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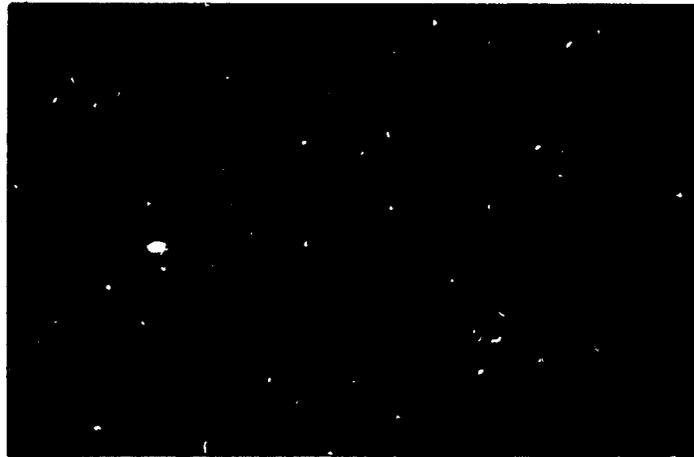
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# STUDIES IN RURAL FINANCE



AGRICULTURAL FINANCE PROGRAM



Department of Agricultural Economics and Rural Sociology

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COLUMBUS, OHIO  
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Savings Deposits and Credit  
Activities in South Korean  
Agricultural Cooperatives 1961-1975

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**SAVINGS DEPOSITS AND CREDIT  
ACTIVITIES IN SOUTH KOREAN  
AGRICULTURAL COOPERATIVES  
1961-1975**

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**Tae Young Lee, Dong Hi Kim, and  
Dale W. Adams\***

THERE HAVE BEEN substantial changes and growth in agricultural cooperatives in South Korea during the past two decades. These changes have included a major increase in the amount and variety of financial services the cooperatives provide. Unlike most low income countries, cooperatives in South Korea have played a major role in mobilizing voluntary financial deposits. In the following discussion we attempt to outline the nature of these financial services. Particular attention will be given to savings deposits and cooperative development, as well as overall economic growth. Information on three primary cooperatives in South Korea is presented to illustrate the discussion.

*Background on Agricultural Cooperatives in Korea*

The present system of agricultural cooperatives in Korea is the result of an evolutionary process.<sup>1</sup> In 1907 local financial organizations were established in rural areas to extend short-term credit and other cooperative services to farmers. A nationwide federation of these local organizations, called the Cooperative Federation of Financial Associations (CFFA), was created in 1933. Close government control of the Federation was maintained through appointed officials in key management positions. Not all of the rural cooperative activities were included in these financial organizations, however. The Korean Agricultural As-

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<sup>1</sup> See Robert B. Morrow and Paul E. White, "Farm Credit in Korea," *Small Farmer Credit in East Asia*, A.I.D. Spring Review of Small Farmer Credit, Vol. 11, Agency for International Development, Washington, D.C., February 1973.

sociation, founded in 1920, handled a number of cooperative activities such as marketing, distribution of inputs, and commodity storage. In 1945 many of these activities were turned over to the CFFA. In 1956 CFFA was combined with the Korean Agriculture Bank, which dealt exclusively with institutional credit. Separate agricultural cooperatives were again established in 1957. After this separation, the Bank and the cooperatives lacked close linkage, and there was a good deal of duplication and competition in their business activities.

The new government in 1961 placed special emphasis on improving financial services in rural areas. As part of this, the multipurpose agricultural cooperatives were established by merging the agricultural bank and the agricultural cooperatives. Currently, financial services for farmers in Korea are provided primarily by the National Agricultural Cooperative Federation (NACF) and associated county and township-level agricultural cooperatives.

The present cooperative system has three horizontal levels of organization: primary cooperatives at the township level, county cooperatives, and NACF at the national level. Horizontally, there are multipurpose cooperatives as well as special purpose cooperatives. In 1975 there were more than two million member farmers in over 1500 primary cooperatives and 141 special cooperatives. More than 80% of the farm households are members of primary cooperatives. The average primary cooperative has about 1200 members and special cooperatives are about half that large.

