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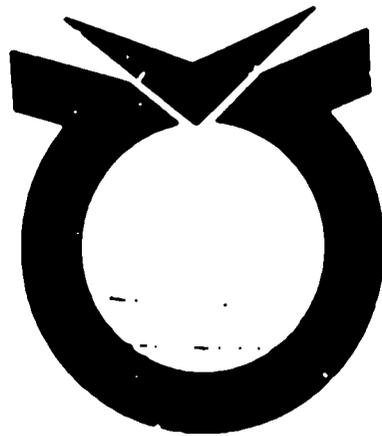
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**NATIONAL CO
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N.A.C.F.

NATIONAL AGRICULTURAL COOPERATIVE FEDERATION

1966
Korea

Amos Lubson
Harbor

**STUDY OF
AGRICULTURAL COOPERATIVES
IN KOREA**

N. A. C. F.

National Agricultural Cooperative Federation

**March, 1966
Seoul, Korea**

**Adlowe L. Larson
Helim H. Hulbert**

International Cooperative Training Center

The University of Wisconsin

United States Operation Mission to Korea

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INTERNATIONAL COOPERATIVE TRAINING CENTER

March 24, 1966

Dear Mr. Bernstein:

The International Cooperative Training Center is happy to have had the opportunity to make the study of agricultural cooperation in Korea with the very capable assistance of Mr. Holim Hulbert. Wallace Maddock, USOM Cooperative Advisor, was of invaluable assistance in making contacts and arrangements with Korean cooperative and governmental officials and in supplying background information. Help was also received from Wesley Fenstermacher and Kim Hang Ku of USOM. The results of our findings with recommendations are found in this report entitled NACP, the National Agricultural Cooperative Federation.

I want to tell you some of our thinking in getting the study underway. Problem areas were determined following an intensive period of interviews with representatives of the Ministry of Agriculture and Forestry, with employees and some members of NACP at all levels from the Ri-Dong locals to the national headquarters and with representatives of the United States Operations Mission to Korea. These problem areas, which were then discussed with government and cooperative representatives, provided the focus for most of the resulting investigation. Conferences were held also with the Cooperative Review Committee of MAF.

It was our intent to evaluate the problems objectively giving consideration to what we thought was best for the economic and social development of Korea and particularly of its farmers. Both government and cooperatives are means for this development.

We knew, when we started, that we would not be able to present findings agreeable to all parties concerned but we felt that they wanted our best, honest evaluation. Consequently we have made a number of recommendations.

Mr. Joel Bernstein
Director
Agency for International Development
United States Operations Mission to Korea
APO San Francisco 96301

I would caution all who might condemn any of the parties concerned to read the full report for much that is good has been done through the joint effort of government and NACF. Perhaps past arrangements have been needed to bring the present advances. But change is needed toward the development of a democratic cooperative marketing, finance, and service institution in agriculture.

Individuals have been responsible for much of the past success but they were not responsible for some of the cooperative arrangements under which they have been forced to operate. Our suggestions for improvement are primarily related to the needs, focus, practices, and institutions and not to individuals. It is our feeling that not only will Korean agriculture benefit from the suggested changes but that the people on the job will also be happier.

In our original visits in Korea in November 1965, we said that we felt that whatever changes are made should be evolutionary, not revolutionary, but yet made as rapidly as is consistent with securing desired results. NACF provides an institutional framework within which much of benefit to Korean agriculture can be accomplished.

A stabilized system over time for the suggested changes must be devised. It is our suggestion that a working committee with members from MAF, MOF, NACF and the public and non-voting members from USOM in Korea be constituted on a continuing basis to make recommendations for the evolutionary change. It should report annually to appropriate areas of government and to the public. Prior to this annual report with recommendations there should be several weeks of intensive study of past and possible future performance with representatives of the organizations mentioned above and perhaps with one or more outside cooperative specialists.

A number of recommendations are made--some involving NACF only and some largely governmental, but a major recommendation for both is concerned with making NACF a democratic institution responsible and responsive to its members. This would be done on a gradual basis giving recognition to government investments. NACF needs to be increasingly concerned with capital accumulation and with restructuring at the Gun and Ri-Dong levels. These and other recommendations cannot be accomplished overnight but the desire to set a plan in action can be. This plan placed in action will do much over time to aid the development of Korean agriculture and the Korean economy.

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Personally we, at the International Cooperative Training Center, are happy to have had this association with the fine people of Korea concerned with the role cooperatives can play. Our interest will continue. We shall look for great accomplishments in the future.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Adlowe L. Larson".

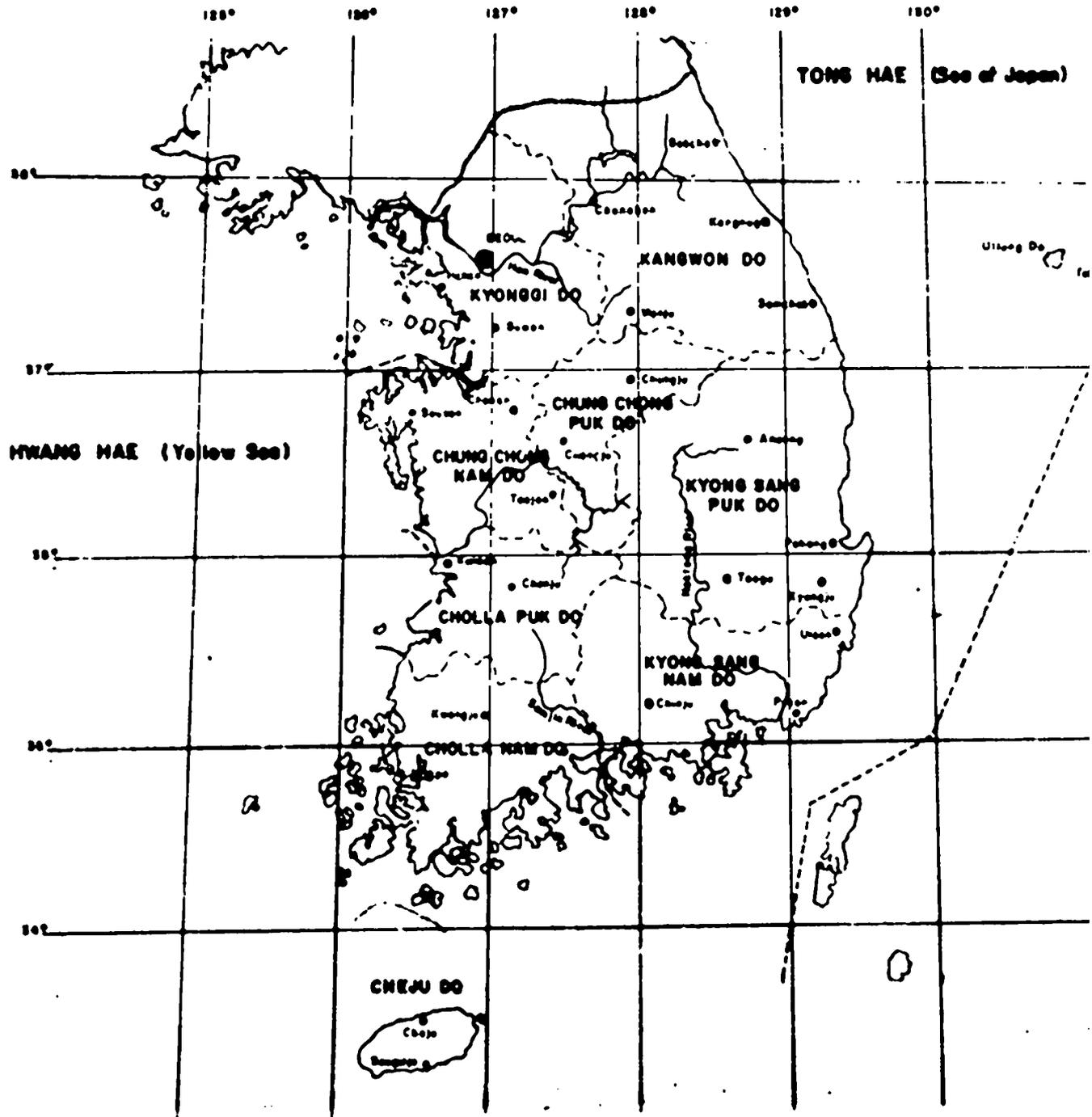
Adlowe L. Larson
Director

COMMUNICATIONS



USOM/KOREA

REPUBLIC OF KOREA



LEGEND

- CAPITAL
- PROVINCIAL CAPITAL
- LAKES
- RIVERS
- - - INTERNATIONAL BOUNDARIES
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ORIGIN OF THE PROJECT

In December 1964 the Economic Planning Board addressed a communication to the United States Operations Mission stating that a request had been received from the Minister of Agriculture and Forestry expressing an urgent need for a study of Korean Agricultural Cooperatives and suggesting that USOM undertake such a project. USOM replied favorably. Arrangements for personnel to undertake the project, however, were not completed until the fall of 1965. Active work on the study began on November 22, 1965.

THE AUTHORS

Adlowe Larson: Director of the International Cooperative Training Center with headquarters at Madison, Wisconsin; prior to present position, Professor of Agricultural Economics at Oklahoma State University; long time student of agricultural cooperation.

Helin Hulbert: Retired; formerly with Farmer Cooperative Service of the United States Department of Agriculture; more than 40 years experience working with farmer cooperatives of different types; four foreign assignments for AID since February 1961.

ACKNOWLEDGEMENTS

The authors wish to express their sincere thanks to personnel in the Ministry of Agriculture, the National Agricultural Cooperatives Federation and the United States Operations Mission for their wholehearted cooperation and assistance in making this study.

FOREWORD

The Republic of Korea has a land area of about ten million chongbo or 25 million acres. This is roughly equivalent in size to the states of Indiana or South Carolina. Of the 25 million acres about 2.3 million acres consist of upland; 3.2 million acres are in paddy land; 17.0 million acres are in forests. The use of the remaining 2.5 million acres is for urban, industrial, roads and highways, parks, reservations, waste land and other purposes. Of the total land area, 5.5 million acres or slightly more than 20 percent is used for the production of food and fiber. This means that in Korea there is only about .2 of an acre of arable land per capita.

The population of Korea is estimated at 28 million. Seoul claims a population of 3.7 million; Pusan 1.5 million and Taegu 800,000. These are the three largest cities in the country. There are several other cities, however, with populations exceeding 100,000.

Korea has a constitutional form of government with a president elected for four years and a single legislative body called the General Assembly also elected for a four-year term. Politically the nation is divided into nine provinces or states, each with a provincial governor and government. Each of the provinces is divided into guns (counties). There is a total of 139 guns in the entire country, each having its own political organization. The guns in turn are sub-divided into myons that are roughly equivalent to townships in the United States. Each myon has a mayor and a myon assembly. The village is the last administrative unit of the state and does not have any governmental office. There is a total of

about 43,000 villages throughout Korea. The Ri or village chief is the last official on the administrative ladder. He is appointed by the myon chief of the village, and is assisted in the execution of his duties by ban chiefs whom he appoints.

Well over half the people of Korea are engaged in farming. There are over 2.4 million farms and farm households in the country. Farms vary in size from half a chongbo or less of paddy land to a maximum of three chongbos. A chongbo is defined as 2.5 acres of land. Nearly a million farm households out of the total of 2.4 million have only half a chongbo or less of paddy land per farm. Stated another way, some 40 percent of the farm population is farming only five or six percent of the arable paddy land. Over a third of these small farmers with half a chongbo or less of paddy land have no financial assets. The average total assets per farm household of all farms in Korea is estimated at \$1,440, and average cash farm income per household in 1964 was about \$380 annually.

INTRODUCTION

Cooperation among Korean farmers is centuries old. They early organized a system called "Kae." A Kae is a voluntary, non-legal association of farmers for a single, specific purpose, such as the collection of money to finance mutual social welfare and economic activities. The Kae form of organization is still popular and there are thousands of these in existence today.

The first agricultural organizations in Korea performing cooperative functions date from the year 1907. These organizations were local financial associations serving villages and townships. They were formed to assist in rural development by extending credit and providing warehousing, production supplies and a limited amount of marketing services. These associations, however, were inactive during the Japanese occupation.

Beginning with Korean liberation in 1945, however, agricultural cooperatives began to surge back into the economic life of the nation. The development of an agricultural cooperative system designed to rehabilitate the national economy and strengthen the economic status of farmers became governmental policy. Active organizational assistance and encouragement to farmer cooperatives was extended by government.

It was not until 1957, however, that the National Assembly passed a cooperative enabling act making cooperatives eligible to engage in any line of business except farm credit services. Experience demonstrated some inadequacies and defects in the 1957 Agricultural Cooperative Act and following the Revolution in May 1961 the National Assembly enacted the present Agricultural Cooperative Law broadening the powers granted

to cooperatives to include the extension of farm credit. Under this 1961 law the agricultural cooperatives formed under the 1957 act were consolidated with the Korean Agriculture Bank to form the National Agricultural Cooperatives Federation known throughout the country as NACF. It is an examination of the organisational structure, administration and operations of NACF and its member cooperatives to which this report is directed.

BIRD'S EYE VIEW OF NACF

The National Agricultural Cooperatives Federation, hereafter referred to as NACF, is an organization of broad scope both geographically and functionally, sponsored and promoted by the Korean Government for the benefit of farmers. Although cooperative in name, NACF is not in reality a cooperative association organized and financed by farmers. Rather, it is an instrument of a benevolent government, established, incorporated and administered by government to serve the needs of farmers. NACF is governed from the top down. It is not a cooperative that has been built by farmers from the bottom up.

NACF was organized as a cooperative business enterprise with the objectives of increasing agricultural productivity and improving the economic and social status of farmers through independent cooperative associations. It cannot be said with certainty, however, that a democratically owned and democratically controlled NACF is universally favored. The organization has been functioning between four and five years. Its organizational structure is unique in that it includes such a large measure of government control that it is difficult to draw a line between NACF on the one hand and government on the other. As a consequence Korean farmers do not regard NACF or the cooperatives that compose its membership as their organization. Farmers exercise but little control and have only a small investment in its capital structure. They are more inclined to look upon NACF as an arm of government rather than a bona-fide farmers' cooperative association.

Economic and political conditions at the time NACF was formed in 1961 made it necessary for the newly formed organization to lean heavily on government for financial support. With the government supplying a major portion of the finances for NACF, it was natural that government should exercise some voice and control over how its money was expended. Supposedly temporary legislation passed by the National Assembly has removed most of the democratic features ordinarily found in independent farmers' cooperative associations. This supervision and control exercised by government has been over the detailed operation of NACF as well as overall policy.

The principal business activities of NACF include commercial banking, the purchase and merchandising of agricultural production supplies, the marketing of farm products for members, insurance and processing. In the banking department NACF receives deposits from farmers and non-farmers and makes loans to farmers and other business interests. Most of NACF's farm supply business is conducted through cooperatives at Gun and Ri-Dong levels. A major part of the organization's marketing activities is conducted at five strategically located marketing centers owned and operated by NACF. A substantial portion of NACF's overall volume arises from business entrusted to it by the Korean Government. These activities, combined with its own business volume, make NACF the biggest business enterprise in Korea. Table 1 traces NACF's business trends from 1962 through 1965.

