

# Strategy for Financial Business of Agricultural Cooperatives: Korean Case\*

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*The financial system of Korean agricultural cooperatives formed a model for cooperative banking strategy. It first started with a national level cooperative-based bank that played a role of mentor for primary cooperative financial business. NACF-bank and AC-MC consists a dual financial business structure hat has exhibited synergy.*

*The system employed the appropriate business strategy adapting to the environment. Under the regulated planned economy, it pursued fast growth by maintaining close relationship with the government. As the situation changed to the deregulated market economy, the system focused on different strategic measures to increase competitiveness in the market.*

*The implication of the Korean case is that the cooperative financial system requires the appropriate organizational and business strategies in accordance with changing environment in order to succeed as independent financial institutions.*

**Keywords:** Cooperative Bank, Financial Business, Agricultural Cooperative, Strategy, Competitiveness.

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## I. Introduction

Generally there are two ways to solve farmers' financial distress in rural area where commercial banks are reluctant to provide them with funds. One way is that government takes the responsibility for the problem and another is that credit cooperatives resolve it. Most of the countries including Korea have pursued these two approaches simultaneously: providing low-rate policy loans and developing agricultural cooperatives. They, however, have taken a little different strategy.

Korean agricultural cooperatives consist of National Agricultural cooperative Federation (NACF) and its member cooperatives whose financial businesses are considered as credit cooperatives or cooperative banks. The financial system of agricultural cooperatives is a unique system in comparison with those of other countries. It is claimed that the system has been successful compared with other domestic financial institutions and has played a major role in modernization of rural finance supporting development of rural economy.

Before the present system, the Agricultural Bank was established in 1956 as a private bank specializing agricultural finance. However the bank did not operate as expected because of its profit-oriented characteristics. So by a special law in 1958 the Bank was transformed from a private bank into a specialized bank in charge of agricultural finance. The new Agricultural Bank performed better, but it did not work fully together with agricultural cooperative organization.

Thus a new strategy was introduced when NACF was established in 1961 by the Agricultural Cooperative Law: creating a cooperative-based financial system by merging the Agriculture Bank and the national-level agricultural cooperative organization. Around 1970, NACF built up the present scale primary agricultural cooperatives by merging the small-scale village cooperatives. In this way the

fundamental structure of the present cooperative financial system was completed.

Section II explains the operational aspects of this system and section III shows its performance. In section IV strategic measures will be discussed, then we conclude this paper in section V.

## II. Operational System

### 2.1 Dual Financial System

As Figure 1 shows, the financial system of agricultural cooperatives is composed of two systems in one organizational setting covering rural and urban areas. One is the banking business of NACF, the other is the mutual credit business of primary agricultural cooperatives.

#### 2.1.1 NACF's Financial Business

NACF, which has a head office and as many as 650 branches, is considered a nationwide bank by the Bank Law. Like other commercial banks, it is conducting various financial businesses as allowed by the Bank Law without geographical restriction. Moreover NACF is a special bank for agricultural and rural finance by the Agricultural Cooperative Law.

#### 2.1.2 Primary Agricultural Cooperatives' Financial Business

Financial business of primary agricultural cooperatives (AC) which is called Mutual Credit is considered credit union business by the Credit Union Law of 1972. Each AC functions as an independent credit union with its own branches. So we have about 1387 credit unions. The business area of MC is restricted to the my on (township) and the scope of the business is a little narrower than that of commercial banks. (See Table 1). However, the ACs as a whole look like a big banking network now.