Currently this cooperative system carries out a wide range of activities aimed at improving the social and economic well-being of farmers. These activities include supplying farm inputs, marketing farm products, provision of credit and savings deposit services, mutual insurance, technical assistance, and some education. These programs are closely tied to government agricultural development policies. Provision of financial services through the cooperative system has been one of the major techniques used by the government to implement its rural development strategy.

*Agricultural Credit Services:* Over the last few years NACF and county cooperatives have been allowed to conduct all types of banking business. This includes receiving deposits and making loans to farmers as well as nonfarm individuals. Government loans directed to farmers are made only through the cooperative system. As can be noted in Table 1, in the early 1960s government funds and money borrowed from the Bank of Korea made up a large part of the loanable funds handled by the cooperatives. By the early 1970s, however, deposits in the cooperatives made up a majority of the loanable funds.

It can also be noted in Table 1 that the total volume of loanable funds in the agricultural cooperative system increased from about 17 billion current won in 1961 to about 485 billion current won in 1975.

**TABLE 1: Total Amount and Sources of Loanable Funds in Agricultural Cooperatives in Korea, 1961-1975**

Year	Total Loanable Funds (million current won)	Percentage of total by source					
		Government Funds	Bank of Korea	Ag. Credit Debentures	Deposits Received	Foreign Loans	Coop's Own Funds
1961	16,911	57	18	2	20	-	3
1962	22,499	63	2	12	19	-	4
1963	27,727	55	12	8	20	-	5
1964	30,968	51	17	6	21	-	5
1965	44,200	33	37	20	24	-	4
1966	61,427	29	33	1	34	-	3
1967	73,391	26	33	Nil	38	-	3
1968	103,087	23	30	Nil	45	-	2
1969	158,221	26	21	Nil	48	4	1
1970	192,183	25	17	0	50	4	4
1971	212,636	24	19	0	51	2	4
1972	252,340	24	17	1	53	2	3
1973	312,889	21	19	1	54	1	4
1974	419,809	19	24	1	51	2	3
1975	484,600	16	12	N/A	53	1	N/A

SOURCE: Various unpublished reports by The National Agricultural Cooperative Federation.

In real terms, this was more than a four-fold increase.<sup>2</sup> Expanded private savings deposits in the cooperatives provided a large part of these additional loanable funds. These funds were used mainly for loans to members of the cooperative or for business operations in various parts of the agricultural cooperative system.

A large proportion of the loans made by the cooperative system was for agricultural purposes. In 1962, 92% of the value of outstanding balances was for agricultural loans. In 1975 this was lowered to 75%. In part, this increase in nonagricultural lending reflects the continued growth in rural areas of nonagricultural economic opportunities.

Some of the most interesting features of recent developmental policy in Korea are the major changes which have been made in nominal interest rates in formal financial markets. Prior to 1965, nominal interest rates in Korea were quite inflexible. Formal agricultural loans, for example, carried interest rates of approximately 8–15% per year. Rates paid on financial savings deposits ranged from 9–15%. In September 1965 many of the interest rates on formal loans and deposits were almost doubled (Table 2). Time deposits of more than two years carried interest rates of 30%, for example. Since 1965 interest rate policies, especially on deposits, have been more flexible with rates moving up and down depending on inflationary pressures.<sup>3</sup> As can be seen in Table 2, these changes in nominal interest rates have resulted in positive real rates of interest in most years after 1964.

The interest rate reforms in the mid-1960s increased the average rate of interest charged on agricultural loans. In 1964 none of the agricultural loans made by the cooperatives carried interest rates of more than 25% per year. In 1966 about 9% of the value of cooperative loans carried rates of 25% or more. By 1968 almost 30% of the value of loans carried these higher interest rates. After 1968, interest rates were steadily lowered until 1973 when inflation induced policy makers to raise interest rates again.

*Savings Deposits:* Unlike many developing countries, rather heavy emphasis has been placed on mobilizing rural financial savings in Korea.<sup>4</sup> This has resulted in significant amounts of deposits in agricultural cooperatives. As can be noted in Table 2, after the interest rate

<sup>2</sup> The Wholesale Price Index for all commodities in South Korea, 1970 = 100, went up from 53.1 in 1961 to 238.0 in 1975.

