers. For example:

1. Are farms that enjoy active managerial participation by the landowner in managerial decisions more productive than those with passive owners?

2. Are landowners better educated than tenants?

3. Is one group less likely to use production loans for the intended purpose than the other?

4. Has landowner and tenant repayment performance been different under similar circumstances?

If investigation proves that landowners are more productive borrowers, then it is clear that landlords actually provide a service by lending to tenants that cannot be duplicated without entailing a global opportunity cost. In this case the provision of unsecured credit by landlords at rates greater than landowners pay at private banks ought not to be considered usurious. The difference is simply a competitively determined risk premium necessary to induce landlords to bear the risk. A collateral requirement then becomes an easy way for bankers to identify in which risk category prospective borrowers belong (as well, of course, as providing security if the life of the loan is shorter than the life of collateral, and the latter is marketable). That is, collateral in this instance would not be an institutional feature that arbitrarily denies an unfavored group access to less costly credit.

A recent descriptive analysis of landlord-tenant relations included 112 landlords in the predominantly rice areas of Bulacan and Nueva Ecija (Central Luzon). The researcher, E. Bernal, found that no single sharing arrangement was particular to rice farmers in this region, but rather that relative shares depended upon the degree of participation by each party in farm management. Not surprisingly, as the degree of landlord participation rose, his share of the crop did too.[149]

> Among the respondents interviewed, six types of sharing arrangements of output were reported. There were instances when a landlord has several sharing arrangements with his tenants. The sharing arrangements of output were: 50-50, 45-55, 55-45, 60-40, and 75-25, (where the first figure refers to the tenant's share).

She continues:

> Under these provisions, if the landlord will contribute the land and also shoulder the transplanting expenses, he must get 55% of the produce. However, if they (the landlord and the tenant) have a 50-50 sharing arrangement with the above input contributions of the landlord, then the landlord loses 5 percent of his rightful share of the output. The traditional 50-50 output sharing between the landlord and the tenant refers to the net, produce after operating expenses such as threshing, seed, fertilizer and irrigation expenses have been deducted from the produce. There are, of course, variations in this arrangement depending on other factors like the work animals which used to be provided by the landlord but is increasingly being borne by the tenant. The variation in sharing arrangement is brought about mainly by the amount and kind of the operating expenses shouldered by the landlord. Irrigation fee is also variable; sometimes it is deducted from the gross but generally is borne by the landlord.
>
> Some respondents claimed that they also have other sharing arrangements like 45-55. Under this arrangement, the landlord provides the land, work animals and transplanting expenses. Another sharing arrangement was 55-45 wherein the tenant provides the work animals, takes care of harvesting and expenses for pulling of seedlings. In both arrangements, all other expenses were deducted from the gross proceeds. 150

The sample was also stratified by "managing" and "non-managing" landlords. The managing landlords include "those that personally supervise or direct farm operations." This leaves non-managing landlords as those who "leave the supervision and farm decisions to others who are not members of his household although they still may be very close relatives of his."[151]

Based on the following table,

Table 4.9. Sharing Arrangements and Landlord Management[a]

TYPE OF SHARING ARRANGEMENT	MANAGING	NON-MANAGING
	number of respondents	
50-50 only	39	19
and owner-operator	8	-
and 45-55	2	-
and 70-30	2	1
and leasehold	4	8
45-55 only	2	2
and 75-25	1	-
and owner-operator	1	1
and 60-40	-	1
and 70-30	-	1
and leasehold	3	-
55-45 only	3	1
60-40 only	1	1
70-30 only	2	2
75-25 only	-	1
and leasehold	-	1
leasehold only	-	5
Total	68	44

[a]source: Bernal, op. cit., p. 55, Table 13.

Bernal concludes that:

> It is also interesting to note that there were more managing landlords when the sharing arrangement gives a higher percentage of return to them . . . as the sharing arrangement changes, the management function as well as the participation in shouldering expenses seemed to vary also. 152

If landlords are more skilled at farming than tenants (and therefore are better risks in the market for short-term production loans), then, since all of the negotiable operations mentioned by Bernal have to do with land preparation and crop management, we should expect to find that land productivity is higher on farms with relatively greater share going to the landlord. Unfortunately, the same study must be relied upon to test this hypothesis because share contracts are just not reported by sharing percentages. Table 4.10 repeats Bernal's findings on yield per hectare versus sharing arrangement for rice farms.

TABLE 4.10. Yield Per Hectare, By Sharing Arrangement, Palay Farms in Central Luzon, 1965[a]

Item[b]	45-55	50-50	55-45	60-40	70-30	75-25
Number of farms[c]	11	91	6	2	11	4
Average yield in cavans palay per hectare	59.39	46.27	59.28	60.85	35.91	55.06

[a]source: derived from Bernal, op. cit., p. 57, Table 14.
[b]first percentage refers to tenant's share
[c]number of farms is greater than number of landlords sampled (=112) because some rental to more than one tenant.

When farms with less than ten observations are ignored, a definite downwards trend appears. Landlords may indeed be better farmers. But, this, of course, is hardly a conclusive test. Nor should a sample from Central Luzon be considered representative of the whole country. Still these "findings" are interesting, given the research problem posed.

83 Another indication of landlowner farming skills relative to tenants'

comes from the amount of education each receives on the average. Education, in my view, simply makes a person more able to communicate in matters of technology, marketing, etc. at the farm level; therefore less personal cost must be devoted to understanding the options that the person faces in the management of lands (or any other specialized factor) in general.

Landlords that were sampled by Bernal in Central Luzon in 1965 had presumably enjoyed, on the average, formal schooling up to the high school level.[153] That is, the average landlord had experienced at least seven years of formal schooling.

On the other hand, Von Oppenfelt found that the average educational attainment of tenants in Central Luzon was only 3.7 years in 1954-1955.[154]

Smaller samples than Von Oppenfelt's that were drawn in Central Luzon closer in time to Miss Bernal's show little difference in years of tenant schooling. The Philippine Bureau of Agricultural Economics sampled 1,043 cultivators in Central Luzon for "highest grade completed" of formal schooling as part of the 1965 Crop and Livestock Survey. These numbers are reprinted in Table 4.11:

Table 4.11: Highest Grade Completed
Farm Operators, Central Luzon, 1965 a/

Contractual Arrangement	Highest Grade Completed						
	total	none	primary	interm.	high sch.	college	unkn.
Full owner	182	18	88	47	13	16	
Part owner	216	35	97	58	18	8	
Share tenant	598	111	288	145	29	25	
Cash tenant	42	5	27	9	0	1	
Other tenant	5	2	3	0	0	0	
Farm manager	0	0	0	0	0	0	
TOTALS	1043	171	503	259	60	50	

a/ source: Bureau of Agricultural Economics, 1965 Crop and Livestock Survey (unpublished)

By averaging across the sum of observations from the three tenant categories, it is apparent that the average "highest grade completed" of tenants sampled in this survey is in the primary level. There was no change in the ten years that elapsed after Von Oppenfelt's study. On the other hand, sample owner-operators clearly have had more formal schooling on the average than tenants.

Bolaun also found tenant farmers had experienced an average of 3.3 years of primary schooling[155] in his sample of seventy-five tenants in Pampanga Province (Central Luzon) of 1966-1967. Romero likewise determined from a sample of 188 tenant farmers in Bulacan that tenants "...mostly had an education of 1-4 years."[156]

Thus, on the basis of education, there is reason to believe that landowners are better credit risks; at least to the degree that education is related to ability to employ production loans "productively".

Another factor when assessing relative "productiveness" is the confidence a lender can place in the borrower's promise to use the loan for its intended purpose. It is difficult enough to trace a loan through accounts of firms that maintain meticulous records. Enforcement must be doubly difficult in the Philippine farm sector where few cultivators know how to keep records.

Unfortunately for our purposes, this lack of information extends to private research by disinterested parties as well. It is clear that borrowers do misrepresent. For instance:

> Many cases of misapplication of loan proceeds have also been observed. Gapud revealed as one important finding of his study of the small agricultural loans operations of the Development Bank of the Philippines in the Cabanatuan City Branch in 1960 that about 47 percent of the farmers included in the survey misapplied

> either completely or partially the loans obtained using them for unproductive purposes. In a few cases visited by the author, the loan proceeds that were supposed to have been used for the purchase of breeding stock of pigs were used instead for renovating the farm dwelling or for buying some household items. 157

Or,

> The cost of supervision is rather high ... In the pilot project in Cabanatuan (Nueva Ecija (Central Luzon)) the cost in the first year is estimated at ... more than 10 percent of the total loans granted to supervised borrowers. 158

But it's not clear if one group or the other (tenants or landowners) are the least trustworthy in this regard.

Repayment performance is another matter however. Of the four indications of "credit worthiness" (productivity, education, "correct" application of loans, and repayment performance), data are more complete here, at least for repayment performance of loans from private rural banks.

In the mid-1960's, measures were taken by Philippine government agencies to improve the flow of short-term credit through rural banks to cultivators. The Agricultural Guarantee and Loan Fund (AGLF) was initiated in 1966 to support the Philippine Four Year Rice and Corn Self-Sufficiency Program (an attempt to improve agricultural productivity by widespread introduction of fertilizer responsive rice varieties among other things). Money was channeled through the Central Bank to participating rural banks in the form of special time deposits earning an interest of 5 percent per annum. "Rural banks grant production loans to farmers at 12 percent per annum <u>with no collateral requirements</u> (underlining is mine). The loan matures in six months ... in instances where matured loans cannot be collected the AGLF assumes 70 percent and the rural bank 30 percent of the loss."[159]

Repayment performance has been chequered. Table 4.12 stratifies

repayment performance of 349 ACLF borrowers in 1967-68 by contractual arrangement.

Table 4.12 Repayment Performance on Matured Short-Term Loans by 349 Borrowers, Philippines, 1967-68 a/

Tenure	Per cent Repayment of Matured Loans	REPAYMENT STATUS Delinquent	Fully Paid	TOTAL
Owner	62	29	48	77
Part-owner	54	20	24	44
Lessee	45	38	31	69
Share tenant	62	60	99	159
TOTAL	58	147	202	349

a/ source: Clemente, ibid.: Table 1, p. 18.

But in a study conducted before AGLF, Muere finds that repayment performance to rural banks is much better.

Table 4.13 Past Due Accounts of the Rural Banking System, Philippines, 1953-1962[a]

YEAR	TOTAL LOAN INVESTMENT	PAST DUE ITEMS	LOANS IN LITIGATION	TOTAL PAST DUE ACCOUNTS	PER CENT OF PAST DUE ACCOUNTS TO TOTAL LOAN INVESTMENT
1953	1,976,420	245,420	—	245,420	12.42
1954	3,839,011	604,369	23,898	628,267	16.36
1955	6,520,461	1,258,526	42,330	1,300,856	19.95
1956	15,412,932	1,796,169	92,785	1,888,954	12.26
1957	28,353,542	3,501,224	252,602	3,753,826	13.24
1958	41,289,634	5,183,821	397,004	5,580,825	13.52
1959	49,015,759	7,676,829	524,848	8,201,677	16.73
1960	59,601,358	8,999,899	942,883	9,942,782	16.68
1961	83,586,328	12,841,077	1,068,649	13,909,726	16.64
1962	111,306,079	16,6 3,710	1,324,076	17,947,786	16.12

[a]source: Muere, op. cit., p. 64, Table 12.

Recall that these loans were primarily to landowners because of the land collateral requirement. In no single year of this ten year period did repayment performance drop as low as it was in 1967-68 after the advent of AGLF with its emphasis on lending to the cultivator without collateral.

These findings imply that landowners can be considered better credit risks than tenants, on the average, based on repayment performance alone. This conclusion is reinforced by comparative education levels, to the degree that education reflects ability in farming matters.

At any rate the suggestion is there. Should Proposition (4) be rejected further research would be useful to decide if the secured/unsecured dichotomy in agricultural credit markets has economic merit before structuring credit policy. For if the dichotomy has merit, transfer of loanable funds into risky markets may cause diversion from more pro-

ductive investments which entails an opportunity cost for the whole economy. A more preferable policy may be to raise the credit-worthiness of tenants through agricultural extension, supervised training and education, so that he may become more productive and thereby accumulate the necessary collateral for lower cost loans.[160]

If Proposition (4) is not rejected, more direct action will be required in the private non-bank credit market,[161] but it would still be prudent to determine if the secured/unsecured dichotomy is also related to productivity rather than landlord exploitation before extending direct action to secured credit markets in the manner of the AGLF program.

ZAMBIA: PRIVATE BORROWING AND LENDING ARRANGEMENTS INVOLVING CULTIVATORS' CASH SAVINGS

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Excerpted and reprinted from chapter 8 of the study The Role of Money in Development of Farming in the Mumbwa and Katete Areas of Zambia, a PhD dissertation presented to the University of Nottingham.

(5) Private borrowing and lending arrangements involving cultivators' cash savings

8.32 One of the means by which the cultivators who wish to purchase improved farm inputs might be expected to increase the amount of monetary capital at their disposal is by borrowing, privately, from relatives, friends and other individuals. Information concerning the privately-arranged borrowing and lending arrangements of the Mumbwa and Katete sample cultivators

was collected in November, 1969. The data refer only to loans which were in force during this particular month; both borrowing and lending arrangements are included. Because the time period to which the data relate is limited, it is not possible to carry out a complete study of the extent of private borrowing and lending throughout the year. However, November, being the beginning of the farming year, is a month in which much expenditure is incurred for the purchase of farm goods and services. Over the two-year period 1967/69, farm expenditure was greater in both years in November than in any other month, and accounted for 16 per cent of the total farm expenditure over this period. However, most private loans extend over a period of many months and, in the case of loans for farming purposes, the time period operates from the time the expenditure concerned was incurred until the crop is sold after harvest. As shown in Table 48 below, most private, farming loans were for purposes connected with mechanization. Since ploughing is the chief operation involved in mechanization, at the current level, in the sample areas, and since most ploughing takes place in November and December, it can be safely assumed that most expenditure for tractor purchase, pre-ploughing repairs and other related items would have been incurred by the end of November. Consequently, one might reasonably expect that data relating to private borrowing and lending during this particular month would give a useful indication of the extent to which private loans are used to facilitate farm investment over the whole year.

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8.33 Mumbwa and Katete sample cultivators were involved in borrowing and lending arrangements to a total value of K 3028

during the month for which these data were collected[27] Of this amount, K 999 was borrowed by survey co-operators and K 2029 was lent to others. The size-distribution of the individual loan arrangements is given in Table 45. The data show that loans greater than K 50 accounted for 60 per cent of the total value of private loans. As the large discrepancy between the total sums lent and borrowed by survey co-operators indicates, the private loan arrangements, about which information was collected, were not restricted to those in which both the parties involved were survey co-operators. The nature of the other parties to the loans is indicated in Table 46, whilst information concerning the type of security involved is given in Table 47. These tables indicate that most private loans are arranged between neighbours and friends and, as might be expected with loans between such parties, the type of security is, very largely, of the non-material type.

8.34 A wide variety of responses were given when the cultivators were asked to state the purpose for each loan. These responses are presented in Table 48, where the loan types are listed in descending order of the 'all loans' aggregate amount. Loans for the repair of machinery, together with loans for legal purposes (loan type 4) and those connected with illness, constitute loans occasioned by unexpected contingencies. These loans totalled K 675 and accounted for 22 per cent of all private loans. Clearly then, some cultivators met their contingency commitments by

(27) Only loans of K 1 or greater were recorded.

Table 45

The size of private loans,
Mumbwa and Kateta cultivators, November 1969

Loan size (Kwacha)	Survey co-operators' borrowing		Survey co-operators' lending		All loans	
	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)
1 - 5	24	75	24	61	48	136
6 - 10	7	56	15	120	22	176
11 - 20	5	82	11	178	16	260
21 - 50	6	192	13	457	19	649
51 +	5	594	10	1213	15	1807
All loans	47	999	73	2029	120	3028

[1] n = number of individual loan arrangements

Table 46

The nature of the other party in the private loan arrangements of Mumbwa and Katete cultivators, November 1969

Other party	Survey co-operators' borrowing		Survey co-operators' lending		All loans	
	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)
Relative	23	315	34	1467	57	1782
Neighbour not relative	18	663	38	560	56	1223
Employee	1	6	-	-	1	6
Shopkeeper	5	15	1	2	6	17

[1] n = number of individual loan arrangements

Table 47

The type of security involved in the private loan arrangements of Mumbwa and Katete cultivators, November 1969

Security	Survey co-operators' borrowing		Survey co-operators' lending		All loans	
	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)
Character of borrower	23	609	38	632	40	1307
Relationship	16	261	24	1046	61	1261
Publicity	2	104	4	163	6	267
No security	5	21	6	165	11	186
Material collateral	1	4	1	3	2	7

[1] n = number of individual loan arrangements

Table [illegible]

The purpose for which the money was borrowed: the private loan arrangements of Mumbwa and Katete cultivators, November 1969

Loan type	Purpose of loan	Survey co-operators' borrowing		Survey co-operators' lending		All loans	
		n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)	n[1]	Aggregate amount (Kwacha)
1	General farming incl. all purchases	8	402	24	1054	32	1456
2	Credit for farm contracting services[2]	3	194	5	191	8	385
3	Machinery repairs	3	176	3	187	6	363
4	Fines and court-ordered damages	6	76	11	216	17	292
5	General household	15	75	7	70	22	145
6	Business loan	2	3	6	86	8	89
7	Repay private loan	3	38	5	49	8	87
8	Not known	-	-	4	64	4	64
9	School expenses	2	18	4	42	6	60
10	Repay Government (COZ) loan	-	-	1	40	1	40
11	Personal transport	4	14	2	10	6	24
12	Treatment of illness	-	-	1	20	1	20
13	Marriage payment	1	3	-	-	1	3

[1] n = number of individual loan arrangements

[2] The chief contracting service was ploughing, using tractors.

private borrowing. Private loans connected with farming - loan types 1, 2, 3 and 10 in the table - accounted for 74 per cent of all money borrowed and lent[28] Most of these loans were directly related to farm mechanization; the loans in loan types 2 and 3 (Table 48) are patently so. Of the 32 type 1 loans, seven were for amounts exceeding K 50. The total value of these seven loans was K 1026 and all were connected with the purchase of tractors or tractor implements. The high cost of tractors and related machinery, together with the difficulty experienced in recent years in obtaining institutional and commercial credit for their purchase, has meant that cultivators wishing to acquire these items have frequently been obliged to borrow heavily from relatives and neighbours.

8.35 Much of the private borrowing and lending which took place in Mumbwa and Katete during November 1969 was connected with farming. The sums involved were, therefore, compared with the total expenditure on farming during the 1968/69 farming year. The amounts borrowed and lent for farming purposes represented 4.7 per cent and 8.9 per cent respectively of the total cash expenditure of the sample on farming goods and services during the preceding 12 months. The value of this comparison is limited by the fact that the private-loans data only relate to those borrowing and lending arrangements in force during November 1969. However, as mentioned earlier, there is good reason to believe

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(28) Loans taken to enable machinery repairs to be carried out qualify both as loans connected with farming and as loans occasioned by unexpected contingencies. These machinery-repair loans account for 12 per cent of all loans.

that the loans recorded during this particular month represent a fairly high proportion of all loans given and received, for farming purposes, during the whole of the farming year. Another difficulty in making the comparison between loans for farming purposes and total farm expenditure is that the latter data refer to the 1968/69 farming year, whilst the loans data relate to the season following this. Evidence presented in Chapter 6[29] showed a fairly high degree of consistency of farm cash-expenditure levels between the 1967/68 and 1968/69 farming years. If it is assumed that the farm cash-expenditure levels of the season following that of 1968/69, that is, the season to which the private-loans data relate, exhibited a similar consistency, then the percentage figures quoted earlier in this paragraph might be accepted as providing a useful indication of the comparative importance of private loans to farm investment as a whole. Nevertheless, even if a considerable margin of error is allowed because a direct comparison between private loan arrangements for farming purposes and total farm expenditure is not possible, and however important these loans might be for individuals such as some tractor owners and tractor hirers, it is clear that private lending and borrowing is not a major factor in farm investment within the sample as a whole.

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[29] See Tables 14, 15 and 16 of this chapter. These are found on pages 101, 103 and 105 respectively.

CREDIT AND THE SMALL FARMER, CASE STUDY OF THE MEKONG DELTA, SOUTH VIETNAM

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CREDIT AND THE SMALL FARMER: CASE STUDY OF THE MEKONG DELTA, SOUTH VIETNAM

INTRODUCTION

The purpose of this study is to describe and analyze the various types of credit arrangements which have been available to small farmers in the Mekong Delta region of South Vietnam and their social and economic consequences. The approach will be historical: we shall investigate the sources, terms and conditions of credit that has been available to Delta farmers at various points in time during the past century; the economic, social and cultural influences which have helped to determine the form of credit institutions, and the effects of these credit arrangements on the welfare of small farmers and the economic development of the region.

A particular emphasis of this study will be on what have been termed 'informal credit institutions' - such things as the activities of village merchants and money lenders, and the workings of rotating credit societies. In conjunction with this micro-description of the way in which debtor-creditor relations are managed at the village level, we shall focus on the workings of the private commercial sector in order to show the manner in which rural credit institutions articulate with the national credit system of banks and government programs.

From this analysis we shall present a viewpoint on the role of credit for future development programs for this region and the most desirable means for making needed credit available to small farmers.

The data upon which this study is based have been obtained primarily from interviews conducted with merchants, government officials, and farmers during two periods of fieldwork in South Vietnam. The first period was from May, 1967 to June, 1968, during which time I was a member of a study team contracted with the Simulmatics Corporation studying commercial distribution networks for agricultural inputs in the Delta for the Economic Division of USAID/VN. The second period lasted from July, 1971 to May, 1972; the purpose of this fieldwork, which was supported by a grant from the Office of East Asian Regional Development of USAID, was to gather data on marketing and credit processes for a Ph.D. dissertation in the Department of Anthropology at Cornell University.

In addition to information gathered through interviews, I have made use of available secondary sources dealing with credit and the economic development of the Delta, including unpublished dissertations and papers, published materials, and documents and statistics made available by the GVN and the US government.

THE SETTING: THE MEKONG DELTA BEFORE THE FRENCH OCCUPATION

In order to understand the economic and social changes which have occurred in the Mekong Delta during the past century, we need to have some understanding of the early history of this region, the manner in which its settlement began and the social and economic patterns which had developed prior to the colonial era. From this we can see that the rapid changes which have occurred in the past one hundred years did not develop out of a vacuum, but were the result of the interaction between established economic, social and cultural patterns and the new elements that were introduced during the colonial period. This perspective of change as an interplay between new elements and traditional patterns not only helps us to comprehend the past, but should also help us to better understand patterns of change in the present and future.

The earliest record we have of the settlement of the Delta comes from Chinese accounts of the Kingdom of Funan, which flourished during the third to sixth centuries. At this time we learn that the port city of Oc Eo was a regular port of call on the sea trade between India and China,[1] but these early written records tell us little of the conditions of life in the Delta during this early period. In the sixth century, Funan was succeeded by its inland tributary, Chen-La, and with the capital located farther from the coast, the Mekong Delta became an area of piracy, and foreign trade diminished until the establishment of the capital at Ankor in 802 A.D.[2] Throughout this period it appears that the settlement of the Delta was limited to scattered groups of peasants. When the Khmer kings gained control over the area, little more was done to exploit the potential riches of the region, and the depredations of roving mercenaries coupled with natural hazards served as effective constraints on population growth.

Vietnamese settlers, the vanguard of the "March to the South" which had been extending Vietnamese rule southward since about 1000 A.D., began to arrive in the upper Delta by the end of the seventeenth century; by the beginning of the eighteenth century scattered settlements had reached the East bank of the Mekong.

Arriving at the same time as the earliest Vietnamese settlers were groups of Chinese political refugees, supporters of the fallen Ming dynasty who had fled China after their resistance against the

1. William E. Willmott, The Chinese in Cambodia (Vancouver: University of British Columbia, 1967), p. 4.
2. Ibid.

Manchu invaders had failed. One group was given permission by the Vietnamese ruler, Hien Vuong, to reside in the unsettled reaches of the upper Delta where they founded the communities of Bien Hoa and My Tho. Another group, under the leadership of a man named Mac Cuu, elected not to submit to the Nguyen rulers and sailed deep to the south to the Gulf of Siam and landed in the territory of the Khmers, in a region near the present day boarder between South Vietnam and Cambodia. Here Mac and his followers established the prosperous trading center of Ha Tien, cleared the land, recruited settlers from China and laid the foundations for a prosperous state which during the height of its power controlled an area consisting of almost the entire coastline of modern Cambodia and the lower Delta provinces of South Vietnam.

In 1708, Mac Cuu submitted his territories to the Vietnamese emperor, and in return he was given the title of governor over all the southern provinces with almost complete autonomy in all affairs, military, economic and social. This area, in effect, remained a separate Chinese state well into the eighteenth century. When the Vietnamese migrants arrived on the left bank of the Bassac at the beginning of the eighteenth century, their advance was blocked for nearly fifty years by the presence of the other group of settlers on the right bank of the river. It was not until the coming of the French that the lower provinces were fully incorporated into Vietnamese society, and even today the economic and social patterns, and even the language, reflect this pattern of early settlement.

At the beginning of the nineteenth century, a new Nguyen dynasty emerged from the ashes of a civil war which had wreaked destruction on the country for over thirty years, and embarked anew on a program of settling and exploiting the Delta. A system of canal building was initiated, and before the French occupation a number of canals already connected the Saigon River to the Mekong, while others connected the Mekong to Ha Tien and Rach Gia on the Gulf of Siam.[1]

Military and agricultural colonies were sent out to secure and develop uncultivated areas but due to the harsh conditions of Delta life, particularly the onslaughts of diseases such as malaria and cholera, these colonies frequently met with failure or a precariously low level of success. Other areas, however, had begun to prosper. In the upper Delta, the Chinese immigrants, who had been forced to abandon their settlements at Bien Hoa and My Tho, had by 1778 established the commercial center of Cholon, and although the city was sacked by the Tay Son only four years later, it

1. C. Robequain, The Economic Development of French Indo-China (London: Oxford University Press, 1944), p. 110.

recovered rapidly and soon replaced Ha Tien as the principal trade center of the South. For Chinese merchants, who had a long history of trade with the Vietnamese, Chams, and other inhabitants of this region, the early trade activities in the Delta were nothing more than an extension of the Nan Yang trade which had been going on between southern China and the countries of the South Seas since the early days of the Sung Dynasty in China. Chinese junks would sail once a year from China, carrying such things as ores for the manufacture of weapons, silk, agricultural tools, iron products, Chinese medicines, and a variety of Chinese handicrafts; they would rely upon favorable winds to carry their cargoes of Vietnamese products -- rice, copra, sugar, spices and wood -- back to China.

After Nguyen Anh had subdued the Tay Son and ascended the throne in 1802 as the emperor Gia Long, he granted to the Chinese special trading privileges for the help they had rendered to his cause during the period of civil war. This policy, which was continued by subsequent rulers, resulted in increased numbers of Chinese settling in Vietnam, and by the time the French began their conquest of Cochinchina, Chinese merchants were well established in the rural areas and newly formed market centers of the Delta, and through their commercial relations with Vietnamese peasants, they had begun to turn the peasant away from a self-sufficient existence toward a form of production aimed at producing an exchangeable surplus. Cholon had grown to a prosperous city of 40,000, which one French observer described as being modeled after the large cities of China.[1] Saigon by this time contained over 100,000 inhabitants,[2] while the total population of the Delta had increased to nearly one and one half million.

Considering Vietnamese accomplishments in the Red River Delta in the north and their efforts in the south prior to the French conquest, it seems fairly evident that even without the French, the Vietnamese would have ultimately succeeded in taming and settling the Mekong Delta, although the pace undoubtedly would have been slower and, because of this, the pattern of settlement different.

The effect of the French conquest of Cochinchina was a tremendous increase in the rate of settlement and the exploitation of the Delta's resources. Arriving with the needed engineering and medical skills, the French triggered an era of economic expansion

1. Francis Garnier as cited in P. Casteldy (ed.), La Cochinchina (Saigon, 1931), p. 29.
2. John White, an American ship capitan who visited Saigon in 1819-20 estimated the population of the Saigon area (apparently including Cholon) at 180,000. John White, A Voyage to Cochin China (London: 1824).

which saw the Delta change at a rate probably unmatched at any time at any other area of the world.[1]. During the period from 1968 until 1930, the area of land under cultivation increased from 215,000 to 2,214,000 hectares.[2]. Rice exports from Cochinchina, which had totaled 57,000 metric tons in 1860, had more than doubled by 1868, and by the late 1920's had exceeded the level of one million metric tons per year.[3]. The population during this period nearly tripled, from an estimated 1,679,000 in 1880 to 4,484,000 in 1937.[4].

The French contributed two essential elements to this process: modern engineering skills which were necessary to drain the Mekong Delta and open it up to settlers and investors; and medical achievements which made it possible to combat the cholera, malaria, plague, smallpox, beriberi, and tuberculosis which had placed such severe limitations on earlier attempts at colonization.

But the French contributions were only one facet of the process which opened the Delta for cultivation. Equally as important were two additional components: an organizational effort of major proportions in clearing land, digging connecting ditches, and recruiting settlers; and a commercial expansion which provided the vehicle through which the productive capabilities of the Vietnamese peasant were linked with the world market for his produce. These latter two elements were not new but were merely an amplification of processes which had been underway in this region for over two hundred years, namely, the expansion of Vietnamese settlements in the Delta as the final stage of the "March to the South," and the Chinese commercial expansion in the Delta which had grown out of the earlier patterns of the Nan Yang trade. Under the stimulation provided by the French innovations in engineering and medicine, the processes of land development and commercial expansion accelerated rapidly and transformed the Delta in a period of just slightly more than half a century.

It is the role of the commercial sector which is of primary concern to us here. The activities of private merchants, particularly Chinese rice dealers, and their role in the agricultural expansion of the Delta is a subject which has heretofore received little attention. Yet commercial activities not only made the process of land development feasible, but as we shall see, merchants were the source of manufactured goods which provided incentives for increased production, the communication and marketing link between the small farmer and the city, and the means through which a large proportion of the necessary credit and capital was made available to Vietnamese producers.

The key to understanding the workings of the commercial sector and its role in the development of agriculture in the Delta lies in the

1. Robert L. Sansom, The Economics of Isurgency in the Mekong Delta of Vietnam (Cambridge, Mass.: The M.I.T. Press, 1970) p. 19.
2. Ibid., p. 260.
3. Ibid., p. 261.
4. Robequain, op. cit., p. 220.

varieties of credit relationships which merchants maintained at all levels of Vietnamese society, from the transactions between village merchants and small farmers in remote areas of the countryside to the relationships among large wholesalers, banks, foreign trading companies, local import-export houses, and money lenders in Saigon and Cholon and even as far away as Hong Kong and Singapore.

We shall now examine the sources of credit which have been available to support agricultural production and the terms and conditions on which credit has been available to small farmers in the Mekong Delta at various points in time during the past century. We shall also investigate the manner in which the commercial system functioned during these periods in order to comprehend why different types of credit relationships functioned as they did.

CREDIT AND THE SMALL FARMER: 1860-1930

We have mentioned the changes which occurred in the Delta from the beginning of the French occupation up until the depression. The general climate was one of expansion. As the extension of canals and the introduction of public health measures opened up new areas for settlement, the area of land under cultivation increased nearly ten times, while population increased by three hundred per cent. The combination of a moderate population increase with the rapid expansion of available land produced a large agricultural surplus and this led to a ten-fold expansion of exports - an increase proportionate to the area of new land brought into production - and rising incomes over the period of settlement.[1]

During this period, the new lands were brought under cultivation almost exclusively by large-scale cultivators,[2] most of whom were Vietnamese, although French and Chinese also participated in the process.[3] Individuals could make bids for the rights to own and develop land concessions which became available as new canals were extended into an area. Successful bidders would then be faced with the task of developing the land and recruiting settlers. Smaller connecting canals and ditches had to be dug so the land would drain, dikes had to be constructed to prevent salt water tides from intruding during the dry season, and the land had to be cleared and prepared for cultivation.

1. Sansom, op. cit., p. 39.
2. Erich H. Jacoby, Agrarian Unrest in Southeast Asia (Bombay: Asia Publishing House, 1949), p. 161.
3. See Sansom's comment on Tran Trinh Trach, a Chinese land developer who was the largest landowner in Cochinchina. Sansom, op. cit., p. 24.

These activities were almost always carried out on a credit basis. Besides the finances which were required for these activities, landowners would need additional funds in order to assist tenants in meeting their initial operating and living expenses, since persons most likely to be induced to settle in new areas were generally those who were impoverished and had few other available options.

The primary source of credit to landowners during this period appears to have been Chinese merchants, particularly those engaged in the rice trade; this was especially true in the period prior to 1906, during which time agricultural production had already reached two-thirds of its peak output. Following the bad harvests of 1905 and 1907, Indian chettys also became involved in money lending activities in Cochinchina; beginning their operations in the urban centers, they gradually extended their influence to the countryside. Chinese merchants remained the preferred source of credit, however, and Vietnamese farmers resorted to the chetty only when other sources of credit were closed.[1]

During the same period that the Indian chettys were establishing themselves in Cochinchina, the French government initiated programs intended to supply credit to agriculture. Several programs were started in the period before the First World War but almost without exception these met with rapid failure. Serious attempts to establish government supported credit programs were renewed after the war, but since the settlement of the Delta was nearly complete by this time, it seems fair to say that the influence of these programs on the process of agricultural expansion was very slight.

In the upper Delta provinces, the problem of and concentration was not as severe and more farmers owned the land which they worked. But for these small cultivators, the Chinese merchant was also an important source of credit, although the manner in which credit was made available was different here from the lower Delta. In the upper Delta during this period the village merchant was an important credit source. In the lower Delta, the Chinese merchants provided credit to landlords, and the landlords controlled the credit to their tenants. Small farmers and tenants in the lower Delta were also able to obtain credit from village merchants but only in proportion to the surpluses they had available after providing for their living expenses and paying the landlord's due. We shall now examine the manner in which credit relations between Chinese merchants and Vietnamese producers functioned.

1. Virginia Thompson, French Indo-China (New York: Octagon Books, Inc., 1968), p. 225.

The Chinese System of Credit and Commerce

In the period prior to 1930, the main characteristics of Chinese business enterprise in Cochinchina were a concentration in a small range of business activities and a high degree of control exerted in these activities by a small number of firms. The first characteristic was due to the undeveloped nature of the Vietnamese economy; rice was one of the few items for which there was a market, and the limited purchasing power of Vietnamese peasants severely restricted the range of items which could be traded. The second characteristic, a high degree of control exerted by large wholesalers, rice millers and trading firms, was a result of the limited availability of capital and credit.

The importance of rice in the economy of this area was such that up until 1931 rice exports represented 65% of the total export value of all of Indochina. And for the first sixty years after the French conquest, the Chinese in Vietnam maintained nearly a complete monopoly over the gamut of rice marketing activities, including the collection of paddy from the Vietnamese farmer, transportation, credit, milling and export. In 1878, a Chinese businessman built the first modern rice husking factory in Cholon, which had the capacity to mill over 300 tons of paddy per day. By the time of the first World War, there were eleven rice mills in Cholon capable of producing over 5,000 tons of rice daily, and in the period of prosperity after the war, the Chinese rice merchants in Vietnam enjoyed their golden era. Working day and night, Cholon's rice mills, which numbered sixty-nine by this time, were able to produce 8,090 tons of white rice per day.[1].

During this period Chinese immigration soared to new heights and Chinese merchants, utilizing the wealth gained through the rice trade, began to expand into other areas of commerce and solidified their place in the Vietnamese economy.

At the heart of this system were the large Cholon rice merchants, mainly Cantonese and Fukienese. The key to the control which they exerted over the other participants in this system consisted of the sources of capital and credit which they had available to them and their marketing contacts in Hong Kong and Singapore. These merchants were the only local firms in Cochinchina who had access to the inexpensive credit provided by foreign banks and trading companies; and in addition to these credit sources, they were frequently able to obtain financial support from business

1. Luong Nhi Ky The Chinese in Vietnam: A Study of Vietnamese-Chinese Relations with Special Attention to the Period 1862-1961 Doctoral dissertation, University of Michigan, 1962., p. 92.

partners and associates in Hong Kong and Singapore. At a time when Chinese merchants in the countryside were just getting established in new areas, and Vietnamese farmers were struggling to establish themselves on newly cleared land, large Cholon rice merchants had already developed their financial position to the point that they could borrow amounts ranging up to $500,000 from French banks and trading companies at interest rates as low as 6-8%, not to mention the funds which they could obtain through their trading partners from banks in Hong Kong and elsewhere.

Some of these merchants were the owners of rice mills and import-export firms; others were wholesale buyers who purchased paddy on their own account and sold to one or more rice mills. But in addition to their dealings in rice, most of these merchants were also wholesale dealers in general goods, a broad category of items which referred, in fact, to almost any type of product which could be sold readily to the rural population. These goods included everything from dried fish and soy sauce to bowls, baskets, farming tools and incense sticks. Eighty percent of these goods were Chinese products imported from Hong Kong; but approximately 20% consisted of French products, luxury items such as soap, perfume, wine, and canned goods, which were imported by French trading companies. These goods were also obtained on credit: the French goods were entrusted to the Chinese compradores hired by the French trading firms, most of whom were Fukienese, and the compradores would pass them on to Fukienese rice dealers and wholesale merchants in Cholon and the larger provincial capitals on credit; likewise, the goods imported from Hong Kong would generally be controlled by Cantonese merchants who would pass them on to their compatriots through a system of preferential credits.

The system which prevailed during this period was one in which general goods would be pumped down through several levels of merchants on a credit basis, from the large Cholon wholesalers to their agents in the province capitals and major market centers, from the agents to their contacts in the districts, from the district merchants down to the landlords and the owners of small general stores in the villages, and from the village stores and landlords down to the small landowners and tenants. These activities were one half of an integrated cycle; the other half, and the purpose for which the system was developed, was the collection of paddy. At all levels in the system, individual merchants would be involved in both activities. Credit, in the form of general goods and sometimes cash, would flow in one direction, from the top to the bottom; in return, paddy would be drawn up through the same system of dealers.

Throughout the Chinese commercial sector, credit was the primary mechanism for binding together buyers and sellers and providing

stability and form to their relationships. More than just providing access to capital, credit relationships secured a merchant's position in the flow of trade; through these relationships he obtained better goods, a more constant supply, and price concessions.[1]

We shall now examine some of the more important patterns of credit relationships which existed in the rice marketing system during this period, namely, the relations between: 1) large Cholon rice corporation and brokers; 2) brokers and village merchants; 3) brokers and landlords; and 4) village merchants and small farmers.

1) Relations between Cholon rice corporations and brokers.

In the period prior to the depression, the large rice corporations in Cholon, including rice mill owners, import-export firms, and wholesalers, had two main types of funds available to carry out their activities. In the first place, they had large amounts of personal capital, much of which was in the form of property - rice mills, warehouses, offices, and fleets of junks. These assets allowed them to obtain short-term credit from banks in large amounts at low rates of interest, usually from 6-8% per year. In addition, they frequently could obtain short-term credit from foreign trading companies with whom they were dealing. Longer term credit was generally not readily available, but this difficulty could sometimes be circumvented by renewing short-term credits.

The financial resources of a firm determined the method in which it conducted its business. In spite of the fact that the rice business was a Chinese monopoly, there was a tremendous competition among rice dealers to secure as much paddy as their finances would permit. To accomplish this purpose, Cholon dealers established relationships with large numbers of brokers who had the responsibility of purchasing paddy in different areas of the Delta. Brokers working in the upper Delta would contact the Cholon dealer directly, but for purchases in the lower Delta, most Cholon corporations appointed agencies to deal with the brokers for them. These agencies were usually staffed by relatives of employees of the Cholon corporation.

1. These observations were originally made by Geertz in his analysis of relationships among pasar traders in Java, but they are applicable to the situation among the Chinese in Vietnam as well. Clifford Geertz, Peddlers and Princes (Chicago: The University of Chicago Press, 1963), p. 36.

The strategy of the large dealers was to extend credit in the form of both cash advances and inventories of general goods to brokers in order to win their goodwill and obligate them to provide paddy during the next harvest. Successful rice corporations were those who had the ability to keep a large network of brokers in their service.

The amount of money that would be loaned to a broker depended upon the ability of the broker to supply paddy, the goodwill which had been developed between the two parties as a result of their business dealings, and the credit rating which the broker developed by conforming to the Chinese standards of ethical business behavior. The credit which the broker accepted from the Cholon merchants or their agents obligated him to return an equivalent amount of paddy. This credit was of two types: short term advances made prior to the harvest to enable the broker to buy up supplies of paddy from large and medium scale landowners and village merchants, and longer term loans made during the growing season. The longer terms loans would be either in the form of cash advances or supplies of general goods, since brokers were frequently semi-wholesale merchants. The term of these loans varied from one to two months to the length of the growing season. The amount of interest would depend on the nature of the relationship between the Cholon merchant and the broker. Frequently these loans would be made on a no interest basis, as a form of mutual assistance between merchants of the same speech group or from the same native place. But even in the absence of such relationships, credit was seen as the means of producing goodwill so that the broker could be counted on to provide the Cholon merchant with larger amounts of paddy during the following harvest season. Interest rates were rarely explicit; generally the interest charge would be in the form of higher prices if the credit was given in the form of goods, or lower prices for the paddy supplied by the broker when the debt was repayed. Most brokers received credit for periods of several days to one month during the harvest season; only brokers with established credit ratings and established relationships with Cholon merchants were able to obtain longer term credit. This was the incentive which Cholon merchants held out to brokers to induce them to enter into a more exclusive relationship.

As long as the terms of the relationship were satisfactory to the broker, he might continue to deal with one rice mill on an exclusive basis. But lacking a large amount of his own capital, the terms of the relationship could be easily dictated by the Cholon merchant. Brokers who had the ability to supply amounts of paddy in excess of the credit advances they received from one rice corporation might sell to other corporations, or they might play one corporation off against another in order to obtain larger amounts of credit. But if the terms he received from the merchant he usually dealt with were satisfactory, he would sell his surplus to the one merchant as a means of further solidifying the relationship and increasing the likelihood of greater amounts of credit

and price concessions in the future.

For merchants at all levels of the marketing system, these relationships were viewed in a long term perspective. For brokers and agents, the reputation for trustworthiness and the goodwill they had established in these relations were far more important assets that their own supplies of capital, since loans received from Cholon dealers represented the major portion of the capital available to the most brokers during this early period.

2) Relationships between brokers and village merchants were similar in form to the relations between the Cholon merchants or their agents and the brokers. Brokers who received advances from Cholon dealers were completely responsible for the amount of these loans, but they, in turn, were free to extend credit to whomever they wished. In dealing with owners of general goods stores in the villages and hamlets, the brokers were careful to base the amount of credit they extended on the ability of the store owner to supply paddy. Brokers would ration the capital they had available for long term loans, which they had either received from the Cholon merchants or had accumulated from their business activities. This credit would be given to store owners and medium and large landlords as a form of deposit or advance both for paddy at the next harvest and towards a relationship which hopefully would provide returns over a number of years. This willingness of Chinese businessmen to invest what amounted at times to large amounts of money to produce goodwill in a relationship was and is an important component in the philosophy of Chinese business.

The credit which the broker provided to the village merchant would be either in the form of a cash advance or general goods on credit if the broker was also a semi-wholesale merchant. The interest charged on these loans would again depend on the nature of the relationship, but would generally vary from no interest to upwards of five and six percent per month. The most commonly reported figure for loans of this sort was 2-3%. The loans given without interest were generally only given when the village merchant was a kinsmen, a former employee of the broker, a person from the same native place, or standing in some other sort of close relationship, and in these cases the loan had to be considered as a form of mutual assistance as well as strictly a business transaction.

The amount which would be repaid was calculated according to the price of paddy at the time the credit was received. For example, if the price the goods received was fifteen piasters and the paddy price at that time was three piasters per ta (a ta is a Vietnamese measure equivalent to 68 kilograms), the village merchant would be

obligated to provide the broker with five ta of paddy, plus interest charges if any, when the term of the loan expired. Again, interest charges could be concealed in higher prices of goods or lower prices given for paddy.

For some types of loans the interest charges would be explicit, but concealed charges were more common in relations among Chinese merchants, since credit was seen in terms of the goodwill and trust which existed in the relationship more than exact rates of return on capital. In normal times, storekeepers would made a profit of 10-15% on the paddy they sold to brokers, while the broker would generally make a commission of 3-4% on the amount of paddy he provided to the Cholon merchant or his agent. In years where floods or drought occurred, the storekeeper would frequently make profits as high as 25-30%.

During the harvest season, or from approximately September through February, brokers would extend credit for periods of one month. Village merchants generally had the ability to supply between 400 and 1000 "gia" of paddy (one "gia" of paddy is approximately 20 kilograms) each time and were able to provide the broker with paddy two or three times during the harvest season. In the decade before the depression, one "gia" of paddy was worth approximately $1.50 U.S. so the value of the paddy delivered each time by village merchants would vary between $600 and $1500. In the case of a store owner who had the ability to supply 500 "gia" of paddy per time (worth $750) and could sell a quantity of goods to his customers each month worth $250, a typical amount of credit which he might receive from the broker would be supplies of goods worth $500, or an amount equivalent to 50% of his total volume of business. Outside of the harvest season, stores might be able to obtain 30-40% of their goods on credit and would have two to three months, and occasionally longer, to repay.

Besides paying off credit advances with paddy during the harvest season, village merchants also had the option of paying the broker or other suppliers with cash. When they paid off a portion of their old account, they would order another supply of goods on credit. Accounts were rarely settled completely, since doing so would jeopardize the relationship which both parties had a stake in perpetuating. The only exception to this was the procedure followed by Chinese businessmen on the eve of the lunar new year. At this time debtors were required to liquidate old debts, but this was frequently done by repaying the amount owed and immediately taking out another loan.

Since credit received from rice brokers and other suppliers represented an important source of capital for village merchants, and since many types of informal sanctions could be exerted by

creditors against debtors who failed to abide by the accepted rules of business conduct, village merchants were generally very careful to repay debts on time in order to protect their credit ratings and preserve the goodwill they had built up with the broker. Brokers and suppliers maintained a high degree of communications among themselves, and if a village merchant failed to honor his obligations with one broker or supplier, he would find it impossible to obtain credit from other sources. This situation was even more true for brokers. During this period many of the Chinese merchants in the countryside were just becoming established. Some had only recently arrived from China with nothing more than the pair of shorts they wore. To obtain a small amount of savings in order to establish their own businesses in a newly opened area would require years of labor in a shop of one of their compatriots or as a coolie or agricultural worker. Without credit, they had no prospects of ever developing their business; but through the slow process of developing a reputation of trustworthiness, they could increase their access to credit and the scope of their business activities. The dream of every immigrant was to move up the ladder of success, from an employee or laborer to the owner of a small shop, from a small village merchant to a district broker and semi-wholesaler, and from there to either the province capital or Cholon. The rules of success were always the same: work hard, live frugally, and build up a network of personal relations to keep the credit coming in and the goods moving out. For a Chinese merchant operating in this environment, his credit rating was as important as his life.

3) Relations between brokers and landlords varied considerably depending on whether the landlord was in the process of developing land, and therefore in need of external sources of finance, or whether he had reached the point where he was content with the size of his existing holdings and the rent from his tenants had allowed him to pay off his creditors and meet his requirements for working capital out of retained earnings.

The costs involved in developing a new land holding included the purchase price of the land, and expenses for constructing dikes, ditches, and canals, clearing the land, and recruiting new settlers. The expenses for recruiting new settlers included providing credit to enable tenants to begin production and to sustain them until the harvest and occasionally paying off previous creditors to gain the tenant's release.[1]

1. Sansom, op. cit., p. 23.

Chinese rice merchants participated in this process by making cash advances to landlords to help them defray the costs of improving the land and beginning production, and, in addition, they would provide the landlord with supplies during the growing season which the landlord would distribute to his tenants. Both cash advances and provisions supplied by the Chinese merchant would be payable in paddy and the interest rate for this type of credit was usually about 5% per month.

Large land owners could sometimes obtain cash advances directly from Cholon, while those who controlled holdings of between ten and forty hectacres would deal with brokers in the areas where their land was located. Landowners with fewer than ten hectacres would generally deal with the village merchants, since the amount of paddy which they could supply was too small to interest the district brokers, who only concerned themselves with transactions over 500 "gia" (approximately twenty metric tons).

The Chinese method of doing business involved no legal guarantees. In dealing with landlords, brokers would rarely take mortgages on land in exchange for credit. Money and supplies were advances to gain the goodwill of the landlord and to obtain rights to future harvests. Landlords who defaulted on credit agreements would never be taken to court, but instead would find it difficult to obtain additional credit, either with the broker whom he failed to repay or with other brokers who would quickly learn of the landlord's lack of good faith. And furthermore, since brokers maintained a high degree of cooperation in such matters, landlords with outstanding debts with one broker would be unable to market their paddy with other brokers and ultimately would be forced to repay the debt and restore the relationship.

This method of doing business differed from that of the Indian chettys, who also provided credit to land owners. In the first place, many of the Indian money lenders were French or British subjects, and since they were better able to obtain legal protection, they tended to rely more upon the courts to enforce their lending activities, especially in their dealings with large land owners.[1]

Their profits as moneylenders derived solely from interest payments or in some cases from land which they acquired through foreclosure. (Thompson estimated that in 1937 Chetty holdings were as high as one fourth of the rice fields in Cochinchina.)[2]

1. Thompson, op. cit., p. 225.
2. Ibid.

4) The relationship between the village merchant and the small farmer was the final link in this system. In the upper Delta, where a fairly high percentage of the land was divided into small holdings which were owner-cultivated, the village merchant appears to have been the primary source of credit to small farmers during this period. In the lower Delta, he was likewise an important credit source, but here his role was restricted by the widespread conditions of tenancy and the high degree of control landlords exerted over tenants and the disposition of the tenant's produce. Here the village merchant's role was limited to dealing with the small landowners and providing credit to tenants on the margin left over after the tenant had paid his obligations to the landlord and provided for his family's living expenses.

Village merchants provided several types of credit: cash advances for productive expenses during the growing season and at the harvest; advances of cash for living expenses during the lean months of the growing season and for family crises such as weddings and funerals; and supplies of goods on credit from the merchants store.

The goods supplied by the merchant included both production items such as tools and farming supplies, and consumption items, primarily daily necessities such as rice, sugar, tea, kerosene, and perhaps cigarettes. These the peasant obtained from the merchant on an open book account. Seldom would the merchant require immediate payment; rather, these goods were advanced on the coming harvest. Cash advances, likewise, were made for the purpose of securing a claim on the farmer's production. These loans would be made with a minimum of formalities and the merchant demanded little security.

Making loans of this sort required intimate knowledge of local conditions. The merchant had to know the current prospects of each of his customers, their financial condition and the situation with the coming harvest, as well as their present and future needs. In addition, the creditor needed precise knowledge of his customer's character - his degree of trustworthiness in matters of debt - and this could only be gained over the course of a large number of transactions. The very personal nature of these credit relations, and the intimate knowledge which the merchant needed to acquire in order to successfully manage such relationships, severely limited the scope of his business activities, since he could only manage a small number of relationships effectively. The actual number of relationships, or credit accounts, depended on the length of time the merchant had resided in an area and the stability of the population. Merchants in newly settled areas would perhaps have no more that 10-20 customers who received credit on a regular, long term basis; however, village stores which had been established in a small village for a generation or more might maintain credit accounts with a hundred families or more. The village merchant was successful only

because he was such as integral part of a village life.

Credit relationships were established in the following manner. The first time a customer came to the merchant's shop, he would be expected to pay in full for the goods he received. In the next transaction, the merchant might add a small extra portion or perform some small service for the customer as a means of gaining his favor. After several transactions of this sort, the customer might request a portion the goods received on credit, or the merchant himself might offer to extend a small amount of credit as an incentive for the customer to continue dealing with his shop. If the customer repaid all or most of this advance, at the next transaction a larger amount of credit would be granted. In this relationship both parties had a stake: the village merchant needed to have a steady supply of paddy, and therefore used his supply of credit and his position as creditor to compel the farmer to maintain a steady source of supply; the peasant, on the other hand, desired to have continued access to the merchandise, credit, and other services provided by the merchant, and used his position as debtor to obtain these things. But to maintain the relationship, the merchant had to exercise extreme skill and tact to keep the credit balance within fairly precise limits which reflected the credit worthiness of the customer under the existing economic circumstances: if the amount owed became too large, the possibility that the debtor would default increased; yet if it became too small, the debtor might be tempted to turn to another more yielding creditor, and the relationship would come to an end. In this type of relationship, there were no legal guarantees. The relationship was based on mutual trust, and about the only effective sanction which either party could bring to bear on the other would be the threat to terminate the relationship.

The actual costs of the credit extended by village merchants during this period is difficult to calculate exactly. In the first place, interest rates varied according to the degree of relationship between merchant and peasant. Older customers, those who had proved themselves to be reliable credit risks over a long period of time, would be given preferential treatment, while customers without established credit ratings and only occasional dealings with the merchant might be charged a wide variety of rates. Furthermore, prices for merchandise and for the paddy supplied to the merchant were never fixed; buying and selling usually involved a certain amount of haggling, and under these conditions it was customary for the interest rate to be concealed in the prices of goods bought and sold. The advantage to the farmer of establishing a relationship with a certain store owner would be a degree of protection from the vagaries involved in these types of transactions. By becoming an established patron, the farmer could expect to be given better goods, price concessions, and extra service. This leads us to a third difficulty in calculating the cost of credit, namely, the fact that the amount the farmer paid included not only the cost of the

goods and some sort of interest charge, but also a payment for the large number of personal services which the merchant provided. In dealing with the village merchant, the farmer was buying a package deal, and therefore to calculate interest rates from the amount the farmer repaid to the merchant is misleading. One final problem lies in the fact that the merchant was less interested in the actual amount of loans outstanding that he was in the quantity of paddy he was able to obtain through his position as creditor. Accounts receivable were important as claims against future production. The merchant could never expect to recover the total amount of loans outstanding and no great effort was ever made to do so. What was important to the village merchant was the ability to obtain from his customers a larger amount of paddy that he was required to repay to his suppliers. Precise calculations of costs and expenses were difficult for the small storekeeper to make, but in the end all that really mattered was whether or not his business transactions returned him a surplus.

According to one prominent Cholon rice merchant, whose father had been engaged in the general goods branch in rural areas of the Delta for more than thirty years, several types of "rule of thumb" calculations for loan charges were used by owners of small rural stores. One type of calculation involved cash advances made to farmers one or two months before the harvest season began. These loans were usually used to hire labor for such tasks as harvesting the paddy, transporting it in from the fields, and drying it. The amount of the loan would be converted into a paddy equivalent, based on the anticipated paddy price at the beginning of the harvest when the loan would be due, plus interest charges and allowances for dehydration was normally 10%. So farmers borrowing 100 piasters in October would be expected to repay an amount of paddy valued at 113-120$ after one month, and an additional 3-10% interest after two months.

For advances of food and daily necessities made during the growing season, village merchants typically charged an interest rate of approximately 10% per month. The amount of goods purchased would again be converted to a paddy equivalent. One merchant stated that loans were divided into two categories: those given for three month terms and those given for six month terms. The unit of accounting was one "ta" of paddy (68 kilos). The terms for these loans were "thirteen for ten after three months or fifteen for ten after six months". This meant that for a quantity of goods evaluated at ten "ta" of paddy, the farmer would have to repay thirteen "ta" after three months and fifteen "ta" after six months. But again, the precise rates charged depended upon the nature of each individual relationship and was subject to all the vagaries caused by lack of standardization of the products being exchanged.

THE SYSTEM OF AGRICULTURAL CREDIT: 1930-1954

For over a half a century before 1930, the Delta had enjoyed a period of prosperity in which the benefits were spread widely, even though not equally, among merchants, landlords, small farmers and tenants. During this period fortunes were made and sometimes lost, but new opportunities were constantly available for those who failed. The basis for this prosperity was the availability of new land. Increases in production were aided by the favorable market conditions and the abundant supplies of credit, but the primary basis for this expansion was the opening up of new areas. Little was required in the way of new techniques of production.

By 1930, however, the supply of new land had been exhausted, and this situation, combined with the onset of the depression, put a sudden end to the era of expansion. In turn, forces were set in motion which profoundly affected the fortunes of small landowners and tenants throughout the Delta.

CHANGES IN THE MARKET STRUCTURE

An immediate effect of the depression was a collapse in the system of credit and significant changes in the market structure. This was initiated by the fall in agricultural prices, which seems to have had the greatest effect on urban businessmen, particularly the large Cantonese and Fukienese wholesalers in Cholon. These merchants had been speculating on both imports and exports and were committed to repay debts contracted at fixed monetary values. At the onset of the depression, many of the large dealers in rice and general goods had extended large amounts of merchandise on credit, for which they had paid relatively high prices and which they had financed by accepting credit from their suppliers in Hong Kong or by borrowing from local banks. With the fall in agricultural prices, many of these merchants were unable to pay off their debts and went bankrupt. Likewise, smaller merchants in the countryside who had purchased goods on their own capital or who had incurred debts which required repayment at a fixed monetary value rather than in paddy suffered severe losses. Their own financial setbacks made it impossible for them to repay their creditors, and losses were passed on up the line. Faced with financial ruin, many of these merchants simply disappeared; others, who had been more conservative in their business dealings, suffered fewer losses, but in the face of an extremely unfavorable business situation, they elected to withdraw their capital from Vietnam and returned to Hong Kong and China.

Smaller merchants in the countryside, most of whom were members of the Teochiu speech group from the area of Swatow in Southern China, were less affected by the fall in agricultural prices, since the debts contracted with their creditors called for repayment in paddy. Moreover, since their business operations were on a much smaller scale than those of the Cantonese and Fukienese, the magnitude of their losses was much smaller. With the financial setbacks suffered by the wealthier Cantonese and Fukienese merchants and the withdrawal of a large percentage of the merchants who had formerly monopolized the trade in rice and general goods, the Teochiu merchants were able to move into the competitive vacuum and quickly recover their losses.

The depression marked a turning point in the structure of the rice market. From this point, control began to gradually shift away from the large merchants in Cholon down to the smaller merchants in the countryside. The first indication of this shift was the breakdown in the milling monopoly held by the Cantonese and Fukienese merchants in Cholon. Before the depression all the rice mills in Cochinchina were located in Cholon. By 1936, after the rice production had returned to pre-depression levels, fifty-four mills were operating in Cholon, but of these, sixteen were small mills owned by Vietnamese, and two were larger mills owned by French companies. With the milling monopoly broken, a large number of smaller mills were soon constructed throughout the Delta area, and these were increasingly owned and operated by Vietnamese, especially in the upper Delta. In the major rice producing provinces of the lower Delta, Teochiu merchants consolidated their control over the rice market and the distribution of general goods, and began constructing rice mills in the province capitals and larger district markets. By 1939, there were approximately 260 rice mills of all sizes located throughout Cochinchina and 200 of these were smaller mills located in the provinces.

The Second World War and the Civil War which followed in its aftermath further disrupted the structure of rice marketing activities. During the World War over one third of the Cholon mills ceased their activities. In the civil war which followed, the lack of security in the provinces led to the closing of many rice mills, since paddy supplies were often insufficient and too irregular to maintain operation. In some areas, fighting and sabotage had destroyed large numbers of mills. In 1948, the Viet Minh sabotaged eleven mills in the Cholon area, and by 1950 seventy per cent of the mills that had existed in the interior of the country before 1940 had either been dismantled or destroyed.[1]. By 1956 the disruption of paddy supplies to the Cholon mills had been disrupted to the point that they could no longer operate and in that year the last of the great Cholon mills closed down.

1. Luong nhi Ky, op. cit. p. 92.

Throughout the years of the depression, the Teochiu merchants had continued trading with the villagers, and by 1934 when the depression ended and production began to return to normal, they had established themselves as the major trading group throughout the Delta. Working in conjunction with province rice millers, who were also their compatriots, they resumed the credit relationships with landlords and small farmers which had prevailed prior to the depression. As the rice trade began to revive, many of the Cantonese merchants returned to Vietnam and took up their former activities, but because of their previous losses, they restricted credit to the villagers. Since the Teochiu merchants had by this time developed extensive relationships with small farmers in the manner previously described, they were able to continue selling on credit and consequently received a larger share of rural trade. The Cantonese merchants soon found they were unable to compete in this situation and were forced to shift the focus of their activities to the larger market centers of the Delta and to the Saigon - Cholon area.

The economic conditions of the post-depression period led to many changes in the patterns of relationships among merchants. Among other things, the division of labor along ethnic lines began to break down as certain groups lost access to resources which had formerly enabled them to maintain control over certain areas of economic activity; the closing of the frontier and the rapid increase in the rate of Chinese immigration produced an additional degree of competition in most areas of business enterprise; and the growth of the economy and increased competition lead to an increased degree of occupational differentiation and specialization. With other things equal, we might expect the position of the small farmer to improve in this situation since more goods would be available on better terms and the increased competition for his produce would produce an increase in the share which he received. Other conditions, however, offset the benefits which might have accrued to the small farmer as a result of these changes in the market structure.

The overriding condition which effected the welfare of the small farmer was the availability of land. In the period before the depression, land was plentiful and the competition for land not too severe. Jobs were readily available. For members of the non-landowning class, there were abundant opportunities to become tenants or agricultural workers; for small landowners, there were the prospects of acquiring additional holdings. The closing of the frontier and a high rate of population growth in the Delta led to a rapid change in the opportunity structure. Success could no longer be achieved through the development of new areas; an increase in wealth through acquiring additional land could only be achieved at someone else's expense. Furthermore, few other areas of investment were available: regulations enforced by the colonial regime discouraged the development of indigenous industry; and control over commercial activities was still tightly held by the Chinese. This left investment in land as one of the few areas open to wealthy Vietnamese.

Just as the system of credit helped to finance the expansion which characterized the period before the depression, so it helped to bring about the conditions which characterized the post-depression era - a growing concentration of land ownership, increased control by the large landlords over the small farmers and non-landowning class, and growing discontent among the rural masses. To understand this process, we need to look at the sources of credit that were available after the depression and the distributional effects of this credit.

Basically, the same sources of credit were available after the depression as before: village merchants, moneylenders and landlords for the small farmer, and larger merchants, moneylenders and government loan programs for the wealthier landowners. The major difference between the two periods appear to have been the greater availability of credit to landowners through government guaranteed loan programs in the post-depression period, and the increased control over land and labor which this gave them. Some of these programs, as we mentioned previously, began as early as 1913, but the amount of loans granted did not become important until after 1923, when private capital flowing in from France began to turn toward rice cultivation.[1] After the depression, the quantity of credit granted under government guaranteed programs increased rapidly.

Some of the programs instituted by the French were intended to help alleviate the indebtedness of small farmers and had regulations stating that short term loans could be granted to individual farmers with only the growing crop and the borrower's integrity as security; but in practice all loans--short, medium and long-term--required the pledging of land as security.[2] This meant that those who had the greatest need for credit, tenants, and agricultural workers were unable to receive it, and the advantages of low cost loans accrued solely to members of the land-owning class. Large and medium landowners were able to improve their priviledged position among the rural masses. Loans which were obtained from government credit programs at 6% interest per annum provided landowners with opportunities to reloan the same funds to distressed tenants and farmers at rates up to 20% per month. Not only did this increase the control of landlords over tenants, but it fostered the concentration of landownership as large landowners were able to acquire the holdings of small farmers who had fallen into their debt.

1. Robequain, op. cit., p. 170.
2. Randall Stelly, An Economic Study of Agrarian Problems in Indochina Ph. D. dissertation, Louisiana State University, 1956. p.297

The failure of the government programs to reach the small farmer was clearly recognized by one former governor general of Indo-China who stated:1.

> "If only the loans had been granted directly to the needy nhaque (small owner-cultivators) or the poverty stricken ta-dien (sharecroppers). The depressing fact is that the credit facilities so far granted have had no psychological or economic effects. It has indeed proved almost impossible to bring these advances within the reach of the small farmer, the ta-dien or nha-que, except through the large or medium-scale landowners.....All the efforts made by my administration officers to improve the situation of these poor people are therefore brought to naught; any attempt to lower the cost of production of rice by reducing the interest of loans is doomed to failure in advance. The large and medium-scale landowners charge a tremendous commission, equal to the difference between the interest charged on loans by the rural funds and the rates at which they lend money directly or which they charge for standing security. Their malfeasant influence prevents any direct contact between the authorities and the rural masses."

In contrast to the large landowners, the small farmers and tenants found themselves in a situation where credit was available on even less favorable terms than in the pre-depression era. The demise of many of the large Cholon merchants, while opening up opportunities for merchants in the provinces, resulted in a temporary loss of access to much of the credit which these firms had been able to obtain from foreign banks and trading companies and a net decrease in the amount of capital available to the commercial sector as a whole. Many rural merchants adopted lending policies which were much more stringent than before, partly because of the scarcity or credit from suppliers and partly because of their previous losses. This combination of circumstances, combined with the worsening of the position of small farmers because of the growing land shortage caused by an increasing population and the growing concentration of land ownership, made small farmers and tenants increasingly dependant upon the landowning class for credit. Under the static technological conditions which prevailed, and in the face of rising rents for tenants and shrinking landholdings for small farmers, a debt once incurred was almost impossible to repay. With the frontier closed and few jobs available for agricultural workers, even the prospect of escaping from one's creditors through flight was an unattractive alternative, but nevertheless one which

1. As quoted by Jacoby, op. cit., p. 166.

debtors were increasingly forced to take. This, in turn, decreased rural stability, which further added to the risks of extending credit and caused the situation to continue its downward spiral.

CREDIT AND THE SMALL FARMER: 1956-1972

We have seen thus far the role of credit during two phases of the Delta's development. In the first, credit was important in increasing agricultural production by making possible the opening up of new lands for cultivation; in the second phase, however, with a fixed land frontier and static technological conditions, the credit system led to an unequal distribution of income and a concentration of land ownership. In the period we shall now look at, which includes the years from 1956 to the present, the availability of new agricultural technology led once again to profitable production opportunities. Our objective in this section will be to ascertain the extent to which credit has been required to exploit these new production opportunities, the credit institutions which have been accessible to small farmers and the terms and conditions on which various types of credit have been available.

The salient feature of this period has been the war, which for the small farmer has meant harassment and insecurity, a reduction of elimination of rent payments to landlords, a decrease in the amount of credit available from traditional sources, and alternative opportunities for urban employment. Rural insecurity has led to a decrease in the total area of land under cultivation; the manpower requirements of the war have produced a growing labor shortage, while government land reform programs have virtually eliminated large landowners and placed the ownership of the land in the hands of small cultivators. In conjunction with these changes, a favorable price structure for agricultural products and the introduction of new varieties of agricultural inputs and new techniques of production has made possible new production opportunities, and the efforts of farmers in response to these opportunities has produced economic changes of an order of magnitude to prompt some observers to describe them as an "economic revolution".[1].