TABLE 1

SUMMARY OF NACF BUSINESS TRENDS BY YEARS

(in millions of won)

<u>Divisions of Business</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Fertilizer	8,416	8,800	11,071	25,108
Lime	36	40	83	542
Production supplies	2,211	2,380	4,894	8,383
Marketing	4,022	4,368	8,548	19,557
Loans	13,947	13,974	21,912	32,031
Deposits	4,250	5,673	6,450	10,641
Mutual Relief	6,962	8,415	12,245	16,482
Processing and utilization	797	823	2,151	3,279

Note: Values adjusted for devaluation of currency.

Source: NACF Research Department

OBJECTIVES OF STUDY

The principal objectives of this project are to:

1. Make an analysis of the current organizational structure of NACF with particular reference to operating procedures, performance and controls with their resultant effect on membership or producer participation.
2. Analyse the power structure of NACF and ascertain if the responsibilities for action programs and decision making are in agreement at all levels.
3. Suggest a separation of governmental programs and functions from those that rightfully should be vested with cooperatives and administered by them.
4. Study the possibilities of merger and consolidation of agricultural cooperatives with a view to expanding their business volume, increasing their operating efficiency and perhaps lessening the number of levels through which farm products and production supplies move.
5. Ascertain and explore the possibilities of relating the present NACF credit program to a development of credit unions designed to broaden the credit base and provide a source of credit, particularly for low income people and small subsistence-type farmers.
6. Study existing relationships between NACF and ORD with a view to determining how these relationships can be strengthened and improved.

LEGAL BASIS FOR COOPERATIVES

Cooperatives are given official recognition in the Constitution of the Republic of Korea. Article 115 of the Constitution says that the State shall encourage the development of cooperatives founded on the self-help principle for the benefit of farmers, fishermen, small and medium sized businessmen and shall guarantee their political independence.

The Agricultural Cooperative Law passed August 15, 1961 is the foundation for the existing cooperative structure in Korea. However, this law was modified by an interim or temporary law promulgated February 12, 1962. Under this interim law certain sections of the August 15, 1961 Agricultural Cooperative Law providing for the election of the presidents of Gun, Special and Ri-Dong Cooperatives by the members were suspended. To replace the election of presidents by the members, the interim law substituted appointment of the presidents by the President of NACF with the approval of the Minister of Agriculture and Forestry. The interim law permitted the President of NACF to delegate his authority to appoint presidents of Ri-Dong Cooperatives to the provincial branch managers of NACF. The interim law is still in effect. There is no indication as to when it will be repealed and the elective procedures provided in the Agricultural Cooperative Law restored. Current laws thus require or make it possible to appoint the presidents of all cooperatives from NACF itself to the smallest Ri-Dong Cooperatives.

The Agricultural Cooperative Law governs all cooperatives formed prior to August 15, 1961 as well as those formed after that date. The Act says that all cooperatives in existence at the time of the passage of the new legislation are deemed to have been established under it.

The passage of the new legislation precipitated a flood of applications for cooperative charters, particularly from newly promoted Ri and Dong agricultural cooperatives anxious to qualify under the Law. In the short period of a few months, hundreds of applications for charters were received from villages all over Korea. From a figure of 18,706 agricultural cooperatives in 1960, the number grew to 21,517 in 1962. Since 1962 the number of agricultural cooperatives has been reduced by merger and consolidation to a figure approaching 18,000 as of January 1, 1966.

The expansion in the number of agricultural cooperatives was accompanied by a sharp growth in farmer membership, reflected not only by new cooperatives applying for charters but by increases in farmer membership of cooperatives already in existence. This apparent increase in farmer interest in agricultural cooperatives can be explained by a number of factors.

1. The new law made it possible for no more than 20 farmers to act as promoters of a Ri or Dong Cooperative.
2. Under the new law, NACF absorbed the Agricultural Bank and became the dominant agricultural credit agency in Korea.

3. NACF was also given a monopoly by government in the distribution of fertilizer and lime.

Thus, farmers needing credit, fertilizer or lime flocked to take out memberships in cooperatives in an effort to insure qualification for these services. Actually, however, we are told that membership in a cooperative is not necessary to secure credit, fertilizer or lime through NACF. Nevertheless, farmers feel it is advisable to belong and thus join their village cooperative.

The present National Agricultural Cooperatives Federation (NACF) came into being as a result of the August 15, 1961 law. The act prescribes in some detail the exact organizational structure that NACF shall take. It also outlines the procedures that shall be followed in the organization, chartering and operation of Gun, Special Cooperatives and Ri-Dong Cooperatives. The act confers supervisory powers over all agricultural cooperatives on the Ministry of Agriculture and Forestry, including the power to inspect and audit the affairs of NACF or any member cooperative.

All agricultural cooperatives seeking registration are required to file applications for charter and obtain the approval of the Minister of Agriculture and Forestry.

The Ministry, however, does not maintain any records of agricultural cooperatives registered in Korea. The Ministry relies on NACF for this information. The actual registry records are to be found in the offices of the local courts where cooperatives make application for registration.

PRESENT ORGANIZATIONAL STRUCTURE OF NACF MEMBERSHIP

Membership

As of January 1, 1966 the membership of NACF was composed of 139 Gun or county Cooperatives and about 135 Special Cooperatives. These are the only cooperatives entitled to vote at the annual membership meeting of NACF. Each member of NACF is required to have not less than 10 shares of stock of a par value of 10,000 won. This is roughly equivalent to \$370.

The 139 Gun Cooperatives operate a total of 399 branches throughout the country. The membership of the Gun Cooperatives is made up of local village or Ri and Dong Cooperatives. As of January 1, 1966 there were about 18,000 of this type of association claiming a total farmer membership of 2.5 million, or about 95 percent of all farmers of the country.

The 135 Special Cooperatives are organized along commodity lines, such as apple marketing, milk processing or livestock marketing. These Cooperatives claim a membership in excess of 32,000 farmers. Farmers have a direct membership in the Special Cooperatives and most of them are also members of Ri and Dong Cooperatives. This results in considerable duplication of membership between Special Cooperatives and village Cooperatives.

General Assembly

The presidents of the 139 Gun Cooperatives and of the 135 Special Cooperatives make up the general assembly of NACF. The general assembly

meets at least once each year, with the President of NACF presiding. Aside from being afforded an opportunity to be heard, the principal business transacted is the election by secret ballot of two auditors and the selection of 29 of their number to be delegates to a representatives' meeting. Representatives are elected for a term of two years.

Representatives' Meeting

The representatives' meeting is composed of 29 men, three each from eight provinces, one each from Seoul Special City Cooperative and Cheju Province, and three from the Special Cooperatives. The principal work of the representatives' meeting is the ratification of the previous year's reports, the approval of the next year's budget and the election of five members to the operational board--two scholars and three presidents of member cooperatives of NACF.

Operational Board

The operational board is composed of nine men; the President of NACF, the Minister of Agriculture and Forestry, the Minister of Finance, the Governor of the Bank of Korea and five members elected at the representatives' meeting of whom two shall be outstanding scholars in the field of agricultural economics. By law the operational board is charged with the responsibility of formulating basic policy for the guidance of management and the operation of NACF. The four appointed members of the board may be represented at meetings by proxy; the elected members may not.

Offices of NACF

The principal office of NACF is located in its own building in Seoul, but the organization maintains a provincial branch office in each of the nine provinces. In addition, each of the 139 Gun Cooperatives and each of their 399 branches are in reality local offices of NACF where loan applications are processed and other services can be obtained.

Gun Cooperatives

There are 139 Gun Cooperatives, all of which are members of NACF. The membership of each is (by law) composed of not less than fifteen Ri-Dong or village Cooperatives. To better serve its village members, each Gun Cooperative is permitted to operate branch offices.

All Gun Cooperatives are chartered and registered with the Ministry of Agriculture and Forestry. They hold at least one general assembly meeting a year. The Ri-Dong Cooperatives are represented by their presidents at general assembly meetings of the Gun Cooperatives. At the general assembly meetings the presidents of the Ri-Dong Cooperatives attending elect the president of the Gun Cooperative, a board of directors of not more than fifteen, and two auditors. Each Gun Cooperative has an executive director (general manager) and not more than two managing directors (assistant general managers). The general manager and the assistant general managers, after selection by the board of directors, are appointed by the president of Gun Cooperatives with the approval of

the President of NACF.^{1/} After adoption of Gun budgets by the boards of directors, the budgets are sent to MAF for final approval.

Special Cooperatives

There are reported to be 135 Special Cooperatives in Korea organized along commodity lines. Unlike Gun Cooperatives, whose membership consists of Ri-Dong Cooperatives, farmers have a direct membership in Special Cooperatives. Fifty or more farmers is all that is required to organize a Special Cooperative. The officers of Special Cooperatives consist of a president, a board of directors of not more than five members, and two auditors--all elected by the membership at a general assembly meeting that is held at least once a year.^{2/}

The administrative officers consist of an executive director (general manager) and a managing director (assistant general manager). The administrative officers are selected by the board of directors and are appointed by the president, subject to the approval of the President of NACF.

Ri-Dong Cooperatives

As of January 1, 1966 there were reported to be about 18,000 Ri-Dong or village Cooperatives in Korea. Twenty or more farmers is all

^{1/} The interim law of February, 1962 temporarily suspends these provisions and both the presidents of Gun cooperatives as well as executive personnel are now subject to appointment by the President of NACF.

^{2/} The interim law of February 1962 temporarily suspends these provisions and both the presidents of Special Cooperatives as well as the executive personnel are now subject to appointment by the President of NACF.

that is required in order to make an application for charter. All Ri-Dong Cooperatives are required to be registered with MAF under the Agricultural Cooperative Law. Farmers are required to own at least one share of stock as a prerequisite to direct membership. Ri-Dong Cooperatives use the one man, one vote principle in their elections of officers and in making other decisions.

Ri-Dong Cooperatives convene a general assembly of members at least once a year. Some of the larger ones substitute a representatives' meeting wherein the membership may be represented by delegates. Delegates to such meetings are elected for two years. The officers of Ri-Dong Cooperatives consist of a board of five directors and two auditors, all elected by the membership.^{1/} The president is elected by the board of directors. All officer positions in Ri-Dong Cooperatives are honorary, but officers are permitted re-imbusement for actual expenses incurred.

^{1/} The interim law of February 1962 temporarily suspends the election of Ri-Dong presidents and makes the positions subject to appointment by the President of NACF.

APPRAISAL OF PRESENT ORGANIZATIONAL STRUCTURE OF NACF

General Assembly

The general assembly of NACF is composed of the presidents of the 139 Gun Cooperatives and the 135 Special Cooperatives. These are the only members of NACF. Under the bylaws of NACF each member cooperative has one vote in all meetings of the general assembly. On the surface, this would appear to be fair and equitable. However, the voting provisions do not take into account the differences in membership of individual cooperatives, nor do they take into consideration the wide difference in the number of members represented by Gun Cooperatives as compared with Special Cooperatives. For example, the 139 Gun Cooperatives report a membership of about 2,500,000, whereas the 135 Special Cooperatives claim a membership of only 32,000. Yet each of the 139 Gun Cooperatives and each of the 135 Special Cooperatives has an equal vote in meetings of the general assembly. Furthermore, the number of Gun Cooperatives is fixed, whereas the number of Special Cooperatives is increasing. Should the number of Special Cooperatives continue to increase until it exceeds the number of Gun Cooperatives, a situation could arise where the Special Cooperatives representing only a small fraction of the farmers of Korea could control the general assembly of NACF. This is a situation that in our judgement should be changed.

Representatives' Meeting

Special Cooperatives complain that the representatives' meeting as now constituted does not give them enough representation. Measured in

terms of cooperative associations involved, the complaint would seem to be justified. However, when representation is measured in terms of farmer members, it would appear that the Special Cooperatives are favored. Gun Cooperatives now have one representative for approximately every 18,000 members, whereas Special Cooperatives now have one representative for every 10,000 members. Some adjustment in representation may become necessary, but no recommendation for change in the composition of the representatives' meeting will be made at this time.

Operational Board

According to the Agricultural Cooperative Law, the operational board is charged (Article 139) with the responsibility of "formulating the basic policy concerning the business management and operation of NACF," including the issuance of necessary regulations and instructions for implementing the policies of the board; but the Agricultural Cooperative Law also confers on the Minister of Agriculture and Forestry (Article 167) the power to annul or suspend any action taken by the operational board that the Minister deems to be illegal or improper. As a practical matter, the responsible staff of the Ministry of Agriculture and Forestry exercise these powers in the name of the Minister. The law thus establishes the Ministry as the judge as to what is illegal or improper. Under the law, the competent Ministry is also authorized to issue regulations and instructions to NACF to implement policies of MAF. While these powers given to the Ministry may never be used improperly, they conceivably could be used to nullify any action taken by the operational board and serve to make the operational board powerless.

The present composition of the operational board has been criticized on several grounds. Special Cooperatives have pointed out that they have never been given any representation of the operational board. A few cooperative leaders have complained that the operational board which is charged with the responsibility of determining NACF operating policies is not democratic enough. They feel that if a larger majority of the board were elected, actions of the board would be more responsive to member wishes. To achieve this purpose they suggested that the size of the operational board be increased.

Pointed criticism for non-attendance at meetings has been directed toward some of the three permanent members of the operational board. People interviewed feel that the affairs of NACF are of sufficient importance to demand first priority and if a member of the operational board is too busy with other affairs of State to attend meetings, he should not be on the operational board. Attendance of all elected members of the operational board was reported as excellent. Three alternative plans for reorganizing the operational board will be given consideration.

Alternative Plan 1: Election of the entire operational board from the representatives chosen at the meeting of the general assembly of NACF, with two places on the board going to Special Cooperatives. Election by the board of its own officers including the presiding officer. This is the most drastic of the three alternative plans, but it is also the most democratic. Its implementation would involve changes in the Agricultural Cooperative Law.

Alternative Plan 2: Election of seven seven members of the operational board from the 29 members of the representatives' meeting, with two places on the board going to Special Cooperatives. Election of two outstanding scholars in agricultural economics to the board by the 29 members of the representatives' meeting. Retainment of three permanent members of the present operating board as non-voting advisors to the board. Election by the board of its own officers, including the presiding officer. This plan would also involve changes in the Agricultural Law.

Alternative Plan 3: Continuation of the present operational board as now constituted but enlarge its size to provide for two elected representatives from Special Cooperatives. Under this plan the President of NACP would continue as the presiding officer of the board and would have a vote the same as any other member of the board.

Gun Cooperatives

The 139 Gun Cooperatives and most of their 399 branches were in existence prior to August 15, 1961 when the Agricultural Cooperative Law was passed. Each of these cooperatives and their branches conducted marketing operations and handled farm production supplies. Each cooperative and each branch had a manager and other operating personnel responsible to a locally elected board of directors.

Located with the Gun Cooperatives, frequently in the same offices, were branches of the Agricultural Bank. The Agricultural Bank, with separate personnel, was entirely independent of the Gun Cooperatives. The Bank handled credit but had nothing to do with farm supplies or

marketing. The Agricultural Cooperative Law then merged the Agricultural Bank with the Gun Cooperatives and their branches. Under the terms of the merger, the branch managers of the Agricultural Bank became the executive directors (general managers) of the Gun Cooperatives and all their branches. The former managers of the Gun Cooperatives (and their branches) either became managing directors (assistant managers) under the supervision of the executive directors, or they were replaced in the reorganization.