<sup>3</sup> For further discussion of these policies, see: Gilbert Brown, *Korean Pricing Policies and Economic Development in the 1960's* (Baltimore: Johns Hopkins University Press, 1973); Edward S. Shaw, *Financial Deepening in Economic Development* (New York: Oxford University Press, 1973); and In Kie Kim, "The Currency Ratio: Case Study of Korea," *Journal of Economic Development*, 1:1, 1976, pp. 111–137.

<sup>4</sup> Two significant exceptions to this are Taiwan and Japan. For further details see: Chyou Tuan, "Determinants of Financial Savings in Taiwanese Farmers' Associations 1960 to 1970," unpublished Ph.D. dissertation, The Ohio State University, 1973; and Yuzuru Kato, "Mechanism for the Outflow of Funds From Agriculture into Industry in Japan," *Rural Economics*, December 1966, pp. 1–20.

**TABLE 2: Interest Rates and Financial Deposits in South Korea, 1963-1974**

	Contractual Interest Rates on Long Term Deposits <sup>a</sup> (%)	Changes in Wholesale Price Index (%)	Real Rates of Interest on Long Term Savings Deposits (%)	Total Financial Deposits (billion 1970 won) <sup>c</sup>	% in Ag. Coops	Total Savings Deposits <sup>b</sup> (billion 1970 won) <sup>c</sup>	% in Ag. Coops
1963	15.0	20.6	- 5.6	84.2	14	27.7	5
1964	15.0	31.6	-19.6	69.2	15	23.3	5
1965	18.0	10.1	7.9	114.4	14	44.6	9
1966	26.8	8.7	18.1	162.1	17	93.9	16
1967	26.8	6.4	20.4	259.3	14	162.3	12
1968	26.1	8.1	18.0	434.8	13	297.9	10
1969	23.8	6.8	17.0	676.0	12	492.9	9
1970	22.8	9.2	13.6	789.7	12	576.3	10
1971	22.1	8.6	13.5	900.2	11	652.6	9
1972	15.4	14.0	1.4	1069.4	10	736.3	8
1973	12.6	6.9	5.7	1324.5	10	917.0	8
1974	15.0	42.1	-27.1	1119.8	10	770.8	8

SOURCE: Bureau of Statistics, Economic Planning Board, *Korean Statistical Yearbook*, Vols. 16 (1969) and 22 (1975).

<sup>a</sup> These rates are for deposits of 12-month maturity. When interest rates were changed during the year, a simple weighted average of months covered by the interest rate was used in the calculations.

<sup>b</sup> Excludes checking deposits, other demand deposits, and short-term passbook deposits.

<sup>c</sup> The price index used to convert to 1970 prices was the wholesale price index for Korea. The exchange rate of won for dollars in 1970 was 316.

reform in late 1965, financial deposits in agricultural cooperatives increased from 14 to 17% of total financial deposits in the country. The proportion of total savings deposits in the country held by agricultural cooperatives also jumped from 9% in 1965 to 16% in 1966. Because of the very rapid growth in nonagricultural economic activities, the percentage of total financial deposits in the country held in agricultural cooperatives declined over the 1966 to 1974 period. In part, the increases in real amounts of financial savings deposits in agricultural cooperatives over this period were due to ambitious savings mobilization programs by the government. Three financial institutions—the Agricultural Cooperatives, the Fisheries Cooperatives, and the Post Offices—in rural areas are heavily involved in this effort. A nationwide campaign to mobilize rural savings has been carried out almost annually during the harvest season from September to December.

A further breakdown of deposits in cooperatives is shown in Table 3. In the early 1960s, the agricultural cooperatives in Korea handled

TABLE 3: Amounts of Private Deposits and Value of Member-Share Purchases in Agricultural Cooperatives, 1961-1975 (year end balances in million current won)