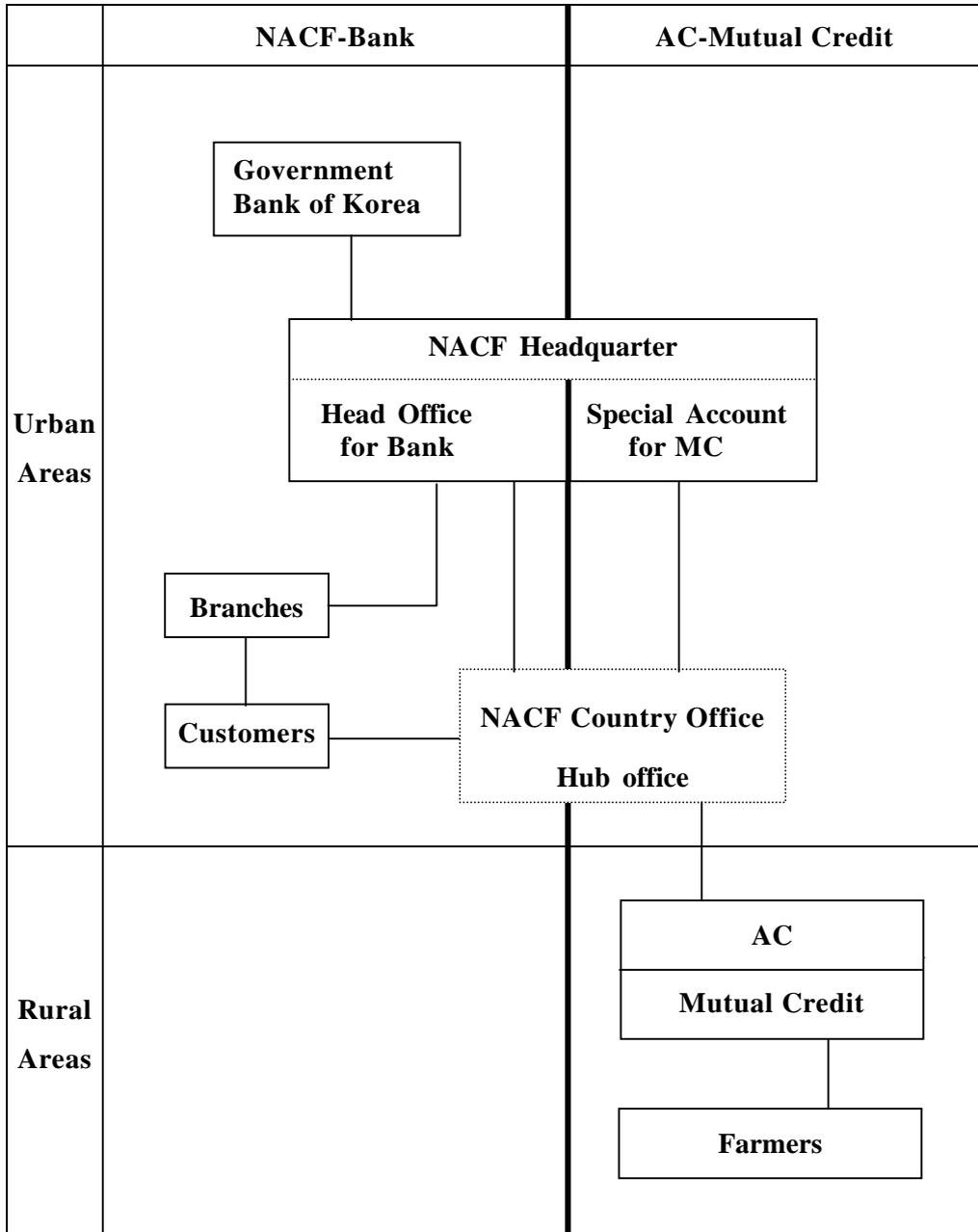


Figure 1. Financial System of Agricultural Cooperatives

Table 1. Financial Businesses of NACF and AC in 2001

	NACF-Bank	AC-MC
Organization Law	Agricultural Cooperative Law	Agricultural Cooperative Law
Business Law	Bank Law	Credit Union Law
Category	Specialized Bank	Credit Cooperative Institution
Business Scope	Agriculture Bank + Commercial Bank	
Business Region	Nationwide	Limited Region
Shareholders	Agricultural Cooperatives	Farmers
Number of Institutions	1	1383
Number of Offices	868	4068

Source: National Agricultural Cooperative Federation (2001).

### 2.1.3 Mutual Credit Special Account

The special account (MCSA) located in headquarter of NACF functions as a central bank for MC business of ACs. It manages the reserve money from ACs and supervises the MC business as a central bank. It also works like a head office of a bank doing planning and development, coordinating, advertising etc.

### 2.1.4 The Sources and Uses of Funds

As shown in Table 2, the largest source of funds is customer deposits and the next one is government and Bank of Korea mostly for agricultural policy loans. NACF-Bank uses about 50 percent of its funds for loans and about half of the loans are supplied to farmers.

The sources and uses of AC-MC are presented in Table 3. Most of the funds are raised by deposits of the member farmers and non-member resident customers.

Just as sources of MC funds are simple, so are uses of funds of which about 70 percent are loans to member farmers and non-member customers.

Table 2. Sources and Uses of Funds: NACF-Bank in 2000

Use		Source	
Loans	54.4%	Customers Deposits	61.7%
Bonds & Securities	25.7%	Borrowings from NACF	27.8%
Cash & Reserves	5.2%	Others	10.5%
Others	14.7%		
Total	100.0%	Total	100.0%

Source: National Agricultural Cooperative Federation (2001).

Table 3. Uses and Sources of Funds: AC-MC in 2000

Use		Source	
Loans	67.2%	Deposits	77.9%
Deposits in MCSA	28.0%	Borrowings from NACF	17.2%
Others	4.8%	Others	4.9%
Total	100.0%	Total	100.0%

Source: National Agricultural Cooperative Federation (2001).