From a personnel standpoint the reorganization is reported to have resulted in considerable resentment and rivalry between former Bank branch managers and former managers of Gun Cooperatives (and their branches). The former Bank managers understood loans and credit, but most of them knew little about marketing and the farm supply business. On the other hand the former cooperative managers had experience with marketing and farm supply business, but had never handled credit. Training programs helped the former bank managers qualify as marketing and farm supply men, but some ill will still exists between the two groups.

Currently, dissention also exists among the presidents of Gun Cooperatives, who according to the Agricultural Cooperative Law are elected but who under the interim law are now subject to appointment by the President of NACP. The presidents feel that the interim law should be repealed and their elected status restored along with the authority of Gun boards of directors to select, and the presidents of Gun Cooperatives to appoint, their own executive directors.

As a general observation it is our feeling that the presidents of Our Cooperatives tend to become too closely involved in management and operations. No successful business can have more than one head. In the case of Our Cooperatives, responsibility for operating results should rest on the executive director (general manager), not on the president. The general manager, however, should be responsible to the president and to the board of directors for carrying out its policies and programs.

Special Cooperatives

In their organization and administration Special Cooperatives, when left to their own devices, appear to be following recommended democratic principles. Farmers have direct membership and vote on a one-member, one-vote principle at general assembly meetings. The Agricultural Cooperative Law limits the size of the boards of directors of Special Cooperatives to five. Some of the larger Special Cooperatives feel this provision of the law should be changed to increase the size of boards of directors and thus spread the responsibility for making decisions. The Special Cooperatives expressed a strong desire for repeal of the interim law which gives the President of NACP power to appoint the president and general manager, if he chooses to exercise that power.

From inquiry and conversation we gain the impression that some of the Special Cooperatives are not doing as well as they had been expected to do. Some are plagued with too small a volume of business and too short a season for profitable operations. Others seem to have been

ill conceived and doomed to failure almost from the beginning. Here and there questions were raised as to whether NACF should have made any commitments to Special Cooperatives in areas where they are presently involved.

Ri-Dong Cooperatives

There is general agreement that there are altogether too many Ri-Dong Cooperatives in Korea for efficient operations. We gain the impression that literally thousands of these Ri-Dong Cooperatives are nothing more than paper organizations with few assets. All of them, however, are legal entities that have been granted charters and are recognized by MAP. In recent years a program of merger and consolidation has resulted in a substantial decrease in numbers, but there are still in the neighborhood of 18,000 Ri-Dong Cooperatives. Two plans will be given consideration for dealing with the problem of numbers of Ri-Dong Cooperatives.

Alternative 1: Continue Ri-Dong Cooperatives as such but accelerate the present program of merger and consolidation with the objective of building larger more economic cooperative units at the myon level. Through a program of education and demonstration at the village level, endeavor to show local leaders it will be to their advantage and the advantage of their communities to merge their cooperatives into much larger units. Progress by the merger method, however, will become slower and slower as the number of Ri-Dong cooperatives becomes less. As a consequence we feel the merger program will not reduce the number of Ri-Dong Cooperatives to desired levels.

Alternative 2: Under this plan farmers would transfer their membership from Ri-Dong Cooperatives directly to Gun Cooperatives through a program of merger and consolidation. The Ri-Dong Cooperatives would no longer be the members of Gun Cooperatives. The Gun Cooperative would become the unit cooperative wherein members would vote directly for their officers at the Gun level. The Ri-Dong Cooperative would cease to exist as a legal entity and local village leadership groups would concentrate on such problems as production, farm planning and farm guidance. They would not engage in marketing or in the handling of agricultural production supplies.

Should this plan be implemented, it is contemplated that most of the 399 branch offices of Gun Cooperatives now in existence would be re-organized as independent cooperative associations. They would in every way become comparable to Gun Cooperatives in structure but would serve a much smaller territory than a Gun. Each of these unit cooperatives would operate as multi-purpose associations and might have branches. Depending on need and circumstances, additional independent cooperative associations would be organized in territories not adequately served so that in the end there probably would be two or three cooperatives per myon.

PRESENT ADMINISTRATIVE STRUCTURE OF NACF

NACF President

The President of NACF is appointed by the President of Korea for a three-year term upon the request of the Minister of Agriculture and Forestry with the recommendation of the operational board and the concurrence of the Minister of Finance.

NACF has two Vice Presidents that are appointed for a three-year term by the President of NACF with the approval of the operational board.

The directors of each department and all senior personnel are appointed or dismissed by the President of NACF, subject to the approval of the operational board.

The managers and personnel of the nine provincial branch offices are appointed by the President of NACF.

The managers of Gun Cooperatives are supposed to be appointed by the Gun presidents subject to the approval of the President of NACF.^{1/} In practice, however, the President of NACF appoints the managers of the Gun Cooperatives. Until passage of the interim law, the President of NACF had no control over the president or the personnel of Ri-Dong Cooperatives. The interim law gives the President of NACF the authority to appoint the presidents of Ri-Dong Cooperatives, if he chooses to exercise the right.

^{1/} Until such time as the interim law is repealed, the President of NACF has the power to appoint not only the managers of Gun Cooperatives but the presidents of Gun and Ri-Dong Cooperatives as well.

Competent Minister

The competent Minister named in the Agricultural Cooperative Law is the Minister of Agriculture and Forestry. Specific reference is made to the competent Minister no less than 48 times in the Cooperative Law itself. Under the Law he is given broad powers to exercise general supervision over NACF and the cooperatives that compose its membership. In the exercise of some of his powers, he is expected to have concurrence of the Minister of Finance.

Among other powers the Agricultural Cooperative Law gives the competent Minister authority to:

1. Sit as a permanent member of the nine-man operational board of NACF which is charged with the responsibility of formulating policy for the operation of NACF.
2. Request the President of Korea, with the recommendation of the operational board and the concurrence of the Minister of Finance, to appoint the President of NACF.
3. Approve the business plan and budget of NACF and Gun Cooperatives.
4. Supervise NACF and its member cooperatives and issue what orders he deems necessary for proper supervision.
5. Order the Superintendent of Banks to inspect and audit NACF and its member cooperatives whenever he deems it necessary.
6. Annul, in whole or in part, any action taken by the general assembly, the representatives' meeting, board of

directors or the operational board that he deems illegal or improper.

7. Qualify executive and management personnel of Gun and Special Cooperatives by providing aptitude tests that must be passed before appointment or promotion.
8. Decide the examination rules applicable under the management standard set forth by presidential decree.
9. Prescribe a financial management standard governing the financial relations between NACF's general business and credit services.
10. Approve mergers and consolidations.
11. Cancel charters and dissolve cooperatives.

Audits and Auditing

The affairs of NACF and its member agencies are subjected to audit by no less than six different agencies. None of these agencies, however, is an independent auditing organization that is responsible for making a thorough, comprehensive audit report of NACF as a whole. Examinations made by some of these auditing agencies are authorized by law, others are not. Most of the requests for audit come from various branches of government and are made for the purpose of verifying or checking on certain transactions or departments of NACF's business. Some audits are purely internal in nature and are undertaken to satisfy certain requirements of NACF itself.

In addition to formal requests for audit, we are told, NACF and Gun Cooperatives are flooded with frequent petitions for administrative

inspections by MAF. Other requests for inspections come from the Ministry of Finance, the Bank of Korea, the National Assembly or the Prime Minister's Office. NACF feels that it must comply with all of these requests for inspection and information in order to maintain good public relations, but compliance with the volume of petitions received often results in confusion and frustration on the part of NACF and Gun Cooperative personnel.

NACF itself has two auditors elected by the members at the general assembly meeting. One of these auditors is the standing auditor, a part of whose duties is to report to the operational board, the representatives' meeting and the general assembly. The standing auditor has a staff of six men. He has the responsibility of supervising internal audits of various phases of NACF's operations, conducting audits of the provincial branches of NACF, and examining the records of the five marketing centers owned by NACF.

In addition to the standing auditor, NACF maintains an Audit Section in the Management Guidance Department. It is the duty of this Section to audit the records of Gun, Special and Ri-Dong Cooperatives. The Management Guidance Department maintains from two to four auditors at each of NACF's provincial offices. These auditors work with local cooperatives in the standardization and improvement of their records rather than confining their efforts exclusively to the verification of records or the uncovering of malpractices.

The Agricultural Cooperative Law gives the Ministry of Agriculture and Forestry power to audit NACF or order other agencies to do so.

The Cooperative Section of the Ministry has only two auditors which is altogether too small a staff to do any extensive auditing of NACF. Consequently, the Minister may call upon the Superintendent of Banks to make an inspection and audit of NACF, should he deem it necessary. Audits made by the Bank of Korea relate mostly to NACF's credit and banking programs. Audits made by the Central audit Office of the Korean Government pertain largely to subsidized governmental projects but the office maintains a large staff and has the power to inquire into any phase of NACF's operations. In addition to the agencies named, there are other special auditing teams designated by the government that ask to examine the records of NACF.

In the light of these disclosures some realignment of auditing procedures that would lift part of the burden from NACF and from Gun Cooperatives would seem to be called for. It is suggested that the various auditing agencies might pool their requests and agree upon some one independent auditing organization whose report would be comprehensive and acceptable to all interested parties.

APPRAISAL OF ADMINISTRATIVE STRUCTURE OF NACF

NACF President

The Agricultural Cooperative Law provides that all Gun, Special and Ri-Dong Cooperatives shall have a president and a general manager. With respect to NACF itself, however, neither the Cooperative Law nor the bylaws of NACF provide for a general manager. As now operated the President of NACF serves both in the capacity of president and general manager. We are inclined to question whether one man should hold both positions. As a consequence, two alternatives will be given consideration.

Alternative 1: With the thought of introducing some semblance of democracy at the top, consideration and study might be given to electing the President of NACF from among the elected members of the operational board, representatives' meetings and meetings of the general assembly.

All the business and operational duties and responsibilities (aside from presiding at meetings) now performed by the President of NACF would be transferred to the general manager. For the immediate future the general manager would be appointed just as the President of NACF is now appointed.

Alternative 2: To introduce even more democracy into the administration of NACF at the top, consideration might be given not only to the election of the president of NACF from the operational board but also the selection and election of the general manager by the operational board from wherever the best and most competent man could be found.

Implementation of either of these alternatives would require changes and adjustments in the Agricultural Cooperative Law. The general manager would not be a member of the operational board under either of these alternative proposals, but he would attend all meetings and would report to the operational board.

Competent Minister

The Agricultural Cooperative Law confers broad powers on the competent Minister. In the final analysis, it must be concluded that the competent Minister has the power to control and run NACF if he chooses to do so. The powers and safeguards granted to him may have been necessary at the time they were conferred, but NACF is now nearly five years old. It is time to restudy these powers with a view to converting NACF and its member cooperatives into the "independent cooperative organization of farmers" contemplated by the Agricultural Cooperative Law of August 15, 1961.

Specifically, we question the power conferred on the competent Minister to annul or suspend any action taken by cooperatives which he deems improper. We feel that no one man should have the authority to substitute his judgment for that of the operational board or the board of directors of a member cooperative. We feel the responsibility for policy determination should rest with the board of directors or the operational board.

Again, the competent Minister provides aptitude tests that must be passed before appointment or promotion of executive and management personnel. We feel that such examinations should be given, but we

question whether this can be regarded as a proper function of government. With the thought of making NACF an independent cooperative organization, we feel that all such examinations should be given by NACF rather than by MAF.

Our inquiries indicate that the business plan and budget of NACF is carefully prepared. Many days and weeks go into its preparation. When completed the budget is presented to the representatives' meeting for their ratification and approval. When approved by the representatives' meeting, the budget is sent to MAF for approval of the competent Minister. The competent Minister may approve, modify or reject the budget. We feel that approval of the budget should end with approval of the representatives' meeting and it should not be sent to MAF for approval.

We feel the competent Minister's power to supervise and control NACF through the issuance of instructions and regulations should be modified or curbed. More of the decisions, which are currently made by MAF and forwarded to NACF to administer, should be made by NACF. This is particularly true in situations where NACF is forced to assume responsibility for the success or failure of programs about which it was given no alternative.

An organization with as highly diversified range of activities as NACF's, is an invitation to the various Bureaus and Sections of MAF with the power to issue regulations to prepare instructions and guidelines for NACF. While such of these regulations and instructions to NACF pass through channels and are approved in MAF, not all of

them go to the Cooperative Section in the Agricultural Administration Bureau of MAF where, we are told, they should be cleared. We are informed that many are sent directly to NACF. There is no office in MAF where all the regulations issued for the guidance of NACF are filed and consequently regulations and instructions are scattered throughout many Bureaus and Sections.

Most of the regulations and guidelines issued to NACF by MAF can be compared to instructions given by a principal to his agent--the decision has already been made in MAF, and NACF has little if any latitude in carrying out the instructions. The law also requires NACF to report back to MAF on the implementation of regulations and instructions. Under existing conditions with NACF still dependent on government for financial support, particularly in its loan program, no drastic change is contemplated. It does seem, however, that the present system of regulations and instructions passing between MAF and NACF could be better coordinated than they now appear to be.

There is some question as to whether the competent administrative power to supervise NACF and issue regulations for its guidance has not been stretched beyond the limits contemplated in the law. For example, the regulations establishing the Agricultural Cooperative Review Committee by presidential decree in April 1967 contemplated that the expenses incurred by this Committee would be borne within the limit of the national budget. The General Assembly, however, appropriated no funds for the Committee. Rather than let the Committee die because of lack of funds, MAF prevailed upon NACF to underwrite the expense.

The expenses of the Review Committee paid by NACF totaled \$6,665 as of February 1, 1966.

In addition, MAF has asked NACF to develop an Agricultural Outlook Service for the country. This is a service that ordinarily is provided by government out of general tax revenues not only for the benefit of farmers but for assisting and giving information to all the agricultural trades. The Research Department of NACF is currently undertaking this project and NACF is scheduled to pay the bill although a strong argument can be made that this is a service that should be supplied, furnished and paid for by government. One reason advanced for asking NACF to undertake the project rather than MAF is related to the differential in salaries said to exist between employees of NACF and MAF. MAF contends that because of the higher salaries paid by NACF, the cooperative has better qualified men to undertake the work. This is hardly a valid reason, however, for saddling NACF with the expense of developing an Agricultural Outlook Service for the entire country.

NACF has also been asked to underwrite the expenses incident to crop demonstrations. These again are activities for which government usually assumes financial responsibility out of tax revenues rather than asking some other agency to do so. The fact that MAF has requested NACF to develop the program only emphasizes the necessity of drawing a line between government functions and NACF functions.

Audits and Auditing

Employees of NACP and Gun Cooperatives tell us that repeated auditing and endless requests for information and examination of records are some of the most burdensome and frustrating problems they face in their day-to-day work. Personnel report they are often hampered and delayed by auditors in completing their daily work assignments. Such conditions should not be permitted to continue.

The importance of auditing and the verification of records is not to be discounted. The records must be accurate. Both the government and the members must have faith in the integrity of NACP's records. However, some system needs to be introduced to correct the present chaotic methods of examination. Perhaps a central office where all requests for information would be funnelled and evaluated would help. Another suggestion is the selection and employment of a public accounting firm acceptable to all parties that would be responsible for conducting periodic, comprehensive examinations of NACP's records, the results of which would be made available to government and any other qualified agency.