The exact extent of this "economic revolution" is difficult to determine, given the unreliability of statistics in Vietnam. Sansom estimates that production in the upper Delta increased by as much as 40 percent from 1963-1967 as a result of the introduction of the water pump.[2].

1. Sansom, op. cit., p. 164.
2. Ibid.

The water pump made possible the planting of a second and sometimes a third crop of rice, or even more important in the upper Delta, two or three crops of vegetables. Much of the economic boom which occurred in the upper Delta during the mid '60's was due to the increase in vegetable production made possible by the widespread adoption of the motor pump and increased use of fertilizer and pesticides, in conjunction with the rising demand for vegetables stimulated by the American military buildup. The introduction of new rice varieties, the so called "miracle rice" such as IR-8, began in about 1968 and resulted in another widespread increase in production which made it possible to curtail nearly all of the imports of US rice required as a result of land being taken out of production because of the war. The increases in production of both rice and vegetables depended heavily upon the availability and use of new agricultural inputs, primarily, the water pump, new seed varieties, chemical fertilizer and pesticides. In some areas, the shortage of labor and the destruction of water buffalo has led to the increased use of agricultural equipment such as roto-tillers and tractors.

Farmers throughout the Delta have benefitted from other changes besides the introduction of new inputs and new techniques of production. The reduction or elimination of rent payments to landlords, first because security conditions in rural areas made it difficult for landlords to collect rents, and more recently because farmers have obtained title to the land they were cultivating through programs of land reform, has led to a considerable improvement in the welfare of small farmers. Before 1946, the average rent paid by tenants was between 40 and 60 percent; between 1954 and 1959 this had declined to 25 percent; and by 1967 rents were averaging between 5 and 10 percent.[1] Since the "land to the tiller" program was launched by the GVN in 1970, rent payments have been further reduced. Another factor contributing to the welfare of small farmers has been the high price of agricultural products, particularly rice, relative to both consumer goods and production goods during the past five years. This has been the result of a heavily subsidized import program sponsored by the US government. Production goods in particular have been available at favorable prices because of the subsidized exchange rate.

There are many indications that the economic welfare of farmers in the Delta has improved significantly in the past seven years. This improvement is reflected not only in statements and statistics provided by government officials, but also through time lapse studies of village life in the Delta and interviews with farmers and merchants. Statements by merchants are particularly interesting, because they reveal that the prosperity of farmers has made

1. Sansom, op. cit., p. 61

it difficult for merchants to obtain supplies of paddy, at least on their own terms. Whereas formerly they could demand the major portion of the harvest when it was first available, they now have to wait until farmers decide they want to sell and frequently can only buy small quantities throughout the year.

Since we are interested in the role of credit in promoting the welfare and development of small farmers, the question we need to look at now will be the manner in which farmers have financed purchases of agricultural inputs during the past decade, particularly the extent to which credit has been required and utilized. Sansom, in his study of economic conditions in the Delta conducted in 1966-67, commented that the supply of capital necessary to exploit production opportunities - both new and old - came primarily from the retained earnings of the family farm enterprise, that is, revenue from the sale of farm products, and secondary from credit sources.[1]

Sansom mentions two methods that farmers commonly used to purchase motor pumps. In one case, farmers would engage in pig raising as a means of accumulating enough savings to purchase a pump. In the mid-1960's the price of a motor pump was roughly equivalent to the price which could be obtained through the sale of one pig. By setting aside table scraps and using small change to purchase rice bran to feed the pig for three months, the farmer could market the pig and obtain enough cash to purchase a motor pump. In this case pig raising was considered a form of savings rather than investment, since it was fed on scraps and food purchased with spare money.[2] Another method used particularly by farmers in vegetable growing areas of the upper Delta to purchase a motor pump was to first rent one from neighbors for the fifteen or twenty hours required for planting a second crop. The second crop of vegetables could be marketed within two or three months after planting, and the proceeds from this sale, supplemented at times by a loan from relatives as a zero interest rate, could be used to purchase a motor pump.[3] My own interviews with farmers and merchants also indicate that the major portion of farm expenses during the past several years has been financed out of retained earnings, with farmers relying on credit for only a small percentage of their production and consumption needs. The way in which credit has been used becomes clearer as we examine the various credit institutions which have been available to farmers during this period.

1. Sansom, op. cit., p. 104.
2. Ibid. p. 93.
3. Robert Sansom, "The Motor Pump: A Case Study of Innovation and Take-off in a Rural Economy", unpublished paper, August, 1967.

Credit sources to small farmers during recent years have included:

1) local rice mills, paddy stall owners, and rice brokers;

2) rich landowners and government officials;

3) agricultural banks and government cooperatives;

4) friends and relatives;

5) rotating credit societies (the hui).

Sansom found in his survey of two upper Delta villages in 1966-67 that the predominant sources of credit were the hui, relatives, and the government.[1]. The following table shows the relative importance of the various types of credit in his sample.[2].

Types of Credit by Number and Amount

	Number	V$N (00)
Relatives	40 (32%)	351 (41%)
Hui	52 (41%0	251 (29%)
Government	26 (20%)	199 (23%)
Moneylender	1 (1%)	4 (0%)
Merchant	3 (2%)	23 (3%)
Landlord	1 (1%)	12 (1%)
Friends	44 (3%)	17 (2%)
Total	127	857

From Sansom's data, it appears evident that traditional sources of credit were only of minor importance, accounting for less than 5 percent of the number and value of loans outstanding in the villages surveyed. This pattern is similar to that found by Hendry in his study of another village in the upper Delta eight years earlier. Hendry's findings were as follows:

1. Sansom, op. cit., p. 111
2. Ibid.

Major Credit Sources, Village of Khanh Hau, 1958[1].

Creditor	No.	%
Relatives	34	35.8
Government	17	17.9
Hui	14	14.7
Storekeepers	6	6.3
Landlords	4	4.2
Others[a.]	20	20.1
Total	95	100.0

a. Includes neighbors and friends outside the extended family

INTEREST RATES: 1958-1968

In Sansom's sample, loans from relatives carried low interest rates and lasted a median period of six months; loans from friends were for short periods of time and carried little or no interest charges. Government loans carried interest charges of 0.8 to 1.0 percent monthly interest and were given for periods up to one year.[2.] The average Hui interest rate computed by Sansom for the November, 1965 to February, 1967 period was 2.9% per month for creditors and 3.8% for debtors.[3.] This compared to the monthly rate of 3-4% charged by money lenders for secured loans and by friends for unsecured loans; for unsecured loans from moneylenders, the rate was 5% per month.[4.] Sansom found that 88% of the loans were at a rate of 1.0% per month or less, whereas in Hendry's sample, only 45% of the loans were at this rate of interest, indicating a dramatic improvement in credit conditions during the intervening eight year period[5.] Moreover, taking into account the 76.6 percent rate of inflation during

1. James B. Hendry, The Small World of Khanh Hau (Chicago: Aldine Publishing Company, 1964).
2. Sansom, op. cit., p. 111
3. For a detailed description of the Hui, see Sansom, op. cit., pp. 114-121 and Hendry, op. cit., pp. 213-216
4. Sansom, op. cit., p. 121.
5. Ibid., p. 107.

1966 and the 41.8 percent rate in 1967, even loans at much higher nominal rates yielded moderate real rates of interest[1]. as the following table illustrates.

Annual Real Interest Rates

Monthly Interest Rate	1966	1967
5% (unsecured loan)	9.0%	37.8%
3% (secured loan)	-29.2%	-0.4%

The extent of indebtedness was slightly greater among the households surveyed by Sansom in 1966/67 than among those surveyed by Hendry in 1958/59 with 60 percent of the loans received in the former sample being used for investment, principally in fertilizer, and another 25 percent being used for investment and consumption, mainly for building materials for home construction use.[2]. In Hendry's sample, more of the loans were used solely for consumption.[3].

CREDIT FROM MERCHANTS: 1968

Interviews with rice merchants and fertilizer, pesticide, and motor pump dealers conducted in 1968 corroborate Hendry's and Sansom's data on the relative importance to farmers of credit provided by merchants. Merchants selling motor pumps and/or agricultural equipment such as roto-tillers and tractors were all located in either provincial capitals or district towns. Of 25 dealers interviewed, none reported providing credit to their customers. Sales were either on a cash and carry basis, or if the item desired by the customer was not in stock, the customer would be required to pay a deposit and the merchant would then order the item from Saigon. Large agricultural machinery, such as tractors and roto-tillers, would seldom be stocked by provincial dealers; usually the province dealers would act merely as agents for Saigon

1. Sansom, op. cit., p. 106.
2. Ibid.
3. Hendry, op. cit., p. 208.

dealers. By paying a deposit, the farmer was providing credit to the merchant rather than the other way around. The location of motor pump and equipment dealers in the province and district towns and insecurity in the countryside made it impossible for merchants to be well enough acquainted with their customers to be able to extend credit, since customers were apt to come from anywhere in the province.

For purchasers of fertilizer, the credit situation was better. Farmers had a wide variety of channels available to them, some of which offered credit and others which sold only for cash. Wealthy farmers and landlords, and farmers living close to a province or district town, would normally purchase fertilizer from semi-wholesale/retail merchants specializing in fertilizer, seed, and pesticide sales. Most of these were cash sales; town merchants would extend credit to only a small number of their most trusted customers. General stores in secure rural areas reported providing a limited amount of credit to their trusted customers. One dealer in the town of O Mon in Phong Dinh Province reported that he sold on credit to all of his customers, who were farmers from the surrounding areas. New customers could buy on credit from him only if they had a guarantor. This merchant had about 100 customers and he extended credit up to about $15 or $20 per customer. Most of this credit, however, was for daily necessities and his fertilizer sales were limited to one or two 100 kilo bags per customer. But this case is an exception and store owners in the district towns and villages typically reported that they sold on credit to only a small number of their oldest and most trusted customers, and a number of store owners said that they never sold on credit anymore because the risks were too high. At any rate, general stores were not major suppliers of fertilizer. The sales that they did make were for small amounts, frequently by the kilo rather than by the bag, and usually went to farmers who were growing a small plot of vegetables for home consumption rather than rice or vegetables for the market.

Occasionally, farmers in secure areas could obtain fertilizer from farmer's associations on credit, but these cases were rare since most of the fertilizer available to farmer's associations and cooperatives would be sold to private dealers, with the officers of these organizations pocketing the profits.

Rice merchants in the lower-Delta provinces apparently were the only group who provided credit on a regular basis to farmers during the 1967-68 period. Large rice dealers in the province capitals either purchased directly from Saigon or from wholesale dealers in their area. The province merchants gave the fertilizer to their brokers on credit; in turn, the brokers took the fertilizer to the villages and sold to the farmers on credit, receiving in exchange paddy at the harvest time. District brokers also engaged in

exchanges of this sort on their own account, independently of the province merchants. Even though credit from rice merchants provided for only a small percentage of the capital needs of Delta farmers, it is interesting to note that this was one of the few sources of external credit available to small farmers in less secure areas.

These data indicate a significant change in the role played by merchants in providing credit to the agricultural sector. This change is due to a number of factors. For one thing, it reflects the improved welfare of small farmers and their greater capability of financing their operations out of retained earnings made possible by new technology and a favorable price structure. But for another thing, the small proportion of credit provided by the commercial sector is a reflection of the reluctance of merchants to invest in agriculture because of the high risks, low returns, and the availability of other more attractive investment opportunities. During this period many of the large Chinese dealers in Cholon shifted their attention to other types of commercial and industrial activities, particularly after rice exports ceased in 1964. The Cholon wholesale market was taken over by Teochiu merchants who formerly had been brokers and rice mill owners in province towns. Only a few of the former exporters remained in the rice business, and they, along with the smaller Cholon wholesalers, became agents of the provincial dealers. As security in the rural areas decreased, former village brokers and store owners moved to the district towns or province capitals; and district merchants moved to the province capitals or Saigon. This left the retail distribution of general goods and rice collecting activities in the villages and rural areas to Vietnamese. The Cholon merchants no longer extended credit to the provincial dealers according to the former pattern; instead, they entered into partnership arrangements with province merchants in which they provided a portion of the necessary working capital and guaranteed lines of credit so the province dealers could borrow from local banks. Many province dealers, in turn, entered into similar arrangements with rice mill owners in the district towns. These developments, along with the proliferation of small rice mills in the rural areas and the growing financial independence of rural merchants and farmers, marked a complete reversal of the pattern of rice marketing and rural credit; no longer was the system controlled by the large Cholon dealers, who formerly provided nearly all the financing and reaped the lion's share of the profits; instead, control began to shift more and more to rural merchants and farmers. Rather than having to rely upon the larger merchants for financing, processing, and marketing services, rural merchants and farmers could process paddy at the local level, ship it to Saigon themselves, and then either sell it to small wholesale dealers or entrust it to selling agents who received only a 3% commission. In transactions of this sort, the lower level dealers or farmers provided most of the financing, with Cholon merchants or agents providing, at most, a partial advance for stocks on hand or shipments in process.

CREDIT CONDITIONS: 1972

To conclude our examination of credit to small farmers in the Delta, let us look briefly at the present situation. The following information was obtained from discussions with a small number of informants, including two of the largest Cholon rice merchants, six farmers from various Delta provinces- Vinh Long, Phong Dinh, Ba Xuyen and Kien Giang- and a chairman of a tenant farmers' association.

According to these persons, the financial condition of most farmers in the Delta, those which they classify as being of the "intermediate level and above", is much better than in previous years. Farmers regularly have paddy stocks on hand which they sell only when they need money. Even in July and August, long after the harvest season, they frequently have stocks of from four to ten metric tons of paddy, and sometimes more in the case of rich farmers.[1]. Besides the money these farmers can obtain from the sale of their paddy stocks, they can also obtain loans from the government at low rates of interest, and consequently they have little need for credit from rice mill owners, brokers, or moneylenders, as they did in former times.

There are many small farmers, however, who are in less favorable circumstances. Small farmers generally cultivate only one or two hectares of land and in many cases have not yet received legal land titles, since landowners often refused to deliver them - either because they have not received any compensation from the government or because the compensation is not complete. The lack of a land title makes it impossible for small farmers to obtain government loans, since the banks require them to deposit the land title with the bank when a loan is granted. For this reason, many farmers still have to rely on credit from local landowners and rice merchants, as well as loans from relatives and friends and funds obtained from participating in rotating credit societies.

The important expenses of farmers occur during two stages: the first when cultivation begins; and the second when the crop is harvested. For traditional rice varieties, the period in between planting and harvesting is approximately six months, while vegetable crops or new hybrid rice varieties require a growing season of only three months. At the present time, expenses for cultivating one hectacre of rice of the traditional variety come to approximately 33,000V$N or roughly $73.[2]. This includes the following:

1. The current paddy price is approximately $100 per metric ton.
2. The exchange rate for the following figures given in piasters is 450V$N per $1 U.S.

A. First Stage (May to July)

1. 5,000V$N to hire cattle or a tractor of roto-tiller for plowing and preparing the soil;
2. 10,000V$N for labor for transplanting;
3. 4,000V$N for fertilizer (two bags of fertilizer/hectare @ 2,000V$N/Bag);
4. 1,000V$N for insecticide; and
5. 1,000V$N for renting a water pump and miscellaneous expenses.

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total 21,000V$N for planting.

B. Second Stage (November to January)

1. 10,000V$N labor for harvesting and threshing;
2. 2,000V$N to hire cattle to transport the paddy to the granary.

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total 12,000V$N for harvesting.

For farmers growing IR-8, the expenses would be slightly higher, since more fertilizer and insecticides are required. Generally, IR-8 requires twice the amount of fertilizer as the traditional variety, so expenses per hectare would be four to five thousand piasters more. The present price for one Gia of the best paddy is 1,000V$N, while each Gia of the IR-8 is worth about 600V$N. However, the higher yields per hectare and the shorter growing season for the IR-8, allowing the planting of two or three crops per year, more than compensate for the higher planting costs and lower selling price.

Small farmers are seldom able to obtain cash advances from rice mill owners or local paddy collectors during the first stage because the period of time is too long and the results of the harvest too uncertain. These creditors only advance money to

farmers one or two months before the harvest time, or at a time when the size and the value of the upcoming crop can be determined fairly accurately; the amount they loan is then based on this estimate. Farmers who require cash advances during the first stage must therefore turn to relatives, friends and neighbors (who most likely would provide credit through participating in a Hui), or landowners and other rich people, such as local officials, who reside in the area. Because of their land titles or special relationships with local banks, these latter persons can often borrow money at low rates of interest and reloan it at much higher rates.

At the present time, there are two rates of interest in the rural areas for unsecured loans: 5 percent and 6 percent per month. Farmers who are on good terms with their creditor can obtain the lower rate. Some creditors still prefer to have farmers pay their debts in paddy. In these cases, the loan is converted into a paddy equivalent, based on the current paddy price and the interest is deducted beforehand. For example, if the paddy price in May is 3,000V$N/68 kgs. and a farmer desired a loan for six months at 5% interest per month, the creditor would deduct the amount of interest for six months (30% X 3,000V$N = 900V$N interest) and give the farmer 2,100V$N for every 68 kgs. of paddy that he promised to pay in November.

Farmers partially compensate for high interest rates by repaying their debts with wet paddy. Paddy will frequently suffer a weight loss of up to 10% through dehydration, and the miracle rice tends to be wetter than traditional varieties. Farmers who have borrowed money at 5% usually prepare a mixture of 70% dry paddy and 30% wet paddy; for loans at 6%, the paddy repaid will frequently contain 50% wet paddy. Assuming a 10% weight loss through dehydration, farmers borrowing at 5% repay an amount equal to 65.6 kgs. of dry paddy; for loans of 6%, farmers would repay an amount equal to 64.6 kgs. of dry paddy. For a six month loan, repaying paddy in this manner produces real rates of interest of 4.41% for the nominal rate of 5% and 4.16 for loans at the nominal rate of 6% (assuming a constant paddy price). For landlords, therefore, the advantages of lending to persons with whom they have good relations include more than just a lower degree of risk.

For loans from rice mill owners and paddy buyers, the interest rates are lower, but as we mentioned, these loans are made only a month or two before the harvest and are based on the merchant's estimate of the value of the crop. The interest rate for one or two month loans from rice merchants is either 2.5% or 3% per month, plus a deduction of 3% if the paddy repaid is mixed in the ratio of 70% dry and 30% wet or 10% deduction for 100% wet paddy. Again, the interest is prepaid when the loan is granted. The maximum amount loaned by rice merchants is usually between 30,000V$N and 50,000V$N. For loans made a month or two before the harvest, the rice merchants

run a risk of the paddy price dropping suddenly at the beginning of the harvest, but in the past few years, this has rarely happened. Even though they seldom grant long term cash advances as formerly, a small percentage of rice brokers will still sell fertilizer and insecticides on credit at the beginning of the planting season to farmers who live in the same village as they do and with whom they have good relations. These loans are similar to those above. The paddy price is compared to the fertilizer price at the time the loan is made. If the paddy price is 3,000V$N per ta and the fertilizer price at the same time period is 2,000V$N per bag, the farmer would owe two ta of paddy for every three bags of fertilizer purchased, plus an a additional amount to compensate for interest charges of 5-6% per month.

At the harvest time, if brokers are certain that farmers have a quantity of paddy in storage, they will advance the farmer a sum of money for three to five days without interest. This loan enables the farmer to pay labor and transportation expenses, but has to be repaid in paddy within one week.

In addition to the above sources of credit, fertilizer stalls have been established in villages throughout the Delta, particularly in areas growing vegetables and IR-8 rice, which also provide ferilizer and pesticides to farmers on credit. The owners of these stalls are usually farmers themselves who have surplus capital which they invest in fertilizer. Farmers who purchase fertilizer from these stalls can receive credit for up to two months and are able to repay in cash rather than paddy. The interest is only 3% per month, but their prices on fertilizer and pesticides are usually marked up 8% above the local market price. Villages in the upper Delta typically have four or five such stalls at the present time.

A final source of credit, and one which is becoming increasingly important as more farmers acquire title to land through the program of land redistribution, is the Agricultural Development Bank. Farmers who currently possess land titles can borrow from local branches of the ADB (which are rapidly being established in the larger towns throughout the Delta and other parts of South Vietnam) at the current rate of 18% per annum. Farmers are currently allowed to borrow up to 50,000V$N for every hectare they own, but in reality, only landowners and rich people who have good relations with bank officials can borrow the maximum amount. The maximum for small farmers is usually between 20,000V$N and 30,000V$N. The more ready access which landowners, government officials and other wealthy persons have to inexpensive bank credit is reminiscent of the conditions which existed under the French regime, and as before these funds are frequently reloaned to poor farmers at much higher rates. However, abuses of the sort which occurred in the previous era do not appear to be widespread at the present time.

Other problems are evident, however. Many farmers complain that loan procedures from banks are too complicated, involve long delays, and frequently require large gratuities to bank officials or brokers before the money is received. Furthermore, bank loans have thus far been unavailable to the majority of small farmers throughout the country. According to the Director of the Farmers' Association we interviewed, bank loans have been grated to 35% of the farmers throughout the country, but in reality only about 60% of these loans have gone to farmers and the remainder have gone to merchants and individuals for other purposes. Of the loans to farmers, many have been granted to larger landholders, since bank officials are responsible to the government for the loans they issue and small farmers present higher risks. Moreover, farmers who are able to obtain bank funds, either through local branches or through other channels such as local farmers unions, find that the amount of the loan is adequate to meet only a portion of their needs for working capital and provides little assistance for capital investments, particularly larger items such as roto-tillers or tractors. Rarely are such loans used for expenses other than production.

The ADB does provide financing for equipment, but in order to obtain bank financing, the farmer must be able to pay 50% of the total price. The bank will loan the other 50% if the farmer can provide security such as his land title, or other property and arrange for a local government agency to provide an introduction. Farmers consider these procedures too difficult to comply with, and at any rate, they are not applicable to the problems of small farmers.

CONCLUSION AND GENERAL POLICY IMPLICATIONS:

To this point we have examined the manner in which credit relations involving small farmers in the Mekong Delta of South Vietnam have functioned during different periods of the past century. I have attempted to describe the different types of interaction which small farmers have maintained with creditors, particularly their credit relationships with merchants, and have looked at the ways in which these patterns of interaction have changed through different periods. By way of summary, I would now like to look briefly at some of the policy implications of these conditions.

The first question we shall consider is whether a lack of institutional credit has been an important constraint on small farmer adoption of the new agricultural technology that has been available in this region. From the evidence we have considered, it appears, first of all, that farmers have relied on institutional credit for only a small portion of their financial needs during periods in which they were adopting new technology. This is largely because institutional credit has not been available to small farmers on terms which made this form of financing attractive or even feasible. Direct bank loans to small

farmers have generally involved complicated procedures beyond the grasp of the average peasant, lengthy waiting periods, and assorted problems which frequently forced persons attempting to obtain bank or government loans to employ the services of a broker, a procedure which nullified most of the cost benefits which they might otherwise have gained.

Credit programs of co-ops and farmers' unions have likewise been only minimumly effective in meetings the needs of small farmers, and for many of the same reasons. Obtaining funds from these sources has often required either formal procedures and long waiting periods or some sort of special relationship with the persons in charge.

Credit from merchants, who, as we have seen, have been one of the more important sources of external finance for the small farmer throughout the period we have considered, has continued to be important in recent years to large numbers of small farmers attempting to profit from the new forms of available technology. Merchants have remained one of the preferred sources of credit to small farmers, partly because of the lack of formality involved in the credit relationship, and partly because this relationship is only one aspect of a larger pattern of relationships between merchant and farmer. From the farmer's viewpoint, it is a simpler matter to deal with the same persons one sells his produce to and buys his merchandise from when credit is required than it is to seek assistance from an outside source. However, the unsettled conditions of recent years have forced many merchants to restrict their supply of credit to farmers, and even though rice merchants in parts of the lower delta and some product purchasers and general goods dealers in other areas have continued to sell fertilizer and pesticides on credit and grant other types of short term loans, overall, the amount of credit from merchants has diminished markedly.

In spite of the fact that small farmers have relied on institutional credit for only a small percentage of their total credit requirements, it does not appear that the lack of this form of credit has proved to be an important constraint on small farmer adoption of new technology. The reason for this is that adequate credit from relatives, which is frequently a means of channeling savings obtained by family members in urban areas to rural areas, and credit institutions such as the Hui, which mobilizes capital at the local level, supplemented by credit made available through informal relations with local moneylenders and merchants, have served to satisfy the credit needs of small farmers in the Delta.

In looking at the process of farmer adoption of new technology, the available evidence indicates that sufficient credit has been available to most farmers and that the availability of credit has not been an important constraint on small farmer adoption. The high degree of

risk to farmers because of the war, and such things as a lack of adequate water control systems, land reform problems, and various sorts of government restrictions are far more important constraints on small farmer adoption of new technology than the shortage of credit.

Even though credit costs have frequently been high, the reason for this lies not in a shortage of capital available for investment in agriculture, but in the high degree of risk and the high costs of supervising credit under existing circumstances. Rural insecurity is the greatest roadblock in the way of decreasing the costs of credit to small farmers. The war has produced many rich officials and merchants, and a few wealthy farmers. Rice merchants, for one group, frequently expressed in interviews the feeling that peace and stability in the countryside would open up many opportunities for investment in agriculture which are presently unfeasible because of the high risk environment.

But it must be remembered that the ready availability of credit during recent years has been a function of war-time conditions. In a countryside flooded with war-sourced capital, it does not seem particularly surprising that farmers have been able to finance the adoption of new technology without relying on institutional credit sources. However, with the withdrawal of foreign troops and the overall cutback in spending which has accompanied the winding down of the war effort, the credit conditions in both rural and urban areas have begun to change markedly. For example, during June and July of 1972, interest rates on huis as much as tripled over rates which were considered normal during the previous twelve month period. Furthermore, prices of agricultural inputs have risen sharply relative to prices of farm produce in the past year, making it increasingly difficult for farmers to finance the risks of new technology out of their own resources or through loans from friends and relatives. With this situation, and assuming that credit conditions will continue to deteriorate during the immediate post-war period, it appears likely that farmers will require increased supplies of either bank credit, government loans, or credit from merchants if they are to be able to continue to respond to new technological opportunities or take advantage of new market opportunities.

This brings us to the problem of what types of credit institutions and methods of input distribution would be most efficient in promoting continued economic growth in this region. Specifically, should the supply of credit available for direct loans to farmers through rural banks be increased, or should other means be adopted such as making funds available to co-ops or increasing the supply of credit available to merchants; and what policies could be developed with regard to input distribution.

Based on my own research in this area, and considering both the role played by members of the commercial sector in providing credit to farmers and promoting agricultural development as well as the success of government sponsored programs of credit and input distribution through agricultural co-ops and cooperative credit schemes, it appears quite evident to me that the most effective means of making credit and agricultural inputs available to farmers would be through the commercial sector. What are needed are programs which take into account the importance of the commercial sector and are designed to strengthen and assist the system of rural commerce and take advantage of the talents and resources of private dealers. Specifically, what I would argue for would be policies aimed at relaxing restrictions on commerce and providing various types of incentives and support, including an increase in institutional credit, to both product purchasers and merchants engaged in the distribution of inputs; I would question the effectiveness of substantial increases in institutional credit for direct loans to small farmers. Before elaborating on this viewpoint, there are several problems I would like to discuss.

The first concerns the matter of who, under the present system, is getting the benefit of small farmer expenditures. In our brief look at the historical development of the commercial sector, we have seen how control over economic resources has gradually gravitated to lower levels as the commercial system has become more diversified and competitive and as the financial position of lower level merchants and farmers has improved. Improved communications, particularly regarding prices, and access to a wider range of markets has also improved the position of the small farmer. He now has available to him a wide range of goods and services at reasonable prices. (In general, price mark-ups for merchandise distributed in the Delta are far below those found in western countries. For example, fertilizer is often available to farmers in district towns at a price only 50% higher than the initial import price, i.e., an amount of fertilizer imported at $4 would sell in most district towns in the lower Delta for about $6. In province capitals, the mark-up would be even lower.) Furthermore, the costs of marketing agricultural products are also very reasonable. For example, in May of 1972 a quantity of paddy sold by a farmer in Soc Trang for 6,000V$N after milling, transportation fees, labor, road taxes, and the expenses and profit margins of the local rice mill, the Cholon selling agent, the semi-wholesaler, and the local retail shop, sold to consumers for 7,850V$N, a total mark-up of only 1,850V$N or only 23.6% of the final selling price. Competition in the commercial sector means that not only does most of the benefit of small farmer expenditures go to the farmer, but also that he receives the major share of the benefit from the sale of his produce.

A related question concerns the problem of how much economic power goes to the creditor, a question which is particularly relevant in the case

of merchants, given the widespread belief that farmers in low income countries supposedly dislike and mistrust merchants and consider them to be exploiters, and that credit relationships are the chief means by which merchants develop their stranglehold over poor peasants. The question of how much control has gone to merchants as creditors is difficult to assess precisely from historical data. In earlier periods, the commercial sector was less competitive and the financial position of small farmers much weaker than at the present time. The hold which landlords exerted over tenants appears to have been much more severe than that exerted by merchants, but here economic control was based not on control over credit, but on control of land[1].

Dealings between merchants and peasants rely, as we have seen, on reciprocity and mutual trust. In the absence of formal legal sanctions, the debtor is sometimes in as good a position to control the economic decisions of the creditor as the creditor is to control the decisions of the debtor. This situation brings to mind Keynes comment that if you owe your banker a thousand dollars you are in his power, but if you owe him a million he is in yours.[2]. The Chinese concept of credit is one which stresses the amount of "goodwill" or "sentiment" and mutual trust which exists between the two parties in the relationship. In interviews I have conducted with Delta farmers, the comments they have made concerning relationships with Chinese merchants have been positive ones. When complaints about merchants are heard, they generally come not from farmers but from urban vietnamese, and most frequently from government officials.

The lack of resentment against merchants in the Delta has been reflected in the policies of the Viet Minh and the Viet Cong who have never to my knowledge singled out merchants in any manner other than to assess them heavier taxes, and this reflects only their financial strength, not a feeling that the merchant is an enemy of the people. For the present period, the evidence seems to indicate that credit gives the creditor very little control over the economic decisions of the debtor. The only claim the creditor can exert is a higher return to compensate for the risks involved in extending credit. And as we have seen, farmers frequently have ways of compensating for high interest rates, such as repaying debts with wet paddy.

A final point concerns the capabilities of government agencies in Vietnam to successfully undertake programs to promote agricultural growth through providing direct credit to farmers or supplying

1. Sansom, op. cit., p. 106.
2. Geertz, op. cit., p. 37.

agricultural inputs. Government sponsored cooperatives involved in the distribution of agricultural inputs have helped to increase farmer awareness of these items, but to date almost all programs of government purchasing, sales of inputs through agricultural services, and the creation and use of cooperatives have ended as extremely costly failures. Likewise, government programs designed to provide direct loans to farmers have achieved at best only a very low level of success. One of the few areas where government efforts have been successful is in development of rural banking facilities. These have benefitted farmers not only through direct loans, but also through better credit terms provided by rural merchants, whose own position has been improved because of easier access to credit.

As an aside, let us note that the traditional relationship between the government and the commerical sector in Vietnam has been one in which the activities of private merchants have been looked upon with great suspicion by officials, who have sought to tax, squeeze and otherwise regulate merchants to the absolute limit imagineable; merchants, on the other hand, have developed a corresponding expertise in evading the notice and regulation of officials. When cooperation has been necessary or mutually advantageous, relationships have usually been worked out on a personal, pay-as-you-go basis. The effect of this system is a tremendous competitive advantage for wealthy merchants who are better able to bear the costs of bribes; on the losing end are small merchants and farmers who lack the means and expertise to manage relations of this sort, and on whom the burden of these expenses ultimately fall. These conditions, which are of course generally recognized, are emphasized only because all too often they are conveniently forgotten when programs of foreign assistance are being formulated or implemented, perhaps out of politeness to the host government. In this paper they must be mentioned because they are central to the strategy which I am advocating.

The main point of this strategy is the promotion of policies and programs which, in the first place, increase the incentives for private merchants to invest in activities that provide support for the agricultural sector and which, in the second place, decrease the extent of direct government involvement. As a first step, this would involve a general policy of simplifying or eliminating red tape, license requirements and special taxes which plague merchants in South Vietnam at every turn and force them to deal with an endless variety of all too frequently venal officials. Such a policy would go directly against the basic pattern of government-merchant relationships, but perhaps could be implemented with regard to a few select areas such as agricultural commerce if it were granted sufficient priority by persons at the higher levels of the government hirarchy. The greatest costs to most merchants derive from dealings with lower level officials, who have a superb ability to turn any point of contact with merchants into a money making opportunity and who frequently operate independently of their superiors.

In fact, it appears that under present circumstances, higher level officials have lost the ability to control the activities of their subordinates, who operate in their positions in the thoroughfare of paperwork and permission much in the same way as would a toll gate keeper in a locally autonomous fiefdom. Whereas it may be difficult to regulate the actions of the toll-collectors, it would be possible to straighten out the thorough-fare and deprive officials of points of contact with merchants. Perhaps the most important contribution which the GVN could make to improve rural welfare would consist of eliminating hindering regulations, licenses, and tax policies of the sort which destroy incentives for merchants to invest in agricultural related activities, and in providing guarantees to merchants that their investments in agricultural related activities would not be jeopardized by ill-managed purchases and sales of commodities through official outlets at official prices. Beyond this, the government should concentrate on infrastructural developments, such as roads and water control systems, and technical tasks, such as testing new varieties of agricultural inputs and aiding in the dissemination of information concerning new technology and new market opportunities.

The government's policies with regard to credit programs should be in line with this general strategy. Rather than attempting to administer a program of direct loans to farmers, either through local village councils, farmers' unions, or co-operatives, the government should direct its attention to the development of commercial banking institutions in rural market centers, a program in which it has already made great strides during the past two years.

But to merely advocate that the government should leave the task of distributing credit and inputs to the commercial sector and limit its role to minimizing the roadblocks, providing incentives, and working to develop the infrastructure of roads, water control systems and rural banking facilities is not sufficient. We need to be more specific about how credit should be made available to the commercial sector, and the policies which should be adopted with regard to input distribution.

It is my feeling that to maximize productive opportunities and assure farmers of their equitable share of the increase requires more than simply minimizing the restrictions on merchants or striving to provide incentives for members of the commercial sector to invest in agricultural related activities through government policies and selected legal measures (although, to stress the point once again, these are points upon which the government should place a high priority.) In my mind, the optimum results could be obtained by policies aimed at one portion of the commercial sector in particular; namely, the product purchasers and dealers in agricultural inputs who operate at the lower levels in the system and who maintain the most direct contacts with farmers; The continued development of the rural banking system would be a key

element of this policy. Progress in the establishment of rural banking facilities would strengthen the system of rural commerce and hasten the shift in economic control from Cholon to the countryside. Increased access to bank credit by rural merchants would improve their position to supply credit to farmers in larger amounts and on better terms. By loaning to merchants, rural banks could take advantage of the wide range of contacts with farmers, the intimate knowledge of local conditions, and the considerable skill in managing credit relations which these merchants possess. Part of the risks of extending credit could be passed on to merchants, enabling banks to maintain a high volume of credit without having to cope with the high administrative costs and the risks of a high rate of default which large numbers of direct loans to individual farmers would entail.

The above strategy assumes a supply of credit more or less equal to that which is available at the present time. It might be interesting to look at the workings of the system in a slightly different way and investigate the probable consequences for production and distributional equity of 1) a substantial increase in the supply of institutional credit available to merchants, and 2) a substantial increase in the supply of institutional credit available for direct loans to individual farmers or to co-ops. In the first case, the answer would depend upon what sorts of merchants were receiving the credit and on what terms the credit was being offered. At current interest rates and under present economic conditions, it is unlikely that Cholon dealers would take advantage of an increased supply of credit, as they are apparently quite able to exploit existing business opportunities with their own capital and existing lines of credit. Easier credit terms would only mean substituting bank credit for their own capital and would have no effect on productivity. On the other hand, if credit were made more readily available to lower level merchants, those at the province level and below, they would be able to substitute these funds for the more expensive credit they have available from their supplies or buyers in Cholon. The degree of competition which exists in the marketing system would insure that the decrease in expenses of the lower-level merchants would be partially passed on to farmers in the form of lower costs for the marketing and credit services provided by these merchants. But in addition, competition to hold on to customers would force many merchants also to increase their supplies of credit to farmers in addition to lowering the costs, and this combination of cheaper merchandise, lower costs for inputs and better and more liberal credit terms would provide important incentives for farmers to increase their total production.

However, without changes in the general economic climate, including such factors as government policies toward merchants, rural security, and market conditions, it is doubtful that even substantial increases in the supply of credit available to merchants would lead to marked increases in production. Such changes as did occur would take place slowly, as rural merchants are relatively unaccustomed to dealing with banks and prefer to deal with suppliers when the differences in costs

are not too extreme, since the credit relation is an important mechanism for maintaining a position in the flow of trade and continued access to a supply of goods.

The alternative solution- a substantial increase in the supply of institutional credit available for direct loans to individual farmers or co-ops - would first have to come to grips with the problem of the high costs of administering small loans and the high rate of default which has to be expected under existing conditions; in addition, it must be remembered that this is the form of aid which provides the greatest number of opportunities for corruption and favoritism.

Sansom's comments on the workings of the program of government loans to farmers during 1967-68 indicate that in the villages which he studied these loans did have the effect of raising agricultural productivity through the promotion of greater fertilizer use per hectare. However, he questioned the distributional effects of the program, since loans were granted only to farmers with land or other forms of collateral.1. My own interviews also indicate that government loans very frequently end up in areas other than those for which they were originally intended and that those who benefit most from these programs are generally the rich farmers and officials. It is a common practice for persons with the proper connections to obtain government loans for the purpose of reloaning the funds to poorer farmers at much higher rates of interest. A substantial increase in such loans would exacerbate these problems without producing a proportionate increase in investment and production, since it is highly unlikely that any organization administering the loan program - whether it be government bank, private bank, or co-op - could cope adequately with the problems which such an increase would entail. The costs of such a program would be high in terms of both the rate of default and the distributional effects, and the same increases in production could be achieved more effectively by other measures.

As a final exercise, let us briefly consider what some of these other measures might be by asking how the following would effect production and distributional equity: 1) a substantial decrease in the price of fertilizer and other inputs; 2) a substantial increase in the farmgate price of rice; 3) a substantial increase in fertilizer supplies at present prices; and 4) the introduction of new types of inputs, such as a major new fertilizer responsive to superior rice varieties.

The first measure, a substantial decrease in the price of fertilizer and other inputs, would be an effective incentive for farmers using less than optimal quantities of inputs to increase their use of these

1. Sansom, op. cit., p. 112.

items. In some areas, the technical limits on the returns to fertilizer use have already been reached; what is needed in these cases is not more fertilizer but such things as better irrigation facilities. But there are many other areas where farmers are still in the process of adopting new technology, and many of these persons, particularly the poorer farmers, have been hurt by the recent rapid increases in fertilizer prices brought about by the increase in the exchange rate. The rapid increases in production which have occurred during the past decade in South Vietnam have been largely due to the incentives provided by the high price of agricultural produce, the low prices of agricultural inputs made possible by subsidized exchange rates, and the availability of luxury consumer goods. Without these subsidized rates, it is doubtful whether farmer adoption would have been as rapid as it was. Someone, of course, has to bear the costs of these subsidized rates, but if large amounts of aid are available, this is an effective means of making it available in a form which would lead to increased production and assure that the benefits accrued to the farmer.

A substantial increase in the farmgate price of rice would likewise serve as an important incentive to the farmer to strive for increased production. But in South Vietnam, the implementation of this measure would have political repercussions which the government thus far has been unwilling to face. Delta farmers would benefit from this policy up to the point where the country no longer needed to import rice, but their gain would be at the expense of persons in urban areas and rice importing regions such as Central Vietnam.

Increases in fertilizer supplies at present prices would also help to increase production as a result of the effects it would have on the credit policies of fertilizer dealers. The normal policy of Saigon/Cholon distributors, which includes large rice merchants as well as importers and wholesalers, is to provide more liberal credit terms to their customers when they have large stocks of goods which they are trying to move, and this credit is generally passed on down the line to farmers. The problem in this case would lie in convincing fertilizer dealers to increase their stocks of fertilizer, and this might require more liberal supplies of credit at special rates. But in the end it would be the farmer and not the fertilizer dealers who would benefit from such a policy, since fertilizer would be available at the local level on better credit terms and at slightly lower prices.

If new types of inputs were to become available, such as a major new fertilizer responsive to superior rice varieties, they would help to increase production to the degree that they were suitable to local conditions. If such new inputs required no new techniques and could be substituted for existing inputs, and if farmers could be shown that the new inputs produced higher yields and greater returns, they would undoubtedly be adopted very rapidly. The experiences of the past

decade have shown that Delta farmers have responded rapidly to the opportunities that new technology has provided and that private merchants have responded rapidly to the demands of farmers. There are no reasons to doubt that such would not be the case in the future.

Which of the measures discussed above would be most effective in bringing about the goals of increased production and equitable distribution of benefits would depend to a large extent on the resources which were available. With no external aid, maximum results would require providing incentives to the private sector to invest in agricultural related activities along the lines we have suggested. If a moderate amount of aid were available, I would advocate focusing on the task of providing increased credit to product purchasers and distributors of inputs through the rural banking system. But if the problem were one of trying to decide how best to allocate large supplies of aid, I would argue for providing incentives for distributors to substantially increase supplies of inputs, such as liberal credit terms and subsidized interest rates, while at the same time lowering the costs of inputs to farmers through subsidized exchange rates. These measures would not only be the most effective ones for promoting the use of new forms of technology, but would be the ones which would produce the highest returns to farmers, small or otherwise. The other measures mentioned- an increase in the farmgate price of rice and a substantial increase in direct loans to individual farmers- would produce undesirable side effects, including higher costs to consumers, and decreased opportunities for export of surplus farm products in the former case and undesirable distributional effects and increased opportunities for corruption in the latter.

By way of final comment, let me once again assert that the key to development in this region lies in policies which provide incentives for the private sector, both farmers and merchants. I have emphasized the role of the commercial sector because this is an area which has traditionally been ignored. Yet government policies can do much to improve economic incentives for the commercial sector, and, in turn, the commercial sector can provide an important multiplier effect for government efforts. Such a joint development program could make a more powerful and efficient contribution to current and future prospects for agricultural development than either acting separately.

THE ROTATING CREDIT ASSOCIATION: A "MIDDLE RUNG" IN DEVELOPMENT.

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THE ROTATING CREDIT ASSOCIATION: A "MIDDLE RUNG" IN DEVELOPMENT

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> The building up of a variety of institutions, serving the purpose of promoting individual savings, and organizing them and making them fruitful to the saver and to the community, should be given a high priority in every development plan. To be effective, the institutions have to be adapted to different individual needs and possibilities and must fit into the community patterns; they must aim at encouraging planned and "goal-directed" savings. Even if, at least in the beginning, the financial results would not constitute more than a trickle of new capital disposal, the effects in rationalizing attitudes and mobilizing ambitions might be crucially important.
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> --Gunnar Myrdal, in
> An International Economy (p. 360)

The necessity for a fundamental change on the part of the people of underdeveloped nations in their attitudes toward saving has been a recurrent theme in discussions of the developmental prospects of such nations. Unless aggregate national saving can be increased to cover, or at least approximately cover, the growth in investment a developmental program implies, persistent, run-away inflation will frustrate all efforts toward the realization of such a program. Neither large-scale international capital transfers nor improvements in the terms of trade can, in themselves, bring about domestic capital accumulation in the absence of effective efforts to raise the level of domestic saving, a hard fact of economic life summed up in V. K. R. V. Rao's aphorism that capital is made at home.[1] In part, such savings can be realized by means of taxation programs, the compulsory sale of government securities, economies in government expenditure, and other fiscal measures; but in the long-run these financial mechanisms will not in themselves bring about the one change which is essential if development is to have a firm basis--a change in the propensity to save on the part of individual members of the population. Unless the basic savings habits of the people of a country can be altered, the prospects for sustained economic growth are dim indeed.

The reasons why the saving/income ratio of a particular country living above the subsistence level is what it is, rather than larger or smaller than it is,

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1. Quoted in Myrdal, An International Economy (New York, 1956), p. 273.

is dependent, as Henry Bruton has pointed out, on "the general pattern of mores and the social structure which govern all aspects of social behavior."[2] Consequently, it is evident that an effort to change the ratio demands an attempt to change the general pattern of mores and social structure. The main efforts along these lines have so far been of two general sorts: (1) propaganda drives asking individuals to save through buying government securities, or (2) the setting up of Western-type savings institutions: banks, savings cooperatives, and the like.[3] Neither of these efforts has been wholly ineffective, but both of them have tended to be disappointing: the first because deep-rooted customs yield very little to official sponsored exhortations to discard them in the interest of progress; and the second because the impersonality, complexity, and foreignness of the mode of operation of such "capitalist" institutions tends to make traditionalistic peasants, small traders, and civil servants suspicious of them. What seems to be needed, particularly in the early stages, is an institution which can combine local popular appeal with the sort of savings effects a developing economy demands; and institution which can act as an educational mechanism for a people moving from a static economy to a dynamic one, at the same time as it operates to bring about the restriction of increased consumption such a transformation implies.

It is the intent of this paper to describe and analyze one such institution found over a great part of that broad band of underdeveloped or semi-developed countries stretching from Japan on the East through Southeast Asia and India to Africa on the West: the so-called rotating credit association.[4] The rotating credit association, which assumes a remarkably similar form over a very wide geographical area, although to be sure with local adaptations and variations, will be shown to be essentially a device by means of which traditionalistic forms of social relationship are mobilized so as to fulfill non-traditionalistic economic functions. It will be seen, in fact, to be an "intermediate" institution growing up within peasant social structure, to harmonize agrarian economic patterns with commercial ones, to act as a bridge between peasant and trader attitudes toward money and its uses. The rotating credit association is thus an institution of the sort Myrdal rightfully demands: one which fits into community patterns and yet aims at planned and "goal-directed" savings.

I shall begin with a brief description of the rotating credit association as it is found in Modjokuto, a town-village complex in Eastern Java, Indonesia, which

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2. "A Survey of Recent Contributions to the Theory of Economic Growth," unpublished paper, Center for International Studies, Massachusetts Institute of Technology, April 1956.

3. There have also been, of course, efforts at "direct saving" through the employment of surplus labor on capital-creating projects. Though important, there is an obvious limit to the effectiveness of this device, especially in libertarian societies.

4. Actually, many terms are used in the literature for this single type of institution: contribution clubs, slates, mutual lending societies, pooling clubs, thrift groups, friendly societies, etc.

I studied in 1953-54.[5] The association is found in Modjokuto in its most elemental form, and the way in which it is integrated into the more general socio-cultural pattern can, consequently, be quite explicitly demonstrated. Next, I shall review the general distribution and typical variations of the association in Asia and Africa, in an attempt to show more complex elaborations of the basic form, both in organization and in terms of its economic functioning. And finally, I shall say something about why this institution has arisen, the functions it fulfills, and the meaning it has for those who participate in it.

I. The Rotating Credit Association in Eastern Java

The basic principle upon which the rotating credit association is founded is everywhere the same: a lump sum fund composed of fixed contributions from each member of the association is distributed, at fixed intervals and as a whole, to each member of the association in turn. Thus, if there are ten members of the association, if the association meets weekly, and if the weekly contribution from each member is one dollar, then each week over a ten-week period a different member will receive ten dollars (i.e., counting his own contribution). If interest payments are calculated, by one mechanism or another, as part of the system, the numerical simplicity is destroyed, but the essential principle of rotating access to a continually reconstituted capital fund remains intact. Whether the fund is in kind or in cash; whether the order the members receive the fund is fixed by lot, by agreement, or by bidding; whether the time period over which the society runs is many years or a few weeks; whether the sums involved are minute or rather large; whether the members are few or many; and whether the association is composed of urban traders or rural peasants, of men or women, the general structure of the institution is constant.

In Modjokuto, the rotating credit association is called an arisan--literally, "cooperative endeavor" or "mutual help." Its form is of the most elemental sort: interest is not calculated, rotation is determined by lot or by agreement, membership tends to be small, and a separate staff of officers does not exist. The members simply come together and agree among themselves to contribute one or two rupiah every week or month, each one thus receiving ten or fifteen rupiah once during a ten- or fifteen-week or month cycle. Each person who draws the fund is responsible for holding the next meeting of the association in his home, and of providing food and coffee for other members. A meeting of an arisan is thus also a feast, a small gathering of friends, neighbors, and kin, and, particularly in the villages, is commonly viewed by its members less as an economic institution than a broadly social one whose main purpose the the strengthening of community solidarity. The primary attraction of the arisan, they say, is not the money you receive, but the creation of rukun (communal harmony) which occurs, the example of gotong rojong (mutual assistance) which is demonstrated.

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5. The field work period ran from May 1953 until September 1954, and was undertaken as part of a group project of seven anthropologists and sociologists sponsored by the Center for International Studies of the Massachusetts Institute of Technology. I wish to express gratitude to Alice Dewey, Robert Jay, and the late Donald Fagg for contributing some of the data used in the paper. The writing of the paper has been made possible by a grant from the Ellis L. Phillips Foundation.

Traditional Patterns of Cooperation and the Arisan in Rural Java

To the extent that it still exists, the traditional Javanese village is essentially a group of territorially integrated elementary families. Extended kin ties are of some importance, but the major unifying bonds are those of neighborhood, village, and village cluster. The very labor-intensive pattern of rice cultivation necessitates concrete mechanisms of interfamilial cooperation, as does, of course, the crowded, nucleated-village settlement pattern, and these mechanisms of cooperation are all geographically based. What has developed, consequently, is not so much a general spirit of cooperativeness--Javanese peasants tend, like many peasants, to be rather suspicious of groups larger than the immediate family--but a set of explicit and concrete practices of exchange of labor, of capital, and of consumption goods which operate in all aspects of life--in rice field cultivation, in house building, in irritation, in road repairing, in village policing, and in religious ritual. This sense for the need to support specific, carefully delineated social mechanisms which can mobilize labor, capital, and consumption resources scattered thinly among the very dense population, and concentrate them effectively at one point in space and time, is the central characteristic of the much-remarked, but poorly understood, "cooperativeness" of the Javanese peasant. Cooperation is founded on a very lively sense of the mutual value to the participants of such cooperation, not on a general ethic of the unity of all men or on an organic view of society which takes the group as primary and the individual as secondary.

This general model of rotating cooperation among families appears in all fields of traditional peasant life. The land tenure pattern is, for example, based on the myth that the contemporary occupants of the village are all descendants of its original founders. These founders are said to have cleared the forest from the village site and to have built the first rice terraces in a cooperative labor fashion, with the result that their descendants have all inherited equal use rights to the land. The land is, consequently, divided into equal plots and distributed among these descendants of the founders. In some villages the plots are actually rotated among these citizens every year or two; in others they remain with the same holder in perpetuity, though they cannot be alienated in any way and can be forfeited if the holder commits a serious crime or leaves the village. Since, in the original syssem, only such land-right holders could participate in the choosing of village leaders, political, economic, and--as the peasant-citizens are also family heads--kinship elements were fused.

Labor relations are, in the traditional pattern, organized in a similar fashion.[6] The two major types of cooperative labor are "group work" and "exchange work." In group work, a whole neighborhood applies its labor to certain labor-intensive tasks: clearing a man's fields, erecting his house, etc. In such a pattern all the nearby neighbors are invited and are obligated to come, and the host provides a large feast at the close of the work. In "exchange work," several households work on each other's land in turn. Reciprocality is exact and specific, and usually work is returned within a short period of time.

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6. For a review of rural land tenure and labor relations patterns, see R. Jay, Village Life in Modjokuto (New York: The Free Press of Glencoe, in press).

Even the central religious ritual in the villages--the slametan--reflects this rotating communalism pattern. The slametan is a communal feast given in the home of one family for six or eight geographically contiguous families who are represented, as in political and economic contexts, by their male heads. Again, the feast may be prepared in the "group work" fashion, with the neighbors and (especially) relatives pitching in collectively, both in the cooking and in contributing the food. More commonly, however, the women of the host family prepare the feast, and the expectation is that over a period of time the giving of slametans will balance out among all the families of the neighborhood.

Today, the purely traditional pattern of life exists in full force only in the very isolated villages; in the Modjokuto area, the complex of intrusive factors summed up, somewhat inexactly, in the term "urbanization" has very noticeably weakened it. In addition to the "communal" land inherited from ancester-founders, there is now simple private property which may be sold outright for cash--though the tendency is still to sell it within the village. In addition to the traditional labor patterns, there is wage work--though this tends still to follow the obligations and expectations implicit in the older cooperative forms. And the contribution to the host at the slametan is now mainly in cash, rather than in kind--though close friends are still expected to be willing to help with the work. The Javanese village is thus moving fairly rapidly into the world-wide economy, and it is in terms of such an incipient stage of commercialization that the arisan seems best understood--it is a link between the largely unmonetized economy of the past and the largely monetized economy of the future.

In the villages, arisans are usually formed by a local group of three or four hoseholders through a common agreement, and other households are then invited to join. The order in which the fund is drawn by the various members is fixed, in most cases, by simple agreement: the originators of the arisan come before the later joiners, and the latter draw in terms of the order in which they signed up to participate. Usually a secretary to keep the records is elected; sometimes someone to call the people together to the weekly meetings at the home of the recipient of the previous week is also chosen. Sometimes, too, a very small sum is taken out of the fund and given to these "officials" as a token payment, but they have no other special role in the association. Twenty to thirty members is a typical size, one to five rupiah (i.e., a fund from twenty to one hundred fifty rupiah) the usual size of the contribution.[7] At the end of the twenty- or thirty-week (or month) cycle, the arisan simply disbands, though it may soon be started up again with more or less the same personnel. Individuals may belong to several arisans at the same time, and they may hold multiple shares in a single arisan. Most members claim, actually, that the social, cooperative aspects of the associations--the small parties that accompany them and the sense of neighborliness they stimulate--are more important than the economic aspects: that they are closer to the slametan ritual pattern than, say, to the cooperative labor patterns, in the sense that their symbolic, expressive aspects have precedence over their technical, instrumental aspects. Nevertheless, as the cash needs of the peasantry grow ever and ever more intense, arisans become more and more important as strictly economic institutions, as mechanisms

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7. One rupiah equalled about 10 dollar cents at the official rate, and about three dollar cents on the open market, in 1953-54.

for mobilizing cash resources of essentially the same type as those which were, and are, used to mobilize land, labor, and consumption resources in traditional village society.[8]

Urban Arisans in Java

This tendency for arisans to become more and more specifically economic rather than diffusely social institutions becomes even more apparent among the inhabitants of urban compounds, or kampongs, within the town of Modjokuto. The kampong type of settlement, which is characteristic of town and city life everywhere in Java, is, essentially, a reinterpretation of the village pattern in terms of the denser, more heterogeneous, less organically integrated urban environment. Most of the well-to-do, fully urbanized members of the town elite live in stone houses along the streets, while the "lower class"--manual workers, petty craftsmen, small traders, or simply unemployed--live behind them within the blocks which the street grid outlines and the stone houses partially enclose. The land of the whole block is owned by one or two people--quite commonly, but not necessarily, one of the people in the stone houses facing the street. Small bamboo houses, of the same sort as common in villages, are placed haphazardly in crowded profusion on this block, often with very little space between them, so that the result is a rather fetid, unhealthy atmosphere. The people who live in these houses represent, then, a semi-urban, semi-rural proletariat, the members of which, though they have been forced to adopt many of the social, political, and economic patterns of the town, still cling to many of the values and beliefs of the village.

The arisan becomes, among these people, an extraordinarily popular institution, most particularly among the women, who hold the purse strings in any case. Almost every woman belongs to several; they are a constant topic of conversation and interest; and even children often form small ones--with ten or fifteen cent contributions--among themselves. Further, though feasts are held as in the villages, and the average size of the funds is only slightly larger, the arisans are seen much more in terms of their practical, instrumental importance,

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8. A description of the operation of the rotating credit association in another region of rural Java, that of a western fruit-growing village near Djakarta, where it is called paketan (probably from pakat, "to agree upon"), shows a pattern essentially the same as that of the Modjokuto area (S. Stanley, "Paketan and Selamatan in an Indonesian Fruit-Growing Village," paper delivered at the annual meeting of the American Anthropological Association, Minneapolis, 1960). In this village there are two types of associations: paketan daging and paketan kawinan. In the paketan daging (daging, "meat"), the aim is to purchase collectively a carabao for slaughter to celebrate an Islamic holiday. Of the pool, 150 rupiah is donated by the "winner" (order is fixed by general agreement) toward the purchase of the carabao, the remainder being kept for personal use in the ordinary fashion. In the paketan kawinan (kawinan, "marriage ceremony!"), meetings are held only irregularly, occuring only when a member has a ceremonial need--an offspring's wedding, circumcision, etc.--which he uses the pool to finance. Such associations are very long-term affairs, with positions being inherited as members die. Stanley reports that the rotating credit association is one of the major integrative forces in this otherwise fairly loosely integrated village.

as mechanisms for the effective use of one's income, than is the case in the villages. One structural characteristic which points up this difference is the fact that almost all urban arisans decide on the order with which the individual draws the fund not by agreement but by lot. Thus the members are essentially gambling for the interest, a fact of which they are quite conscious. Nor is the sum involved insignificant. If the going monthly interest rate in the community is, say, 10 percent, then the man who "wins" first in a 12-member, ten-rupiah association which meets monthly gets an interest windfall (ignoring feast costs) of 66 rupiah, while the last man is out a theoretical 66 rupiah which he would have had if he had lent his 110 rupiah out on the open market in the same pattern.

The centrality of this factor in the minds of the members--in contrast to the relative unimportance of it in the villages (where interest-taking is rare in any case)--is shown by the gambling attitude kampong people take toward the arisan and the intense interest they have in it. They desire very much to win the lottery as early in the cycle as possible, are very disappointed each time they fail to win and very elated when finally they do. This anxiety to receive the fund early cannot be traced simply to fear of default by other members, for default is quite rare, mainly because the members are all fairly close acquaintances, and so would be deeply ashamed to evade their obligations, but also because the weekly or monthly contributions are small enough that most people can meet them somehow or other. Rather, it must be traced to an increased sensitivity to and understanding of the economic aspects of the rotating credit association, as against its symbolic, ritualistic aspects, or, more exactly, to an increasingly commercial rather than agrarian orientation in economic matters.

Arisan membership is praised in the kampongs not merely in terms of its positive effect on social solidarity--though this is stressed too--but even more enthusiastically as a good way to save money. If one has a little cash one will certainly soon spend it; but if one deposits it in an arisan, one can build it up into a sizeable sum. With such a sum one can make larger purchases than would otherwise be possible, say, of a bicycle or a new set of clothes. Or, one can hold a traditional ceremony, a wedding for one's daughter, a circumcision for one's son, both of which tend to be expensive. Or, one can lend the money out again at a high interest rate. More rarely, one can go into trading or craft work with it as capital. Of course, one can also simply "throw it away" on trivialities as if one had not joined the arisan in the first place. But kampong people tend to agree that the arisan improves the level of individual financial responsibility, for people are more careful and thoughtful in spending a large sum than in spending many small ones. Another positive factor of the arisan is that it acts as a form of insurance: if one is the victim of a sudden misfortune--say theft, or illness--one can always persuade the other members to allow one to take the pool out of turn, an aspect of the association also important in the villages. The arisan is, then, an institution of growing importance in the wholly monetized economy of this culturally rather traditionalistic urban proletariat--at once a unifying ritual, an exciting game, an economically useful device, and a generally educational experience.

The arisan is also quite popular among the elite of the town, those who, for the most part, live in the stone houses along the streets. In this group it is almost always based on one or another of the dozens of sodalities, political parties, youth groups, labor unions, charitable associations, school societies, women's clubs, athletic associations, which have proliferated on the urban scene since the Revolution in 1945. This network of voluntary associations provides

the main social structural context for society-wide leadership in post-revolutionary Indonesia. In Modjokuto the number of people active in these voluntary associations is only a small percentage of the total population, but the intensity of activity among these few is quite astounding. The number of committee meetings, conventions, demonstrations, charity drives, celebrations, and other such "modern" activities seems so great as to take up most of this group's free time. If there is not a school board meeting, there is a holiday celebration to be organized; if the women's club is not holding a charity bazaar, the labor union is meeting to discuss the latest government policies concerning railroad pensions. The velocity of activity is extraordinarily high, and as this group is, relatively speaking, small, the burden on them is rather great.

The arisan acts in this context, then, to support the solidarity not of the neighborhood group, but of the club, union, or party. The arisan is, in most cases, held after the usual business meeting, its explicit purpose being to attract individuals to the meetings, and to intensify the feeling of unity among them. If one is not present at the meeting one cannot win the fund, and club leaders say that clubs which have attached arisans get a much higher turnout than those which do not, for there is the added attraction that one might come home from the meeting with a sizeable bundle of cash. The purpose of club arisans, as one leader said, is to bring the members together in an informal, neighborlike setting, and so strengthen their friendship bonds and consequently the club. The older ties based on residential propinquity are thus being replaced by new ties of the same sort based on common club membership; there is a shift away from the dominantly territorial integration of the villages towards a form of integration in which ideological factors, the bases of the clubs, play a more important role. The arisan, the same leader said, is the "harmony" part of the club which makes the "business" part of the club, its central purpose, more effective. Also, however, the economic significance of the arisan is again more prominent than in the villages, and as the sums involved--funds may run as high as five hundred rupiah--are generally larger.

The final urban context in which the arisan is important is among the traders in the market.[9] Market arisans are the most clearly and specifically economic of all. No meetings are actually held, but rather an agent is selected who tours the traders' stalls to collect the contributions and award the fund. Further, most market arisans are daily rather than weekly or monthly affairs, and they tend to be more or less permanent, cycling over and over again (though individual members may, of course, be replaced). The order of drawing is fixed. After the cycle has rotated several times, the sense of getting the fund early or late is obscured: one simply draws it every thirty days, etc.; so that the idea that some people have a more fortunate position in the cycle with respect to interest windfalls is also lost. The number of members in market arisans tends to be very large, reaching nearly 200 in some cases and only rarely being less than fifty. Funds are consequently rather large, even though individual contributions are small. Thus, one arisan with a one-rupiah contribution had 187 members and so a 187 rupiah fund.[10] Sometimes, however, a smaller group of wealthier traders will form an even larger-scale arisan. For example, some 36 members of an

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9. For a description of the market in Modjokuto, see Alice Dewey, The Javanese Market (New York: The Free Press of Glencoe, in press).

10. Ibid.

-lamic trade cooperative contributed, at the same time, to a 5, a 10, and a 25 -:piah arisan every five days (the Javanese have a five-day market week), to yield .. 180, a 360, and a 900 rupiah fund, which the recipients almost invariably used ·o buy textiles for resale. These arisans also never met, and one trader--smaller than the rest--had an almost full-time job simply keeping the records, making the collections, and distributing the fund. Here, then, the arisan has become an almost entirely economic institution, the diffuse "social harmony" element having dropped out almost entirely.

II. The Rotating Credit Association in Asia

The Javanese form of the rotating credit association, at least as it is found in Modjokuto, has, even within the market context, not developed to very complex levels of organization or of functioning. It remains a simple rotation pattern without interest calculations or elaboration of administrative superstructure. The available reports on similar associations in China, Japan, Indo-China, and West Africa,[11] however, show a generally more complicated pattern. In Asia, the tendency is toward the development of complex methods of calculating interest payments and of distributing those payments among the members of the association. In Africa, the tendency is toward the development of more complex leadership patterns and more differentiated internal organization and, consequently, toward increasing administrative costs.

Swatow, South China

The simplest pattern reported for Asia is that given by Kulp, for a village in the Swatow area of South China.[12] Here, a rotating credit association is always founded by an individual who needs a lump sum of cash for some particular purpose. The founder will contract, say, a fifty-dollar debt with ten people, and then pay it off by holding not ten, but eleven five-dollar feasts (the first one being that at which he receives his money), thus paying five dollars, or one feast, in interest. The ten creditors form a simple rotating system with five-dollar contributions and a fifty-dollar fund (including the contribution of the winner). In such a pattern, only the founder pays interest; his five dollars of "extra" feast-giving is theoretically divided as fifty cents among each of the other members over the whole cycle. This system is, obviously, very little different from the Javanese, and Kulp shows in detail how closely it is tied in with the traditional "familistic" orientation of the Chinese village.

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11. The existence of rotating credit associations has been mentioned in passing, but not thoroughly described, for parts of India--Madras, for example--as well. See C. Notteboom, "Assistance Economique Mutuelle Systematisee dans L'Asie du Sud et de L'est," in Orientalia Nederlandica (Leiden, 1948), pp. 423-30.

12. D. H. Kulp, Country Life in South China, Vol. I, Phenix Village, Kwantung, China (New York, 1925), pp. 190-96.

Japan

Embree's description of the association in the Japanese peasant community, Suye Mura, where it is called a ko, introduces, however, a new element: namely, that of competitive bidding for the fund.[13] Again, Suye Mura ko are typically instituted by a single individual in need of cash. If he needs, say, 160 yen, he will gather together a group of his friends and ask them to make up the loan. If there are twenty such contributors, for example, each will put up eight yen, and the borrower will then repay the loan in twenty ten-yen payments, usually making two such payments a year. Thus he pays forty yen in interest over a ten-year period. If the sum borrowed or the number of contributors is larger, the repayment may not be completed for as long as twenty years, individuals dying in the meanwhile being replaced by their heirs.

But the simple repayment pattern acts only as the framework for a more complex economic organization. At each of the twenty repayment meetings, the members each make a secret bid on a piece of paper. The lowest bidder receives the ten yen of the original debtor, plus the sum he has bid, say, six yen, from each of the other members of the ko. If this were the first meeting, this would amount to 10 plus 6 x 19, or 124 yen. Once having received the fund, an individual contributes an automatic ten yen at each meeting thereafter. Thus, the interest the second man would pay would be 8 (the original payment to the borrower) plus 10 x 18 minus 124, or 64 yen. The process continues through the whole cycle, though toward the end the bidding may be zero or even minus (in which case the bidder pays the members who still have not drawn the fund). Embree gives, in somewhat different form, the following ideal model of a 21 member ko of this size:

Meeting	1	2	..6	..19	20	21
a. Bid	8*	6	5	1	0	0**
b. Number paying bid	20	19	15	2	1	0
c. Number paying fixed 10 yen	0	1	5	18	19	20
d. Total payment to "winner" (ab + 10c)	160	124	125	182	190	200

* I. e., the original proposition.
** I. e., no bid need be made; the last man wins automatically.