Year	Deposits			Accumulated Share Purchases in:			Total
	Demand Deposits	Savings Deposits	Total	NACF	County Coops	Primary Coops	
1961	1,831	1,640	3,471	301	14	—	N/A
1962	2,916	1,304	4,250	306	330	—	N/A
1963	4,323	1,350	5,673	408	445	439	1,292
1964	4,702	1,748	6,450	414	469	906	1,879
1965	6,567	4,074	10,641	424	524	1,189	2,157
1966	7,586	13,362	20,948	439	583	1,506	2,618
1967	12,673	15,101	27,774	444	631	2,312	3,387
1968	20,144	26,639	46,783	446	715	2,787	3,948
1969	31,976	43,925	75,901	473	824	3,223	4,520
1970	39,209	56,207	95,417	520	1,060	4,678	6,258
1971	42,804	66,122	108,925	627	1,381	7,015	9,053
1972	56,516	76,225	132,741	917	2,032	11,532	14,481
1973	70,908	98,373	169,371	1,395	3,071	16,013	20,479
1974	98,529	117,323	215,852	2,372	4,870	24,116	31,358
1975	130,298	129,168	259,466	3,725	6,792	31,422	41,939

SOURCE: National Agricultural Cooperative Federation (NACF), *Agricultural Yearbooks*, 1962-1975, Seoul, Korea. Also NACF, *Agricultural Cooperative Monthly Review*, various issues.

relatively small amounts of financial deposits. In 1961 the aggregate amount of demand and savings deposits in these cooperatives was only 3.5 billion won. These deposits increased to 6.5 billion won by the end of 1964, however. The previously mentioned sharp increase in financial deposits between 1964 and 1966 is also evident in Table 3; total deposits more than tripled in this period. In nominal terms, total deposits increased 35 fold from 1964 to 1974 in these three institutions. In real

terms this was almost a 12-fold increase in deposits. These increases in deposits were associated with significant changes at the farm-household level in the use of financial assets. In 1962, for example, representative farm-households held less than 2% of their assets in financial forms.<sup>5</sup> By 1974 this had increased to more than 3%. Farm-households made even larger changes in their holdings of liquid assets. In 1962 only 11% of their liquid assets were in financial form, but by 1974 this had increased to 26%.

As noted in Table 3, less than half of the deposits in the agricultural cooperatives prior to 1966 were in savings accounts. From 1966 to 1974, however, savings deposits made up approximately two-thirds of total deposits. The sharp increase in inflationary pressures in 1974 and 1975 combined with less aggressive interest rate policies caused financial savings to decrease relative to demand deposits.

Another interesting point stands out in Table 3. In most cooperatives around the world, involuntary share purchases by cooperative members provide a large part of the organization's operating funds. Share monies plus foreign or governmental assistance usually provide the bulk of loanable funds handled by the cooperatives. In Korea, however, share purchases are small in comparison with private voluntary deposits. In 1974 the value of voluntary deposits in the agricultural cooperatives was over five times the value of share purchases in the cooperatives. This is about the same pattern found among the highly successful Farmers' Associations in Taiwan and Japan; financial deposits and not involuntary share purchases were the cornerstones of these institutions.

### *Financial Services in Three Cooperatives*

To further illustrate the importance of credit and deposit activities in cooperatives, three primary agricultural cooperatives in Korea were selected for more intensive study. Each was selected to represent cooperatives in one of three main agricultural regions. The first was Daeson Cooperative, which is located in a mixed farming region. The second is the Chojeun Cooperative, located in a horticultural area. The third is the Ochang Cooperative, which is in a rice growing region.

During the past ten years a large number of the primary cooperatives have been involved in substantial reorganization or consolidation. As a result, most of the current primary cooperatives have historical records which cover relatively short periods. The Daeson Cooperative as presently constituted was founded in 1966, and the Chojeun and Ochang Cooperatives in 1969. These cooperatives have relatively large memberships—the Daeson Cooperative about 1,000 members, the Cho-

<sup>5</sup> Young-Key Ro and others, "A Summary of Data From the Korean Farm Household Economy Surveys, Yearly Averages Covering 1962 Through 1974," *Economics and Sociology Occasional Paper No. 370*, Department of Agricultural Economics and Rural Sociology, The Ohio State University, October 8, 1970.

jeun Cooperative about double that, and the Ochang Cooperative about 2,500 members. Cooperatives need to have relatively large memberships to be able to realize economics of size in their operations.<sup>6</sup> This is particularly true of financial services. It is impractical to offer credit and deposit services in cooperatives with small numbers of active members.