NACF ACTIVITIES AND SERVICES

NACF is often criticized for being too diversified and becoming involved in too many different facets of Korean economic life. Some of these criticisms in our judgment are justified. However, a large part of them unquestionably arises from governmental programs that NACF is directed to administer and for which NACF is forced to take joint, if not sole, responsibility. Any objective appraisal of NACF should therefore attempt to distinguish between activities that government has required NACF to undertake and those that NACF has developed on its own initiative. Too close a relationship with government has turned out to be a mixed blessing, as NACF has learned. In the next few pages we shall discuss a number of NACF's more important credit, marketing and farm supply activities.

Banking and Credit

NACF is engaged in the commercial banking business, receiving deposits from farmers and nonfarmers alike and making loans to farmers and other business interests. Through its network of nine provincial branch offices, 135 Gun Cooperatives and their 399 branches, NACF has wider banking representation throughout Korea than any other bank.

NACF has been in the commercial banking business since August 15, 1961 when the Agricultural Bank was merged with NACF. The Agricultural Bank had been formed in 1957 but there had been other agricultural financial institutions in Korea long before then. At the time of the merger the assets, liabilities and personnel of the Agricultural Bank were divided

between NACF and the Medium Industrial Bank. Of the 5,000 employees of the Agricultural Bank, NACF gave employment to about 4,000 and the Medium Industrial Bank employed the remaining 1,000 personnel. This gave experienced banking personnel to both institutions. NACF was given sole responsibility for the administration of agricultural loans made from government funds. No other institution is authorized to borrow from government for agricultural loan purposes. The Medium Industrial Bank was given authority to make loans to small and medium sized businesses located mostly in the cities. Prior to the merger with the Agricultural Bank, NACF had no authority to engage in banking or to extend any farm credit services. After the merger, NACF had the right to receive deposits from anyone and was delegated the responsibility by government of making agricultural loans throughout all Korea. This increased the prestige of NACF and gave it responsibilities which had not been sought. They were legislated by government and delegated to NACF to administer.

NACF has now been in the banking business for four and a half years. As of January 1, 1966 NACF, along with other banks, was paying 30 percent interest a year on deposits of 18 months or longer, with varying lesser rates of interest for shorter periods. The 30 percent rate on time deposits was urged by USOM and initiated by government in September 1965 to attract deposits from usurious money lenders. On counterpart funds appropriated by the government and loaned to NACF, NACF pays two percent a year. On funds advanced by the Korean Government NACF pays two percent a year on irrigation loans and five percent

a year on all other loans. On its borrowings from the Bank of Korea NACF pays rates varying from two percent to 16 percent a year.

In contrast, NACF as of January 1, 1966 was charging farmers 15 percent a year on their production loans. At the height of the season NACF has approximately a million production loans on its books. On agricultural and forestry loans, made to associations and not to individuals, NACF charges from 20 to 23 percent; livestock loans 20 percent and general loans 26 percent. Long-term irrigation loans from funds provided by government and counterpart funds are made at 3½ percent interest a year.

NACF's production loans to farmers outnumber all other loans. Most of them originate with Ri-Dong village cooperatives. The cooperative receives applications from prospective borrowers. The applications are reviewed by a loan screening committee set up by the village cooperative which makes a preliminary examination and appraisal of the farmer's application and a recommendation to the Gun Cooperative as to the amount to be loaned. The screening committee cannot reject a loan application but their recommendations to the loan committees of the Gun Cooperatives can be most helpful because they are based on personal acquaintance and knowledge of the applicant's reputation as a farmer and as a credit risk. NACF itself makes no loans at the Ri-Dong level. All loans are made by the Gun Cooperatives and their branches. On such loans, NACF shares its interest charges with the Gun Cooperatives and their branches for their services in making loans and collections.

Our investigation indicates that the banking business has been one of NACF's most profitable departments, but some of their loans and loan policies have been subjected to criticism. There is no doubt but what NACF has made some poor loans. They are not infallible. However, in this connection one needs to remember that not all the decisions involving loans and loan policies are made by NACF. They at times are under pressure that is extremely difficult to resist. Consequently, NACF should not be held solely responsible for loan results unless it can be established that the loan decisions were made wholly within their organization. Too often we feel there has been a tendency to "tar and feather" NACF for results for which they, at most, were only jointly responsible.

1. Sources of Loanable Funds

Table 2 shows the sources and amounts of loanable funds by years since 1961. These funds have increased from year to year and as of January 1, 1966 were nearly 160 percent greater than five years earlier. Until 1965 government funds--money appropriated by the National Assembly and loaned to NACF and counterpart funds advanced by USOM to the Korean Government for agricultural loan purposes--supplied more than half of NACF's loanable funds. The volume of loanable funds from sources outside government has progressively increased and currently government is providing a smaller percentage of total loanable funds than it was in 1961. As of January 1, 1966 government-supplied funds were about 45 percent of NACF's total loanable funds.

TABLE 2
SOURCES OF LOANABLE FUNDS BY YEARS

<u>Source</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
	(Million Won)				
Counterpart Funds	2,275	5,916	6,266	2,266	6,119
Korean Government Loans	7,386	8,212	8,859	9,614	8,547
Bank of Korea Borrowings	3,053	600	3,442	5,256	16,311
Agri. Credit Debentures	250	2,685	2,135	1,970	898
Bank Deposits	3,471	4,250	5,673	6,450	10,311
NACF's own Capital	<u>315</u>	<u>636</u>	<u>853</u>	<u>883</u>	<u>948</u>
Total	16,750	22,299	27,228	30,439	43,464

Note: Adjusted for devaluation of currency.
Source: NACF Annual Reports.

Bank deposits have been the second largest source of loanable funds. Borrowings from the Bank of Korea have shown a substantial increase each year. The volume of agricultural debentures issued by NACF has shown a downward trend. NACF's own capital and reserves, while increasing year by year, have contributed a declining percentage of total loanable funds because the total volume of loanable funds has increased faster than NACF's capital. NACF's program of "enforced savings" should result in a substantial increase in capital over the next few years.

NACF's balance sheet as of December 31, 1965 (See Appendix) showed total assets in excess of 54 million won or the equivalent of about \$200 million. NACF's capital, surplus and reserves of all kinds amounted to 1.8 percent.

2. Loans Made

The volume of loans made by NACF shows a sharp upward trend from 1962 through 1965 (Table 3). Loan volume in 1965 was more than 130 percent greater than that of 1962. From 1964 to 1965 there was an increase in overall loan volume of nearly 50 percent. The sharpest increase occurred in irrigation loans where the volume zoomed from 679 million won in 1964 to 3,828 million won in 1965, an increase of 460 percent. (See Footnote to Table 3.) Loans falling in the cooperatives business fund category also increased nearly 100 percent from 1964 to 1965.

Between 40 and 50 percent of all loans made by NACF are for agricultural production loans to farmers and agriculture and forestry loans to associations, with NACF and government funds supplying about 25 percent of the total and counterpart funds the balance. The general fund loan also shows a year-to-year increase in loan volume. Several categories where small loans have been made show declining tendencies but the overall trend in loans made is upward.

TABLE 3

LOANS MADE BY NACF BY YEARS

<u>Type of Loan</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
		(Million Won)		
Agricultural Production Loans	1,625	1,799	2,208	2,685
Agriculture and Forestry Loans	1,715	2,085	3,764	4,219 ^{1/}
Rice Lien Loans	1,593	950	2,767	1,974
Fishery Loans	1,065	465	438	1,113
General Fund Loans	964	1,621	3,630	4,235
Cooperatives Business Fund	-	1,798	4,836	9,532
Counterpart Fund	5,193	3,791	3,515	3,812
Govt Fund Operation Special A/C	147	461	335	606
Irrigation Loans	657	679	679	3,828 ^{2/}
Miscellaneous	<u>1,015</u>	<u>325</u>	<u>260*</u>	<u>273^{3/}</u>
Total	13,974	13,974	21,912	32,031

^{1/} Loans to associations rather than to individuals.

^{2/} Most of the increase in irrigation loans in 1965 were loans that were extended by special act in March 1963 from a maturity date of 15 years with five-year grace period to 30 years with a five-year grace period. These were taken up on the books as new loans in 1965. Only 700 million won in new irrigation loans were actually made in 1965.

^{3/} Miscellaneous includes Usury Debt Settlement Loans; loans on installment deposits; Agricultural Loans from pension A/C; Monopoly Special A/C; Vested Property A/C; Grain Management Special A/C; Counterpart Fund; Warehousing.

* Indicates decrease.

Source: Annual Reports of NACF.

3. Loans Outstanding

While the volume of loans made by NACF to individual farmers for agricultural production purposes (Table 3) has shown a year-to-year increase from 1962 through 1965, the volume of loans outstanding at the end of each year (Table 4) has shown a declining trend. This would seem to indicate a healthy condition insofar as collection and repayment of agricultural production loans are concerned. Similarly agriculture and forestry loans made to associations have increased from year to year, but there has been no significant change in the percentage of agriculture and forestry loans outstanding at the end of each year. This would also seem to point to a good repayment record. Rice lien loans apparently present no great problem.

In the case of the Usury Debt Settlement Law of 1961 given by government to NACF to administer, some problems have arisen. In connection with its anti-usury program, five-year debentures issued by NACF but guaranteed by the government and bearing 20 percent interest a year were given to creditors in exchange for releases of debtor obligations. These debentures were to be paid off over a five-year period at the yearly rate of 20 percent of their face value. When debtors fell behind in their payments, NACF was forced to redeem the debentures that came due to prevent default on them. As of January 1, 1966, NACF had 1,590 million won of its own funds tied up in the usury debt settlement program.^{1/} In March 1965 the law was amended to require NACF to accept debentures in payment of

^{1/} NACF financed this transaction by deferring its payment for fertilizer to the counterpart account of equal amount.

TABLE 4

NACP LOANS OUTSTANDING AT DECEMBER 31 OF EACH YEAR

<u>Type of Loans</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
		(Million Won)		
Agricultural Production Loans	1,472	1,445	1,300	1,366
Agriculture and Forestry Loans	942	1,115	1,928	2,318 ^{1/}
Rice Lien Loans	1,016	854	1,803	1,650
Usury Debt Settlement Loans	2,527	2,527	2,349	2,094
Fishery Loan	1,002	897	636	527
General Fund Loan	496	582	1,211	1,007
Cooperative Business Fund	-	212	1,763	2,388
Counterpart Fund	2,972	3,318	3,237	4,156
Govt. Fund Operation Special A/C	137	560	804	1,047
Irrigation Loans	6,603	7,040	7,558	6,276
Miscellaneous ^{2/}	<u>1,280</u>	<u>1,153</u>	<u>547</u>	<u>429</u>
Total:	18,609	19,703	23,139	23,258

^{1/} Loans to associations rather than individuals.

^{2/} Miscellaneous includes loans on installment deposits; Agricultural Loans from pension A/C; Monopoly Special A/C; Counterpart Fund warehousing.

Note: Adjusted for devaluation of currency.

Source: Annual Reports of NACP.

fertilizer and other loans. It is anticipated that the general assembly will appropriate funds to reimburse NACF and redeem its own guaranteed five-year debentures, but when this will occur is a matter of conjecture.

From inquiry and conversation we have been led to believe that NACF's fishery loans are in bad shape. Yet when these loans are measured in terms of loans outstanding at the end of each year, they show a favorable downward trend. Part of the decline in fishery loans outstanding was accomplished by transfer of loans from NACF to CFFC (Central Federation of Fisheries Cooperatives). The amount of fishery loans outstanding on January 1, 1966 is only about half the amount outstanding on January 1, 1962. The decision to make fishery loans was made by government, not by NACF. NACF anticipates no loss on these loans. In 1963 Central Federation of Fisheries Cooperatives, a new fisheries credit agency, was established which may relieve NACF from the responsibility of making any further fishery loans.

Counterpart funds outstanding at the end of each year from 1962 through 1965 show a steady increase. The volume of irrigation loans outstanding at the end of each year remains high because these are long-term loans.

It is interesting to note that for 1962, 1963 and 1964 the total volume of loans outstanding (Table 4) was greater than the total volume of loans made (Table 3), indicating some accumulation or carryover in total loans outstanding from year to year. However, in 1965 the volume of total loans outstanding was only about 70 percent of the total volume of loans made during the year. This would seem to point to an extremely favorable collection record in 1965.

TABLE 5
NACP OUTSTANDING LOANS AND PORTION DELINQUENT
DECEMBER 31, 1965

<u>Type of Loan</u>	<u>Loans Outstanding</u>		
	<u>Total</u>	<u>Delinquent</u> (Thousand Won)	<u>Percent</u>
<u>Banking Fund Sector</u>			
Agricultural Production Loans	1,367,159	144,290	10.9
Agriculture and Forestry Loans	2,318,725	161,252	6.9 ^{1/}
Rice Lien Loans	1,650,472	2,859	-
Usury Debt Settlement Loans	2,093,563	543,564	25.9
Fisheries Loan	390,522	126,567	32.3
Fisheries Special	135,836	42,913	31.6
Commercial Loans	1,007,289	163,018	16.2
Loans on Installments and Deposits	8,017	174	2.1
Cooperatives Business Fund	<u>2,388,078</u>	<u>-</u>	<u>-</u>
Sub-Total	11,359,661	1,184,637	10.4
<u>Government Fund Sector</u>			
Agricultural Production Loans	5,479,765	944,560	17.2
Irrigation Loans	6,275,662	908,154	14.5
CP/A Warehouse Loan	<u>143,767</u>	<u>-</u>	<u>-</u>
Sub-Total	11,899,194	1,852,714	15.5
 GRAND TOTAL	 <u>23,258,855</u>	 <u>3,037,351</u>	 <u>13.0</u>

^{1/} Loans to associations rather than individuals.

Source: NACE Credit Department.

4. Loan Delinquencies

Of the 23 billion won in outstanding loans on the books of NACF as of December 31, 1965, slightly over three billion or 13 percent was reported to be delinquent (Table 5). Heaviest percentages delinquencies were in fishery loans, followed by usury debt settlement loans. By source of funds, delinquencies in the government fund sector were about five percent greater than in the banking fund sector.

Of the three billion won NACF reported as delinquent as of December 31, 1965, over 45 percent were delinquent six months or less; 19 percent were past due more than six months but less than one year; and 36 percent were delinquent over one year (Table 6). What portion of these delinquent loans will eventually turn out to be losses is difficult to determine. There is great reluctance to charge off any loans as losses even though some of the loans delinquent for more than a year have been on the books a long time.

TABLE 6

NACF DELINQUENT LOANS AT DECEMBER 31, 1965
AGED BY LENGTH OF TIME PAST DUE

<u>Type of Loan</u>	<u>Total loans Delinquent</u>	<u>Past Due</u>		
		<u>6 mos. or less</u>	<u>1 yr. or less</u>	<u>Over one year</u>
(Thousand won)				
Agricultural Production Loans	144,290	36,540	48,783	58,967
Agriculture and Forestry Loans	161,252	29,423	42,891	88,938
Rice Lien Loans	2,859	-	-	2,859 ^{1/}
Usury Debt Settlement Loans	543,564	191,992	137,424	214,148
Fisheries Loans	126,567	43,888	21,117	61,562
Fisheries Special	42,913	2,500	2,395	38,018
Commercial Loans	163,018	90,308	36,638	35,872
Loans on Installments and Deposits	174	88	36	50
Cooperatives Business Fund	-	-	-	-
Sub-Total	1,184,637	394,739	289,484	500,414
<u>Government Fund Sector</u>				
Agricultural Production Loans	944,560	561,092	181,389	202,079
Irrigation Loans	908,154	413,479	101,028	393,647
CP/A Warehouse Loan	-	-	-	-
GRAND TOTAL	<u>3,037,351</u>	<u>1,369,310</u>	<u>571,901</u>	<u>1,096,140</u>

^{1/} Loans to associations rather than individuals.