On the social side, however, the ko is almost identical to the arisan. Here, too, the man who won the fund at the previous meeting is responsible for providing his house and the necessary refreshments, and many ko are formed--they may be organized not only along neighborhood lines, but by age, sex, occupation, and the like--more for recreational than financial purposes.[14] As almost everyone belongs to at least one ko, and most people belong to several, the ko

13. John Embree, Suye Mura (London: Kegan Paul, 1946). Ko are, Embree reports, very old in Japan. A document mentioning them is found as early as 1275.

14. The "insurance" element is prominent again, too. For example, a number of silk growers who had experienced several failures formed a ko in order to hedge against future failures.

acts as an important integrative institution in the society generally, and is deeply involved in the traditional Japanese value system emphasizing village cooperation. Embree stresses the fact that the ko is but one of several traditional forms of mutual aid common in Japanese villages, including exchange labor patterns, reciprocal gift giving, communal house raising and repairing, neighborly assistance in death, illness, and other personal crises, and so forth. Thus, as in rural Java, the rotating credit association is more than a simple economic institution: it is a mechanism strengthening the over-all solidarity of the village.

Shanghai, Central China

In the system reported by Fei, from a village near Shanghai in the lower Yangtze valley, interest-calculation becomes even more complex.[15] If, for example, the organizer of an association, which is called a hui, needs 140 dollars, he will gather 14 members to subscribe ten dollars each. The association will then meet twice a year for seven years, in the usual feasting pattern. At each meeting the organizer will repay ten dollars of capital and three dollars of interest. The man who "wins" at each meeting (he is chosen by lot) received, however, not 140 dollars, but half this, or seventy. At each succeeding meeting he will be a debtor and will repay five dollars of capital and one and one-half dollars of interest--i.e., half of what the organizer pays. A man who has not yet drawn the fund--Fei calls him a depositor--makes a contribution determined by the following formula:

> The total fund - [the organizer's contribution + (the number of donors x the debtor's contribution)], all divided by the number of depositors.

Suppose at the fifth meeting the total fund is 70 dollars, the organizer's subscription is 13 dollars (10 capital, plus 3 interest; this is a constant). Each of the four members who have already drawn the fund, i.e., the debtors, must pay 6.5 dollars (5 capital, 1.5 interest; also a constant, though of course the number of debtors increases one each meeting), and there are nine depositors, i.e., men who have not yet drawn the fund. The man who has just this time won makes up the fourteen members of the hui in addition to its organizer. The equation for a single depositor's contribution at this meeting is thus:

$$\frac{70 - [13 + (4 \times 6.5)]}{9} \quad \text{or 3.44 dollars.}$$

This means that the 70-dollar fund is composed of a 13-dollar contribution by the organizer, a 26-dollar contribution by the four people who have already won the fund, and a 31-dollar contribution by the nine who have not yet won it.[16]

This system is sufficiently complex, Fei remarks, to be beyond the comprehension of the average villager, who has to invite the village head or some

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15. Fei Hsiao-T'ung, Peasant Life in China (New York, 1946), pp. 267-74.

16. As a matter of fact, the actual calculation is, for various reasons, a great deal more complicated than this. For a full numerical example of a hui, see Ibid., pp. 271-72.

other notable to instruct him. Fei also emphasizes the manner in which a hui is built, in this family-centered society, around the kinship group: the nucleus of such an association is always a set of relatives. A man always approaches people who have consanguineal or affinal ties to him when he wishes to set up a hui: his father's brother, brother, sister's husband, mother's brother, wife's father, etc.; and these are under a heavy obligation to join or, if not, to find some of their own relatives to take their place. Thus a person with a large sphere of relatives has a better chance to organize a hui and so get financial support, than a man with a narrow sphere. Kin ties between members also, of course, reinforce the economic obligations involved, so that defaulting is rare, as it is in Japan. The usual purposes for starting such a society are ceremonial ones--to finance a wedding or a funeral--rather than productive ones, such as starting a business or buying a piece of land, the latter not being considered as proper ground for an appeal for a hui-type loan.

Peking, North China

Gamble's report on a semi-urban county in north China, just south of Peking, gives an example of a rotating credit association--of the auction variety--which fulfilled a more specifically economic, less diffusely social function.[17] Of the eight members of the particular association studied intensively for whom the information is available, four used the fund they received for business expenses or ventures, seven loaned it out to others, and only three used it for family expenses. Among the "good points" of the association mentioned by members were included--in addition to the universal comment that they promote friendship--such distinctly non-traditional ideas as that they encourage thrift and that they provide investible funds of a low cost, while among the "bad points" were listed the fact that sometimes members evade their obligations, and that the feasts were too expensive and uneconomical. The fact that, in most cases, the costs of each feast were born equally by the members points in the same general direction: toward the conclusion that traditionalistic ties were of less importance here, or could be less relied upon, than in the other examples which have been reviewed.

Even more striking is the fact that the founder of an association had to sign a written contract, in which all his obligations were spelled out in detail, and have it countersigned by two guarantors. Similarly, each member had to provide two guarantors before joining the association and had to sign a receipt for all funds received. But perhaps the most telling evidence of the essentially economic nature of the association in this area was the fact that Gamble's data for the whole ten-year cycle of an association he studied in detail (from 1917 to 1927), show a smooth linear increase in the amount received by each member as a percent of amount paid by him.[18] This indicates that the members were figuring a set discount rate for the money, relatively independently of any immediate needs for it such as a wedding or funeral. As a result, the interest rate remained

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17. S. D. Gamble, Ting Hsein: A North China Rural Community (New York: Institute of Pacific Relations, 1954), pp. 260-71. See also his "A Chinese Mutual Savings Society," Far Eastern Quarterly, IV (1944), 41-52.

18. It ran from a 51.6% low at the second meeting after the formation, to a 207.6% high at the thirtieth, or last, meeting.

more or less constant, around 1.5% per month (a low rate). It seems clear that this association was relatively businesslike and uninfluenced by traditional needs.

Vietnam

But perhaps the most clearly economic in function of the Asian rotating credit associations so far reported is the ho of Vietnam.[19] Traditional ho exist in the villages (ho means family, and, by extension, corporation or mutual association), operating according to the more broadly "social" pattern we have found elsewhere--the ties of friendship, kinship, and social status forming the integrative bonds for what is only secondarily or partly a specifically economic institution. As in Japan, some of them are even in kind--rice seedlings, etc. But in the urban areas of Vietnam, the rotating credit association begins to approach a fully "businesslike" organization, an embryonic corporation.

The urban ho are run by professional managers (who, it happens, are all women), who are not actually members of the association and usually run several at the same time on a purely economic basis.[20] Each ho has a special firm name which must be notarized by the government; detailed books are kept of all transactions; and the obligations of all concerned are enforceable in the courts. In some of the more elaborate ho--organized among civil servants--one finds sealed bids, stamped receipts, acceptance of near monies such as promissory notes of Indian usurers, and a quite rational-legal set of statutes for governing the society, including default and bankruptcy procedures.

In general outline, the functioning of the ho is similar to that of the Chinese and Japanese auction-type associations, but there is a major difference in the role of the manager. Unlike the Japanese and Chinese cases, the manager does not set up the association in order to raise a personal loan, but as a straight business proposition. She takes one-third of the fund each time it is constituted, only two-thirds being distributed among the members, and she pays nothing in. Further, at the second meeting, the whole fund goes to her in full (i.e., without bidding). This fund she uses personally to make loans to members which are paid

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19. Nguyen Van Vinh, "Savings and Mutual Lending Societies (Ho)," Yale Southeast Asia Studies, mimeographed, 1949.

20. Nguyen does note that "some ladies hold the ho not in order to do business, but to receive friends at their home, to show their well-kept homes, to demonstrate the talents of their daughters, sisters, sisters-in-law, or nieces of marriageable age; or to make people talk about their famous pastries or of the excellent cooking done in their homes, or maybe even to boast of the rather innocent talent which consists of delicately folding over the betel leaves of a beautiful yellow-green shade or to be able to bring out the shade of rose-gray in the meat of sliced areca nuts, to perfume their tea, etc." But most women, he says, simply make a lucrative trade of it, and that there are in fact, some, "like the dubious bankers of Europe, who are able through adroit approach to draw in the resources of honest housewives and who, one fine morning, depart without having invited their clients to a going-away party and without leaving behind their forwarding address."

back in small increments--with the going interest rate included--in much the same manner as in the association itself. Such loans from the manager are called "given ho," in contrast to the "bought ho" of the normal revolving fund.

On her side, the manager is responsible for providing the feast each meeting in her home, for advancing the fund to each winner, even if collections have not as yet been entirely completed or if members who have drawn the fund have defaulted, and for keeping the books. Thus, the manager is a small-scale professional banker at the center of a complex network of credit ties. As Nguyen comments, successful managers

> ...must know how to select their clientele, having it well balanced between those with resources and those needing loans in order to balance the offers and demands for money; they must also know how to arrange things so as to be able to have the meetings gay, very short, and sufficiently elegant but using up only a reasonable portion of the profits. There are some women who manage two, three, and up to five ho simultaneously, and know how to manipulate the funds of all without a hitch.[21]

Another indication of the business-like nature of the ho is the fact that the gap between the open market interest rate and that of the rotating assocation is not so wide as in the traditional cases. The main advantage of the association over private money lending is not the difference in interest rate (though association rates are still a little lower), but in the fact that in private money lending "the money rests while the interest runs"--i.e., payments are not applied to the principle until current interest charges have been met in full--while in the association "the capital destroys;" i.e., part of each payment goes to discharge the loan, so that as long as one keeps up the relatively small payments he will sooner or later rid himself of the debt entirely. Genuine bondage to the association manager of the sort all to common to the private Indian or Chinese money lender evidently does not occur.

Pointing even more clearly in the same direction is the fact that each association usually has a core of several members who, well acquainted with the manager, merely make their payments regularly without coming to the meetings (they receive a money premium from the manager in exchange for their abandoned perquisites), the explicit understanding being that they will not receive the fund--which may grow as large as 2,000 Indo-Chinese dollars (300 American)--until the last few meetings. Thus, they actually are "backers" of the manager, her source of finance in offering loans to others in the earlier part of the cycle. In some cases, evidently, the time of loans for every individual in the ho is contracted with the manager ahead of time, so that the association becomes more a matter of a rationalized savings institution managed by a skilled promoter than a simple expression of communal solidarity and mutual aid.

III. The Rotating Credit Association in Africa

The rotating credit association is also found in various parts of Negro Africa, most especially in the more commercially developed regions of West

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21. Op. cit.

Africa, from where it evidently spread via the slave trade to the Caribbean, and perhaps to parts of the southern United States.[22]

The Bulu

A traditionalistic example of the rotating credit association in Africa, of about the same level of complexity as that of Modjokuto, is found among the Bulu of the French Cameroons.[23] As in all the African cases, no interest is calculated, and bidding is not found. The pattern is largely confined to the salaried laborers and civil servants in this only very slightly monetized society, but these sometimes put almost the whole of their salary into the pool, depending on cultivation (or that of relatives) for their day-to-day subsistence. The fund, when received, tends to be used for such customary needs as a dowry, or to buy consumption goods such as a bicycle, or, much more rarely, to set up a son in a trade or craft. The order of drawing is strictly determined by traditional notions of status--based on kinship and age--and members are almost inevitably related to one another, at least to the point of being members of the same clan. The economic aspects of the association are thus completely embedded in tribal social structures.

The Nupe

Nadel's description of the dashi of the Nupe in central Nigeria, a rather more developed group than the Bulu, introduces the note which is characteristic of most of the African systems: the very strong role the leader of the group plays in determining its mode of operation.[24] Among the Nupe, the head of the group decides the order in which the members will receive the fund. This man, called aptly enough the "king of the dashi," is usually a man of some reputation: for example, a well-known trader or the head of a craft guild. Especially able organizers are in heavy demand. As in Indo-China, the organizer does not himself participate in the association as a contributing/receiving member. He receives no payment, his only perquisite being that he is allowed to borrow from the fund occasionally for his own business needs, provided that the members agree and

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22. The new world cases are described in M. Herskovits, Trinidad Village (New York, 1957), pp. 76-77; and M. F. Katzin, "'Partners,' An Informal Savings Institution in Jamaica," Social and Economic Studies, VIII (1958), 436-40. Katzin says the association is the most important single source of capital for petty traders in the Kingston area, but that minor government officials, domestic servants, and wage workers also form them; and she quotes Dr. Bernice Kaplan as reporting the existence of associations among American Indians in Peru. In West Africa, the form has been reported from Nigeria, the Ivory Coast, Ghana, and Sierra Leone; elsewhere in Africa from the Congo, the Cameroons, Uganda, and the Union of South Africa (see I. M. Wallerstein, The Emergence of Two West African Nations: Ghana and the Ivory Coast, Ph.D. thesis, Columbia University, 1959, pp. 170-71).

23. G. Horner, personal communication.

24. S. Nadel, Black Byzantium (London, 1942), pp. 371-73.

the original plan of the dashi is not disrupted. Also, he may receive gifts from a member who, without giving any "legitimate" reason for wanting to do so, wishes to collect at a certain time. A member who can, however, show a "real" need, from the traditional point of view (an illness, a funeral, a bride-price payment), need not pay a bribe to get his share when he wishes it; the head is obligated by custom to give it to him.

The Yoruba

The esusu of the Yoruba to the south and west of the Nupe follows an essentially similar pattern, except for the fact that the associations seem to reach a somewhat larger size than Nadel reports for the Nupe, running up to as many as 200 members, with cycles of four or five years.[25] This larger size evidently necessitates a somewhat more formal organization. Larger esusu are divided into four or more subgroups, called "roads," which are numbered (1st, 2nd, 3rd, 4th, . . .), each with its own sub-headman under the over-all headman. Collection for the whole group must alternate among the roads as well as among individuals, giving the following sort of pattern for the order of receiving payment:

Road	1st	2nd	3rd	4th
Order of payment:	1	2	3	4
	5	6	etc.	

Here we have a somewhat more "bureaucratic" form of the system, for the head of the esusu may not even be personally acquainted with all its members; his relations are mainly with the subgroup heads. The members pay in and take out through the agency of the subgroup head, and it is he who determines the order of the distribution of the fund among members of the subgroup. In this slightly more impersonalized form of the association, defaulting by members and embezzlement by leaders is a more serious problem. If a member defaults after he has received the fund, every effort is made to force him to pay. The over-all head attempts to coerce the subgroup head, the subgroup head the member. As a last resort, the over-all head may take the matter to court. Some heads insist that the first round of contributions be kept as a reserve against possible defaults. Another technique used by the subgroup head is not to give the whole fund to one member at a time, but to split, say, the first payment between Mr. A and Mr. B, and then again split, say, the 13th between these two, thus maintaining an individual in a "depositor" position for a longer time.

The reverse problem, the probity of the heads, is also more prominent than it seems to be in the less developed cases. In larger esusu, a diviner may be called in to select the various heads in an effort to find ones who can be trusted not to abscond. The members keep track of their payments and receipts by cutting grooves into the walls of their huts, but this method is not certain enough.

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25. W. Bascom, "The Esusu: A Credit Institution of the Yoruba," Journal of the Royal Anthropological Institute of Great Britain and Ireland, LXXXII, Part I (1952), 63-70. Bascom notes that all the evidence points to the esusu being not a recent borrowing or innovation, but an ancient institution among the Yoruba.

or the members do not have enough confidence in their own figures, to prevent heads from embezzling one or two rounds. This much of a cut for the head is considered more or less unavoidable and is chalked up to administrative costs, "but it is unlikely that the esusu head could take a third round for himself during the cycle without being caught."[26]

The Ibo

The most thorough and incisive report on the rotating credit association in Africa is that of Ardener on the Mba-Ise, an Ibo group also in Nigeria.[27] The Mba-Ise area has no large towns or railheads, but population pressure is very heavy (1,000 per sq. mi.), leading on the one hand to a heavy outward migration, and on the other to land pressure of such an intensity that a man is fortunate if he can gain from 1/3 to 1/2 of his food requirements from farming. The result is that an elaborate trade economy is needed (based on the export of palm oil) to bring food in from the less dense areas to the north and south. "That the Mba-Ise has made the transition from a mainly agricultural to a predominantly trading economy successfully is due, to a large extent," Ardener argues, "to the growth and development of the [rotating credit association]."[28]

Here, the associations get even larger than those reported for the Yoruba. Ardener describes a one-shilling association, with 248 members of both sexes, divided into seven subsections, which meet every eight days (the Ibo have an eight-day week). Once every four Ibo weeks, shares are doubled to two shillings per person and two members receive a fund. Thus, each member pays five shillings in every thirty-two days and receives a fund when it comes his turn--once in four years and eight months--of £12 8s. Each member must have a senior man from his compound as a guarantor, who will agree, in writing, to continue the shares if the member defaults. These guarantees are kept by the association secretary and are upheld in court proceedings by the native bench. When a member receives the fund, he must sign or thumb-print a receipt for the money. Clearly, the size of the club, the length of the cycle, and the size of the fund combine to make this a fairly impressive example of long-term, "purposeful" saving--whatever the use to which the money is ultimately put.

The recipient of the fund has, however, certain overhead costs. First, he is required to supply six calabashes of palm wine for the other members. Secondly, he must contribute four shillings to the association loan fund. This fund, held by the association secretary, is constantly lent out in very small sums over short terms at the normal 100% interest rate. The fund increases rapidly--in the case at hand from £3 11s 0 to £17 19s 4.5d a year later, a 459% increase (!)--and is shared equally among the members at the end of the cycle, though some of it may be applied to a party for the whole association.

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26. Bascom, op. cit.

27. S. Ardener, "The Social and Economic Significance of the Contribution Club among a Section of the Southern Ibo," Annual Conference, West African Institute of Social and Economic Research, Sociology Section, (Ibadan, 1953), pp. 128-42.

28. Ibid.

But the most important cost to the members is the 15-20% of the fund he must pay to the headman (or men) to get the fund. Here again, the headmen decide who shall get the fund at which time, and this is determined, in most cases, not on the basis of the headman's evaluation of the member's needs, but in terms of who offers him the highest bribes. Thus, the "interest" on the loans--about 1/5 of the going rate--goes here not to the lenders but to the headmen. It must be remembered, though, that the headmen are taking the risk of defaulters, in most cases, and are providing--with a membership of 250 or so--a genuine and necessary administrative service.

Nevertheless, there is a tendency for the associations to become top-heavy administratively. Associations tend to proliferate officers: councils are formed for general policy and money checkers appointed, as are food tasters and sanitary officials to judge the quality of the food at the feasts. In one one-shilling club with a £7 fund, there were two headmen, a secretary, a messenger, four chiefs, a sanitary man, and four food dividers. Each of these men drew money bribes and food payments, until the point arrived where the net fund was only £3, and the association dissolved in a fist fight. Evidently, breakdowns of associations due to the burgeoning of organization which raises administrative costs above a reasonable level are relatively common.

In any case, the rotating credit association is obviously of crucial importance in Mba-Ise society. In one subsection of a small lineage, Ardener found that six men paid an aggregate 90 shillings a month; the total fund to which they were contributing was £181 7s 6d. Only one of these six men received a regular wage of £2 a month, while the others were part-time traders, craftsmen, and, in all cases, farmers. Figures such as these must certainly damage theories about the intrinsic inability of peoples in "underdeveloped" areas to save.

Keta, Ghana

Thorough descriptions of the operation of rotating credit associations in African cities are, unfortunately, not yet available, but passing references to their existence and importance, both as specifically economic and broadly social institutions, have become increasingly numerous in recent urban studies in both West and East Africa.[29] That, when investigated in detail, such urban forms may show some of the same sort of movement toward increased economic rationality that their counterparts in Asia show is indicated by the association Little has briefly described for Keta, a town in Ghana, where for the first time we find an association in which the amount each member contributes and receives is not firmly fixed by rule, but fluctuates according to individual speculative assessments.[30] Composed of 400 members, most of them market women, the club

29. E.g., M. Banton, West African City (London, 1957), pp. 187-88--Freetown, Sierra Leone; C. and R. Sofer, Jinja Transformed, East African Studies No. 4 (Kampala, 1955), p. 108--Jinja, Uganda; and A. Southall and P. Gutkind, Townsmen in the Making, East African Studies No. 9 (Kampala, 1956), pp. 162-63--Kampala, Uganda.

30. K. Little, "The Role of Voluntary Associations in West African Urbanization," American Anthropologist, LIX, 579-96. This association is actually but a local branch of a highly organized national association which has its headquarters in Accra, the capital.

raises a "loan" for one member at each weekly meeting. All the members present who have not yet taken the pot give as much money "as they feel they can afford," the amount they give being recorded in writing. The member receiving the collection as a loan is then given a list showing the amount of money contributed to it by each of the other members. As these various contributors in turn take the collection over the weeks, this former collector must contribute as much as the present collector contributed to his pot; i.e., if this week's collector contributed a shilling to my loan, I must contribute a shilling to his; if five shillings, then five shillings; while people who still have not yet collected continue to be free to give any amount they wish. All of this makes for a very much more calculating approach to the whole affair:

> In a period of rising prices, those at the top of the list naturally have the advantage, but on the other hand, those who wait longer may receive more because the society's membership will in the meantime have increased. There is an element of chance in all this which adds spice to the normally dull business of saving, and this partly explains the society's popularity.[31]

But this increased sense for economic calculation does not, once more, imply the simple disappearance of the more diffusely social, solidarity-producing aspects of the association: when a member is sick, he is visited in the hospital; if he dies, his relatives are given £10 toward the cost of his funeral; and each week's loan raising begins with a round of community singing.

IV. The Rotating Credit Association and Economic Development

In a recent paper on the economic adaptation of oriental immigrants in Israel, S. N. Eisenstadt has attempted to demonstrate the manner in which "traditional value orientations" have been effective in supporting rather than hindering--at least in the early stages--such an adaptation to the highly rationalized Israeli economy.[32] On the one hand, customary family and kinship ties, authority relations, and religious views have remained very strong among the new immigrants from such "underdeveloped areas" as Yemen, Iran, and North Africa; while on the other hand, these immigrants have made an increasingly successful adjustment to the developed economic setting through the mediation of the agricultural cooperative. Within the cooperatives it has proven possible to integrate traditional attitudes with modern functions in such a way that the former actually support the latter rather than hinder them, and the latter react back upon the former to alter them slowly. A form of symbiosis between the "traditional" social structure of the immigrants and the more "rational" one into which they have been suddenly projected has made possible the immigrants' adaptation to the new economic and political tasks with which they are faced, while at the same time minimizing the strain of transition and social transformation. The agricultural cooperative may thus be seen as an "intermediate" institution which links traditional motivations to modern functions, serving at the same time to transform

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31. Little, op. cit.

32. S. N. Eisenstadt, "Sociological Aspects of the Economic Adaptation of Oriental Immigrants in Israel: A Case Study in the Problem of Modernization," Economic Development and Cultural Change, IV (April 1956), 269-78.

those motivations toward a more rationalistic basis; it "facilitates the learning of new skills, patterns of behavior, and value orientations, and makes possible some changes in the structural principles in the general direction of modernization, without undermining the basic cohesion and solidarity of the group."[33]

The rotating credit association is, I would argue, a similar intermediate institution, a product of a shift from a traditionalistic agrarian society to an increasingly fluid commercial one, whether this shift be very slow or very rapid.[34] It, too, mobilizes familiar motivations and applies them to unfamiliar purposes, while serving at the same time to reconstruct those motivations on a more flexible basis. The arisan, ko, hui, dashi, or esusu is essentially, then, an educational mechanism in terms of which peasants learn to be traders, not merely in the narrow occupational sense, but in the broad cultural sense; an institution which acts to change their whole value framework from one emphasizing particularistic, diffuse, affective, and ascriptive ties between individuals, to one emphasizing--within economic contexts--universalistic, affectively neutral, and achieved ties between them.[35] The rotating credit association is thus a socializing mechanism, in that broad sense in which "socialization" refers not simply to the process by which the child learns to be an adult, but the learning of any new patterns of behavior which are of functional importance in society, even by adults.[36] The theoretical as well as the practical interest of the association lies in its ability to organize traditional relationships in such a way that they are

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33. Eisenstadt, op. cit. I have altered the tenses.

34. Arguing, loosely, that the rotating credit association is a product of a changing society does not mean that I think it arose independently out of a local configuration of forces in each case. Its presence may be due in most cases to diffusion, perhaps in all cases but one. But, as has often been pointed out, diffusion analyses really contribute rather little to the understanding of social functioning in themselves. For example, the absence of the auction pattern of the association among the Javanese in Modjokuto can hardly be attributed to a simple lack of knowledge of it, for the commercially more sophisticated Chinese in the same town, from whom the Javanese have borrowed many other traits, practice it. Certainly, some assumption about "functional fit" and differential levels of economic development must be introduced to account for the fact that this auction pattern has not diffused "across the street," so to speak.

35. For a full discussion of these terms, see T. Parsons, Social System (Glencoe: The Free Press, 1951), pp. 58 ff.

36. "The term socialization in its current usage in the literature refers primarily to the process of child development. This is in fact a crucially important case of the operation of what are here called mechanisms of socialization, but it should be clear that the term is here used in a broader sense than the current one to designate the learning of any orientations of functional significance to the operation of a system of complementary role-expectations. In this sense, socialization, like learning, goes on throughout life. The case of the development of the child is only the most dramatic because he has so far to go." Ibid., pp. 207-08.

slowly but steadily transformed into non-traditional ones, as an institution whose functional significance is primarily to facilitate social and cultural change in respect to economic problems and processes.

In all the cases we have reviewed, the rotating credit association has been found associated with a lesser or greater penetration of an elaborated, and ultimately international, exchange economy into a primarily agrarian society. Such a penetration of commerce into a peasant society means that the society must, in the long run, change its whole form in such a way as to (1) set aside certain social contexts within which rational, economic calculation can legitimately be pursued; (2) distinguish these contexts from others within which it is morally reprehensible to so calculate; and (3) relate the two. This is essentially a process of social structural differentiation and reintegration. On the one hand, narrowly economic processes must be institutionally segregated from broadly social ones, and economic interests must be allowed to operate independently of non-economic constraints to a rather higher degree than formerly. On the other hand, these processes and interests must in some way be integrated with, or related to, the broader social framework--the more differentiated economic system must remain an integral part, a sub-system, of the total social system. This in turn implies that there must be a development of a "commercial ethic," a set of social values in terms of which the expectations and obligations within the economy itself can be stabilized and regulated, which ethic is, at the same time, but a "special case" of the general value system of the society as a whole, formulated with respect to economic functions.

In these terms, one can see the range of forms of the rotating credit association which have been reviewed, both in Modjokuto and in Asia and Africa generally, as representing, in an over-all way, a continuum ranging from more "traditionalistic" to more "rationally oriented" types. As one moves from the village arisan, the Japanese ko, or the Bulu example, toward the Indo-Chinese ho and the case Ardener reports for the Mba-Ise, or Little for Keta, one moves toward an increasingly formalistic, impersonal, specifically economic institution; a fact reflected in the declining importance of the ritualistic, solidarity-strengthening elements, in the increasing concern with the financial probity of members and leaders and the legal enforceability of obligations, and in the development of more complex patterns of organization and commercial calculation. The degree to which, in any given case, the rotating credit association is an institution with explicitly economic aims and modes of operation is an index of the degree to which commercial motivations, attitudes, and values have replaced diffusely social motivations, attitudes, and values as controlling elements in the members' behavior within economic contexts generally, the degree to which they have learned to discriminate between economic and "non-economic" problems and processes and to act differentially with respect to them.

The rotating credit association as an intermediate institution reflects, then, two contrary forces. There is a movement toward an increased segregation of economic activities from non-economic ones, a freeing of them from traditional constraints; while at the same time, there is a directly contradictory attempt to maintain the dominance of the traditional values over those developing economic activities, to defend the integrity of the less differentiated pattern. It is these contrary forces that the association is able, at least in many cases, to balance in such a way that severe disturbances of social equilibrium are avoided, even in a situation of fairly rapid social change. It permits, in the favorable

case, a coordinated pattern of change in which the extension of commercial behavior, the relaxation of traditional constraints in economic matters, and the development of a specific commercial ethic can go hand in hand, thus avoiding either a suffocation of new forms of economic activity by non-economic values, or an undermining of non-economic values by the sudden intrusion of morally unregulated market forces. The socialization process of the individual has been likened to a man climbing a ladder:

> As he reaches up with his hands to rungs not previously within his experience, he does not immediately let go of the lower rungs on which his feet have rested. The process is rather something like this: he reaches up to a new rung, grasps it tentatively, and only when he is rather sure of its location and solidity does he venture to pull himself up and let the lower foot finally leave the lowest rung on which he has been supporting himself... Essentially we are saying that such a process is not possible if the climber is in touch only with two adjacent rungs of the ladder; there must be at least three; otherwise the uncertainties inherent in securing his grip on the unfamiliar top one of the series will not allow him to let go of the bottom one; he must have a "middle" basis of security on which he feels he can rely.[37]

It is suggested here, then, that the rotating credit society is such a middle rung in the process of development from a largely agrarian peasant society to one in which trade plays an increasingly crucial role.

In the less developed cases--the village arisan, etc.--the hold of the traditional values remains strong, but commercial activities are "symbiotically" fitted into them in such a way that these values actually help support the new forms of behavior, rather than simply smothering them. The essential problem at this stage is that specific economic norms (and skills) have not yet been developed and fully internalized, with the result that there is a tendency for economic processes to be carried on, in large part, unrestrained by "human" considerations. The rotating credit association makes it possible to use customary patterns of cooperation, mutual help, and communal responsibility to regulate the emergent activities. The fact that the members of the association all have neighborhood, kinship, or other particularistic ties with one another acts to prevent fraud and evasion. The fact that the money is delivered immediately upon collection to the winner, so that no one has to be trusted to hold cash belonging to anyone else for any length of time reduces the likelihood of embezzlement. The feasting aspect softens the harshness of the economic calculation aspects and prevents them from undermining customary ties. The form thus combines an activity functional to a commercial economy--the concentration of monetized resources in larger units--with a maintenance of traditional moral values.

But this pattern is obviously limited in the scale and complexity of commercial activity which it can support. It is confined to small numbers and simple forms of organization. Thus, in the more developed cases, the traditional elements weaken and the stress comes to be placed on devising legal and economic mechanisms of normative regulation--contracts, record-keeping, professional managers, stable discriminations between debtor and creditor roles, bureaucratic

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37. T. Parsons and R. F. Bales, Family, Socialization, and Interaction Process (Glencoe, 1955), p. 377.

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37. T. Parsons and R. F. Bales, Family, Socialization, and Interaction Process (Glencoe, 1955), p. 377.

organization, and the like. The rotating credit association becomes more and more like a specifically economic institution, a "firm," with its own pattern of value integration. In this sense, the form is, perhaps, self-liquidating, being replaced ultimately by banks, cooperatives, and other economically more rational types of credit institutions. But these latter can only function when the differentiation of a specific economic pattern of norms has occurred--when courts will enforce contracts, when managers worry about their business reputations and keep honest books, and when investors feel safe in giving cash resources to debtors to whom they are not related. Cultural change of this sort takes place, however, in steps rather than all at once, and in the intermediary stages the association fulfills a valuable function in organizing traditional and rational economic attitudes in such a way that the process continues rather than stultifies or breaks down into anomie.

It seems likely, too, that the rotating credit association is merely one of a whole family of such intermediate "socializing" institutions which spring up in societies undergoing social and cultural change, not only in the economic, but in the political, religious, stratificatory, familial, and other aspects of the social system as well. The building of "middle rungs" between traditional society and more modern forms of social organization seems to be a characteristic activity of people caught up in the processes of social transformation. As a group, this family of institutions should be, consequently, of particular interest for students of social and cultural development, highlighting, as they do, some of the central tensions involved in such development and the sorts of mechanisms by means of which those tensions are resolved.

A ROTATING CREDIT ASSOCIATION IN THE DOMINICAN REPUBLIC

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A ROTATING CREDIT ASSOCIATION IN THE DOMINICAN REPUBLIC *

Douglass G. Norvell and James S. Wehrly **

In the Dominican Republic, there are two distinct systems of credit, each serving a social stratum. More affluent groups utilize commercial banks and personal savings, while low income groups turn to moneylenders and *San* which is a traditional Dominican rotating credit mobilizing institution. The purpose of this paper is to describe the origins, uses and practices of *San* and assess its place in the economic system of the Dominican Republic.

Origins of San

The term "rotating credit association," as used by Gertz, appears to be the most appropriate for the institution which is called *San* in the Dominican Republic. In a searching review of rotating credit associations, Ardener defines them as: *Associations formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation.* Although, Ardener's review found these associations in practice throughout most of Africa and Asia, she reported that occurrences in the new world were limited to Barbados, Guiana, Peru and Jamaica [1].

Recent developments suggest that this institution is much more widespread in the new world than Ardener envisioned. Crowley reports that similar institutions are called *esu* in the Bahamas and *susu* in Trinidad, and arrived more or less simultaneously with Chinese, East Indian and African immigrants.[1] Also, a true rotating credit association called *CONSORCIO* was originally used for buying tailored goods in Brazil and now finances the purchase of new cars [7, p. 71]. Another practice which appears to be related is the *savings box* of Guillermo, described by Lewis [4, p. 145]. Also as the following description will relate, the Dominican *San* fits Ardener's definition of a rotating credit association.

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* This paper originated in a study of the internal food marketing system of the Dominican Republic directed by Dr. John G. McNeely.

** The authors are Fellow and Associate Professors in Agricultural Economics at Texas ASM University.

[1] Daniel J. Crowley, correspondence of September 8, 1967.

Basic Patterns and Variations

Rules for *San* follow a basic pattern from which several variati- evolve. The practice first requires a specified number of participa.. (referred to as "players" in the subsequent discu-sion) and a leader : the group. Each player is assigned a number at random to be used selecting a winner and he agrees to contribute a specified amount c: money at regular intervals. The leader serves as an administrator : selecting winners, collecting the funds, and guaranteeing payment. .. return for his services, he usually extracts a toll which differs : amount according to the variation being played. At each drawin.. during the course of the *San*, the leader selects a number by a rando: non-repetitive process, and the player whose number is drawn becom- the "winner" which entitles him to receive contributions of the othe: players minus the leader's deduction. Once a player's number has bee: selected, he continues to contribute but cannot win again.

For purposes of illustration, it is convenient to assume that a *Sa*- group is composed of ten players and a leader who sets the amoun: to be received by the "winner" at $100. In turn, players agree · contribute $11 at each of ten weekly meetings. On the Monday of t: first week a number of 1 to 10 is assigned to each player. Each playe: gives $11 to the leader who then selects one of the numbers. T: player with the winning number receives $100. The remaining $10 : retained by the leader. The winning player's number is cast out, b: he continues to contribute until the 10 drawings have been held. Eac: Monday, the process will be repeated until the game has run its course Eventually everybody wins so the advantage of being the "winner" i: in acquiring funds early in the game. This form of *San* — even with the figures assumed above — is common, but by no means the on: variation.

San has a number of forms. The principal variable is the leader's time and manner of extracting his toll. The leader is not always apa: from the players and may participate on an unprivileged basis or reser: the first winning position. In another variation he may charge on: $10 per payment but require all the players to contribute an extr: payment to provide his remuneration.

Among the lower income groups, a ten per cent toll is often extracte: by the leader, presumably because of risk associated with guaranteein: payment. Among more affluent middle income groups, *San* may b: played on a less predatory basis with the leader participating only : an administrator and on an unprivileged basis. This variation reduc: the costs incurred by the players considerably.

The Costs of San

The costs of *San* do not readily conform to conventional credit analysis. However, a $100 *San* with ten players each contributing $11 in each of ten weekly drawings can provide insights when presented in tabular form (Table 1). In this form the costs and returns of playing *San* can be determined for any given player according to when he wins. To illustrate, the player who wins during the 4th drawing receives a net use of —11 dollar-weeks during the first weekly interval (when he has contributed $11 and received nothing). Proceeding along with the 4th row, we see that his net fund-use appears positive in the 4th weekly interval when he receives $100. From this $100 we subtract the total contributions of $44 to date to arrive at a net dollar-week use of $56 during the 4th week. Proceeding to the end of the 4th row and summing the net dollar-week gains and losses, we find that the player who wins

TABLE 1

Net Dollar-Week Use of Funds by Players and Leader of "San"[2]

Weekly Intervals During a 10 Drawing "San."

Drawing in Which a Player Wins	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Total*
1	89	78	67	56	45	34	23	12	1	405
2	—11	78	67	56	45	34	23	12	1	305
3	—11	—22	67	56	45	34	23	12	1	205
4	—11	—22	—33	56	45	34	23	12	1	105
5	—11	—22	—33	—44	45	34	23	12	1	5
6	—11	—22	[illegible]	[illegible]	—55	34	23	12	1	— 95
7	—11	—22	—33	—44	—55	—66	23	12	1	—195
8	—11	—22	—33	—44	[illegible]	66	—77	12	1	—295
9	—11	—22	—33	[illegible]	[illegible]	[illegible]	—77	—88	1	—395
10	—11	—22	—33	[illegible]	[illegible]	—66	—77	—88	—99	—495
Total	—10	—20	—30	—40	—50	—60	—70	—80	—90	—450

[2] A dollar-week is the use of one dollar for one week. The net figure is the total dollar-week use gained. This is calculated by subtracting the amount of funds contributed (on a dollar-week base) from the amount of funds received.

in the 4th drawing receives a total use of 105 dollar-weeks during the 9 weeks the game is in progress. Similarly, any given column, representing a week's interval in the *San*, can be summed to arrive at a net dollar-week use of funds by all of the players during that week.

The data in Table 1 show that the players winning in drawings 1 through 5 gain some use of funds during the 9 weeks duration of the game. Those who win in drawings 6 through 10 are sacrificing use of funds during the duration of the game in addition to paying a fee for participating in the game.

A player going into a game has an *ex ante* probability of 0.1 of winning in any given drawing of the *San*. His mathematical expectation, as he approaches the game, is the sum of the products of the drawing totals in Table 1 times the probabilities of winning. For the example in Table 1 the mathematical expectation of fund-use during the duration of the game is —45 dollar-weeks. Those who actually win in drawings 1 through 5 realize positive net dollar-week use of funds. For this fund use they are paying equivalent interest rates of 2.5%, 3.3%, 4.9%, 9.5% and 200% per week, respectively. On an annual basis, the winners in drawings 1 through 4 are paying the equivalents of interest rates of approximately 130%, 172%, 255% and 494% per annum, respectively.

The gain of the leader is represented by the summation of all the columns or rows, which is also the sum of net losses of players in each of the 10 weeks. Proceeding along this row we see that the *San* leader receives a net use of 10 dollar-weeks during the 1st week and receives an increasing amount each week until the game ends when his accumulated gain is 450 dollar-weeks' use of funds plus a one hundred dollar profit. This conclusion assumes that his reimbursement is not due until the game is completed.

The players' costs and leader's gain for other variations of *San* may be calculated similarly. In the case of the leader's reserving the first drawing's payoff for himself, his total use of funds during the game is 855 dollar-weeks. Each player's mathematical expectation of fund-use is —85 dollar-weeks.

For the variation in which the leader collects $10 per player at each drawing and then extends the number of payments to include one extra, he receives no "use" of player's funds during the game when each player pays $100. However, in the extended week after the last drawing when each player pays $10 to the leader for his services, the leader will gain $100. The players who win during the first 5 drawings receive the use of from 50 to 450 dollar-weeks during the game. This gain in fund-use is exactly matched by the negative fund-use of the players who receive their payoffs during the last 5 drawings.

Uses of San in the Dominican Republic

In spite of the built-in propensity for players to lose, *San* is extensively used in the Dominican Republic to mobilize credit, fractionalize risk and circumvent moneylenders. Two surveys in Santiago, the second largest city of the country, revealed that 7% of the spending units were actively playing *San*, and many of the sellers in the public markets used this credit apparatus to obtain working capital.[3]

San was utilized predominantly among low income groups. A survey of spending units showed that 44% of the spending units above the median income of $100 a month (R.D.), were saving and of these "savers" only 10% used *San*. However, of the below median income group 19% were "savers," and 71% of the "savers" were utilizing *San*.

Reasons for saving or playing *San* vary according to the income group. Low income groups use *San* to finance large consumer durable purchases, or to finance weddings and other festivities. Middle income groups use *San* for similar ventures and even to finance an occasional shopping trip to Puerto Rico. Although high income groups have less pressing needs to mobilize capital, they occasionally participate in a *San* to help a less affluent friend or relative complete a set of participants needed according to the rules of the game.

San in the Market Places

San is used by sellers in the market places of Santiago because of economic and social barriers keeping them from conventional avenues of credit. The lower classes appear in the mainstream of economic life principally as a resource of labor or as consumers. Workers and small entrepreneurial enclaves, such as shopkeepers or petty speculators, have neither the economic nor the social power (the two are often synonymous in the Dominican Republic) to gain access to commercial banks and play *San* among themselves. In one group, that of the market entrepreneurs, the social and economic advantages of *San* are evidenced by its intensive use.

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[3] Conclusions relative to spending units were drawn from a random sample of 178 units in Santiago, D. R. Statements about sellers in the public markets are based upon an exhaustive survey in the two public markets, *Mercado Hospedaje* and *Mercado Modelo*. However, this is again observed by Marshall who points to the extremely high interest rates charged by moneylenders whose clients had to pay 10% per day (or 3650% couched in annual terms). In both cases, of course, the interest rate does not accurately reflect the returns on capital, but is instead mostly returns to management [5, p. 589].

San is the preferred means of acquiring working capital for selle in the two public markets of Santiago. An exhaustive survey of vendo showed that 55% financed their operations internally with accumul funds, 18% were playing *Sans* ranging in size from $20 to $2000, 13 bought on credit, 12% dealt with moneylenders, and the other 2% u interest-free loans or gifts.

Social Aspects of San in the Market Places

None of the market sellers interviewed were utilizing the com mercial banks for credit. Dominican bankers probably view these selle as temporal, entering and leaving the trade on a casual basis. is doubtful that many commercial bankers are knowledgeable as to th intricate social intrastructure of the markets.[4] Within this framewor market sellers are probably placed in a high risk category by banke and excluded from consideration as potential customers. These bia are by no means peculiar to the private sector. Like commercial bank the agricultural credit branch of the Dominican government, th *Banco Agricola,* is similarly unresponsive and does not extend credits market sellers [6].

Although neither commercial nor government credit institutio serve sellers in the public markets, some of the lack of rapport m be attributed to the sellers who are generally reluctant to make active effort to seek new sources of credit. The marketer probably view both commercial banks as remote and hostile, and operated for th benefit and convenience of those having social or political pow Banks are somewhat foreboding institutions because they are mode often air-conditioned, and many have foreign names. A trip to commercial bank by a market seller would involve propelling one's s into a situation where both manner and speech may be inappropria mechanisms complicated and the reception cool. In the case of t government banks, there are suspicions and fears of governme institutions dating to the Trujillo regime that may make market sel reluctant to seek credit from this source. The remaining source finance, the moneylenders, who charge extremely high rates of inter varying from 50 to 1,000 per cent per annum are possibly viewed as harsh alternative by vendors in the market, adding to the attractiven of *San.*

[4] In the sample of 172 Dominican families, husbands purchased f only 6.3% of the time. Also, Oscar Lewis [4, p. 2] states that "In man the underdeveloped countries the educated native elite generally have l first-hand knowledge of the culture of their own poor; the hierarch nature of their society inhibits communication across class lines."

Often, the participants of a *San* game are members of family, friend or worker groups, who are accessible both geographically and socially. The fee paid for the use of the money is subtle, and there is the feeling that this tax will remain within the groups instead of being spirited away to other coffers. Also, players may take turns being the leader, which puts *San* into the realm of a genuine cooperative venture. These socio-economic entities are buttressed by psychological factors that render *San* even more acceptable to the market vendors and lower income Dominicans.

Psychological Factors Influencing the Popularity of San

Psychological influences that favor *San* may be associated with motives of submission, dominance and status. In a personal interview with Mr. Orestes Martinez, a Dominican psychologist, the following tentative conclusions were offered to explain the popularity of *San*.

San may be played toward different ends, each satisfying a particular need. In some instances, *San* may have an affiliation end as a primary goal with the acquisition of funds of secondary importance. In other instances, *San* may have acquisition of funds as the primary goal with the actual playing representing a means. The existence of one goal does not preclude the other, and in all likelihood the two are complementary. However, for descriptive purposes, the two may be considered separately.

With an affiliation end as a primary goal, *San* is based upon authoritarian personality relationships and curiosity motivations as described by Krech, *et al.* [3]. The leader of a *San* may be a person exhibiting authoritarian personality characteristics by leading (and sometimes exploiting) the group as he collects and keeps funds and selects winners. In turn, players may seek to be dominated and gain acceptance in and identity with a group. A curiosity motivation, or quest for adventure, probably adds to popularity of *San*. This cultural characteristic is assumed to be common among Dominicans and partly responsible for mass participation in the national lottery. As in the lottery, anxiety and heightened stimulation emanating from the drawings may add to the satisfaction of playing *San*. All of the sources of satisfaction — identity, acceptance and stimulation — in concert may compensate for the money sacrificed and explain the behavior of an individual who perceives *San* as a means of attaining affiliation.

As a secondary or facilitating goal, *San* may be played to obtain credit easily or to mobilize credit with a group. In this case, it assumes economic rationale based on the lack of other sources of credit. What is true for market sellers may be true for the majority of low income

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Dominicans. Bankers and banks may be inaccessible, distrusted, a certainly are more complicated than *San*. The *San* leader is accessib geographically and socially. He is probably of the same station — " not family group — as the player and has a similar set of values a attitudinal patterns. He requires no security other than one's word which would undoubtedly be insufficient as collateral for a loan at commercial bank. Moneylenders may offer the same ease of transactio but *San* offers the advantage of keeping funds within a group. All of these factors combined lend *San* an economic as well as psychologic rationale and explain its use as a capital mobilizing institution.

Conclusions

San exists as a savings institution or capital mobilizing apparat in the Dominican Republic because it satisfies economic, social an psychological needs. While the costs of *San* appear high when compare directly to American credit charges, they do not appear so exorbita when compared to the costs of funds from Dominican moneylende Some of the costs may rightfully be charged to non-monetary aspec of *San* because the institution provides social and psychologi satisfactions within the Dominican environment. If the prese economic and social structure in the Dominican Republic persists, *Sa* will likely survive as a traditional institution. Given a modicum economic development, it is entirely possible that a more integrat society could emerge. If this should occur, the cooperative ventur aspects of *San* could provide a basis for the establishment of mor sophisticated commercial credit organizations patterned after savin and loan companies. In this manner, development planners could bui upon and modify, rather than replace, an existing institution, whic may well be one of the keys to economic development.

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VI. COMMENTS AND REPLY

ROTATING CREDIT ASSOCIATIONS IN LATIN AMERICA *

Douglass G. Norvell and James S. Wehrly point out in the April, 1969 issue of this journal that rotating credit associations of the type reported by Bascom for western Nigeria in 1952 and analyzed comparatively by Geertz in 1962 and by Ardener in 1964 are found much more widely in Latin America than has heretofore been suggested.[1] In addition to analyzing a form of rotating credit called *San* in the Dominican Republic, Norvell and Wehrly report that whereas Jamaica, Barbados, Guyana, and Peru are the only places in Latin America where rotating credit associations are reported by Ardener, there is evidence that they are also found in the Bahamas, Trinidad, the Dominican Republic, and Brazil.[2]

The purpose of this note is to report additional evidence on the existence of similar organizations in Guatemala and to suggest that there is an additional economic rationale for the existence of rotating credit associations such as *San* to that mentioned by Norvell and Wehrly in their article.

Rotating Credit Associations in Guatemala

Manning Nash, in discussion of the Guatemalan community of Cantel, reports that factory workers there have organized a credit association by which there is a fixed payment by each member once a week and a weekly lottery to award the sum collected, with a limit to the number of times one person can win.[3] Nash does not provide more detail, but he does go on to

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* Comments on an article — "A Rotating Credit Association in the Dominican Republic" published in *Caribbean Studies* 9, no. 1 (April, 1969): 45-52.

1 William R. Bascom, "The Esusu: A Credit Institution of the Yoruba," *Journal of the Royal Anthropological Institute* 82 (1952): 63-69; C. Geertz, "The Rotating Credit Association: a 'Middle Rung' in Development," *Economic Development and Cultural Change* 1, no 3 (1962); and Shirley Ardener, "The Comparative Study of Rotating Credit Associations," *Journal of the Royal Anthropological Institute* 94 (1964): 201-228.

2 Douglass G. Norvell and James S. Wehrly, "A Rotating Credit Association in the Dominican Republic," *Caribbean Studies* 9, no. 1 (April, 1969): 45-52. Norvell and Wehrly cite correspondence with Daniel J. Crowley in 1967 on the existence of rotating credition associations in Trinidad. There is a much earlier reference, however, by Melville and Francis Herskovits in their study of Trinidad published in 1947. See Melville J. and Francis S. Herskovits, *Trinidad Village* (New York: Alfred A. Knopf, 1947), pp. 76-77.

3 Manning Nash, "Capital, Saving and Credit in a Guatemalan and a Mexican Indian Peasant Society," in Raymond Firth and B. S. Yamey (eds.), *Capital, Saving and Credit in Peasant Societies* (Chicago, 1964), p. 293.

say that the way these associations operate they turn out to be "virtually a forced saving device,"[4] which, indeed, are all rotating credit associations to some degree, a point which Norvell and Wehrly seem to miss.

Norvell and Wehrly's Analysis of San

In analyzing how *San* works Norvell and Wehrly emphasize the fact that the implicit interest involved with capital raised by rotating credit associations in the Dominican Republic may be less than the explicit interest participants would have had to pay had they instead chosen to borrow from moneylenders.[5]

This may be an important reason for belonging to these organizations, but my interviews of African participants in rotating credit associations suggest that Africans also see such arrangements as a means of forcing themselves to save more than they would otherwise, and I suspect the same is true in the Dominican Republic.

Let us take the hypothetical example Norvell and Wehrly give in which 10 members contribute $11 per week until each one of them has received the "pot" as it would be called in poker parlance. If the leader of the association gets nothing, as in some types of rotating credit associations, nine of the participants — all but the last to receive the pot — are better off than if they had individually saved, inasmuch as they get their money sooner, and the last is in the same position as if he had put aside $11 in a bank each week for ten weeks and then withdrew it. But without the discipline of group participation many individuals would not have managed to actually set aside the specified sum each week, and my impression is that this is often recognized by participants in Africa, at least. Thus rotating credit associations may well have some of the same appeal as Christmas clubs in the United States rather than being merely an alternative to the moneylender.

If the leader charges something for his service — as is apparently usually the case among lower income groups in the Dominican Republic — then the advantage the first nine (or n-1) players gain in having what they could have saved but having it from one to nine weeks sooner must be balanced against the administrative costs levied by the leader. However, even the last player to receive the pot, although he gets the sum no sooner than by saving in a solitary fashion, may feel that he still gains after the leader is paid because of the saving discipline participating in the association forces on him. Thus, Norvell and Wehrly are at best misleading in speaking of the "built-in propensity for players to lose."[6]

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4 Ibid.
5 Norvell and Wehrly, "A Rotating Credit Association," pp. 49,,52.
6 Ibid., p. 49.

A REPLY

Professor Miracle has performed a useful service in pointing out that institutions similar to *San*, as described in our article, are more widely used than our literature review disclosed. His reference to the forced saving aspect as "...a point which Norvell and Wehrly seem to miss..." is something of an overstatement. In a number of places we refer to *San* as a means to mobilize capital and in one section discuss the authoritarian relationship as one of the motives for participating in *San*. However, Miracle is correct in raising the issue that our vague, implicit reference to forced savings does not adequately reflect its importance as a motivational force for *San*.

Our use of the wording, "...built-in propensity for players to lose..." on page 49 was intended to refer to the monetary aspects in the preceeding discussion only. The entire article beyond this point is almost entirely devoted to a discussion of reasons, both monetary and non-monetary, why *San* is widely used despite its high monetary cost as measured by conventional credit analysis. Again, we concede that we did not specifically mention this point.

Miracle postulates that all of the participants, except the last to receive the pot, in a game in which the leader receives no fee, are better off than if they had individually saved. Presumably, a high proportion of all players in all games at least believe they are "better off" because of having participated in the game. Without this belief the institution could not persist. To apply this conclusion to the purely monetary economic aspects of the game requires some qualifications.

Any analysis of an under-developed economy, in the terminology and framework of a highly developed economy, involves the use of aids commonly referred to as "heroic assumptions." It is difficult to ascertain whether Miracle's position or our position involves the greater heroism. Our analysis implicitly assumes that there is a time preference for consumption and/or productivity of capital. Miracle's analysis implicitly assumes there is none. Applying our type of analysis to the "zero-sum" game suggested by Miracle, each player winning during drawings one through five receives fund-use of from 495 to 55 dollar-weeks, respectively. Their gain in fund-use is exactly matched by the loss of fund-use of the other five players. Since it is a zero-sum game, any monetary gains to any participants can come only at the expense of other participants.

To assert that the last player is "...in the same position as if he had put aside $11 in a bank each week for ten weeks and then withdrew it..." is entirely correct if one assumes a non-interest account. To imply that he sustains no loss in the game assumes that this individual's best use for these funds was to accumulate them for a lump sum expenditure, and that he had no profitable use for the funds during the accumulation process. The possible existence of a time preference is a point which Miracle seems to miss.

It would be foolish to argue that many individuals in many types of societies do not perceive the best use for part of their funds to be a lump

sum expenditure. It would be equally foolish to argue that there was no time preference for consumption, particularly in the low income societies in which the rotating credit associations are popular. Hence, the forced saving aspect of rotating credit associations, or of Christmas clubs, is a highly important factor — so important that the Christmas club saver is willing to forego the modest amounts of interest his "Christmas money" might earn in a passbook account for the real or imagined disciplinary assistance, and the *San* player is willing to pay a substantial fee to someone to exercise authority over him. The Christmas club saver receives the additional "satisfaction" of succumbing to the bank's promotional campaign, while the participant in *San* receives social and psychological benefits as an additional bonus.

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THE INFLUENCE OF "KE" SOCIETIES UPON RI-DONG AGRICULTURAL COOPERATIVE ASSOCIATION

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1969

Prepared for the Economic Planning Board, Republic of Korea, and USAID

PREFACE

It was 1963 when the author first took an interest in this theme. Looking at the farmers' two organizations, Ke and Ri-dong Agricultural Cooperative Associations from the viewpoint of rural modernization, it was intended to find out various relationships between the two, such as competing, compensating and affecting each other. It was further intended to seek a way of establishing a more rational organization of rural credit.

In the implementation of this survey, the author did not take the speculative method but carried out an actual field survey in a cross section of rural society in order to obtain first-hand information. The survey was restricted to the Province of Chungchong-Pukto where the author lived. The first survey was made in 1964, and the result was partly announced at a meeting of the Korean Agricultural Economic Association. This report was published in Vol. 8 of the Journal of Agricultural Economics, 1966.

A Trust Fund grant was made jointly by the USAID and the Economic Planning Board of Korea for this study in 1967. A more thorough study was carried out from 1967 through 1968.

In the process of this study, along with the above mentioned field survey, literature surveys were also made. When investigating the institutional structures of Ke and Ri-dong Coops, it was necessary to know the historical realities of rural society. Thus a survey on the general rural society was also made. This paper deals with the social structure of rural society along with the origin, types and functions of Ke. In the comparison between Ke and Ri-dong Coops, comparison of the efficiencies of the two organizations and the inter-relations of the two organizations were studied in detail. To help assess their mutual influences, the rise and fall of the two were examined and discussed. This paper concludes with suggestions for establishing a rational credit organization in Korean rural society.

Since the author's knowledge and abilities are

insufficient, this paper may include many defects. Suggestions for its improvement are invited.

The author expresses his deep appreciation to Prof. Cho, Ji Hun and Prof. Cha, Kyun Doh for their assistance, and especially to Mr. Kenneth B. Platt, Agricultural Economics Advisor, USAID, for his instructive advice and devoted assistance. The author also expresses his gratitude to Dr. Azuma, Tosaku, Tokyo Agricultural College, for his encouragement. He wishes to extend his thanks to those students of Chung-puk College who participated the field survey and to Mr. Kang, Sin Woo, M.S.; Mr. Ahn, In Chan, B.S.; Mr. Kim, Tong Kwon, B.S.; and Mr. Lee, Seok Wu for their help in handling the statistical data and preparing the manuscript.

Kang, Chang Kyu

Chung-Puk College
March 1969

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SUMMARY OF MAJOR FINDINGS

This book presents the findings of survey of the influence of rural "Ke" societies upon Ri-dong Agricultural Cooperative Associations of 75 sample Ri-dongs in Chungchong-Pukdo, 1967-68.

The present dual system of farmers' organizations, Ri-dong Coops and rural Ke, is hindering the development of farmers' individual economy as well as that of the national economy. Therefore, a simplified and unified rational organization of farmers is required, and the method of such unification must be determined. In order to explore such a rational organization of farmers, the existing farmers' both the old and the new organizations - Ke and Ri-dong Coops - were investigated and compared. The area of survey was within Chung-Puk Province, and the scale of samples was 75 Ri-dongs (152 villages). The number of Ke in 75 Ri-dongs was 669. The number of Ri-dong Coops was 75 because the author took only the single Coops, excluding those Coops which have been combined together. The Ke were classified into 5 kinds: Public welfare Ke, mutual aid Ke, friendship Ke, industrial Ke and money making Ke, according to their function. Collected data were analysed with respect to these kinds of Ke.

1. <u>The major findings from the survey of Ke are as follows:</u>

(1) While the city Ke are short termed as 1-2 years, most rural Ke are long termed, extending more than ten years; 452 Ke or 53% of the total 669 Ke last more than 10 years.

(2) Among the five kinds of rural Ke, the mutual aid Ke which is aimed at mutual aid for the occasions of funerals, marriages, birthdays, ancestor worship, etc., is largest in numbers, amounting to 372 or 56% of the total 669 Ke.

(3) The number of monthly Ke or money making Ke which require monthly assessment was relatively small in the rural society because of the seasonal characteristics of

farmers' income; it was only 51, or 8% of the total 669 Ke.

(4) The total number of members who joined 669 Ke is 21,911.

(5) Ke membership consists mostly of men: Only 3,586 members, or 16% of the total 21,911 members of 669 Ke, were women.

(6) The number of Ke which have 10-20 members is the largest, being 262, or 40% of the total.

(7) The number of Ke to which all households in the village or Ri-dong belong is 199, or 30% of the total.

(8) Ke are predominant in rural society; there are 9 Ke in every Ri-dong, and the average of members per Ke is 33.

(9) The function of most Ke is based upon the practice of usury of the Ke fund which has been formed by the contributions of members. The debtors to this usury are usually the members of the Ke; 337 Ke or 51.4% of 669 Ke loaned their funds to the members and 101 Ke or 15.1% of the total loaned their funds to both the members and others.

(10) Loans out of Ke funds are usually made in the form of "Jang-Ri", which is a type of grain usury, loaning grain during the time of spring poverty and collecting the principal with 50% interest at the time of harvest (50% per 6 months). A similar rate of interest is employed in the case of cash loans.

(11) Most members of Ke use the grain (or money) obtained from the Ke to hold ceremonies such as marriages, funerals, birthdays, ancestor worship, etc. (non-productive purposes); out of 908 members who received grain (money) from their Ke, 425 members or 47% of the total consumed it for such ceremonies, and only 59 members or 7% of the total used it for preparation of their estates.

(12) At the time of joining the Ke, a contribution of 10 liters of white rice is usually collected, but at the

time of withdrawal, no refund is usually made.

(13) With respect to the environmental conditions, Ke are most popular in the area of market Ri-dongs and least popular in the area of special crops Ri-dongs: The average number of Ke per Ri-dong is 9 in general Ri-dongs, 8 in special crops Ri-dongs and 10 in market Ri-dongs.

(14) With respect to the income level, Ke are most well developed in the area of low income Ri-dongs and least developed in high income Ri-dongs. The average number of Ke per Ri-dong is 7 in high income Ri-dongs, 9 in medium income Ri-dongs and 11 in low income Ri-dongs.

(15) With respect to type of villages, Ke are most thriving in the big competing families villages (Ri-dongs), and inferior in number in the big family villages (Ri-dongs). The average number of Ke per Ri-dong is 8.4 in the big family villages, 9.5 in the big competing families village, and 8.6 in the various families villages.

(16) The total value of property (estates and real estate) owned by 669 Ke was 44,045,600 won. The average value per Ri-dong was 587,275 won, that per Ke was 65,838 won, and that per member was 2,010 won.

2. Major findings from the survey of Ri-dong Coops.

(1) The main objectives of joining the Coops are procurement and credit: 904 persons or 59% of the total 1,371 persons interviewed said that they joined the Coops because of procurement; 299 persons or 19% of the total persons interviewed answered that they joined the Coops because of credit.

(2) The gross total value of property owned by 75 Ri-dong Coops (including the positive and negative property) was 10,169,800 won. The average value of property per Ri-dong Coop was 135,597 won, and that per member was 1,114 won.

(3) The value of net property owned by 75 Ri-dong Coops was 8,345,300 won. The average value of the net property per Coops was 111,271 won, and that per member was 915 won.

(4) The value of net investment made by the members was 5,325,800 won in total, 71,011 won average per Ri-dong Coop, and 584 won average per member.

(5) More than 80% of the business carried out by each Ri-dong Coop was the various programs of the government.

(6) The attitude of the members toward the Coops is not very bad; out of 1,371 persons interviewed, 505 persons or 36% said the Coops are good, and those who gave the answer "so-so" were 651 persons or 48% of the total.

(7) Among 112 persons who disliked the Coops, 38 persons or 34% gave the reason of poor management of the Coops, and 36 persons or 32% gave the reason of governmental interference.

(8) Members of Ri-dong Coops prefer electing instead of appointing their Chief of the Coop: 1,050 persons or 77% of 1,371 persons interviewed preferred election.

(9) Most members approved concurrent position of the chief of Ri-dong and the chief of the Coop: 659 persons or 48% of 1371 persons interviewed preferred concurrent position and 597 persons or 44% preferred the separation of the positions.

3. Major Findings from The Relation Between Ke and Ri-dong Coops.

(1) In the places where Ke prosper, Ri-dong Coops decline, and vice versa.

(2) In market Ri-dongs where Ke are most prosperous, Ri-dong Coops are the poorest. The average value of net property of Ri-dong Coops per member was 929 won for general Ri-dongs, 952 won for special crops Ri-dongs, and 869 won for market Ri-dongs. The tendency is similar in the case of their investments in Coops: The average amount of investment per member was 585 won for general Ri-dongs, 615 won for special crops Ri-dongs, and 554 won for market Ri-dongs.

(3) With respect to the income level, among the low

income Ri-dongs where Ke thrive, Ri-dong Coops are in poorer conditions: The value of net property of Ri-dong Coops per member was 784 won for high income Ri-dongs, 993 won for medium income Ri-dongs and 927 won for low income Ri-dongs. The average amount of investment in the Coops per member was 499 won for high income Ri-dongs, 645 won for medium income Ri-dongs, and 576 won for low income Ri-dongs.

(4) With respect to the family pattern of villages, in the big competing families Ri-dongs, where Ke thrive, Coops are in poorer condition. The average value of net property of Ri-dong Coops per member was 1,027 won for the big family Ri-dongs, 949 won for the various families Ri-dongs, and 874 won for the big competing families Ri-dongs. The average amount of investment in the Coops per member was 705 won for the big family Ri-dongs, 606 won for the various families Ri-dongs, and 521 won for the big competing families Ri-dongs.

(5) In special crops Ri-dongs, medium income Ri-dongs and big family Ri-dongs, where Ke are the poorest, Ri-dong Coops are most prosperous.

(6) Another important fact is that in high income Ri-dongs neither Ke nor Ri-dong Coops prosper.

(7) Majority of farmers (99%) never failed to pay their contributions to Ke, but many of them failed to pay the investment to Ri-dong Coops (only 55% of them dutifully paid their shares).

(8) Comparing the property of Ke and that of Ri-dong Coops, the average net value of property per Ri-dong Coop was 111,270 won, while the average value of property of Ke per Ri-dong was 587,275 won; the former is less than one-fifth of the latter. The average net property per member was 915 won for Ri-dong Coops, while that for Ke was 2,010 won; the former is only about one-half of the latter.

(9) The average amount of Coop investment per Ri-dong was 71,011 won and for the Ke 587,275 won; the former is less than one-eighth of the latter, the average amount of investment per member was 584 won for the Coops and 2,010 won

for the Ke: the former being about one-fourth of the latter.

(10) Very little Ke property is invested in the Ri-dong Coops yet.

(11) The reasons for less investment in Ri-dong Coops than in Ke were as follows: i) Firm attachment of farmers to the Ke, ii) awkwardness of Ri-dong Coops, iii) lack of farmers' resources caused by either contribution to Ke or exploitation by the usury of Ke, and iv) lack of economic reasoning of farmers, etc.

(12) Since a larger quantity of the farmers' resources were invested in Ke, farmers put more importance upon Ke than on Ri-dong Coops, which resulted in the tendency to neglect the Coops.

(13) In the places where Ri-dong Coops are prosperous, people put importance upon the business of Ri-dong Coops; thus the propagation of Ke funds which is the material basis of the Ke becomes depressed, causing the decline of the Ke. Decreasing the propagation of Ke funds and the economic reasoning of the members may cause a gradual decline of the Ke.

(14) When Ke and Ri-dong Coops are doing the identical business, there are 570 persons or 42% of 1,371 person interviewed who would choose the Coops rather than Ke, and 516 persons (or 38%) who would choose Ke.

Chapter I. INTRODUCTION

The amount of funds available for savings in Korean farm communities is very small and susceptible to seasonal change at present. The existence of two savings and loan systems in the rural area - the Ri-dong Agricultural Cooperative Associations and the traditional system of Ke societies 1/ - therefore promotes a tendency toward very small individual deposits. At the same time it promotes high interest rates, in the Ke societies generally 84% per year for cash and 50% per 6 months for loans in kind, by intensifying the scarcity of loan funds available at any one source.

The rural Ke are managed in accordance with traditional methods. They have neither book-keeping systems nor any written articles of association. Most rural people are associated with more than one Ke. However, the actual status of unreasonable management of Korean rural Ke, or any schemes for their improvement, have not been put forward.

