

APRACA FinPower Programme
Completion Report of the

**Exposure Visit in Korea, May 30 - June 4, 2011
And Pilot Testing in Mongolia, June 27 – 30, 2011
on Cooperative Marketing and Finance**



Dr. Young-Kon Koh
National Agricultural Cooperative Federation of Korea

An APRACA FinPower Publication with the Special Sponsorship of the
International Fund for Agricultural Development (IFAD)

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The Secretary General
Asia-Pacific Rural and Agricultural Credit Association (APRACA)
39 Maliwan Mansion, Phra Atit Road
Bangkok 10200, Thailand
Tel: (66-2) 280-0195
Fax: (66-2) 280-1524
E-mail: apraca@apraca.org
Website: www.apraca.org
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This book is published during the incumbency of Mr. Abdivakhob Tamikaev, APRACA Chairman, and Mr. Won-Sik Noh, APRACA Secretary General.

Table of Contents

	Page No.
Message of the APRACA Chairman	iv
Message of the NACF Chairman	v
Acronyms and Abbreviations	vii
Acknowledgement	viii
Introduction	1
Exposure Visit to the NACF	1
Field Visits	12
Pilot Testing	21
Wrap-Up Meeting and Recommendations	31

Message of the APRACA Chairman

Cooperative marketing and finance have been accredited as important policy measures for rural areas in developing countries with insufficient capital accumulation and underdeveloped market system.

Republic of Korea is known as a country whose unique agricultural cooperative system has contributed to the rural development as well as to the growth of national economy through the cooperative financing and marketing activity

On the other hand, Mongolia has accomplished a substantial economic growth for the last twenty years since its transition to a democracy and a market economy. However, its sustainable development is used to be threatened by exogenous shocks such as natural disasters. In 2010, for example, extremely cold winter depleted 20 percent of total livestock in the country. This vulnerability is more severe in agricultural sector and thus rural family is prone to poverty. Economic and social innovations are required for the rural poverty reduction. It is believed that the sharing of Korea's experience on the reduction of rural poverty and on the role of agricultural cooperatives might provide a good replicable innovation to Mongolia.

In this regard, APRACA was happy to have the chance to undertake this FinPower program in collaboration with the National Agricultural Cooperative Federation (NACF) of Korea and the IFAD Rural Poverty Reduction Project (RPRP-Mongolia). This program was composed of two components: an exposure visit and a pilot testing. For the exposure visit, a small group of Mongolian Rural Poverty Reduction Project participants visited Korean agricultural cooperatives to derive useful implications from the Korean experience. An expert designated by the NACF visited Mongolia to support the pilot testing of the innovations derived from the exposure visit.

Many institutions and individuals contributed to the implementation of this program. On behalf of APRACA, I appreciate the efforts of all institutions including IFAD and the NACF which made this program successful with various forms of support or/and participation. We hope this type of concerted efforts will contribute to the reduction of rural poverty in Mongolia and other developing countries as well.

Message of the NACF Chairman

Good Morning, Ladies and Gentlemen,

On behalf of the NACF, I would like to welcome Mr. Dagva Dalantainyam from IFAD and delegates from Mongolia.

We are very pleased to host this event for you to share our experiences especially on rural poverty reduction.

The National Agricultural Cooperative Federation is the biggest agricultural organization in Korea promoting 2.4 million of member farmers' economic, social and cultural status. As a cooperative organization, we engage in marketing & supply and banking & insurance business.

The NACF was established in 1961 as a multi-functional cooperative with the Agricultural Bank and agricultural cooperatives to provide agricultural and financial services to the rural economy. We have made a great contribution to increase farmers' income, to modernize the Korean agriculture and to develop Korean economy providing the necessary services in agricultural marketing, financial, guidance and extension services.

After the Korean War in 1950, Korea was one of the poorest countries in the world with a per capita income is USD 67. Most of national facilities such as roads and ports were destroyed, so the situation was far from an economic rehabilitation. However, Korea has achieved a rapid economic development with strong governmental policies since 1960s. As the result, its per capita income now is more than USD 20,000 and its economy is ranked as 12th in the world. Korea also succeeded to hold the G20 International Conference in Seoul.

In the process of the economic development, the Korean agricultural cooperatives have contributed so much for the well-balanced development. Especially, the NACF put much effort on the government-led *Saemaul* Movement in 1970s for the reorganization of rural communities that lagged behind, poverty reduction and farmers' financial self-reliance. Also, it exerted itself to supply the *Tongilbyu* rice breed that helped to solve the food shortage problem.

Specifically, member cooperatives contributed to close the gap of prices in the rural areas and cities initiating a chain store business, and banking & insurance business helped to overthrow the inveterate usurious private lenders in the rural areas.

Also, it gave farmers financial support for agricultural machinery purchase which advanced farm mechanization in Korea.

The Korean agricultural cooperatives have developed swiftly with a stable revenue source

from the banking and insurance business since the 1990s. The NACF is the fourth largest cooperative worldwide as designated by the ICA Global 300.

The year of 2011 is the 50th anniversary of the NACF. It is a very important year to picture the future NACF being much more beneficial for member farmers.

The understanding of the Korean Agriculture and Agricultural Cooperatives especially on development and poverty reduction of rural communities would help you outline better growth strategies for your own country.

Again, welcome all of you. I sincerely hope your short visit to the NACF will be fruitful and that you will have a wonderful time.

Thank you very much!

Acronyms and Abbreviations

ACC:	Agricultural Cooperative College (Korea)
ALC:	Anseong Livestock Cooperative (Korea)
APIMONDIA:	International Federation of Beekeepers' Association
BZC:	"Bayan Zugii" Beehive Cooperative, Orkhon soum of Darkhan Uul province
FMD:	Foot and Mouth Disease
GAC:	Gosam Agricultural Cooperative, Gosam-myon Anseong-city, Kyonggi-
KBC:	Korea Beekeepers' Cooperative
KRW:	Korean Won (1 US dollar = approx. KRW 1,100-1,200 in 2011)
KUSLA:	Kahsbayan-Ulziit Savings and Loan Association, Bornuur Soum of Tuv Province, Mongolia
MCTIC:	Mongolian Cooperative Training and Information Center
MFALI:	Ministry of Food, Agriculture and Light Industry
MNCA:	Mongolian National Cooperators' Association
MNT:	Mongolian Tugrug (US\$ 1 = MNT 1,100~1,200 in 2011)
NACF:	National Agricultural Cooperative Federation
NAMAC:	National Association of Mongolian Agricultural Cooperatives
NLCF:	National Livestock Cooperative Federation
SCAC:	Supreme Council of Agricultural Cooperatives (Mongolia)
SCC:	Savings and Credit Cooperatives (Mongolia)

Acknowledgement

Various institutions and individuals contributed to the exposure visits by the representatives of the XacBank, the Mongolian Cooperators' Association and the IFAD Rural Poverty Reduction Project (RPRP-Mongolia) to the National Agricultural Cooperative Federation and the agricultural cooperatives in Korea. Likewise, the author/expert was indebted to many agencies and individuals during his four-day pre-pilot testing to XacBank, a rural community and selected cooperatives Ulaanbaatar and.