## 2.2 Agricultural Finance

The financial business of cooperative system can be called an agricultural finance of Korea in a broad sense, but in a narrow sense the agricultural finance means policy loans for agriculture or farmers.

### 2.2.1 Mechanism

As a specialized bank for agricultural finance, NACF is in charge of the financial businesses related to agricultural policy loans. NACF and ACs are working cooperatively like one financial institution in the whole process of lending and

collecting loans as Figure 2 shows. In the past when ACs were immature in financial business, NACF had the responsibility of the loans and ACs played the role only as agents (brokers). Nowadays each AC is processing most of the lending operations on its responsibility as an independent institution.

### 2.2.2 Pooling Funds

Among the agricultural loans, the typical one is the short-term production loan that shows how funds of different sources are pooled well. The loan consists of funds from government, BOK, NACF-Bank and AC-MC. For example, in Table 4, the interest rate that farmers pay is 5 percent, but the opportunity costs of NACF funds and AC funds are expected to be 11.11 percent and about 11.73 percent respectively in 2001. The interest rate spreads are to be compensated by government. For government funds, administrative fee of 1 percent is provided with ACFS. Another important policy loan by pooling funds is Farm Mechanization Loan of which about 50 percents are funded by NACF with interest compensation from Government.

Table 4. Pooling Funds for Short-Term Production Loan in 2001

Financial Source	Amount	Interest Rate	Interest Compensate
Government	1,659(43.7%)	5.75%	0.75% ± 1%
NACF-Bank	1,961(51.6%)	11.11%	6.11%
PC-MC	180(4.7%)	11.73%	6.73%
Total	3,800(100%)		

\* For Government Funds, administration fee of 1% is provided by Agricultural Cooperative System.