Although rural Ke have various objectives, most of the objectives are non-productive in economic terms (for example, marriage, funeral, etc.). Some kinds of Ke have such conservative traditions that their assets are often hoarded without sufficient utilization. The possibilities of rationalizing rural savings organizations for better efficiency of rural credit should be more thoroughly examined, but concrete and scientific research on this subject has not been previously conducted. The funds of rural Ke might be converted to more productive uses by joining the Ke to Ri-dong Agricultural Cooperative Associations, which are more reasonably managed and modern organizations.

It is very important, therefore, to study the influence of Ke upon Ri-dong Cooperative Associations, and to explore possible ways of unifying these two credit systems into one, with the aim of simplifying farmers' organization, regulation of credit organizations, efficient management and use of funds saved, and supplying low interest funds.

1/ A much diversified system of mutual benefit groups, usually voluntary and loosely organized.

Objectives of Research

With the overall objective of modernizing Korean rural savings and loan practices, the basic conditions which might bring lower interest rates and more efficient management of rural savings were investigated to find the following information:

(1) Present status of various rural Ke according to their kinds and social environment;

(2) Efficiencies of Ke;

(3) Comparison between the efficiencies of Ke and those of Ri-dong Cooperative Associations;

(4) The amount of idle funds in Ke savings;

(5) Possible ways of improving the efficiency of the use of rural savings; and

(6) The influence of Ke upon deposits of rural savings with Ri-dong Cooperative Associations.

Thus, obtaining scientific data which might enable the unification and modernization of Korean rural credit systems was the broad objective of this research.

In order to achieve the above specific objectives, the following items were studied:

(1) Origin, kind, organization and management of existing rural Ke;

(2) Relationships between the kind of Ke and existing social environment;

(3) Status of funds in possession of the Ke;

(4) Efficiencies of Ke and those of Ri-dong Cooperative Associations, and their comparison;

(5) The amount of assets of Ke and how they are used;

(6) The opinions of Ke members and of members of Ri-dong Cooperative Associations about Ke and Ri-dong Cooperatives, especially about their merits and shortcomings.

Investigated area and Scope of Work

At the beginning of planning this project all of Korea was considered. However, the following reasons made the author conclude that the scope of the survey area should be reduced:

(1) Limited funds and time;

(2) Although there had been some studies of Ke, most of them were static and speculative. As to practical research, especially comparing the traditional Ke with the farmers' modern organization, Ri-dong Cooperative Associations, this would be the very first attempt, therefore a more detailed examination was desirable; and

(3) The basic data in this field are earnestly and urgently required, so that a large and long study could not be completed soon enough.

Thus, only Chungchong-pukto Province, where the author lives, was selected for this survey.

Selection of Survey Samples.

In order to reveal the actual status of Ke as now operating in rural areas, especially the fluctuations in growth and decline of Ke and the influence of Ke and Ri-dong Cooperative Associations upon one another, this survey was planned with respect to the income level, social environment, and characteristics of farm management in each area. The survey samples were selected in the following manner:

(1) Among 10 Guns in Chungchong-pukto, the following 3 Guns were intentionally selected according their income level.

Chongwon Gun ----- as a high income Gun
Jungwon Gun ----- as a medium income Gun
Tanyang Gun ----- as a low income Gun

(2) The 665 total Ri-dongs within the above 3 Guns were classified into three categories: Market Ri-dong, Special Crops Ri-dong and General Ri-dong.

They were further classified according to their income levels as high, medium and low, based on data obtained from the General Affairs Section, Chung-puk Provincial Government.

(3) Total number of sample Ri-dongs included in this survey was 75.

(4) The above 75 Ri-dongs consisted of 25 Special Crops Ri-dongs, 25 General Ri-dongs, and 25 Market Ri-dongs. Proportional allotment based on total numbers of Ri-dongs existing was made in selecting sample Ri-dongs from the above 3 Guns. Thus the numbers of sample Ri-dongs selected were as follows:

a) Chongwon Gun ----- 49
b) Jungwon Gun ----- 17
c) Tanyang Gun ----- 9

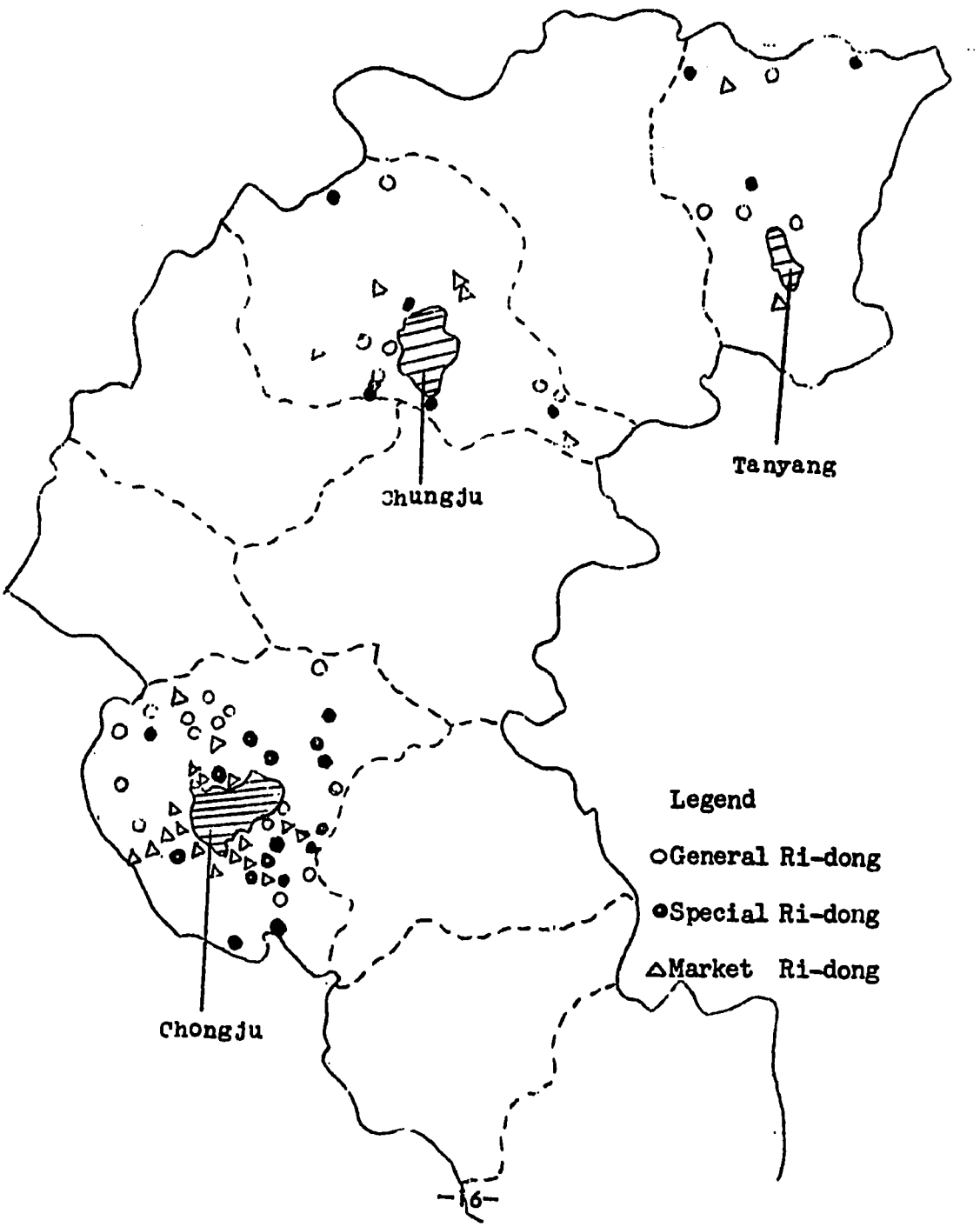
Total 75 Ri-dongs

Distribution of sample Ri-dongs in the Survey area is shown in Table 1-1 and the following Dong outline map of Chung-puk Province.

Table 1-1 Distribution of sample Ri-dong in the survey area

Gun	Income class	Choung-won	Jung-won	Tan-yang	Total
Special crops Ri-dong	High	4	1	1	6
	Medium	8	3	1	12
	Low	4	2	1	7
	Total	16	6	3	25
General Ri-dong	High	4	1	0	5
	Medium	8	3	3	14
	Low	3	2	1	6
	Total	15	6	4	25
Market Ri-dong	High	3	2	1	6
	Medium	7	1	1	9
	Low	8	2	0	10
	Total	18	5	2	25
Total		49	17	9	75

Distribution map of sample Ri-dongs in Chung-Puk Province



(5) As to the Ri-dong Cooperative Associations to be compared with Ke, only single associations were selected, in order to see the prosperity and decline of them, excluding the joint associations which had been artificially combined.

(6) Therefore, for the selection of the above 75 Ri-dongs, both methods of (i) random selection from each stratum and (ii) intentional selection of single cooperative associations, were employed.

Especially, for the method of sampling and the scope of samples, advice was received from Prof. Ban, Sung Hwan and Prof. Park, Hong Rai of Seoul National University, College of Agriculture, Suwon, and from Agricultural Economic Advisor, USAID, Mr. Kenneth B. Platt, Suwon.

Characteristics and Classification of Ke in Korean Rural Society.

When we observe Ke in Korean Society, we see that so-called city Ke predominate in cities, while so-called rural Ke are prevalent in rural areas. Both kinds of Ke are characterized by high interest rates. However, the city Ke are short-termed (12 - 24 months) but rural Ke are long-termed.

Although there are certain short-termed Ke which resembles so-called city Ke, they are practiced in the suburbs because of frequent (monthly) payment of contributions. Due to the seasonal income on farms, most common farmers can not make monthly payments. Thus, rural Ke are characterized by long terms. Such long-termed rural Ke are multifarious and prevalent all over the rural area.

For purposes of this survey, these various rural Ke were classified into the following five kinds in accordance with the objectives of each Ke.

(1) Public welfare Ke: All the heads of families in the village are members of this type of Ke. The works of these Ke are public projects such as repairing roads and bridges, planting trees and protecting forests, etc. This type of Ke also provide some facilities for marriages and/or

funerals in the village. Equal assessments of grains or money are collected from each member of Ke for the fund, and out of interest earned by this fund the public projects are carried out.
Examples: Dong Ke, Daidong Ke, Sodong Ke, Pine Ke, etc.

(2) Mutual aid Ke: This kind of Ke are organized by voluntary members with the purpose of mutual aid at the time of marriages or funerals. The number of members is not so big, usually 10 to 15 members. Collection of funds and their management are similar to the case of the public welfare Ke.
Examples: Marriage and funeral Ke, Filial duty Ke, Festival Ke, etc.

(3) Friendship Ke: Purposes of this Ke are for promoting friendship among the members and also for mutual aid in certain cases. The objectives of this Ke are carried out in some cases with the interest earned by the Ke funds, and in other cases with the grain or money collected from the members as a special assessment.
Examples: Friendship Ke, Same age Ke, Picnic Ke, Flower viewing Ke, etc.

(4) Industry Ke: Certain productive industries which suit the condition of location and natural resources in the area are planned and jointly managed by voluntary or interested members of this type of Ke. Most Ke of this type are managed with the firm funds already invested.
Examples: Irrigation Ke, Farm stabilization (reclamation) Ke, Lime Ke, etc.

(5) Money making Ke: These Ke collect allotments periodically from the members while the contract lasts, and the collected funds are loaned at high interest. Then, the increased amount of money is divided among the Ke members. While the Ke type of (1), (2), (3) and (4) described above are all long-termed, money making Ke are characterized by short term. Most Ke of this type last only a few years, some only one year. This type of Ke are similar to the city Ke previously mentioned.

One additional remark to make is that this survey excluded forestry Ke or rural development Ke because these Ke are not farmers' voluntary organizations.

Chapter II. GENERAL DESCRIPTION AND BACKGROUND OF THE SURVEY

In this chapter, procedure of the survey and the outlook of survey area will be described.

Survey Procedure

As mentioned before, the survey area was restricted to the rural societies in Chungchong-pukto. And Ri-dong, instead of villages, were taken as samples. Efforts were made to secure detailed information about the various Ke and the Ri-dong Agricultural Cooperative Associations in each respective Ri-dong. In conducting the actual survey, it was fairly easy to discover the situation of Ri-dong Cooperatives because they were relatively young organizations and not complex. However, securing detailed information about the Ke required a great deal of patience and time because of the following reason: i) farmers' suspicion of strangers caused by the prolonged isolation of rural societies, ii) dislike of exposing villagers' Ke, iii) disappearance of Ke data, iv) diversified characteristics of Ke, etc.
There were numbers of villagers who boldly opposed the survey inquiries: they might have been afraid of some kind of administrative action unfavorable to them, since many Ke in rural communities were disbanded by the authorities in the program against usury after the military revolution in May 1961.

1. Method of Survey

(1) Organization of Survey

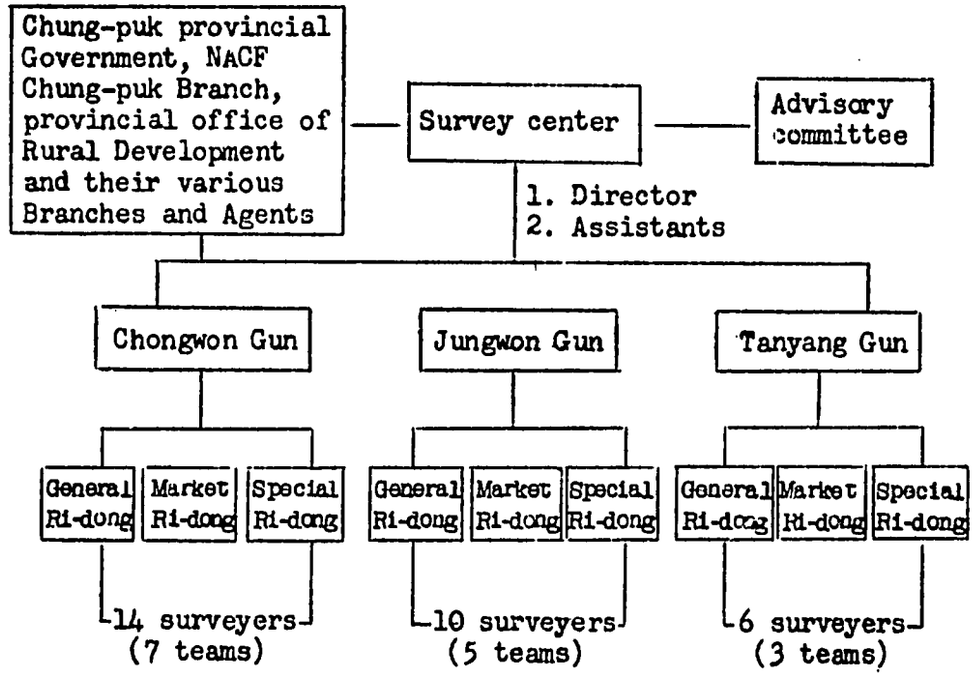
The director of this survey (author) placed the survey headquarters in the laboratory of farm management, Chungpuk College. With the cooperation of his research assistants, he set up the research program, devised the survey forms, selected the surveyers, trained the surveyers, put the survey data in order, added up and analysed the data. The actual survey was carried out by survey teams consisting of 2 persons each, which were sent to every sample Gun.

In order to carry out this survey effectively, an advisory committee was organized with several specialists and professors in this field, and occasional advice was obtained from the committee about some important issues of this project.

Considerable cooperation, such as presentation of various data and administrative liaison in the field survey, etc., was extended from the Chung-puk Provincial Government, the Provincial Office of Rural Development, Chung-puk Branch of NACF, and their respective Agents.

Following is a diagram of the survey organization:

DIAGRAM OF SURVEY ORGANIZATION



(2) Devising the Survey Forms and Questionnaire.

In order to carry out this survey, the following four kinds of survey sheets were devised, and four different colors were used to distinguish them: i) Survey sheet I - - - Survey on outlook of villages (yellow); ii) Survey sheet II - - - Survey on members of Ke and members of Cooperative Associations (white); iii) Survey sheet III - - - Survey on Ke groups (blue); iv) Survey sheet IV - - - Survey on Ri-dong Cooperative Associations (red).

Besides these, an instruction leaflet explaining the methods of survey and filling out the form for the survey sheets I through IV was prepared and given to the survey members so as to carry out this project successfully.

The following methods were employed for filling out the forms.

i) For Survey Sheet I, the heads of thr Ri-dong were interviewed and the official records of the Ri-dong were examined.

ii) For Survey Sheet II, mainly a multiple choice method of questionnaire was employed, and occasionally dichotomous questions and open-ended questions were employed. For this survey, three members from each Ke were interviewed personally, according to the form of the questionnaire.

iii) For Survey Sheet III, since the contents of the survey were concerned with the whole village, the heads of various Ke or the main staff members of the Ke were interviewed individually and the data were obtained through listening and referring to records of Ke. Similar methods were employed for filling out the questionnaire form as in the case of the above Survey Sheet II, Survey of Ke and Ri-dong Cooperatives Members.

iv) For Survey Sheet IV, since this survey was concerned with the general affairs of the Ri-dong Cooperatives in question, each Ri-dong was visited and the head or the staff was interviewed. Data were obtained through listening and referring to the records of Ri-dong Cooperatives.

The form of questionnaire was similar to Survey Sheet II and Survey Sheet III.

2. Process of the Survey

In accordance with the various survey sheets and forms and the instructions, the main survey were carried out through the following three steps: (1) Preliminary survey, (2) main survey, (3) supplementary survey.

(1) Preliminary survey

Before carrying out the actual main survey, a preliminary survey was made from July 25 to July 31, 1967 by the director of this project, an assistant, and several students in order to examine the appropriateness of each survey sheet, the contents of the questionnaire, and the sample Ri-dongs. This preliminary survey was found essential for more efficient execution of the main survey.

(2) Main survey

After the preliminary survey, 15 survey teams were organized, with 30 students who had been trained for the survey (two members for each team). Though our first intention had been to allot each team to the Market Ri-dongs, Special Crops Ri-dongs and General Ri-dongs separately, by random sampling, these classified Ri-dongs were scattered so widely that we had to allot the survey teams to any Ri-dong in the specific sample Gun in order to save time, costs and efforts of survey. Thus the main survey were carried out in three steps;

The first was done from August 2 to August 12, 1967.
The second was done from August 26 to September 3, 1967.
The third was done from September 25 to September 30, 1967.

The following were the reasons for carrying out the survey in three parts: i) many sample Ri-dongs were located in mountainous remote spots, and required much walking, crossing streams and climbing steep passes, thus it was necessary for the survey members to rest a few days; ii) a certain period of rest was also required for the survey members in order not

to bore them with the same monotonous conversations with the farmers; iii) by allowing a certain period of rest, survey team members could exchange their experiences and information, which must have been much help for improving the efficiency of the survey. Therefore, the author held a meeting after each survey period, for recognizing their work and listening to their wonderful adventures and thrilling experiences, and for their mutual exchange of information, ideas and various emotions. These meetings were very helpful for more efficient pursuit of the next survey.

(3) Supplementary survey

In order to examine the various data obtained by the main survey and to supplement the missing items in the main survey, and to correct and confirm the mistakes and inaccurate items, supplementary surveys were carried out twice; once from 5th to 10th of October and second time from 15th to 22nd of October.

As mentioned before, the preliminary survey was felt to be an essential requirement of a rural survey project: it was also felt that the supplementary survey was an essential requirement for a successful survey project.

With the completion of the above three steps - preliminary, main and supplementary survey - the field work of this project was over.

Names of Sample Ri-dongs and their Distribution

The method of snapling, number and the distribution of sample Ri-dongs selected for this survey were mentioned in the previous chapter of introduction (see Table 1-1). Here, the distribution of sample Ri-dongs classified in accordance with their social environment and income level in each Gun, and the names of all Ri-dong, will be shown. The number of villages in each sample Ri-dong and their distribution are shown, because the author felt such work was necessary for a part of this research. Table 2-1 shows the distribution of sample Ri-dongs in Chongwon, Jungwon and Tanyang Guns, respectively.

Table 2-1

Distribution of sample

Name of Gun	General Ri-dongs			Special
	H	M	L	H
Chong won	Hyoke Ri Seong ja Ri Mansoo Ri Undong Ri	Koi Jong Ri Seok Song Ri Kakok Ri Seo nam Ri San dok Ri Hyo nam Ri Yong ji Ri Ji buk Ri	Shindae Ri Kwanjong Ri Sang jong Ri	Chong yong Ri Kwanjong Ri Koo song Ri Sangam Ri
Sub-total	4	8	3	4
Jung won	Mokbol Ri	Yong jon Ri Shindang Ri Shin Jung Ri	Nuam Ri Ka chun Ri	Nai sa Ri
Sub-total	1	3	2	1
Tan yang		Pyong Dong Ri Byol bang Ri Sam kok Ri	Sang won gok Ri	Seok kyo Ri
Sub-total	0	3	1	1
Total	5	14	6	6

Note: H - High income Ri-dong
M - Medium income Ri-dong
L - Low income Ri-dong

Ri-dongs, by Guns

Ri-dongs		Market Ri-dongs		
M	L	H	M	L
Hyan am Ri	No Dong Ri	Koeun Ri	Jong Bong Ri	Jong jung Ri
Nohyon Ri	Ku bong Ri	Pyong chon Ri	Naisoo Ri	Bi ha Ri
Hwa dong Ri	Hyong dong Ri	Too san Ri	Jong song Ri	Haing jong Ri
Hojong Ri	Mundong Ri		Jusong Ri	Chok san Ri
Talkye Ri			Ju jung Ri	Mun san Ri
Dae shin Ri			Oi nam Ri	Jang Dea Ri
Kur yong Ri			Kama Ri	Jang am Ri
Dook yu Ri				Bong san Ri
8	4	3	7	8
Doo Jung Ri	Dai Kok Ri	Onchon Ri	Jo dong Ri	Yon ha Ri
Chang Jon Ri	Ju chi Ri	Ju chi Ri	(1 section)	Moke Ri
Kum byong Ri				
3	2	2	1	2
Yeong chon Ri	Osa Ri	Buk sang Ri	Im hyon Ri	
1	1	1	1	0
12	7	6	9	10

The total number of natural villages in all 75 Ri-dongs investigated on this survey was 152. These villages are classified according to Gun, environment and income level as shown in Table 2-2.

Table 2-2 Distribution of villages in each Gun, Classified According to Environment and Income Level

(152 villages) (75 Ri-dong)

Gun	General Ri-dong					Special Ri-dong					Market Ri-dong					Total
	H	M	L	sum	%	H	M	L	sum	%	H	M	L	sum	%	
Chongwon	6(4)	12(8)	6(3)	24(15)	24	9(4)	18(8)	8(4)	35(16)	34	11(3)	10(7)	21(8)	42(18)	42	101(49) 100%
Jungwon	1(1)	7(3)	5(2)	31(6)	31	1(1)	8(3)	8(2)	17(6)	40	5(2)	4(1)	3(2)	12(5)	29	42(17) 100%
Tanyang	0	3(3)	1(1)	4(4)	45	1(1)	1(1)	1(1)	3(3)	33	1(1)	1(1)	0	2(2)	22	9(9) 100%
Total	7(5)	22(11)	12(6)	41(25)	27	11(6)	27(12)	17(7)	55(25)	36	17(6)	15(9)	24(10)	56(25)	37	152(75) 100%

Note: H - High income Ri-dong
M - Midium income Ri-dong
L - Low income Ri-dong

The numbers in parenthes indicate the number of Ri-dongs

According to the above table, there are 101 villages in Chongwon Gun, 42 villages in Jungwon Gun and 9 villages in Tanyang Gun. With respect to environment, there are 41 in common Ri-dong, 55 in special Ri-dong and 56 villages in market Ri-dong.

Description of Survey of Ke and Ri-dong Agricultural Cooperative Associations

1. Ke Survey

This survey on Ke was conducted along the following two major lines. The one was to compare the efficiencies of Ke and Ri-dong Cooperative Associations and to seek the possibilities of investing the Ke funds in Ri-dong Agricultural Cooperatives, and also to learn the opinions of farmers about their Ke and Ri-dong Cooperative Associations. Most of today's farmers are members of Ri-dong Cooperative Associations and at the same time they are members of more than one Ke. Therefore, from the same farmer, his personal opinion about both the Ke and Ri-dong Coops of which he is a member was obtained and recorded. Three members were interviewed for each Ke; for example, 15 members were interviewed for survey of 5 Ke.

The other objective of the Ke survey was to reveal their origin, kinds, organization, management, function, assets, and asset utilization. Since this was concerned with the general affairs of the Ke, the head of every Ke was interviewed and presented data were examined; for example, 5 heads of Ke were interviewed for the survey of 5 Ke. Thus, for the survey of one Ke, four persons including the head and three members of the Ke were interviewed. For example, 20 persons were interviewed for the survey of 5 Ke. However, in case of duplication (head of Ke and member of Ke), the number of persons interviewed was less than that mentioned above.

Total numbers of Ke reviewed in 75 sample Ri-dongs was 669. The distribution of these Ke is shown in Table 2-3.

Table 2-3 Distribution of Kind of Ke in Three Gun

Gun	Public Welfare	Mutual Aid	Friend-ship	Indu-stry	Money making	Total
Chongwon	94(21%)	233(52%)	83(18%)	12(3%)	27 (6%)	449(100%)(67%)
Jungwon	34(23)	89(60)	7 (4)	3(2)	16(11)	149(100)(22)
Tanyang	7(10)	50(70)	6 (9)		8(11)	71(100)(11)
Total	135(20)	372(56)	96(14)	15(2)	51 (8)	669(100)

In Chongwon Gun there were 449 Ke, 149 Ke in Jungwon Gun and 71 Ke in Tanyang Gun. The average number of Ke per village is about 4. There were 135 Ke of public welfare, 372 Ke of mutual aid, 92 Ke of friendship, 15 Ke of industry and 51 Ke of money making. The mutual aid Ke were more than half, 56% of total Ke. The total number of persons interviwed for the survey of these 669 Ke was 1,988.

The distribution of these persons is shown in Table 2-4.

Table 2-4 Distribution of persons Interviewed in each Gun classified according to Environment Income

Gun	General Ri-dong				Special Ri-dong				Market Ri-dong				Total
	H	M	L	sum	H	M	L	sum	H	M	L	sum	
Chongwon	84	219	111	414	100	201	114	415	72	149	280	501	1,330
Jungwon	12	78	48	138	17	71	78	166	57	36	48	141	445
Tanyang		90	18	108	9	21	18	48	18	39		57	213
Total	96	387	177	660	126	293	210	147	147	224	328	699	1,988

Total number of persons interviewed on the above table was 1,988, but this number is only those interviewed for the Ke survey. Additional persons who were interviewed included the heads of Ri-dongs, and the heads of 75 Ri-dong Coops or staffs. The grand total number of persons interviewed for the entire survey amounted to 2,215.

2. Backgroung of Ri-dong Agricultural Cooperative Associations

The history of Korean Agricultural Cooperative Associations is very short. It is only about half a century, even including the period of Japanese Colonialism. After Independence (after World War II), the founding of today's Korean Agricultural Cooperative Associations was 1957; only about 10 years has elapsed since then. Comparing with the British Rochdale Consumers' Cooperative Society, which was fouded in 1844, it seems as if it belonged to another age. Although Korean Agricultural Cooperative Associations are very young and their unit organizations, Ri-dong Coops, are organized after the NACF by administrative actions (from the top down) and include some idle Associations, their organization is of a comprehensive scale, and a majority of the farmers participate in the organization as members.
Table 2-5 shows the number of Ri-dong Agricultural Cooperative Associations established in the whole country. This Table shows that the number of Ri-dong Agricultural Cooperative Associations was 17,281 as of the end of 1966 and the number of their members was 2,245,960 farms. This number of member farms, which was 88% of all Korean farms, was 2,540,300 at the end of 1966.

Table 2-5 Ri-dong Agriculture Cooperative Associations in Korea, 12/31/66

Province	Establishment		No of coops Joined Gun coops Association
	Number of Association	Number of Member	
Seoul	99	17,803	99
Kyong-ki	2,208	233,038	2,208
Chung-puk	1,253	165,255	1,253
Chung-nam	2,068	278,741	2,068
Chon-puk	1,460	238,520	1,460
Chon-nam	3,248	413,732	3,248
Kyong-puk	3,540	388,002	3,540
Kyong-nam	2,171	325,379	2,171
Kang-won	1,071	137,927	1,071
Che-ju	217	47,563	217
Total	17,281	2,245,960	17,281
1965	17,970	2,244,904	17,970
1964	18,963	2,242,377	18,963
1963	21,245	2,147,311	21,245
1962	21,499	2,227,455	21,499

Data Cited from "Agricultural yearbook p.196 (published by NACF, 1967)

In Chungchong-pukto, the establishment of Ri-dong Agricultural Cooperative Associations, as shown in the above Table, was 1253 Cooperatives and 165,225 member farms, or 94% of all 176,213 farms in the Province, which is much more than the national average of 88%. The numbers of Ri-dong Coops in Chongwon Gun, Jungwon Gun and Tanyang Gun, which were selected as the sample Guns for this survey, are shown in Table 2-6.

Table 2-6 Ri-dong Coops in Three Gun of Chungchong-pukto

Status at End of 1966				
Gun	No. of coops	No. of Members (A)	Total No. of Farms (B)	A/B (%)
Chongwon	278	31,530	32,364	97
Jungwon	138	22,997	23,762	97
Tanyang	86	9,117	10,523	87
Total	502	63,644	66,649	95

Data presented by NACF Chung puk Branch.

As seen in the above Table, 63,644 farms out of all 66,649 farms in the three Guns were associated with Ri-dong Coops, which is 95% of the total. Thus, the majority of the farmers within the survey area were associated with the Ri-dong Coops.

The number of Ri-dong Coops in the three sample Guns was 502. Out of these Coops, 75 Ri-dong Coops were selected for this survey.

The following are the items of survey for these 75 Ri-dong Coops: i) Organization, management and function; ii) Amount of assets and their condition of utilization.

Finally, through comparison between Ke and these Agricultural Coops, it was intended to find out the method of investment which should be most profitable for the farmers concerned. Thus, in order to understand the actual status of each Ri-dong Coop, every Ri-dong Coop was visited, interviews were made with the heads of the Ri-dong Coops and/or with the staff of the Coops, and records were obtained through conversation and presented data.

Re. Conditions in the Survey Area

The various phenomena in a rural society do not stand alone; they are mutualy related with each other. Understanding one phenomenon alone does not mean the comprehension of the said phenomenon; understanding an individual phenomenon is insufficient for coordinated understanding. Thus it was felt necessary to conduct the survey in synthetic scale for each village and Ri-dong. In order to investigate and analyse all 75 sample Ri-dongs, the main conditions thought to affect Ke and Ri-dong Cooperative participation in each survey area were examined. This survey was carried out through direct interviews with the heads of the Ri-dongs concerned and the data were obtained by listening and copying the records about the villages within the Ri-dong. The distribution of all 152 villages in 75 sample Ri-dongs has been described in the second Article of this Chapter, "Sample Ri-dongs And Their Distribution", and it will not be discussed here. Only economic, social and cultural conditions over the whole sample Ri-dong will be treated in several articles.

Land Character Affects Kind and Level of Income

The area of cultivated land of farms within a region is not always the measure of wealth of the farms or of the region, but it may be regarded as one such index in Korea where most farm land is used for growing food crops instead of special or cash crops, and human muscles are mainly used in every process of agricultural production because of lack of capital and poor implements. Table 2-7 compares food crops and special or cash crops in terms of the cultivated land for recent years in Korea. As seen in the Table, 3,115,900 ha, or 90% of the total 3,481,900 ha of land, were used for growing common food crops in Korea 1966. In case of Chung-puk, 224,452 ha, or 86% of 262,210 ha of total farming land was used for growing common food crops.

Table 2-7 Cultivated Land Utilization in Korea

unit: 1,000 ha

Year	Area of cultivated Land	Utilized Area	Food crops						Cash crops					
			Total (%)	Rice	Barley wheat	Miscel-grains	Beans peas	Potato	Total (%)	Special crops	Vege-table	Toba-cco	Fruit	Mul-bery
1963	2,097.0	3,178.8 (152)	2,916.0 (91.8)	1,165.0	1,070.1	204.5	388.8	137.7	261.7 (8.2)	66.1	120.8	21.1	23.7	30.9
1964	2,189.1	3,367.2 (154)	3,062.4 (90.9)	1,205.2	1,119.2	219.3	337.7	180.9	304.8 (9.1)	64.6	139.2	30.1	28.6	42.3
1965	2,275.2	3,587.7 (158)	3,248.4 (90.5)	1,233.4	1,210.9	216.3	368.4	214.4	339.4 (9.5)	60.9	150.7	34.4	42.9	50.5
1966	2,312.2	3,481.8 (151)	3,115.9 (89.5)	1,241.6	1,148.3	171.4	344.6	210.1	366.0 (10.5)	68.2	154.2	36.7	45.2	61.7

Data: from p.85, Year Book of Agriculture and Forestry Statistics.
by M.A.F, 1967

The number of households and the area of cultivated land in 75 sample Ri-dong (152 villages) were investigated as links to social and economic conditions.

The results, classified, analysed and tabulated according to each Gun, environment and income level, are shown in Tables 2-8 to 2-13.

Table 2-8 shows that the total number of households in the 75 sample Ri-dong within three Guns was 12,098, or an average of 161 households per Ri-dong. There were an average of 80 households per village (this number differs from the average of 60 households per village as estimated by Dr. Lee, Man Kap[1/]). Seventy-nine percent of the total households were farms. This shows that Chung-puk is really an agricultural province.

Rates of non-farm households were 24% for Jungwon Gun, 20% for Tanyang Gun and 19% for Chongwon Gun. These rates relate to conditions of industrialization in the respective Guns. That is, Jungwon Gun is located near the manufacturing district of Chungju City and Tanyang Gun is located near the industrial center of Tanyang, but Chongwon Gun is located near Chonju City, the administrative and cultural center of this province, where only a few small manufacturers exist.

Table 2-8 Number of Households in each Gun

Gun	No. of Ri-dong	Farm	%	Non-farm	%	Total
Chongwon	49	5,905	80.6	1,421	19.4	7,326 (100.0)
Jungwon	17	2,538	75.8	808	24.2	3,346 (100.0)
Tanyang	9	1,141	80.0	285	20.0	1,426 (100.0)
Total	75	9,584	79.2	2,514	20.8	12,098 (100.0)

1/ p.128, Rural Sociology, by Lee, Man Kap, 1965, Published by Minjosa.

Table 2-9 Number of Households in Each Environment

Environment of Gun	No. of Ri-dong	Numbers of Households				
		Farm	%	Non-farm	%	Total
General	25	2,824	79.9	708	20.1	3,532(100.0)
Special	25	3,165	88.2	425	11.8	3,590(100.0)
Market	25	3,595	72.2	1,381	27.8	4,976(100.0)
Total	75	9,584	79.2	2,514	20.8	12,098(100.0)

Table 2-10 Number of Households With Different Income Level

Income Level	No. of Ri-dong	Number of Households				
		Farm	%	Non-farm	%	Total
High	17	2,190	77.8	630	22.2	2,820(100.0)
Medium	35	4,392	85.2	860	14.8	5,152(100.0)
Low	23	3,102	75.2	1,024	24.8	4,126(100.0)
Total	75	9,584	79.2	2,514	20.8	12,098(100.0)

Table 2-10 shows the number of households classified according to income level. The number of high income Ri-dongs is 17, with 35 medium income Ri-dongs and 23 low income Ri-dongs. The rate of non-farm households is lowest in medium income level (15%); the majority of the medium income people are engaged in farming. This proportion is considered good for a healthy development of Korea. The fundamental intention of the Korean land reform that was put in operation June 21, 1949 was to help form a majority of middle class farmers. And ancient Aristotle said "The best political society is formed with citizens of middle class, and the nation holding a large number of middle class is actually well governed - - etc.". Having a large number of middle class farmers is very favorable for economic, cultural, and political development of Korea.

And the fact that where the rate of non-farm households is relatively high, extreme high and low income classes are more, is self-explanatory: in market Ri-dong or near the industrial center, where more salary men and laborers live, there usually are greater differences in living standards of people.

Again looking at the number of households and cultivated land area, average size of farms in Chongwon Gun, the high income Gun, is 10 tanbo, in the medium income Jungwon Gun, 9.3 tanbo, and in the low income Tanyang Gun, 9.5 tanbo. Since the low income Tanyang Gun is located in the mountainous area, there are much more upland fields than paddy fields. A little more land area per farm in Tanyang Gun does not mean higher income level of the Gun compared with Jungwon Gun. That is, in case of Korea, the evaluation of a farm is generally based upon the area of paddy fields except a few part of special crops area, since Korean Agriculture is mainly dependent upon rice growing.

Table 2-11 Number of Farms and Area of Cultivated Land in the Three Sample Guns

Gun	No.of Farms	Area of Cultivated Land (tanbo)					
		Paddy	Average per Farm	Upland	Average per Farm	Total	Average per Farm
Chongwon	5,905	30,518	5.2	28,436	4.8	58,954	10.0
Jungwon	2,538	10,551	4.2	13,156	5.2	23,707	9.4
Tanyang	1,141	2,071	1.9	8,745	7.7	10,816	9.6
Total	9,584	43,140	4.5	50,337	5.3	93,477	9.8

The condition of farm and cultivated land area summarized according to the environment is shown in Table 2-12. The ratio of the areas of paddy field and of upland field in the general Ri-dong is about 50-50. This may have resulted from the fact that general farms in Korea are mainly based on self-subsistence and not yet on the basis of market production. Thus, for self-sufficing, the farm products from both

upland and paddy fields are required for the farmer's own consumption. Especially for barley and wheat, 80% of total products are consumed in the farmer's own house; barleys are produced not for market to begin with, they are produced mainly for home use. This is a general tendency of general farms in Korea.

Extra Upland Favors High Income

Farms in special crops regions and market regions have more upland area than paddy area, as seen in the following table. This is because farms in these area are producing special crops - cash crops - or garden stuff solely for market, and products of these kinds are produced mainly on upland fields, consequently less areas of paddy fields are required for these regions.

Table 2-12 Number of Farms and Area of Cultivated Land in Each Environment

Environment	No. of Farms	Area of Cultivated Land (tanbo)					
		Paddy	Average per Farm	Upland	Average per Farm	Total	Average per Farm
General	2,824	13,731	4.9	13,513	4.8	27,244	9.7
Special	3,165	14,462	4.6	19,420	6.1	33,882	10.7
Market	3,595	14,947	4.2	17,404	4.8	32,351	9.0
Total	9,584	43,140	4.5	50,337	5.3	93,477	9.8

Table 2-13 shows the condition of farms and their cultivated lands with respect to income level. According to this table, the higher the income level, the greater the percentage of upland fields compared with paddy fields. There is an apparent contradiction between the fact shown in the Table 2-11, "Number of Farm Households and Area of Cultivated Land in the three Sample Guns", the higher the income level of Gun is the less the area of upland fields cultivated by the farms in that Gun, and this opposite fact.

However, we should note that Table 2-11 is for average income levels of Guns. Chongwon Gun, as high income Gun, is located in the plains area of Chung-puk Province, and this region is considered as rice producing area. Jungwon Gun as medium income Gun, is located in the intermediate or upland-and paddy mingling area, and Tanyang Gun, as low income Gun, is located in mountainous or upland area. Thus the ratio of paddy and upland fields shown Table 2-11 is evident. However, in case of Table 2-13, 75 sample Ri-dongs sorted out of the above three Guns have been classified into three income levels and the farms within any Ri-dong of this income level may hold different ratios of upland and paddy fields. As was indicated in Table 1-1, "Distribution of Sample Ri-dongs in Each Gun, Classified according to Environment and Income Level", Chapter I, and in Table 2-10, the number of Ri-dongs which belong to high income level is 17. Out of these high income Ri-dongs, special Ri-dongs (6) and Market Ri-dongs (6) amount to 12. As is well known, in these two regions special crops or vegetables are produced rather than rice. Therefore it is evident that in these regions, there should be more upland than paddy fields.

Table 2-13 Number of Farms and Area of cultivated Land in Each Level of Income

Income	No.of Farms	Area of Cultivated Land (tanbo)					
		Paddy	Average per Farm	Upland	Average per Farm	Total	Average per Farm
High	2,190	8,114	3.7	13,514	6.1	21,628	9.8
Medium	4,392	20,820	4.7	22,493	5.1	43,313	9.8
Low	3,102	14,206	4.6	14,330	4.6	28,536	9.2
Total	9,584	43,140	4.5	50,337	5.3	93,477	9.8

As seen in Table 2-13, farms in low income regions have about the same area of paddy fields and upland fields. This phenomenon is similar to the case of general farms as was shown in Table 2-12. Thus it is concluded from the above fact that general farms in Korea are in low income level. The characteristics of general farms in Korea have been described in detail from Table 2-12. The same characteristics apply to farms in the low income region. That is, groups of low income farms are characterized by high Engel Coefficient[1/] and subsistence farming. And thus, numerous farm products from both paddy and upland must be self-supplied. Consequently, they must have similar area of upland fields and paddy fields.

Education Cuts Across Income Levels

As is generally known, education tends to bring about an advanced action of people by letting them develop a new view of values through cultivating the potentials of each individual, training their knowledge and techniques and correcting their wrong ways of thinking. It seems that the object of human life is fundamentally happiness. Everybody desires a happier life: today should be happier than yesterday; tomorrow should be happier than today; next year would be happier than this year. That is, everybody pursues instinctively an advance and development of life. And also they pursue the right way to achieve development. As in the proverb, "Necessity is the mother of invention", we try to understand various natural laws governing natural phenomena in order to apply these laws to our everyday life.

Similarly, we try to understand the various social laws - including social, economic, cultural and educational laws, etc. -- through observing various social phenomena in order to achieve an advanced life by applying these laws to improve our existing social system into a rational and effective one. Education is primarily concerned with the welfare of mankind and individual life of everybody. Accidental discovery of

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1/ Engel Coefficient of low income Korean Farms in 1966 was 54.4%, and that for high income farm was 41.7% (from p.306-p.308, Year Book of Agricultural and Forestry Statistics, 1967, M.A.F.).

any law and its application that contributes to mankind is very rare. And this can be seen by looking at the fact that today's economics is originated from ancient home economy.

Lately education has tended not only to develop the makings of each individual, to change the views of values of them and to improve the life and/or productivity of each individual, but also to develop the higher self, the nation and the society that is the sum of all individuals (the smaller self).

Today, the societies of the free world, or at least many capitalist countries, are based upon the idea of so-called individualism, and freedom and the original ideas of each individual are respected. However, as J. Rousseau (1712 - 78, a thinker of France, Naturalist) said, the more each individual is respected and developed, the nation or society that is the sum of the individuals is more concerned, unless they are ignorant. And a great Indian, Rabindranath Tagore (1861 - 1941, poet, thinker) thought that education is "for developing individual character and mind", and yet he founded a school in Santiniketan which was remote from the city in order to help develop rural communities 50 years ago. Tagore's act was to meet the requirement of the times. That is, he developed the concept of education as related with the community.

The reason for treating the question of education in the description of the background of this survey is because education plays an important role in overcoming the resistance of farmers who are confined in a conservative tradition and apt to resist any changes or developments that come by spreading useful knowledge and techniques in the rural society. And also the level of education greatly affects the rural society in the process of accepting culture. The reason for providing education above the level of a high school graduate is because, the author believes, primary school or middle school graduate levels are insufficient for accepting a new culture which is spreading from outside the rural society, and for affecting production techniques or living modes. According to Dr. Ro Chang Sup, Ewha Womens' University, in his book titled Research on Developing Rural Society, 77.2% of farm people desire their leaders to be at least high school graduates; and 31.5% desire college graduates as

leaders. It seems probable from these figures that any person who can affect the rural society should be educated at least to high school graduate level. Table 2-14 shows the educational level of rural leaders desired by farmers cited from Dr. Ro's research.

Table 2-14 Education Level of Leaders Desired by Farmers

Education Level	Bang hak Ri		Mujon Ri		Daean Ri		Total	
	Number	%	Number	%	Number	%	Number	%
No school	3	3.4					3	1.3
Primary school	7	8.0	1	1.4	2	2.6	10	4.3
Middle school	6	6.9	4	5.8			10	4.3
High school	32	36.8	31	44.9	43	56.6	106	45.7
College	30	34.5	21	30.4	22	28.9	73	31.5
Immaterial	4	4.6	4	5.8	4	5.3	12	5.2
Don't know	5	5.7	8	11.6	5	6.6	18	7.8
Total	87	100	69	100	76	100	232	100

Data: From page 140, Research on Developing Rural Society, 1965. Written by Dr. Ro Chang Sup.

Since the level of rural education, as well as formerly described cultivated land and later described family relations, affects rural society a great deal, the educational level of people in all sample Ri-dong was classified according to the environment, income level and Gun, and tabulated as shown in the following tables.

The educational level of people in each Gun was found to be as follows: the average number of persons who graduated high school or more, per household in Chongwon Gun is 0.24; in Jungwon Gun, 0.19; in Tanyang Gun, 0.12. In other words, Chongwon Gun has one high school graduate in every 4 households, Jungwon Gun has one high school graduate in every 5

households, and Tanyang Gun, one in every 8 households. Since Chongwon Gun is located near Chongju City, which is the administrative and educational center of this district, it is natural that this Gun is in the highest level of education. Jungwon Gun is located near Chungju City, whereas Tanyang Gun is located in a mountainous area. The educational level of the former is naturally higher than that of the latter (see Table 2-15).

Table 2-15 Education Level of Each Gun

Gun	No of person above High school	No of Ri-dong	Average per Ri-dong	No of Households	Average per Household
Chongwon	1,765	49	36.0	7,326	0.24
Jungwon	641	17	37.7	3,346	0.19
Tanyang	182	9	20.0	1,426	0.12
Total	2,588	75	34.5	12,098	0.21

The results of comparing the educational level in each environment are shown in Table 2-16. The number of persons educated above high school in the Market Region was highest per Ri-dong and per household. This phenomenon was due to the fact that more educational institutes are in Market areas, more facilities of transportation are available there, etc., rather than due to the fact that people are rich in these areas. Although the income level in the Special Crops Region was higher than that in the General Ri-dong Region, the educational levels in both Regions are similar.

Table 2-16 Educational Level of each Region

Region	No of Person Above High school	No of Ri-dong	Average per Ri-dong	No of households	Average per household
General	622	25	24.9	3,523	0.17
Special	632	25	25.3	3,590	0.17
Market	1,334	25	53.4	4,976	0.26
Total	2,588	75	34.5	12,098	0.21

Generally, high education requires a considerable amount of money, and thus educational level in the community is largely affected by the income level of the community. However, this is not true in Korean society. During 500 years of the Lee Dynasty, very small numbers of ruling class Korean people were given the chance of education under autocratic government. And during the period of Japanese colonialism, only a limited number of rich people were given the chance of education. Since the Liberation (end of Japanese Imperialism), the Korean people, who are very thirsty for learning, have built a great many schools all over Korea, and started to send their children to the schools. There is a tendency to disregard income in pursuing education. One general tendency of Korean people is to sell their land, sell cattle and even borrow money in order to pay for the education of their children. Table 2-17 shows the level of education classified by income level. The average numbers of persons being educated per household or per Ri-dong are similar at different level of income. The income level does not affect the level of education, according to these figures.

Table 2-17 Educational Level with Respect to Income Level

Income Level	No of persons above High school grad	No.of Ri-dong	Average per Ri-dong	No of Households	Average per Household
High	571	17	33.5	2,820	0.20
Medium	1,161	35	33.2	5,152	0.22
Low	856	23	37.2	4,126	0.20
Total	2,588	75	34.5	12,098	0.21

Family Relationships Are Key To Many Ke Activities

Generally the formation of a social group is classified into two big categories, primary groups and secondary groups. The family unit (primary group) in rural society today is the group of people with the same surname who believe that they have a common ancestor; their bonds are the sense of having a common ancestor. Secondary groups form around common interests of non-family nature, thus their face to face contacts are temporary. The family bonds of the primary group result in relatively continuous face-to-face contacts, and so they are characterized by a closer intimacy.

In the process of accepting new cultural values in rural society, in the course of changing from a static to a dynamic society, especially in the horizontal social movement due to development of education, free change of land ownership and differentiation of occupation, the sense of common ancestry as the bond of family union is becoming thiner. However, the question of family groups in today's Korean rural society is still too important to neglect in dealing with problems of rural social structure. The sense of family or the relation of family bonds like this is seen not only in rural society but also in urban areas.

The sense of family bonds often has a considerable influence upon human relations in Korean companies, administrative organizations and other various organizations. A notable example is as follows: Most enterprises in Korea are of small scale, and most of the members from the top staff to lowest laberer or office boys consist of family members. Korean enterprises are characterized as family enterprises. Since Korea is an underdeveloped country, and the chance of securing a job is not guaranteed in Korea, the manager of an enterprise might have given the job to one of his family member out of sympathy. And the manager may have more confidence in members of his family than in strangers. However, in case of modern industry and other various economic activities, which require efficiency, rationalism and practicalism, such sympathy or particular confidence in family members is an irrational pre-modern way of thinking. Unless the family member is superior in his field of work, this kind of ideas hinder the modernization of a community or of a nation.

The family unit as the primary group is generally characterized by being very cooperative within the group, especially in case of funerals or marriages, but very aggressive against persons or organizations outside the group. In case a village consists of people a majority of whom are of the same family name, -- the author has designated this kind of village a "Dae Sung Village" (Big Family Village) -- the minority groups are cowed before the majority and thus peace is maintained in the village. On the other hand, in villages where several competing large families exist, -- designated "Dae Kak Sung Village" (big competing families village) -- there usually are much jealousy and friction, and conditions of cold war are often found. Such frictions among big families affect not only the families concerned but also minority groups who have interests in the families in question. Such villages or Ri-dongs are characterized as follows: i) Rivalry among big families, ii) friction among minor families, iii) complicated rivalry and friction among big and minor families. The quarrels extend to men and women, young and old, like a chain reaction. Such jealousy or rivalry may become the mainspring of initiative in community activities, and in putting forward family members to head administrative or other community organizations.

A concrete example of this competition can be seen in the organization of Ke. When one Ke is organized by the members of one family, the members of competing families immediately follow the example and try to organize a new Ke with members of their own family or its sympathizers. Thus, the number of Ke is constantly increasing in such a way as different Ke with same name, similar Ke with different name and many Ke with the same members. When the author visited "M" Ri-dong, Yangkang Myon, Yongdong Gun, Chung-puk in order to survey Ke several years ago, the following facts were found out. "M" Ri-dong was divided into two Ku (divisions). The people in one Ku were of various families. The people in the other Ku came from several big families. Each Ku held about 100 households. In the first Ku there were only 3 Ke, while in the second Ku there were 8 Ke. In the second Ku, "L" family, "S" family and "Y" family had about the same number of members respectively, and other members from minority families were annexed to the big three groups in their own interests. Severe competitions were observed among the big three groups. Thus a greater number of Ke were found in the second Ku.

Such a complexity in the structure of rural society means a diversity of actual system of leadership hidden in the rural society, or so called invisible leadership. The invisible leaderships of rural society and the visible leaderships of administrative organization and other public bodies bring about a pluralism in the system of rural leadership which hinders progressive activities or any atempt for improving the existing structure of rural society. The purpose of surveying family relations in this project was to see the aspects of social structure and influence of family relations upon the Ke and Ri-dong Coops in the area examined.

Family Dominance Waning in Rural Villages

In order to see family relations in 75 sample Ri-dongs, these relations were classified into three patterns, such as, "big family villages", "big competing families villages" and "various families villages". These three patterns of villages are defined as follows. A "big family village" is one in which more than half the residents are of the same family

name. A "big competing families village" is one where several big families whose respective numbers are each less than a half the total residents coexist. A "various families village" is not dominated by any one big family but consists of various small families. The term "village" used in "big family village", "big competing families village" and "various families village", does not always mean an actual village but may mean a location; here it means a sample Ri-dong.

The results of surveying the family relations with respect to the Gun, environment and income level are shown in the following tables.

In Chongwon Gun, there are 13 "big family villages", 19 "big competing families villages" and 17 "various families villages", out of the total 49 Ri-dongs.

Table 2-18 Patterns of Families in each Gun

Gun	Big Family Villages	Big Competing Family Villages	Various Families Villages	Total
Chongwon	13 (26.5)	19 (38.8)	17 (34.7)	49 (100)
Jungwon		7 (41.2)	10 (58.8)	17 (100)
Tanyang		4 (44.0)	5 (55.0)	9 (100)
Total	13 (17.3)	30 (40.0)	32 (42.7)	75 (100)

In Jungwon Gun, there were no "big family villages", 7 "big competing families villages" and 10 "various families villages" out of the total 17 sample Ri-dongs.

In Tanyang Gun, there were no "big family villages" 4 "big competing families villages", and 5 "various families villages".

If we take a bird's-eye view of family pattern classification in the three Guns, we find 13 (17%) "big family villages", 30 (40%) "big competing families villages" and 32 (43%) "various families villages" out of the total 75 sample Ri-dongs. That is, there are more "various families villages" than "big family villages". This phenomenon may be a direction of historical progress, and this tendency should be further promoted.

The progress of productivity in earlier Korean primitive society changed the maternal family system into a paternal family system. Further progress of productivity has brought about the collapse of the family system. Only the remnants of this system still remain, and rural society is switching over to village communities. Considering the above historical inevitability, the remnants of the past family society, "big family villages" or "big competing families villages", will gradually disintegrate step by step, and finally they will be replaced by the "various families villages". The fact shown in Table 2-18 may be considered as the general tendency of historical progress. Especially the fact that there were no big family villages among 26 sample Ri-dong of Jungwon Gun and Tanyang Gun may have been caused because these are newly developing industrial areas, as mentioned before, and many newcomers are moving in there. But Chongwon Gun is not changing suddenly but gradual progress is taking place there; the "big family villages", representing the family society, still exist there.

The result of surveying family relations with respect to environmen tal conditions is shown in Table 2-19. This table also shows that the number of "big family villages" is least in all regions, and that "various families villages" have the biggest total. Whether these relative numbers reflect a historical inevitability can only be seen over a period of several years.

Table 2-19 Patterns of Families in Each Region

Region	Big Family Villages	Big competing Family Villages	Various Families Villages	Total
General	6(24.0)	7(28.0)	12(48.0)	25 (100)
Special	3(12.0)	13(52.0)	9(36.0)	25 (100)
Market	4(16.0)	10(40.0)	11(44.0)	25 (100)
Total	13(17.3)	30(40.0)	32(42.7)	75 (100)

The result of surveying family relations with respect to income levels is shown in Table 2-20. The same general tendency as in Table 2-19 and in Table 2-18 is also seen in this table. But in high and low income levels, the ratio of "big competing families villages" is comparatively high. The influences of this phenomenon and of other patterns upon rural society will be treated in later Chapters.

Table 2-20 Patterns of Families with respect to Income Level

Income Level	Big Family Villages	Big Competing Family Villages	Various Families Villages	Total
High	4(23.5)	7(41.2)	6(35.3)	17 (100)
Medium	8(22.9)	10(28.6)	17(49.5)	35 (100)
Low	1(4.3)	13(56.5)	9(39.2)	23 (100)
Total	13(17.3)	30(40.0)	32(42.7)	75 (100)

Chapter III. CONCEPT, ORIGIN AND ORGANIZATION OF KE

As far as the Ke form of organization is concerned in this research, as mentioned in Chapter I it was intended to find out not only the facts about Ke organization itself but also the possibilities of modernizing rural society through rearrangement of Ke, combining the old fashioned Ke with Ridong Cooperative Associations, the modern farmers' organization. Our research is inevitably related with this intention. The concept, origin and organization of Ke which will be treated in this chapter are closely related with the above mentioned intention. Therefore, not much time and efforts were paid for defining the concept of Ke or for discussing the origin and the organization of Ke.

Korean Ke Concept Paralleled In Other Countries

The definition of the concept of Ke is not always the same among scholars. The Korean dictionary, written by Dr. Lee, Hi Sung, defines Ke with relative clearness as follows: Ke is a form of specific Korean autonomous organization; organized by the people who live in the same area or who are related with each other with a specific social objective, and collecting a certain amount of money or grains or cloth, managing and multiplying the assets, and/or dividing the assets among the Ke members; there are many varieties of Ke. In the above definition, "people living in the same area" means that the Ke is a regional organization. "People who are related each other" indicates the case that Ke is an objective organization or organization of relatives. In case of "related people", the region is of secondary question, and the reason of union may be the matter of common interests or the sense of common ancestry.

Generally, any social system is founded or disbanded in accordance with the level of social culture in each respective age. Although the Ke itself is a specific Korean organization, similar cooperative organizations existed in either oriental or western countries in the past. In order to clarify the concept of Ke further, similar organizations

which existed in other countries in former days will be compared with Ke. Foundation, purposes and structure of these organizations were not always parallel. A portion of these systems might have some resembling features with Ke.

The Japanese Kou system was founded by a group of Danka (one branch of Bhuddism) believers who wanted to cultivate mutual friendship in the age of Kamakura, 12th Century. This was an association of money-lending, money making and mutual aid, founded upon friendship. This kind of organization was also called Tanomosi Kou or Mujin Kou. A Tanomosi Kou or Mujin Kou in recent days is intended to finance visiting and worshiping at shrines or to finance shrine credits and at the same time to finance mutual money lending or paying back debts of Kou members.1/

The Japanese Gonin Gumi system is a kind of civilian autonomous association which prevailed in the age of Tokugawa, 17th Century. For mutual surveillance, mutual security and mutual aid, this was organized by neighboring five households, and this was the smallest organization in the history of local systems. This was naturally founded as a self-protecting organization for families in the same village during the turbulent period of 16th Century. After Toyotomi unified Japan, he promoted this system for bringing order in the society.2/ Mr. Inomata has said that "Gonin-gumi in the Tokugawa Age were organized by neighboring 5 houses of same row in town and 5 houses in closest neighborhood in the country". In any case they are organized of 5 households.3/

The Chinese Po-Kia system was carried out by Primier Wang, Ahn Shek as a policy of strong soldiers in the Song Dynasty, 11th Century. One Po was formed with 10 households.

1/ From p.329, The New Economic Dictionary, by Ohta, Masataka, 1942 Published by Fuzanbo.

2/ From p.980, Economic Dictionary, eddited and published by Ohsaka Commercial College, 1939, printed by Iwanami Shoten.

3/ From p.102, History of Korean Economy, by Inomata Zenichi, 1928, Published by Taitokaku.

In case there were two young men of military age, in one household, the one was drafted and given military training and put for police duty, and such men were reserved for military purposes.1/

The English Frankpledge tithing system provided that all men not in the household of some greatman, who would be responsible for their good behaviour and appearance in court in case of necessity, should be in Frankpledge or Tithing. The Frankpledge was an association of men, generally twelve in number, the members of which were mutually responsible for the production on any one of them in court. - - - In the 12th Century the greater efficiency of the Central administration enabled the system to be regularly enforced.2/

All the past foreign systems mentioned above, were founded by a king or magnate as a policy for conserving his system after conquest or revolution or innovation. In this respect they are also similar to Korean Country Contract Ke (Hyang-yak Ke). Country Contract Ke were started 100 years after the first King of Lee Dynasty, at the time of King, Yonsan Kun. The civilization and the trend of peoples' mind became slack and relaxed, and the authority recommended to organize country contract Ke among Confucianists with the objectives of education, recommending agriculture, mutual aid and especially of criminal matters. Japanese Gonin Gumi was formed by 5 households, Chinese Po-kia formed by 10 households and British Frankpledge Tithing, by 12 mombers, whereas, Korean Hyang-yak Ke was not an organization of individual members, but was organized by a whole village as the unit.

Those organizations in foreign countries were enforced by the law, but Korean Hyang-yak Ke were only recommended by

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1/ From p.980, Economic Dictionary, Eddited by Cheaka Commercial College, 1939, Printed by Iwanami Shoten.

2/ From p.697, Encyclopaedia Brittanica, Vol.6 1942 - 51

the government.1/ Japanese Kou are similar to Korean money making Ke. British Village Club or Burial Societies functioned as mutual aid and were similar to Korean funeral Ke. Past Korean "Hopo Ke"(Ke of Cloth in individual Households) functioned as common security for paying tax. In this respect they are similar to former Russian "Mir".2/

Origin of Ke Remote, Uncertain

There are various opinions about the origin of Korean Ke which have the foregoing concept. Some (Mr. Kim Byong Ha) considered the first Ke in Korea as "Ka-bae Ke" at the time of King Yuri in Shinla Dynasty (1st Century). Prof. Kim Sam Soo claims that the first Ke in Korea was the "Bo"3/ in the Koryo Dynasty. Prof. Inomata of Japan holds the opinion that the first Korean Ke was the "Hyang-yak Ke" in Lee Dynasty. According to Prof. Kim Sam Soo, there are 19 different opinions about the origin of Korean Ke.

Since the author does not intend to develop any classical theories about Ke, the origin of Ke will not be treated from the viewpoint of historical science. The above opinions about the origin of Ke will not be discussed right or wrong in this paper.

The author is seeking only to learn when Korean Ke which has the above mentioned concept and is prevailing now in Korean rural society was started.

1/ From p.328, Consideration of History of Korean Agricultural Administration, by Saigo Sizuo, 1921, Published by Korean Agric. Association.

2/ From p.113 and p.105, History of Korean Economy, by Inomata, 1928, Published by Taitokaku.

3/ A foundation which loaned money and grains to farmers and took interest out of the stored stocks in order to implement various projects in Koryo Dynasty.

As in the case of other social systems, the starting, function and pattern of Korean Ke coincide with the social and economic stages of development in each period. They have different historical characteristics. To fix exactly the genetic origin of various rural Ke prevailing today is impossible, and does not bear much significance upon the purpose of this research. We will leave the matter to historians. The origins of various present kinds of rural Ke were surveyed through legends or written records according to time series to show possible earliest beginnings. This way is more realistic and rational for achieving the purpose of this research.

The times of starting various Ke in 75 sample Ri-dong (152 villages) were surveyed according to time series and recorded, and they are analysed and summarized in order to find out the general trend.

There were 669 Ke in total. The times of starting these Ke were surveyed by questionnaires previously distributed. The question in the questionnaire was as follows: "When was this Ke started?" And the times were divided into i) Lee Dynasty, ii) before the Liberation (from Japanese rulling) iii) After the Liberation (before Korean War) iv) after Korean War, and v) after the Military Revolution. These divisions were provided in the answer sheet as a multiple choice answer form.

Results of the survey showed that there were differences in starting times according to the kind of Ke, environment, and income level. This must have been because the organization or rise and fall of Ke, a kind of social system, coincided with the degree of social and economic development within the respective stages of historical development.

A fact which was remarkably shown (in Table 3-1) was that many Ke were organized after the military revolution, 16 May 1961. That is, 312 Ke, or 46% of total 669 Ke, were organized after the military revolution. Observing the organizing time of various Ke according to the kind of Ke, many Ke of public welfare were organized a long time ago; 83 public welfare Ke, or 61% of all 135 public welfare Ke, were organized before the Liberation. Some of them were organized during Lee Dynasty, as were some mutual aid Ke.

Table 3-1 Starting Time of Variouse Ke

Time of Starting	Public welfare	Mutal Aid	Friend-ship	Indus-trial	Money making	Total
Lee Dynastry (1392-1910)	28 (20.7)	17 (4.6)	2 (2.1)			47 (7%)
Before the Liberation	55 (40.0)	43 (11.6)	5 (5.2)		1 (2.0)	104 (16%)
After the Liberation	25 (18.5)	31 (8.3)	9 (9.4)	2 (13.3)		67 (10%)
After Korean War	15 (11.1)	88 (23.7)	29 (30.2)	1 (6.7)	1 (2.0)	134 (20%)
After May 1961	9 (6.7)	191 (51.3)	51 (53.1)	12 (80.0)	49 (96.0)	312 (46%)
Not Known	3 (2.2)	2 (0.5)				5 (1%)
Total	135 (100)	372 (100)	96 (100)	15 (100)	51 (100)	669 (100%)

The reason that public welfare Ke and mutual aid Ke were originated from far Lee Dyansty or from the time of Japanese ruling might have been caused from the following historical facts. Exactions by the feudal state of Lee Dynasty or by the colonial government of Japanese imperialism might have compelled farmers to protect themselves through organizing these public welfare Ke or mutual aid Ke.

From the ecological viewpoint, there are various forms of life in the world of animals for the weak to survive under the strong. Their protective coloring and sematic coloring are for their own protection from the enemies. There also must be a certain kind of forming a union, as a form of commensalism among people.

Ho-po Ke of Lee Dynasty, as a public welfare Ke, was organized because of the taxation system during the feudal period of Lee Dynasty. Prof. Inomata of Japan explains about this as follows: "The taxation system of Lee Dynasty was to collect the tax from a whole village, not from an individual. And thus Ho-po Ke were organized as an organization of common security."1/ It is easily understood that not only Ho-po Ke but also other kinds of Ke might have been organized in order to cope with the exactions of the feudal government.

The question of rise and fall of Ke during the Japanese ruling period should be treated in relation to how they treated Ke in the process of transferring Japanese capitalism into Korea. It seems that the Japanese tried to manage everything with the economic ideology of capitalistic indivicualism in dealing with the affairs of Korea. Thus, Korean indigenous culture and customs of Korean people faced a reform. Korean Ke inevitably received cool treatment. The first reason for this was that Ke was originally against individualism. The second reason was that the Japanese were afraid of firm unions of Korean people in any form. Thus, they tried to disband the Ke, and annexed the assets of Ke into their colonial administrative bodies. They also tried to replace the functions of Ke with new organizations such as Monetary Circulation Associations, Irrigation Associations, Agricultural Associations, etc.

The land survey project which was carried out before and after Japanese occupation of Korea (from 1906 to 1918) followed a system of claiming the ownership of land. Ownerships of land were confirmed by the government to only those who claimed it. Thus, much land which had been owned by Ke was possessed by the Government Treasury for the reason of no claim, because of ignorance about the new law.

Many farmers who were deaf to the information from the Capital failed to declare their ownership of land. Consequently, a great many parts of Korean land fell to the hands of the Colonial Government or to those of influential

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1/ from p.80 - 81, History of Korean Economy, by Inomata, 1928, Published by Taitokaku.

families. Thus, Korean rural society was recomposed into a semi-feudal system under the mask of modernization.