Mr. Won Sik Noh, APRACA Secretary General, and his staff provided overall support to the implementation of the project. Their excellent organization and communication between all related parties of the project made the individuals comfortable and encouraged.

Mr. Sang-Cheol Kim, NACF General Manager of International Cooperation Department and his staff including Mr. Si-hyong Cho and Mr. Hyongu Cheon showed the delegates from Mongolia great hospitality and coordinated very useful and informative meetings and visit schedule.

The author extends special thanks to Mr. Dagva Dalantainyam, Director of Rural Poverty Reduction Program Support Unit of IFAD for his efforts to organize the pilot testing schedule and to provide various supports required for the meaningful results. The author is also grateful to the kind cooperation and warm hospitality from Mr. Munkhbold Sukhbaatan, Mr. Davkjarbayar Byambajav, and Mr. Bayarsaikhan Zurmaa.

Staff and officials of Ministry of Food, Agriculture and Light Industries of the Mongolian government, National Association of Mongolian Agricultural Cooperatives, Mongolian Cooperative Training and Information Center and Mongolian National Cooperators' Association deserve high appreciation for their kind cooperation and valuable inputs to the pilot testing.

The author will remember, for long in his life, the meeting with the leaders and member-farmers of the "Bayan Zugii" beekeepers' cooperative of Orkhon Soum, and the Mongolian rural traditional lunch on the beautiful meadow where the sheep and cattle walk near the site of the party.

1. Introduction

Under the sponsorship of the IFAD-supported APRACA FinPower Programm, a four-member Mongolian delegation undertook an exposure visit to Korea on May 30- June 4, 2011, visiting the National Agricultural Cooperative Federation (NACF) of Korea and selected cooperatives. The purpose of the visit was to learn and understand the development of the agricultural cooperative movement in Korea and hence derive lessons that can be replicated and useful to reduce rural poverty in Mongolia.

Since the cooperative movement is affected by a combination of complex political, economic and social factors, it is not easy to recognize the success and failure of agricultural cooperative movement in other countries comprehensively.

However, it seems to be relatively easy to catch the core elements of agricultural cooperatives in Korea by exposure visits for on-the-spot study as indicated by the Korean saying "*seeing one time is better than listening hundred times*"

The exposure visit was made according to the schedule prepared by the NACF of Korea and approved by APRACA and its Mongolian counterpart.

The NACF prepared a simple but warmly hospitable opening ceremony, and some preliminary presentations and discussions on the development of Korean agricultural cooperative movement were made before field visits.

At each field visit, a brief introductory presentation was given and the subsequent dialogue and spot inspection followed. The NACF staff accompanied the Mongolian delegates to provide any support and interpretation whenever needed.

A brief summary of the major findings of the exposure visits that contrast to Mongolian agricultural cooperatives and that were expected to provide some meaningful insights and lessons in reducing rural poverty in Mongolia follows.

2. Exposure Visit to the NACF

The exposure visit to NACF included briefings on the history and development of cooperatives in Korea.

2.1 Early Stage of the multi-purpose cooperative system

The National Agricultural Cooperative Federation (NACF), the apex level agricultural cooperative in Korea is a unique cooperative institution in Korea. It was established by the merger of two organizations: the Agricultural Bank and the former National Agricultural Cooperative Association. Therefore, the NACF began to exist as a banking institution and cooperative organization engaging in diversified business activities including supply of farm

inputs and marketing of agricultural products.

The Korean economy in early 1960's when the NACF was organized suffered from severe poverty with per capita GNP of about 80 US dollars only. Most farmers were unable to produce sufficient food for their own family consumption. The poverty and hunger at that time was the inevitable result of Korean War which devastated almost all of production capacity and social overhead capital, and the division of the Korea into north and south which made the electricity and fertilizer from the North unavailable in the South.

The Korean Government, under such conditions, established the NACF first at national level and then organized NACF's member cooperatives at city or county level. Finally the primary cooperatives were organized as member cooperatives of city or county level cooperatives at village level.

The top-down approach, national level cooperative first and primary level last, was justified or regarded as inevitable in order to get out of the vicious circle of poverty at that time, and was made possible based on strong Government sponsorship based on the Agricultural Cooperative Law enacted in 1961, under the authoritative Government after a military coup.

The task of organizing a nationwide three-staged (NACF – city/county coops – village coops.) cooperative system was accomplished in a relatively short period without much difficulty. However, it was not easy to vitalize the functions of the village level primary cooperatives because of many reasons.

First, subsistence farming dominated Korea. The average farm size was less than one hectare due to the land reform implemented in early 1950's which limited maximum land holdings to 3.0 hectare per farm household under the principle of "land-to-tillers". Therefore it was difficult to mobilize financial and managerial resources for primary cooperatives.

Second, most farmers were not aware of the need and usefulness of modern cooperatives in market economy instead of traditional or cultural based informal cooperative activities. It might be the result of the top-down approach and subsistence farming.

Third, the size of primary cooperative was too small in terms of number of member farmers, capital funds available and in terms of manpower to undertake any cooperative business activities. In the early 1960's, the total number primary cooperatives at village level used to be well over 20,000 and the average number of member farmers, most of whom are engaging in self-subsistence farming, was about 100 per primary cooperative. They were not able to maintain a cooperative office or a fulltime employee to engage in the operation of the primary cooperative. Most of the primary cooperatives at village level existed in name only.

In order to increase the size of the primary cooperatives, the NACF and the government began to emphasize the merger of the village level cooperatives into a township-level cooperative based on "one primary cooperative at a town" principle.

Consequently, the number of primary cooperatives fell from more than 21,000 in 1963 to about 16,000 in 1968, and 1,500 in 1973. As a result, the average membership per primary cooperatives rose from 109 in 1963 to 139 farmers in 1968 and 1,400 in 1973.