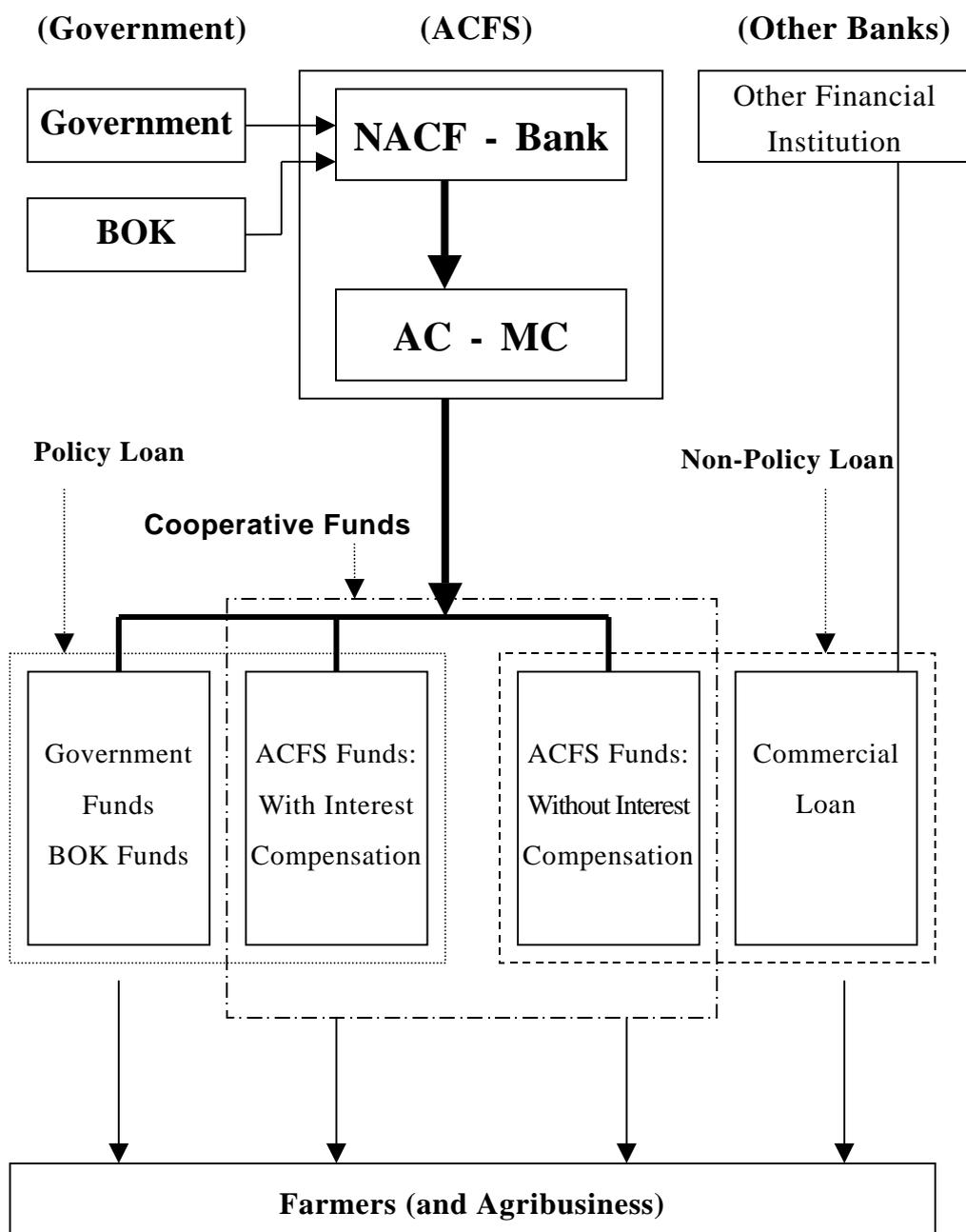


Figure 2. Flows of Agricultural Finance

### III. Performance

#### 3.1 High Growth of Deposits

Since the middle of 1970s, MC has shown particularly high growth rate of deposits compared to other financial institutions as Table 5 indicates. Especially from 1975 to 1980, MC increased deposits with annual growth rate of 44% which is 50% higher than those of other commercial banks.

Table 5. Annual Growth Rate of Deposit and Trust Money

(%)

	75-80	80-85	85-90	90-95	95-01
MC	44.3%	23.2	29.6	19.8	18.0
NACF	30.1	16.8	24.5	14.1	18.9
Nat. Bank(Avg.)	29.8	10.4	24.3	10.6	12.4

Source: Chang (1998); National Agricultural Cooperative Federation (2001).

The rate of growth dropped slightly in the early 1980s, but regained from the late 1980s. Even under the deregulation of interest rates in 1990s, MC has enjoyed the highest growth rate. Reflecting such high growth rate, the market share of MC deposits among all depository institutions has consistently increased from only 3% in 1975 to 11.6% in 1999 as shown in Table 6.

Table 6. Deposit of MC among Depository Institution

(%)

	1975	1980	1990	1999
Market Share of MC	3.0	5.8	8.9	11.6

Source: National Agricultural Cooperative Federation (2001).

MC, as a whole, is the biggest financial institution in Korea. In July 1998, MC reached 50 trillion won (about 40 billion dollars) of deposits for the very first time among financial institutions in Korea. The combined deposits and trust of NACF and MC sum up to over 100 trillion dollars. Even on the part of total assets and loans, MC is the largest one followed by NACF (See Table 7).

MC began its business in a time when the economic situation was seriously bad in rural area where financial resources were poor. However, MC business has accomplished surprisingly high growth, making secure the status as a regional financial institution. MC has increased market share of deposits among non-bank financial institutions throughout the 1990s of high competition (See Table 8). MC loan in the regional financial market takes the highest percentage too. On the other hand the rate of bad loan is very low even though the rate of loans delayed over one year has grown after the economic crisis of 1997 (See Table 9).

Table 7. Comparison of MC and Top Nation-wide Banks

(billion won)

	Total deposits	Total loans	Assets
MC	44,495	39,890	58,852
Kookmin Bank	41,738	24,286	44,266
NACF	39,014	26,730	55,214
Housing Bank	32,755	25,746	37,465
Chohung Bank	31,160	26,637	45,993

Source: Financial Supervisory Service (2001a).

\*Total deposits include trust money and Repurchase Agreement.

Table 8. Market Share of Non-Bank Financial Institutions (%)

	Deposits		Loans	
	1992	1999	1992	1999
MC	32.4	36.2	29.3	40.5
Saving & Finance Co	26.7	14.1	34.5	20.5
Commodity Credit	16.7	18.1	17.0	16.3
Credit Union	8.5	10.3	10.9	11.1
Postal Office	7.5	10.1	--	--
Others	7.7	11.2	8.3	11.6
Total	100.0	100.0	100.0	100.0

Source: Financial Supervisory Service (2001b).

Table 9. Bad Loan Rate of MC (%)

Delayed	1992	1996	2000
Less than one year	3.61%	5.27%	3.84%
More than one year	1.63%	1.95%	3.25%

Source: National Agricultural Cooperative Federation, unpublished data.

### 3.2 Expansion of Credit and Decrease of Usury Money

Table 10 and Figure 3 show the increasing trend of the agricultural policy loans. In 1970s the short-term rice production loan was very important to achieve self-sufficiency of major crop. The interest rate is 5% and the maturity is less than one year. The loan amount for a farmer is covering about 35 percent of total production costs.

From the early 1980s, government tried to mechanize rice production and diversify the sources of agricultural income. The medium- and long-term policy

loans for this purpose have increased. The interest rate is 3-8% and the maturity is 7-10 years. Since 1994 when WTO was established, government has pursuing the restructuring of agriculture and rural society to overcome international competitions. Thus the long-term loan amount supplied yearly has been greater than that of short-term loan since the middle of 1990s.