Concerning this, Prof. Kim Jun Bo has said, "In what form was the modern ownership of land settled along the above Land Survey Project?: The most remarkable result was the fact that the settlement of the modern ownership of land degraded the farmers under the feudal system to become the modern tenant farmers, despite various historical situations caused by the feudal system of public ownership. In other words, the right of levying the tax was recognized as the modern ownership, and the hereditary right of cultivation handed down from the ancestors was degraded to the modern unstable right of tenancy."1/ Neverthless, Korean people tried very hard to overcome the adversity; trying to promote their living standards by best use of Ke, maintaining old Ke, organizing new Ke with traditional spirit of cooperation. Mr. Moon Jeong Chang who is an agricultural research specialist, presented data (Table 3-2) and commented as follows about this matter: "Ke is the most familiar organization that has been deeply rooted in the social life of Korean people for a period of more than a thousand years. After the Japanese took Korea, in a certain aspect where the colonial order and institution did not reach, the Korean people tried hard to promote their living standard by maintaining old Ke and organizing new Ke with traditional spirits of cooperation."!2/

1/ From p.63, Agricultural Policy, by Kim Jun Bo and 6 others, 1962 Published by Baik-Yeung Sa.

2/ From p.174, History of Korean Agricultural Organization, by Moon Jeong Chang, Published by Iljo-Kak, 1961.

Table 3-2 Change of Ke Members and Assets

Year	No. of Ke	No. of Ke members	Amounts of Ke Assets	No. of Members per Ke	Amounts of Ke Assets per Ke
1926	19,067	814,138	76,044	43	3,988
1936	29,068	881,949	8,549	30	294

Remarks: Data from "Korean Ke" Surveyed by Government General of Chosen 1926 and 1936.

Present Ke Mostly Recent Economically Oriented

It was mentioned that 312 Ke, or 46% of total 669 Ke, were organized after the military revolution. More than half of every kind of Ke except public welfare Ke were organized during this recent period. Almost all of industrial Ke and money making Ke were composed after the May Revolution. This phenomenon may be explained with respect to the national or social economic changing process as follows: After the military revolution in May 16, 1961, the military government proceeded to prohibit usury in rural and fishing villages. The cases of usury reported to the committee of usury adjustment under the "Usury Disposal Law" were 1,145,150 cases of farmers and 25,521 cases of fishermen. And the reported amounts of usury were 4,599 million won from farmers and 207 million won from fishermen; 95.7% of the total 4,800 million won were from farmers. It seems that the farmers' usury, which amounted to 95.7% of the total reported amount, might have been all private debt, not officialy authorized ones. Among these, individual debts might have been included. However, a majority of these usury debts must have been the monetary circulation from Ke, judging from the reality of rural society. From the present survey of Ke was revealed something of the above mentioned facts. The details are described in Chapter IV.

When we asked the following question: "Was this Ke involved with the usury disbanding at the time or May Revolution?", affirmative answers were heard from 114 Ke, or 32.3% of the total 352 Ke up to that time. But it is estimated that far more Ke must have been involved with the usury disbanding. One reason for this may be that farmers might have not reported their usury out of Ke because of a sense of union. Another reason may be that there are sufficient possibilities for farmers to give negative answers to the above question in order to avoid the seeds of trouble. The question of this usury is treated in Chapter IV.

After the enforcement of the Law of Usury Disposal, tightness of monetary circulation prevailed in rural society. In order to tide over the difficult situation, the farmers tried very hard to help each other. Thus, it is easily seen that many mutual aid Ke, friendship Ke and money making Ke were organized increasingly. Ninety-six percent of all money making Ke, 51% of all mutual aid Ke and 53% of all friendship Ke were organized after the May Revolution, confirming the above-mentioned tendencies. Among these Ke, some of them might have been disbanded by the Usury Disposal Law and then reorganized afterwards.

On the other hand, 80% of all industrial Ke were organized during this period. This was due to the fact that the military government at that time released a great deal of funds for agricultural development in order to achieve the objectives in this field of primary industry under the 5-year plan of Economic Development (see Table 3-3). These funds were only subsidiary, not sufficient for carrying out the whole farmers' economic projects. These required considerable amounts of farmers' own funds to supplement. Thus many industrial Ke were organized to provide the necessary funds for agricultural development projects in response to the policy of government. Total funds released by NACF, which takes sole charge of agricultural credits under the policy of physiocracy of the government, were as shown in Table 3-3: 6,917 million won of revolving credit funds and 11,192 million won of government-supplied funds. A total of 18,109 million won had been released as of the end of 1962. Comparing this amount with 12,535 million won as of August 15, 1961, at the founding of the NACF, we see a big increase of 5,574 million won.

Table 3-3 Status of Funds Released by NACF

Unit=million won

Funds	August 15 1961	Dec. 3, 1962	In reace or Decrese △
Mometary Circulation Dept.			
Agricultural Fund	1,975	1,472	△ 503
Agr. & Forest Fund	1,069	942	△ 127
Rice Fund	717	1,016	299
Urury Disp Fund	243	2,689	2,446
Fishery Fund	-	242	242
Animal & Fish Special Fund	-	556	556
Sub-total	4,004	6,917	2,913
Fiscal Dept.			
Agric Fund	2,518	4,309	1,791
Irrigtn Fund	6,013	6,603	590
Warehouse Fund	-	76	76
Fishery Fund	-	204	204
Sub-total	8,531	11,192	2,661
Grand Total	12,535	18,109	5,574

Data from p.296-297 History of Koren Agr Credit, NACF, 1963.

Ke Organized Around Family or Community Group Interests

Korean rural communities are always found as collective villages. This is just the opposite of the open-country of American rural society. In case of Korea, looking from the historical point of view, such formation of villages or communities might have occurred after stationary agriculture which succeeded primitive nomadic agriculture. The first stage of village formation may be solely by closest family members. These small communities of close families must have been increasing to form same-family members. Most villages are formed of many families. But the traces of being a family village are frequently found in many places. As was described in Chapter 2, the "big family village" is a village that once was a same-family village.

As social progress was being made, strangers might have moved into the same-family villages. As mentioned before, it was found out in this survey that there were more various-families villages in newly developing areas because of horizontal movement of population, and there were more big-family villages in old-fashioned conventional areas (see the fifth Article, Chapter 2).

Korea is characterized by long history and conservative traditions. Korean rural communities were isolated until recent days. The former feudal government let the villages alone as a social orphan because of poor finance, laxity in official discipline and fall of ruling powers. Furthermore, rural communities were considered and treated as objects of exploitation by the rulers.

Over time in western countries, capital of the common people affected royal families, noble families, and other ruling classes, and made the feudal system collapse, converting feudal capital into industrial capital. However, in Korea the contrary condition prevailed for a long time, the upper class oppressing the lower class, and the rulers exploiting the common people. Villages were really groups of poor people: The villagers' life was not a living but simply existing. For geographical reasons, inconvenience of transportation, and direct or indirect restrictions upon occupation and residence, villagers of old days confined themselves

within the boundary of a village for many generations. Their range of contact was restricted to the small regional communities to which they belonged. Since villagers frequently meet with each other, mutual intimacy and confidence caused by the territorial relation were natural. From the fact that frequent face-to-face contacts among villagers last as if for forever, Dr. Wang In Kun has named such villages "the primary groups" or "teritorial groups", and Dr. Lee Man Kap has named them "face-to-face contact groups" or "neighboring groups". The permanence of these face-to-face contacts made the villagers to have a common social will or common ideology.

On the other hand, as explained before, villagers who had been neglected by successive feudal governments had to take full charge of production, living and even public order and self protection in the village. The power of each individual was too weak to protect himself from natural and artificial disasters. For fulfilling their ordinary desires and security, they realized that their small group as a neighboring group was the most beneficial institution. Thus, a sense of mutual reliance were formed. The phenomenon of symbiosis, which is found in the natural world by biologists — between birds and alligators, beans and Pseudomonas Radicicola (nitrogen fixing bacteria), etc. — is also formed and developed among villagers. The sense of cooperation and reliance among villagers such as this made the villagers consider every matter in a collective manner. That is, the welfare of a villager cannot be fulfilled without security and welfare of the group to which he belongs. And welfare of the group is also the welfare of the members of the group. Happy or unhappy events for one group member are also happy or unhappy events for the whole group. Thus, the expression of "we" is more frequently used than that of "I"
They lived in a sense of "each for all, and all for each"

Tradition, Religion, Strong Bonds for Village Ke Units

The size of natural villages, as the realm of collective life of villagers like this, was surveyed by the author in 1966 and is shown in Table 3-4. Each village in that survey held 70 households on the average. Ri or Dong, as the administrative village, consisted of 2.4 natural villages.

Table 3-4 Size of Natural Villages (1)

No.of Ri-dong (A)	No.of Villages (B)	No.of Households (C)	Households per Villages (C/B)	Villages per Ri-dong (B/A)
25	61	4,264	70	2.4

Data: From p.21 Vol 8 Agricultural Economics Research, by Korean Society of Agricultural Economics 1966.

About the size of natural villages, Dr. Lee Man Kap has said that one village consists of about 60 households on the average, and one administrative village. Ri or Dong, consists of 3 natural villages.1/

In the present survey, the size of natural villages was found to be about 80 households on the average, as shown in Table 3-5, and about 2 natural villages made one administrative village, Ri or Dong. It can be concluded that the size of natural village, today, is about 60 - 80 households and Ri or Dong, as administrative village, consists of 2 - 3 natural villages.

Table 3-5 Size of Natural Villages (2)

Gun	No.of Ri-dongs (A)	No.of Villages (B)	No.of Households (C)	Households per Village (C/B)	Villages per Ri-dong (B/A)
Chongwon	49	111	7,326	73	2
Jungwon	17	42	3,346	80	2.5
Tanyang	9	9	1,426	158	1
Total	75	152	12,098	80	2

1/ From p.128, Rural Sociology, by Lee Man Kap, Issued by Minjosa, 1965.

Another fact to be seen in Table 3-5 is that the size of villages in the mountainous area (Tanyang) is larger than in plains areas (Chongwon and Jungwon). This may be one characteristic of mountainous areas.

The bond of a family group is the sense of common ancestry. The bond of a neighboring group is the necessity of collective life. And another bond not to be neglected is a kind of common belief which maybe originated from Shamanism. In most villages, they have religious (superstitious) services, they pray together to the gurdian deity in the tutelary shrine of the village for their peace, protection from disasters and for good crops. Agriculture is an industry very susceptible to natural environment. Rich or poor harvest is considered to be solely dependent upon the great power of nature. Thus, farmers are afraid of nature and apt to become fatalists.

The villagers think that an old legendary tree in the village possesses super-natural power. They usually decide that this old legendary tree is the guardian deity or the tutelary god. They build an altar or a shrine before this tree and perform joint religious services several times a year. These services are performed not only on occasions of thanks giving but also on occasions of drought, flood and other natural disasters. This is a kind of folk religion.

Even today we can easily find an old tree which has been the tutelary god at the entrance or in the middle of a village. This is similar to the Totem in foreign countries, and became a symbol of the village. Strangers are supposed to pay due respect to this symbol. Anyway, villagers have been united together on the basis of production material, utilization of land, necessities of collective life, and through above described folk religion.

Each village (group) united by various bond factors like this is characterized by cooperation of the villagers. Any stimulation makes their cooperation stronger. This fact can be estimated through examination of the following events: A Notable role was played by "Mun-Mu Ke" (Civil and Military Ke) at the time of conflict between civil and military officers during the Koryo Dynasty. Numerous other Ke were organized

in order to overcome the economic difficulties during the Japanese ruling period, after the Korean War, and after the May Revolution.

Community Interest Ke Usually Compulsory And Large

In order to study the status of organization of various Ke, we asked the following question: "Who are the members of this Ke?"

To this question 199 Ke, or 30% of the total 669 Ke, answered that the members of the Ke were every household in the village (they were so-called Ri-dong Ke). The next most frequent answer (17%) was that persons of the same age constituted the members of Ke.

When we classified the Ri-dong Ke with respect to their objectives, 127 Ke, or 64% of 199 Ri-dong Ke, were public welfare Ke and the next biggest group were mutual aid Ke, 55 Ke (28%) (see Table 3-6).

Principal objectives of Ri-dong Ke, which consist of all households in the Ri-dong, were matters of public welfare in that group. Some Ri-dong Ke, the objects of which were not only public welfare but also mutual aid, also forced all the households within the territory of Ri-dong to join the Ke. This is considered to be an old time tradition originated from the collective ideologies of farmers, cooperative spirits and traditional conservatism. This fact is clear if we examine Table 3-6. That is, out of all 135 public welfare Ke, 127 Ke, or 91% of all were organized with every household in the villages.

The following are some Ke Regulations discovered by the author when he conducted a Ke survey in 1966.1/ we can see that these articles compel the villagers to join the Ke.

1/ Data are from p.22, Vol.8, Agricultural Economics Research, issued by Korean Association of Agricultural Economics, 1966.

Regulations of Dong Ke

Kwanki Dong, Sangsu Ri, Namil Myon, Chongwon Gun.

Article 3. Organization of this Dong Ke is formed by the heads of all homes or households in this Dong.

Article 23. Anyone who lives in this Dong for more than one year is compelled to join this Ke.

Regulations of Dae Dong Ke

Mukjong Ri, Yangkang Myon, Youngdong Gun, Chung-puk.

Article 1. All heads of households within Mukjong Ri are obliged to join this Ke.

Collective characteristics of villagers like this are almost unwritten law even where they are not codified.

Many Ke With Small, Optional Membership

The reason that there are relatively many Ke which are organized by members of about same age is considered because of the community of combining factors in mutual union of people. For example, a union of people is easily formed when they have such things in common as age, situation, education, thought, hobby, economic power, occupation, etc., on the assumption that they are in the same environment. Same age mentioned here does not mean exactly same age but includes differences of about 2 - 3 years. Ke of this kind are organized among young men, middle aged men and old men. The objectives of this kind of Ke are, as seen in Table 3-6, mainly mutual aid, friendship, money making, etc. The specific names of such Ke, which they are called in rural society are such as same age Ke, 60th birthday Ke, friendship Ke, marriage/funeral Ke, flower party Ke, confidence Ke, etc.

Table 3-6 Clasified Answers to the Question: "By whom is this Ke Organized?"

Type of Membership	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Every household of the village	(94%) 127	(14.8) 55	(10.4) 10	(6.7) 1	(11.6) 6	(29.7) 199
Same Families	(0.8) 1	(15.0) 56	(5.2) 5		(19.6) 10	(10.8) 72
Same ages	(1.5) 2	(20.4) 76	(28.1) 27	(6.7) 1	(19.6) 10	(17.3) 116
Old Men		(4.6) 17	(9.5) 9		(2.0) 1	(4.0) 27
Men of Medium Age	(0.8) 1	(15.3) 57	(7.2) 7		(7.8) 4	(10.4) 69
Young Men	(0.8) 1	(7.3) 27	(16.7) 16	(6.7) 1	(2.0) 1	(6.9) 46
Others	(2.1) 3	(19.4) 72	(22.9) 22	(73.2) 11	(37.2) 19	(19.0) 127
No answer		(3.2) 12		(6.7) 1		(1.9) 13
Total	(100) 135	(100) 372	(100) 96	(100) 15	(100) 51	(100) 669

More Ke are orgainzed by middle aged men than young men and/or old men. As a matter of fact, the people of middle age are not only active in Ke but also in every aspect of village life they have leadership and exert influence.

Only 172 Ke out of a total of 669 Ke were organized with only members of the same family name. It seems that in case

of marriage or funeral Ke, all members must join by Ke regulation and pay their shares and act accordingly, thus mutual friendship is promoted; whereas, within a society all of the same family, all important maters in peace as well as in peril are handled very cooperatively without such written regulations. A more detailed description about this is given in Chapter V, about Ke and Environment.

In order to examine the size of Ke, the following question was asked of all 669 heads of Ke: "How many members does this Ke have?" The answers to this question were grouped into 8 classes from less than 10 members to over 70 members. The mode was found at the class of from 11 to 20 members; There were 262 Ke, or 40% of 669 Ke, within this class (see Table 3-7).

Table 3-7) Number of Ke Classified by Kind and Number of Members

No. of Members	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Less than 10	(1.5) 2	(8.9) 33	(25.0) 24	(26.7) 4	(19.6) 10	(10.8) 73
11 - 20	(4.4) 6	(47.3) 176	(46.9) 45	(33.3) 5	(58.8) 30	(38.9) 262
21 - 30	(15.6) 21	(25.5) 95	(14.6) 14	(26.7) 4	(17.6) 9	(21.3) 143
31 - 40	(17.0) 23	(9.7) 36	(8.3) 8		(2.0) 1	(10.2) 68
41 - 50	(17.0) 23	(4.6) 17	(2.1) 2			(6.3) 42
51 - 60	(6.8) 9	(0.5) 2				(1.8) 11
61 - 70	(8.1) 11	(1.3) 5				(2.5) 16
More than 70	(29.6) 40	(2.2) 8	(3.1) 3	(13.3) 2	(2.0) 1	(8.2) 54
Total	(100) 135	(100) 372	(100) 96	(100) 15	(100) 5	(100) 669

As shown in Table 3-7, the mode of public welfare Ke, of which there were 135, was found in the class of more than 70 members; there were 40 Ke in this class. We could easily understand this phenomenon from the facts that 91% of all public welfare Ke were organized with all households of the village and the average size of village was about 80 households. All other Ke, except public welfare Ke, were usually organized by 11 - 20 members as shown in Table 3-7. Since there were not many persons of the same age in the same village, same age Ke or 60th birthday Ke were often organized by about 5 members. This kind of Ke was intended not only to pursue friendship but also to aid each other in holding the ceremonies of 60th birthday of their own or of their parents.

In order to examine the components of all Ke members in all 669 Ke, the answers were analysed again and tabulated as shown in Table 3-8.

Table 3-8. Number of Ke Members

Kind of Ke		Public welfare	Mutual Aid	Friend-ship	Indus-try	Money Making	Total
No. of Ke		135	372	96	15	51	669
Number of Ke Members	Man	8,543	7,076	1,890	542	274	18,325
	Woman	675	1,671	607	10	623	3,586
	Total	9,218	8,747	2,497	552	897	21,911
Average per Ke		68	23	26	37	18	33

There were 21,911 members in total, or 33 members average per Ke. The public welfare Ke, which force all villagers to join, had 9,218 members, or 68 members average per Ke. This means 68 households, and is related with the average size of general villages.

A specific phenomenon shown on Table 3-8, was found in money making Ke: 623 members or 69% of all 897 members of this kind of Ke, were women. The tendency of money making Ke to be run by women in cities seems to apply also in rural areas.

With respect to income level, low income classes have the largest number of Ke. As shown in Table 3-9, the average number of Ke members per Ri-dong was 326 (the largest) in the low income class. This may be because of the fact that rural Ke were a protective measure of poor farmers, and thus the low income class resorted more to Ke than other classes of people. This is treated in detail in Chapter V.

Table 3-9. Number of Ke Members

Income Level		High	Medium	Low	Total
No. of Ri-dong		17	35	23	75
Number of Ke members	Man	2,761	9,134	6,430	18,325
	Woman	667	1,840	1,079	3,586
	Total	3,487	10,974	7,509	21,911
Average per Ri-dong		205	313	326	292

The following question was asked directly to each of 1988 members of Ke: "How many Ke are your family involved with?" The 1918 answers to the above question (excluding 70 no-answers) were classified and tabulated as shown in Table 3-10.

Table 3-10. Number of Ke joined by 1918 households

Income	Interviewed Person	Number of Ke	Average per Person
High	360	913	2.5
Medium	873	2,663	3.1
Low	685	2,258	3.3
Total	1,918	5,834	3

Total number of Ke to which the families of 1918 persons interviewed joined was 5,834 Ke. Every household was involved with 3 Ke on the average. Especially there were 3,274 mutual aid Ke, or 56% of all. This suggests the tendency of Ke in rural society. This is discussed in detail in Chapter V. Here again families of low income level joined more Ke, as they did with total Ke as shown in Table 3-9.

Ke Have No Legal Basis, But Regulations Binding

As is well known, though rural Ke served important roles such as useful contributions to the welfare of villages or to the survival of villages under feudal governments in former days, they are not yet incorporated on a legal basis: no Ke is protected by law. The organization of Ke does not require legal procedure. Anyone who agrees with the regulation of Ke is allowed to join. However, even though there are certain cases of open membership, in many cases memberships are restricted by various factors. Some restricting articles in regulations of Ke are as follows:

Regulations of Youth Ke

Sangpyong Ri, Ochang Myon, Chongwon Gun.

Article 2. Unmarried residents of this Ri are allowed to join this Ke by their own will.

Note: This Ke was organized December, 1963 and had 13 members as of 1966.

Regulations of High Class Ke

Jongyong Ri, Koisan Myon, Koisan Gun, Chung-puk.

Article 4. This Ke is organized by discharged soldiers as its mbmers.

Note: This Ke was organized December, 1958 and had 16 members as of 1966.

Regulations of Intimacy Ke

(The same Ri as the above case).

Article 1. The members of this are restricted to the residents of the Ri of above 45 of age.

Note: This Ke was organized in 1961 and had 30 members as of 1966.

As is seen in the above articles of Ke regulations, even open memberships have such restrictions as unmarried, discharged soldier, or ages of above 45, etc. We can also see that restrictions of membership are also often made with family names, religion, classes and other elements. Such tendencies of exclusive cliques are often practiced not only at the time of organization but also at the time of Ke management. This will be discussed again in later chapter. The fact that the present Law of Agricultural Cooperative Associations employs an open membership policy in joining and withdrawal, and states strong neutralism from religion and politics, is a fortunate thing for stabilizing modern improved organizations of farmers. The following are some additional examples of Ke regulations which restrict membership.

Regulations of Cattle Ke

Chongpung Ri, Seokkong Myon, Kwangju Gun, Cholla Namdo. (Surveyed by Prof. Inomata, 1928)

Article 3. This Ke is organized by 60 members who live in Chongpung Ri and agree with the idea of this Ke.
(From P.251, History of Korean Economy, by Inomata, Issued by Taitokaku, Japan, 1928)

Regulations of Filial Duty Ke

Sangsu Ri, Namil Myon, Chongwon Gun.

Article 7. The number of this Ke members can not exceed 30.

Note: This Ke was organized 1937 and had 13 members as of 1966.

The above cases of Cattle Ke and Filial Duty Ke employ the policy of relatively open membership, with the number of members restricted to 60 or 30. Comparing to these Ke, so-called City Ke naturally decide the number of members, such as 24 members for 5% Ke and 20 members for 6% Ke.

As is seen in the above sample regulations of Ke, a Ke is an arbitary body organized by mutual consent of qualified persons who agree to the objects andthe idea of the Ke. Excluding such Ke as Ri-dong Ke or Pine Ke1/ which force all villagers to join for projects of public welfare, entry to Ke membership is optional in principle.

The following question was asked of each of 1,988 members of Ke interviewed for this survey: "How did you join this Ke?"

Among the answers to the above question, 82% of the total showed that he or she joined the Ke out of his own free will. Excluding public welfare Ke, 90% of the total joined the Ke by free will.

1/ Pine Ke is for planting trees on commonly owned hills or forests and for guarding and managing such commonly owned forests, and membership is forced on every villager as in the case of Dong Ke.

Table 3-11. Answers to: " How did you join Ke?"

Answers	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Obligation	(48.0) 193	(7.5) 83	(4.6) 13	(17.8) 8	(0.7) 1	(14.9) 298
Free will	(47.3) 190	(90.0) 999	(90.0) 253	(77.8) 35	(95.3) 143	(81.3) 1,620
Other's persuasion	(0.5) 2	(1.1) 12	(0.7) 2		(2.0) 3	(1.0) 19
Because others do	(0.2) 1	(0.5) 6	(2.9) 8	(4.4) 2	(1.3) 2	(1.0) 19
No answer	(4.0) 16	(0.9) 10	(1.8) 5		(0.7) 1	(1.6) 32
Total	(100) 402	(100) 1110	(100) 281	(100) 45	(100) 150	(100) 1,988

Ke Participation Follows Seasonal And Member-Capability Patterns

Timing of organizing Ke is immaterial for City People, but for farmers it is quite different because of the characteristics of farming business. In order for the farmers to gather in one place at the same time, (1) the time must be the farmers' slack seaon, and (2) in order to be able to collect the shares of Ke, the time must be a little after harvest. Not only the organizing time but also the successive general meetings of rural Ke are usually held during December or January.

Investment

The share of Ke at the time of organization is not always the same according to the kind of Ke, but the author found it was usually 10 liters of white rice. In some cases, they

decide upon 10 liters of rice plus a certain amount of cash. And in cettain upland areas, 10 liters of soybeans or 5 liters of rice and 5 liters of beans are collected at the time of initiating a Ke. In some exceptional cases, in some family Ke, the shares are not uniform among the members; rich members contribute 100 liters or more while poor members contribute 10 liters.1/ Some Picnic Ke do not require any contribution at the time of initiation, but only occasional assessments are made on such occasions as flower viewing parties or fishing parties.

As mentioned before, the first contribution to a rural Ke is usually 10 liters of white rice. An interesting contract is observed when we compare the above initial share with 400 won, the initial payment required for joining a Ri-dong Co-operative Association. This is discussed again in Capter V.

Certain Ke require submission of an application form for a new membership entry or for an additional entry.

In certain Ke an additional entry required 2 or more members' recommendations and approval of the head of Ke.

Withdrawal from a Ke may be made in accordance with the member's will, in principle. Some regulations state that moving out of the Ke member from village or death of the member automatically is the reason of withdrawal from the Ke. Some regulations illustrating the above are as follows:

Regulations of Funeral Ke

Sangsu Ri, Namil Myon, Chongwon Gun.

Article 3. When a member of this Ke moves out of this Dong, he is disqualified to be a member.

Note: According to the survey conducted by the author 1966 - 1967.

1/ Family Ke are organized in order to manage the forest where their family graves are and to manage the cropland set aside for ancestry worship. Therefore, richer members may usually contribute more than other members.

Other than these, withdrawal is enforced by the authority of Ke head or by the decision of General Meeting when the member does not pay his share or violates a regulation of the Ke. Although the withdrawal is prescribed as, "by the will or by moving out of the village one can withdraw", there are certain restrictions against free withdrawals directly or indirectly. Direct restrictions are imposed against withdrawals from Ri-dong Ke or Pine Ke, public welfare Ke, and from family Ke, etc. Indirect restrictions against free withdrawals can be seen by examining the regulations about refund in case of withdrawal. Following are some examples:

Regulations of Filial Duty Ke

Yusang-Yo Dong, Yonpung Myon, Koisan Gun, Chung-puk.

Articl 8. Withdrawal from this Ke is not allowed in principle unless one moves out of the village.

Regulations of Dong Ke

Bongsan Ri, Kang-oi Myon, Chongwon Gun.

Article 2. - - - - at the time of withdrawal, previous contributions shall not be refunded.

Note: According to the survey conducted by the author 1966 - 1967.

There were certain Ke which prescribed that disqualification is not due even after one moved out of the village. Withdrawal of members from the group is not encouraged anywhere. Most Ke have a tendency to check withdrawals.

The duration of continuing Ke, as an arbitrary body, is not always the same. In case of city Ke, 8% Ke (20 members Ke) expires at the end of 20 months and 5% Ke (24 members Ke) expires after 24 months. That is, each city Ke lasts just the same months as the number of members, and most of them are short termed. Of course there are certain similar kinds of Ke in rural areas, too, but most rural Ke are characterized by long terms. Some Ke have written regulations of lasting "for-

ever" or "permanently". Following are some examples.

Regulations of Pine Ke:

Yusang Ri, YonPung Myon, Koisan Gun, Chung-puk.

Article 3. The duration of this Ke is not restricted.

Note: According to the survey conducted by the author 1966.

Following are a part of regulations of Funeral Ke surveyed by Prof. Inomata, 1928, from Sunchon Gun, Pyong-an-Pukto.

Article 18. Duration of this Ke is parmanent.

Note: From P.258, History of Korean Economy, by Inomata, 1928.

Of course, not all of rural Ke last forever. Some (not many) money making Ke, cattle Ke, or industrial Ke for reclamation of land, last only while the project lasts. The duration of this kind of Ke is usually 2 - 10 years in general. Disappearance of Ke assets is a cause of disbanding the Ke regardless of its achievement. It was mentioned before that after the May Revolution, many Ke were disbanded because of disappearance of their assets. Anyway, rural Ke are mostly long termed and they can be described as semi-permanent. This characteristic may have arisen because rural Ke have been conserved within the stationary condition of rural society. Without thawing of ice, wintering of forgs may be continued.

Ke Leadership Elective But Elder-Dominated

In any Ke, there are a head and other officers. Officers of Ke are different according to kind of Ke and to districts. Generally there are head, vice head and several officers called "Yusa". The head of a Ke is elected by the members. In most cases the oldest member becomes the head of a rural Ke.

The Confucian ideology of order in ages is still predominant in rural society; Koreans are apt to listen to elders. The old persons in a village, the village elders, have initiatives upon villagers; they have an invisible leadership. Thus, in carrying o[illegible]rious activities of Ke, the leadership of elders acts advan[illegible]ously. Other officers of Ke are assigned by the head or elected by the members at a General Meeting. In case of electing the vice head and several officers of Ke, modern methods of confidential voting are not practiced. Usually some rich person or enthusiastic person among the members is orally recommended, and decided by raising hands. Following are some of the regulations about this and we see various different ways.

Regulations of Dong Ke

First Ku, Mukjong Ri, Yangkang Myon, Yongdong Gun, Chung-puk.

Article 3. The person to be in charge of commonly owned property of this Ke will be selected. The managing staffs will be as follows: One Manager, two Vice Managers and two assistants.

Article 4. The term of managing staff's service shall be one year.

Regulations of Pine Ke

Yusang Ri, Yongpung Myon, Koisan Gun, Chung-puk.

Article 9. As officers of the Ke, there shall be one head, one clerk, one treasurer and two councillors.

Regulations of Filial Duty Ke
(The same place as above.)

Article 5. As officers of this Ke, there shall be one head, 2 vice heads, one secretary general and several secretaries.

Article 6. The head of Ke shall represent the Ke and vice

heads shall assist the head. Secretary general shall handle all paper work of Ke. Secretaries shall be appointed every 5 members and they shall supervise 5 respective Ke members.

Note: Data were obtained by the author, 1966.

The names of officer of Ke are different in the above examples, but their duties are similar. A notable fact is that the authority of the head of the Ke seems very great. That is, the head has the authority of expelling members, and every member of a Ke is a supposed to be absolutely obedient to the order of the head. Following are some of the authorities of the head of a Ke.

Regulations of Funeral Ke

Songwu Village, Yuson Ri, Yongpung Myon, Koisan Gun, Chung-puk.

Article 7. The head of this Ke shall be able to expel any member of Ke who grumbless at this Ke or makes trouble.

Article 8. Members of this Ke shall be absolutely obedient to the order of the head. And the head has the authority to hire any member at any time.

Regulations of Pine Ke

Sangsu Ri, Namil Myon, Chongwon Gun.

Article 2. Each member shall be absolutly obedient to the orders of the head and other officers of the Ke.

Regulations of Friendship Ke

Kalkum Ri, Yongpung Myon, Koisan Gun, Chung-puk.

Article 6. The head shall command the members and the members shall be obedient to the order of the head.

Note: Data were obtained by the author from 1966 to 1967.

Not all Ke heads hold the great authority mentioned above. In many cases the important matters are prescribed to be decided at the General meeting.

Chapter IV. FUNCTIONS OF KE

Since a rural Ke is a union of specific natural persons within a certain area, in order for carrying out its function there should be meetings of Ke members for setting up projects and exchanging ideas of Ke members, as well as the above mentioned various officers of Ke such as head, secretaries, etc. Generally the term of projects is one year, and there are one or two general meetings during this term. There are also extraordinary general meetings at the request of the head or members of the Ke. A Ke is not different from other ordinary organizations in this respect. The following are some of the usual Ke regulations concerning meetings;

Regulation of Friendship Ke

Changkwan Ri, Jinchon Myon, Jinchon Gun, Chung-Puk

Article 6. The general meetings of this Ke shall be held on November 20th of the lunar calendar every year (around middle of December by solar calendar).

Regulation of Filial Duty Ke

Yo Dong, Yusang Ri, Yonpung Myon, Keisan Gun, Chung-Puk.

Article 10. General meetings of this Ke shall be convened twice, in June and in December by lunar calendar, every year. In general meetings the status of projects and the settlement of accounts shall be reported.

Article 11. Extraordinary general meetings will be convened by the head in case of need.

Note: The above information was obtained in an actual survey by the author in 1966.

The functions of all rural Ke are carried out in such a manner that the collective will decided by the general meeting, the formal decision making organ, is put into action through the executive organ, the head of Ke and the secretary general. However, because of the conventional tradition of

self-government of villagers and loose organization of Ke projects, the above mentioned two organs are not clearly demarked; the offices of the excutive organ are essentially honorary posts without pay, and they are held by the members of Ke in turn.

Any Ke, whether it is in an urban area or in rural area, carries out its objectives through propagation of Ke funds (or grains) which are the material basis of the Ke. In case of money making Ke, the basic objective of the Ke is to increase the Ke funds by taking interest; disregarding its merits and demerits it does its best to propagate the Ke funds. Even in case of other Ke such as public welfare Ke, mutual aid, friendship, industrial, etc., the basic objectives of which are not propagation, they seek propagation or interest as in case of money making Ke. Not only this, but also their means of pursuing interest are often more severe than those of money making Ke employing the pre-modern methods of exploitation.

Any organization requires funds in order to carry out projects, and in order to prepare the required funds propagation should not be neglected. But in case of Ke, the point is that they employ pre-modern methods of exploitation in making money. A more detailed discussion about this matter will by given in Chapter 5.

When any Ke is said to function well and be managed well, this means that the funds of the said Ke are well formed and propagated through pre-modern methods of exploitation. It is considered to be very important in understanding the present status of Ke, to find out whether all Korean Ke have been engaging in severe high interest usury from the past. About this Prof. Kim Sam Soo[1] has said: "An official institute, 'Bo', founded in the Koryo Dynasty for loaning grains to people, was changed to be a system of usury. This system was further changed to become a means to govern people. On the other hand, farmers formed a union Ke, as a counter-measure and it came to practice usury."

1/ From P.288, Research on the Social and Economical History of Korea, by Kim, Sam-Soo 1964, Bak-Yong Sa.

The usury practiced by the feudal government toward farmers was seen not only at the time of Koryo Dynasty, but also at the time of Lee Dynasty to an extended scale. The following fact eloquently explains the social-economic status of Lee Dynasty: "King Yong-Jo considered that usury practiced by the government authorities taking high interest from people should be stopped in order to save the face of the Kingdom and to protect the economic life of people. And the King ordered to burn all the bonds of debt."2/

As described above, severe extortion of farmers by successive feudal governments might have caused formers to form some sort of organizations which functioned by usury as a counter-measure. Such exploitation from the upper class against the lower class, and the counter-measures taken by the lower class forming usury organizations, were continued until lately, especially during the Japanese ruling period the exploitation was enforced.

The Japanese tried to transplant their various capitalistic systems quickly to depressed Korea. In so doing, they tried to incorporate Korea within their line of propagation of Japanese capitalistic economy. The farmers who were in low cultural standard and lacking knowledge were unable to manage themselves successfuly in the new economic system.

In terms of the economic history of the destitute, the weak struggled to exist under the strong. When various modern institutious were enforced under the condition of low productivity caused by the contradictory relation between required production and poor methods of production, various aspects having non-modern characteristics inevitably resulted. That is like in the fable of "white crow": A new system does not make the mind of the people new. A change of social system into modern form does not make the traditional relations adaptable to it. Such antinomic phenomena are especially remerkable in case of rural socisty. Especially in case of farmers' monetary market, the predominant banking organs of recent rural economic society are mostly individual ones such

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2/ From P.182, History of Korean Economy, by Dr. Choi, Ho-Jin, 1942, Kyong-Eung Seobang.

as pawn shops, usury, merchants, wine shops and land owners, etc. Usury of merchandise, usury of live stock and usury of land have been practiced.

It was one characteristic of Korea that government officials also took a great part in exploiting poor farmers. Such exploitation of farmers by officials was started not recently, but from old days. However, in recent days they exploited the farmers by lawful means. Korean Ke, whose rise and fall had been dependent upon the exploitation of farmers by feudal governments or Japanese capitalism, involved some antimonic aspects in their physiology. That is, as a counter-measure against exploitation by the upper class (ruling class), accumulations of Ke funds were made through usury, and the debtor of this usury was the farmer who was a member of the Ke. In other words, the Ke which were the union of poor farmers with the objectives of counteracting the exploitation by feudal usury or Japanese colonialism functioned as mutual exploitation through pre-modern usury.

The conventional usury system called "Jang-Ri" was widely practiced during feudal times. This "Jang-Ri" system, which loans grain with high interest, is also widely practiced in today's rural society. The usury characteristics of "Jang-Ri" can be seen as follows: At the time of spring poverty, 100 liters of grain (mostly white rice) was loaned and 150 liters would be paid back (50% interest) at the time of harvest, after 6 months. This means more then 8% per month of interest. Such high rates of interest are still practiced as far as the grains of "Jang-Ri" are concerned. Most of present rural Ke employ this method of "Jong-Ri" as the means of accumulating thier Ke funds. The contributions to the Ke were made with grains to start with. These grains were increased by means of the above "Jang-Ri". In short, even today's rural Ke employ usury with very high interest in order to carry out their functions.

How we are to see the aspects of accumulating assets of various Ke which have been found out through this survey. Table 4-1 shows classified answere from 311 heads of Ke to the question, "What is the source of increasing the funds of this Ke?"

Table 4-1 Source of Increase of Ke Assets

Source of Assets	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Jang-Ri	55(84.6)	173(935)	45(93.7)	5(83.3)	6(85.7)	284(91.3)
New Entry	2 (3.0)		1 (2.1)			3 (1.0)
Tenancy	4 (6.2)	3 (16)				7 (2.2)
Collection			2 (4.2)	1(16.7)	1(14.3)	4 (1.3)
Other	4 (6.2)	9 (49)				13 (4.2)
Total	65(100)	185(100)	48(100)	6(100)	7(100)	311(100)

From the above table it is seen that 284 Ke, 91% of the total, are employing "Jang-Ri", the grain usury, in order to increase the assets of Ke. Such a phenomenon is not peculiar to thise 311 Ke, but must be quite common to all rural Ke in Korea.

Among properties owned by Ke, there should be immovables and movable ones; thus there may be grains as goods and cash. In order to increase the property of Ke, Jang-Ri was practiced as high interrest loans of grains, and also cash was loaned at usury.

Managemental condition of Ke assets was surveyed next in contact with the heads of 669 Ke. The following question was asked of each head of 669 Ke: "How is the property of this Ke managed?" The answers to this question were classified and tabulated as shown in Table 4-2. From this Table we can see various aspects of management such as usury, donation, etc.

Table 4-2 Management of Ke Assets

Asset Management	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Jong-Ri	99(73.3)	261(70.3)	73(76.0)	9(60.0)	8(15.7)	450(67.2)
Jong-Ri and Cash-loan	12 (8.9)	18 (4.8)	6 (6.3)	1 (6.7)		37 (5.5)
Cash Loan	10 (7.4)	23 (6.2)	7 (7.3)	1 (6.7)	15(29.4)	56 (8.5)
No-Interest Loan	1 (0.8)	2 (0.5)	1 (1.0)			4 (0.6)
Donation		11 (3.0)	2 (2.1)		7(13.7)	20 (3.0)
Other		57(15.3)	7 (7.3)	4(26.6)	21(41.2)	89(13.3)
No Answer	13 (9.6)					13 (1.9)
Total	135(100)	372(100)	96(100)	15(100)	51(100)	669(100)

As shown on the above Table, 450 Ke, or 67% of the total, are employing entirely "Jang-Ri" in the management of their assets. Next to this, 37Ke (6%) are employing both "Jang-Ri" and cash loan. There are 56 Ke (9%) which practice only cash loans. Even in case of loaning cash, the rates of interest are as high as in case of "Jang-Ri". Thus the total number of Ke which are engaged with usury either in goods or in cash amounts to 543 Ke, or 82% of the total. We see from this that the majority of present rural Ke are practicing usury in order to increase their assets. This fact can also be well seen at Table 4-1 "Source of Increase of Ke Assets".

Table 4-2 also shows that there are a few Ke which are loaning money without interest or are making donations, despite the fact that the majority are engaged with usury for propagation of their assets. The number of Ke which make donations was 20, Or 3% of the total. Such Ke are found among

mutual aid, friendship and money making Ke; they are carrying out their fuction generally in two forms. One form which is often seen among mutual aid Ke and part of friendship Ke is such that the members do not contribute anything at the time of organizing the Ke but certain shares are collected from the members on the occasions of condolences or congratulations of any member of the Ke. The amount of collected shares is donated to the person concerned. The other form of donation made by Ke, which is mainly seen among money making Ke, is such that donations are made regularly instead of being intermittent. Every member of the Ke is supposed to receive the total amount of money collected from all members in a regular interval of time, taking his turn. All members pay their shares at regular intervals of time. From the standpoint of Ke members who pay the shares, this is also considered a donation to the person concerned.

In order to learn the rates of interest of the above "Jang-Ri" and cash usury employed by Ke, the following question was asked of every head of Ke: What are the rates of "Jang-Ri" and cash loan? Classified answers to this question are tabulated in Table 4-3.

Table 4-3 Rate of Interests of Loan From Ke

Rate of Interest		Kind of Ke					
		Public Welfare	Mutual Aid	Friend-ship	Indust-rial	Money Making	Total
Jang-Ri	20%	1	2	1			4 (0.8)
(6 month)	30%	12	11	2			25 (5.1)
	40%	45	117	36	4	5	207(41.5)
	50%	52	148	40	6	3	249(51.2)
	60%	1		1			2 (0.4)
Total		111	278	80	10	8	487(100)

Rate of Interest	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indust-rial	Money Making	Total
Cash-loan 24%			1			1 (1.1)
(12 month) 36%	1	2			1	4 (4.3)
48%	4	3	2	1		10(10.7)
60%	14	24	6		7	51(54.9)
72%	1	3	1	1	6	12(12.9)
84%	2	4	1		1	8 (8.6)
No answer		5	2			7 (7.5)
Total	22	41	13			93(100)

In case of "Jang-Ri" the usual term of the loan is 6 months as an unwritten law. As for the rates of interest, 249 Ke, (51%) are taking 50% during this period of 6 months. Next to this, 207 Ke (42%) are taking 40% interest. Among 487 Ke which gave answers to the question of the term of their "Jang-Ri", 456 Ke, 93% of all, are taking 40-50% of interests for the period of 6 months. This means 7%-8% per month of interest; that may amount to almost 100% per year. Comparing this rate with the present interest rate of a loan from most banks, 24% per year, one finds it surprisingly high.

Now we are to see the case of cash loan from Table 4-3. Among 93 Ke, which answered that they are loaning cash, the biggest number, 51 Ke (55%), are taking 60% interest. Next to this, 12 Ke are taking 72%, and 10 Ke are taking 48%. Some Ke are taking different rates of interest ranging from 24% to 84%. The number of Ke which are taking interest from 60% to 84% amounted to 71 Ke, or 76% of the total 93 Ke. In case of these cash loans, interest is usually counted in percent per month. But the numbers shown here are the

equivalent rates per year for the sake of convenience in comparison. Commonly these rates of interest are said to be 5%-7% per month. We can also see that these interest rates for cash loans from Ke are much higher than the usual bank rate.

In order to see who constitute the debtors of these high interest loans from Ke, the following question was asked of every head of 669 Ke; "Who are the debtors of loans of "Jang-Ri" or cash from this Ke?" Classified answers to this question are tabulated in Table 4-4.

Table 4-4 Debtors of Ke

Kind of Ke / Debtors	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Members	106 (78.5)	152 (40.8)	35 (36.4)	7 (46.7)	37 (72.5)	337 (51.4)
Others	5 (3.7)	98 (26.4)	34 (35.4)	6 (40.0)	8 (15.7)	151 (22.6)
Member & others	10 (7.4)	72 (19.4)	19 (19.8)			101 (15.1)
No answer	14 (10.4)	50 (13.4)	8 (8.4)	2 (13.3)	6 (11.8)	80 (11.9)
Total	135 (100)	372 (100)	96 (100)	15 (100)	51 (100)	669 (100)

From this Table we see that 337 Ke, 51% of the total, are loaning money or grains to their own members. There are 101 Ke which are loaning both to their members and to others.

In this discussion we have seen that a majority of rural Ke are loaning goods and cash to their members. Considering their original intertion of organizing Ke ----

close cooperation, union and mutual aid ---- the fact that priorities are given to the members in loaning goods or money seems to be natural and rational. However, taking such high interest seems to be against their spirit of Ke, and is considered to be quite irrational.

However, they think their Ke are in good order. The author asked following question to 1,988 members of Ke; "What do you think about the status of your Ke?". To this question 1,665 persons or 84% of 1,988 persons gave approving answer as shown in Table 4-5.

Table 4-5 The member's Opinion about their Ke

Kind of Ke / Opinion	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
In good order	332 (82.6)	945 (85.1)	226 (80.4)	30 (66.7)	132 (88.0)	1,665 (83.8)
In poor state	13 (3.2)	42 (3.8)	6 (2.1)		2 (1.3)	63 (3.2)
So-so	41 (10.2)	101 (9.1)	37 (13.2)	13 (28.9)	15 (10.0)	207 (10.4)
Do not know	16 (4.0)	22 (2.0)	12 (4.3)	2 (4.4)	1 (0.7)	53 (2.6)
Total	402 (100)	1,110 (100)	281 (100)	45 (100)	150 (100)	1,988 (100)

A further question was asked of 1,665 persons who gave the approving answer; "Why do you think that your Ke is in good order?" As shown in Table 4-6, the majority or 88% of reason for approving the Ke was "union among the members of Ke".

Table 4-6 Reasons of Approving Ke (Farmers' Opinion)

Reasons	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Much Ke Assets	22 (6.6)	32 (3.4)	13 (5.8)		15(11.4)	82 (4.9)
Union of Members	277(83.5)	846(89.5)	194(85.8)	25(83.4)	97(74.5)	1439(86.3)
Good pro-pagation	11 (3.3)	39 (4.1)	10 (4.4)	1 (3.3)	9 (6.8)	70 (4.3)
No corrup-tion	11 (3.3)	11 (1.2)	2 (0.9)	1 (3.3)	5 (3.8)	30 (1.8)
Do not know	2 (0.6)	1 (0.1)			2 (1.5)	5 (0.3)
Other Reasons	9 (2.7)	16 (1.7)	7 (3.1)	3(10.0)	4 (3.0)	39 (2.6)
Total	332(100)	945(100)	226(100)	30(100)	132(100)	1665(100)

As seen from the above fact, villagers consider their traditional spirit of cooperation ahead of material values in managing their Ke.

As was described in Chapter 1, numerous Ke operating in present rural society are classified into five kinds according to their fuctions, such as public welfare, mutual aid, friendship, industrial and money making. The total 669 Ke surveyed from 75 sample Ri-dongs are classified into these 5 kinds as shown in Table 4-7.

Table 4-7 Number of Ke According to Function

Function	Public Welfare	Mutual Aid	Friend-ship	Indust-rial	Money Making	Total
Number	135	372	96	15	51	669
%	20	56	14	2	8	100

As shown in Table 4-7, out of all 669 Ke, public welfare Ke were 20%; mutual aid Ke, 56%; friendship Ke, 14%; industrial Ke, 2%; and money making Ke, 8%.

Now we are to examine some Ke regulations as working principles in order to see the process of carrying out their functions.

Public Welfare Ke

This type of Ke is a hereditary sort of institution of the village which evolved from organizations that functioned as self-administering organs of each village in the desperate effort of surviving under severe expleiting system of feudal governments. These public welfare Ke have taken charge of every aspect of public life of the village, such as social, economic, cultural, educational and in some cases even public order and defense. As was described in the discussion on "Joining Ke Membership" in Chapter 3, joining this kind of public welfare Ke has been indispensable to every household of the village. This was natural because the benefits of public welfare Ke are concerned with every member of the village. Total members of the 135 public welfare Ke listed in Table 4-7 were 9,218.

Any right is accompanied by duty; participation in group activities enables successful pursuit of the objectives of the group. We shall see now some of the regulations of Dai-Dong Ke, which is representative of the public welfare Ke.

Regulations of Dai-Dong Ke

Myongji Ri, Kyongsong Myon, Jechon Gun, Chung-Puk.

Article 1. Propagation of the village assets is the objective of this Ke.

Article 2. Equipment owned by the village shall be managed and loaned to villagers.

Note: This Ke was organized at the time of Lee Dynasty and had 60 members, the heads of all households in the village, at the time of survey.

Regulations of Dong Ke

Bongsan Ri, Kangoi Myon, Chongwon Gun, Chung-puk

Article 2. All residents of this Dong are entitled to use the properties of this Dong.

Note 1: This Ke was organized at the time of Lee Dynasty and had 72 members, the heads of all households in the village, at the time of survey.

Note 2: The information was obtained by the author, 1966-1967.

As is seen from the above examples, the regulations are based upon traditional customs of rural society, they are not spontaneous working rules but are just mechanical principles. Public welfare Ke are concrete organizations of village union and belong to the so-called primary groups (Gemeinschaft). Their regulations are almost mechanically codified.

As another kind of public welfare Ke, there are also Song Ke(pine Ke) besides the above Daidong Ke and Sodong Ke. In former days there were Hak Ke (Learning Ke) for furnishing educational expenses of members' children. But with development of the new educational system we can no more find this kind of Ke. These public welfare Ke are organized with heads of all households in the village and managed in accordance with the regulations, general meetings, and by the selected Ke officers.

Table 4-8 shows the various methods of managing Ke assets which have been found out from inquiry to all heads of 669 Ke.

Table 4-8 Method of Deciding Matters of Ke Management

Methods	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Regulations	53(39.3)	160(43.0)	53(55.2)	6(40.0)	34(66.7)	306(45.7)
Vote	69(51.1)	155(41.7)	32(33.4)	6(40.0)	11(21.6)	273(40.8)
Leave to Head		3 (.08)	1 (1.0)		2 (3.9)	6 (0.9)
Others	2 (1.5)	15 (4.0)	1 (1.0)		1 (2.0)	19 (2.9)
No Answer	11 (8.1)	39(10.5)	9 (9.4)	3(20.0)	3 (5.8)	65 (9.7)
Total	135(100)	372(100)	96(100)	15(100)	51(100)	669(100)

According to the above Table, the majority of Ke, regardless of the kind of Ke, are managed in accordance with Ke Regulations. Next to this, certain Ke are managed through vote, that means important affairs are handled at Ke meetings. Ke regulations should be the working principles that apply to every member of the Ke. When this Ke regulation is old-fashioned, it is an unfortunate thing for Ke member.

Among properties owned by each Dong Ke, though it is not the same in every case, there are immovables such as forestry, upland fields paddy fields, public halls, equipment for funerals and marriages, etc. There are also grains and cash for accumulation and propagation of Ke funds. Usually there is much grain. In case of Y Daidong Ke, Jungwon Gun, they were loaning 5,000 liters of white rice. As to the interest on Ke funds, though large amounts of interest are collected in case of money making Ke, these earnings are divided among members of the Ke in due course. But in case of public welfare Ke, all the interest earnings are used for providing public properties of the village and furnishing various events of village affairs of common interest.

Now we will look at some Ke regulations concerning the above facts and tendencies in utilizing Ke assets.

Regulation of Dai-Dong Ke

Sinchon-Ri, Eumsong Myon, Eumsong Gun, Chung-puk

Article 2. Funds collected through contributions shall be propagated and utilized for the development of public facilities of the village.

Note 1: Data were obtained by the author, 1966.

Note 2: This Ke was organized 1946 and had 110 members at the time of survey.

As mentioned before, all Ke are propagating their funds which have been collected from the members. But only public welfare Ke are using their profits for common benefit of the community without dividing the profit among Ke members. Table 4-9 shows how the assets of rural Ke are utilized.

Table 4-9 Uses of Ke Assets

Use	Kind of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Buy Common Equipment	16(320)	10(256)				26(239)
Disband of Usury	7(140)					7 (64)
Farm Tods	3 (60)					3 (28)
Establish-ment	8(160)					8 (73)
Distribu-tion		12(308)	1 (53)			13(119)
Occasions of Funerals & Marriages		11 (282)	12(631)			23(211)

Use	Kinds of Ke					
	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Picnics		4(103)	5(263)			9 (83)
Other Uses	16(320)	2 (51)	1 (53)	1(100)		20(183)
Total	50(100)	39(100)	19(100)	1(100)		109(100)

The facts shown in the above table were found out in this Ke survey from the answers to the question; "What is the cause of decrease of your Ke assets?" Which was asked of the heads of 109 Ke. In case of public welfare Ke (Chiefly Dong Ke), 27 Ke, more than half of total 50 Dong Ke, are providing equipment of Dong, farm implements and other facilities of the Dong without dividing the profit of the Ke. The line "other uses" which contains a considerable number of Ke (16) includes such cases as corrupt practices of Ke officers, impossible recovery of loaned funds, expenses for dead persons without relatives, expenses for several festivals of the village per year, etc.

Note: In Table 4-9, industrial Ke and money making Ke do not show any uses of their assets. This is because that in case of industrial Ke, some irrigation Ke or tree planting Ke already have their production facilities and the members only utilize the established facilities without any distribution of the profit, and thus no decrease of Ke assets results. In case of money making Ke, there are no Ke assets to start with, and collected amounts of shares are always paid to a certain member of the Ke according to order of turn, thus no increase or decrease of Ke assets results.

Dong Ke as public welfare Ke provide public facilities for free utilization of the members. In case an outsider utilizes the facilities, a certain amount of fee is collected. When the outside user loses or damages the facilities he must pay for the loss or damage. Following are some of the regulations concerning this.

Regulation of Dong Ke

Songwu Village, Yusang Ri, Yondung Myon, Koisan Gun, Chung-puk

Article 3. When Dong properties are lost or damaged, the user must compensate.

Article 4. When any person who is not a member of the Ke uses the properties a fee of W500 is charged and this amount is subject to change according to the situation of the times.

Note 1: This Ke was organized 1957 and had 19 members at time of survey.

Note 2. The information was obtained by the author in 1966.

Among the properties commonly owned by the villagers, there are buildings of Seodang1/ (private schools teaching Chinese characters) which are relics of past days.

In order to maintain commonly owned properties, Dong Ke enforces membership of the heads of all households in the village, and at the same time, strongly restricts their free withdrawal.

Following are some regulations about withdrawal.

1/ "Seodang" were private educational institutions for teaching villagers' children Chinese literature and Confucianism in each village, which existed from old times until early stages of Japanese ruling. 'Hak Ke' (learning Ke) were operated for maintaining these private schools. From the beginning of the 20th Century, modern learning was introduced and such old fashioned schooling was introduced and such old fashioned schooling was gradually replaced by the new schooling system. Nowadays these old private schools have disappeared, and only the remaining Seodang buildings are owned by Dong Ke.

Regulation of Dong Ke

First Ku, Bongsan Ri, Kang Oi Myon, Chongwon Gun, Chung-Puk

Article 3. The amount of contribution will not be refunded at the time of withdrawal.

Note 1. This Ke was organized during Lee Dynasty and had 72 members at time of survey.

Note 2. This information was obtained by the author in 1967.

Refund of the amount of contribution is refused. This institutional rule restricts the negative movement of Ke members, by regulations because movements of people generally are accompanied by the movement of properties. It seems that such institutional conflict is irrational, not only from the stand-point of present economic and personal liberty. This will be discussed again in Chapter 5.

Not all the Dong Ke have similar regulations or similar properties. Some Dong Ke exist only for the sake of their name. Some Dong Ke do not have any Ke funds and collect contributions from all the members whenever it is necessary. There also may be some Ke which were adversely affected by the usury disbanding law after the May Revolution.

Another function of Dong Ke, with may be a so-called political function, was that some Daidong Ke nominated their Head of Ri or Dong until recently, (before such heads were appointed by the administrative authorities), since such Daidong Ke were usualy organized to cover all the Ri or Dong including several villages. Thus the nominated Head of Ri became the head of the Daidong Ke automatically. In other words, the administrative community and the social community were one body tentatively in this case. At that time members of Daidong Ke contributed a certain amount of money or grains to the Ri-Dong office every year. Such amounts were mostly for salaries and wages of Ri-dong officials and janiters. The following Ke regulations show the above facts;

Regulations of Daidong Ke

Kalkum Ri, Yonpung Myon, Koisan Gun, Chung-puk

Article 3. Every member of this Ke shall contribute 10 liters of rice twice a year. The collected rice will be paid to the head of Ri and the janiter of Ri office.

Article 4. The head of Ri will be elected.

Note. The time of founding this Ke was unknown; the Ke had 88 members at the time of survey.

Regulations of Dong Ke

Tanton Ri, Chongpung Myong, Jechon Gun, Chung-puk

Article 2. Every member of this Ke shall contribute 2 liters of rice at the end of each year. An entering member may have one free meal.

Note 1. This Ke was organized in November, 1925, and had 67 members at the time of survey.

Note 2. This information was obtained by the auther in 1966.

Members of Dong Ke customarily held the meetings of Dong Ke at the same time as the administrative Dong Office meeting. Meetings of the two organs were usually convened on successive days. According to the feeling of the author, they were giving priority in every phase of their social life to their Dong Ke rather than to the Dong Office, the administrative community. When a local self government system is in operation in the future, and the officials of Ri-dong are elected by the villagers, there will be possibilities of reverting such political functions of Daidong Ke besides their economical functions.

Total amount of assets owned by all 135 public welfare Ke surveyed at this time, including movables and immovables (evaluated), was 13,929,600 won. This means an average of 103,182 Won per Ke, and 1,511 Won per member, as shown on Table 4-10.

Table 4-10 Assets of Owned by Public Welfare Ke

No of Ke	Total Amount of Assers	Average per Ke	No of Ke Members	Average per member
135	13,929,500	103,182.2	9,218	1,511.1

Mutual Aid Ke

These Ke are organized by the people who agree to help each other with material and labor at the ceremonies of the 60th birthday, marriage, funeral and ancestor worship. Contributions of a certain amount of money or grains are usually collected for each occasion. This is a kind of objective union; membership in this Ke is optional. The entry contributions and accumulated surplus contributions are propagated. The equipment for funeral or other ceremonies is bought out of Ke funds. In case a ceremonial occasion arises for a member of the Ke, the above equipment will be utilized without charge, and a certain amount of money or grains will by given to the Ke member concerned at the same time.

This kind of Ke started a long time ago, with the long history of poverty of Korean farmers, and became the most popular of all kinds of Ke. Table 2-5, above, shows the number of mutual aid Ke is 372, or 56% of the total 669 Ke. Some public welfare Ke and friendship Ke also handle affairs of mutual aid as secondary works. We can see from this how great is the farmers' interest in the ceremonies of marriages, funerals, birthdays and ancestor worship.

Besides the results of this survey, shown in Table 2-5, the previous survey run by the author in 1966 also showed similar tendencies as mentioned above. At that time, 93 Ke, 57% of total 161 Ke surveyed throughout 25 Ri-Dong (61 villages), were mutual aid Ke, which is shown in Table 4-11.

Table 4-11 Number of Ke According to Functions

Function	Public Welfare	Mutual Aid	Friend-ship	Indus-trial	Money Making	Total
Number	37	93	14	9	8	161
%	23	57	9	6	5	100

As is seen in Tables 4-7 and 4-11, the predominant kind of Ke in present rural society is the Mutual aid Ke. The kinds of mutual aid are mostly concerned with ceremonies of marriages, funerals, birthdays and ancestor worship.

Through close inter-change of civilizations over a very long period, Korea has been influenced much in its institutions and ideologies by the Chinese Continent. Especially the ideology of Confucianism, starting with the three bonds[1] and the five moral rules in human relations, has been unforgettably impressed on the mind of the Korean people. Even today's daily life is deeply influenced by this ideology.

The ideology of Confucianism is almost completely Koreanized, and has become the main morality of the Korean people. The standard of valuation as normative law in leading social life is based upon the Confucianism that stresses loyalty and filial piety. Phenomena like this are especially intense in rural society, since rural society is more traditional, conventional and conservative. Not only the filial duty while the parents are living is very important, but also the funeral when one of them dies is a very important occasion, for which a great sum of money should be paid. The basic idea of importance of funerals originated in the teachings of a

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1/ The three bonds; Bonds between king and subject, farther and son, and between husband and wife.
The five moral rules; Affection between father and son, duty between king and subject, difference between man and woman, order between old and young, fidelity between friends.

Chinese scholar, Han Yeong, 1/"Sigh of Wind and Tree", which stresses the obligation to console the spirits of dead parent(s) because the descendant was unable to do his best in loving his parents while they lived.

The Korean people, who are deeply affected by the ideology of Confucianism which stresses filial duty as the first human morality, acquired the custom of magnificent funerals for dead elders, causing all villagers to participate and to spend a lot of money. Worshipping ancestors who are considered to possess super-human power in praying for their protection promoted the above tendencies further. Korean farmers who hold to the ideology of traditional concervatism spend tremendous amounts of money for the ceremonies of funerals and ancestor worship, disregarding their abilities of affording them.

Mutual aid Ke were started to meet the need of helping each other to pay for such ceremonies. And the custom was generalized and is still predominant in rural society today. Following are some of the regulations of mutual aid Ke as their working principles;

Regulations of Sangpo (funeral cloth) Ke

Yusang Ri, Yonpung Myon, Koisan Gun, Chung-puk

Ar icle 1. As the foundation of Ke, 10 liters of white rice shall be contributed by each member.

Article 2. When a parent of a Ke member dies, 200 liters of white rice will be subsidized to the person concerned.

Article 3. When a parent of a Ke member dies, a lantern shall be furnished to the mourning house.

Note: This Ke was organized 1964 and had 21 members (men of middle ages) at the time of survey.

1/ "Sigh of Wind and Tree"; Though trees want to be still, the wind does not stop. Though the son wants to love his parents, they do not wait. (The teaching of a Chinese scholar, Han Yeong, B.C.230.)

Regulations of Filial duty Ke

Sangsu Ri, Namil Myon, Chongwon Gun

Article 1. This Ke is organized to promote the spirit of cooperation and mutual aid, forming brotherly ties.

Article 2. On the day of funeral in a member's home, every member shall bring a lantern and attend the ceremony.

Note 1. This Ke was organized 1942, and had 30 members at the time of survey.

Note 2. The above regulations of two Ke were found in a survey by the author in 1966-1967.

Under the tradition of paternal family system in Korea, in rural society where activities of women are restricted very much, participation in Ke activities is confined to the head of the family or to the men. This is quite contrary to the city Ke, in which mainly women participate. Along with partial reformation of rural life, women also have started to organize Ke with such names as noodle Ke, broad cloth Ke, etc. The intentions of these Ke are said to be to help mens' affairs which are incompletely carried out. Generally their contracts are made orally, without written regulations. In case of having written regulations, they are very brief, only several articles. Following are some sample regulations of womens' Ke;

Regulations of Noodle Ke

Koeun Ri, Namil Myon, Chongwon Gun.

Article 1. Five liters of white rice shall be contributed by each member at the time of entry.

Article 2. Costs of Ke meetings will be contributed by the members.

Article 3. A contribution of 1 Kwan (3.75 kg) of noodles shall be made by each member at the time of a

marriage within the family of a member.

Note 1. Organized in 1962; had 30 members at the time of survey.

Note 2. According to a survey made by the author in 1966.

Farmers could not avoid poverty from the past until now. But as is seen in the above Ke regulations, they helped each other to overcome the hardship. The reason of prevailing mutual aid Ke in rural societies is both from the deep rooted Confucianism and because of their predominant poverty.

Mutual aid Ke collect a certain amount of grain (or money) from every member and make this the fund of the Ke. This fund is propagated and funeral proparties are purchased from the interest earnings. These properties are utilized by the members without fee, and a certain amount of money or grain is donated to the person in mourning for carrying out the funeral. When outsiders use these properties, a certain amount of fee is charged, as in the case of public welfere Ke. Following are some of the regulations concerning this:

Regulations of Funeral Ke

Kalkum Ri, Yonpung Myon, Koisan Gun, Chung-puk

Article 1. As the fund of Ke, 10 liter of white rice and 700 won of money will be collected.

Article 2. As the method of propagating the fund, every member of the Ke shall be responsible for managing an evenly divided share, loaning and collecting interest. In the loaning, a witness is always necessary. Among the Ke funds, the cash shall be handled by the head and the secretary general.

Article 3. In order to avoid the extinction of the fund, three years from date of organization is declared as the basic period.

Article 4. When any death of elders within the family of members occurs during the basic period, the

subsidies prescribed by the regulation will be paid from the fund. In order to secure the propagation of the fund, such decrease in fund shall be compensated by collecting additional shares evenly from the members.

Note 1. This Ke was organized November 1957, and had 21 members at the time of survey.

Note 2. Data were collected by the author in 1966.

Every rural Ke emphasized propagation of the Ke fund with written or unwritten regulations. As a rule the interest earnings of funds of rural Ke are not divided to the members as they are in money making Ke. In special cases, when the propagated amount of the fund exceeds a certain limit, the excess amount is distributed to the members. Thus the concept of mutual aid used in the rural Ke is different to a certain degree from the modern image of mutual aid. We can characterize the former as being centripetal and the latter as being centrifugal; the former is static and the latter is dynamic. Such tendencies are also found in case of public welfare Ke. That is because our daily life of modern age became so complicated that the objects of mutual aid are not limited to the occasions of funerals, marriages and birthdays.

Members (farmers) of mutual aid Ke dutifully and promptly obey the regulations of their Ke; and thus they escape the blame of people in the village. On the other hand they suffer a great loss which is beyond the bounds of economic rationality. We shall discuss again about this in Chapter 5.

Withdrawal from mutual aid Ke is also restricted by refusing to refund the contributions previously collected, as in the case of public welfare Ke. Refer to the following Regulations:

Regulations of Funeral Ke

Tanton Ri, Chongpung Myon, Jechon Gun, Chung-puk.

Article 1. The objectives of this Ke are to aid each other in case of the death of parents or other elders of the members.

Article 2. The contribution to this Ke shall not be refunded in case of withdrawal. If any member moves his residense, he will still be considered a member if he participates in the Ke every year.

Note 1. This Ke was organized 1961 and had 33 members at the time of survey.

Note 2. Data were obtained by the author in 1966.