The expanded scale of the primary cooperatives through the extensive implementation of "one cooperative at one township" policy from mid sixties to early seventies paved the way for the functioning of agricultural cooperatives.

It made agricultural cooperatives assume a crucial role in rural and agricultural development of the nation by (1) enabling primary cooperatives to attain an optimum size of operations (2) enhancing the viability of various cooperative activities through the increase of business volume (3) increasing the capability to mobilize financial resources (4) enhancing the public confidence and credibility and (5) enlarging the chance to secure competent manpower including cooperative leaders, managers, and staff.

2.2 Growth of Cooperative Business and New Village Movement

With the increase of operational and managerial capability of primary cooperatives, various business activities such as distribution of chemical fertilizer and procurement of food grains were transferred to primary cooperatives. Those government entrusted business activities had been conducted by the city/county cooperatives formerly.

The transfer of those government entrusted functions down to township level from city/county level facilitated farmers conveniences, reduced inefficiencies incurred by inappropriate location of the services and increased the contacts and transactions between member farmers and their primary cooperatives. It also provided the cooperatives with the chance of on-the- job training for their employees.

In addition to the transfer of the government-entrusted functions, the development and introduction of new businesses activity made the primary cooperatives most essential institution in farming and daily life of rural residents in Korea.

The introduction of mutual credit business, among others, based on the Credit Union Law in early seventies, became a crucial impetus to the functioning of the primary cooperatives. It is considered that the mutual credit business of agricultural cooperatives contributed to the elimination of the prevailing usury by mobilizing idle money in rural areas.

Other important business activities developed in 1970s include cooperative chain store business, cooperative insurance (life insurance and damage insurance) and marketing business of value added products such as fruits and vegetables.

The New Village Movement (NVM or Saemaul Undong) in 1970's also had close relationship with the NACF. The NACF initiated the New Farmers Movement in 1965 for the purpose of enhancing the sense of self-respect of farmers. A proper mental attitude of farmers, the key player in modernizing agriculture and in operation of modern cooperative, was emphasized.

Farmers were encouraged to have the spirit to be (1) "Farmers of self-reliance", (2) "farmers of scientific mind" and (3) "farmers of cooperation".

When the NVM was set off under the slogan of (1) "Diligence" (2) "Self-support" and (3) "Cooperation" by the President of the nation a few years later, the movement was initiated by the New Village Movement Training Institute (NVMTI) which was one of the training centers of NACF.

Although the NVMTI was founded as an independent institution from the NACF, the President of the NVMTI was previous NACF employee and most of the instructors and other manpower for the institute depended upon the NACF staff quite a while.

2.3 An Overview of Current NACF and Member Cooperatives

As of 2010, the number of the NACF's member cooperatives stood at 1,171. The regional agricultural cooperatives, the primary agricultural cooperatives at township level in 1970's, numbered 971 at the end of 2010. The decrease in the number of the primary cooperatives from about 1,500 in 1973 is a result of gradual amalgamation among the township level cooperatives in order to realize the economy of scale.

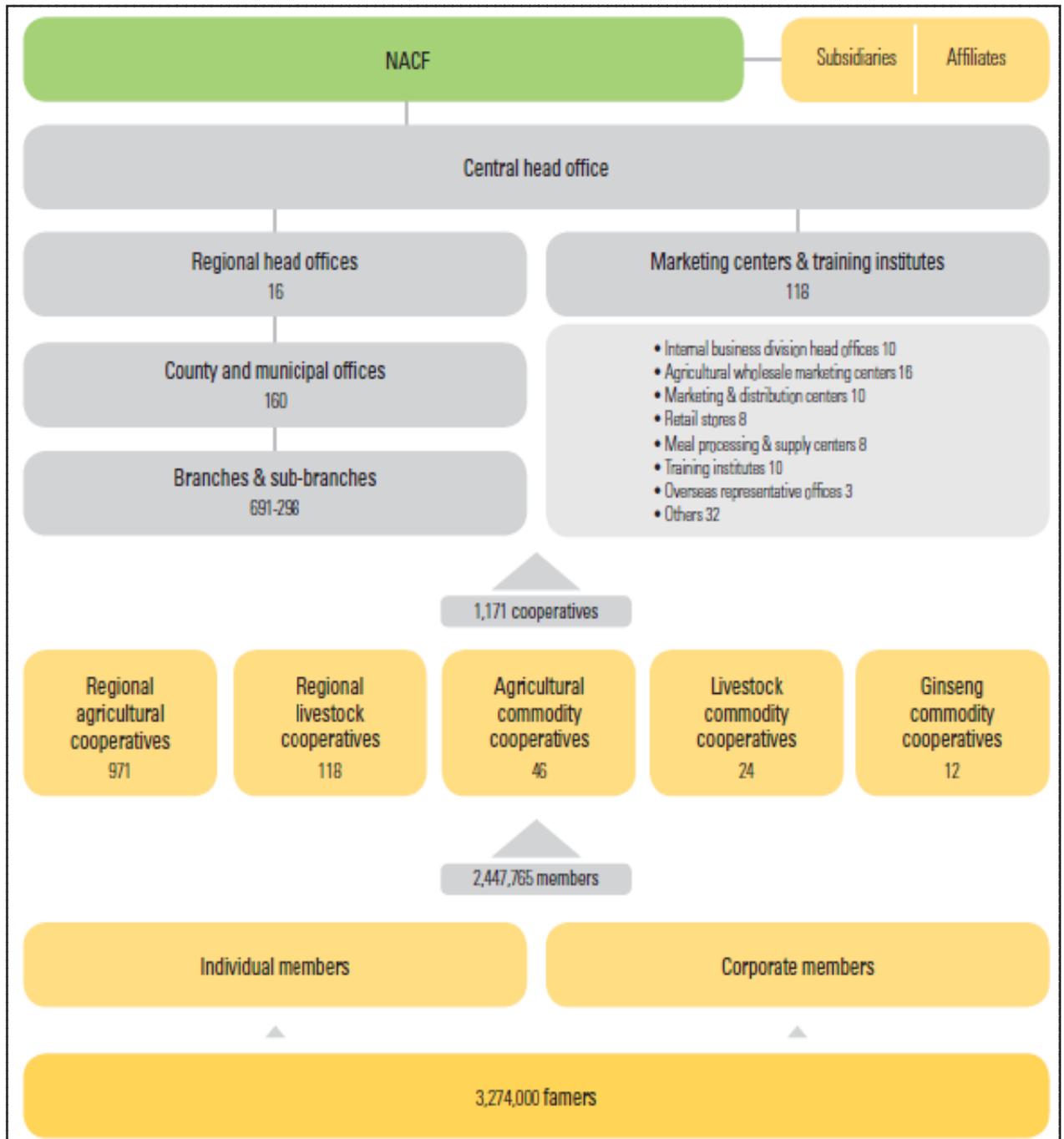
In addition to the regional agricultural cooperatives, 118 regional agricultural cooperatives, 46 agricultural commodity cooperatives, 24 livestock commodity cooperatives, and 12 ginseng commodity cooperatives are included in the NACF member cooperatives as shown in Figure 1.