Table 10. Agricultural Policy Loans

(billion won)

Year	Short-term Funds	Long-term Funds	Total
1975	59.7	117.2	176.9
1980	168.3	704.5	872.8
1985	283.8	1,802.5	2,086.3
1990	781.6	5,185.6	5,967.2
1995	954.3	9,998.1	10,952.4
1999	1,701.1	9,879.0	11,580.7

Source: National Agricultural Cooperative Federation, 1975-2001.

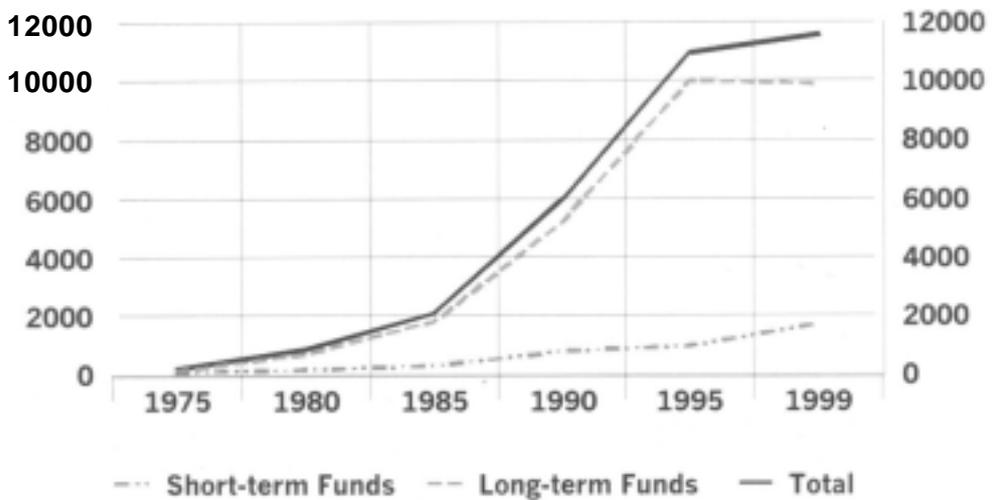


Figure 3. Trend of Agricultural Policy Loans

### 3.3 Improving Farmer's Financial Structure

By virtue of increases in deposits, MC has been able to supply sufficient funds to farmers. Thus MC loans with agricultural policy loans have driven out usury money in the rural area which took 50% of farmer's debts until the early 1980s (See Table 11).

As market share of private money lenders has decreased (from 63.6% in 1975 to 5.5% in 1999), MC has become a dominant lender which satisfies most of the farmer's financial needs. Other financial institution's role in rural debt market is negligible compared to that of MC. Along with the shrinkage of money lenders' share, the interest rate of private loans has decreased from 52.8% per annum in 1976 to 20.5% in 1993, and to around 10% nowadays (See Table 12).

Table 11. Farmers' Debt by Source

(%)

	1975	1980	1985	1990	1995	2001
NACF & AC	30.3	48.7	66.1	81.5	80.4	85.8
Others Financial Institutions	6.1	2.4	5.1	4.7	10.9	9.4
Money Lenders	63.6	49.0	28.8	13.8	8.7	4.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Agricultural Cooperative Federation, unpublished data.

Table 12. Interest per Annum in Rural Area

(%)

	1976	1980	1984	1990	1993	1999
Private Money	52.8	43.2	28.8	21.5	20.5	-
MC	22.0	22.0	14.5	14.0	12.5	12.5
Difference	32.8	21.2	14.3	7.5	8.0	-

Source: Ministry of Agriculture and Forestry (2001).

The ratio of financial assets over borrowings of farmers gives us some information about the rural financial market. Table 13 shows that the rural society has been changed from financial deficit sector to surplus sector around 1990. This is the result of both the increase of farmers' income and the efficiency of MC in providing farmers with attractive deposit products and services.

Table 13. Financial Structure of Farmers

	1985	1990	1995	1999
Financial Assets (Thousand Won) (A)	1,762	6,526	19,739	26,863
Financial Debt (Thousand Won) (B)	2,024	4,734	9,163	18,535
A/B (%)	87.1	137.9	215.4	144.9

Source: Ministry of Agriculture and Forestry (2001).

### 3.4 MC Supporting Other Businesses of AC

MC shows higher net profits over total assets than those of other commercial banks and regional banks as shown in Table 14. Table 15 indicates that AC mostly depends on MC for its net profits. The net profits of MC are indispensable in making up for the red ink of marketing business and the costs of extension activities. Because non-financial businesses and activities of AC are also necessary for farmers, MC's role as a base camp is very important.