Source: NACF Credit Department.

established price. In many cases NACF, as an arm of government and following out government policy, has no alternative but to buy regardless of consequences.

A large part of NACF's marketing activities is carried on at the Gun and Special Cooperative levels. Here products are received from farmers and from Ri-Dong Cooperatives for inspection, preparation for market and sale. Part of the products are sold at local markets and do not leave the areas where they were produced. Another part may be consigned for sale by the Gun Cooperative to the marketing centers operated by NACF at five important city locations. Also, NACF itself may negotiate the sale of farm products to the military forces. To augment the marketing services of Gun and Special Cooperatives, NACF operates its own marketing departments for such products as sweet potatoes, beer barley, corn, cotton and a number of less important, but difficult to market, products.

Marketing Centers

As a part of its marketing service to Gun Cooperatives, Special Cooperatives and farmers, NACF owns and operates five marketing centers located in Seoul, Taejon, Kwangju, Taegu and Pusan. (The market centers at Seoul and Pusan were visited and inspected by the authors.) The marketing centers are estimated to handle from 25 to 30 percent of the produce marketed from the areas tributary to them and are reported to be breaking even or operating at a modest profit.

Facilities for receiving, selling, storing and displaying farm products are provided. Most of the produce received for sale originates

from Gun and Special Cooperatives, although a small amount of produce is received directly from farmers. Where the marketing centers receive produce directly from farmers, the produce is credited to the Gun or Special Cooperative where the farmer lives.

All produce received is sold at auction with the exception of sales to the armed forces. The auctions are held early in the morning, usually about four or five o'clock. Prices are publicized by radio and newspaper. Although the farmer, Gun Cooperative or Special Cooperative receives payment the same day their produce is sold, the dealer is given five days in which to make payment. Some slow accounts are reported, but not many losses. On occasion, to support market prices, the marketing centers make limited purchases on their own accounts.

The marketing centers make a charge of five percent of the gross sales of fruits and vegetables. Of this five percent, we are told, the marketing centers retain three percent to pay operating costs. If a buyer is a regular customer and a registered dealer, he may have refunded to him one percent of this five percent commission charge as an incentive to continue buying at the centers. The remaining one percent goes to the Gun or Special Cooperative that originated the business, to encourage them to increase their patronage of the marketing centers.

The commission charge on rice is 25 won per bag. Of this amount five won goes to the originating Gun Cooperative; 10 won goes as a bonus to the buyer if he is a regular purchaser and 10 won is retained by the marketing centers to pay overhead expenses.

In addition to furnishing receiving and selling facilities, the centers provide warehouse storage space for which there is a separate charge. All registered dealers who buy at the auctions are furnished space free of charge at the marketing centers for displaying and retailing their purchases.

Inquiry showed that private markets in competition with NACF's marketing centers charge substantially more commission than does NACF. We were told that private markets charge seven percent on fruits and vegetables and 75 won per bag for rice. Just why there is this wide discrepancy between the charges made by private markets and those made by NACF's marketing centers was never made clear to us. With NACF's continued need for more working capital, consideration might be given to raising the marketing centers' commission charges to the competitive level rather than operating a cut-rate service. There follows a summary of NACF's marketing volume at marketing centers by year, in thousands of won.

<u>1963</u>	<u>1964</u>	<u>1965</u>
1,225,873	3,204,607	8,768,378

Sweet Potato Marketing

In its efforts to carry out governmental instructions and directives, NACF sometimes finds itself financing processors. A case in point is the 1965 sweet potato program, now facetiously referred to as the sweet potato program that went sour. In the eyes of the farmer NACF was responsible and freely blamed for the shortcomings of the program. Our investigation indicates, however, that there were circumstances over which NACF had no control.

We are told that in 1965 MAF, through ORD and other agencies, encouraged farmers to increase their production of sweet potatoes. The response was gratifying and figures indicate that production was nearly quadrupled over the previous year. MAF determined the price that would be paid for sweet potatoes and then directed NACF to begin buying at that price. NACF inventoried its financial resources, made an allocation of funds to be used for sweet potato purchases and began buying.

As purchases were made, sales on credit were negotiated with starch, alcohol and glucose processors. Under the terms of sale, as related to us, the processors were to pay 20 percent cash upon delivery of the sweet potatoes and given four months for payment of the balance. During this credit period the sweet potatoes were to be processed and the products sold. However, the processors did not make good on their 20 percent cash down payment on potatoes delivered and they have been unable to sell the processed products either domestically or for export at prices that would cover their costs of production.

NACF continued to buy sweet potatoes from farmers at the government established price until their funds allocated for sweet potato purchases were exhausted. At the end of the season farmers were left with a substantial volume of sweet potatoes on hand, some of which were reported to be rotting. Others were sliced and dried in order to preserve them. The prospect for a satisfactory market for the balance of the crop, however, appeared to be poor. Such experiences are bound

to shake the faith of farmers in the word of their government and in the effectiveness of NACF as their marketing agent.

Livestock Marketing

NACF performs a commission or brokerage service for the members in connection with cattle acquisition and disposal. This service is not classified as marketing but is included under mutual insurance in NACF's annual reports. The service consists of furnishing space and facilities where farmers and country traders or commission men can bring their cattle for sale on certain days. For this service, the cooperative charges a commission, much like the yardage charges assessed by American stockyards for use of their pens. Very few, if any, scales are available for the weighing of livestock.

NACF operates its cattle marketing facilities at cost. The organization realizes neither a profit nor a loss from their operation. The commission earned through cattle marketing is spent as follows:

- a) 30 percent for management including salaries, per diem and expenses for holding meetings.
- b) 70 percent for sanitation, disease prevention, livestock improvement, losses on dead animals and maintenance of facilities.

NACF takes no responsibility for arranging the purchase or sale of any cattle. The sale or purchase of cattle is left entirely in the hands of the parties involved. Farmers bring their cattle to market and select their own registered commission man to represent them in

the sale of their cattle. For this service the commission man gets 20 percent of the commission charged by the cooperative. This method of marketing is one that has developed over a long period of years.

Livestock are very scattered in Korea. Very few farmers have more than one head of cattle or a hog or two for sale. Where farmers do not use the marketing facilities provided by the cooperative, commission men or country traders tour the country calling on farmers and bargaining with them in an effort to buy their livestock. Cattle that are bought in the country are not sold by weight. Their weight, degree of fatness and carcass dressing percentage are matters of guesswork.

Ordinarily the country trader who is buying cattle every day is a much better judge of livestock values than the farmer who buys or sells one or two head of cattle a year. There is no published market information and thus there is a tendency for all the cattle in a given area to sell at about the same price. Sometimes cattle change hands four or five times after they have been purchased from the farmer, with each new buyer striving to make a profit.

Cattle prices are usually lowest in the fall immediately following harvest when farmers are offering their draft animals for sale to avoid feeding them all winter. Conversely, cattle prices are usually highest in the spring when farmers are buying cattle to get their plowing and other farm work under way. These are the periods of greatest cattle-marketing activity.

The services of NACF in marketing hogs is much more developed. Here, reportedly, NACF negotiates contracts, including a surety provision against loss, to supply hogs to slaughter houses over a period of months. The slaughter house notifies NACF of its killing requirements and NACF gets in touch with its Livestock Cooperatives to locate the number of hogs needed. The hogs to be marketed are priced and weighed at the farm. NACF advances funds to the Livestock Cooperatives to pay for hogs at the rate of about 8,000 won per hog. The price at which hogs are sold to the processing plant includes shipping charges, labor costs, interest, three percent commission, plus an allowance for shrinkage. NACF grants the buyer thirty-day credit terms. NACF itself is protected by the surety provision in its contract with the processor. To date NACF has had no credit losses on hogs.

NACF owns no slaughterhouses but it does operate a slaughterhouse owned by the government in Asan Gun. NACF at the present time, we are told, has no plans to build its own slaughterhouses or to expand the slaughterhouse that it operates for the government. With some anticipated expansion in livestock production, slaughtering is an area to which NACF may wish to give consideration at some future date.

Handicraft Centers

To furnish winter employment, provide technical assistance and promote a handicraft industry, NACF opened handicraft centers or stores in 1963 for the exhibit and sale of Korean handicrafts. These handicraft centers are reported to be reasonably successful in that sales are increasing from year to year. However, to date the handicraft centers

have not shown a profit. A part of the cost of maintaining handicraft centers is attributable to promotion expenses.

To encourage and stimulate handicraft production, NACF provided 50,000 won to provincial branches to be used as a revolving fund for loans. In addition, the handicraft centers arrange for exhibits and displays of Korean handicrafts both at home and abroad. Through NACF's Trade Section, samples of Korean handicrafts have been sent to various European countries, the United States, Japan and other countries. Prospects of building a successful Korean handicraft industry would seem to be reasonably favorable. Research in ferreting out items that can be produced in quantity and for which there is a ready market demand would appear to be in order. There follows a summary of NACF's handicraft store sales by years, in thousands of won.

<u>1963</u>	<u>1964</u>	<u>1965</u>
57,000	73,157	97,000

Note: Sales are not exclusively handicraft, but include grain and other agricultural commodities.

Source: NACF annual reports.

Farm Production Supplies

Fertilizer and lime, the procurement of which is commissioned by government, account for more than 80 percent of the value of all farm production supplies handled by NACF. In addition to fertilizer and lime, NACF handles pesticides, fungicides, seeds, milk cows, feed and such agricultural implements as plows, power sprayers, potato cutters and sericulture tools. Many of these items are purchased on order at

the request of individual cooperative members. The volume of consumer goods handled at the Gun cooperative and Ri-Dong levels is small.

Fertilizer

The Korean Government has designated NACF as its exclusive agent for the sale and distribution of fertilizer. As of January 1, 1966, about 20 percent of the fertilizer used in Korea was domestically produced and 80 percent was imported. Two government-owned fertilizer plants, located at Chungju and Naju are now in operation. Three more government-owned fertilizer plants are now under construction. While such raw materials as potash and phosphate will continue to be imported, it is estimated the country will be self-sufficient in nitrogen production in about two years with the possibility of some surplus production of urea for export.

The two fertilizer plants at Chungju and Naju are presently producing urea only. Urea is very popular with Korean farmers because of the visible response it gives. They prefer urea or ammonium sulphate to mixed fertilizers. The entire urea production of the two plants now in operation is sacked and sold to NACF at government established prices. Fertilizer ingredients are imported and sent to mixing plants owned by NACF where they are mixed according to formulas prescribed by ORD. The mixed fertilizer is then sacked and moved into warehouses for storage or shipped to member cooperatives for sale to farmers. In the past fertilizer has not been distributed to farmers during the "off season" (periods when it is not applied to fields) because of the black market that is apt to develop as a result of its short supply.

Fertilizer is distributed to farmers through Gun and Ri-Dong Cooperatives. At this level it is sold to farmers either for cash or on terms that provide for repayment in grain. Fertilizer prices are the same per ton throughout Korea, regardless of location. About 58 percent of the fertilizer sales in 1965 were for cash, the balance being sold on credit varying from a few weeks to a few months. Farmers pay to NACF interest on their fertilizer credit purchases. No credit losses on fertilizer sales are admitted by NACF, but as of January 1, 1966 there was about a 10 percent delinquency.

For its services in acting as distributing agent, the government allows NACF a commission or brokerage fee for 92.70 won per metric ton of fertilizer distributed. How this rate was determined, we were unable to ascertain but, reportedly, the same rate has been in effect for six years.

The Review Committee on Public Services, we are told, establishes the price of domestic fertilizer, subject to approval by the Economic Ministers Council. NACF is not represented on either the Review Committee or the Economic Minister's Council. With respect to imports, the Office of Supply of the Republic of Korea obtains a Korean foreign exchange allocation from government and by a system of bids or other negotiations makes purchases of foreign fertilizer for delivery in Korea.

A charting of the procedures followed in the procurement of imported fertilizer results in a complicated, intricate maze of lines resembling a spider's web. It does not seem to us that fertilizer procurement

should be made that difficult. NACF borrows funds to finance fertilizer procurement from the Bank of Korea at two percent interest per year and charges the farmer who buys fertilizer on credit 0.7 percent interest per month after the first month.

Overall fertilizer requirements for the entire country are established by the Ministry of Agriculture and Forestry. MAF also determines the percentage of nitrogen, potash and phosphate going into mixed fertilizers, based on ORD experiments and other factors. ORD is also responsible for any tests that are made to determine whether fertilizers are measuring up to standard specifications.

In summary, government exercises the power to:

1. Establish overall fertilizer requirements for the country as a whole.
2. Determine mixture of nitrogen, potash and phosphate that shall be used.
3. Test all fertilizers to ascertain whether they meet standard specifications.
4. Procure all fertilizer requirements for the country.
5. Establish uniform prices at which fertilizer will be sold throughout the entire country.
6. Determine fertilizer allocations for all Korea.
7. Establish the brokerage or commission charge of NACF for its distribution services.

NACF takes charge of:

1. All fertilizer distribution throughout the country, timing deliveries to meet the needs of farmers.

2. All sales of fertilizer for cash and credit.
3. Collecting its fertilizer loans through barter of grain.

Lime

NACF's responsibilities with respect to lime distribution are the same as those delegated to it in the case of fertilizer. The government has named NACF as its sole distributing agent for lime. All the lime used on farms is domestically produced. However, until USOM actively advocated increased use of lime, very little was used because farmers were unfamiliar with it and had little knowledge of its soil improvement potential. To encourage the use of more lime on farms, the government grants farmers a subsidy of 638 won per metric ton. This subsidy is deducted from the price the government establishes for lime and is passed on to the farmer in the form of lower prices at the time lime is distributed. To put a little additional pressure on the government to push for greater use of lime, USOM tied its commitment for fertilizer procurement to increased lime sales and the amount of lime used has increased substantially.

Unlike the importation of fertilizer and fertilizer ingredients where NACF has no voice in procurement, NACF is permitted to buy and contract for lime through public tender and report the details of the purchase or contract to the Minister of Agriculture. MAF, however, retains the right to inspect and test for quality all lime that is delivered. MAF also establishes the yearly overall lime goals for the country as well as its allocation to provinces. The price the farmer pays for lime is established by MAF.

NACF moves the lime to farmers through Gun and Ri-Dong Cooperatives. At this level it is sold to farmers either for cash or terms that provide for repayment in grain. Lime prices are the same per ton throughout Korea regardless of farm location. Roughly half the lime distributed is sold for cash and half is sold on credit. Farmers pay to NACF interest on their purchases of lime on credit. For its services in distributing lime, MAF allows NACF a commission of 30 won per metric ton.