There are various names of Ke which are organized with the objectives of mutual aid, such as Sangpo Ke (Funeral Cloth Ke), whichin Ke (Filial Duty Ke), Yonban Ke (Funeral Ke), Shechan Ke (New year's Ceremony Ke), Hon-Sang Ke (Marriage and Funeral Ke), etc. The number of mutual aid Ke among all the Ke in 75 sample Ri-dong surveyed this time was 372. The amount of total assets owned by these 372 Ke was 22,914,300 won, including movables and evaluated immovables. The total number of members belonging to these Ke was 8,747. The average amounts of Ke assets per Ke and per member were as shown on Table 4-12;

Table 4-12 Amount of Assets Owned by Mutual Aid Ke

(in Won)

No of Ke	Total amount of assets	Amount per Ke	No of members	Amount per member
372	22,914,300	61,598	8,747	2,620

According to Table 4-12, the average amount of Ke Assets per Ke is 61,598 won and per member is 2,620 won. We see that these amounts are much more than the amounts owned by public welfare Ke. Other articles of regulations as the working principles for the function of mutual aid Ke are not much different from those of public welfare Ke, except those mentioned above. So we shall not mention them any more.

Friendship Ke

This kind of Ke are organized by those people who want to promote their mutual friendship. In most cases they are

organized by persons whose age and environmental conditions are similar; Ke of young men, of middle aged men and of old men are organized, respectively. A similar practice is also found in the Ke run by women. As shown in Table 4-7, "Distribution of Kind of Ke", Friendship Ke are not very numerous in present rural society. Some friendship Ke undertake to refine the ethos of the village and perform mutual aid, besides their friendship. Following are some of the regulations of such Ke;

Regulations of Youth Friendship Ke

Hwadok Ri, Tong Myon, Chonwon Gun, Chung-Nam.

Article 1. This Ke is to promote friendship.

Article 2. A spirit of cooperation shall be promoted and any argument of right and wrong among members shall be made clear at the general meeting of the Ke.

Article 3. In order to promote the health of members, athletic meetings will be held.

Note. This Ke was organized 1965 and had 18 members at the time of survey.

Regulations of Friendship Ke

Munam Ri, Sanoi Myon, Boun Gun, Chung-puk

Article 1. Absolute obedience to senior is required.

Article 2. Every member shall participate in any occasion of condolence or congratulation of a member.

Article 3. Members of this Ke shall dutifully follow the five rules of human morality.

Article 4. Anyone violation of Article 1, 2 or 3 shall disqualify the offender from membership.

Note. This Ke was organized by youth in 1961, and had 52 members at the time of survey.

Regulations of Friendship Ke

Jangkwan Ri, Jinchon Myon, Jinchon Gun, Chung-puk

Article 1. Mutual aid and cooperation are the objectives of this Ke.

Article 2. When an occasion of congratulation occurs, the number of persons desired by the home concerned shall be sent to help.

Article 3. When a member is in mourning, 20 lanterns and 20 liters of Makoli (raw rice wine) shall be sent to the house, and every member shall keep vigil at the bier until the day of the funeral.

Note; This Ke was organized in 1960 and had 32 members at the time of survey.

Regulations of Friendship Ke

Kumchon Dong, Chongju city

Article 1. Members of this Ke shall help each other, lead young men in the Dong aright, and aid each other on the occasions of condolences and congratulations in the families of members.

Note 1: This Ke was organized by the young men in 1962 and had 25 members at the time of survey.

Note 2: The above various regulations were according to the survey run by the author in 1966.

As is seen from the above regulations, mutual aid Ke aim not only to promote friendship among members but also to refine the ethos of the village, while helping each other on occasions of condolences and congratulations in addition. Ke of this kind are organized chiefly by the men, especially the young men in the village. The reason there are so many members of such Ke compared with other Ke (except public welfare Ke) may be that these Ke are organized by young men of wide ranges. Of course, there are some friendship Ke organized by old men, with such names as Hoi-Kap Ke (Sixtieth

Birthday Ke), Dong-Kap Ke (Same age Ke), etc. Considering the working rules, those of the young men's Ke are more realistic, active and practical. One example of this is as follows: When a unit of armed forces stayed at C district of Chungchong-pukto some time ago, signs of disorder in the neighboring villages were shown. Then the young men in the said villages voluntarily organized a friendship group, called Suchon Ke (Protecting Village Ke), and the fine customs and ethos of the villages were protected by cooperative measures. Such philanthropic functions of friendship Ke are clearly shown in some of the above Ke regulations.

It is needless to say that friendship Ke also need material foundations in order to carry out their functions. Joining the Ke requires a certain amount of money or grains, depending on the regulations. Ke funds are raised according to the principles of "The shares are always personal". The more the number of Ke members, the more Ke funds are raised.

Regulations of Friendship Ke

Jangkwan Ri, Jinchon Myon, Jinchon Gun, Chung-puk (mentioned before)

Article 4. Upon joining this Ke 10 liters of white rice and one Korean lantern shall be collected.

Article 5. At the time of withdrawal, the contributions shall not be refunded. (But in case of special cause, refund will be made upon consent of more than 2/3 of the members)

Friendship Ke also practice the propagation of Ke funds. With the interest earnings from Ke funds, the functions of Ke are maintained. The expenditures for various occasions of friendship are paid from these interest earnings. Some friendship Ke also pay for providing equipment for funerals and/or marriages, for free utilization by Ke members with those interests. However, according to the results of the survey run by the author, among those friendship Ke which took care of matters of mutual aid in addition, there were fewer cases of providing equipment for funerals and/or marriages than the cases of exchanging labor and materials at the events of condolences and congratulations. This may be

because matters of mutual aid are generally taken care of by mutual aid Ke to a certain extent.

The excess amount of Ke assets beyond a certain limit in the course of accumulating (propagating) Ke funds is divided among the members by agreement. The treatment at time of withdrawal from the Ke is negative, as in the cases of public welfare Ke and mutual aid Ke.

Recently women in rural areas started to organize friendship Ke as in the previously described public welfare Ke and mutual aid Ke. Rural women's Ke also undertake some aspects of mutual aid as well as matters of promoting friendship. This function is also considered to supplement some matters which are not fully taken care of by other kind of mens' Ke. Some womens' friendship Ke Regulations are shown as follows:

Regulations of Noodle Ke

Yontan Ri, Zngpyong Eup, Koisan Gun, Chung-puk

Article 1. A contribution of 1 liter of white rice will be collected from every member of the Ke, and one picnic party will be held every year.

Article 2. A contribution of 3.75 kg of noodles at every occasion of condolence or congratulation will be made.

Note 1: Organized in 1963; had 25 members when surveyed.

Note 2: According to data obtained by the author in 1966.

Some friendship Ke have only several articles of regulations, and no assets. Of course it is not impossible to find Ke which do not have any property among public welfare and mutual aid Ke. The usual practice of managing such no-fund Ke is that occasional flower viewing, picnic or fishing parties are held for promoting friendship, and the costs are collected uniformly from the participating members on each occasion. In other cases, members take their turns in paying the whole cost of a party. This is called a rotational friendship Ke. Ke of this nature do not have

funds, but have the name, regulations and members of a Ke. In some extreme cases they don't even have the regulations, and are managed by short oral agreements. Ke of this type are not very numerous. Generally they are organized by middle aged women or young men.

Occasionaly men of middle age organize similar Ke with the name of Wine Ke. This kind of Ke are not edifying, nor for mutual aid, but just for social intercourse. Such Ke of social intercourse are more often found in urban areas, where more frequent contacts among people occur and the incomes of people are more continuous. Less necessity of social intercourse, and infrequency of income in rural areas, seem to cause less demand of such Ke. Mr. Mun. Jung-Chang divided cooperating friendship Ke and social intercourse Ke in his book titled History of Korean Agricultural Organizations (Published by Ilcho, Sa, 1961). The author treated them in one category of "friendship Ke", because in the course of promoting friendship the objectives of social intercourse also can be achieved. Friendship Ke are called by various names such as Hwa-yu Ke (flower party Ke), Hwamok Ke (intimacy Ke), Chinmok Ke (friendship Ke), Dongkap Ke (Same age Ke), etc. They also include wine Ke and part of youth Ke.

The number of friendship Ke among those surveyed this time was 96% in 75 sample Ri-dong. The number of members was 2,497. The amount of assets owned was 1,521,100 won, including movables and evaluated immovables. The assets of these Ke are tabulated in Table 4-13;

Table 4-13 Assets owned by Mutual aid Ke

(in Won)

No.of Ke	Amount of total assets	Amount per Ke	No.of members	Amount per member
96	1,521,100	15,844.8	2,497	609.2

The average assets per mutual aid Ke was 15,845 won and the average per member was 609 won. Since friendship Ke include those Ke that have no assets but only collect uniform shares from participating members as need arises, the amount of assets (total and average) is small comparing with other kinds of Ke.

Industrial Ke

This kind of Ke are organized by the concerned or interested persons with such objectives as land reclamation, construction or maintenance of irrigation facilities, and other activities of production suited to the environmental condition and natural resources of the district. Such Ke with names such as Fields Ke, Farming Ke and Stabilized Farm Establishment Ke, are organized for land reclamation, Farm Tools Ke are organized for common utilization of farm machinery and implements. Irrigation Ke are organized to solve the problems of irrigation. Lime Ke are organized for the production of lime, the underground resources in the district. These Ke require joint investment of labor and capital for joint utilization of facilities. Those Ke which arrange joint purchase of farm machinery and joint utilization of it resembling the modern Utilization Association, are often seen in present rural society.

Among industrial Ke, irrigation Ke have strict regulations because the members' productive economy is greatly affected by irrigation. Entry to this Ke is sometimes required of the person concerned, as in the case of public welfare Ke. This is easily seen from the fact that the present "Land Improvement Association" has the characteristics of a semi-official body. The following are some regulations of irrigation Ke:

Regulations of irrigation Ke

Hyangjong Ri, Kangseo Myon, Chongwon Gun, Chung-puk

Article 1. Buying paddy fields in the area makes the person a member of this Ke.

Article 2. When irrigation water is supplied to a person

who is not a member, a certain amount of fee will be charged.

Note 1: This Ke was organized during Japanese ruling and possessed a reservoir with full-water-area of 23 ares. It had 15 members at the time of survey.

Note 2: Information obtained in a survey carried out by the author in 1967.

As shown in the above regulations, being an owner of land in the area obligates the person to become a member of the irrigation Ke, as in the case of public welfare Ke, where being a resident obligates one to become a member.

Irrigation Ke handle matters of management and utilization of water, which is one of the most important basic matters in the process of farming. This matter should be handled by the government. Due to lack of government funds and administrative ability, farmers try to solve the problem cooperatively, by organizing irrigation Ke. It was unfortunate that even such irrigation Ke had to face sorious difficulties because of the prohibiting of usury after the May Revolution. Since 40% of Korean paddy fields are rain fed, this sort of irrigation Ke which try to solve irrigation problems with civilian power can be seen in many places. The irrigation Ke taking care of "Mangjon Reservoir" in Jungbong Ri, Kangoi Myon, Chongwon Gun, had 270 members when surveyed.

Industrial Ke require as much labor and capital as the other kind of Ke. This kind of Ke set up funds by a certain amount of contribution from the members, and propagate the funds the same as other kind of Ke. The interest collected out of these funds and the labor by the members are used to perform the functions of these Ke. The following regulations of Lime Ke give much attention to propagation of the funds.

Regulations of Lime Ke

Yuha Ri, Yonpung Myon, Koisan Gun, Chung-puk

Article 2. Money obtained through marketing lime should not be used for any other purposes but for usury.

Article 3. Withdrawal of membership is not allowed unless all the members consent to it.

Article 4. If a member wants to withdraw from this Ke without consent of all others, he shall surrender all his claim of any right, including his wages of labor.

Article 6. The due date of the loan must be kept. When a debtor can not pay back the amount of principal with interest added on the due date because of a personal reason, the whole amount shall be declared principal and a new due date shall be decided.

Article 7. Interest on loan shall be counted even at day rates.

Article 8. Two guarantors are required for any loan.

Article 9. Marketing lime shall be done through consultation of the head and other officers.

Article 11. Every member shall do his best for repaying the amount of his loan, with interest included.

Article 14. When any member is in mourning, 50 liters of lime shall be donated to the person concerned.

Note 1: This Ke was organized in 1958, and had 15 members when surveyed.

Note 2: According to a survey by the author in 1966.

This lime Ke was organized on the basis of locally available underground resources, limestone. But the production of limestone itself was not the object of the Ke. They are after profit as shown in the regulations. This is similar to the attitudes of modern enterprise. But most modern enterprises pursue profit through the process of circulation (purchasing and marketing). However, in this Ke

they just go through the last process of circulation, marketing, and seek profits mainly through usury. As the first part of the circulation process, they just provide their labor cooperatively. Pursuing profits through usury is the common practice of rural Ke, as mentioned repeatedly. The following question was asked to every head of 669 Ke surveyed this time:

"How do you loan the grain (money) of Ke?"

The answers to this question were classified and tabulated as shown in Table 4-14:

Table 4-14 Methods of Loaning grains (money) of Ke

Methods	Public welfare	Mutual ard	Friend-ship	Indu-strial	Money -making	Total
Mortgage	56 (41.5)	139 (37.4)	55 (57.3)	7 (46.6)	23 (45.1)	280 (41.9)
Credit	67 (49.6)	169 (45.4)	34 (35.4)	4 (26.7)	6 (11.7)	280 (41.9)
General liability						
Others	2 (1.5)	8 (12.2)	2 (2.1)		3 (5.9)	15 (2.2)
No-answer	10 (7.4)	56 (15.0)	5 (5.2)	4 (26.7)	19 (37.3)	94 (14.0)
Total	135 (100)	372 (100)	96 (100)	15 (100)	51 (100)	669 (100)

As shown on the above table, the majority of Ke (84%) employ credit loans and joint liability loans. Two kinds of Ke (public welfare and friendship) often undertake matters of mutual aid on occasions of condolence and congratulation, in addition. On the other hand, industrial Ke are very rarely concerned with such matters as mutual aid or friendship. The above case of lime Ke which prescribes a donation of a certain quantity of lime at the time of mourning was the only

example found of handling matters of mutual aid by industrial Ke.

Indirect restriction is imposed on withdrawal from industrial Ke also as in case of other kinds of Ke.

Among industrial Ke there are Farming Ke, Fields Ke, Farm Machinery Ke, Chicken Raising Ke, etc. Compared to other kind of Ke, the number of industrial Ke is not large (see Table 4-7). Among the Ke surveyed, the number of industrial Ke was 15, with 552 members. The total amount of assets owned by these 15 industrial Ke was 758,900 won. Table 4-15 shows the status of assets of industrial Ke;

Table 4-15 Assets of Industrial Ke

(in Won)

No of Ke	Amount of Total assets	Average assets per Ke	No of members	Average assets per member
15	758,900	50,593.3	552	1,365.8

As shown on the above table, the average amount of assets per industrial Ke was 50,593 won and per member, 1,366 won. This average amount per member is more than 3 times the average account in present Ri-dong coops, which is only 400 won.

Money making Ke

These Ke are sometimes called commercial Ke. Periodic contributions are collected from the members, and the amounts with interest added are paid back to the members. While all the Ke previously described continue for long periods, money making Ke are characterized by short duration (generally a few years or even only one year).

It seems that all kinds of Ke have carried out their functions by practicing usury from old times until today. Most Ke have certain objectives other than usury itself.

Usury is the means of achieving these objectives. But in case of money making Ke, making profit is the only object of the Ke; usury is practiced on its own account. Money making Ke are more common in urban areas and less popular in rural areas (see Table 4-7). As mentioned in Chapter 1 and in the early part of this chapter, irregularity of income in rural areas makes it difficult to provide daily or monthly contributions, which is the common practice in money making Ke.

While the kind of Ke in rural society are varied, Ke in urban areas are of only one kind, money making Ke, the usury Ke. Especially urban Ke (profit Ke) are managed by women, and are sometimes called "woman Ke". This is quite the opposite of rural Ke, which are run mostly by men.

The question arises of why many kinds of Ke are practiced in rural areas and only one kind is practiced in urban areas. The answer to this question seems to be simple. By way of answering we shall consider some urbanized rural villages rather than secluded places among the mountains. In such semi-urban areas the types of Ke may be expected to become simplified like in cities; only money making Ke may prevail under today's situation. Such no-longer-needed features as Dong Ke, so and so Ke, etc. will disappear. Considering it from the other side, today's cities might have had various Ke such as public welfare, mutual aid, etc., in the old days.

Often it is said that "The city is civilized", "The city is well equipped with cultural facilities," "City people lead a cultural life," or "City life is convenient", etc. Now the question arises; What is culture? In short, culture is rationalized human life. Civilized life is rationalized life. It also means convenient life. A city is a rationalized and convenient place. That is, a city is well equipped with facilities which make the life of its citizens convenient. All the community functions which have been fulfilled by numerous Ke in rural society are promptly and efficiently carried out by modern public facilities in the city. Thus, efficient functioning of modern facilities in the city eliminates the necessity for various Ke in the city, leaving only simple money making Ke.

The organization of a money making Ke has a certain peculiarity whether it is in an urban or in a rural area.

Beginning with public welfare Ke, many Ke are organized with one share per member, that is, they are singular Ke. Thus utilization and distribution of service of Ke are made uniformly with every member. On the contrary, in case of money making Ke, as shown on Table 4-13, one member can have any number of shares. That is a plural Ke. Setting merits or demerits of Ke aside, rural singular Ke are more sound than urban plural Ke. That is because in case of money making Ke, holding more than one share by one member brings about many harmful effects, not only to the Ke itself but also to various aspects of social affairs. That is why the law of Agricultural cooperatives specifies the upper limit of the number of accounts which may be held by one member. We shall discuss this in more detail when we treat exploitation from various Ke.

The number of money making Ke was 51 out of all 669 Ke surveyed in this study. The number of total members of these 51 Ke was 897. Total assets owned by the above money making Ke were 4,921,700 won. The assets owned by money making Ke were mostly movables, which was different from those of other kinds of Ke. These movables consisted of cash and grains. The average assets owned by one Ke were 96,504 won and average assets per member were 5,487 won, as shown on Table 4-16.

Table 4-16 Assets of money making Ke

(in Won)

No of Ke	Amount of total assets	Average assets per Ke	No.of members	Average assets per member
51	4,921,700	96,503.9	897	5,486.8

One characteristic of money making Ke is that their average amounts of assets per Ke and per member are remarkably higher than those of other kinds of Ke. Since the object of the Ke itself was making profits, it seems that the members of money making Ke have more choice of preference in their investment, compared with other Ke. The true representative of so-called usury Ke is the money making Ke. From the standpoint of production the economic effect of loans

with exploiting high interest from money making Ke is to make the cost of production very high or to make the enterprise decline. At the same time, from the standpoint of consumers everybody has to buy expensive goods. Thus the money making Ke brings negative effects, not positive effects. This applies not only to urban money making Ke but also to rural Ke functioning in a similar manner.

Here we have considered the types and the functions of various rural Ke in detail. In any type of Ke, from the first public welfare Ke to the last money making Ke, every one of them is based upon usury for carrying out its function of benefiting its members. The debtors of such usury are their own members in most cases. In order to maintain the collective properties of each Ke for carrying out the function of the Ke, farmers who are they very members of the Ke are exploited mercilessly with pre-modern high interest rates, which help to hold them in a miserable state of poverty. One cause of farmers' poverty today seems to be this kind of exploitation.

In order to see the general attitudes of farmers toward their Ke, the following question was asked of 1,988 members: "What is your opinion about rural Ke?" The answers to this question are shown in Table 4-17.

Table 4-17 Farmers' Opinion About Rural Ke

Kind of Ke / Answer	Public welfare	Mutual aid	Friend-ship	Indus-trial	Money making	Total
Good	238 (59.2)	631 (56.8)	157 (55.9)	19 (42.2)	103 (68.7)	1148 (57.7)
Bad	48 (12.9)	114 (10.3)	18 (6.4)	4 (8.9)	5 (3.3)	189 (9.5)
So-So	110 (27.4)	280 (25.2)	97 (34.5)	22 (48.9)	35 (23.4)	544 (27.4)
Do not know	6 (1.5)	85 (7.7)	9 (3.2)		7 (4.6)	107 (5.4)
Total	402 (100)	1110 (100)	281 (100)	45 (100)	150 (100)	1988 (100)

According to the above table, the number of answer, "good", was 1,148, or 58% of the total. The number of the answer, "bad", was 189, or 10% of the total. And the answer, "so-so" formed 27% of the total.

A further question was asked of the 1,148 persons who gave the answer, "good", as follows: "What is the reason of your considering Ke good?" The answers to this question are shown in Table 4-18.

Table 4-18. The Reasons of Considering Ke "Good"

Kind of Ke / Reasons	Public welfare	Mutual aid	Friend-ship	Indu-strial	Money making	Total
Mutual intimacy	110 (46.3)	300 (47.5)	111 (70.5)	10 (52.7)	18 (17.4)	549 (47.7)
Cooperation	37 (15.5)	143 (22.7)		7 (36.8)	22 (21.2)	209 (18.2)
Convenience	27 (11.3)	85 (13.5)	12 (7.6)		33 (32.0)	157 (13.7)
Formation of big amount of money	3 (1.4)	61 (9.7)	10 (6.5)	2 (10.5)	19 (18.7)	95 (8.4)
Economic help	12 (5.0)	9 (1.4)	11 (7.0)			32 (2.8)
Good propagation			2 (1.3)		5 (4.9)	7 (0.6)
Other reasons	37 (15.5)	11 (1.7)	1 (0.6)		3 (2.9)	52 (4.5)
No auswer	12 (5.0)	22 (3.5)	10 (6.5)		3 (2.9)	47 (4.1)
Total	238 (100)	631 (100)	157 (100)	19 (100)	103 (100)	1148 (100)

The biggest reason of approving Ke was "mutual intimacy," forming 48% of the total 1,148; the next was "cooperation", 18%; 14% for "Convenience"; 8% for "formation of big amount of money". The most striking fact shown in this table is that Ke are practiced and maintained by the spirit of mutual aid in rural society. Only money making Ke showed a different physilogy. The main reasons of approving money making Ke were

"formation of big amount of money" or "convenience".

Another question was asked of 189 persons who gave the answer, "bed", as follows: "What is your reason of disapproving Ke?" Table 4-19 shows these reasons.

Table 4-19 Reasons of Disapproving Ke

Kind of Ke / Reasons	Public welfare	Mutual aid	Friendship	Industrial	Money making	Total
Debt	35 (72.7)	73(64.1)	6 (33.3)	3 (75.0)	5 (100)	122(64.6)
Waste	7 (14.5)	18(15.8)	3 (16.7)	1 (25.0)		29(15.4)
Corruption	3 (6.4)	1(0.9)				4(2.1)
Discord		8(7.0)				8(4.2)
Distrust		7(6.1)	1 (5.6)			8(4.2)
Other reasons	3 (6.4)	7(6.1)	5 (27.7)			15(7.9)
None			3 (16.7)			3(1.6)
Total	48 (100)	114(100)	18 (100)	4 (100)	5 (100)	189(100)

The number of reasons, "because of debt", was 122, or 65% of the total 189. The next reason of disapproving Ke was "because of waste", forming 15% of the total. Disapproving Ke because of debt or waste formed 80% of the total. Most (73%) of the disapprovals applied to mutual aid and friendship Ke. These disapprovals suggest that these farmers believe Ke promote debt and waste through extravagant ceremonies for marriages, funerals, birthdays, etc. An additional 20% disapproved because of debt and waste connected with public welfare Ke. Considering the functions of Ke,

this phenomenon is not limited to those farmers who gave disapproving answers, but is predominant in the entire rural area.

Never-the-less, as shown in the Table 4-17, the majority of farmers approved rural Ke. These farmers' attitudes may be because they are accustomed to the function of Ke for so long time that it has become chronic. Farmers may feel that the functions of Ke are a natural order, and they addapt themselves to Ke without reasoning. It may be our duty to awaken these ignorant farmers, and teach them a more rational way of living.

Chapter V. INFLUENCE OF KE UPON RI-DONG AGRICULTURAL COOPERATIVE ASSOCIATIONS

The concept, types and various functions of Ke which are traditional in Korean society have been described in the previous chapters. The fact that Ke are especially popular was described, quoting various data. Every farmer is a member of numerous Ke and at the same time a member of his Ri-dong Cooperative Association. That is, the farmers invest their money (goods) in various Ke and at the same time they invest money in the Ri-dong Cooperative Association. As is well known, Korean farmers are not rich enough to afford much duplication of investment. Moreover, farmers' contributions are not guaranteed for prompt refund. Such irrationality in the farmers' economy causes only an increase of their debt. A survey of farm debt conducted by NACF in 1965 revealed that the average amount of debt per farmer in Korea was 19,808 won (Table 5-1).

Table 5-1 Average Debt per Farm Household by Provinces

(in won)

Province	Debt in Cash		Debt in Kind		Total Debt
	Amount	%	Amount	%	
Kyong-gi	6,247	32.7	12,848	67.3	19,095
Chung-Puk	6,716	44.4	8,532	55.6	15,284
Chung-nam	3,987	14.7	23,023	85.3	27,010
Chon-puk	8,465	22.8	24,277	77.2	32,742
Chon-nam	4,667	28.0	11,996	72.0	16,663
Kyong-puk	12,089	68.3	5,604	31.7	17,693
Kyong-nam	8,364	67.4	4,044	32.6	12,408
Kang-won	15,000	89.6	1,729	10.4	16,739
Che ju	23,450	90.8	2,366	9.2	25,816
Average	8,660	43.4	11,148	56.6	19,808

Data: from p.24, Rural Credit survey in Korea, by N.A.C.F. 1965.

Instead of contributing to both their Ri-dong Cooperatives and several Ke, farmers who are burdened with such debt should consider the principles of optimum allocation of their limited resources. Today's farmers are a vital link in the whole national economy; they are in charge of a major part of national production. Modernization of agriculture is required for sound development of the national economy. For this reason every aspect of farmers' activities -- their way of thinking, their institutional structure and their methods of farming — should be rational. That is because the modernization of a nation can not be carried out without involving all sections of society.

Comparing the relative merits and relative efficiencies of the two kinds of organizations, Ke and Ri-dong Agricultural Cooperative Associations, and pointing the way to improve the situation may provide an approach to the rationalism which is a prerequisite for the modernization of Agriculture.

Comparisons of efficiency of rural Ke and Ri-dong Cooperatives are not easy. The author intends to proceed by comparing some of the representative working principles and functions.

Ke and Coops Show Contrasting Economic And Social Philosophies

Ke and Ri-dong Cooperatives are different not only in their historical backgrounds but also in their organization and management. First of all when we see their working principles, those of Ke are prescribed with strong ties to traditional conservatism and local self reliance. Principle of Ri-dong Cooperatives are prescribed as the modern law which considers management of the farm economy a part of the national economy within a framework of democracy and capitalism in Korea. When we look at their principal objectives of organization, the Law of Agricultural Cooperative Associations provides as follows:

Article 1. The objectives of this law are the harmonious development of the national economy by achieving the improvement of economic and social position of farmers and by promotion of agricultural productivity through farmers'

voluntary organization of cooperation.

The characteristics of totaltarianism (obligation of entry) or of blockade from withdrawal which are often seen on the organization of Ke as described before can not be found in the above Law of Agricultural Cooperative Associations. When we compare the above article of the law with the following article of Ke regulations, it will become more clear.

Regulations of Daidong Ke

Myongji Ri, Kumsong Myon, Jechon Gun, Chung-puk.

Article 1. The object is to accumulate common assets of the village.

From the above objectives of both organizations, we see that in case of the Cooperative Association, farmers' independence (voluntary) and their place in national economic development are stated, while the objectives of Ke are colored with collectivity and local groups.

Generally every aspect of modern life requires rationalism: Spirits of diligence or simple cooperation without regarding efficiencies are only anachronisms. Thus starting from the constitution of a nation, social economic structure and all other institutions should be improved with respect to efficiency.

The needs for rationality and the effectiveness in production and propagation have been clearly expounded long ago by such scholars as Mr. Adam Smith, "the Father of economics". These needs can be achieved by giving each individual the means of production in his economic activities. This principle may look quite ordinary today but it is really a valuable one that has been obtained by historic struggle. Especially the liberations of farmers from former feudal restrictions, which have been achieved one after another in western Europe after the French Revolution, were fundamentally based upon this principle.

In case of Ke, when extreme priorities are given to village community interests and too much emphasis is placed

upon this, freedom of individual activities is interfered with in some degree, and inefficiency results. Such inefficiency is against the principle of modern concepts of management.

Now we shall consider some prescriptions concerning the entry and withdrawal to or from Ke and Cooperative Associations.

Law of Agricultural Cooperative Associations

Article 30 (Entry) (1) The Association can not reject without justification the entry of a person who has proper qualification. The Association can not impose any disadvantageous conditions against such qualified entry.

(2) The Association can not restrict the number of its members.

Article 31 (Free withdrawal) A member can withdraw from the Association at the end of any fiscal year by giving notice 60 days prior to the end of the fiscal year.

Article 34 (Claim of refunding the contributions and rejection of refund) (1) The member who withdraws from an Association can claim refund of his contributions after the fiscal year is over, according to the articles of the Association.

(2) The Association may withhold refunding until the withdrawn member pays back his debt completely.

The above articles are a part of the Law of Agricultural Cooperative Associations which prescribe the entry and withdrawal of the members.

Following are some of the Ke regulations which deal with entry and withdrawal of members:

Regulations of Dong Ke

Kwanki Dong, Sangsu Ri, Namil Myon, Chongwon Gun

Article 23. Every one who lives in the village more than one year must join this Ke.

Regulations of Dai-Dong Ke

Mukjong Ri, Yangkang Myon, Yongdong Gun, Chung-puk

Article 1. (Entry) All the heads of households who live in the 1st Ku of mukjong Ri must join this Ke.

Regulations of Filial Duty Ke

Sangsu Ri, Namil Myon, Chongwon Gun.

Article 7. (Perdonnel) The number of the members of this Ke shall not exceed 30 members.

Regulations of Filial Duty Ke

Chongyong Ri, Yangkang Myon, Yongdong Gun, Chung-puk.

Article 4. (Entry) The members of this Ke consist of those who are discharged from the army.

Regulations of Dong Ke

First Ku, Bongsan Ri, Kang-oi Myon, Chongwon Gun.

Article 3. (Withdrawal and refunding) Withdrawal is free but contributions shall not be refunded.

Regulations of Filial Duty Ke

Yo Dong,Yusang Ri, Yonpung Myon, Koisan Gun, Chung-puk.

Article 8. (Withdrawal) Withdrawal from this Ke shall not be allowed unless the member moves out of this Dong area.

As is seen from the above examples, Agricultural Cooperative Associations employ the principle of the Rochdale

Consumption Association,[1] which prescribes entry and withdrawal with a spirit of open membership, and refunds are made in due course. However in case of Ke, entry and withdrawal are restricted, and refunds are usually not made to those who withdraw. Such restrictions imposed by Ke upon entry and withdrawal hamper the farmers' economic and social activities. Especially the refusal to refund previous contributions at the time of withdrawal cause farmers to lose their chances of rational investment. This practice is unhappy not only for the member concerned but also from the standpoint of the national economy.

Since every member of a nation is the custodian of his own welfare, he has the right to handle his own affairs with his own will and preferances, with his own responsibilities. The refusal to refund the contributions at the time of withdrawal may have the excuse of protecting the collective properties. However, such withholding is not allowable under present day principles of economic and personal liberty.

1/ The first successfull cooperative was organized at Rochdale, England in 1844.

"The success of the Rochdale cooperative resulted largely from the basic principles put into practice, although not formally recorded; these were:

1. One man, one vote.
2. Dividends on capital stock limited to current interest rates.
3. Earnings divided in proportion to patronage.
4. Goods sold at regular retail prices.
5. Business conducted on a cash basis.
6. Number of shares which one member might own limited.

Some writers add others, important among which was an educational fund to teach principles of cooperation.

These basic principles established in practice more than a century ago by a small consumers' cooperative have influenced greatly the development of all types of cooperatives. The first three are still essentially the guiding principles of cooperatives." (From pp.200 and 201, An Introduction to Agricultural Economics, by Robert C. Ross, Published by McGraw-Hill Book Co., 1951).

It is just an obsolete tradition handed down from past generations. The fact that this is a mistake can be seen from the following historical development: At the beginning of modern society, the formation of industrial capital was possible upon the collapse of feudal property. The common estates in various places were divided to each individual under the influence of the ideology of Adam Smith. Thus the original idea of each individual was best utilized for the propagation of one's own property, enabling the formation of the new industrial capital.

Ke Practices Are Harsh and Exploitive

Besides the above mentioned negative articles which are intended to protect and maintain the collective property of Ke, there are also positive articles -- harsh ones -- for propagation of their property. Following are some of such positive articles:

Regulations of Funeral Ke

Kalkum Ri, Yonpung Myon, Koisan Gun, Chung-puk.

Article 2. The method of propagating the Ke funds is that each member shall be responsible to collect interest on his evenly divided share. For every loan, a guarantor is necessary.

Regulations of Lime Ke (industrial Ke)

Yuha Ri, Yonpung Myon, Koisan Gun, Chung-puk.

Article 7. Interest shall be collected even by day rates (in Jang-Ri).

There are some Ke which have written regulations about the methods of propagating their funds. Other Ke, which do not have written regulations about the methods of propagating their funds, employ practically the same method of usury. Their grain usury system with the name of "Jang-Ri", as mentioned in Chapter 4, employs the interest rate of 8% per month, which amounts to almost 50% per 6 months. In case of

loaning cash a similar rate of interest is employed. It is safe to say that the average rate of interest is 50% - 100% per year. This high rate of interest is astonishing when compared with that of 15% per year employed by the Agricultural Cooperative Association. The debtors of the loan (usury) are usually the members of the Ke or farmers in the community. Table 5-2 shows the monthly rates of interest on private loans surveyed by NACF:

Table 5-2 Monthly Rates of Rural Private Loans

As of the End of September 1963 Unit: %

Zero interest	Private Loan with Interest						Total
	Less than 1.7	1.7-3.0	3.0-5.0	5.0-10.0	Above 10.0	Sum	
5.4	0.7	3.3	43.8	45.7	1.1	94.6	100

Data: from p.122 Report of Agriculture Credit Survey, by NACF, 1965.

From Table 5-2 and Table 4-3, we can see that the predominant range of interest on private loans in rural society is from 5% to 10% per month. The most important part of rural private lending is done by Ke today. This means that Ke which were organized in order for members to cooperate and help each other actually function for mutual exploitation. From the standpoint of Ke, this is so-called self-exploitation, as Prof. Tschajanow said. This is not only the misfortune of the Ke itself but also may lead the members, farmers, to reduce their living standards or to subordinate themselves to the objects of social cost. Such a high average amount of debt per farm household, 19,808 won, as shown on Table 5-1, may be caused also by Ke besides other causes.

Even recently there was a case of suicide because of the difficulty of paying back the Jang-Ri grains. Nevertheless, Ke are still popular in rural society. The reason for this popularity may be because farmers can not cast off their old fashioned traditional custom, undue ceremonies of funerals,

marriages, birthdays, ancestor worship, etc. Considering the continuing strong social pressure for such traditional ceremonies, Ke are still a kind of "necessary evil". Any tradition or custom is based upon a certain standard view of values, which gives it acceptance. But such old fashioned values are against modern ideas of efficiency and rationalism.

The author asked 1,988 farmers the following question: "What Ke are you most interested in?" The answers to this question were analysed and tabulated as shown in Table 5-3.

Table 5-3 The Type of Ke in Which Farmers are Most Interested

Item	Public welfare	Mutual Aid	Friend -ship	Indust-rial	Money making	No Interest	Total
No of answer	192	852	322	26	135	460	1988
%	9.8	42.8	16.3	1.3	6.7	23.1	100

From the above table it is clear that the type of Ke in which the farmers are most interested is mutual aid Ke, which amounted to 43% of total answers. It is notable that there also are a considerable number of answers which showed no interest, 23% of all. It is predicted that this kind of answer will be increased with further agricultural modernization.

Ke Assets Large But Poorly Used

In order to compare Ri-dong Cooperatives and Ke, the amount of assets owned by the two organizations was reviewed. The total amount of assets owned by all 669 Ke in the 75 sample Ri-dong examined in this survey was 44,045,600 won. A small number of Ke owned some immovables such as paddy fields, upland fields and forests, etc. But the most assets owned by Ke were movables. Among movables there was more of grains than of cash. The above amount of assets is the estimated value as of August, 1967.

The total amount of property owned by all Ri-dong Cooperatives in the 75 sample Ri-dongs was 8,345,300 won, or 111,270 won average per Cooperative. When the total assets of the Ke were divided by 75 Ri-dong, the average per Ri-dong became 587,300 won. Most of this was loaned to the farmers in the territory. The problem is, as repeatedly said, the interest rates are terribly high. Most of these Ke assets are consumed for non-productive purposes such as ceremonies of funerals, marriages, birthdays, ancestor worship, etc., except for the few industrial and money making Ke.

In order to see the use of shares (grains or money) received from Ke, the following question was asked of 908 persons: "For what did you use the share received from Ke?" The answers to this question were summarized and tabulated as shown in Table 5-4:

Table 5-4 The Use of Shares Received From Ke

Kind of use	Kind of Ke					Total
	Public welfare	Mutual aid	Friend-ship	Indu-strial	Money making	
Food	7(3.5)	19(4.2)	4(3.6)	1(2.5)	1 (1.2)	32(3.5)
Ceremony	45 (20.4)	325(71.8)	40(36.4)	4(10.0)	11 (13.1)	425(46.9)
Pay back debt	4(1.8)	5(1.1)	2(1.8)		4(4.8)	15(1.6)
School expense		11(2.4)	2(1.8)		8(9.5)	21(2.3)
Hospital expense		1(0.2)	1(0.9)		1(1.2)	3(0.3)
Providing estate	4(1.8)	7(1.5)	1(0.9)	1(2.5)	46(54.7)	59(6.5)
Others	161(72.8)	85(18.8)	60(54.6)	34(85.0)	13(15.5)	353(38.9)
Total	221(100)	453(100)	110(100)	40(100)	84(100)	908(100)

The number of persons who used their shares for holding ceremonies such as listed above was 425, or 47% of the total 908.

As we have seen, Ke assets found in this survey were more than 5 times the holdings of Ri-dong Cooperative Associations in the same area. Predominant expenditures made by farmers were for non-productive aspects of their lives. Merciless usuries were practiced to pay for family ceremonies. Such misuses as waste, usury, pointless repitition, etc., may lead to the chronic state of farmers' debt, as "once in debt always in debt" Hoping for the development of rural society in such circumstances is almost impossible. This traditional state of rural society is an obstruction against modernization, as Prof. Kim Sam Soo has said.

Long ago, Mr. Nurkse said: "For the economic growth of an underdeveloped country, sociological considerations should precede economic considerations, because questions of improving the environmental condition are more important than economic questions." When we consider only modernization of rural society, it can not be achieved without improvement of farmers' way of thinking and their institutional structures. For institutional improvement, some impact on their development should be given. Farmers should be brought to recognize that undue ceremonies of family affairs are just useless formalities that originated from ancient Confucianism. It is also necessary to make them understand that most of the traditional customs and compulsions to which many farmers are bound contribute nothing of lasting benefit. It is essential to make them comprehend that they should cast off such useless traditions and customs in order to direct their productive capacities to improving their standards of living.

Coops Promote Better Use of "Human Capital"

At any time and in any society, working rules are required for managing an organization. But a more important thing is the "man". Recently the importance of the man in any process of society came to be realized, so that the term "human capital" is being used. As applied in Korean agriculture, the term includes all the population involved (invested) in farm productivity. Here as elsewhere, the most productive

"human capital" is the man with high training and long experience in his field. In this we see another contrast between the rural Ke and the Coop Associations.

The officers of Ri-dong Cooperative Associations have limited experience in managing the affairs of the Association because of its short history, so there are possibilities of inefficient management. But the officers of functioning Associations, whether they are elected or appointed, are persons in charge of farmers' organizations based on a new concept. Here the choice of acceptance or rejection of the officers may depend upon their abilities. Lectures and training courses are provided to those officers for teaching them rational management techniques. The College of Agricultural Cooperatives is also operated in order to train future leaders of Agricultural Cooperative Associations.

In the case of Ke, on the other hand, the head of Ke is usually the elder of the village according to the traditional virtue in rural society, the order of ages. The executive officers of the Ke, secretary general and secretaries are selected considering their mental ability and economic ability. Since farmers' Ke follow traditional patterns, requiring very few new ideas, their method of selecting officers is unchanging. As far as Ke are concerned, the term "training course" is improper to use, and their "human capital" has a very low return. By being so, the Ke, the farmers' traditional organization, can not improve any further. It will repeat the same old obsolete routine.

There are also remarkable differences in the system of book keeping in Ke and in Cooperative Association. Primarily book keeping is for calculating the value of changing forms and increase or decrease of property within a certain period, by recording the transactions of a certain economic unit. By such book keeping, the results of the business can be evaluated and ways of improving the business to a more efficient and rational stage can be found.

In case of Ke, the book keeping is done by officers. But according to the author's survey, they do not usually have any definite account books. The blank space of a notebook in which the Regulations of the Ke are recorded is used for recording the notes of transactions.

In case of Ri-dong Cooperative Associations, especially in the outstanding ones, a specialist is in charge of the book keeping. They even use seperate books for different business. Another remarkable fact is that certain Associations which fulfill a certain conditions (prescribed by Article 84 of the Law of Agricultural Cooperative Associations) are entitled to be a juridical person. Such a Ri-dong Coop may have rights and obligations the same as a natural man; it may possess property, may become a transactor. Especially since it is a juridical person, a responsible third person does not have to worry about any loss through the transaction. Being entitled to be a juridical person is a basic advantage to the organization for carrying out its business efficiently. Ri-dong Cooperative Associations are already standing on this foundation. This point is basically different from the traditional rural Ke. This may be because of the function of usury of Ke and the lack of conditions which would allow them to develop as modern farmers' cooperative bodies.

Coop System Good But Leadership Weak

On the other hand, Ri-dong Cooperative Associations, as the modern farmers' organizations, are not always efficiently functioning, notwithstanding the nursing policy of the government and the legal support. Their efficiency depends upon working rules to some extent, but also upon the men in charge. Because of inexperienced and ignorant leaders or officers of the Associations, failures and inefficiency of management are often found. Mr. Chung Hak Shin said,1/ taking an example in the United States of America, as follows: "Out of 120 disbanded Cooperatives there were 78 cases of poor management."

Though the above is concerned with Consumption Associations in the United States of America, similar possibilities may be latent in other kinds of Coops. It should be considered that such phenomena are common to every country.

1/ From p.114, Theory of Agricultural Cooperative Associations, by Chung Hak Shin, Published by Hyongsul Publishing Co., 1962.

Especially the Korean Agricultural Cooperative Associations which are in their infancy are very susceptible to corruption and collapse. As an example, though its own property was only about 100,000 won, a Ri-dong Agricultural Cooperative Association built a huge store and a warehouse with a loan of millions of won. Such a case is an unhappy portent for the future of Korean Agricultural Cooperative Associations. (The case of Kumdang Ri Agric. Coop. Assn.) This case is an example of failure of Ri-dong Cooperative Association caused by incapable leaders.

It is probable that there are numerous cases of mistakes which did not come to light, which were caused by incapable leaders. Such clumsy management and collapse of Associations may lead members to distrust the leaders and withdraw. Poor management is thus very harmful for the development of the Associations, which emphasize cooperation as their most important principle of organization.

It is very hard to convince farmers, different from the attitude of city dwelers. They do not trust anything unless it is substantial and/or materially profitable. They believe that "one eye finds more truth than two ears do". Therefore, the doings of officers of Ri-dong Cooperative Associations are watched in every detail by the surrounding farmers. Their failure or even personal shortcomings may lead the farmers to disbelieve their Association. Such incapabilities of leaders, plus the condition of members which will be discussed later, constitute the main cause of inactive Cooperative Associations.

Self-Help Spirit Absent From Most Coops

The above mentioned cases are concerned with the fate of the associations when they were managed inefficiently because of the incapabilities of the leaders or executive officers of the Cooperative Association. The development of Coops may also largely depend upon the situations of members. Although only about 10 years have elapsed since the founding of the Korean NACF, a majority of Korean farmers have joined this organization. As shown in Table 2-7, 88% of all farmers are members. In the three sample Guns in this survey, 95%

of all farmers are members of their respective Ri-dong Coops (refer to Table 2-8). This means that almost all Korean farmers are members of Agricultural Coops. In part this is because the NACF Law employs the principle of Rochdale's open membership. Another reason is that the Associations are not organized "from the bottom up" (not voluntary), but "from the top down". Anyway the question is the degree of enthusiasm and of expectation of the present members of Ri-dong Coops.

The following question was asked of 1,371 members of Coops within the 75 Ri-dong Coops: "What is the object of your joining the Ri-dong Coops?" The answers to this question were summarized and tabulated as shown on Table 5-5.

Table 5-5. Farmers' Reasons for Joining Coops

Business	Marketing	Puchasing	Credit	Utilization	Farm Insurance (mutual aid)	Other	No answer	Total
Nos of Answer	45	805	266	191	15	4	45	1371
%	3.3	58.7	19.4	13.9	1.1	0.3	3.3	100

According to Table 5-5, 805 persons (58.7%) out of all 1,371 persons joined the Coops in order to purchase commodities. The purchase of the members of Coops is actually represented by buying furtilizers. The next biggest object of joining the Coops is the service of credit. This means the farming fund loanded by Gun Cooperative Association. The attitudes of members of Coops like this become more clear when we look at the answers to the next question; "In what particular project are you most interested among the various projects carried out by the Coops?" Out of 1,371 answers to this question 645 answers (47.1%) were the purchasing project. And the next largest interest was shown for the credit project. Such phenomena may be caused by the fact that the Ri-Dong Coops are not functioning to their full extent yet. Considering this tendency and the tendency shown in Table 5-5, the predominant motive and interest of farmers joining their Ri-

dong Coops are for buying furtilizers and borrowing money from the Coops.

Table 5-6 Kind of Business Run by Coops in Which Members are Most Interested

Item	Marke-ting	Pucha-sing	Credit	Utili-zation	Farm Insurance (mutual aid)	Other	No answer	Total
Nos of answer	40	645	253	191	26	28	188	1,371
%	2.9	47.1	18.5	13.9	1.9	2.0	13.7	100

Such attitudes of farmers are not very different among the classes (grades) of the Ri-dong Cooperative Associations. That is, we must consider them as their general tendencies. Such attitudes are the reverse of what we usually expect in Cooperatives. That is, ordinarily various profitable projects should be carried out after the farmers join the Coops and through their collective efforts. In this case, however, they join the coops in order to receive the benefit of already provided projects -- 80% are Government provided. This is against the spirit of self-help of the members, which has been strongly emphasised by Mr Schulze Delitzsch of the Rochdale pioneers. The lack of a spirit of self help among the members is considered the main cause of the failure of the Cooperative Associations of the Raiffeisen type.1/

1/ Raiffeisen, Friedrich Wilhelm (1818 - 1888), founder of the German system of agricultural cooperative banks, was born at Hamm on the Sieg on March 30, 1818. He entered the public service at Coblenz. The distress of 1846-47, which he attributed largely to absence of credit facilities for small peasant proprietors, led him to found the first agricultural cooperative credit societies (Darlehnskassenvereine), which ever since have been called after his name. He died Mar. 11, 1888. (From p.915, Volume 18, Encyclopaedia Britanica, 1949)

Mr. H. Vance Austin, who is the American advisor of NACF, said in a lecture on "The Function of the Agricultural Cooperative Association in Marketing Farm Products": "I believe many Korean farmers are poor. All the farmers in countries where agricultural cooperative associations were started were poor. But when farmers are convinced that a cooperative association is valuable -- that is, that the coops promote their income --, agricultural cooperative associations can be started".

Here is a dilemma: That Korean agricultural cooperative associations are not organized "from the bottom up". The attitudes of farmers reflected in Table 5-5 and 5-6 are to be expected when organization is "from the top down" and it is under the nursing policy of the Government. Such dependence of Cooperative Associations, together with the cases of poor leaders of the Coops, is an unhappy situation for the development of Korean Ri-dong Agric. Coops. The more dependent the members, the more inactive Coops may result. Detailed discussion will be given later about this.

Now we see that a really great project cannot be achieved without attaching importance to personnel elements.

Although there are many cases of inefficiencies of the Coops caused by non-economic factors in management as described above, economic reasons (too small scale may lead to relative increase of overhead cost) also causes losses and inefficiencies. Generally when continuous work by a certain facility or by an employee is done, losses are avoided. Therefore, reconsideration of scale of Ri-dong Agric. Coops has been going on recently. Unifications of two or more Ri-dong Coops are being made.

In the present Korean setting, the Cooperative Association sould be a self-protective organization of the weak, medium and small farmers, against the stronger and more advanced non-farm sectors in the newly capitalistic economy. Mr. C. Gide, a French theorist on cooperative associations, said: "The cooperative association is not extracted from the brains of scholars but from the stomach of people". Korean farm Cooperative Associations should be organized in response to the impacts of actual experiences of farm people, out of their own necessity and by themselves. Concerning this matter, Mr. Kenneth B. Platt, Agricultural Economic Advisor,

USAID/K, said in an article titled "Improvement of Farm Management in Korea": "As long as buyers deal with individual farmers, buying ungraded products of mixed quality, they will pay less for good quality than it is worth, in order to make up for risks of losses on poor quality purchases. Probably a necessary step for Korean farmers, to make sure of getting better prices for better quality products, will be to sell through cooperative organizations. The cooperative can perform grading services such as cleaning rice, candling eggs, sorting apples to uniform sizes, etc. Thus it can assure buyers of getting the quality they ask for. This relieves buyers of the risks they take in buying ungraded products. They can therefore afford to pay more. Cooperatives, by assembling and selling large quantities, are in a much stronger bargaining poisition than is the individual farmer. They can demand higher prices for better qualities more successfully than the farmer can." (Quoted from P.68, The Research and Guidance, Office of Rural Development, Aug. 1968).

Because of lack of thorough recognition by Korean farmers of the advantages of cooperatives, their organization inevitably came "from the top down", as described above. After the organization, for convenience of guidance, supervision and mutual liaison, the successive orders of the system, from unit Coops up to the Central headquarters (the NACF), were formed with the consideration of paralleling the government administrative system.

Size Of Coop Important For Success

In order to develop the social and economic status of the members competing with non-agricultural sectors of the society evenness of competing conditions should be provided. For that purpose cooperative associations which farmers join should possess sufficient functions. Here, together with the question of overhead costs in managing the Coops, the question of the scale of Ri-dong Coops as the unit association arises. An executive officer in the NACF has said: "The number of those Ri-dong Coops which hold less than 100 members forms 55% of the total. Many Ri-dong Coops are not sufficiently functioning because of lack of capital and dull business due to small scale. And this condition is a serious

problem."1/

The number of Ri-dong Coops in this survey which had less than 100 members was 25, or 33% of all 75 samples. Today the NACF is recommending combining unit Ri-dong Coops in order to make them function effectively in promotion of members' incomes. There is a case of combining 5 Ri-dong Coops to make one Coop, The Sejung-Ohdong Cooperative Association, Maro Myon, Poun Gun, Chung-puk. In the case of Oksan Cooperative Association, all the 15 Ri-dong Coops in one Myon were combined to form one single unit Cooperative Association. In the case of Palkyol Ri, Ochang Myon, Chongwon Gun, two Ri-dong Coops were combined to form one Ri-dong Coop. If such combining of plural Coops to form one effective sized Coop is aimed at economic welfare of the members, there should be some sort of principle in this union. That is, there should be some optimum point of size in joining plural Ri-dong Coops. In considering the optimum point, it can be estimated from economic considerations, but non-economic factors should not be neglected.

Concerning the optimum size, Prof. Choi Jae Yul computed that the optimum number of members of Ri-dong Coops which would assure proper functioning and profitable operations should be 267, based upon the following formula:2/

$$\text{Required members of unit Coops} = \frac{\text{Required amount for managing unit coop}}{\text{Unit share of investment per member}}$$

The above number, 267, is about twice the number of households in an average Ri or Dong. Comparing with this, the size of already combined Coops seems to be too large.

1/ (From "The case for union of Ri-dong Cooperative Associations," published by NACF, April 1966).

2/ From P.87, Agricultural Economy, Published by MAF, 1963.

Concerning this matter, a Japanese scholar, Mr. Suganuma, has cited the view of Mr. Kunitomo, a leader of the Japanese Agricultural Cooperatives Federation, as follows;
"The managemental scope of a unit coop covers three points: Organization, Business, and Management (in narrow sense). The scope of organization is expressed by the number of members and the number of households. The scope of management is expressed by the amount of deposits and the number of transactions. The scope of management (in a narrow sense) is expressed by the total amount of capital in a corporation, but in a cooperative association, where the capital effect is not clearly evident, it is expressed in the number of officials, which is the size of the labor force or the source of productive power. Among these three scopes, the scope of business is the central index, by which we can comprehend the essential economic characteristics of the unit Coop."1/

On the other hand, in an actual survey conducted by the author the results in Table 5-7 were found:

Table 5-7 Optimum number of Members of Unit Coops (Farmers' Opinion)

Item	Less than 100	101-200	201-300	301-400	more than 400	No Answer	Total
Nos of answers	27	30	31	16	39	39	182
%	14.8	16.5	17.6	8.7	21.2	21.2	100

According to Table 5-7, the number of person who think 400 members or more is optimum is largest, 39 (21.2%). This means many farmers think that the size of unit Coop should be more than 400 members.

1/ From P.211, Collection Of Treatises In the Memory Of Azuma Tosaku, Published by the Society of Agricultural Economics, Tokyo Agric. College, 1967.

Coops Better Suited To Modern Needs

Up to now we have compared the efficiencies of rural Ke and of Ri-dong Cooperative Associations. Although the Ke has a long history as a body of farmers' firm union, it is not a bit better than the modern agricultural cooperative association. This is very unhappy outcome. Ke should have gone through changes to adapt to circumstances of the modern age, after their long historical mission was completed of meeting basic rural social needs throughout the age of feudal days since their appearance. But Ke still cannot cast off their now obsolete role -- they are now in a state of platitude, enervation, wastage for ceremonies, practicing evil usury to perform outworn non-productive functions.

Our review also has ahown that the Korean Agricultural Cooperative Associations which were organized by the modern law are still quite young. Their leaders are lacking in management experience. Members of the unit coops are lacking in awakening, independence, spirit of self-help, etc., needed for building this type of organization "from the bottom up". The state of Coop organization is a certain distance from the way it should be. There also have been inevitable mistakes made by the leaders or executive officers.

However, we should not only marshall various phenomena of the Agricultural Cooperative Association: Estimation of future possibilities based upon such phenomena also is essential. Generally, the main characteristic of social phenomena or economic phenomena is that any concrete individual phenomenon at a certain place and time is but one stage in a process. That is, it is one step of progress or of retrogression. A brilliant history sometimes may not possess any futurity; a delicate new shoot may promise a brilliant future.

A moment of future possibility is far more important than present status. The true nature of social events should be comprehended with respect to their future. It is essential to recognize "to be" by considering "will be" or "will do". It is not necessary to burn a new house in order to control rats. We should not destroy the house just because the master of the house is hateful.

As the Ke once met the needs of farmers for a way to exist under the autocratic feudal system, so the present form of their efforts to cope with the problems of competition in a capitalistic economy is their new organization, the Agric. Coop. Association. The old fashioned Ke cannot meet these problems. This fact should be well understood by the farmers.

Rural Ke, which were formed and developed under the social economic structures of the natural economy and exploiting system of the past autocratic feudal governments, are still predominant in the rural society without discarding their conventionalism, without changing to adapt to the new capitalistic society. This failure to adapt is a big obstacle hindering the development of rural society and promotion of rural economy. That is because the gap between the idea and action for modernization is hindering the development of the society.

Then how long will Korean Ke continue to exist in the present shape? Will this form of social unit last forever, repeating its old fashioned physiology? Or will it gradually fall off with the passage of time, and finally disappear? Concerning this Mr. Kim Byong Ha and Mr. Kim Sam Soo express two different opinions. Mr. Kim Byong Ha said in his thesis, Historical Considerations of Ke; "The spirit of Ke which have grown in the old tradition of village communities is deposited in the brains of Korean people and has become solid, and it will be active in Korean society forever." He advocates the permanent existence of Ke in Korea. Contrary to this, Mr. Kim Sam Soo has said: "The former characteristics of Korea which were born from backwardness will be collapsed, and at the same time, the Ke will disappear. It is difficult to understand that Ke should thrive in a capitalistic society. There is no proof that Ke are directly related with capitalistic development." He advocates so-called disappearance of Ke.1/

1/ From P.84, Research on the Social And Economic History Of Korea, by Kim Sam Soo, Published by Pak-yeong-sa, 1964.

Rationally we may regard Ke as a social institution; it is a social product which appeared under the influence of a certain social economic structure. Thus it is changeable. We should not consider that it is absolutely solid. We know many events which confirm the above fact. Some familiar examples are as follows: Popularity of schools after the introduction of new learning caused the disappearance of "Hak Ke" (Learning Ke). Many irrigation Ke also disappeared in due course upon development of Irrigation Associations. An example of irrigation Ke with the name of "Mangzeon Bo" in Jungbong Ri, Kang-oi Myon, Chongwon Gun in a paddy field zone of Chung puk Province held 270 members. Once this Ke was annexed to the irrigation association, letting their reservoir be controlled by the association. But later they found out that the Association took bad care of the reservoir and high cost of irrigation resulted, they reorganized the Ke taking back the right of maintaining the reservoir. This story was heard at the time of the field survey, and illustrates how Ke can be discontinued or recreated to suit prevailing conditions.

These are only a few cases of rise and fall of Ke. The author believes that Korean rural Ke will gradually decrease in number along with progress of modernization, and will finally disappear. Concerning this Mr. Kim Sam Soo said: "Even though the political extortion which promoted the development and dissemination of Ke is no more here, the poverty of common people is the universal reality in underdeveloped countries of today. If the Ke was born from stagnation and backwardness, it would not disappear. Unless such Ke does disappear, the stagnation and backwardness will continue to exist. Such as this is hindering the modernization or capitalistic development. If we implement the modernization, Ke will naturally disappear, and it is the way it should be"1/ The fact that various Ke are popular in the city and in the rural society today means that the degree of modernization is not high enough to influence the Ke to decrease their number.

1/ From P.84, Research On The Social And Economic History Of Korea, by Kim Sam Soo, Published by Pak-yeong-sa, 1964.

Since Ke is a social institution, it will rise or fall matching the stage of development of social economy at a certain time and place. The type of Ke is also affected in a similar way. The rural Ke, as hereditary institutions handed down through successive generations, are still repeating their historical physiology. But the present Ke rises or falls under the influences of different factors of different dimensions than in the past, which was stationary and simple.

Korea was baptised with the Capitalism of the Japanese by other's will a long time ago. She came to possess a new political system, democracy, as well as capitalism, after 1945. The economic operation and the daily life of the people were converted to a system of liberalism. The law guarrantees freedom of association, residence and occupation. Education employes the principle of equal opportunity, Korean people, who had been thirsty for education for a long time became surprisingly eager to educate their yougsters, regardless of urban or rural area. (Refer to the second Article of Chapter II about the education in Korean rural society).

Development of transportation and communication, dissemination of education and mass communications, and the great movement of the people caused by the liberation and the Korean War brought an end to the closed characteristic of natural villages, which had extended from a long time past. Along with progress of capitalism in Korea, the previous self-sufficing farming by Korean farmers began to change to the line of an exchange economy. Further progress of Korean farming is required for full modernization; shifting the farmers' economy more completely into the capitalistic system and shifting rural society into more democratic institutions are required. In order to accomplish this, many new organizations are founded for the improvement of economic and institutional structures. Today's society is in the state of Boeke's so-called "social dualism" in its economic and social system. Korean farmers who are in between the two systems of the new and the old economic and social institution are inevitably subjected to the influences of various new factors which are quite different from those of the past. Especially the Ke, which played an important role in Korean rural society, greatly influencing both production and life of farmers, is influenced by various new factors.

Economic And Social Factors Affect Ke-Coop Choice

Here, the author intends to consider the rise and fall of today's rural Ke under the influences of various factors such as locality, environment, income level, family relation, etc. An effort will be made to set forth the principal tendencies about this.

In order to see the distribution of all 669 Ke in 75 sample Ri-dongs, (25 common, 25 special, and 25 market Ri-dongs) these are classified and tabulated as shown in Table 5-8:

Table 5-8. Distribution of Various Ke in Different Types of Ri-dongs

Item	Public Welfare	Mutual aid	Friend-ship	Indust-rial	Money making	Total
General	40	134	29	2	14	219 (33)
Special	44	114	33	4	16	211 (31)
Market	51	124	34	9	21	239 (36)
Total	135	372	96	15	51	669(100)

According to the above table, the common Ri-dongs had 219 Ke, or 33% of the total, special Ri-dongs had 211 Ke, or 31% of the total, and market Ri-dongs had 239 Ke, or 36% of the total. A moderately larger number of Ke are found in market Ri-dongs. This may be because market Ri-dongs need more credit loans than other kinds of Ri-dongs, resulting in more money making Ke and other kinds of Ke. According to previous Table 2-15, "Number of Households in Various Environments", the rates of non-farm households are 20% for common Ri-dong, 12% for special Ri-dong, and 28% for market Ri-dong. Thus the market Ri-dongs have latent possibilities of holding more money making Ke, which are also popular in the urban areas. This fact is well demonstrated in Table 5-8,

where 41% of all money making Ke are in market Ri-dongs. Not only money making Ke but also other kinds of Ke are more popular in market Ri-dongs. (Refer to Table 5-8).

There may be some other reasons why most Ke are more popular in market Ri-dongs. Most farmers organize their Ke directly out of their serious need of the function of the Ke (such as that of public welfare Ke). But in case of market Ri-dong, they may have indirect reasons besides this direct reason. To illustrate, people buy (demand) slaves not because there is a slave market (supply), but a slave market (supply) is formed because there are people who want to buy (demand) slaves. There is a real story about this in some middle Asian religion, which teaches that any one who releases a person bound in shackles shall go to heaven. Following this doctrine, the believers of this religion sought such unfortunate persons (demand arose). Merchants who had a quick spirit of commerce then kindnaped innocent people and sold (supplied) them to those believers, taking advantage of their belief. In general theories of economics, the theory of Keynes, "demands create supplies", seems to be more reasonable than Say's law, "the supply itself creates a demand".

Getting back to our point, the indirect factor of more Ke (not only money making Ke but also other kinds) in market Ri-dongs is the latent possibility of making any kind of Ke popular there. In the common cities or in market Ri-dongs, people need to borrow money for business capital, school expenses, etc., they usually borrow it from any kind of Ke in the form of "Jangri", the grain usury. For example, they borrow 3,000 liters - 5,000 liters of white rice from a Ke and sell the rice to use the money for their own purpose. Thus the more the demand for such urgent money, the more Ke will be organized. This fact explains the cases where rural Ke are disorganized when they run out of funds, regardless of prescribed objectives or period of terms. Here, the principle, "Demands create supplies" seems to hold.

An important fact found out through this survey is that where Ke are prosperous Ri-dong Coops are depressed. The following table shows that the property of Ri-dong Coops per member in market regions is considerably lower than in other regions.

Table 5-9 Assets of Ri-dong Coops in Each Environmental Region

(in won)

Item	No. of Members	Amount of Assets	Average Assets per member
General	2,666	2,477,800	929.4
Special	3,065	2,917,600	951.9
Market	3,395	2,949,900	868.9
Total	9,126	8,345,300	914.5

According to the above table, the average amount of assets per member is 929 won in common Ri-dongs, 952 won in special Ri-dongs, but only 869 won in market Ri-dongs. And in special Ri-dongs, where the number of Ke is least as shown on Table 5-8, the average amount of assets per Ri-dong per member is greatest. Now another fact, that where Ke are inferior in numbers Ri-dong Coops are relatively more well developed, is seen. Such a tendency as this can also be seen in the aspect of the amounts invested by members in their Ri-dong Coops.

Table 5-10 The Invested Amount to Ri-Dong Coops in Each Region

(in won)

Item	No. of Members	Amount of Investment	Average per member
General	2,666	1,560,300	584.8
Special	3,065	1,885,600	615.2
Market	3,395	1,879,900	553.7
Total	9,126	5,325,800	583.6

According to Table 5-10, the average amount of investment made per member is lowest, 554 won, in market Ri-dongs where Ke are predominant, and it is largest, 615 won, in special crops Ri-dongs where Ke are inferior in number.

Ke Most Popular In Low Income Areas

The rise and fall of rural Ke seems to be related to the income level of the community. In order to explore this relation, the 669 surveyed Ke were classified into three groups of different income Ri-dongs, and the respective numbers were divided by the number of Ri-dongs of respective income level as shown in Table 5-11. The notable fact shown on this table is that the lower the income level is, the higher the number of Ke.

Table 5-11 Number of Ke in Different Income Ri-dongs

Item	No. of Ri-dong	No. of Ke	No. of Ke per Ri-dong
High Income	17	126	7
Medium Income	35	301	9
Low Income	23	242	11
Total	75	669	9

According to the above table, the average number of Ke in high income Ri-dongs is 7, that in medium income Ri-dongs is 9, and that in low income Ri-dongs is 11. A tendency of more Ke in lower income Ri-dongs is shown.

In order to explore the relation between Ke and income level further, the opinion of members about the status of their Ke was asked of 1,988 members, and the answers were classified according to the different income levels. Table 5-12 shows the result of this analysis:

Table 5-12. Opinion of Members About the Status of Their Ke

Item	High	Medium	Low	Total
Good	293(79.4)	775(83.5)	617(86.3)	1,665(83.8)
Bad	6 (1.6)	43 (4.8)	14 (2.0)	63 (3.2)
So-so	63(17.1)	79 (8.7)	65 (9.2)	207(10.4)
Do not know	7 (1.9)	27 (3.0)	19 (2.5)	53 (2.6)
Total	369(100)	904(100)	715(100)	1,988(100)

According to the above table, the answers "good" form 84% in general. The answers "good" are 79% in high income Ri-dongs, 84% in medium income Ri-dongs, and 86% in low income Ri-dongs. More people in low income Ri-dongs think that their Ke are in good order. The fact that in lower income Ri-dongs more Ke are operated and are in better status may be understandable when we look at it from the viewpoint of the history of Ke. Poor farmers managed their living with more help of their Ke. Ke have been the last resort of struggling to exist by poor farmers under autocratic feudal governments and Japanese colonialism. This hereditary institution is still predominant in rural society because of traditionalism and conservatism. Thus both Tables 5-11 and 5-12 show that Ke are more resorted to in lower income Ri-dongs and less in high income Ri-dongs. This seems to confirm that people in high income Ri-dongs need less support from Ke in various aspects of their living and production.