Table 14. Net Profit over Total Assets

(%)

	2001
MC	1.43
(include extension exp.)	(1.01)
(include non-fin. bus.)	(0.42)
Nationwide Bank	0.79
Regional Bank	0.41

Source: National Agricultural Cooperative Federation (2002).

Table 15. Net Profit by Business of AC

(million won)

	2001
MC	915
Purchasing	-176
Marketing	-127
Insurance	104
Processing & Others	-514
Total	202

Source: National Agricultural Cooperative Federation (2002).

## IV. Environments and Strategies

### 4.1 Under Regulated Development Economy: 1960s-1970s

#### 4.1.1 Situations<sup>1</sup>

##### 4.1.1.1 Agricultural and Rural Economy

When the Export-oriented industrialization was initiated in the early 1960s, Korea was a typical farm economy with over 60% of the work force engaged in agriculture. Most of the farmers suffered from low production and usury. Government introduced some important policy measures for rural society: shift from the low grain price policy to the high grain price policy in the late 1960s, the implementation of the Saemaul Undong, and the improvement of agricultural financial institutions.

##### 4.1.1.2 Financial Policy and Markets

Under President Park's reign, the financial sector was considered as supporting machine for high-growth economic development. The objective of the financial

institutions was to mobilize deposits as much as possible and supply the financial resources to strategic sectors such as the export industries. For this purpose the financial system was reorganized and regulated highly. In 1960s, specialized banks were established to support the specific sector of industries. And in 1970s, non-bank financial institutions were established to channel private money market funds and foreign funds to industrial sector.

The bank of Korea was empowered to determine directly the maximum rates charged and paid by the banking institutions. This interest rates were set lower than market rates in order to help industrial sector. In this situation, allowing a financial institution to pay a little higher interest to depositors became an advantage in promoting deposits.

#### 4.1.2. Strategies<sup>2</sup>

##### 4.1.2.1 Multipurpose-type Cooperative System

Korean agricultural cooperatives - AC as a primary cooperative and NACF as an apex organization - adopted the multipurpose type. The background factors for the strategic choice were the small-scale farming, homogeneity of farmers, the failure of close coordination between the former Agricultural Bank and agricultural cooperatives, and strong desire of Government to promote rural development effectively.

One of the merits of the system is that they are efficient to provide farmers with integrated package of services. Second merit is that they can exploit synergy by integrating financial business with non-financial businesses. Especially the financial business of NACF, a national-level cooperative-based bank, make itself viable without any burden on Acs.

#### 4.1.2.2 NACF as a Mentor for Building ACs

Most of the countries' cooperative financial system started with primary cooperatives. But the Korean system took the reverse strategy: Starting with NACF as an apex organization and also a nation-wide bank in 1961. Achieving its own administrative stability, NACF promoted establishing primary cooperatives from 1969 to 1973 and helped them to open the cooperative financial business, that is, MC business. During the development process of MC, NACF Bank has played a role of mentor for MC: transferring the know-how of financial business, securing the safety of MC as a guarantor, and enhancing the image of financial institution by using same corporate identity program (CIP).

#### 4.1.2.3 Complementary Dual Financial System

NACF Bank is considered as a nationwide bank and MC as a credit union by law. This dual system has complementing effects. NACF Bank's branches are working mostly in urban area and offices for MC are scattered in the rural area. At the early stage when rural sector was deficit one, the deposits mobilized by NACF in urban area could be poured into there through ACs. When banks were heavily regulated, MC had an advantage in attracting deposits especially through favorable interest rates and deposit interest taxes.

#### 4.1.2.4 ACs as Agents of Saemaul Movement

Saemaul Undong in 1970s required lots of input materials and funds to improve infrastructure of villages. AC played dominant role in the movement channeling this inputs and implementing development projects which contributed to the growth of business turnover. The close ties between AC and Saemaul Undong helped it to rapidly build up the foundation in rural area. AC came to be regarded by farmers as an economic center of rural developments.

#### 4.1.2.5 Supplying Agricultural Policy Loans through Acs

As a specialized bank for agricultural finance, NACF Bank has been in charge of supplying most of the agricultural policy loans. In the whole process of channeling the funds, NACF Bank and MC has worked cooperatively like one institution. Especially in 1970s, this process increased MC's market power in the rural area.

#### 4.1.2.6 Favorable Monetary and Tax Policy

Financial authorities helped the growth of MC Business by allowing some favors in tax and monetary policy. Before 1980, corporate tax for NACF and AC business were exempted. MC system has enjoyed its own reserve system without depositing reserve into BOK giving no interests. Until the deregulation of interest rates completed at the end of 1997, MC had been permitted to pay a little higher interests to depositors under regulated regime which gave MC merits to mobilize deposits.