**Credit Services:** Information on the total value of loans outstanding at year-end by the three cooperatives is shown in Table 4. Lending ac-

TABLE 4: Total Value of Loans Outstanding at Year End in Three Selected Agricultural Cooperatives, 1966-1975 (in million current won)

Year	Daeson	Primary Cooperatives	
		Chojeun	Ochang
1966	1.3	—	—
1967	1.1	—	—
1968	2.4	—	—
1969	2.5	12.1	6.3
1970	6.4	32.8	25.3
1971	18.0	65.6	61.7
1972	18.1	97.2	131.2
1973	42.8	128.5	168.2
1974	48.8	124.7	161.0
1975	65.7	260.2	472.0

SOURCE: Unpublished records of three selected agricultural cooperatives.

tivities in all three cooperatives have expanded recently at a rapid rate. In real terms, the amount loaned by the Daeson Cooperative increased 16-fold from 1966 to 1975; the Chojeun Cooperative experienced a real increase of 8-fold from 1969 to 1975; and the Ochang Cooperative a 29-fold real increase over the same period. Credit operations have grown to become a substantial part of the economic business of these three cooperatives. Detailed profit-loss information on the various activities carried out by these cooperatives was not available. It is likely, however, that credit-savings operations provided a major part of "net income" generated by these cooperatives. As Adams and others report for Taiwanese Farmers Associations, these financial activities appear to be the economic cornerstone of many Korean cooperatives.<sup>7</sup>

Additional details on the types of loans made by these three cooperatives is shown in Table 5. In 1975 about 75% of the total value of loans made were for unspecified purposes. Undoubtedly, a major part of these loans directly affected agricultural activities. Most of the remainder of the loans were tied specifically to farming. Very little of this

<sup>6</sup> Edgar Owens and Robert Shaw, *Development Reconsidered* (Lexington, Massachusetts: Lexington Books, 1972).

<sup>7</sup> Dale W. Adams and others, "Rural Capital Markets and Small Farmers in Taiwan," *Small Farmer Credit in East Asia*, A.I.D. Spring Review of Small Farmer Credit, Vol. 11, Agency for International Development, Washington, D.C., February 1973.

TABLE 5: Aggregate Value of Loans Outstanding at Year End in Three Selected Agricultural Cooperatives by Type of Loan, 1966-1975 (in million current won)

Year	Unspecified Loans	Farming Loans	Mutual Installment Depositor Loans	Installment Depositor Loans	Loans in Kind
1966	—	1.2	•	—	—
1967	—	1.0	•	—	—
1968	—	1.6	.8	—	—
1969	9.7	1.5	1.0	2.4	—
1970	41.9	N/A	7.2	11.1	4.0
1971	104.4	25.2	4.4	11.6	4.7
1972	167.0	61.2	6.4	6.2	7.9
1973	190.2	138.4	10.8	—	—
1974	163.5	152.0	19.0	—	—
1975	611.1	160.6	26.3	—	—

SOURCE: Unpublished records of three individual agricultural cooperatives.  
• Less than 0.1 million won.

lending has been done in kind. Granting relatively untied loans such as these is, of course, not typical of cooperative lending activities in many low income countries.

*Deposit Activities:* The Daeson Cooperative began accepting financial deposits in 1966. As noted in Table 6, deposits in this cooperative increased substantially through 1975. Even more rapid increases occurred in financial deposits in the Chojeun and Ochang Cooperatives. In 1975 the three cooperatives had per-member deposits which averaged 291 thousand, 573 thousand, and 843 thousand won respectively, amounting to the equivalent of approximately U.S. \$601, \$1,184, and \$1,742 per member respectively.

TABLE 6: Financial Deposits in Three Sampled Agricultural Cooperatives, 1966-1975 (in million current won)

Year	Daesan	Primary Cooperatives	
		Chojeun	Ochang
1966	.5	—	—
1967	.7	—	—
1968	2.2	—	—
1969	2.4	4.9	5.3
1970	12.2	138.2	45.1
1971	14.9	201.9	142.3
1972	80.0	304.6	321.8
1973	118.3	420.4	539.8
1974	163.1	719.0	N/A
1975	281.4	1,007.0	2,130.7

SOURCE: Unpublished records of the three agricultural cooperatives.