Most Korean farmers are members of regional agricultural cooperatives while farmers engaged in livestock farming, horticultural farming or ginseng farming join relevant cooperatives respectively. It is common that the commodity cooperatives are generally organized among farmers specialized in the production of a specific commodity.

The geographical area of a cooperative other than a regional agricultural cooperative varies from cooperative to cooperative. Most of regional livestock cooperatives are based on a city/county level. However, a few livestock commodity cooperatives are organized by farmers in all over the country while some of agricultural commodity cooperatives and livestock commodity cooperatives are organized by farmers in several counties or several provinces.

One or more of the farm household members may join any of the cooperatives, and thus a farmer may be a member of different type of cooperatives if he/she is qualified under the Agricultural Cooperative Law and the articles of the cooperative in terms of commodities he/she produces.

Figure 1. Organizational Structure of Agricultural Cooperative System (2010)



Source: NACF Annual Report 2010

Corresponding to the municipal government or administrative district, the NACF operates 16 regional head offices at provincial level and 160 branch offices at city/county level addition, the branch and sub-branch offices for banking business exceeded 1,000 at the end of 2010.

About 18,000 full-time employees are engaged in various business activities and farm guidance services of the NACF. In addition, the NACF has about 25 subsidiary companies

(see **Figure 1**) and other affiliates such as Farmers' Newspaper, Agricultural Cooperative College, and Rural Culture & Welfare Foundation.

According to the International Cooperative Alliance (ICA), the NACF used to enter top-10-ranking in terms of annual business volume. As of 2010, the agricultural marketing and purchasing business recorded the total turnover of KRW 11,488 billion, and deposits received and loans extended amounted to KRW 127,480 billion and KRW 122,147 billion, respectively.

Table1. Business Volume of the NACF in 2010

Item		Volume (billion KRW)
Agricultural Marketing and Supply Business		11,488
Livestock Marketing and Supply Business		3,271
Credit and Banking Business	Deposits (annual average balance)	127,480
	Loans (annual average balance)	122,147
	Credit card (utilization)	39,924
	Foreign Exchange (million US dollars)	3,840
	Insurance (premium received)	9,723

Source: NACF Annual Report

As shown in **Table 2**, total assets utilized by the NACF recorded KRW 288,967 billion at the end of 2010.

Table2. Summarized Statement of Financial Position of the NACF (Dec. 31, 2010. In million KRW)

Description	Assets	Liabilities & Capital
Credit and Banking Business	177,050	171,737
Agricultural Marketing and Supply Business	6,062	2,794
Livestock Marketing and Supply Business	561	135
General Administrative Sector	1,505	107

Special Business Sector (Education, Insurance, Mutual Credit)(101,792	97,608
Equity	-	14,590
Total	286,971	286,071

Source: NACF

Table 3. Summarized Income Statements of the NACF

(Jan 1, 2010-Dec. 31, 2010 in billion KRW))

	Operating Revenue	Operating Expenses	Net Revenue
Credit and Banking Business	19,884	16,832	3,052
Agricultural Marketing and Supply Business	4,385	3,894	491
Livestock Marketing and Supply Business	635	533	102
Cooperative Insurance Business	11,553	11,253	301
Mutual Credit Business	2,780	2,519	261
Crop Insurance Business	183-	180	3
Expense, General Administration & education		3,403	
Net Non-Operating Income	94		
Income Tax Expense		194	
Net Income		705	
Total	39514	39514	

Source: NACF

The credit and banking business consists of about 60 percent of assets allocation. It implies that the growth of the NACF heavily depended upon credit and banking business.

It may be a result of the fact that elimination of usurious loan and acceleration of rural development in the process of rapid urbanization required increased investment and increasing demand for credit to finance it. The importance of credit and banking business is supported by the income statement for the year 2010.

As an apex level cooperative of multipurpose cooperatives, the NACF continued its effort to maximize the synergy effect between the different business areas (see Figure 3), although there had been long controversies on the effectiveness of the multi-purposed NACF. The NACF is preparing an extensive restructuring that will be implemented in March 2012. The restructuring is focused on the enhancement of adaptability of the NACF business to