#### 4.1.2.7 Savings Campaign

While the income of the farmers was increasing, most of the savings of farmers consisted of private lending and cash holdings. One Trillion Deposit Movement (OTD) was launched by ACs and the government to induce this type of savings into deposits of financial institutions in 1973.

OTD circles were set up at villages, schools, factories to promote the movement. The deposits collected at OTD circles were re-deposited to MC. The workers of AC stopped by schools everyday to collect deposit from students. The leaders of OTD circles were given the right to recommend borrowers to ACs. Exemplary OTD circles were given awards and the interest taxes for their deposits were exempted. This movement enhanced the motivation of deposits and saving

habits in MC. As a result of this movement the deposit reached one trillion won in 1981.

## 4.2 Under Competitive Market Economy: 1980s-1990s

### 4.2.1 Situations<sup>3</sup>

#### 4.2.1.1 Agricultural and Rural Economy

Since self-sufficiency of major grain, rice, was accomplished, the emphasis of agricultural policy shifted from increasing grain production to raising household income through structural improvement of rural society from the early 1980s. Government began to promote establishment of agro-industrial parks in 1984 and initiated a program to train potential farmers.

Entering the 1990s, there was a consensus concerning the need for a comprehensive agricultural restructuring which required huge investments. This was inspired by the discontents of farmers with the opening of agricultural markets under WTO system. The structural improvement plan of ten year was launched in 1992 which stressed glass house farming and scale of farm size.

#### 4.2.1.2 Financial Policy and Markets

From 1981, government pursued liberalization policy in financial sector to overcome a recession in 1979-1980. The aim was to vitalize the non-financial sector through enhancing efficiency of the financial institutions. For this purpose government allowed a number of new financial institutions to be established. In the early 1980s, 12 investment and finance companies and 58 mutual savings and finance companies were introduced. In the late 1980s, government made new nationwide and regional banks to enter the industry. These made deposit market competitive and competition was heightened even in rural financial market as

regional financial institutions penetrated there.

Also the bank sector moved towards a universal banking system as new financial businesses and instruments such as trust, credit card, certificate of deposits, repurchase agreement, factoring were allowed. Computerization was accelerated among banks and new services such as cash dispenser and automated response system were spread along with computerization. Scope and style of businesses of financial institutions changed very much compared with those of 1970s.

Though government tried to deregulate interest rates in the late 1980s, actual deregulation of them was implemented gradually by the "Four-stage plan" of interest rate deregulation from 1991 to 1997. Coupled with liberalization of foreign exchange market, interest rates became so volatile that the importance of risk management was raised. The restructuring of financial industry has been processing too.

#### 4.2.2 Strategies<sup>4</sup>

##### 4.2.2.1 Nation-wide Computer Network

Since banks started their basic computer network in the 1970s, they have developed computerization in the area of deposit, loan, and front line works of banks in the 1980s. Though NACF was the leader of the banks in this part, the computerization of front line had a lot to improve. So NACF invested much to computerization until the mid-1980s.

Based on the NACF's computer network, NACF promoted computerization of MC business, and by 1989 completed nationwide computer network comprising of about 3000 offices of ACs and about 700 branches of NACF, which enables every transaction in the front line to be done through the network. By the network, AC in a remote area can have financial transactions with other ACs or NACF's branches in

real time so that MC business can function as a nationwide big bank. Thus, MC business can have competitive advantage over other regional financial institutions.

NACF facilitated introducing electronic banking into MC on the basis of nationwide computer network since 1991. Currently each AC has more than about 5 Cash Dispensers (CD) or Automatic Teller's Mations (ATM) that covers about 25% of front line job, saving labor costs. And home banking and firm banking services has been introduced since 1996.

#### 4.2.2.2 Starting Credit Card Business

In 1993, AC introduced Coop Card for farmers with which they can make transactions when they buy anything from AC. The transactions are booked by on-line computer on the farmer's account and the due money is withdrew from his deposit account once a month automatically. And in case the balance of the deposits falls short, loan is allowed right away. Thus the number and costs of transactions farmers should have with AC are reduced greatly.

#### 4.2.2.3 Favorable Deposit Instruments and Services

"Special Deposit for Farmers" (SDF) which is very attractive to farmers was introduced in 1976. It pays 9.6% bonus interest rate in addition to normal interest rate of 10.5% for limited amount. SDF's bonus interest was paid by government and BOK. In the middle of 1990s, the deposit limit was raised from 60 thousand won to 100 thousand won so that the low-income farmers could get interest benefits of about 200 billion won.

With "Self-Reliance Deposit" (SRD), whose generic name is the minus account, farmers can deposit or borrow money freely according to their financial circumstances from 1994. From this account, a farmer can borrow as much as 50 million won automatically.