For comparison, the influence of income level upon Ri-dong Coops was examined. The situation found seems to be the opposite of that found in Table 5-10, as shown in Table 5-13:

Table 5-13 Amount of Assets of Ri-dong Cooperative Association

(in won)

Item	Nos of Members	Amount of Assets	Average Amount per member
High	2,494	1,955,600	784.1
Medium	3,714	3,688,300	993.1
Low	2,913	2,701,400	927.4
Total	9,126	8,345,300	914.5

According to the above table, the average amount of assets of Ri-dong Coops per member is 784 won for high income Ri-dongs, 993 won for medium income Ri-dongs, and 927 won for low income Ri-dongs. That is, the greatest amount are found in medium income Ri-dong. This tendency in assets parallels the levels in amount of members' contributions to the Coops, as shown in Table 5-14:

Table 5-14 Amount of Members' Contributions to Ri-dong Coops, Classified By Income Level

(in won)

Item	No. of Members	Amount of Contribution	Average per member
High	2,494	1,244,400	498.9
Medium	3,719	2,404,800	645.2
Low	2,913	1,676,600	575.5
Total	9,126	5,325,800	583.6

According to Table 5-14, the average amount of each member's contribution is 499 won for high income Ri-dongs, 645 won for medium income Ri-dongs, and 576 won for low

income Ri-dongs. In high income Ri-dongs, the number of Ke was also least, as shown in Tables 5-11, 5-12 and 5-13. We may conclude, therefore, that people in high income Ri-dongs have the least interest in either Ke or Ri-dong Coops.

Concerning this point a Japanese Prof. Nasu expatiated the Theory of Mr. Webb, saying: "Extravagant desires of the rich do not feel any necessity of the cooperative associations, and their non-productive functions cannot be attached to cooperative associations. As Mr. Webb said, those idle rich may be the most hopelessly sterile of all the cooperative deserts."

Though this is the attitude of the rich toward the Coops, they show a similar attitude toward Ke, too. (Refer to Tables 5-11 and 5-12). Therefore, the fact that the amounts of assets and of contributions of high income people deposited in Coops are less is not caused by more use of Ke. However, the fact that the assets and the contributions of low income people deposited in Coops are comparatively small is caused from quite a different reason. The reason is because they join many Ke and cannot afford to pay much contribution to their Coops. As far as the Ri-dong Coops are concerned, two extreme classes, high income and low income, pay less attention to the Coops, and only medium income people are much concerned with the development of the Coops. These facts should be valuable references in guiding farmers.

Family Patterns Strongly Influence Both Ke and Coops

Here, we are to examine the functional relationships between Ke and the family relations which have affected the structure of Korean rural society a great deal. The author has classified 152 villages in 75 sample Ri-dongs into three types: Big family villages, big competing families villages, and various families villages. Table 2-24 shows this classification.

All 669 Ke were classified with respect to the type of villages and the type of Ke. Table 5-15 shows this classification:

Table 5-15 Classification of Ke With Respect to the Type of Village and Type of Ke

Item / Ri-dong	No. of Ri-dong	No. of Ke	Types of Ke					
			Public welfare	Mutual-aid	Friend-ship	Money making	Indu-strial	Average Ri-dong
Big family	13 (17.4)	110(16.5)	24	52	24	8	2	8.4
Big competing family	30 (40.0)	282(42.0)	61	151	43	21	6	9.4
Various family	32 (42.6)	277(41.5)	50	169	29	22	7	8.6
Total	75 (100)	669(100)	135	372	96	51	15	8.9

According to Table 5-15, the number of Ke in the big family villages was 110 (16.5%), that in the big competing families villages was 282 (42%), and that in the various families villages was 277 (41.5%). The average number of Ke per Ri-dong was 8.4 in big family villages, 9.4 in big competing families villages, and 8.6 in the various families villages. The big competing families villages had the greatest number of Ke. Big family villages had the smallest number of Ke. This tendency was also found when the author ran a survey about Ke in 1966. At that time, in 25 sample Ri-dongs (61 villages) there were 161 Ke. Classification of these 161 Ke with respect to the types of the villages is shown in Table 5-16:

Table 5-16 Family Relations and Ke

Item	Big family	Big competing families	Various families	Total
Nos of Ri-dong	9	4	12	25
%	36	16	48	100
Nos of Ke	37	59	65	161
%	23	36.6	40.4	100
Average per Ri-dong	41	14.9	5.4	6.0

Note: from p.84, Journal of Agr. Economics, Vol.8., K.A.E.S. 1966

Table 5-16 also shows that Ke thrive best in the big competing families villages and least in the big family villages. That is, there are 37 Ke in the big family villages, 59 Ke in the big competing families villages, and 65 Ke in the various families villages. The average number of Ke per Ri-dong is 14.9 in the big competing families villages, while it is only 4.1 in the big family villages, less than 1/3 as many. This phenomenon may be caused by the fact that big family villages are dominated by members of the same family, and their sense of family bond is very firm. In ordinary times and in an emergencies, they are ready to help each other to manage any affairs in the community. Therefore they have less necessity for a Ke. In other words, they do not need any contract for close cooperation, since their bond of family supersedes such contracts. Thus Ke are less in number in such big family villages. In case of big competing families villages, since there are several competing big families, the sense of rivalry among them causes divisions and confusions. When one family group composes one Ke, another family group also organizes a similar Ke. Thus extensive increase in the number of Ke results in such big competing families villages.

The above mentioned facts show the relations between Ke and family groups. The relations between family ties and Ri-dong Coops should also be examined.

The assets of 75 sample Ri-dongs were classified with respect to the three types of Ri-dongs, big family, big competing families and various families. Their respective amounts of assets per member are as shown in Table 5-17:

Table 5-17. Assets of Ri-dong Coops in Different Types of Ri-dong (in won)

Type of Ri-dong	Nos of members	Amount of Assets	Average per member
Big family	1,426	1,464,800	1,027.2
Big comptg families	4,073	3,438,500	844.2
Various families	3,627	3,442,000	949
Total	9,126	8,345,300	914.5

According to Table 5-17, the total assets of the 75 Ri-dongs were 8,345,300 won. The average amount of assets per member was 1,027 won for the big family Ri-dong, 844 won for the big competing families Ri-dong, and 949 won for the various families Ri-dong. The least amount was found in the big competing families Ri-dongs. Since the greatest number of Ke were found in the big competing families Ri-dongs, as mentioned before, exploitations by numerous Ke make it hard for them to afford contributions to the Coops. This reasoning is confirmed by the fact that in the big family villages, where the least number of Ke were found, the average amount of the assets of Ri-dong Coops was greatest.

Next, the average contributions of members to the Coops were examined, as shown in Table 5-18:

Table 5-18. Contributions of Members to Ri-dong Coops, Classified by the Type of Villages (with Different family Relations)

(in won)

Item	No of members	Members' contribution	Average contribution
Big family	1,426	1,005,000	704.8
Big competing families	4,073	2,122,500	521.1
Various families	3,627	2,198,300	606.1
Total	9,126	5,325,800	583.6

According to Table 5-18, the total contributions to the 75 sample Ri-dong Coops was 5,325,800 won. The average amount of contribution per member was 705 won for the big family villages, 521 won for the big competing families villages, and 606 won for the various families villages. This situation is similar to that shown on Table 5-17. In the big competing families villages, where the largest number of Ke were found, the average contribution per member was smallest; in the big family villages the amount was largest.

Up to this point, in order to see the influence of Ke upon Ri-dong Coops, comparisons and analyses have been made with respect to their environment, income level and to family relations. In cases where Ke are predominant we have seen that Ri-dong Coops are fewer. In other words, the rise and fall of Ke are opposite to the development trends of Ri-dong Coops. This fact is very important for planning and implementing the future programs of rural guidance and community development. As in the old Chinese saying, "If one knows oneself and the opponent, one surely wins every battle he fights", if we intend to guide farmers and help develop rural society, it is essential to thoroughly comprehend the facts in rural society.

Most Farmers Oppose Shifting Ke Assets To Coops

In order to see the degree of shifting Ke assets to Ri-dong Coops and its future possibilities, a survey was conducted by the author in 1965-66. A sample of 25 Ri-dongs was selected and, through a survey of public opinions in the area, the transition of Ke assets into Ri-dong Coops was examined. The results are tabulated on Table 5-19:

Table 5-19 Shifting of Ke Assets to Ri-dong Coops

Division	Separation	Small shift	Large shift	Complete shift	Total
Nos of Coops	20	3	2	0	25
%	80	12	8	0	100

Table 5-19 shows the result of analysis upon the degree of shifting Ke assets to Ri-dong Coops. The four items of classification, separation, small shift, large shift and complete shift were adopted to show the degree of transfer of Ke assets to Ri-dong Coops. Explanations of these terms are as follows.

Separation: Ke and Ri-dong Coops are clearly divided. No exchange of funds nor of labor is made between them. The dualism of farmers' organization is maintained. In area like this, the attachment of farmers to Ke is very firm, thus Ke are more numerous in these areas. Most of the inactive Coops are found in areas like this. The firm attachment of farmers to the Ke seems to lessen their interest in Coops. Voluntary cooperation of farmers in the Coops cannot be expected in these areas, and depression of the Ri-dong Coops results. It is an unhappy fact that this sort of Ri-dong Coops formed 80% of those in the survey (20 Coops out of 25).

Small Shift: This is the case where a part of the Ke grains (or money) is transferred to the Ri-dong Coops as an investment. The Ke grains (money) of any one man is not invested on an individual basis, but the Ke assets are transferred by a joint action of all members of the Ke. The number of cases like this was 3 (12%). Two concrete examples were: (1) In "K" Ri-dong, Namil Myon, Chongwon Gun, when contributions were made for forming the fund of Ri-dong Coops, the grains owned by the Dong Ke were transferred as an investment by the decision of a Ke meeting. (2) In "Y" Ri-dong, Yonpung Myon, Koisan Gun, Chung-puk, according to a decision made by the Pine Ke in the Dong, a grain polishing mill was built with the lumber cut from the forest owned by the Pine Ke.

In the areas of "small shift", the attachments of the members to the Ke are not so strong as in the case of "separation", and their interest in the Ri-dong Coops is relatively high. To the question "should the Ri-dong Coops be develcped or not?", a majority of the residents of such Ri-dongs gave affirmative answers. The decision made by the members of Ke to transfer Ke assets to Ri-dong Coops will bring gradual decrease of Ke assets and finally depression of Ke.

Large Shift: In this case most of the Ke assets are transferred to Ri-dong Coops. Only 2 out of 25 Coops surveyed were found in this group. The concrete examples were: (1) In "M" Ri-dong, Yangkang Myon, Yongdong Gun, Chung-puk, the members of Daidong Ke (all the residents of the Dong) decided to sell the land (40 ares of paddy fields and 30 ares of upland fields) owned by the Dong Ke and built a grain

polishing mill for the Ri-dong Coop. (2) In "S" Ri-dong, Namil Myon, Chongwon Gun, by decision of the members, the forest owned by the Pine Ke (97 hectares) was transferred to the Ri-dong Coop. The forest land was used for planting trees, growing saplings, growing fruit trees, etc. In these areas of "large shift", opinions favoring complete transfer of Ke assets to Ri-dong Coops, and feeling that Ke were unnecessary, were active. The favorers there were very eager to develop their Ri-dong Coops.

Complete shift: As the term indicates, this is the case in which Ke assets are completely transferred to Ri-dong Coops, just the opposite of "separation". Among the places surveyed by the author, none could be called a "complete shift". The author supposes that in no place in all Korea one can find such a place yet. When farmers achieve this complete transfer of Ke assets and efforts to their Ri-dong Coops, their unnecessary waste of time and money should be ended. Since the simultaneous existence of both Ke and Ri-dong Coops is irrational and hinders the development of rural communities, complete merging of the two organizations might be one basis upon which the modernization of Korean rural society could be implemented.

The relation between Ke and Ri-dong Coops regarding their property was also investigated in this survey of 75 sample Ri-dong. The degree of shift of investment from 669 Ke to Ri-dong Coops was considerably lower in the present survey than in the case of the former 25 Ke. This difference may be because the previous survey included areas of united Coops, while the present survey did not include such united Coops. And of course the contents of the two survey samples are different. However, the general tendency in both cases does not differ a great deal.

The following question was asked to every head of the 669 Ke: "Was any part of your Ke assts invested in Ri-dong Coops?" The answers to this question were mostly negative, as shown in Table 5-20:

Table 5-20 Answers to the Questions, "Was any part of your Ke assets invested in Ri-dong Coops?"

Item	Public welfare	Mutual aid	Friend-ship	Indust-rial	Money making	Total
Yes	7 (5.2)	3 (0.8)	1 (1.0)			11 (1.6)
No	128 (74.8)	369 (99.2)	95 (99.0)	15 (100)	51 (100)	658 (98.4)
Total	135 (100)	372 (100)	96 (100)	15 (100)	51 (100)	669 (100)

Only 11 Ke (1.6%) out of total 669 Ke have their assets partly invested in Ri-dong Coops. Relatively many public welfare Ke transferred assets to the Coops compared with other types of Ke. That is, the immovables owned by public welfare Ke were shifted to their Ri-dong Coop. It was necessary to listen to every members' opinion through a general meeting; thus such transfers were always made by the decision of the members.

The following question was asked of 1,371 persons who were members of both Ke and Ri-dong Coops: "Would you deposit anything which was received from Ke or contributed to Ke, in the Ri-dong Coop?" The answers to this question are shown in Table 5-21:

Table 5-21 Farmers' Intention of Depositing Their Resources in Coops.

Item	Yes	No	Total
Nos of Answer	169	1202	1371
%	12.3	87.7	100

According to the above table, the number of persons who would deposit their resources in the Coops (instead of Ke) was only 169, or 12% of the total. All the rest did not want to do so. However, the attitudes of farmers are a little different toward the question when Ke and Ri-dong Coops manage identical business, as in the next case.

The author asked 1,371 members of both Ke and Coops the following question: "Which would you utilize when Ke and Coops are managing the identical business?" The answers to this question are shown in Table 5-22:

Table 5-22 Farmers' Preferences of Ke or Ri-dong Coops doing Identical Business.

Item	Ke	Coops	Do not know	No answer	Total
No of answer	516	570	239	46	1371
%	37.6	41.6	17.4	3.4	100

There are 516 answers (38%)which would utilize Ke, and those which would utilize Coops are 570 (42%). That is, there are more farmers who would utilize Coops rather than Ke in case an identical business is managed by both Ke and Coops.

The above several tables show that farmers' Ke and their Ri-dong Coops will not be always parallel without affecting one another. But the present situation of general depression of Ri-dong Coops and firm attachment of farmers to Ke hinders the investment of farmers in Ri-dong Coops which should be nursed and developed for the benefit of farmers, while contributions to their Ke are still promoted.

Coop Self-Funding Can't Compete With Ke Demands

Investments by members in their Coops are an obligation for acquiring membership (Article 23, Law of Agr. Coop.

Assocn.), and at the same time they are the basis for accumulating independent funds in the Ri-dong Coops. The formation of independent funds of Coops depends upon the enthusiasm of the members. Attitudes of the members are reflected in their participation in the activities of the Coops and in their investments in the Coops. The existence of inactive Coops of inactive members attests the above fact.

In the modern ideology of capitalism and liberalism, the current of individualism is included. Everything is put under the responsibility of each respective individual. Every pioneer of the movement of Cooperative Associations asserts cooperative democracy and at the same time emphasises the spirit of self-help. Since the movement of Agricultural Cooperatives is primarily the farmers' own movement, it should be developed by farmers' own efforts. But in case of under-developed countries, this independence of farmers is impossible at the outset, and financial support from the government is essential. However, such financial support from the government cannot achieve a good result unless it is combined with farmers' own efforts.

Ri-dong Cooperative Associations in Korea should not always be under a nursing policy of the government. Thus the NACF drew up a 10-year plan for forming independent funds of Ri-dong Coops which would grow to 19,700 million won from 1964 to 1973, in order to cast off financial dependence and to carry out the best of the original functions of the Cooperative Associations. Table 5-23 shows the contents of the above 10-year plan for forming independent funds of Ri-dong Coops.

Table 5-23 Ten-Year Plan For Forming Independent Funds Of Ri-Dong Coops

(in million won)

Items	Accumlation of extra interest	Restor-ing Fees	Charge on Fextilizer supply	Charge on Rice Secu-rity Loan	Grain Deposit	Addition-al Inve-stment	Total	Accumu-lated Total
1963	98				122	415	635	635
1964	157	100	237	56	230	450	1,230	1,865
1965	180	218	265	63	239	450	1,415	3,280
1966	207	256	299	70	249	450	1;531	4,811
1967	236	291	333	79	259	450	1,648	6,459
1968	269	309	373	88	269	450	1,758	8,217
1969	306	360	418	99	280	450	1,913	10,130
1970	349	419	468	111	291	450	2,088	12,218
1971	399	487	524	124	303	450	2,287	14,505
1972	456	566	587	139	315	450	2,513	17,018
1973	521	657	657	155	327	450	2,767	19,785
Total	3,178	3,663	4,161	984	2,884	4,915	19,785	

Data: from p.74 Various problem in Agr. Coop. Movement, by N.A.C.F. 1965

The above plan is being implemented step by step every year. Concerning this, the Chung-puk Provincial Branch of NACF lately announced that the target amount of 239,364,000 won for 1968 in forming the independent fund was achieved only to the extent of 4.3%. Though it is understandable that members' poverty may prevent increased investment, poverty may not be the sole reason for their hesitance of investment. In our economic life, there are always preferences. People are usually stingy toward the things which they do not prefer. Farmers are forced to make alternative investments in the two organizations, Ke and Ri-dong Coops. As described before, rise and fall of Ke goes along the opposite route from the fortunes of Ri-dong Coops. (See Tables 5-8, 5-9, 5-10).

In order to learn the tendency of farmers' individual investments in Ke and Ri-dong Coops, the following question was asked of the heads of 669 Ke: "Is it easy to collect Ke grains (money)?" The answers to this question are shown in Table 5-24:

Table 5-24. Answers to "Is it easy to collect Ke grains (money)?"

Answers	Public welfare	Mutual aid	Friend-ship	Indu-strial	Money making	Total
Easy	108 (80.0)	330 (88.7)	90 (93.7)	11 (73.4)	49 (96.1)	588 (87.9)
Difficult	6 (4.5)	4 (1.1)	2 (2.1)			12 (1.8)
So-so	3 (2.2)	6 (1.6)	2 (2.1)	2 (13.3)	2 (3.9)	15 (2.2)
No Answers	18 (13.3)	32 (8.6)	2 (2.1)	2 (13.3)		54 (8.1)
Total	135 (100)	376 (100)	96 (100)	15 (100)	51 (100)	669 (100)

According to the above table, the number of answers "easy" is 588 (88%), and the number of answers "difficult" is only 12 (2%). This fact eloquently witnesses to the strong position of Ke in obtaining farmers' investments.

A further question was asked of 1,988 members of Ke as follows: "Have you ever failed to pay Ke grains (money)?" The answers to this question are summarized in Table 5-25:

Table 5-25 Answers to "Have you ever failed to pay Ke grains (money)?"

Item	Public welfare	Mutual aid	Friend-ship	Indust-rial	Money making	Total
Yes	2 (0.5)	6 (0.5)	6 (2.1)		1 (0.7)	15 (0.8)
No	400 (99.5)	1104 (99.5)	275 (97.9)	45 (100)	149 (99.3)	1973 (99.2)
Total	402 (100)	1110 (100)	281 (100)	45 (100)	150 (100)	1988 (100)

According to the above table, the answer, "yes", is only 15 (less than 1%), and the answer, "no", (that he never failed to pay the contribution to Ke) is 1,973 (more than 99%). In other words, practically no one ever failed to pay his contribution to a Ke. Although there is a little conflict between the answers of the heads of Ke and the answers of the members, it seems that all Ke members pay their shares very well.

In order to compare the investment in Ke and that in Ri-dong Coops, the following question was asked of 75 chiefs of Ri-dong Coops: "Is there any member who failed to pay the entry investment?" The answers to this question are shown in Table 5-26:

Table 5-26 Answers to "Is there any member who failed to pay the entry investment?"

Item	Yes	No	No answer	Total
Nos of answers	39	31	1	75
%	52.0	46.7	1.3	100

According to the above table, the number of the answers "yes" is 39 (52%), and that of the answer "no" is 35 (47%). In other words, the proportion of Ri-dong Coops in which there are members who have failed to pay the entry investment is more than half.

The following question was asked of the 39 chiefs of Ri-dong Coops who gave the answer, "yes": "What is the main reason for failure to pay the entry investment?" The answers to this question are shown in Table 5-27:

Table 5-27. Reason for Failure to Pay the Entry Investment

Item	Poverty	Little understanding	Little interest	Little cooperation	Isolated location	Other reason	No Answer	Total
No. of Answer	21	4	5	1	1	5	2	39
%	53.8	10.3	13.8	2.6	2.6	13.8	5.1	100

According to the above table, the number of answers which indicate "poverty" as the main reason for failure to pay the entry investment was 21 (54%) out of 39. Other answers the number of which is trivial are such as little understanding, little interest, etc. As shown in Tables 5-24 and 5-25, contributions of members to their Ke were

very well collected (more than 99%). Therefore the answer "poverty" does not seem valid. The real reason for failing to pay the entry investment, only 400 won, to Ri-dong Coops seems to be lack of funds caused by prior investment in Ke -- according to farmers' preferences. Their limited resources then might not afford the additional investment in Ri-dong Coops. A certain number of "little understanding" or "little interest" may also be reasons for failing to pay the entry investment.

Now we are to examine the reaction of farmers toward the campaign carried out by NACF for forming independent funds of Ri-dong Coops. The following question was asked of the 75 Chiefs of Ri-dong Coops: "Did all the members pay their shares for forming the independent fund?" The answers to this question are summarized in Table 5-28:

Table 5-28. Status of Paying for Forming Independent Ri-dong Coop Fund

Item	Complete payment	some failed to pay	None payed	Do not know	Total
Nos of answers	21	28	25	1	75
%	28.0	37.3	33.4	1.3	100

According to the above table, the number of answers "all paid" is 21 (28%) out of 75. The number of answers "part paid" is 28 (37%). The number of answers "none paid" is 25 (33%). The tendencies in paying shares for forming independent funds of Ri-dong Coops is poorer than the case of paying the entry investment. Especially it is notable that the number of answers "none paid" forms 33%.

A further question was asked of the 75 chiefs of Ri-dong Coops as follows: "What are the numbers who paid and who failed to pay their shares for raising the independent funds of Ri-dong Coops?" The answers to this question are summarized with respect to all 9,126 members of the 75 Ri-dong Coops in Table 5-29:

Table 5-29. Nos. of Members Who Paid The Shares For Independent Funds

Item	Paid	Failed to pay	Total
Nos of members	4,946	4,180	9,126
%	55.2	44.8	100

According to the above table, 4,946 members (55%) paid their shares for raising the independent fund, and 4,180 members (45%) did not pay them. The number of members who paid is a little more than those who did not. This situation is similar to that shown in Table 5-26 on paying the entry investment.

The formation of independent funds of Ri-dong Coops for their growth and development has been under way since 1964 (see Table 5-23), but the results are not satisfactory. (In case of Chung-puk, only 4.3% of the yearly goal was achieved as of October, 1968).

Ke Assets Far Exceed Coop Assets

The farmers' attitudes on investment in the two organizations as described above is also clearly reflected in their respective financial situations. Table 5-30 shows the total assets owned by 669 Ke in 75 sample Ri-dongs. Of course these assets include immovables too, and the values of these immovables are the current values as of October, 1967.

Table 5-30 Total Assets of 669 Ke

(in won)

Items	No. of Ke	Amount of Assets	Average per Ke	No. of members	Average per member
Public welfare	135	13,929,600	103,182.2	9,218	1,511.1
Mutual aid	372	22,914,300	61,597.6	8,747	2,619.7
Friend-ship	96	1,521,100	15,844.8	2,497	609.2
Industr-ial	15	758,900	50,593.3	552	1,365.8
Money making	51	4,921,700	96,503.9	897	5,486.8
Total	669	44,045,600	65,837.9	21,911	2,010.2

According to the above table, the amount of total Ke assets is 44,045,600 won. The average amount per Ke is 65,838 won, and per member is 2,010 won, and per Ri-dong is 587,275 won. With respect to the kind of Ke, the largest amount of assets per member is found in money making Ke and the next is found in mutual aid Ke.

In order to compare the above amount of average assets per Ke member with the status in Ri-dong Coops, total property owned by the 75 Ri-dong Coops is tabulated in Table 5-31. Data concerning these property of Ri-dong Coops were obtained from Gun Coops Associations.

Table 5-31. Amount of Property Owned by 75 Ri-dong Coops

(in won)

Item	No.of members	Amount of property	Average per member	No. of coops	Average per coop.
Total	9,126	10,169,100	1,114.4	75	135,597.3

According to the above table, the total amount of property -- positive property plus negative property -- of 75 Ri-dong Coops is 10,169,800 won. The average amount of property is 1,114 won per member, and 135,597 won per Ri-dong Coop.

Comparing these figures with those of Ke assets, there are remarkable differences. In the case of Ke, the average amounts of assets per member and per Ri-dong are 2,010 won and 587,275 won respectively. Since the average amount of Coop property per member is 1,114 won and per Ri-dong Coop is 135,597 won, the members of Ke hold about twice as much average property as do Ri-dong Coop members. The average amount of Ke assets per Ri-dong is as much as 4 times that of Ri-dong Coops. In the case of Ri-dong Coops, immovables are included in the amount of their property. We should note that the property of Ri-dong Coops includes debts as well as positive property, while the Ke did not have any debt at the time of survey. As a matter of fact, the Ri-dong Coops cannot yet properly function with the amount of the members' investment and the independent fund which is insufficiently formed; they have to borrow considerable amounts from the upper class Associations for the construction of stores, grain polishing mills, etc. Although not all the Ri-dong Coops are borrowing much money, if we subtract their debts from their total assts, the amount of net property is far less than the amount of Ke assets shown in Table 5-30. Also the average amount of Ke assets per member is far greater than the net amount of property of Ri-dong Coops per member.

Table 5-32 shows the net amounts of property of Ri-dong Coops after subtracting debts from the total (gross) property.

Table 5-32 Amount of Net Property Owned by Ri-dong Coops

(in won)

Item	No. of members	Amount of net property	Average per member	No.of coops	Average per coop.
Total	9,126	8,345,300	914.5	75	111,270.7

According to the above table, the net property of the 75 Ri-dong Coops when surveyed was 8,345,300 won. This amount is 1,824,500 won smaller than the amount of the gross property, shown on the Table 5-31. The difference is the debt carried by the 75 Ri-dong Coops. The average amount of the net property of Ri-dong Coops is 915 won per member and 111,271 won per Ri-dong Coop. This amount per member is less than half the average Ke assets per member. And the average amount of net property per Ri-dong Coop is about 1/5 of the average Ke assets per Ri-dong. This level of net property includes the amount of investment made by the members and the amount of the independent fund formed by institutional methods -- restoring fees, extra interest accumulation, etc. --. When we consider the real net investment made by the members of Ri-dong Coops, it is much less than the amount of Ke assets both in absolute amount and in relative amount. Table 5-33 shows the amount of investment made by the members of 75 Ri-dong Coops:

Table 5-33. Amount of Investment in 75 Ri-dong Coops

(in won)

Item	No. of members	Amount of Invest-ment	Average per member	No. of coops	Average per coop
Total	9,126	5,325,800	583.6	75	71,010.7

According to the above table, the total amount of investment made by the members of 75 Ri-dong Coops is 5,325,800 won. The average amount is 584 won per member and 71,011 won per Ri-dong Coop. Comparing these with the previously stated amount of Ke assets, the average per member is about one-fourth that of Ke assets, and the average per Ri-dong is really only one-eighth that of Ke assets per Ri-dong. This remarkable difference between the amount of investment made in either Ke or Ri-dong Coops is, as repeatedly said, caused by: (1) the firm attachment of farmers to Ke, and (2) depression of Ri-dong Coops.

In case of the first reason, the Confucian ideology for holding big ceremonies of funerals, marriages, birthdays,

ancestor worship, and other old fashioned traditional customs in rural area, appear to be the main cause. Therefore, the farmers make generous contributions to Ke and are very stingy with their investments in Ri-dong Coops, as shown in Tables 5-25, 26, 28, 29. In case of the second reason, farmers hesitate to invest their resources in Ri-dong Coops because the coop management is held in low esteem, and this also promotes the tendency to increase investment in their Ke.

As repeatedly mentioned, Ke have a negative effect on the farmers' economy. Stopping the farmers' investment in Ke and transferring those resources into their Ri-dong Coops would be much better for their own good, and for the development of rural society and the national economy. Modern cooperative associations are organized in order to accumulate and integrate capital saved by independent mediums and small producers who wish to invest productively. The cooperatives thus serve to create industrial capital. But when no upward flow of capital is established -- when the capillary tubes are clogged -- the growth of industrial capital is choked off, and the development of the nation lags.

Farmers See Need For Improved Coop Management

One can lead the horse to the stream, but one cannot make the horse drink water. The question is how we can make the horse drink the water. Today, every person is responsible to seek his own happiness. But in order for farmers to do this intelligently they must be taught economic reasoning, and at the same time cooperative associations which people can rely on should be nursed and developed. In other words, Ri-dong Agricultural Cooperative Associations should be improved so as to merit the confidence of the farmers.

In order to learn the attitudes of the farmers toward Ri-dong Coops, the following question was asked of 1,371 Coop members: "What do you think of your Ri-dong Coops?" The answers to this question are summarized in Table 5-34:

Table 5-34. Farmers' Opinions of Ri-dong Coops

Item	Good	Bad	So-so	Do not know	No answer	Total
Nos of answer	505	112	652	73	29	1,371
%	36.7	8.2	47.5	5.4	2.2	100

According to the above table, the number of answers "good" is 505, forming 37% of the total. The number of answers "bad" is 112, forming 8.2% of the total. The number of the answers "so - so" is greatest, 652, forming 48% of the total. These opinions reflect that Ri-dong Coops are not yet functioning properly.

The 505 members who gave the answer "good" were asked to give their reasons for this answer. The reasons of answering "good" are shown in Table 5-35:

Table 5-35. Reasons of Preferring Coops

Item	Purchasing business	Credit business	Reliable	Other reasons	Total
No.of answer	202	152	62	89	505
%	40.0	30.1	12.3	17.6	100

According to this table, the number of members who think the Coop is good because of purchasing business forms 40%, and that because of credit business forms 30%. These two activities are the most important ones carried on by the Coops. Procuring important agricultural commodities such as fertilizers, farm chemicals, farm machinery, etc., and loaning a low interest fund for farm management are very beneficial to farmers.

The 112 persons who gave the answer "bad" were asked: "What is the reason for your answer 'bad'?" The answers to this question are summarized in Table 5-36:

Table 5-36. Reasons of Disliking Coops

Item	Poor management	Govemt interfere	Corrupt officers	No benefit	No free purchase of fertilizers	Improper timing of Loan	Other reasons	Total
No. of answer	38	36	5	6	9	7	11	112
%	33.9	32.1	4.5	5.4	8.0	6.3	9.8	100

According to the above table, the reason of poor management is 38, forming 34% of the total. And the reason of government interference is 36, forming 32% of the total. Other reasons for disliking the Ri-dong Coops make up one-third of the total, and each deserves careful consideration for improvement of Ri-dong Coops. Those who gave the reason of poor management for disliking the Coops should mean that they would like the Coops when management is improved. Therefore, if management of Ri-dong Coops is improved and it functions in good order, the members will become very close to the Coops, and the important principle of Coops, "close cooperation of the members" will be maintained.

The second largest reason of disliking the Coops was "interference" of government. Letting farmers believe this kind of idea is one cause of keeping the farmers at a distance from their Coops, whether that reason was given or not. We often hear of governmental interferences when we carry out any kind of farm survey. Farmers always compare the Ri-dong Coops with their Ke. They often say that their Ke are organized by their own will, whereas the Ri-dong Coops are organized by the government. This may be, as mentioned before, because Agricultural Cooperative Associations in our country are not farmers' voluntary organizations, and are subject to direct or indirect supervision by the government in various aspects of its finance, personnel, management, etc.

This is illustrated by the following concrete fact: The chiefs of Ri-dong Coops are appointed by the government, whereas the heads of their Ke are elected by them.

The author examined farmers' opinions about the present system of appointing the concurrent position of the chief of Ri-dong and the chief of Ri-dong Coops. The following question was asked of 1,371 persons: "Which do you approve, election or appointment of the Chief of Ri-dong Coops?" The answers to this question are shown in Table 5-37:

Table 5-37 Farmers' Opinion About Election and Appointment of The Chief of Coops

Item	Election	Appointment	No answer	Total
No.of answers	1050	205	114	1371
%	76.6	15.0	8.4	100

According to the above table, the number of persons who prefer election is 1,050, forming 77% of all. And the number of person who prefer appointment is 205, forming 15% of 1,371. In short, the persons who want elected Ri-dong Coops Chiefs are the large majority, nearly 80% of all those questioned. If Coops are to become independently funded, the members must have more control of Coop affairs. Today's farmers are not ignorant. When we look around the rural communities, we find that if the chief of the Ri-dong Coop is a man of high repute, the management of the Coop is relatively in good order; and the status is the opposit if the chief is not so respectable.

Next, the matter of concurrent position of the chiefs of Ri-dong Coops was examined. Approval or disapproval on this point was asked of 1,371 persons as follows: "Do you approve or disapprove the concurrent occupation of the two position, the chief of Coop and the chief of Ri-dong?" The answers to this question are shown in Table 5-38:

Table 5-38 Farmers' Opinion About Concurrent or Separate Position of Chief of Ri-dong and Coop.

Item	Separation	Concurrence	No answer	Total
Nos of answer	597	659	115	1371
%	43.5	48.1	8.4	100

According to the above table, the number of persons who prefer separation of two position is 597, forming 44% of the total. The number approving concurrence is 659 (48%). That is, more persons approve the concurrent occupation of the two position. The concurrent occupation system practiced in some places now seems to be good.

The reasons for approving the concurrent position are shown in Table 5-39:

Table 5-39. Reasons for Approving Concurrence

Item	Economy	Positiveness	Swift paper work	Convinient paper work	Firm responsibility	Prevent corruption	Avoid conflict	Other reasons	Total
No. of answers	13	21	74	373	6	6	26	140	659
%	2.0	3.2	11.2	56.6	0.9	0.9	4.0	21.2	100

According to the above table, the largest number of reason is the convenience in carrying out paper work. Other reasons are avoiding conflict of views between the chief of Ri-dong and the chief of Coops, and also because of economy, etc. Considering the answer, "because of economy", it may mean "reducing overhead costs". Any way, Ri-dong Coops must be improved in both form and content so as to gain farmers' confidence. For this improvement, the farmers' hope which

appeared in various descriptions above should be fulfilled in the aspect of the system and in the aspect of management in a gradual order.

Coop Credit Program Poorly Fitted To Farmers' Needs

Considering the long term characteristics of agricultural production and its low profitability, loans to farmers should be long termed and with low interest. Procedures for acquiring loans should be simplified, or many farmers will go back to their Ke for loans. Concerning this, a Japanese scholar, Dr. Kondo, Yasuo has written: "Tenant farmers often complain that it is awfully difficult to borrow money from the Credit Association. Many poor farmers more often go to Mujin, Tanomosi, or to individual usury for borrowing money."1/

Thus when the loan from the Coops become long termed and low interest, and loan procedures become simple, it will be a great help for farmers to transfer their resourses from Ke to Ri-dong Coops. Then, contrary to the present situation, Ke will be depressed and Coops will thrive, where Ri-dong Coops function properly.

The author saw actual examples of this at the time of field survey. In the Mukjong Ri Coop, Yangkang Myon, Yongdong Gun, Chung-puk, the grain polishing mill owned by the Coop was managed well and the accumulated quantity of grains, as the fees for polishing, formed a big stock. The grains out of this stock were being loaned to farmers at low rates of interest the same as that of the grain loan from the government. The Ke which were competing with this grain loan were in difficulty in practicing their grain usury, and farmers were saying that no more Ke would be organized in their area. This is just one example.

1/ From P.435, Agricultural Policy, by Kondo, Yasuo, 1960. Refer to Chapter 3, Concept of Ke, for explanation of Mujin and Tanomosi.

When Ri-dong Coops function properly and the desires of farmers are fulfilled, the positive and realistic mind of farmers will cause lessening their sense of resistance against the new organization. Then their passive attitudes toward Coops may be changed to active enthusiasm. Their sense of unity may be recognized "from the stomach," not from the reasoning of theories. Thus, the prosperity of Ri-dong Coops may cause the depression or the disappearance of Ke. Then the organization of rural capital accumulation will be unified and huge amounts of Ke assets will flow into the Ri-dong Coops. Future farmers' savings will not be utilized in Ke for usury, but for constructive purposes in Coops. In that day, farmers will not have to pay high interest to Ke and to private usury lenders, and more funds will be loaned to farmers with lower rates of interest.

Chapter VI CONCLUSIONS AND RECOMMENDATIONS

As is well known, Korea is an agricultural country; farmers, rural society and farming are quite important in her industry, economy and culture. Prosperity and decline of agriculture, farmers and rural society are directly and absolutely related with the prosperity of Korean national economy, and relatively related with the modernization of Korea. Modernization of Korea cannot be implemented while neglecting farmers, rural society and agriculture. In this setting, the present study has led to the following conclusions:

1. Today's rural society is still holding the old fashioned institutional system which was originated under the old view of values, because of the conventional conservatism of farmers. Feudal characteristics and stagnation for a long time caused farmers to cling to the idea of village community. The Ke society which is the mutual organization within the village community promoted the above mentioned farmers' tendency. Continued placing of priorities upon Ke is restricting the farmers' activities, and is contrary to the modern ideology of allowing original ideas and activities of each individual to the utmost degree.

2. Although rural Ke have been a historical self-governing mutual organization organized as a countermeasure against extortion by former feudal governments and against the usury practiced by the upper class against the lower class, Ke are still practicing usury upon poor farmers as the former upper class did to them; Ke are preserving an antinomy. That is, before carrying out the functions of Ke, a certain amount of Ke fund obtained as contributions from members of the Ke is loaned to farmers at about 8% per month of interest under the name of "Jang-Ri". Thus farmers are squeezed by Ke and inevitably became debtors. This phenomenon is conspicious where Ke are numerous. Ke must be considered one cause of rural poverty today.

3. Among various Ke in rural society the largest number of Ke are for paying for such ceremonies as funerals,

marriages, birthdays, ancestor worship, etc. Exactions from farmers and their debt caused by Ke are for such non-productive waste, not for promoting their living standard, neither for promotion of production nor encouraging their business. In other words, loans from Ke are neither for production nor for rehabilitation, but for wasteful kinds of consumption.

4. Rural Ke, a historical and institutional system developed to cope with the social and economic structure of Korea, have experienced many changes and are still undergoing many changes by various factors. More Ke are organized in times of emergency than at ordinary times. In ordinary times, trends of Ke appear differently under different conditions. That is, many Ke are practiced in the market region of rural society, more Ke are practiced in lower income communities, and numerous Ke are practiced in the big competing families villages. Rise and fall of Ke are contrary to the prosperity of Ri-dong Cooperative Associations. Thus, in the above market regions, low income Ri-dongs and big competing families villages, where Ke thrive, Ri-dong Coops are in depression. Similarly in special crops regions, medium income Ri-dongs and monopolistic big family villages, where Ri-dong Coops are relatively prosperous, Ke are quite inferior in their numbers.

Another important fact is that people in high income region show least interest in participating in either Ke or Ri-dong Coops. These various facts should be valuable reference for guiding farmers and nursing Ri-dong Coops.

5. Although rural Ke are a firm rural organization having long history, because of conservative way of farmers' thinking and old fashioned working principles of Ke, they have failed to become modern farmers' cooperative body. This is very unfortunate thing. Farmers are clinging to the conventional ideology and are still attached to past social institutions which are no longer needed.

6. After the independence of Korea, the land reformation was enforced in 1949. Thus the farmers came to possess the land as the means of production. After this, the Korean Agricultural Cooperative Associations were established as a

modern farmers' organization, in order to promote rural economy upon the basis of farmers' possession of land. Because of lack of farmers' awakening, the establishing of the Agricultural Cooperative Associations was carried out through initiatives of the government. But the real master of this organization should be the farmer. Farmers should participate in this organization as individual members of the economy, not as members of a village community as in the case of Ke. By doing so, the rural economy as the aggregate of individual farmers' productivities would be promoted, and thus help promote the national economy.

In other words, the Agricultural Cooperative Association can be considered as an organization for formation of industrial capital in Korea. Ke can never perform this function; instead they produce negative effects upon individual and national economy. When traditional Ke are disbanded and their resources which have been wasted for holding non-productive ceremonies are shifted to Ri-dong Coops for productive activities, the former unreasonableness and extravagance will be stopped; promotion of rural economy can be expected. Unless this change occurs, significant investment by farmers in Ri-dong Coops will be impossible because of lack of farmers' resources; thus numerous inactive Coops will result.

7. However, the full disappearance of Ke is not prerequisite of the development of Ri-dong Coops. Development of Ri-dong Coops can cause gradual decline of Ke. Perhaps even when Ri-dong Coops are properly functioning Ke may still exist to some extent because of firm attachment of farmers to Ke. But when farmers' reasoning is awakened and they eagerly seek a more rational life, Ke will become a kind of decoration and their number will become neglegible.

We should endeavor for the development of Ri-dong Coops and at the same time patiently teach farmers rational living and economic reasoning.

8. Efficiencies should always be considered in helping develop Ri-dong Coops and in guiding farmers. High income Ri-dongs where neither Ke nor Ri-dong Coops are popular, or market regions where Ke are most thriving, are so-called cooperative "deserts", and development of Ri-dong Coops in

these two areas must be expected to be quite difficult for the time being. Efforts for development of Coops in these two areas may bring little fruit for the work involved. Big competing families villages and low income Ri-dongs, where Ke are thriving, can be improved by awakening farmers there with the macroscopic point of view. Since predominance of Ke in big competing families villages is caused by their blind sense of family ties, and since prospering of Ke in low income Ri-dongs is caused by the poverty and conservative way of thinking, continuous and patient effort for awakening farmers in these areas may bring considerable fruit.

9. Besides the above tactics in guiding farmers and helping develop Ri-dong Coops, a fundamentally important thing is that we should correct the farmers' present negative attitude of thinking "What will become of the Coops?" to a positive attitude of "What can we do to develop Ri-dong Coops?" Farmers must be brought to recognize the necessity of Coops "from their stomachs". In order for this, the present status of Ri-dong Coops should be improved to be suitable to the taste of farmers. In case of uniting Ri-dong Coops to an optimum size, not only economic matters but also human relations and environmental conditions should be considered. The business of Coops should not be limited to government affairs. The characteristics of the credit loan should be shifted from consumption or rehabilitation to production. Procedures for obtaining credit should be simplified. Every aspect of the business of Coops should fulfill the desires of members.

When the form and essence of Ri-dong Coops become the way it should be and the Coops are ready to function properly, rural Ke will gradually decrease.

10. Since the appearance of Ke and rise or fall of them were matched with the former social economic system, development of capitalism in Korea, especially the development of Cooperative Associations, may cause the disappearance of the reason of existence of Ke. The fact that former "Learning Ke" and "Irrigation Ke" have disappeared and only one type of Ke is practiced in city area confirms the above reasoning. Thus, rural Ke will be replaced by Ri-dong Coops, the new farmers' organization. At that time, farmers' resources will

not be fragmented, and non-productive uses and debts to usury will disappear; their resources will be placed in productive investments, and farmers will be able to obtain more funds at lower rates of interest.

Since Korean farmers have a strong sense of cooperation and mutual help, the development of Cooperative Association which emphasizes cooperation may be achieved rapidly when the direction of cooperation based upon the new idea is set forth.

CREDIT SYSTEMS FOR SMALL-SCALE FARMERS: CASE HISTORIES FROM MEXICO

Simon Williams and James A. Miller
Coordinacion Rural, Mexico DF

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Chapter 12

AGRIBUSINESS

Agribusiness in Mexico is a mixed enterprise, shared in a variety of ways by federal government agencies and private enterprise.

All fertilizer destined for domestic consumption is controlled by a public monopoly, Guanos y Fertilizantes de México, S.A., which manufactures, imports, distributes directly or through franchised agents, and sets prices. Practically all hybrid corn and wheat seed and an important quantity of rice seed are produced and sold exclusively by another government corporation, Productora Nacional de Semillas, S.A. Under the terms of the National Seed Law, the Productora is enabled to enter into any of the seed markets, but despite some experiments with sorghum, oilseeds, beans, chiles, and other commercial crops, these fields are largely in the hands of private seed companies. The Banco Nacional de Comercio Exterior, S.A., is directly involved both in the export of certain crops, e.g., chicle, and in the control of distribution of these crops to domestic industry. The government, also involved in wholesaling and retailing of foodstuffs through its Compañía Nacional de Subsistencias Populares (CONASUPO) and in warehousing of agricultural produce through Almacenes Nacionales de Depósito, S.A. (ANDSA), most recently is considering the manufacture of animal feeds under the direction of the National Development Laboratories and the production of feeder pigs for sale to village-level swine operations under the

control of the Banco Nacional Agropecuario. Public agencies are involved in the agribusiness system in a host of other ways, for example, in the manufacture of products from henequen fiber, in the operation of abattoirs, and in the control of prices paid to farmers or by consumers.

Where supplies and services originate with a public agency, any credit extended to the farmers comes through the public credit system, with one exception. Some of the franchised fertilizer dealers have become large enough to offer commercial lines of credit to favored customers. Typically a good client may be able to pay 40 percent in cash and obtain the balance as crop-season credit at an interest rate of 1 percent to 1.5 percent per month. On the other hand, where supplies and services originate with private enterprise, many newly developed and self-contained credit systems have emerged which are worthy of special note.

The credit systems designed and administered by Campbell's de México, S.A. de C.V., Heinz Alimentos, S.A. de C.V., Productos del Monte, S.A. de C.V., and Tabaco en Rama, S.A., are uniquely illustrative of how private enterprise, operating for profit, can utilize a tightly supervised credit system to markedly improve the economic well-being of farmers even while building a raw-material base for a successful manufacturing and marketing organization. These four cases were selected for representation because they deal directly with farmers, for the most part small-scale ones, and the systems of credit lend themselves to a coherent description most useful to those who are seeking new techniques to adapt to their own situations. The flow of credit from private agribusiness companies in Mexico, however, exists in far greater volume and diversity of pathways than the four cases reveal.

For example, no discussion of agricultural credit in Mexico would be complete without mention of the nationwide activities of Anderson, Clayton and Company. According to the 1968 Annual Report of that organization, the company has established a huge credit system:

> In the past ten years, the Company has extended more than 3 billion 500 thousand pesos ($280,000,000), and during the fiscal year 1967-1968, approxi-

mately 3,000 farmers received loans of 337 million pesos[1] ($26,960,000) for the cultivation of more than 80,000 hectares of cotton, peanuts, safflower, soybeans and wheat, in the States of Chiapas, Chihuahua, Coahuila, Durango, Guanajuato, Baja California, Sinaloa and Tamaulipas.

. . . in addition, the Company offered to these farmers (and others from whom the Company purchased) a variety of technical services . . . such as soil analyses and information about the most modern practices affecting planting, cultivation, insect control and fertilization. A team of 48 technologists employed by the Company at an annual cost of roughly 4.5 million pesos ($360,000) concentrates its efforts on obtaining the maximum possible harvest from the land.

. . . at the same time, the Company provided a sure market during the 1967-1968 season for 732 million pesos ($58,560,000) of cotton, sorghum, alfalfa, peanuts, soybeans, and safflower. Some of these purchased raw materials were used within the processing plants of the Company; others were sold in the Mexican market; and, a part were exported to all parts of the world.

Anderson, Clayton has continued its large-scale agricultural credit program, although most recently on a reduced scale. For example, during the 1970-1971 crop cycle, credit in the amount of $13.6 million was advanced to 1,013 farmers for seed, fertilizer, and other services. These funds helped to finance roughly twenty-five thousand hectares of production, covering cotton, safflower, peanuts, soybean, wheat, corn, and other crops. The expenses involved in supervising this system in 1970-1971 amounted to approximately $200,000 and called upon the services of twenty-three technicians. During 1971 the company purchased $58.4 million of crude agricultural products from all sources.

The magnitude of the Anderson, Clayton credit system and its dispersion over such a wide area make it difficult to summarize in case form. Nonetheless, all of the ingredients of success which characterize the four cases covered in the following chapters are essential parts of the Anderson, Clayton credit system. For example:

1. All of the farmers receiving credit for the first time are carefully screened by field staff and only those whose credit histories are good remain in the system.

[1]Roughly 21 percent of the value of corporation sales in fiscal 1968.

2. Collateral is always required, most often in value equal to the loans being made. There is no question in the mind of management that the existence of collateral engenders fiscal responsibility on the part of the farmers and stimulates them to cooperate with company field supervisors.
3. Very close supervision is provided and is considered an absolute requirement. In this regard Anderson, Clayton has found it necessary, as have others, to include in all credit contracts an agreement which gives the company the right to enter the fields of a borrower and apply needed practices should the farmer be judged delinquent. In such a situation the farmer is charged accordingly and his account with the company is adjusted for the extra "credit" provided.
4. Crop credit is generally extended both in kind and in cash, in accordance with schedules drawn up by crop specialists. Only as each step in these schedules is satisfactorily completed will the field supervisor authorize additional credit.
5. The policy of Anderson, Clayton takes these factors into account in the operation of its credit system:

   a. The company expects to operate permanently in Mexico.
   b. In Mexico it is best to seek raw materials among existing farmers, which inevitably means working with large numbers of suppliers.
   c. To the extent that it is possible, working with the same farmers year after year yields the most satisfactory results in terms of yield, quality, use of administration, protection against bad debt, and other basic variables affecting success.
   d. It is to be expected for an indefinite period ahead that many, if not the majority, of the farmer suppliers in the system will not have the financial resources to carry them over bad years.
   e. No matter how modern the practice, agriculture is inherently risky and is perennially faced with hazards beyond the control of either farmers or company, such as the incidence of excessive rains or drought, floods, fire, and unusual plagues.

f. As a consequence of the foregoing, when crop failure results among farmers who in the past have been effective members of the system, the company must be prepared to help carry the burden of short-term disaster, so as to keep its suppliers financially viable as they fight their way back to profitable production. A typical instance of this policy at work is reflected by a recent experience in Tampico.

For some years Anderson, Clayton had been extending credit in the region of Tampico, covering the production of cotton. In two successive years hurricanes destroyed the crop.

In the aftermath of the first hurricane the company extended personal credit to its contract farmers to help repair equipment and homesteads and, in addition, offered earlier-than-normal credit for the next year's cotton crop. Although the amount of money made available did not compensate entirely for the loss of income due to crop failure, the company did manage to keep its associates financially afloat.

When the second crop was destroyed, both the federal government and the company cooperated to minimize the impact. The company financed a wholly new winter crop for the area—safflower—for which it could provide a market. The government, in recognition of the risk of a hasty introduction of a crop never before grown in the area, provided crop insurance through the National Crop and Livestock Insurance Company, with Anderson, Clayton as the beneficiary.

The safflower crop did not prosper in the area except in a few drier zones. With existing technology the heavy rains normal to the region were simply too much to handle. The value of the harvest plus payments on the insurance, however, helped the company recover a large part of the money advanced.

After these crop failures the company found it prudent to shift its cotton production from Tampico to other parts of Mexico. The government did not protest, since the risk obviously was very high to both farmers and Anderson, Clayton, and efforts have been mounted to diversify production in the area. It is interesting that although Anderson, Clayton no longer considers itself economically involved in Tampico, nonetheless it continues to advance credit to a number

of its old associates as they move into other crops. This is being done primarily to recoup losses accumulated in the past, but the effect is that in a limited fashion the company continues to help strengthen the agricultural economy of the area.

The type of comprehensive credit system administered by Anderson, Clayton, which directly relates to the farmer and which may involve itself in the financing of every aspect of production, is confined in Mexico to those businesses whose operations depend upon buying from reliable sources of agricultural raw material. Among agribusinesses which exist to sell to the farmer, as is the case with seed companies, pesticide manufacturers, and implement makers, such credit as may stem from such organizations (as distinct from all other credit a farmer may receive from public and private sources which permits him to buy) is normally indirect, if it exists at all, and is narrowly confined to facilitating the purchase of a particular product.

For the most part the sale of seeds and herbicides is for cash or in terms no longer than thirty days. There are many variations, however, in the way insecticide sales are financed by the primary producers. In all but one case ingredients and premixed formulations are sold to middlemen, the formulators, on terms which are passed on to the farmers. Normal credit terms are for interest-free periods of 120 to 180 days, depending on the crop. In fact, 210 days is closer to the average time of repayment without penalty, although terms of sale permit the chemical companies to charge interest on unpaid balances after the completion of the grace period. This interest varies from 1 percent to 1.5 percent per month and is practically impossible to collect. Indeed, because of excess manufacturing capacity this industry is so competitive that interest charges on overdue accounts are rarely pressed.

Of great importance to the credit system affecting insecticides is the fact that the chemical companies must, and do, cancel the debt of the formulators where crop failure results from disasters beyond the control of the farmers. Since excess rain, floods, hurricanes, and unforeseen plagues have been very frequent causes of crop failure, particularly in cotton-growing areas (roughly 90 percent of all insecticide applied in Mexico relates to cotton), the agricultural chemical companies have become critically important underwriters of cotton. Most of the formulators are too small and too poorly

financed to survive a crop failure if their debts to the chemical companies have to be paid. Yet the formulators are a vital link in the distribution system for insecticide. The chemical companies of Mexico are often accused of charging excessively high prices for insecticide. As company officials are quick to point out, not only is the total market small, with resultant manufacturing and marketing inefficiencies, but as well, the risk is very high, losses are considerable, and the burden of carrying the full load of credit is heavy. No precise data are available but industry representatives estimate that the agricultural chemical companies collectively make available from $15 to $25 million annually in interest-free credit.

The one major exception to the rule of selling exclusively through formulators involves a company (name withheld on request) which both manufactures and distributes the products of other manufacturers. During 1968 this company extended about $8 million of credit. Of this amount, 80 percent was taken up by farmers buying directly from company sales offices or from authorized dealers. The other 20 percent was in the form of a line of credit to the National Ejidal Credit Bank, which in turn defers repayment until the farmers fulfill their Ejidal Bank obligations.

This relationship between a private company and a public bank illustrates a useful and creative technique through which industry can support public policy and in so doing extend the capacity of the public bank to provide services without extra funds from the national treasury. This company is also an exception in the magnitude of its technical services. While several competitors also put on field demonstrations, generally using land offered by farmer customers, this concern also employs as many as forty-five agronomists during the peak of the cotton season, both to supervise and advise. Supervision is emphasized among small-scale farmers; indeed, the acceptance of supervision may be a condition of the credit agreement. Advice is not necessarily called for when dealing with larger-scale farmers, although even here the field staff may volunteer suggestions for improved crop protection.

Agricultural-implement manufacturers, on the other hand, are legally prohibited from directly financing equipment purchases by ultimate consumers. Consequently credit is indirect and, where available, moves through privately owned dealer organizations. Companies may differ somewhat in the details of their dealer

financing operations, but the following outline of the system currently used by Massey-Ferguson de México, whose tractor and implement sales are at the moment the largest in Mexico, is typical of the industry:

1. Distributors order merchandise from the factory, accompanying each order with a 10 percent down payment. No merchandise is shipped without this payment.
2. Upon receipt of the bill of lading indicating that shipment has been made from the factory a distributor remits two notes: one covering a three-month period for an additional 15 percent of the price, and a second covering a six-month period for the remaining 75 percent of the wholesale price.
3. Experience indicates that six months is adequate time for the distributor to sell the equipment, the average time being three months. Thus during the first three months the distributor is not charged any interest. At the end of this period the distributor must pay the 15 percent due. From the start of the fourth month to the end of the sixth month the distributor pays 0.5 percent per month interest on the 75 percent outstanding. If the equipment is unsold by the end of the sixth month, a decision is reached by negotiation as to whether the distributor should pay the 75 percent or return the equipment to the manufacturer. In this latter case the manufacturer keeps the initial 10 percent down payment. The 15 percent which the dealer has paid is first applied against any unpaid debts of the distributor. The remainder is kept in an open account in his name and may be used to cover charges against future purchases. The distributor is held responsible for return of all equipment in its original condition, the judgment and any penalties to be decided upon by the manufacturer.
4. When a distributor sells equipment on terms, rather than for cash, he may finance the sale in any way he can without prior approval of Massey-Ferguson. In other words, as can be seen from the foregoing steps in the purchase-sale agreement between a dealer and Massey-Ferguson, the manufacturer participates in financing the dealer; the dealer is responsible for working out payments by the ultimate buyer. On some

occasions the dealer may work closely with the manufacturer in deciding upon the creditworthiness of a machine buyer, but reportedly this arrangement is the exception, not the rule.

5. If a buyer's credit is approved, terms of payment generally extend no longer than twenty-seven months. This period coincides with the term of financing extended to the dealer by Massey-Ferguson. Precedent exists, however, for payment by the ultimate buyer over a period of three to four years.
6. Upon making a sale on credit, the distributor must sign a series of *direct* promissory notes for the wholesale value of the equipment sold, in favor of Massey-Ferguson, each one due fifteen days or less after the due date of payments to the distributor from the retail buyer. The owner of the distributorship, alone or with other persons approved by Massey-Ferguson, must at this time guarantee payment of the notes by pledging the collateral paper (notes) resulting from the retail sale and, in some cases, providing other guarantees. These pledges, together with the signed-over notes, have a value at least 15 percent more than the principal amount owed to Massey-Ferguson (if the negotiations are in U.S. dollars, interest is charged at 12 percent per year). Once the date of sale is formalized, the distributor pays interest at the rate of 15 percent annually on the unpaid balance to Massey-Ferguson. Interest charges imposed by the distributor on the buyer are not regulated formally, although Massey-Ferguson does work very closely with its distributors to discourage excessive interest charges.

In any credit system involving crop production the foregoing credit mechanisms affecting the purchase of pesticides and equipment may be engaged, but generally the credit system is more comprehensive. The following four cases, which go beyond the usual purchase and financing of machinery, describe in detail how crop-production credit flows to farmers entirely within the private agribusiness sector of Mexico.

Chapter 13

CAMPBELL'S DE MEXICO, S.A. DE C.V.

Credit-System Summary

Campbell's de Mexico, S.A. de C.V. (Campbell) does *not* extend credit in the form of cash or in the form of guarantees covering loans made by private banks. Rather, the company purchases fertilizer, herbicides, insecticides, fungicides, and other specialized agricultural chemicals, and supplies them at cost and with no interest charge added, to farmers who enter into purchase agreements to sell their crops to Campbell. In 1971 the cost of the inputs which Campbell supplied to these farmers was roughly $400,000. Because of bulk-purchasing advantages Campbell saved the farmers approximately 15 percent of the normal retail market price. A further significant savings accrues to the farmers as a result of not paying interest on loans they would ordinarily be forced to make were they to buy fertilizer and other inputs themselves.

Campbell works with farmers on the production of fourteen different vegetables and purchases roughly 95 percent of its processing plant requirements from its contract farmers. Generally Campbell merely specifies which brands of commercially available seed are acceptable and farmers may choose freely among the brands available on the open market. The company does supply directly a

limited amount of seed which is not available in Mexico. As well, in the case of several vegetables which must be started in a greenhouse, the company purchases the seed, prepares the seedlings under controlled conditions, and distributes the seedlings required. Seed and seedlings provided by Campbell are supplied at cost.

Campbell also maintains a central pool of special mechanical equipment which is necessary for modern practice but which small-scale producers could not be expected to own. For example, the company owns and operates a fumigator, an automatic seeder for carrots, an automatic harvester for peas, and several tractors. This equipment is available to cooperating farmers. The charge covers direct operating costs only, that is, the farmers do not bear any interest charges against the cost of the machinery. Since the company can obtain fleet discounts on farm machinery it is not averse to purchasing equipment for contracting farmers and passing on the discount to them. The farmer must, however, pay cash, since the company will not finance the purchase nor will it guarantee loans obtained for such purposes.

Cooperating farmers are *not* required to buy inputs from Campbell except when the company guarantees the gross profit of a producer. Nor are these farmers required to utilize equipment from the central pool maintained by the company. When planting starts with seedlings, the stock provided by Campbell must be used, even when seed not on the local market is imported by the company. Further, in order to protect against health hazards resulting from residual chemicals on delivered vegetables, farmers purchasing pesticides directly must use only specified brands. The economic advantages of obtaining all fertilizer and agricultural chemicals through Campbell are such that practically all inputs are obtained in that manner. When buying through Campbell farmers pick up their supplies at the company's warehouse. No supplies are delivered to the farmers except under extraordinary conditions.

In 1971 thirty-five farmers were contracting vegetables for Campbell on over 808 acres of irrigated land. Nine of the farmers were *ejidatarios*; the rest owned their land. With the exception of several larger farms, the normal acreage under contract to any one farmer was between 10 and 60 acres.

In negotiating a contract the technical staff of Campbell first makes a thorough examination of the land selected for consideration

of its capability to support vegetable production. A soil analysis is made. The irrigation system is checked. Climatological data for the area are obtained. If these physical criteria are satisfactory, the staff then evaluates the farmer. Current performance on whatever crops he grows—land preparation, cultural practice, yields—forms one basis of a decision. Equally important to a final decision is the evaluation by the staff of the intelligence and honesty of the farmer, a judgment formed after considerable discussion ranging over both technical and personal matters. No formal investigation is made bearing on a farmer's credit history with banks or local merchants Actually, the area embraced by Campbell's contract farming scheme is confined at present to a radius of thirty miles around the processing plant and thus the community of farmers dealt with, or potentially to be dealt with, is small. It is not difficult, apparently, to obtain a clear picture of a farmer's personal reputation by means of the informal technique employed by the Campbell staff.

Two types of contracts are made:

1. Most commonly the company agrees to purchase all of the production which Campbell estimates will come from a stipulated number of acres. A price is guaranteed. Quality standards are defined. Should production exceed the estimate, the company has the right to buy or refuse the excess; if it buys, the terms of the contract apply.
2. In the case of certain highly perishable crops Campbell calculates its needs and contracts to buy that quantity only. Again a price is guaranteed and quality standards are established. The company applies its experience and helps the contract farmer estimate the number of acres to plant.

In any instance of surpluses which Campbell cannot absorb, the company does try to help the farmers to find other buyers. This is, however, a service, not an obligation.

The price which is guaranteed is based on a careful study of historic market conditions integrated with such other factors as estimated yields and crop risks, as determined by constant experimentation on the company's experimental farm; how many months and at which time of year the crop occupies the land

(since these factors will affect both processing-plant operations and the opportunity of a farmer to produce more than one crop per year); the contractor's alternative use of the land during any given vegetable growth cycle; and, finally, the capability of the land to produce more than one crop and which crop this might be. By this means Campbell attempts to maintain a raw-material price it can afford and yet ensure the maximum possible income to the farmer over the entire year, in as steady a flow as possible. Since the program was initiated the guaranteed prices for various crops have been higher than the average of open-market price, with concomitant benefits to the contract farmers.

When a crop is planted for the first time, the producer is guaranteed a certain gross profit over and above his out-of-pocket costs. This practice is not continued after a successful first harvest. In the first instance Campbell takes the risk that its estimates of yield will be correct. As experience accumulates, a farmer who successfully produces a given crop is encouraged to continue with that crop, year after year. Occasionally a first-time crop may fail. If the farmer has worked hard and in clear good faith, his contract is renewed, covering either the same crop or a different one which may be easier to produce.

Two full-time technicians employed by Campbell maintain continuing vigilance over crop production and delivery. Although the producers are not obliged by their contracts to follow the recommendations of these experts, except when a gross return is guaranteed, experience has shown that their advice is welcomed and that suggested practices are closely followed.

When crops are delivered to the processing plant, they are inspected and weighed. Any disputes concerning penalties for poor-quality produce are settled on the spot. Deliveries are first credited against any debt arising from the purchase of inputs or services through the company. Once that account is covered the company credits the personal account of the producer and he is paid every seven days.

Less than 0.5 percent of the total produce delivered since the program began has been rejected or graded down, clear evidence of a successful transfer of technology. The reasons for success are obvious. First, Campbell carries on an extensive program of research and field testing before a crop is ever contracted out to farmers, in order to ensure high-quality seed and a thoroughly worked-out system of production. Second, every contract is closely supervised. Third, an open and cordial relationship has been established between the farmers and company experts. As further evidence of both technical and financial success the company now has a waiting list of farmers who would like to join the program, perhaps ten times the number of those actually under contract.

A case which illustrates what happened to one beneficiary of Campbell's program points to its potential economic and social significance in the future. In three years, as a cooperating farmer in the Campbell system and as an independent marketer of fresh produce in Mexico City, an *ejidatario*:

1. paid off a long-outstanding debt to the National Ejidal Credit Bank;
2. increased the total number of acres he cultivates from an original forty-five acres to which he had rights as an *ejidatario* to roughly two hundred acres, which he is expanding each year through rental arrangements and purchases;
3. diversified his crops from corn, wheat and sorghum, and some tomatoes to enlarged tomato production and added celery, sweet corn, lettuce, carrots, and lima beans;
4. earned enough to purchase two tractors and a truck worth about $20,000; and
5. became an acceptable credit risk at his local farm-supply distributor.

Though Campbell does not guarantee loans made by banks to its farmers, the program has made it easier for these farmers to obtain credit on their own for expenses not covered by the inputs and services provided by the company. When a farmer applies for a

loan, the bank contacts the company. The company will certify the existence of its purchase agreement with the farmer and will advise the bank of the expected yield and income of the land under contract. Apparently the existence of a purchase agreement between Campbell and a farmer is sufficient recommendation for the farmer to be able to obtain the funds needed.

Campbell has achieved virtually complete Mexicanization of all ingredients and has been able not only to expand production based on a year-round dependable supply of vegetables, but also to increase its product line by four times since opening the plant in 1962.

History

The Campbell Soup Company began its search for a manufacturing site in Mexico in 1959. The ecology of several areas was examined in detail with an eye to suitability for vegetable production. Experimental plantings were made in the most promising sites. These tests were continued over three years. Finally, in 1961 a site in central Mexico was selected as having the best potential for producing the wide variety of raw materials which would be required and yet would fit centrally into the planned marketing system.

While the processing plant was under construction, a permanent experimental farm was set up adjacent to the factory site for developing seeds and seedlings of standardized quality to supply farmers and for systematically working out the best practices for each crop. Since the majority of crops needed had to be introduced for the first time into the area, the adaptability of seeds from other sources, e.g., from U.S. farms owned by the parent corporation, had to be tested. Schedules of pest control and fertilizer application had to be worked out for each crop and for the varying soil types in the area. Not only was this effort deemed prudent from the standpoint of ensuring dependable supplies to the processing plant at the lowest cost, but also it was required, in order to meet the terms of agreement between Campbell and the government of Mexico. These terms called for the Mexicanization

of vegetable supplies and the total elimination of imports within a reasonable time.