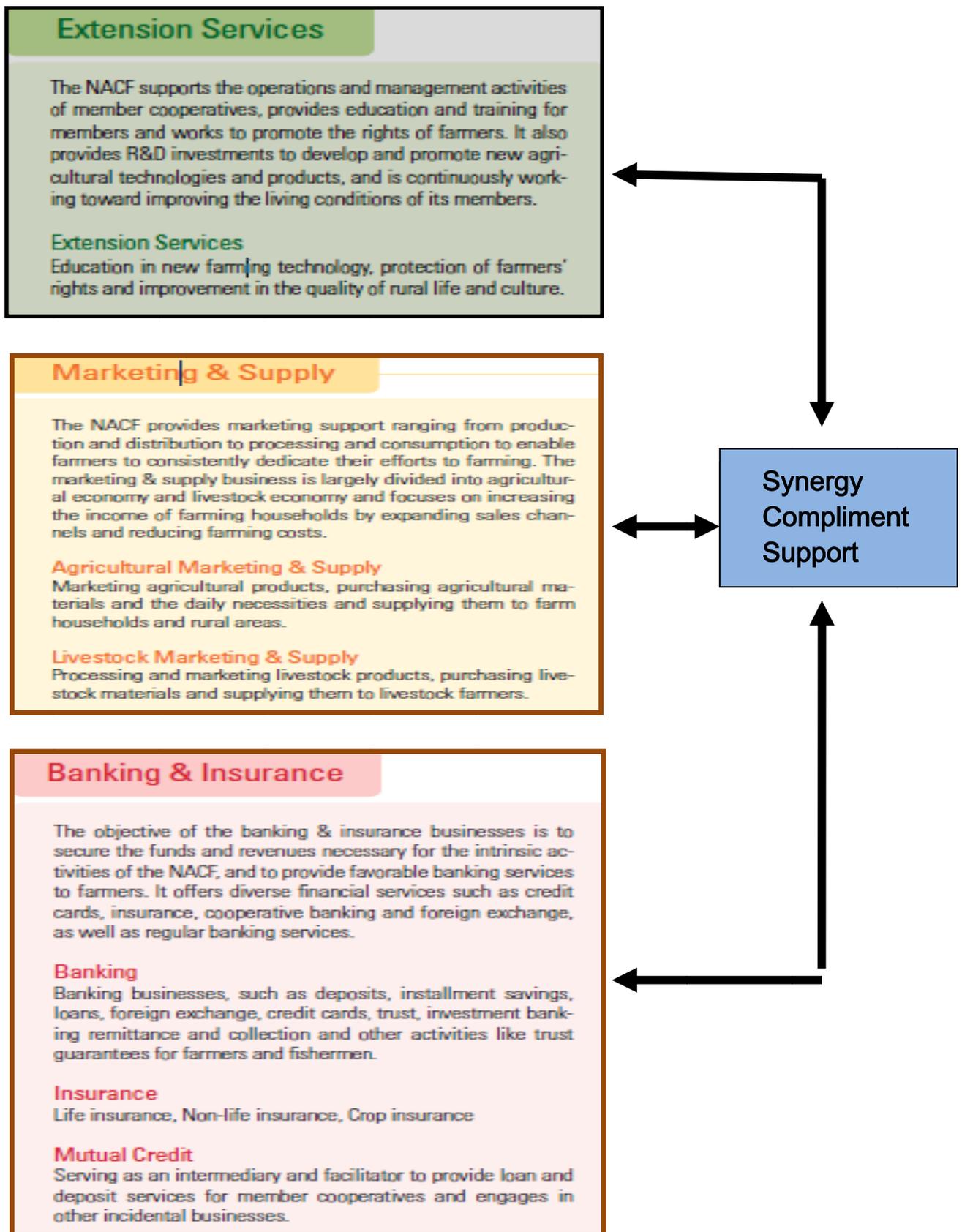
changing economic and social environment.

Figure 2. NACF's Central Head Office Buildings

(Left upper building and left lower one were completed in 2005 and 2008 respectively. Tallest one at right was completed in 2011)



Figure3. Key Functions of the NACF



Source: NACF Annual Report 2010

Table 4. NACF's Subsidiary Firms and Summary of Financial Information
(as of Dec. 31, 2010, unit:million KRW)

	Assets		Liabilities		Shareholders' equity		Sales		Net income (loss)	
Credit and Banking:										
NH Investment & Securities Co., Ltd.	₩	2,808,587	₩	2,256,596	₩	551,991	₩	765,940	₩	42,263
NH Investment & Futures Co., Ltd.		124,167		63,591		60,576		86,917		2,675
NACF-CA Investment Trust Management Co., Ltd.		50,364		2,680		47,704		18,584		5,464
Korea Credit Bureau		45,299		9,914		35,385		33,190		4,337
Nanumlotto		51,452		5,372		46,080		47,743		4,664
NH Agri-Best 1st		7,767		-		7,767		(17,826)		(18,264)
NH Kolon-Green 1st		9,128		-		9,128		1		(801)
NH Capital Corporation		661,849		774,336		87,513		73,995		12,693
NH Benex 1st		20,040		-		20,040		1		(60)
		3,978,653		3,112,469		866,184		1,008,545		52,971
Agricultural Marketing and Supply:										
Dae Jeon Agricultural Products Marketing Center Co., Ltd.		39,637		13,240		26,597		121,744		710
Nonghyup Hansamin Co., Ltd.		112,933		76,153		36,780		42,360		(8,869)
Korea Agricultural Coop-Trading Co., Ltd.		57,448		29,885		27,563		122,815		1,524
The Korean Coop-agro Inc.		12,747		1,021		11,726		17,966		617
Cooperative Marketing Inc.		234,067		82,845		151,222		1,047,624		16,112
Namhae Chemical Corporation		563,212		183,272		379,940		1,063,888		18,209
Youngil Chemical Co., Ltd.		123,712		61,417		62,295		120,139		6,060
Cooperative Pusan Kyongnam Marketing Inc.		53,392		16,541		36,852		192,236		3,030
Agricultural Cooperative Chungbuk Marketing Co.		46,882		22,982		23,900		192,758		2,501
Nonghyup Logistics Service Inc.		74,032		35,061		38,971		191,328		3,133
		1,318,262		522,417		795,846		3,113,048		43,227
Livestock Marketing and Supply:										
Nonghyup Feed Inc.		483,505		380,127		103,378		1,175,158		27,511
Nonghyup Moguchon Inc.		185,668		76,122		109,546		505,103		5,262
		669,173		456,249		212,924		1,680,261		32,773
Administrative:										
NH Development Ltd.		111,956		58,808		53,148		223,726		9,442
Agricultural Cooperative Asset Management Co., Ltd.		141,134		101,995		39,139		70,464		6,491
NH Information System Co., Ltd.		50,198		20,720		29,478		81,272		2,768
NongHyup Economic Research		50,978		519		50,459		4,185		(355)
		354,266		182,042		172,224		379,647		20,346
	₩	6,320,354	₩	4,273,177	₩	2,047,178	₩	6,181,501	₩	149,317

Source: NACF Annual Report 2010

2.4 Insurance Business and Credit Guarantee Programme

The NACF and its member cooperatives have offered insurance services for farmers for the purpose of stabilizing rural household economy. The coverage of the insurance services includes life, damage, crop and livestock although their starting point and the range of expansion are different.

The cooperative life insurance service was introduced in 1965 and fire insurance policy began to be sold in 1975. In 1969, the NACF joined the International Cooperative Insurance Federation.

Developing and offering various types of insurance policies such as schooling insurance, short-term deposit insurance, long-term fire insurance, and so on, the volume of insurance business of agricultural cooperatives grew rapidly.

However, the introduction of livestock insurance service was not realized until late 1990's, even though livestock farmers were very vulnerable to various natural disasters and animal epidemics.