APPRAISAL OF NACF ACTIVITIES AND SERVICES

Banking and Credit

In the four years, 1962 through 1965, that NACF has engaged in banking, the record shows that a total of 81,891 million won in loans of all types has been made. During the same period, NACF has charged off loans as uncollectible in the amount of 43 million won, or a small fraction of one percent of total loans made. This would appear to be a remarkable record. However, feeling there were more loans in the books on which NACF would suffer losses, an aging of all outstanding loans as of December 31, 1965 was requested.

The record shows that of the 81,891 million won in loans made over the four-year period, 23,258 million won or about 28 percent was outstanding and unpaid as of December 31, 1965. Of the 23,258 million won outstanding, 20,221 million or 87 percent was classified as current and 3,037 million won or 13 percent classified as delinquent. When the delinquent loans were aged, it was found that 45 percent of them was past due six months or less; 19 percent was past due more than six months, but less than a year; and 36 percent was past due more than a year.

Obviously there are some losses in the delinquent loans outstanding as of December 31, 1965 that have not yet been recognized as losses and charged off. These losses, we are assured, will not amount to more than 25 percent of the delinquent loans outstanding. If 25 percent of the delinquent loans is accepted as a fair estimate of unrealized losses and this figure is added to the losses already charged off, NACF's

total losses on its credit business from 1962 through 1965 is less than one percent. On the basis of these results, we must conclude that NACF has compiled a commendable banking record in spite of the apparent handicaps, pressures and directives under which the organization at times has been forced to operate.

In August 1961, the Agricultural Bank that had been in operation for some years was merged with NACF. Many people at that time felt that this action should not have been taken. After more than four and a half years we still find a sharp division of opinion over the question of how agricultural financing should be organized. Some of the people who strongly opposed the merger in 1961 report that the merged banking institution under NACF functions much better than the Agricultural Bank ever did. However, there are still many people who would prefer to see NACF separated from its banking responsibilities. On the basis of limited observation and inquiry supported by the records of four and a half years of operating experience, we conclude that no separation should be made in NACF's banking operations at this time. The present system appears to be functioning smoothly.

From a policy standpoint we question the wisdom of NACF having the authority to make non-agricultural, non-member banking loans. In this area we feel conflicts of interest are apt to develop between NACF's agricultural interests and the organization's non-agricultural interests. As an example, we do not favor NACF financing processors and granting them loans for carrying their inventories. We do not consider this to be a proper function of NACF. We feel processors

should be required to obtain their credit from other sources and not rely on NACF to supply their working capital.

With loan funds in short supply, as they have been in recent years, non-agricultural, non-member borrowers are in reality competing with farmers for a limited amount of agricultural credit. Aside from all other considerations, we do not feel a farmers' cooperative should permit itself to be put in a position of denying credit to producers in order to make loans to non-agricultural, non-member borrowers. In 1965 NACF was able to meet only about 40 percent of the demand of borrowers for agricultural credit. Farmers who could not borrow from NACF and were unable to obtain what credit they needed, either had to do without or were forced to look elsewhere for credit, usually at exorbitant rates of interest.

To change this situation, we are suggesting that NACF's non-agricultural, non-member bank loans be taken away and transferred to the Medium Industrial Bank and that in the future NACF should make no more non-agricultural, non-member bank loans. In making this suggestion we realize that this action will temporarily adversely affect the volume of NACF's deposits, loans and profit margins. However, in taking this action NACF will become more nearly a truly agricultural cooperative bank. Farmers needing credit will not have to compete with non-agricultural borrowers.

Some of the loan methods employed by NACF in years past are subject to question from the standpoint of developing a sound agricultural credit system. Specifically, we refer to the area of sub-marginal

farms and the problems incident to taking care of the credit needs of this type of borrower. Most farmers in this group have no collateral to offer as a basis for sound loans. However, when NACF allocated available loan funds to the Gun Cooperatives they were parcelled out to good and poor credit risks alike. Many of the sub-marginal type farmers regarded these loans as a government largess for which repayment was unnecessary. The loans were used for living expenses rather than farm improvement. Where this was done the loans did not accomplish the purpose for which they were made.

We strongly feel that NACF should be relieved of the responsibility of making loans to farmers who have no collateral and a poor repayment record. A sound agricultural credit policy cannot be established on this type of loan. These sub-marginal type farmers should not be ignored or forgotten, but on the other hand they should not be permitted to sabotage an otherwise sound agricultural credit program. We agree with others who say that a better way to handle the credit needs of the sub-marginal type farmer is through an assistance program administered by the government and not by NACF.

In another area, MAF (ORD) and NACF, however, are to be commended for recognizing the problem of the farmer with a farm of half a chong-bo or more but still not enough land to constitute an economic unit. In 1965, a Farm Economic Upgrading Program was inaugurated on an experimental basis. The objective of the program was to furnish farmers falling in this classification enough credit to enable them to improve and enlarge their farms to a size capable of producing enough food for

the family, with something left over to sell. In this way it was hoped to raise the standard of living of farmers with half a chongbo or more and help them begin to accumulate financial assets that would make them good credit risks. Credit programs of former years had been criticized on the ground that farms of the size described had never been granted enough credit to help them buy land and improve their economic status.

Ten thousand farm households were selected for inclusion in the experiment. NACP assumed the financial responsibility and made up to 100,000 won (about \$370) available for loan to each of these households on a medium-term basis to be used for (1) increasing the size of farms and (2) general farm improvement. At the end of the first year, it was found that the size of the farms in most instances had been doubled and net income of the farmers had been improved. The first year demonstrated the importance of using technicians trained in land reclamation for land development rather than turning the job over to unskilled workers. The results of the 1965 experiment were so encouraging that the program is to be continued in 1966.

Collections on these Farm Economic Upgrading loans are the responsibility of the Gun Cooperatives. In some instances, however, the Gun Cooperatives delegated their authority to Ri-Dong Cooperatives to make part of the collections for them. It may be merely a coincidence, but in one area the percentage of collections made by Ri-Dong Cooperatives was double the percentage of collections made by the Gun Cooperatives. This may indicate that in a program of this nature when the

responsibility for collections is assumed by people who know one another, rather than by outsiders, the debtors pay better. Of course, with just one season as a basis, it is too early to make an appraisal of the long-term possibilities of this program. It would appear that the results of this first year were at least promising.

In still another area, criticism of NACF's repayment schedule of its agricultural production loans was heard from many quarters. Farmers reiterated frequently that loan terms which required them to make payments at the end of the calendar year forced them to sell shortly after harvest when supplies were heaviest and prices lowest. They favored a loan maturity date of March 31st rather than December 31st in order to permit supplies to level out and prices to rise.

There would appear to be logic in farmers' requests for a change of loan maturity dates. Such a change would afford farmers more flexibility in marketing than they now have, but the question also arises as to whether or not there would be a tendency for the means used to pay loan obligations to disappear between January 1st and March 31st. It was pointed out that as a general policy other credit sources collect their loans at harvest time. If the maturity date of agricultural production loans is changed to March 31st, it is our suggestion that it be done on an experimental basis for one year to observe any noticeable adverse affect on loan collections.

Marketing

In the years ahead, we feel NACF should give great emphasis to developing its marketing potential both at home and abroad. Limited

observation and inquiry indicates there is room for vast improvement in marketing, if leadership can be developed to pioneer the way. In this connection, there is need for continuing marketing research at all levels. Such research can be utilized in determining the size and extent of demand and the market possibilities for special crops. The results of such research should be employed, of course, in determining production patterns and production goals.

From observation and inquiry it would appear there is room for great improvement in cattle marketing from the standpoint of the farmer. The present system is definitely oriented to the advantage of the middleman or country trader and to the disadvantage of the farmer. What information there is as to prices is possessed by the country trader. Very few farmers have any idea what livestock is worth because there are no market quotations or market information to guide them in their estimates of daily values.

Cattle marketing is an area that NACF may wish to study with a view to determining the possibilities of a few livestock auctions. Educational work and publicity should precede any attempt to establish livestock auctions. Meetings should be held. Buyers should be contacted. The auction system of marketing should be explained. Farmers should be given an understanding of the benefits that they might reasonably expect from selling at auction compared with the methods now in use.

Under the auction system farmers would consign their cattle to the cooperative for sale. The cooperative would hire an auctioneer to sell

the cattle and would provide scales to weigh them. Cattle would be sold by weight and not by the head. The cooperative would collect the proceeds of sale from the buyer and would make remittance to the farmer. The Cooperative would establish the market rules and take full responsibility for the proceedings at the auction. Prices paid for livestock would be publicized. This kind of marketing service, it seems to us, would be of much more value to farmers than the methods now employed for the disposal of cattle.

The methods NACF is using in the marketing of hogs seems to fit local conditions quite well and no change is suggested. As a cooperative charged with the responsibility of guarding the farmers' interest, marketing is an area about which NACF should concern itself.

NACF's marketing centers are charging substantially less commission for handling fruits, vegetables, rice and other grains than their competitors. The operating results of the marketing centers show only a thin profit margin and at times a loss. In view of this situation and the need of NACF for more working capital, it is suggested that consideration be given to some increase in commission charges in order to place the marketing centers on a firmer financial basis.

As we view the 1965 sweet potato program, it appears several factors were responsible for the troubles experienced.

1. Production turned out to be greater than expected.
2. The purchase price established by MAF was too high to move the volume of sweet potatoes produced for market with the volume of funds available to NACF for purchases.

3. The shortage of operating capital of the processors, coupled with an opportunity to realize a substantial profit on interest earnings, encouraged NACF to grant the processors credit for their purchases of sweet potatoes.
4. The manufactured cost of the alcohol and starch now held in inventory by the processors is apparently out of line price-wise with the domestic market and the export market as well.

We understand that the processors have found themselves in similar circumstances before and were forced to take losses when they had to reduce prices to move their inventories into trade channels. Perhaps the processors' facilities are obsolete, resulting in excessive processing costs which force the prices of their products out of line with the market. Processors, of course, cannot continue to take losses year after year and remain in business. If processors are crowded out of business, a part of the market demand disappears.

We are inclined to question the necessity of MAF establishing any government purchase price for sweet potatoes at all. Rather, we lean toward the establishment of a free competitive market wherein NACF, as a true marketing cooperative, would represent the interests of farmers and bargain with processors and other buyers over prices to be paid for sweet potatoes from day to day. Such a marketing method, in our opinion, would avoid much of the criticism now directed by farmers against MAF and NACF for failure of the 1965 sweet potato program to function smoothly.

In our judgement, NACF should not engage in processor financing. This is not one of the functions of NACF. Private processors should make their own credit arrangements rather than looking to NACF to finance their inventories for them. Here, it seems to us, NACF has a conflict between its commercial banking interests and its cooperative business interests that can be resolved only by a separation of the two.

NACF's activities in financing processor inventories is defended on the ground that (1) the processors experienced difficulty in getting credit anywhere else and that (2) by financing processor inventories NACF was helping to stabilize the market for sweet potatoes. Neither of these arguments seems valid to us. If the financial condition of processors is such that they cannot secure credit through normal banking channels available to them, why should NACF take the risks? The financing of financially weak buyers to keep them in the market can hardly be regarded as stabilizing the market. The danger of bankruptcy and ruinous losses under such conditions is too great and should be avoided.

NACF points out that its loans to processors are well secured and they realize a substantial interest earning on all such loans just like any commercial bank. An unanswered question, however, is whether the processors borrow from NACF because they get their money cheaper or because they are unable to obtain credit anywhere else. To us it seems that in this type of transaction NACF is wearing two hats--one as the cooperative marketing agency helping the farmer dispose of

his sweet potatoes and another as the banker of the processors. We feel NACF should always be only in the business of representing the farmer in the sale of his sweet potatoes.

Farm Production Supplies

There is general agreement that NACF is doing a good job of fertilizer distribution. However, it seems to us that under present organization and procurement methods, NACF is being called upon to assume a measure of responsibility over which it has little if any control. NACF has nothing to do with the procurement of imported fertilizer. It has no voice in the establishment of fertilizer prices. It has nothing to do with the analysis of fertilizers to determine quality standards. It has nothing to do with the fertilizer formulas or mixes that are to be applied to the soil. It has no voice in establishing overall fertilizer requirements for the country as a whole. Yet NACF is expected to finance, sell and distribute all the commercial fertilizer used in Korea. In view of this situation, perhaps NACF as the distributor and agency nearest the farmer should be given some authority to select and purchase fertilizers directly. Again, since NACF is expected to sell and distribute the annual fertilizer requirements established by the Ministry of Agriculture and Forestry, perhaps NACF should be given some power to establish and adjust prices.

As now operated there is only one price for fertilizer of a given formula throughout the entire country. We question the fairness of this pricing policy because it gives no consideration whatsoever to differences in transportation costs between different localities.

The one-price system unquestionably is the easiest to administer, but it is not the fairest from the standpoint of the consumer.

On the surface the handling charge of 92.70 won per metric ton allowed NACF by MAF for distributing fertilizer looks ridiculously low, but there are no reliable cost figures available to prove or disprove the reasonableness of the rate. We are told, however, that the rate is not high enough to pay the cost of labor. We are certain that no commercial business, operating to make a profit, would undertake to perform all the services rendered by NACF in connection with fertilizer transportation, mixing and distribution, including the possibility of some losses on credit sales, for as little as 4.2 won per 45 kilogram bag.

NACF has made a rough estimate of distribution costs that run as high as 456 won per metric ton or 22 won per 45 kilogram bag. This is more than four times as much as NACF is currently being paid for this service. If their estimate of 456 won per metric ton approximates the true cost of distribution, NACF is being grossly underpaid. In 1965 NACF received something like 117 million won to cover the cost of fertilizer distribution. Had NACF been paid on the basis of its own cost estimate, a total of 690 million won would have been received for its services.

Under the existing schedule of fertilizer commission charges, NACF divides its brokerage of 92.70 won per metric ton as follows:

NACF head office	20% or 18.54 won
Gun Cooperative	60% or 55.62 won
Ri-Dong Cooperative	<u>20% or 18.54 won</u>
TOTAL	100% or 92.70 won

Translated into terms of handling charges per 45 kilogram bag, these figures show that the NACF head office and the Ri-Dong village cooperatives each retains 0.84 won per 45 kilogram bag of fertilizer. The Gun Cooperatives get 2.52 won per 45 kilogram bag for their services in fertilizer distribution.

It is clear to us, unlike other situations where government has granted a monopoly, NACF's fertilizer distribution program is being operated at a substantial out-of-pocket loss. There would seem to be no reason why this should be permitted to continue, particularly in the light of NACF's relatively weak financial condition and need for mobilizing capital. It is our view that NACF's commission for handling fertilizer for the government should be increased to cover actual expenses of distribution, plus a modest profit.

Looking to the future, it should be realized that there is nothing fixed about the government's present arrangement to use NACF as its exclusive distributing agent for lime and fertilizer. This concession could be taken away from NACF overnight. Perhaps when all the fertilizer plants now under construction are in operation, the government may decide to place the distribution of lime and fertilizer on a competitive basis in which event NACF would become simply another fertilizer

dealer. The possibility of NACF losing its fertilizer distribution monopoly and its effect on member cooperatives should be given consideration in appraising the future of NACF. Summary of NACF fertilizer sales in metric tons by years follows:

<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
947,193	1,054,759	924,151	1,295,000

NACF, MAP, ORD and USOM have all had a hand in increasing the amount of lime used on farms. From 6,562 metric tons of lime in 1961, the volume used has grown to 500,000 metric tons in 1965. As in the case of fertilizer, NACF is simply the distributing agent assuming the responsibilities of getting the lime to the right place at the right time, collecting the sales price, and assuming the risks for any losses that may be incurred on credit sales.