To encourage savings deposits in these cooperatives, various types of savings mobilization programs have been introduced in recent years. These include installment savings, deposits in kind, and mutual installment deposits. The mutual installment system is a mixture of the North American Credit Union approach to savings mobilization and the traditional Korean Ke System.<sup>8</sup> Over the past few years the mutual credit-savings system has become a very important part of cooperatives' financial activities. As can be seen in Table 7, demand deposits made up about 75% of total deposits in these three cooperatives. Fixed savings deposits were 20% of the deposits and the remainder was in other types of savings deposit programs.

TABLE 7: Amounts of Deposits in Three Sample Agricultural Cooperatives by Type of Deposit, 1966-1975 (in million current won)

Year	Demand Deposits	Fixed Deposits	Mutual Installment Deposits	Installment Deposits	Deposits in Kind and Other
1966	—	—	5	—	—
1967	—	—	7	—	—
1968	—	—	2.2	—	—
1969	3.7	—	6.0	2.9	—
1970	152.3	—	8.6	27.8	6.8
1971	266.7	40.0	15.1	33.8	3.5
1972	564.3	73.2	24.8	29.1	15.0
1973	833.1	109.7	33.2	22.5	80.0
1974	984.0	110.5	43.3	19.0	8.3
1975	2580.0	694.0	94.2	23.7	27.2

SOURCE: Unpublished records of the three sampled agricultural cooperatives.

As suggested earlier, share purchases by cooperative members make up an important, although minor part of the cooperatives' capital. In 1975, these three cooperatives held an average of 26 thousand won per member in share purchases. At the same time, these cooperatives held an average of 159 thousand won per member in deposits. Share purchases per member were only 16% of the value of voluntary savings deposits per member.

#### Cooperative Members Attitudes Toward Savings

To explore the attitudes of members toward savings deposits, interviews were carried out with a random sample of 120 individuals, 40 members in each of the three cooperatives. The interviews showed that almost all of the members (92%), had deposit accounts in either the

<sup>8</sup> Chang Kyu Kang, *The Influence of "KE" Societies Upon Ri-Dong Agricultural Cooperative Associations* (Seoul, Korea: Economic Planning Board, 1969).

cooperative or a post office or both. Over one-third of those interviewed indicated they had opened a savings account at the urging of cooperative officials. In the Chojeun and Ochang Cooperatives, cooperative officials were instrumental in half or more of the savings accounts opened.

During the interviews the cooperative members were asked to identify the source of money used to make their most significant recent deposits. Not surprisingly, over half of them said crop or livestock receipts. About 20% reported nontarm or wage income as the source for the deposit. Another 13% reported frugal living as the source, and the remainder reported using money from several other sources. The interviewed members indicated that about half of the deposits were motivated by farm or household operations. Members clearly had a strong liquidity-for-transactions motive for making about half of their deposits. The other half of the deposits, however, appear to be closely tied to saving-investment decisions. About one-third of the deposits was for educational purposes, another 16% for land purchases, while about 3% was directed to some other type of investment. It appears that deposit behavior is strongly influenced by the rates of return which depositors expect from financial savings or from the types of investment for which financial savings are accumulated.

The increasing importance of deposits held in the three primary cooperatives by the members interviewed is shown in Table 3. In 1969,

TABLE 3: Amounts of Money Deposited in Primary Cooperatives and Post Offices by Cooperative Members Interviewed, 1969-1975 (in current won)

Year	Primary Cooperatives	Post Offices	Total
1969	7,311	23,311	30,622
1970	195,582	33,389	228,971
1971	359,067	56,423	415,490
1972	706,355	80,393	786,748
1973	1,078,519	72,117	1,150,636
1974	1,165,010	70,282	1,235,292
1975	3,419,993	125,330	3,545,323

SOURCE: Interviews with sample of cooperative members

interviewed members held more than three-quarters of their financial deposits in post offices. In 1975, however, these same members held over 95% of their financial deposits in the primary cooperatives! It appears that the cooperative members now view the cooperative as a safe and convenient place to hold their financial assets. It is also an indication that Korean farmers are doing an increasingly larger share of their economic transactions with the cooperatives.