After repeated studies to investigate the possibility of livestock insurance and a pilot program implemented during 1997-1999, insurance service for cattle, hog, and horse was developed for the first time in 2000. Since then, the eligible animals expanded to other farm animals including chicken, duck, sheep, deer, pheasant, quail, turkey, goose, ostrich, bee, rabbit, and parrot. The range of damages insured against include natural disasters of snow, wind and flood, fire, animal epidemics and so on.

The role of Government is considered to be crucial in the introduction and implementation of the livestock insurance program in Korea because 50 percent of the insurance program is paid from the government budget every year. In 2011, the government budget for the subsidy of insurance premium amounted to 34 billion Korean Won (about US\$34 million).

The NACF has undertaken the operation of Credit Guarantee Programme for Farmers and Fishermen, since its beginning in 1972, to increase accessibility to loans provided by credit guarantee institutions (CGP). Although most of the fund required to subrogate non-performing loans is financed by government, the NACF also participates in the contribution.

The CGP has been very helpful to farmers with limited resources enabling them to invest in income generating farm activity.

The CGP, together with insurance program, benefits not only farmers but also the credit business of the NACF and its member cooperative by reducing the credit-risk entailed. Therefore the CGP facilitates the loan extension by the lender, increase investment in rural and agricultural sector, increase farm income, and increase agricultural productivity.

This type of virtuous cycle generated by the savings and credit business is considered to an important factor that encouraged rural development and growth of agricultural cooperatives.

As of 2010, the total amount of loans outstanding guaranteed by the CGP was KRW 9,145 billion and subrogation by the CGP in 2010 amounted to KRW 324 billion.

3. Field Visits

3.1 Gosam Agricultural Cooperative

The Gosam Agricultural Cooperative (GAC) is located about 70 km. south of downtown Seoul or from NACF central head office. The population of the Gosam Township (Myon) is 2,400 currently as a result of substantial decrease during last several decades.

Farm household accounted for two thirds of the total in the township. The majority of about 600 farm households hold membership of the GAC. Therefore, the GAC is one of the smallest member cooperatives of the NACF in terms of the number of member farm household.

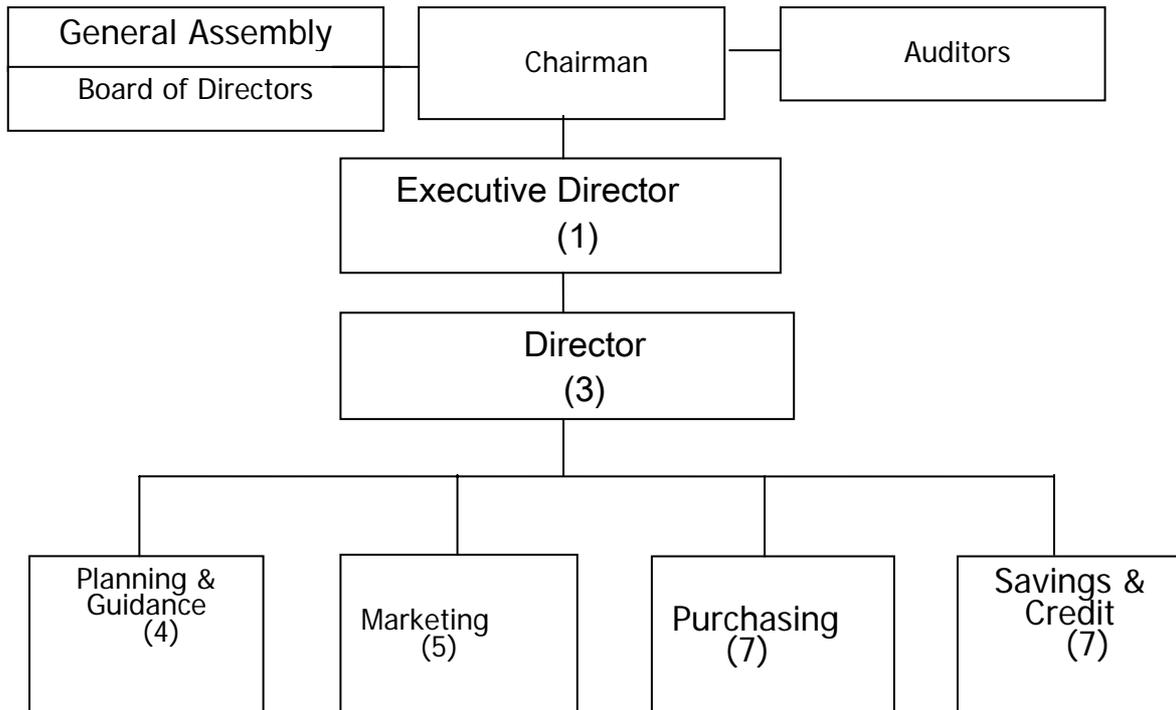
Reflecting the rapid ageing of rural Korea, about a half (or 47 %) of total population of the Gosam Township is over 60 years old and the young residents aged 30 or less accounted for only 9 % of the total.

GAC, one of the 907 member agricultural cooperatives of the NACF, was formally established in 1973 when the "one town one cooperative" was accomplished. Originally, there existed a total of eight village-level cooperatives in the town. The number of primary cooperatives reduced to two by the merger of four cooperatives into one respectively in 1965. Finally, the two cooperatives amalgamated into current GAC, the one and only multi-purpose agricultural cooperative in the township of Gosam Myon.

The accomplishment of the transformation of the eight village-level agricultural cooperatives which were little more than a name into one cooperative in the township, the GAC, stimulated cooperative activities to serve their member farmers. The cooperative began its mutual credit business in April 1973, completed its own office building and grain warehouses in August 1973 and September 1976 respectively. The business volume of the cooperative began to increase rapidly.

The strengthening of the cooperative functions resulted in the increase of capable workers for operation, and thus the number of full time employees had to be increased. In 2011, its 27 fulltime workers including the Chairman and an Executive Director are engaged in diversified cooperative business as shown in the organizational chart of the GAC (Figure 4).

Figure 4. Organizational Chart of the Gosam Agricultural Cooperative



Note: Figures in () show the current number of full-time employees.

Looking at the financial situation and performance of the GAC, it seemed to be impressive to the participants of the exposure visit. The paid in capital by the member farmers amounted to 1,107 million KRW and equity including retained earnings and accumulated income totaled to KRW 6,565 million as of mid 2011. The equity value corresponds to about KRW 66 million or approximately 10,000 US dollars per member farm household.