The commission MAP allows NACF for lime distribution appears low and out of line with the services performed and the costs incurred. The brokerage of 30 won per metric ton is a pitifully small amount, particularly when you take into consideration that it is divided between NACF, Gun Cooperatives and Ri-Dong Cooperatives on a 20-60-20 basis. This means that NACF retains 6 won per metric ton and the Ri-Dong Cooperatives 6 won per metric ton.

We question whether the brokerage fee of 30 won per metric ton could be justified on the basis of a study of handling and distributing costs. Should such a study establish the fact that distribution costs are out of line, low commission charges should be adjusted upward to at least permit NACF to recover its out-of-pocket costs and perhaps show a modest profit for the services performed.

We also question the fairness of the policy of maintaining a uniform price for lime throughout Korea, regardless of farm location. Such a plan admittedly gives no consideration to distances or differences in transportation costs which should be reflected in prices. The present system of one price for lime to everybody is the simplest but it is not the fairest. Summary of NACP lime sales in metric tons by years follows:

<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
70,795	130,646	300,771	500,000

OTHER INSTITUTIONAL RELATIONSHIPS

ORD and NACF Relations

Close working relations should exist between the workers of ORD and the fieldmen of NACF, but the responsibilities and work of each group should be delineated, understood and respected by each agency. In areas where there is danger of duplication of work, the two agencies should have mutual agreement upon a division of responsibilities. However, it is not always easy to draw a sharp line of demarkation between the responsibilities of guidance and those of NACF fieldmen. The employees of both agencies are working with farmers and, even with the best of intentions, it would seem that some overlapping is bound to occur.

As we understand the work of the two groups as presently organized, ORD is responsible for guidance while the responsibility of NACF lies in the area of organization and credit. Guidance includes such activities as technical information, farm planning, crop demonstrations and work with individual and groups of farmers. NACF's organizational responsibilities on the other hand are largely promotional. Their fieldmen work with Ri-Dong Cooperatives on organization, management problems, farm planning for credit purposes, and matters concerning the making and collection of loans.

From these job descriptions, it would not seem difficult to maintain a separation of functions between the two groups. Nevertheless, there are examples of NACF fieldmen engaging in farm guidance work and ORD employees giving credit advice to farmers. These situations,

however, should not be used to drive a wedge between ORD and NACF but should be employed to bring the organizations closer together.

Both ORD and NACF profit from the planning and scheduling of meetings between the workers of the two groups at the provincial and gun level. The agendas for these meetings should be developed jointly by the leaders of the two organizations. NACF should encourage the technicians of ORD to share their knowledge and the results of their experiments and demonstrations. The technicians of ORD should be invited to contribute stories on the results of their research projects to the cooperative press. Such contacts would enable members to request research information on specific problems that ORD might incorporate into its future research program. There should be a free exchange between NACF and ORD of such teaching materials as visual aids, slides and motion pictures.

In the planning of meetings, care needs to be taken to see that the agendas are built around the problems of rural people rather than around administrative problems. These meetings should be held for training purposes and mutual discussion of rural guidance and farm planning problems encountered by the fieldmen in their day-to-day work.

In the past, we are told, there have been two traditional weak points in NACF's field service program.

1. Plans and instructions are issued at the top with little reference to the needs and wishes of the people for whom they were developed.

2. Complaint is made that NACF field workers are so overloaded during the year with instructions from several different sections in NACF that they sometimes are confused and frustrated.

We are told that NACF provincial branch officers hold many field workers' meetings each year. Reportedly, too much time is spent in dispensing and explaining instructions to fieldmen and not enough time devoted to training that would help the fieldmen do a better job. Problems in which the fieldman has a direct interest do not receive enough discussion.

While the training of most personnel involves the teaching of large numbers, many of the mechanical aspects of carrying out cooperative business are of equal importance in the training of cooperative leadership. This leadership is needed in cooperative work in government (as MAF) and in cooperatives (NACF). This training for cooperative leadership involves some understanding of economic systems and development, of social structures and procedures, of marketing and finance, of educational processes and of other activities related to economic and social development.

Training of this developing leadership should be done at more than one level. The cooperative training centers of NACF can do much of this for perhaps three-fourths to nine-tenths of the NACF leadership. For the remaining leadership of NACF and for the leadership in MAF, cooperative training abroad is recommended--at the International Cooperative Training Center of the University of Wisconsin.

Other possibilities include the use of special seminars. Training activities of NACF might be coordinated with those of the International Cooperative Training Center for help in course planning, training aids, and related activities.

Another area where ORD and NACF should develop cooperative relationships is in the utilization of agricultural educational and training facilities. At the present time, all NACF personnel are called to Seoul for training, but there are indications that NACF is giving consideration to the construction of training centers in the provinces to conduct training of the workers in the field. In addition, we are advised that NACF has purchased a location in Seoul for construction of a cooperative junior college which NACF would own and operate. Without too much background in this area on which to base our judgment, we seriously question the feasibility of these proposals until the possibility of utilizing existing facilities has been thoroughly explored.

At the present time, MAF has training facilities at Suwon for government officials in agriculture, forestry and fisheries. In addition each province has a training center where lay leader training is conducted. Many Guns have built training centers to conduct training at the Gun level. In some cases, the provincial training centers of MAF are quite elaborate and extensive. In some southern provinces, the Gun training centers are almost as large and expensive as the provincial centers.

In addition to MAF's training facilities, the Ministry of Education has some 13 agricultural colleges, at least one in every province

in Korea. Besides these agricultural colleges, there are half a dozen junior colleges and 20 five-year agricultural schools. There are 113 vocational agricultural schools of the secondary level scattered throughout Korea, each of which has its own campus with classroom facilities as well as land for practical training, experimentation and demonstration purposes. Many of these schools have farm shops and facilities for care of cattle, hogs and poultry as well as dormitories and mess halls for students. Many of the teachers and instructors have been educated in the United States and practically all of the others are college graduates.

After a review of existing training and educational facilities, it is our belief that every effort should be made to avoid duplication of facilities and staff, particularly if the facilities in existence are not being utilized throughout the year. Our information indicates that few of MAF's training centers at Suwon, the provinces or the Guns are used more than 20 or 30 weeks a year. If this information is correct, there would seem to be no reason why satisfactory arrangements between MAF (ORD) and NACF could not be concluded, not only for the use of the facilities, but also for employment of any qualified teaching personnel that may be available.

Credit Unions

Korean credit unions are not a part of NACF and on this ground any mention of them could logically be excluded from this report. We feel we would be remiss, however, if we failed to mention their possibilities as instruments for capital mobilization, particularly in the lower

income groups. In nation after nation, credit unions have achieved marked success in mobilizing capital, and serving as a source of sound credit at reasonable interest rates for very low-income citizens. Surprisingly, credit union progress and growth has often been achieved in the face of strong inflationary monetary trends. We were encouraged to include a section on credit unions in this report when we found that USOM's 1966 Country Assistance Program indicated that the possibilities of credit unions were to be discussed and studied.

As of January 1, 1966, there were reported to be 115 local credit unions in Korea with a membership of 18,665. One-hundred and nine (109) of these local credit unions are affiliated with the Korean Credit Union League (KCUL) which was organized in 1964. The local credit unions, the first of which was formed in 1960, have accumulated savings of 34 million won. We are advised there are at least two organizations of the credit union type not affiliated with KCUL. These are reported to have a membership of 8,000 and savings of 30 million won.

KCUL is now completing its second year of operation. During 1966 the League anticipates the organization of 60 new credit union locals with an estimated membership of 8,000 new members. The Director of KCUL, Kwak, Chang Yul, received his training at the Cooperative Financing Institute and was employed by the Institute for one year before KCUL was organized.

From limited observation, it is our conclusion that the credit union organization is being built on a solid foundation. It appears to have been formed under a carefully planned and executed program of

adult education and training. Not only do leaders and officers receive training, but every member is required to participate in specific instruction programs before he is accepted as a member. This, to us, is one of the strong planks of its program and should be continued should it be decided to encourage and assist in the further expansion and development of the credit union in Korea.

The employees of NACF have a strong, successful credit union. Many employee members of the credit union have agreed to regular payroll deductions to purchase shares of stock in their credit union. They tell us that regular saving habits are teaching them financial discipline, something some of them had never experienced before.

As of January 1, 1966 there was no credit union legislation in Korea. The credit unions that had been organized were formed without legal authority. We are informed that two pieces of credit union legislation have been drafted and reviewed by the Ministry of Finance. One piece of legislation, reportedly, is an enabling act legalizing the formation of the Korean Credit Union League. If properly drafted, passage of this legislation should prove very helpful to the expansion and development of credit unions throughout Korea.

Based upon our observation and understanding, we feel the relationships that would develop between NACF and a strong rural credit union movement would be entirely compatible. The credit unions, of course, would function entirely independently of NACF as separately incorporated legal entities. They would in no way compete with NACF. There are, however, some areas where they might supplement the efforts

of NACF to serve Korean agriculture and other areas where NACF would benefit from the existence of a strong rural credit union development.

Specifically, NACF would be helped by rural credit unions in the following ways as we visualize the development.

1. NACF would be relieved of the moral responsibility to provide credit to rural householders that did not meet the test of credit-worthy farmers. Application for loans from this group would be passed upon by their neighbors who know them well and by people who have a financial stake in keeping their local credit union healthy. Deserving loans to reliable but financially poor farmers would be made. Loans to known poor credit risks would be denied by their village neighbors.
2. NACF with its widely spread net-work of bank branch offices in every section of the country would become the depository for all the funds of rural credit unions. Over the years, this could mean a substantial increase in deposits that could materially expand the agricultural loan base of NACF.
3. A healthy rural credit union development would permit NACF to strengthen its position as a reliable source of agricultural credit. We envision that the submarginal type loan that has caused so much trouble in the past should be handled as an assistance program by the Welfare Department of the government and not by NACF. Other collateral deficient loans to small but reliable farmers would be made by their local credit unions and NACF would make only the loans that meet its tests for sound credit.

4. Rural householders could have membership in NACF cooperatives and also in their local rural credit unions. This should be a factor of greater strength and understanding of both organizations.
5. Credit unions teach members financial discipline and money management. As a result, they become better cooperative members.

The Korean credit union movement is in its infancy, but the leadership appears to be solid. In our judgment the organization can use assistance effectively to assure growth along sound lines; to accelerate its growth and its contribution to economic development; and to develop management capability to cope with the challenge of an expanding credit union organization.

SUMMARY AND RECOMMENDATIONS

Throughout this examination and study, we have endeavored to treat NACF as strictly a business organization. We believe that each service and activity in which NACF is engaged should as far as possible pay its own way and be made to stand on its own feet, independent of government. Under the present form of organization this is impossible. Too many policy making decisions are made outside of NACF. NACF is not functioning as an independent cooperative association as contemplated by the Agricultural Cooperative Law.

As now organized and administered, NACF is the errand boy of government--more particularly, the errand boy of the Minister of Agriculture and Forestry. NACF has the power to make few decisions that are not subject to review, approval or change by MAF. A large part of the activities of NACF consists of carrying out regulations and directives originating in MAF. Through authority granted him under the Agricultural Cooperative Law, the competent Minister, in effect, has the power to run NACF.

To begin the conversion of NACF from its present government oriented posture into a true farmers' cooperative, the following recommendations are offered.

1. Appointment of Executive Personnel: Since its organization in 1961, the administration of NACF has been moving toward centralization of power at the top rather than the building of local leadership at the Gun or village level. Whether this trend indicates a lack of faith in local leadership or a grasping for power by those at the top has

been difficult to determine. In our judgment that is a trend that should be reversed. The situation is one that calls for action rather than lip service and indefinite postponement.

Article 109 of the Agricultural Cooperative Law provides for the consent of executive officers and managing directors of member cooperatives by their boards of directors, subject to the approval of the President of NACF. We regard this as a reasonable provision for a new organization, with adequate safeguards to protect both NACF and member cooperatives. However, Article 109 of the Agricultural Cooperative Law was nullified by Article 9 of the Supplementary Provisions that states that the executive officers and managing directors of member cooperatives shall be appointed by the President of NACF. Article 9 was due to expire by presidential decree December 31, 1965 but its expiration date was extended to September 30, 1966. In the meantime, however, member cooperatives are denied the rights and privileges of choosing their own executive officers and managers. In our judgment the right of member cooperatives to select their own executives should be restored as soon as possible. The General Manager of NACF should have the power to approve management at the Gun level.

2. Interim Law: We feel the interim law enacted February 12, 1962 should be repealed immediately and that it is imperative for the election procedures provided in the Agricultural Cooperative Law of August 15, 1961 to be activated and restored to the membership. It has been more than four years since the Interim Law was enacted and we feel any reason that may have existed for its passage at that time has long since passed.

3. General Assembly: The question of representation of Gun Cooperatives and Special Cooperatives at meetings of the General Assembly is one which, in our opinion, calls for immediate attention. Postponement of action will not result in the disappearance of the problem. Delays will only aggravate the situation. A suggested solution is a modification of the present system of voting to where each member cooperative would not only have one vote but would be given additional voting power in proportion to the volume of business handled. Since Special Cooperatives are not permitted to extend agricultural credit, the credit business of Gun Cooperatives might be excluded in computing the voting strength of each member cooperative. (Page 17)

4. Operational Board: At the present stage of development, we favor Alternative Plan 2 wherein all members of the operational board would be elected at the representatives' meeting (Page 20). The board under this plan would be composed of seven representatives of cooperatives and two outstanding scholars in agricultural economics, all elected by the 29 representatives composing the representatives' meeting. Two of the seven representatives of cooperatives would be chosen from Special Cooperatives.

5. Gun Cooperatives: In our judgment Gun Cooperatives should continue to have the authority to select their own board of directors who in turn should have the authority to elect their own president and choose their own executive officers subject to the approval of the General Manager of NACF. The executive officers should report to the

the president and to the board of directors of the Gun Cooperative and should be held responsible for operating results. The president of the Gun Cooperative should not have any managerial responsibilities.

6. Special Cooperatives: From an administrative standpoint the recommendations made for Gun Cooperatives are also applicable to Special Cooperatives. In the case of Special Cooperatives, however, we feel steps should be taken to encourage the consolidation and merger of associations. Consideration should perhaps be given also to enlarging the legal limit on the size of boards of directors of Special Cooperatives imposed by the Agricultural Cooperative Law.

7. Ri-Dong Cooperatives: From the standpoint of efficient operation, there is no question but that there are too many local village cooperatives. We do not feel that the program of merger and consolidation, that has been in operation since 1962, will reduce the number to a desirable level. Therefore, we are recommending the plan for Ri-Dong Cooperatives outlined as Alternative 2. (Page 24)

8. NACF President: In every farmers' cooperative with which we have had experience the president is elected from the board of directors (operational board) and the general manager is selected by the board of directors (operational board) from wherever the best and most competent man can be found. Perhaps NACF is not yet ready for such a drastic change in its administrative setup, but we submit this system as an objective toward which NACF should work. That there be no misunderstanding, election of the president from the operational board and the selection of the general manager by the operational board.