### Conclusions

Several interesting lessons can be drawn from the recent experience

with mobilizing rural savings in South Korea. The first is that well-organized cooperatives can play a major role in mobilizing voluntary financial savings in rural areas. U Tun Wai has argued that three key elements are necessary before savings can be mobilized. First, people must have sufficient resources or income to be able to save. Second, individuals must have secure and dependable opportunities to save. Third, savers must expect that their savings will result in substantial future satisfaction—they must have incentives to save.<sup>9</sup> Agricultural cooperatives appear to have been particularly effective in providing secure and dependable opportunities for rural households to add voluntary financial savings to their asset portfolios.

The second major lesson which can be drawn is that government policies, especially interest rate policies, can strongly affect the ability of financial institutions like cooperatives to mobilize savings. These same policies can also strongly affect the incentives which rural households have to hold financial assets and to save in general, rather than consume. It should be no surprise that most rural cooperatives in low income countries mobilize very little voluntary or involuntary savings. Aside from a small number of cases, most cooperatives offer very low, or negative, real rates of interest on financial deposits. Further, they typically do not promote savings deposits. Many cooperatives act as retail outlets for credit and do not provide deposit services for members. In many cases cooperatives are too unstable to convince members that their savings deposits will be secure in the cooperative's care.

A third lesson suggested by the recent Korean experience is that low-income rural people may have much larger potential savings capacities than previously estimated. Hyun recently found that rural households included in the Annual Korean Farm Household Economy Survey saved surprisingly large parts of their income.<sup>10</sup> In 1963 all households in the Survey saved an average of 12% of their household income. By 1974 this had increased to 33%. Even households with the smallest farms and households with the lowest incomes were saving significant amounts in certain years. In part, this substantial savings capacity surfaced because of interest rate policies, and because cooperatives and post offices were able to provide rural households with secure and inexpensive ways to save financially. Rural savers did not have to travel thirty miles, pay for costly transportation and lose a day of work in order to make a financial deposit. Deposit facilities were conveniently located in rural areas and cooperative members could make deposits while they were transacting other business with the cooperatives.

A fourth lesson which might be learned from the recent Korea, Taiwan, and Japan experience is the important role which rational

<sup>9</sup> U Tun Wai, *Financial Intermediation and National Savings in Developing Countries* (New York: Praeger, 1972).

<sup>10</sup> Kwon Nam Hui, "A Study on the Rural Household Saving Behavior in Korea, 1962-1974," unpublished Master's thesis, The Ohio State University, 1977.

credit-savings activities can play in building viable, small farmer service organizations like cooperatives. In all too many cases these organizations are called on to provide services initially in areas where they cannot compete efficiently. These services include sale of consumer goods and production inputs, education and extension, and marketing of members' production. As has been pointed out, informal marketing systems or other government sponsored services may in some cases be more efficient in providing these services than cooperatives.<sup>11</sup> Furthermore, many cooperatives are forced to extend credit at highly concessional rates. These bargain rates induce influential borrowers to take large amounts of this cheap credit and also induces cooperatives to concentrate the loans in the hands of the influential in order to minimize lending costs. The net result of this practice is that many members or potential members of cooperatives are denied credit and as a result find it is not worth their while to be involved in cooperative activities. In Korea, Taiwan, and Japan, rural people appear to have had strong incentives to join and participate in cooperatives because of the excellent financial services which they offer. Because of the savings mobilized and the realistic interest rate policies in force, many members of the cooperatives have had access to credit services. These same interest rate policies and the convenience of the cooperative make it attractive for members to make deposits. With realistic national policies, it appears that cooperatives can efficiently provide these financial services. And these services not only strengthen the economic base of the cooperative, but also give members a strong reason for participating in other cooperative activities.

<sup>11</sup> Clifton G. Barton, "Credit and the Small Farmer: Case Study of the Mekong Delta, South Vietnam," *Small Farmer Credit in East Asia*, A.I.D. Spring Review of Small Farmer Credit, Vol. 11, Agency for International Development, Washington, D.C., February 1973.

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