Based on the equity capital, the FAC is able to secure the properties such as the main office building completed in 1997 (see **Figure 3**), a feed mill, environment-friendly grain packing center, a gas station for vehicles and farm machinery, a supermarket-sized chain store (Hanaro Mart) and several warehouses. The total assets of the GAC amounted to about 90 billion KRW out of which 57 billion KRW was loans extended (**Table 5**).

Moreover the GAC subsidized KRW 56 million for adoption of environment friendly farm production practices of the member farmers, 48 million won to encourage farmers to be more informative and prepared to the changes in social, economic and technological development.

Figure 5. Main Office Building of the GAC



The GAC operates Farm Machinery Bank (FMB) in an effort to reduce production cost of member farmers since large farm machines such as tractor and combine require relatively heavy investment for individual farmers even though their annual utilization rate is very low.

The marketing and purchasing business of the GAC deserves a special attention because 13 nearby agricultural cooperatives joined together to establish a Joint Business Unit (JBU) to act as a single management unit for more efficient marketing and purchasing business operation. By doing so, the JBU or participating cooperatives can strengthen the bargaining power in the transactions, and enjoy economy of scale in terms of cost effectiveness, and can introduce a cooperative brand in marketing of farm products.

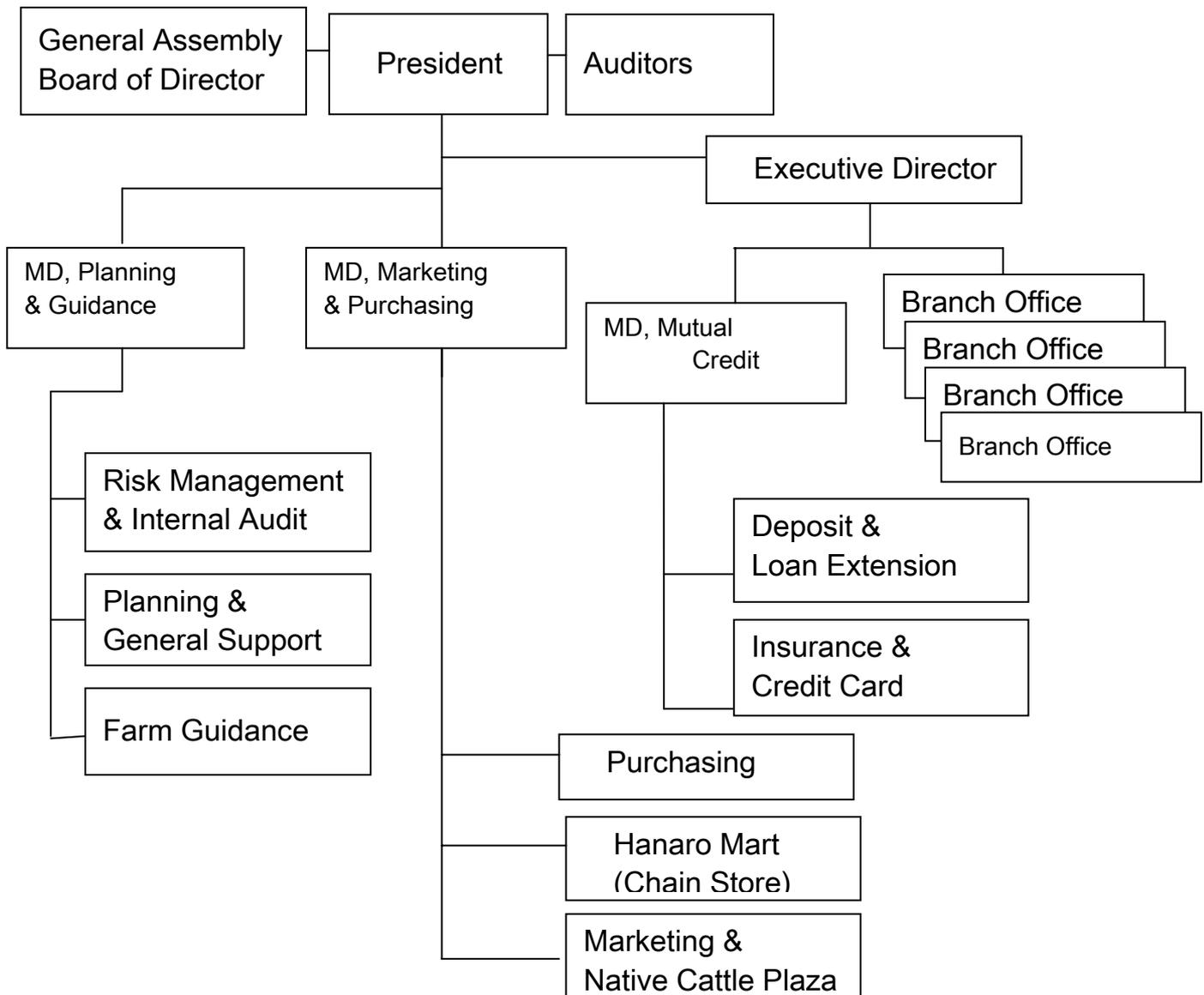
The JBU type of business approach was initially designed by the GAC and materialized in practice for purchasing formulated feed mixture in late 1990's. However it developed to a business model for wide range of purchasing farm inputs as well as marketing every kind of farm products and adopted by many agricultural cooperatives nationwide.

Table 5. Summarized Financial Position of the GAC

(As of 2011.06.31 in million KRW)

Assets		Liabilities & Capital	
Description	Amount	Description	Amount
Current Assets	8,719	Current Liabilities	11,587
Deposit Balance for Mutual Credit Business	15,128	Deposits Received for Mutual Credit Business	62,848
Loan Balance for Mutual Credit Business	56,655	Borrowings for Mutual Credit Business	8,250
Non-current Assets	9,201	Other Liabilities	452
Total Assets	89,702	Total Capital	6,565
		Total Liabilities & Capital	89,702

Figure 6. Organizational Chart of Anseong Livestock Cooperative



3.2 Anseong Livestock Cooperative

The Anseong Livestock Cooperative (ALC) is a regional livestock cooperative organized among the livestock farmers in Anseong City. The ALC was established in 1972 and joined the NACF. The ALC became a member of National Livestock Cooperative Federation (NLCF) when it was formed in 1980. However, the NLCF was merged into the NACF in 2000. Consequently the ALC regained the NACF membership.

Up until early 1970's, livestock industry was a minor sector in terms of the number of livestock farmers or in terms of production value. Therefore, the primary livestock cooperatives were organized at county/city level contrasting to primary agricultural cooperatives at village level first and at township level later.