The processing plant opened in late 1962 with a small production line, partly the result of market and distribution system limitations. The product line was seriously restricted also by the quality, price, and amount of vegetables available to Campbell through importation and on the open market. Efforts to create local sources of supply were initiated promptly by means of contract relationships with farmers near the factory.

During the early period the farmers who at first expressed greatest interest in supplying the company, under contract, tended to be the largest and best-established ones in the area. After the first year, however, most of the large-scale farmers became disenchanted, claiming that the small acreage allocated to the vegetable crops required a disproportionate amount of time relative to income generated. The company thus began to concentrate its attention on small- and medium-scale farmers upon whom diversification would have a major economic impact. In a way this occurrence was desirable from a strategic viewpoint in that both federal and state governments had expressed the wish that the company work as closely as possible with the poorer farmers. Steadily and with few major problems the basic crops required by Campbell were adapted to the area. Sources of supply thus were assured. By 1968 practically 100 percent of the company's raw-material requirements were being met by local producers and it was safe to forecast that this situation would remain constant through any period of corporate growth anticipated by management.

Operating Problems

Management reports no important problems in the administration of this program. The technical staff and contractors apparently have learned to work well together. Few disputes over quality determinations at the plant have arisen which could not be settled amicably. Contracting farmers have come to value their relationship with Campbell and follow faithfully the technical recommendations made by Campbell experts. The one time each

year when the company feels compelled to go to any extra effort to ensure full cooperation is the tomato harvest season.

The schedule of the contract farmers' tomato harvest is coincident with a time of seasonal shortages in the Mexico City market and consequent rises in price. Since tomatoes are highly critical to Campbell's operations, the company has found it wise to add two extra technicians to the field staff during the tomato harvest to ensure the closest possible contact with each farmer every day. Actually this arrangement not only provides tight supervision over marketing practice but also can be very helpful to the farmer. Since the tomato harvest proceeds rapidly and the farmers can be busy and preoccupied, Campbell's inspectors are instructed to help in any way possible to ensure a smooth harvest and transfer to the processing plant. For all crops other than tomatoes the two permanent agronomists on the Campbell staff are capable of providing the necessary supervision.

Chapter 16

TABACO EN RAMA, S.A.

Introduction

The tobacco industry in Mexico operates under certain unique restraints. These characteristics of the industry markedly affect the conditions under which the credit system of Tabaco en Rama, S.A. (TERSA), operates and may be summarized as follows:

1. *The price of leaf tobacco paid to farmers is set by federal authorities.* Though the decision of these authorities is final, advice is formally submitted by the National Tobacco Committee, comprising representatives of:

   a. the tobacco industry,
   b. the National Farmers Confederation, acting for the *ejidatarios*,
   c. the Union of Small Landowners,
   d. the state governments involved with tobacco,
   e. the Ministry of Industry and Commerce,
   f. the Ministry of Agriculture, and
   g. the Department of Agrarian Affairs.

2. *The total area to be planted each year to tobacco in each producing state is planned and coordinated by the National Tobacco Committee.*
3. *The maximum acreage which any one farmer may plant is agreed to within the National Tobacco Committee.* Currently, in order to spread the benefits of producing the high income crop, each farmer is allocated a small area for tobacco, e.g., ten acres per *ejidatario* and twenty-five acres per landowner.

Conversely TERSA operates with two degrees of freedom which, in important ways, compensate for the restraints described above:

First, TERSA coordinates with each tobacco manufacturer and farmer the type of tobacco to be contracted for any given soil type and is able to control the flow of different qualities of leaf. Coordination of farmers and manufacturers is critically important to the ability to manufacture required blends and to modify raw-material quality in the face of market demand shifts. TERSA, by means of experimental work and many years of practical field experience, determines the optimum locations for the production of each leaf type required and retains the authority to apply this knowledge under contract conditions. Since the return to farmers varies with the quality of the tobacco they contract to produce, obviously their resistance to producing a lower-value crop would be great and for TERSA it is best to base its authority to control production decisions on purely technical considerations, which are far easier to communicate to producers, than on the more complex package of factors seen by TERSA management as affecting choice.

Second, TERSA is relatively free of concern that contract farmers will *not* deliver the crop at harvest since no open market for leaf tobacco exists in Mexico. In years past, each tobacco-producing area was served by a large number of intermediaries who purchased the tobacco from the farmers and resold to the manufacturers. This practice gave the farmers a wide range of marketing alternatives at harvest, particularly since the ethics of the intermediaries

often encouraged farmers to disregard prior contractual arrangements. In 1960 the Mexican government forbade the industry to deal with intermediaries and forced the marketing of tobacco into a direct channel between growers and cigarette manufacturers.

Within the context of the foregoing restraints and freedoms, the credit system of TERSA has emerged as one of the largest and most successful in operation anywhere in Mexico.

Credit-System Summary

During the 1971 season TERSA extended $7,812,000 of production credit from manufacturers to 5,649 farmers in the state of Nayarit, of whom 165 were *pequeños propietarios* and 5,484 were *ejidatarios*. The area under contract was 37,153 acres. The average credit per acre was $210. No collateral was demanded except the contracted-for agreement that the farmers would deliver the entire crop to TERSA. No interest was charged on production loans.

It is instructive that TERSA neither charges interest on production loans nor demands loan collateral other than a sales-purchase contract.

The elimination of collateral requirements is, in part, the result of a long and excellent history of loan repayment. Losses in the system have been essentially nil. But more than this is involved. Risk is reduced, not only by the character of the people and their proven creditability but, as well, by the impact of three other factors:

1. Supervision of the credit system is very close.
2. Production credit, though covering 100 percent of the cost of production, represents roughly 60 percent of the price paid to the farmers, with a resultant margin for loan recovery if deliveries are off.
3. The farmers have no other outlet for their crop than TERSA.

These circumstances give the credit system an unusually strong sense of security.

With regard to the "no interest" aspect of production loans, obviously the cost of money used for credit must be considered by the manufacturers somewhere along the line as part of their cost structure. Sound business practice would not permit it to be otherwise.

Extending credit this way, however, is an intriguing psychological device to consider when attempting to motivate farmers to participate with continuity and responsibility in a supervised credit program. More than this, since leaf-tobacco prices, production acreage, and the price of manufactured products are influenced by an essentially political body, the National Tobacco Committee, and in the end controlled by federal ministries, the elimination of overt interest charges against loans to farmers frees the manufacturers from any charges of exploitation in terms of the cost of money or of the price paid to farmers for leaf or of the price paid by ultimate consumers of tobacco products.

Contracts are made each year, either with an individual landowner or with a solidarity group of *ejidatarios*. These contracts specify the type of tobacco to be grown. Once a contract is arranged and signed, TERSA begins to extend credit in accordance with the contract schedule. Each operation must be completed, inspected, and approved before credit for the next step is advanced. Every effort is made by TERSA field staff to avoid delays in financing each progressive step. When an inspection is completed and approval noted, the closest TERSA field office is advised and a check is issued. When a solidarity group is involved, the procedure is as follows:

1. The group elects a representative who serves without pay but whose out-of-pocket expenses are covered by the members.
2. This representative picks up the check, signs for it, and is authorized to cash it at the issuing bank. When he gets the check he is also given a list of names of the members of his group.

3. As cash is disbursed, the representative obtains the signature of the farmer receiving the money (or the fertilizer or pesticide or whatever is being disbursed if not money) and he also notes what has been given in an account book which TERSA provides for each farmer. No additional credit is extended to a group until the representative returns the list with the signatures of all members.
4. As the company issues a check covering an agreed-upon stage in the crop cycle, it also issues a receipt to the group acknowledging satisfactory completion of the work and forwards a copy of this receipt to the government agrarian authorities for their information and as a means of protection against any later complaints.

Thus the company has a completely documented record of the step-by-step process which is available at all times to all parties concerned and which has contributed to the general feeling of mutual confidence in these operations. It has the original check, endorsed by the group representative. It has a signed receipt from every farmer that he has received his due. It has recorded each step, as completed, with the government. In a few instances, in dealing with villages which are remotely located and far from any banks, cash is issued directly to the group representatives but all other elements in the transaction remain the same.

Cash is paid out only to cover the costs of labor. All other inputs are provided in kind, and any of several mechanisms are used to obtain the supplies and services that TERSA requires the farmers to utilize:

1. *Fertilizer.* Those farmers growing high-value varieties must use formulated fertilizer which is made available to them from the warehouses of local suppliers. The cost of this type of fertilizer is subsumed in the price paid by TERSA for the leaf, and at the time of fertilizer delivery no charge is made against the accounts of the farmers so involved.

   Producers of less valuable varieties are free to accept, reject, or modify the fertilizer recommendations of TERSA technicians although in practice they nearly always follow the advice offered. When the choice of fertilizer to be used

in growing the less expensive tobaccos has been made, the field supervisor instructs the local TERSA office to issue a purchase order. The farmer-landowner or solidarity-group representative then signs for this order and proceeds to exchange it for goods at the local supplier selected. The supplier bills TERSA, which pays in cash and negotiates the maximum discount possible, passing any such benefits on to the farmers.

2. *Herbicides and insecticides.* All farmers, irrespective of the variety of tobacco being grown, are advised as to brand, quantity, and method of application of these chemicals. TERSA arranges before the season begins for the suppliers to have the necessary stock on hand. The procedure for obtaining these pesticides is the same as for obtaining fertilizer, when the latter is purchased.
3. *Seedlings.* Seedlings are furnished to all farmers at the price stipulated in the contract, which is currently about one-half the actual cost of production. The seedlings are grown under contract with selected farmers. In this way TERSA maintains seedling quality. As well, the company supervises the number of seedlings to be planted per acre and reduces the risk that the predicted yield will not be attained; though company spokesmen indicated a desire to have the farmers produce their own seedlings and eliminate the cost of this part of the system, no satisfactory way has been found to transfer responsibility while ensuring quality and yield control.
4. *Irrigation.* Over the years TERSA has built at its own expense a series of feeder canals sufficient to distribute water to approximately fifteen thousand acres. Water is pumped into this system from nearby streams or major canals constructed by the government and is utilized at no cost by the farmers for either surface or overhead irrigation. TERSA also supplies an irrigation service with overhead systems at a stipulated price as provided in the contract. This price is less than the going rate charged by others in the area.
5. *Other inputs.* A miscellany of material is required by the farmers in the production of tobacco, e.g., string, which

TERSA obtains and sells directly to them at cost. This cost regularly is well below the retail price at local outlets. As with any other items supplied by the company, the farmer-landowner or solidarity-group representative must arrange to pick up the supplies at a company warehouse.

The credit system as set forth in contract form is kept flexible and adaptive by means of negotiated modifications which may arise at any time during the season. For example:

1. Solidarity groups may request that the amount of credit to be received by individual farmers be less than that stipulated in the contract for a specific operation, e.g., some crops may not demand the estimated average input. The groups often prefer that individual members receive only the minimum necessary advances in order to minimize the risk of bad accounts for which all would be responsible. If these requests are approved by staff specialists as not jeopardizing the crop, the credit line is adjusted accordingly for the individual or for the solidarity group. On the other hand, if the crop promises to produce a significantly higher yield than average, the farmer may request and receive an additional amount to defray harvest expenses.
2. Farmers may request a cash advance before harvest for personal reasons. If the producer has a good reputation and his crop is in good condition, cash advances are always made within the limits of value placed on his crop. In the case of solidarity groups, the group must first approve the request of a member and again, if the crop is judged in satisfactory condition, advances are rarely denied. (Groups have been known to deny approval, as the matter of joint responsibility is treated very seriously; although a large amount of cash is advanced each year, accumulated losses on the total credit system are infinitesimal.)
3. TERSA may offer additional credit above the amount contracted for if unexpected and unavoidable natural causes threaten the crop. Thus on occasion the company has increased the credit for insecticides during heavy insect

or disease attack and has also made more irrigation water available in droughty seasons.

4. On recommendation of TERSA the manufacturers may ease the financial pressure on farmers in times of disaster, reducing or extending repayment schedules called for by contract. For example, when during the 1967-1968 season excessively wet conditions significantly reduced the value of the harvest, they agreed to absorb 50 percent of the production-credit debt of each farmer so long as his losses were attributable to natural causes.

The credit-system cycle closes at harvest time. Field supervisors designate delivery points and as deliveries come in, they are weighed and inspected for quality. Acceptances are credited against the accounts of the farmers, as a first obligation. As stipulated in the contract, TERSA must settle all accounts within fifteen days of the last delivery.

TERSA regularly extends credit without interest to farmers for the purchase of farm equipment needed in the production of tobacco. For example, in 1967, $384,000 and in 1968, $472,000 were provided for the purchase of tractors and irrigation equipment. Normally TERSA extends this credit from its own capital funds and does not use the device of guaranteeing bank loans to farmers. Collateral for these loans is the machinery purchased. In addition TERSA buys with fleet and cash discounts up to 25 percent and passes these benefits in their entirety on to the farmer.

The financing of equipment to farmers sometimes goes beyond that strictly needed in the production of tobacco. When farmers were confronted with an exorbitant increase in freight rates, credit sufficient to purchase sixty trucks was extended to solidarity groups to enable them to transport their tobacco and other crops to market. A favorable rate of interest of 10 percent was charged for these loans, in contrast to a normal cost of 18 percent available elsewhere. The cost of money to TERSA as a prime borrower was passed along to the farmer clients. Moreover, during the crop season TERSA makes every effort to ensure that the transport equipment of its contract farmers is used to transport the materials that they are legally entitled to haul, i.e., tobacco,

fertilizer, insecticides, transplants, and other purchases, thus adding an increment of cash income to help repay their loans.

To supervise its credit system in Nayarit, TERSA employs 202 field personnel, 42 of whom as zone supervisors either have technical degrees or can bring to bear extensive practical experience in tobacco production. Each of these men covers a territory averaging slightly over 750 acres, the extremes depending upon the dispersion and accessibility of farmers in different parts of the state. The senior staff members have a pickup and typically each is assigned two helpers. The helpers in turn are furnished with a motorcycle. Every farmer under contract can be reached with one or another of the vehicles provided.

Results

Table 14 illustrates certain aspects of the impact of the TERSA program in Nayarit.

With the exception of the instances where loans had to be extended because of bad weather in 1967-1968, 100 percent of all payments due on equipment loans have been made on time.

TERSA has been able to relieve the farmers of the burden of interest on loans made to enable them to purchase farm equipment. At the same time, it has been able to save approximately 25 percent of the retail price of such equipment by passing along fleet and cash discounts to the farmer. Similarly fertilizers, agricultural chemicals, and other inputs cost on the average 20 percent less, a saving which brings farmers the full advantage of bulk ordering and cash payments.

Supplemental income is obtained by many contract farmers by the use of the farm and transport equipment purchased with the loans made available by TERSA. The trucks owned by the farmers are used to transport other crops to market. Tractors and sprinkler irrigation systems, when not required for the tobacco crop, are used by farmers to do piece work for farmers producing other crops.

Because of the magnitude and continuity of the program, many suppliers and banks have opened branch operations more conveniently located than in years past, facilitating the commercial

Table 14 CREDIT PROGRAM

Evaluation variables	1961	1962	1963	1964	1965
Number of landowners	72	113	71	148	160
Number of *ejidatarios*	2,929	3,257	3,274	4,061	4,182
Total contracted acreage	37,077	27,389	21,656	26,499	32,601
Total production credit (dollars)	3,450,000	2,933,000	2,262,000	3,085,000	4,393,000
Credit per acre (dollars)	93	107	104	116	135
Value of crop bought (dollars)	6,487,000	5,715,000	4,408,000	6,255,000	7,752,000
Harvest per acre (pounds)	1,620	1,944	1,854	1,865	1,852
Value of crop per acre (dollars)†	175	209	204	236	238
Earnings per acre (dollars)	82	102	100	120	103
Dollar losses to TERSA	0	0	0	0	0

† Average value of all types.
†† Thirty percent of crop lost because of floods and losses not considered the fault of the farmers.

aspects of the system. Considering that TERSA is dealing with a credit system applicable to campesinos, it is significant that banks operating in the Nayarit area reported a total of 1,599 savings accounts among producers in 1961. Reports during later years show substantial increments in number and importance of accounts of tobacco farmers.

TERSA, by enabling farmers to expand the base of farmer ownership of irrigation facilities, has helped farmers diversify crop production. In response to growing interest on the part of farmers in having their own irrigation equipment, which then could be used for other crops in addition to tobacco, in recent years TERSA has sold more than half of the pumping stations and overhead sprinkling systems to the farmers (the feeder supply canals are maintained by TERSA for the common benefit at no charge) on credit extended without interest over two to three years. Simultaneously TERSA agronomists have provided all technical assistance possible relative to growing crops other than tobacco.

As a matter of enlightened self-interest, TERSA participates in many ways in community development projects. Currently the company contributes $32,000 annually, usually on some type of matching basis, to various projects: in 1967, $12,000 went to classroom construction; $8,000, to road building, and $4,000 each to improving potable-water supplies, electrification, and miscellaneous projects which improved the infrastructure of the villages. On occasion TERSA has donated a physical facility to satisfy a need which otherwise could not have been met with equal economy. For example, recently it gave an *ejidal* village a

1966	1967	1968††	1969	1970	1971
163	159	164	165	165	165
4,244	4,869	5,353	5,127	5,297	5,484
36,284	38,100	38,275	37,718	38,000	37,153
5,068,000	6,485,000	6,990,000	7,432,000	7,525,000	7,812,000
140	170	183	197	198	210
7,502,000	17,150,000	11,590,000	15,802,000	15,559,000	17,686,000
1,636	1,887	1,310	1,793	1,710	1,961
207	450	303	419	409	476
67	280	120	222	211	266
9,000	0	0	0	0	0

warehouse to use as a secondary-school building; the original cost of construction was $64,000. In times of disaster, TERSA also makes its presence felt, even beyond debt relief. For example, during several recent years when the state of Nayarit was struck with floods, the company disbursed thousands of food packages, supplied drinking water by sending its trucks to widely scattered villages, and used its heavy equipment to rebuild and clear roads.

In close relation to its general involvement in area development, TERSA also fosters improved tobacco cultivation on a broad scale. Through its field studies the company has contributed to improved cultural practices and has helped to increase the yields and the value of the crop beyond the confines of its own requirements. Within its own corporate environment, TERSA makes available scholarships for advanced training for both technical and administrative personnel, in Mexico and in other countries.

History

In the early years of tobacco manufacture in Mexico, the numerous factories appointed agents in the growing areas to obtain their leaf requirements. In turn these agents contracted with farmers to produce their needs.

In those days the manufacturers followed the practice of advancing the agents up to 80 percent of the estimated credit needed by the farmers, but control over the disbursement of funds and contractual arrangements with the farmers were the sole

responsibilities of the agents. Abuse of the farmers became widespread. Money advanced by the tobacco manufacturers at little or no interest was often lent out by the agents at 5 percent to 10 percent per month; agents applied this same usurious rate of interest when lending from personal resources. The tobacco agents also became the moneylenders, financing crops other than tobacco. Company stores were established by the agents and all the historical outrages perpetuated by these institutions were common.

The situation grew more and more unsatisfactory to both farmers and manufacturers, and finally, in 1936, TERSA was formed for the purpose of providing several manufacturers with a general type of supervision of the activities of all the agents with whom business was being done. At the same time TERSA was to contract directly with producers and to initiate a program of technical assistance to growers. It was intended that TERSA attempt to ensure that agents at least financed all the tobacco production called for in their contracts. This step, however, had little effect in correcting abuses since TERSA had no legal right to intervene in the affairs or inspect the books of the agents. Complaints from the farmers increased in volume and intensity and finally, in response to continuing pressure from the National Confederation of Farmers, the federal government instructed the tobacco manufacturers to make production/purchase contracts directly with the actual producer.

At this point TERSA itself was reorganized as a service company for the manufacturers, to supervise contracts with farmers and, above all, to provide all growers concerned with technical and extension services.

TERSA was authorized to take over the accounts receivable, offices, and field equipment of a number of agents with whom the sponsors of TERSA had been working in the past. TERSA officials then made a careful check with each farmer to determine what part of his debt resulted from tobacco production and immediately paid that amount to the agents and canceled the farmers' debts. TERSA and the manufacturers realized that many of these debts had unjust origins and it was felt that relations among farmers, manufacturers, and TERSA would be enhanced in the future by starting with a clean slate. At the same time the farmers were warned that new loans would be supervised closely and no leniency

would be shown in enforcing repayments. In one bold step TERSA expanded its operations sixfold and became the principal factor in tobacco cultivation in the state of Nayarit.

Operating Problems

TERSA must operate at all times with full awareness of the conditions imposed by Agrarian Codes which are extremely protective of the welfare of the agrarian farmers. Administration and supervision of large numbers of small farmers is costly. Although demands for various tobacco types have shifted, TERSA has not been able to adjust plantings in line with market demand. Often it has been difficult or impossible to eliminate acreage which has become marginal (in terms of the quality of tobacco which could be grown on the soil type) and, as a result, unwieldy surpluses in inventory have accumulated.

Finally, TERSA is deeply enmeshed in the general concern over the welfare of the people in the area of its operation. Any institution which attempts to organize and develop a supervised agricultural credit system with campesinos must become involved with the lives and needs of the people far beyond the movement of money, technical assistance, and marketing arrangements.

Paternalism, particularly in the early years of change from traditional ways, is a role which cannot be avoided if the situation is dealt with realistically. The people simply require help and guidance in a multitude of ways. For TERSA the situation is unusually sensitive, however, and the company must exert great care in its public relations. The tobacco industry is linked to public agricultural policy which is primarily concerned with maximizing and stabilizing the income of small-scale farmers. In particular, the National Tobacco Committee has stipulated that at least 90 percent of all acreage under contract must be with *ejidatarios*. Thus TERSA not only is integrated into the implementation of national agricultural policy but also is an adjunct to the Agrarian Revolution and all the political fervor still generated by the controversy over the direction which the Revolution should take

"A continuing problem in Mexico," wrote Harold F. Cline in 1963 in his book *The United States and Mexico*, "is to achieve

some stable equilibrium between *agrarianism* and agrarian reform, two quite different matters. The one, agrarianism, is essentially political and social. Dividing the land among landless who want and can utilize it fulfills an old Revolutionary dream and promise. Agricultural reform, on the other hand, seeks to use Mexico's rather limited resources most effectively so that the rural sector becomes both a widened consumer market and a steady supplier of crops needed to feed a booming industrial system and an expanding population. Agricultural reform tends, therefore, to be economic and technical."[1]

The problem is still unsettled and is likely to remain so for a long time. True, the pendulum is unlikely to swing as wildly as it did in the time of President Cárdenas but movement to both left and right is still observable and the pros and cons of agricultural policy continue to be debated in both political and economic spheres. TERSA, as a profit-making entity within the private sector of agriindustry in Mexico, stands exposed and delicately poised in its constructive partnership with government against the ever-present threat to stable government by those who stand for agrarianism at any cost and who remain vocally critical of any enterprise which becomes involved with campesinos, regardless of the benefits such relationships may have for the farmers.

It is perhaps unfair to the success of TERSA's operations in Nayarit to describe its community development activities as an operational problem. Throughout its many years of experience the company has handled the problem with grace and skill and a deep understanding of what needs to be done and how best to do it. More accurately, TERSA, since its activities are directly related to those of the farmer, finds itself affected by the general problems characteristic of rural communities in Mexico and in the future must continue to solve the problems as they present themselves and within the context of the limits imposed by agrarian, political, and social development.

Note: On September 23, 1972, a national conference of tobacco growers was held in the city of Alamo, state of Veracruz, attended by the president of

[1] Harold F. Cline, *The United States and Mexico*, rev. ed. (New York: Atheneum, 1963).

Mexico. Tabaco en Rama was subject to intense criticism, even denunciation, by growers, by agrarian leaders, and by political leaders. TERSA was accused of exploiting the farmers and the nation and of violating the agrarian laws. As reported in the Mexico City daily newspaper *Excelsior* on September 24, 1972, spokesmen for the farmers demanded of the president that the production, industrialization, and commercialization of tobacco be placed under the control of a state company.

On November 4, 1972, the government announced the creation of a new public monopoly, Tabacos Mexicanos, S.A., to control the production and sale of tobacco. The secretary general of the National Confederation of Campesinos declared immediately after the announcement by the National Patrimony Secretariat that the Mexicanization of the tobacco-growing and -marketing industry "has written one of the most beautiful and historic pages of the agrarian reform." This statement was reported in the Mexico City daily newspaper *The News* on November 6, 1972, in a story which also reported that Tabacos Mexicanos, S.A., will issue three series of stock. Series A will be held exclusively by the federal government and will represent 52 percent of the capital. Series B, amounting to 24 percent of the capital, will be held by the National Confederation of Campesinos. Series C, representing the remaining 24 percent of the capital, will be held by the manufacturers of tobacco products.

The controversy over the control of tobacco production and sales and the resultant action by the government of Mexico have brought with them a warning to the managers of all private-sector-sponsored agricultural credit systems operating in the context of a strong agrarian reform movement.

The aspirations and passions of the rural poor, latent in the past, are a volatile and explosive mixture. If a private, profit-making enterprise engages itself with this mixture, it must be both aware of and responsive to the circumstances that cause the mix to be unstable and capable of bursting forth with sudden violence. One critically important cause is the apparent profitability of the company's extension of production credit in order to obtain raw materials for upgrading in value.

When a private credit system begins and is accepted by farmers, its impact on production and income may be so significant in a positive way that cooperation and an early high level of mutual confidence may result. But as income from small plots of land achieves a new high level and stabilizes, farmers inevitably become restive, especially in this day and age when farmers are organized (or readily subject to organization) and led by people fired still with the revolutionary dream of social justice for all.

At this time, it is both natural and creative that the profits of the enterprise being supplied with raw materials should capture the attention of farmers caught up in the thrust of agrarianism At the Alamo tobacco conference, much was made of the statistic (not verified then or by the authors since) that TERSA, with an investment of 200 million pesos, was earning 3 billion pesos in the state of Nayarit alone. The accuracy of this statement by conference leaders may be challengeable but its obvious appeal to the aspirations of the

farmers is undeniable: How logical to take the next step toward freedom from poverty and add ownership of the business to sovereignty over the land.

Danger and challenge to private business are present in the implications of the attack on TERSA. Clearly a supervised agricultural credit system can ensure a more satisfactory flow of raw materials to a processing plant even while benefiting the farmers in the system; indeed, at times agriindustry can develop in Third World countries only by tying supervised credit to processing and marketing operations. Yet, where land holdings are small, where exploitation of rural people has been a historic fact of life, and where agrarian reform movements have moved to the heart of political organization, helping to maximize income from the land may not be enough in the long run to ensure a stable relationship between the private enterprise, the farmer, and the host country. How to go further as a partner in rural development and still maintain the right to conduct private profitable business is a challenge. How that challenge is met–by what means agribusinesses like TERSA and the cigarette manufacturers of Mexico are able to share better and more widely the wealth generated by their capital investment and management skills–will determine to a large extent the future role of private enterprise in agricultural development throughout Latin America, Africa, and Asia, among the less advanced countries.

SAVINGS AND INVESTMENT AMONG THE RIOBAMBEÑOS DEL RIO CHILIMPE

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CHAPTER III

SAVINGS AND INVESTMENT AMONG THE RÍOBAMBEÑOS DEL RÍO CHILÍMPE

Savings and investment are central to the process of economic growth. Inasmuch as Ecuador's economic development will remain closely linked to the growth of the agricultural sector for some time to come, the rate of investment in agriculture will play a significant part in determining the rate of expansion of the entire economy. Much development theory addresses itself to the problem of extracting a surplus from the traditional sector for investment in the modern sector of the economy (Mellor, 1967: 21-36).

Perhaps because many large underdeveloped countries have reached the effective limit of their agricultural land resources, most agricultural development theory has emphasized a more intensive agriculture as the key to generation of a surplus. Strategies for agricultural intensification usually imply the creation of a modern technology suitable for implantation in the traditional environment with traditional agriculturalists choosing to adopt the modern approach. It is characteristic of these modern technologies that they cannot be created through investment of the resources of the traditional sector, e.g., unskilled labor. Rather they require funds, capital goods and highly trained scientific personnel from the modern sector of the economy. Consequently, agricultural development theory has tended to concentrate on the transfer of these scarce resources from the modern sector to the traditional agricultural sector so as to maximize the growth of output.[6/]

By contrast, the possibilities of large increases in the area under cultivation through frontier settlement in Ecuador mean that agricultural growth can rely on investments from the traditional agricultural sector to a significant degree. While it is recognized that such investments in land settlement involve resources of low opportunity cost (when land settlement is carried out spontaneously as in Santo Domingo de Los Colorados) and high potential productivity, little has been written about the nature of investment under conditions of spontaneous settlement. It would be useful to know more about the behavior of the settler: What rate of land clearing can he sustain over time, given only his own resources? Is this rate constant or does it change over time? What form does investment take beyond land clearing? How do changes in market possibilities affect the investment rate? Answers to these questions could aid Ecuadorian planners in anticipating the growth of agricultural production in settlement projects. They would also permit a better appreciation of the contribution of the traditional agricultural sector to agricultural development in Ecuador.

This chapter has two objectives. The first is a descriptive one, to provide a closer look at the behavior of the settler and the evolution of the farmstead as a stock of

6/ In this regard see Parts I, II, and V of Developing Rural India, Plan and Practice by Mellor, Weaver, Lele and Simon, 1969.

reproducible agricultural capital. The second is an attempt, in analytical fashion, to provide answers to some of the questions raised above.

Trends in Land Clearing

The first members of the present Ríobambeños cooperative filed claims for their land in 1950 and settled about 1952. The most recent member has been in the coop less than six months at the end of 1967. The farm production questionnaire included a sketch of each farm indicating the size of each plot and the date at which it was first cleared. The reported size of these plots was verified by visual inspection and comparison with aerial photos. Farmers were also asked how long they had resided on the farm. From this information it was possible to reconstruct the growth of each farm over time and the growth of cleared land for the cooperative as a whole. The following analysis of land clearing refers to 20 members of the cooperative who could supply all of the information requested.

Figure 1 shows the total amount of land cleared by the settlers between 1951 and 1967. The cumulative number of farms is also presented. The growth in amount of cleared land is remarkably steady even though not more than half of the settlers cleared land in any one year.

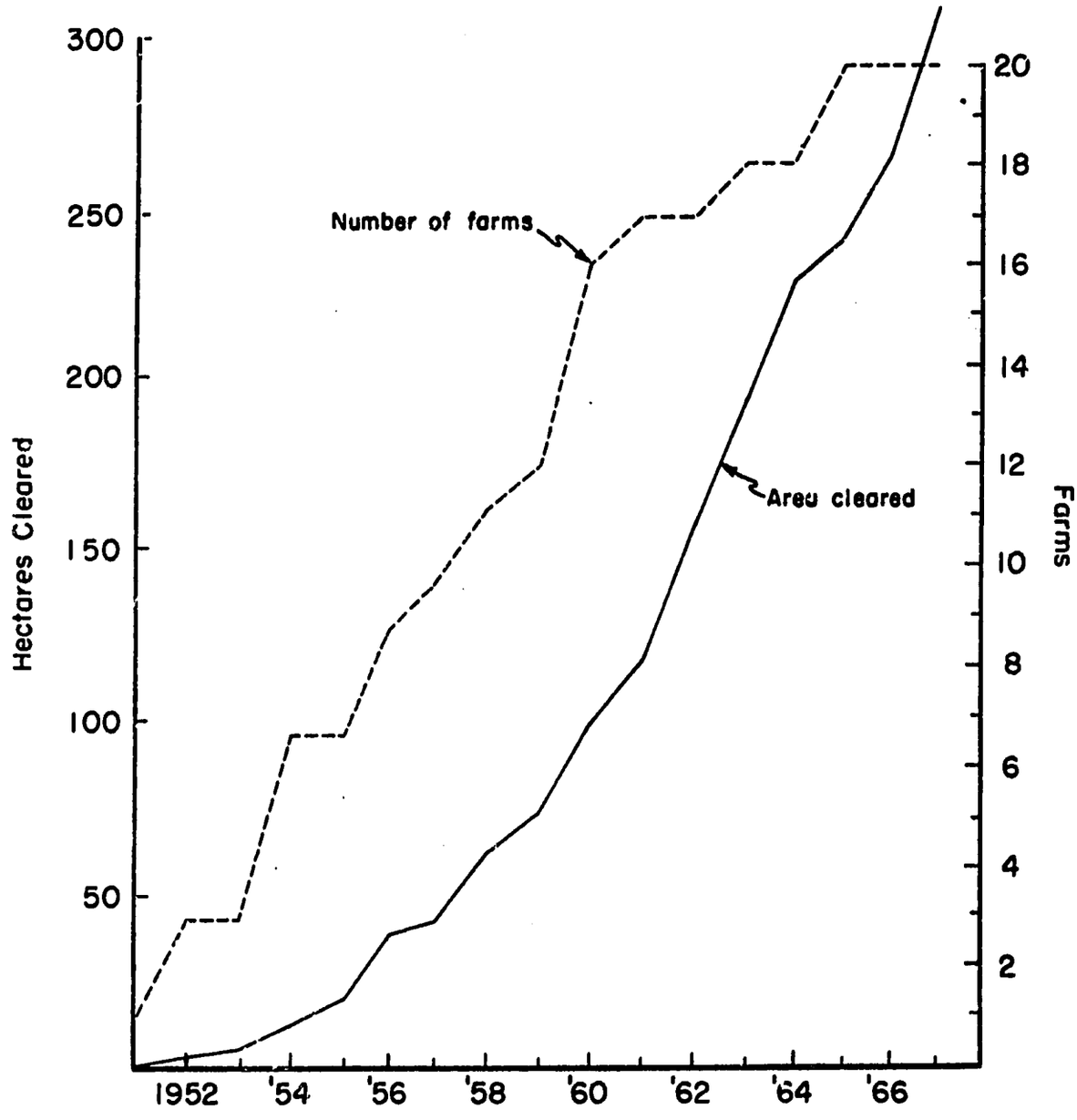
A "land clearing" investment is considered as all the land cleared by a settler in any one year. The cumulative total of 311.2 hectares cleared by the 20 settlers over a 16 year period is the result of 84 separate annual clearings ranging in size from 0.5 to 18.5 hectares. Most farmers made small clearings of less than three hectares in extent every one to three years.

Only six annual clearings of more than three hectares were made by individual farmers before 1959. While the number of settlers increased nearly every year through 1965, four settlers exhausted their forest land and ceased clearing activity between 1961 and 1966.

One would prefer to analyze settlers' investment behavior under assumptions of reasonable homogeneity with respect to their resource base, size of family, level of current income, etc. This is manifestly impossible if some settlers have ten hectares under cultivation at a point when others are just scratching in their first small plot of maize. Two possible alternative assumptions come to mind: (1) Settlers come to the frontier in similar circumstances, consequently we can assume them to be homogeneous with respect to resource endowment in the year in which they take up residence on their new farm; and (2) Although settlers come to the frontier with different resource endowments, it is plausible that a certain minimum is necessary in order to begin land clearing and farming. Therefore, we can assume that settlers have homogeneous resource endowments in the year in which their first recorded land clearing takes place.

If assumption (1) were adopted, the base year for each family's land clearing series would be the first year of residence. The average land cleared for each year of residence could then be calculated. The resultant trend will surely be more informative concerning "average" behavior than one derived from an unmodified historical series.

FIGURE I. LAND CLEARED BY SETTLERS, RIOBAMBENOS DEL RIO CHILIMPE, 1952-1967



Nevertheless, there are some obvious problems in applying this approach to the Ríobambeños. A few settlers arrived on their new farms with capital assets of several thousand sucres, enough to finance the clearing of three to five hectares. Other settlers' assets were limited to a willingness to work. In addition, several came as adolescents while others had wives and families. When the annual land clearing series for each farmer is adjusted so that the first year of residence becomes year one for the aggregate series, it is striking that only ten of the 20 settlers cleared land during the first year of residence. Several exhibit a lag of three to five years between the time they took up residence and the time they had amassed enough capital working as common laborers to begin land clearing.

Assumption (2) seems an improvement over assumption (1) on several counts. When the first year of recorded land clearing is used as the base year for each farmer, the result is to start all farmers with a basic farm of 4.7 hectares. For three farmers who took over existing claims of previous settlers, the land already cleared was considered to be their base area. The subsequent series, referred to as the "Clearing" series represents as close an approximation to an assumption of equal initial resource endowments as is possible with the available data.

One final caveat: By disturbing the historical continuity between settlers, both the "Residency" and the "Clearing" series assume that there is no significant interdependence between settlers in the level of their investment activity. By rearranging the time dimension, it is assumed that the amount of land a man clears is unaffected by the number of neighbors he has or the relative size of their farms. This assumption doubtless does some violence to reality but this damage is judged not serious in the example at hand.

The distribution of average land clearing over time for the Residency and the Clearing series is given in Tables 17 and 18, the number of years of residency or clearing, the number of observations for each year, the average area cleared per farm, the average size of clearing and the cumulated average land cleared per farm. The number of observations refers to the number of farmers who were potential land clearers in each year of the series. Farmers who had no more uncleared land were dropped from each series in succeeding years. Whether land clearing is measured from the first year of residence or the first recorded land clearing, the long term rate of growth approximated two hectares per farm per year.

The Clearing series shows an interesting shift in investment rate between the first 11 years and the last four. Starting from an average of 4.7 hectares each at the end of the first year, land investment measured by this series progressed at an overall rate of 1.18 hectares per year until the end of the 11th year. There were still five farms in the series at the eleventh year. The investment rate between the eleventh and fifteenth years of the series was 3.2 hectares cleared per farm per year.

The Residence series exhibits a similar pattern, eight years of clearing at a rate of 1.08 hectares per year followed by eight years of clearing at a rate of 2.39 hectares per year.

TABLE 17. DISTRIBUTION OF AVERAGE LAND CLEARING PER SETTLER BY NUMBER OF YEARS OF RESIDENCE ON THE FARM, RÍOBAMBEÑOS DEL RÍO CHILÍMPE, 1952 - 1967

Years of residency	Number of observations	Average area cleared	Average clearing size	Accumulated average cleared
			Hectares	
1	20	1.7	3.5	1.7
2	20	1.0	3.2	2.7
3	19	1.9	4.6	4.6
4	17	.7	2.9	5.3
5	17	1.2	3.3	6.5
6	16	1.2	2.3	7.7
7	15	.5	1.8	8.2
8	14	2.1	3.3	10.3
9	11	3.9	6.2	14.2
10	9	1.6	2.9	15.8
11	9	1.3	2.4	17.1
12	8	3.5	5.5	20.6
13	5	3.8	3.8	24.4
14	5	1.2	3.0	25.6
15	2	3.0	6.1	28.6
16	2	.8	1.5	29.4

The Clearing series seems more appropriate for drawing implications about "typical" performance of settlers under assumptions of equal initial levels of resources. The analysis suggests three tentative hypotheses concerning investment behavior of spontaneous settlers in Santo Domingo de Los Colorados which might be subjected to further test:

1) There is a minimum initial farm size of four to five hectares.

2) From this initial base, land clearing will take place at an average rate of one hectare per year among settlers dependent upon self-generated resources.

3) Once farms have grown to 15 hectares in size, the surplus generated in excess of family consumption needs is sufficient to permit clearing at a significantly higher rate, perhaps three hectares and more per year.

Alternatively one may consider the average rate of land clearing which individual settlers have maintained over time. If the farmers with more years of residence have higher average clearing rates, this would tend to support the preceeding analysis. Calculating average land cleared per year for each farmer indicated an upward trend in annual clearings after a brief decline following the relatively large clearings during the earliest years of residence. Increasing physical sizes of farms implies changes in cash costs and labor costs and the mechanisms through which farm surplus is transformed into productive farm capital.

TABLE 18. DISTRIBUTION OF AVERAGE LAND CLEARING PER SETTLER BY NUMBER OF YEARS OF CLEARING ACTIVITY, RÍOBAMBEÑOS DEL RÍO CHILÍMPE, 1952 - 1967

Years of clearing	Number of observations	Average area cleared	Average clearing size	Accumulated average cleared
			Hectares	
1	20	4.7	4.7	4.7
2	19	1.6	3.8	6.3
3	18	1.9	3.1	8.2
4	17	1.0	2.4	9.2
5	14	1.6	3.8	10.8
6	14	1.4	1.9	12.2
7	11	.6	2.2	12.8
8	9	2.5	3.8	15.3
9	7	.4	1.0	15.7
10	5	.6	1.5	16.3
11	5	1.4	2.3	17.7
12	5	6.8	6.8	24.5
13	3	1.5	2.3	26.0
14	3	3.7	5.5	29.7
15	2	.8	1.5	30.5

The Importance of Labor Credit in Farm Growth

The case history of one settler is summarized below. The farmer had kept an account of all the labor hired by him between 1955, the year he settled, and 1967. It charts the ebb and flow of farm income and investment, and suggests a mechanism through which surplus agricultural labor is converted into productive farm capital. It would appear from the records that farmers can "borrow" large amounts of labor on a sustained basis in an effective policy of "invest now, pay later," in circumstances where the availability of cash and of monetary credit is quite limited. Farm laborers in the area generally are single, and willingly work for their board and a promise of cash wages to be paid at some later date.

After an apparent balance of payments crisis between the farmer and his workers toward the end of 1962, farm activity was slowed until 1966. The farmer continued to pay his debts, and payments were much higher in 1966 and 1967, reflecting a jump in income from plantain sales made possible by the new road. Table 19 records the annual labor used, wages actually paid and hectares of land cleared on this farm between 1955 and 1967. Of the total 29 hectares cleared, three were donated to the community plaza, leaving 26 cleared hectares in the farm in 1967. (The farmer continued to harvest some cocoa from the community plot.)

TABLE 19. LABOR HIRED, WAGES PAID AND LAND CLEARED, 1955 - 1967

Year	Labor used man-days	Wages paid, sucres	Hectares cleared
1955	260.0	1,009	6.0
1956	176.5	1,143	4.0
1957	127.5	1,213	3.0
1958	208.5	1,360	1.0
1959	57.5	943	-
1960	288.0	1,528	-
1961	391.5	1,768	2.5
1962	188.5	593	-
1963	42.5	1,292	6.0
1964	-	1,169	-
1965	141.0	1,078	-
1966	204.0	2,288	1.5
1967	190.5	2,077	5.0
	2,284.0	17,461	29.0

New land settlement in the vicinity of Santo Domingo de Los Colorados has been oriented toward market production since before 1950. While the farmer lived more than 20 kilometers from Santo Domingo and five kilometers from the nearest road, he could always sell the crops he produced if he was able to transport them to market. As long as frontier agriculture is linked with the cash economy, it is possible to transfer substantial human capital from surplus labor areas to areas of expansion. The contribution of Ecuador's traditional agricultural sector to agricultural development has included the managerial skills and labor power of the families who settled as well as the labor of a large number of temporary migrants who have been employed in the formation and maintenance of new pastures and plantations. Without the possibility of selling produce so as to pay workers, settlers' ability to expand is constrained by the labor which the family can generate. The transfer of capital which takes place in such circumstances is limited to the number of families who actually become settlers. This has been the fate of many stagnating tropical land settlement areas in South America. Surely a major explanation of the dynamic growth of the Santo Domingo de Los Colorados settlement region is to be found in its close integration with the national and international economy.

On February 25, 1967, provisional land titles on this farm were received from the Ecuadorian Agrarian Reform and Colonization Institute (IERAC). The title grants 70.7 hectares of land valued at S/.16.000.00 (S/.226.30/hectare) payable in 15 years with 2 percent annual interest. To secure the provisional title the farmer paid S/.1,434, part of the costs of surveying boundaries and of drawing the deed. Normal procedure requires the payment of 10% of the principal before IERAC will issue provisional titles, but members of the cooperative Riobambeños were granted waivers of this rule. The price per hectare was an institutional price for all state land in the Santo Domingo Colonization project classified as tercer respaldo "third rank," i.e., lying between 4 and 6 kilometers straight line distance from a major highway. The price reflects only raw land values, not improvements.

The farm inventory on March 30, 1958, has been reproduced in Table 20 together with the inventory as of December 31, 1967. Land values are given in current prices and much of the change in inventory value was not the result of farm operations. Inflation in land values has increased the value of the farm by more than S/.50,000 over a ten year period.

TABLE 20. FARM INVENTORY FOR SAMPLE FARM 1958 AND 1967

	March 30, 1958		December 31, 1967	
	Quantity	Value	Quantity	Value
Horses	3	S/ 2,600	3	S/ 1,000
Pigs	14	2,000	15	1,670
Cattle			4	6,300
Chickens	80	2,000	50	590
Livestock	-	6,600	-	9,560
Plantain	3h.	3,000	7.5h.	14,000
Coffee and cocoa	2	5,000	3	6,000
Fruit trees			40	2,000
Permanent crops	-	8,000	-	22,000
Peanuts			.25h.	
Maize*	1+(1)h.	1,000	(2)	800
Rice*	(2)	2,000	(2)	2,000
Field crops	-	3,000	-	2,800
Pasture (improved)	6	3,600	6	7,200
Fallow	2	300	2.5	2,500
Other land	50	10,000	45.7	45,700
House	1	1,500	2	3,400
Household goods		1,500		est. 2,500
		S/ 34,800		S/ 104,660
(Forest adjustment)		1,200		
		S/ 36,000		

* Land areas in parenthesis refers to crops interplanted in permanent plantations.

Land cleared rose from 14 to 25.5 hectares (28.5 including the donation to the civic center); land in permanent crops from 5 to 10.5 hectares, pasture from 6 to 12 hectares. Forty fruit trees, avocado and citrus were planted, and 4 head of cattle were secured between 1958 and 1967. The value of the 1958 inventory was adjusted to reflect the total area of the farm as revealed in the land measurement survey of the agrarian reform agency.

The owner's estimate of total cash investment in the farm was S/.30,000. His records show payments to workers of S/.17,461 representing 2,284 man-days. If the average purchased component of wages paid in food were 2 sucres per day, the total cash wages would be more than S/.22,000. On this basis S/.30,000 is probably a conservative estimate of total production and investment expenditures from 1955 through 1967.

In 1967 this farmer invested S/.8,500 of his cash receipts of S/.15,800. His net cash receipts (after production and investment expenses) were S/.4,382, the family consumed farm products valued at S/.7,777 and the farm inventory increased in value by S/.11,390. Total family income for 1967 was S/.23,549. In the spring of 1968, he was one of the best situated farmers in the cooperative. He held title to a 70 hectare farm with 25 hectares of crops and pasture. Total cultivable potential should be at least 60 hectares. He had been granted a loan of S/.22,000 from the National Development Bank for pasture and livestock; he purchased 8 heifers and a bull in May, 1968. He had a new house fronting the road. His oldest son at age 18 was a strong and intelligent young farmer; his two younger sons were doing well in school and would soon be a real contribution to the family labor force. His current income needs were satisfied to the point where he could consider investing in a concrete coffee drying patio. His cash receipts exceeded S/.15,000 per year ($750). His net worth, as near as one can estimate, exceeded S/.100,000 ($5,000). He had come a long way from the days when he worked for 2 sucres a day on a banana plantation in the province of El Oro.

Investments in 1967

One farmer's strategy for maximizing his capital growth rate by borrowing against future earnings has been described. A consequence of this was to nearly double the effective labor force available to the family between 1955 and 1968. At least ten man-years of labor was employed on the farm in those twelve years. It should be explicitly understood that this was not a universal strategy--one prosperous farmer explained his lack of record books with the comment that he paid his workers at the end of the week, and so had no need for elaborate records. Having established this historical perspective we turn to a specific consideration of investment as measured in cash outlays and physical improvements in the year 1967.

Investment Expenditures

The composition of family income for the 22 farms in the cooperative was the subject of Chapter II. Table 21 has been constructed to show the relative magnitudes of investment expenditures compared to total receipts, family consumption and production expenses. Here again, mean values for all 22 farms as well as group means for the six smallest, ten medium sized and six largest farms are presented

Average cash investments for all 22 farms were 47 percent of average total cash receipts. If total cash receipts and the value of farm products consumed by the family are added to produce a measure of gross income (excluding inventory growth), the average cash investments of the 22 farms is seen to be 34 percent of gross income so defined. Even for the middle sized farms, (whose lower average incomes were discussed in Chapter II), average cash investments were 23 percent of gross income. For both the small and large producers, average investments were more than twice the production expenses.

TABLE 21. RELATIVE IMPORTANCE OF INVESTMENT EXPENDITURES, RIOBAMBENOS DEL RIO CHILIMPE - 1967

	All farms	Small farms	Medium sized farms	Large farms
Number of farms	22	6	10	6
		Average, sucres		
Farm inventory, beginning of year	55,112	22,056	45,831	103,636
Total cash receipts	13,486	9,454	6,550	29,078
Production expenses	3,558	1,058	3,643	5,917
Investment expenses	6,289	5,559	2,416	13,473
Net cash receipts	3,639	2,837	491	9,688
Farm products consumed by the family	4,922	3,468	4,078	7,782
		Percent		
Investment as a percentage of:				
Total cash receipts	47	59	37	46
Total receipts and family consumption	34	43	23	37
Production expenses	177	525	66	228

While the average coefficients of cash investment are high, it is well to keep in mind that they understate the level of physical improvements, since many farmers accomplished substantial investments through the use of family labor. These efforts are taken into account in the discussion of land improvements and capital growth.

Types of Investment

Farmers varied widely in the types and levels of investment undertaken in 1967. Table 22 shows the number of farmers in each sub-group actually incurring expenses in each investment category.

TABLE 22. NUMBER OF FARMERS WITH EXPENDITURES IN EACH INVESTMENT CATEGORY, 1967

	All farms	Small farms	Medium sized farms	Large farms
Total investment expenditure	19	5	8	6
Livestock purchase	9	2	5	2
Fencing and pasture establishment	10	1	3	6
Land clearing	7	1	1	5
Planting of permanent crops	9	1	3	5
Tool purchase	7	1	2	4
Housing	7	2	2	3
Land purchase	2	1	0	1

The average expenditures for all 22 farmers and the 3 sub-groups are presented in Table 23. The land purchase item of one farmer in the small farm group seriously distorts the comparison of group averages for total investment, and a column with averages for the remaining five farmers has been inserted.

TABLE 23. AVERAGE INVESTMENTS IN MAJOR CATEGORIES, 1967

	All farms	Small farms		Medium sized farms	Large farms
Number of farms	22	6	5*	10	6
		Average, sucres			
Total investment expenditure	6,272	5,559	1,955	2,417	13,411
Livestock purchase	2,035	233	280	1,077	5,433
Fencing and pasture establishment	883	19	33	235	2,827
Land clearing	541	25	30	60	1,858
Planting of permanent crops	525	5	6	232	1,533
Tool purchase	76	13	16	33	209
Housing	1,063	1,346	1,600	780	1,250
Land purchase	1,150	3,916	0	0	300

* Excluding one farm with large purchase of land.

When the investments of the five small farmers are compared with those of the middle sized group, they appear quite similar in all respects. Total investments for the middle sized farms was only S/.462 higher than that of the small farms on the average, although the middle group spent relatively more per farm on livestock and less on housing. Medium sized farmers on the average received only S/.1,263 more

than the five small farmers in total cash receipts, but spent much more on production costs. Farmers in the medium sized class simply spent more on the maintenance of lower quality resources so that they had less money available for investments than did the smaller farmers.

The average investment of the six largest farmers was more than 5 times as great as the average for the middle sized farmers. Total investments by the largest farmers were 58 percent of all the farm investments made by the 22 farmers in the study. Substantial expenditures were made for livestock purchase, fencing and pasture, land clearing and new plantations. Reference to Table 22 reveals that the livestock for the largest farms was purchased by only two farmers, but that nearly all spent money on land clearing, pastures and plantations.

Cash Investment and Inventory Growth

Growth in the value of farm inventory was more than 50 percent of family income among all three sub-groups of the Ríobambeños. The composition of inventory change was discussed in Chapter II. A breakdown of the contributions to inventory change was listed in Table 16.

Growth in farm assets is quite closely linked to the cash investments made in the farm. The data on investment expenditures from Table 23 can be regrouped in three broad classifications: land purchase and improvements, livestock purchase and housing. If the inventory growth data from Table 17 are regrouped in similar fashion, the similarities between investment and asset growth can be seen (Table 24).

If we considered only column one of Table 24, it would be easy to conclude that on the average all investments were in cash and that most of the discrepancy between investment and inventory growth could be explained by a large average increase in the value of stocks on hand. Clearly this was the case only for the six large farms. The remaining farms show substantial relative growth in assets over investment costs which must be explained in terms of family labor used in investment and the natural increase in livestock values.

For all but the medium sized group of farms, the cost of land investment exceeded the net change in value of land assets. Some types of improvements, such as pasture fencing, do not produce a change in the market value of the farm equal to the cost. The land purchase of one small farmer also served to push investment costs above land inventory change for that group. Average land inventory growth exceeded average cash investment in land for the middle group of farms because their owners did much less investing than the other groups and the relative importance of family efforts in land improvements was consequently much higher. For livestock, the excess of inventory growth over investment cost reflects the autonomous growth in value in excess of sales of general livestock holdings.

Most housing investments are principally labor costs. It is therefore reasonable to expect that unpaid family labor would cause the final value of improvements to exceed cash costs. Farmers in the largest class are beginning to use purchased materials, cement and asbestos or galvanized iron roofing in their houses, resulting in excess in cash costs over net change in asset value.

TABLE 24. INVESTMENT AND INVENTORY CHANGE, RIOBAMBENOS DEL RIO CHILIMPE, 1967

	All farms	Small farms	Medium sized farms	Large farms
Number of farms	22	6	10	6
		Sucres		
Investment in land purchase, land clearing, fencing, pasture and permanent crops	3,099	3,965	527	6,518
Net change in land inventory	2,915	3,294	1,128	5,517
Livestock purchase	2,035	233	1,077	5,433
Change in livestock inventory	3,301	1,459	2,460	6,547
Housing investment	1,063	1,346	780	1,250
Change in housing inventory	1,314	1,600	1,260	1,117
Total investment expense*	6,272	5,559	2,417	13,411
Total inventory change*	9,811	7,274	5,539	19,469
Change in stocks on hand, crops in field, fruit trees	2,205	920	682	6,028

* Including value of tools.

Changes in Productive Capital and Implications for Agricultural Development

It was asserted in Chapter II that a major criterion for the evaluation of a settler's endeavors (both from his point of view and from ours) should be the rate at which he increases his productive capacity. In evaluating the prospects for agricultural development of a settlement region, the first question one may ask is, "What is the level of current production?" Having secured an answer to this the next question is of even more importance, "How fast will production grow in the future and what direction(s) is it likely to take?" Lacking measures of changes in production, an attempt has been made to estimate changes in the capacity to produce using the difference in productive assets at the beginning and end of the year as a measure. The definition of productive assets differs from that of total farm inventory; thus, the long justification of inventory change as a measure of income was intended to be contrasted with a restricted definition of productive assets which is more relevant to the assessment of development potential.

Productive assets, or productive capital, consist of all crop lands and pastures, livestock, fruit trees or artificial forest, and agricultural tools and implements. Productive capital differs from farm inventory in that it excludes virgin forest lands and the farm dwelling. Growth of productive capital has been measured by taking the difference of productive assets (valued in sucres) at the beginning and the end of the

year. Table 25 presents value of productive capital at the beginning and end of 1967, the percent change in capital for the Ríobambeños del Río Chilímpe during the year and data on residence and family size.

TABLE 25. CHANGES IN PRODUCTIVE CAPITAL, 1967

	All farms	Small farms	Medium sized farms	Large farms
Number of farms	22	6	10	6
		Average, sucres		
Initial capital January 1967	33,440	16,113	28,793	58,511
Final capital January 1968	44,793	20,329	34,355	86,655
Capital growth	11,353	4,216	5,562	28,144
		Percent		
Average growth per farm	36.0	23.3	33.5	52.8
Growth in group averages	34.0	26.2	19.3	48.1
Persons in family	6.6	5.3	6.2	8.7
Years of residence as of January 1968	10.5	6.0	11.1	14.0
Years of farm exploitation	8.1	5.7	6.6	13.0

Productive capital more dramatically differentiates the three size groups than most measures considered heretofore. The implicit explanatory variables which have been suggested--size of family, length of residence and length of farming activity--all differentiate the 3 size classes in a similar fashion. The settlers who came into the area first have generally been working their property longest and also have larger family work forces to help them. They have been able to generate a stream of cash income, allowing them to employ more hired labor in production and expansion activities. The number of years a farm has been under exploitation is more closely related to present levels of production and expansion than is the number of years which the owner has resided on the farm. Some settlers reside several years before beginning work on their own farm.

For all 22 farms, productive capital grew by an average rate of 36 percent or S/.11,353 per farm during 1967. The six largest farms increased their average productive capital by an amount virtually equal to the total average capital of the 10 medium sized farms at the beginning of 1967. The growth rates of the small and medium sized farms are highly respectable and appear modest only when compared to those achieved by the large farms.

Two of the small and two of the medium sized farms had exhausted their forest reserve before the beginning of 1967. Consequently, these farms showed a much lower rate of capital growth than did the others. Table 26 segregates the four farms without forest reserve at the beginning of 1967. The average rate of growth of the four farms without reserve forest lands was only 14.5 percent for the year 1967, and had a marked dampening effect on the average growth rate for the small and medium sized farms.

TABLE 26. CHANGES IN PRODUCTIVE CAPITAL COMPARED: FARMS WITH AND WITHOUT FOREST RESERVE, JANUARY 1967

	Farms with forest reserve			Farms without forest reserve
	All farms	Small farms	Medium sized farms	
Number of farms	18*	4	8	4
		Group means in sucres		
Initial capital January 1967	35,281	14,769	28,114	25,155
Final capital January 1968	48,347	19,928	33,826	28,800
Capital growth	13,066	5,159	5,712	3,845
		Percent		
Average growth per farm	40.8	29.0	37.7	14.5
Growth in group averages	37.0	34.9	20.3	15.3
Persons in family	7.1	5.3	6.4	6.0
Years of residence as of January 1968	10.4	5.3	10.0	10.5
Years of farm exploitation	8.2	5.0	6.1	7.8

* Includes 6 large farms reported separately in column 4, Table 25.

Land Improvements

The trend is the same for land improvements considered in physical units. During 1967 the small farmers cleared or planted to pasture or permanent crops an average of 0.9 hectare. The medium sized farmers averaged 1.5 hectares and the large farmers averaged 8 hectares. Table 27 shows the group means for the number of hectares cleared during the year, the number of hectares of permanent pastures and permanent crops established and the total hectares per farm either cleared or planted to permanent crops during the year. Permanent crops planted were 31 hectares of plantain and 1 hectare of sugar cane. As indicated in the table, the total area cleared or planted does not involve double counting; it measures the total hectares on any farm which underwent major improvement during the year. The cooperative total was 68.6 hectares. Approximately 27.5 hectares of land were cleared and planted to permanent crops.

TABLE 27. AVERAGE SIZE OF LAND IMPROVEMENTS, 1967

	All farms	Small farms	Medium sized farms	Large farms
Number of farms	22	6	10	6
		Average, hectares		
Land cleared	1.91	.5	.3	6.0
Pasture established	1.00	0.0	.45	2.92
Permanent crops established	1.46	.42	.91	3.42
Total area cleared or planted (no double counting)	3.12	.92	1.51	8.0

Returns to Investment

Serious investment by the Ríobambeños in 1967 was confined to two productive enterprises, plantain and cattle. The incipient level of cattle raising among these settlers made it impossible to draw any conclusions about its profitability. The boom in cattle raising in the zone has reflected the strong demand for meat in Ecuador's urban markets. A drought of several years duration in Manabi province has driven cattle inland towards Santo Domingo at depressed prices. The costs of pasture renovation and livestock parasite control are high. Still, farmers are convinced that beef cattle are a good investment. Most of the credit provided through the BID Polygon project in Santo Domingo de Los Colorados is being used for livestock and pasture investments. Among the Ríobambeños, 11 farmers purchased no cattle during 1967. Their total initial holdings were 63 head. The value of sales, consumption and inventory increase for the year was approximately 30 percent of initial value.7/

The net returns to a hectare of plantain are much more explicit. As indicated in Table 7, Chapter II, average sales per hectare for 48 hectares of Dominico variety plantain in full production (excluding very old stands) were S/.1,427 in 1967. Production costs were S/.480 per hectare and average net cash returns were S/.947 per hectare. On the average the inclusion of family consumption of plantain increased the value of returns per hectare by at least 200 sucres (see Table 6). If S/.200 were added to the net sales of S/.947 per hectare, the resultant average net return per hectare would be about S/.1,150 per year. This figure is perhaps most appropriate as an estimate of the expected net returns to new plantain investments made in 1967.

7/ For a discussion of the economics of successful beef and dairy operations under humid tropical conditions similar to those of Santo Domingo de Los Colorados see Juan Antonio Aguirre, The Economics of Milk and Beef Production In the Humid Tropics: A Case Study of San Carlos County, Costa Rica, 1969. Aguirre found that high levels of management skills and high capital intensity made possible very efficient and profitable beef operations within a general size range of 250 to 500 hectares of pasture.

This estimate of the value of production does not include the value of fruit fed to livestock. Average physical yields per hectare for the 48 hectares of plantain were 476 stems. Average yields for all 112.2 hectares of plantain in the coop were 386 stems per hectare. With market price for plantain expected to remain about five sucres per stem, the estimated gross value of production derived from total physical yields and market prices would lie in the range of S/.1,900 to S/.2,300 per hectare annually.

The cost of clearing and establishing one hectare of plantain was reported as 60 to 70 man-days from beginning until full production was reached about 15 months later. This implies a cash cost of S/.700 to S/.1,000 per hectare. The annual net returns on such an investment in 1967 were clearly at least equal to the total original cost.

Investment Response to Changed Conditions

Surveying of coop land was completed in 1966 so that provisional titles were available for issuance to the coop members after March, 1967. A farm to market road into the Ríobambeños cooperative was first completed for dry season use in August, 1966. It was surfaced with gravel for all weather use in the summer of 1967. The road enabled a majority of the settlers to sell plantain on a regular basis for the first time. Farmers indicated that as a result their incomes increased sharply. Since cash availability has been offered as a primary determinant of investment, we would expect to note a significant increase in investment activity in 1967 over that of previous years.

The average land cleared per resident settler with available forest reserve can be considered as 15 successive samples for the 15 years from 1952 through 1966. If the average land cleared per settler in 1967 were significantly greater than the mean of the sampling distribution, this would tend to confirm the hypothesis that investment increased in 1967. Average annual clearing per farmer was 1.462 hectares from 1952 through 1966. The average land cleared per farmer in 1967 was 2.81 hectares for 16 farmers with available forest for clearing.

The 22 settlers had about 90 hectares of plantain in production in 1965. They planted an additional 9.8 hectares in 1965, 10.7 in 1966 and 31 hectares in 1967. If the average permanent crops planted per year of residence up to the end of 1966 for each of the 22 settlers is considered as the universe of annual crop planting, one may test whether the average area planted to permanent crops in 1967 is a sample from the universe. The universe mean for 22 settlers was .9076 hectares per year. The average area planted to permanent crops in 1967 was 1.4590 hectares.

Investment by Spontaneous Settlers

The working assumption of this monograph asserts that settlers are economically rational entrepreneurs who respond rapidly and dynamically to changes in economic conditions. Where land clearing and crop establishment are the principal investment activities, the settlers examined were shown to have maintained a rate of land clearing of two hectares per farm per year between 1952 and 1968. The implied labor investment is 80 to 100 man-days per year in brush clearing, tree felling, and crop

planting activities. (In analyzing farm production 200 man-days was considered to equal 1 man-year among these settlers.) In an attempt to derive conclusions useful for settlement policy, the clearing behavior of 22 settlers was analyzed under the assumption that all were homogeneous with respect to resource endowment on the first year in which they cleared land. The analysis suggested that from an initial base of four to five hectares farms have expanded at the rate of one hectare per year until the cleared farm area equalled about 15 hectares. After 11 years of clearing activity, average clearing rates per farm rose to more than three hectares per year, suggesting that the enlarged resource base was providing substantially greater surplus which could be diverted from family consumption.

On this basis we would expect that a group of settlers who were to homestead in a similar region of Ecuador might respond in the same fashion. For settlement policy it suggests that without assistance growth will proceed slowly for 10 years or more. The provision of credit to permit higher levels of investment in the initial years of settlement should permit substantial acceleration of the capital formation process.

Analysis of one farmer's hired labor use from 1955 through 1967 detailed a mechanism whereby initial land investments could be charged against future production. Through a process of deferred payment to workers the farmer managed a remarkable conciliation of fluctuating labor needs for lumpy investments with a much more constant apparent availability of cash for wage payments. It was suggested that for such settlers the relative constraint on labor use was anticipated cash flows.

The integration of the Santo Domingo settlement area with the national economy was postulated as a necessary condition for the transfer of surplus labor resources to the frontier (in excess of pioneer families). Without the possibility of crop sales to pay workers, it would not have been possible to employ more than ten man-years of labor in thirteen years time as was done on one farm. In early stages of settlement, many workers used their wages to establish a land claim of their own. Thus, the possibility of converting agricultural surplus into labor via a cash medium fostered a high rate of reinvestment of frontier generated resources. These conclusions should emphasize the importance of farm to market roads and other measures to provide adequate markets for products of frontier regions.

When the accounts for 22 farms were analyzed for the year 1967, it was found that average cash investment out of current income was high, 47 percent of total cash receipts. On the average, cash investments were 34 percent of the sum of cash receipts and family consumption of farm products. For the group of farms with the lowest level of investment, the rate of investment was 23 percent of the combined value of receipts and consumption. The value of productive assets of all 22 farms, crop lands and pastures, tools and livestock, was found to have increased by an average of 36 percent in the course of 1967. This calculation excluded autonomous changes in price levels for land and livestock during 1967. Settlers responded to the introduction of a road into their property in late 1966 by dramatically increasing the area in plantain during the following year.

In addition to exporting labor to the frontier, Ecuador's traditional agricultural sector has exported a class of entrepreneural farm managers who have many of the attributes of aspiring middle class citizens. Their capacity to defer consumption is high when presented with attractive investment opportunities. They are on the average

better educated than the typical rural population of Ecuador and the process of migration and settlement has no doubt contributed to a more worldly sophistication. The net effect has been the formation of a compact group of small holders with substantial resources at their command. They are relatively modern in their world view and will respond rapidly to agricultural policies which provide profitable alternatives for increasing production through improved technology and practices.