9. Competent Minister: The Agricultural Cooperative Law gives the competent Minister the power to run NACF if he chooses to exert that power. If NACF is ever to become the "independent cooperative organization of farmers" contemplated by the Law, some modification in these powers is called for.

a) Power to Annul: Article 167 of the Agricultural Cooperative Law gives the Minister of Agriculture and Forestry the power to annul, in whole or in part, any action taken by the general assembly, the representatives' meeting, the board of directors or the operational board that he deems illegal or improper. This provision confers broad powers on the competent Minister--powers that we feel should not be vested in any one man. Should NACF or any of its member cooperatives be guilty of illegal or improper acts, we feel redress should be made through the courts and not through the competent Minister.

b) Aptitude Tests: The Agricultural Cooperative Law provides that MAF shall decide the examination rules and aptitude tests that NACF's executive and management personnel must pass before appointment (See Article 109 and under Supplementary Provisions, Article 15). This seems inconsistent with the Law which refers to "independent cooperative organizations of farmers." An organization can never become independent when the rules governing the employment of its executive and management personnel are written by another agency. We feel that NACF itself should determine its own examination rules and aptitude tests for its personnel and the provisions referred to above should be repealed.

c) Budget: The Agricultural Cooperative Law (Article 160) requires the approval of NACF's budget by MAF. This approval, it seems to us, unnecessarily opens NACF's budget for examination, review and amendment by MAF personnel. Our examination indicates that the preparation of NACF's budget extends over a period of weeks. The budget has been given thorough and thoughtful consideration and thus is a carefully prepared document. When completed, the budget is presented to the representatives' meeting for their consideration and approval. We feel that the approval of the members of the representatives' meeting is all that should be required, insofar as expenditures of NACF'S own funds are concerned. With respect to expenditures of government appropriated funds, we feel MAF should continue to exercise its present powers of approval.

10. Auditing: NACF should be given some relief from the flood of requests for audit and examination of records. We suggest that the possibilities of employing a public accounting firm acceptable to all parties be explored.

11. NACF-Owned Capital: Although the comparative balance sheets of NACF for the calendar years 1962 through 1965 show some increase in capital and reserves from year to year (see Appendix), as of December 31, 1965 combined capital and reserves were equal to only 1.8 percent of total assets. NACF should make every effort to materially increase its capital and reserves.

12. Separation of NACF Financing: On the basis of NACF's banking and credit record extending over more than four years, we do not feel

justified in suggesting a separation of banking functions at this time. We feel NACF has compiled a commendable record in its banking and credit division which should not be disturbed. In its accounting department however, NACF should separate its banking and credit functions from its other business activities.

13. Non-Agricultural Non-Member Loans: Agricultural cooperatives ordinarily do not make loans to people who are neither members nor farmers. The case of NACF, however, would seem to present an exception to this rule. NACF accepts deposits from anyone and fully 85 per cent of all of NACF's bank deposits belong to non-farmers. In many towns and villages the only banking facilities available are those belonging to NACF. If NACF is to handle the deposits of local people it is but logical that they would look to NACF for their credit needs. Under these conditions loans to non-agricultural, non-members would appear to have some justification. Municipalities also rely on NACF for short term loans. However it would seem that these units of government should handle their finances in such a way as to make these loans unnecessary. Over the years NACF should strive to keep its non-member, non-agricultural business to a minimum and should give preference to agricultural loans whenever possible.

14. Sub-marginal: We strongly feel that NACF should be relieved of the responsibility of providing credit assistance to farmers who have no collateral and a poor repayment record. We recommend, in the interest of building a sound credit program that assistance to this segment of rural population be provided as a welfare program administered

by government and not by NACF. It is this group, together with other non-farm rural inhabitants, that credit unions might help most.

(Page 66)

15. Farm Upgrading Program: The objectives of this program are progressive and as long as it is properly administered, we feel it should receive whole-hearted support. (Page 66)

16. ORD and NACF Relations: With respect to ORD and NACF relations, we recommend that ORD personnel assume complete responsibility for all technical rural guidance and crop demonstration work. NACF fieldmen should avoid initiating any activities whatsoever in these areas except in closest cooperation with ORD workers. NACF fieldmen should confine their work to such areas as organization, management problems and farm planning and supervision for credit purposes in connection with the making and collection of loans.

17. Maturity Dates on Loans: From many sources we were told that production loans coming due on December 31st matured when farm prices were lowest and market supplies greatest. Relief was requested from this situation. A change in maturity dates from December 31st to March 31st was suggested and we concur in this proposal.

18. Livestock Marketing: The methods by which cattle are marketed are not good from the standpoint of the farmer. We suggest that NACF consider the possibilities of establishing livestock auctions wherein cattle would be sold by weight and prices publicized. Auctions do not require a large outlay of capital but some preliminary work must be done in advance.

19. Marketing Centers: NACF is charging substantially less commission than competitors and barely meeting expenses in the operation of their five trading centers. In order to place the marketing centers on a firmer financial basis, we suggest that NACF consider an upward adjustment of its commission charges.

20. Financing Processors: We are critical of NACF for financing private processors of agricultural crops. We do not consider this to be a proper function of NACF and we recommend that NACF discontinue the practice entirely.

21. Fertilizer and Lime: The government has granted NACF a monopoly in the distribution of fertilizer and lime. In granting this monopoly government appears to have established handling charges insufficient to pay NACF's out-of-pocket costs. We suggest that a study be made of the distribution costs of lime and fertilizer with a view to an upward adjustment in handling charges.

22. Personnel Policies: Apparently it is traditional for Koreans, particularly those in the banking business, to be shifted from one position to another every year or two. This is done to prevent employees from becoming too well entrenched in their jobs. NACF appears to be following the same custom. We feel this practice is short-sighted and should be discouraged because it does not give a man an opportunity to become thoroughly familiar with his duties before he is shifted into another job. In interviews with department heads in NACF, we found some men who had been in their present positions only a short time and were unfamiliar with their new work. We feel that much valuable experience is lost when personnel is moved too frequently.

23. NACF Expansion: In our judgment NACF should be slow to expand into new fields and take on new activities. We feel the organization is presently extended too far in some areas. We recommend that for the immediate future NACF concentrate all its energies on improving and perfecting its services in three fundamental areas-- credit, marketing and farm production supplies.

24. Internal Organization: In our opinion, NACF should examine carefully its organization chart. From observation and inquiry, we gain the impression that there are no clearcut lines between the duties and responsibilities of several different sections. There appears to be duplication or overlap that should be eliminated. Consideration might be given to employment of a management specialist to bring about a reorganization of NACF's internal structure.

25. Training: An expanded active training program is needed to develop NACF personnel at intermediate and higher levels. Much of this can be done in the Training Center in Seoul and much at locations outside. A continuing effort should be made to upgrade courses and staff. Help should be utilized from international training centers in other countries in the overall planning and coordination of training activities.

A major cooperative educational program for members should be undertaken. This will be of increasing importance in bringing about effective operation under the increased democratic procedures recommended in this report.

APPENDIX

POWER STRUCTURE CONTROLLING NACF

Minister of Agriculture and Forestry

The Agricultural Cooperative Law designates the Minister of Agriculture and Forestry as the competent Minister and charges him with the following duties and responsibilities.

NACF

- Article 133: He shall have final approval of amendments to the Articles of Incorporation of NACF. On amendments related to credit he must have the consent of the Minister of Finance.
- Article 140: He shall be a member of the Operational Board.
- Article 147: He shall approve or disapprove actions proposed or taken by the President in cases of emergency.
- Article 149: He shall request the President of Korea with the recommendation of the Operational Board and the concurrence of the Minister of Finance to appoint the President of NACF.
- Article 160: He shall approve the business plan and budget of NACF.
- Article 164: 1. He shall supervise NACF and its member cooperatives and issue what orders he deems necessary for proper supervision.
2. He shall order the Superintendent of Banks to inspect and audit NACF and its member cooperatives whenever he deems it necessary.
3. He may delegate part of his supervisory authority to the Mayor of the Special City of Seoul, Provincial Governors, or the President of NACF.

Article 167: He may annul, in whole or in part, any action taken by the general assembly, the representatives' meeting, board of directors or the operational board that he deems illegal or improper.

Article 169: He shall order suspension of the Federation or any of its member cooperatives that fail to obey the orders that are issued.

Gun Cooperative

Article 99: He shall approve or disapprove the articles of incorporation, by-laws and organization papers of all Gun Cooperatives.

Article 109: He shall qualify executive and management personnel of Gun Cooperatives by providing an aptitude test which they must pass before appointment.

Article 112: He shall approve or disapprove the mutual relief regulations enacted by associations seeking to engage in mutual relief enterprises.

Article 114: He shall approve or disapprove the business plan and budget of Gun Cooperatives.

Article 116: He has the power to require all Gun Cooperatives to submit annual reports to him.

Special Cooperatives

Article 118: He has the power to approve or disapprove the articles of incorporation, by-laws and organization papers of Special Cooperatives.

Article 120: He has the power to qualify all executive and management personnel of Special Cooperatives by providing aptitude tests which must be passed before appointment.

Ri or Dong Cooperatives

Article 16: He has the power to prescribe the form and content of the articles of incorporation.

Article 18: He has the power to register or refuse to register cooperatives applying for charter under the Agricultural Cooperative Law.

Article 64: He has the power to prescribe a financial management standard governing the financial relations between general business and credit services.

Article 74: He has the power to approve mergers and consolidation.

Article 96: The registry office is required to keep the agricultural cooperatives' registration books.

President of NACF

NACF

Article 125: The President as a member of the general assembly shall convene the meeting and preside over it.

Article 137: The President as a member of the representatives' meeting shall convene the meeting and preside over it.

Article 140: The President shall be a member of the Operational Board, convene its meetings and preside over it as its Chairman.

Article 144: The President shall call a meeting of the Operational Board when requested by more than three members or the Auditor.

- Article 144: The President as a member of the Operational Board has a vote and in case of a tie, the deciding vote.
- Article 148: The President shall administer and direct the business of NACF in accordance with policies established by the Operational Board.
- Article 149: The President of NACF is appointed by the President of Korea upon the request of the competent Minister with the recommendation of the Operational Board and concurrence of the Minister of Finance.
- Article 149: Senior personnel of NACF are appointed by the President of NACF with the approval of the Operational Board.
- Article 149: All other personnel are appointed and dismissed by the President.
- Article 166: The President is authorized to issue regulations and instructions for the guidance of Federation members and may order an examination or audit of member associations.
- Article 170: When the President of NACF has reason to suspect that the management of a cooperative is unsound, he may request the competent Minister to suspend the business of such cooperative.
- Article 9: The President of NACF shall appoint the executive and management personnel of Gun Cooperatives.

Gun Cooperatives

- Article 109: The President of NACF has the power to approve or disapprove the executive and management personnel of Gun Cooperatives.

These officers are appointed by the Presidents of Gun Cooperatives after decision by the Board of Directors, but their final appointment is subject to approval of the President of the NACF.^{1/}

Special Cooperatives

Article 124: The President of NACF has the power to approve or disapprove the executive and management personnel of Special Cooperatives. These officers are appointed by the Presidents of Special Cooperatives after decision by the Board of Directors, but their final appointment is subject to approval of the President of NACF.^{1/}

Ri and Dong Cooperatives

Under the Agricultural Cooperative Law, the President of NACF has no direct control over the officers or methods of operation of Ri or Dong Cooperatives.^{1/}

^{1/} Under the Interim Law which is in effect at the time this report is being written, the President of NACF has the power to appoint the President of Gun, Special and Ri-Dong Cooperatives, with the approval of the Minister of Agriculture and Forestry.

COMPARATIVE BALANCE SHEET

National Agricultural Cooperatives Federation
for Calendar Years 1962 through 1965

	1962	1963	1964	1965
CURRENT ASSETS				
Credit business sector				
Cash on hand	89,463	169,231	176,200	649,819
Cash in bank	994,557	1,053,122	477,433	2,547,494
Short-term loans	10,077,097	11,077,786	7,958,495	8,845,032
Miscellaneous assets	165,772	80,211	98,685	2,504,925
General business sector				
Accounts receivable - advance payment	7,937,199	3,262,204	5,342,477	8,961,819
Credit on consignment	39,925	94,476	300,665	342,394
Inventories	2,997,866	2,400,778	4,562,436	13,110,575
Insurance assets	-	-	-	90,000
Miscellaneous assets	<u>218,961</u>	<u>299,820</u>	<u>252,828</u>	<u>1,440,163</u>
Sub-total	22,520,840	18,437,628	19,169,219	38,492,221
FIXED ASSETS				
Credit business sector				
Securities	67,643	60,635	63,921	45,151
Loans	11,703,565	10,029,804	16,208,246	14,671,790
General business sector				
Fixed assets	<u>664,644</u>	<u>812,730</u>	<u>887,857</u>	<u>933,846</u>
Sub-total	12,435,852	10,903,169	17,160,024	15,650,787
Total Assets	<u><u>34,956,692</u></u>	<u><u>29,340,797</u></u>	<u><u>36,329,243</u></u>	<u><u>54,143,008</u></u>

Note: unit in thousands of won

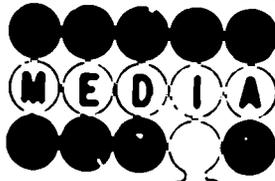
COMPARATIVE BALANCE SHEET

National Agricultural Cooperatives Federation
for Calendar Years 1962 through 1965

	<u>Liabilities</u>			
	1962	1963	1964	1965
CURRENT LIABILITIES				
Credit business sector				
Deposits of member coops	2,853,551	2,610,186	2,796,834	6,405,051
Deposits	611,933	1,278,549	1,812,027	3,501,214
Borrowing	600,000	3,442,000	5,256,000	16,311,119
Miscellaneous liabilities	2,121,242	1,141,906	504,298	2,554,025
General business sector				
Accounts payable and receipts in advance	9,509,438	2,244,435	6,358,799	7,526,339
Payable on consignment	10,951	16,655	220,600	128,659
Insurance liabilities	29,817	52,488	95,823	191,056
Miscellaneous liabilities	1,715,548	433,700	413,953	708,967
Special accounts	4,433	578	8,123	-
Sub-total	17,456,913	11,220,497	17,466,457	37,326,430
FIXED LIABILITIES				
Credit business sector				
Deposits	415	242	80,758	294,993
Borrowings	14,127,721	15,125,169	15,880,164	14,666,183
Coops business liabilities	2,685,537	2,135,513	1,969,694	898,488
Sub-total	16,813,673	17,260,924	17,930,616	15,859,664
<u>Total</u>	<u>34,270,586</u>	<u>28,481,421</u>	<u>35,397,073</u>	<u>53,186,094</u>
CAPITAL				
Investment	306,214	408,055	414,512	423,919
Legal reserves	68,000	198,000	270,000	308,000
Capital reserves	95,618	95,898	95,898	97,822
Other reserves	2,500	24,500	38,500	50,500
Carried over	18,857	46,463	26,658	22,899
Net savings	194,917	86,430	86,602	53,775
Sub-total	686,106	859,346	932,170	956,914
<u>Total Liabilities and Capital</u>	<u>34,956,692</u>	<u>29,340,767</u>	<u>36,329,243</u>	<u>54,143,008</u>

Note: unit in thousands of won

COMMUNICATIONS



USOM/KOREA