Also NACF and AC developed deposits giving social benefits such as

Evergreen Account and Love Farmer Account. NACF and ACs contribute a portion of profits from these accounts to be used for environment protection expenses and legal fees for farmers.

#### 4.2.2.4 NACF's Support for ACs' Management Safety

NACF has supported ACs by providing low-interest loans and bear some expenses for extension activities directly and indirectly so that ACs can perform their businesses stably. In 1997 the total support amounts to 239.2 billion won which equals to ten percent of total operating income and 1.5 times as total net profits of ACs.

In 1996, Deposit Insurance System for nation-wide banks was introduced and NACF became a member of the system. NACF started Cooperative Deposit Insurance Scheme in January 1998. MCSA manages the system and the premium rate is 0.03% of deposit balance and 20 million won of deposit per person is guaranteed by the system.

According to the improvements of transportation and communication, organizational size and structure should be changed to become efficient and competitive. In 1981, *Kun*-level cooperatives between NACF and ACs were eliminated. Entering 1990s, mergers of ACs were persuaded strongly to become large enough to exploit scale and scope economies. To satisfy diversified and complicated needs of farmers and customers, ACs' mergers are said to be desirable.

#### 4.2.2.5 Advertisement and Public Relation

ACs have applied Corporate Identity Program (CIP) since 1984 to all offices, sign boards, cars, layouts, and certificate forms, which reformed the image as a modernized financial institution.

On the other hand, ACs have initiated cultural and welfare activities that would

highlight the unique and distinguished image. For example, in 1987, Agricultural Museum was opened at the headquarter of NACF. Since 1990, AC has awarded persons who greatly contributed to the development of the rural culture and study.

*Sintoburi* means that human body and earth are not separate ones. *Sintoburi* campaign was initiated in order to persuade Koreans to consume domestic agricultural products. This campaign has been expanded to a campaign for cooperation between urban and rural area. Most of the people memorize *Sintoburi* as a proverbial word which emphasizes environmental preservation too. Through these cultural and welfare activities, NACF and ACs enhance the image of good financial institution working for the social benefits.

## V. Conclusions

Most of the developing countries tried to develop rural economy for better living of farmers by activating cooperatives. The generic strategy for cooperative development is to focus on the primary cooperatives from the first stage following the early models of European countries. We, however, designed a unique strategy: NACF-leading and financial business-leading cooperative development strategy.

Under regulated development economy, AC actively participated in government development projects and movements. This active participation as well as deposit campaign and cooperative movement helped AC-MC to consolidate its basic foundation so early. As it was transformed into competitive market economy, AC-MC endeavored to create competitive advantage in financial markets, lowering costs and achieving differentiation<sup>5</sup>.

In implementing strategic measures successfully, farmers, cooperatives and government should not spare their efforts. At the early stage of establishing

cooperative system, it is very important for Government to supply concessionary agricultural loans and to bolster the cooperative financial business. Integrity of the farmers and staff members of cooperatives can not be emphasized too much for sound management of cooperative financial business.

As a cornerstone of the whole mechanism of the cooperative system, the financial business of NACF should maintain competitiveness in the financial markets too. We are facing a new stage of environmental change especially in financial markets; restructuring and globalization. As it has been so, Korean agricultural cooperatives should pursue an appropriate strategy to continue its growth.

## Notes

1. See Cha, Kim and Perkins (1997) for further discussions about economic and social situations of period from 1960s to 1970s.
2. At the early stage of cooperative development, the government's supports are very important especially under government-initiated economy. See Chang and Chang (1985).
3. See Cha, Kim and Perkins (1997) for further discussions about economic and social situations of period from 1980s to 1990s.
4. The different environment requires different strategy corresponding to it. The role of NACF was crucial for primary cooperatives as small regional banks to adopt and implement new market-oriented strategy. See Chang (1997).
5. Porter (1985) explains that the generic source of competitive advantage of a business is low cost or differentiation.

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## 韓國農業合作社金融業務之系統與策略\*

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韓國農業合作社的金融系統為合作社銀行業務策略塑造一個模式。此一模式首先是以國家級水準的合作社為基礎的銀行，其扮演主要合作社金融業務的角色。而 NACF-bank 與 AC-MC 則構成一雙元合作的金融業務組織。

此系統採用適應環境之業務策略，在當前受管制的計畫經濟下，藉著保持與政府的密切關係，以追求快速的成長。當情況改變為解除對市場經濟的管制時，系統則集中於不同策略衡量，以圖增加市場的競爭力。

藉由此一韓國案例所得到的啟示是，合作社金融系統需要適當之組織及與改變中的環境一致的業務策略，以成就獨立之金融機構。

關鍵詞：合作社銀行、金融業務、農業合作社、策略、競爭力

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