Considering the fact that current Anseong City, former Anseong County, is composed of 13 township level administrative unit (one of which is Gosam Myon or township), it is clear that ALC covers quite large geographical area.

The membership of ALC at the end of last year was 1,983 implying a relatively sparse distribution of livestock farmers compared with GAC's about 800-member farm households in Gosam Township only.

The number of full-time employees of the ALC exceeded one hundred and totaled 118 at the end of 2010. As indicated in **Figure 4**, it operates four branch offices, in addition to a head office. Diversified business activities are carried out.

One of the distinct activities of the ALC is an effort for an environment-friendly livestock industry. It provided 31 muck spreaders in 2008-2009 and 13 more in 2010 in order to encourage the utilization of animal manure for crop farming. The cooperative also put emphasis on farm guidance and consulting on animal husbandry.

In addition, the ALC opens calf auction market twice a month on 12th and 27th to discover fair price and propagate calves with good gene because a calf is a livestock product to sell for breeders and, at the same time, it is an important input for fatteners. The ALC had to close the auction market in February, April, May, and December of 2010 due to the outbreak of foot and mouth disease (FMD), the total number of cattle transacted at the auction was 1,135 heads during the year.

ALC have three insemination technicians, and they successfully achieved 13,000 artificial inseminations under the very unfavorable circumstances caused by FMD during the year. The artificial insemination programme has been implemented for many years for animal improvement under partial support from the national government.

Mutual credit and insurance business is allowed to livestock cooperatives in Korea since mid 1980's. For this reason, they are multipurpose cooperatives too, in the sense that they are

engaging in almost every kind of business including mutual credit which agricultural cooperatives carry out. Therefore, the difference between the businesses of agricultural cooperatives and livestock cooperatives in Korea may be summarized that the proportion of the livestock related activities are relatively larger for the latter.

As for credit and insurance business of the ALC, total deposits received reached KRW 234.7 billion and the amount of mutual credit loans was 155.6 billion at the end of 2010. The insurance premium received in 2010 amounted to KRW 1.1 billion (see **Table 6**).

Table 6. Summarized Financial Position, Anseong Livestock Cooperative
(As of 2011.06.31 in million KRW)

Assets		Liabilities & Capital	
Description	Amount	Description	Amount
Current Assets	61,288	Current Liabilities	24,283
Deposit Balance for Mutual Credit Business	47,728	Deposits Received for Credit Business	234,734
Loan Balance for Credit Business	262,145	Borrowings for Credit Business	8,250
Noncurrent Assets	35,117	Other Liabilities	14,335
Total Assets	406,278	Total Capital	22,581
		Total Liabilities & Capital	406,278

Source: ALC

ALC's business volume of marketing and purchasing was KRW 80.6 billion and KRW 69.2 billion respectively in 2010. Formulated feed dominated the purchasing business sharing 97 percent of the total while the major commodities for marketing include beef and pork.

ALC introduced its own brands, **Anseong Hanwoo** for native cattle and **Anseong Machum Pork**. The promotional activities of the ALC focused on the improvement of brand images paralleled with the quality control in farm guidance.

The city government of Anseong and the ALC exert their coordinated effort to promote the brand awareness of the *Anseong Hanwoo* (native cattle) and *Anseong Machum Pork* because those brands have symbolic values to the Anseong city and its regional government too.

Therefore, most of the local governments support and collaborate with agricultural cooperatives in rural and agricultural development.

3.3 Korea Beekeepers Cooperative (Anseong Business Center)

Korea Beekeepers' Cooperative (KBC) was organized in 1961 by farmers engaged in honey production. There were several other beekeepers' cooperatives at different region in Korea.

Due to the sparse geographical distribution of the beekeepers and their nomad characteristics that move beehives following the flower, a beekeepers' cooperative was usually organized among the farmers in larger area of a province or several provinces. It is noted that about 50% of the total bee colonies are moved pursuing bloom of honey-source plants.

KBC has been most viable among the beekeepers cooperatives in Korea. It joined APIMONDIA or International Federation of Beekeepers' Association in 1980, and NLCF in 1981. The merger of the NLCF into the NACF in July 2000 made the KBC a member of the NACF.

It merged a beekeepers' cooperative in 1999 and two other beekeepers cooperative in 2003. Consequently the KBC became Korea's only one cooperative for apiculture.

Currently, the number of beekeepers who joined KBC is 1,853 all over the country, and KBC's full-time employees exceed 110. Its main office is located in Seoul and the cooperative operates eight branch offices. Total capital of the KBC at the end of 2010 amounted to KRW 14 billion averaging about KRW 7.5 million per member.

Being a national-level primary cooperative, KBC focused on promotional activities to increase domestic demand for the products produced by its member beekeepers. It developed a brand *Sunyou*, with the financial and technical support of the NACF, for honey and related commodities and advertised it on TV, radio and subway train.

KBC also has laid an emphasis on expanding the honey-source-plants for many years. Since the increase in honey-source-plants benefits not only KBC members but also the non-member beekeepers, the Korean government actively supported the project. It was noted that the KBC steered the planting of more than 10 million honey-source trees since 2003. APC is operating an on-line-shopping mall specialized in apicultural products such as honey, propolis, royal jelly, and pollen.

Credit and insurance business provide KBC with most important financial basis for those activities for member farmers and the beekeeping industry. The KBC began the mutual credit business for the first time in 1988. However, the loans outstanding amounted to KRW 448 billion and deposits received recorded KRW 608 billion at the end of 2010 as shown in **Table 7**.

Table 7. Summarized Financial Position, Korea Beekeepers Cooperative
(As of 2011.06.31 in million KRW)

Assets		Liabilities & Capital	
Description	Amount	Description	Amount
Current Assets	22,682	Current Liabilities	16,384
Deposit Balance for Mutual Credit Business	85,870	Deposits Received for Credit Business	607,620
Loan Balance for Credit Business	448,321	Borrowings for Credit Business	4,124
Noncurrent Assets	46,934	Other Liabilities	3,613
Total Assets	666,532	Total Capital	14,035
		Total Liabilities & Capital	666,532

Source: Korea Beekeepers' Cooperative

In addition, it is notable that mutual credit and banking business of the KBC are the most important income source for the cooperative. Summarized income statement for 2010 of the KBC shows that the net income was KRW 4.5 billion and expense for general administration and education was KRW 11.6 billion. Meanwhile, the net operating revenue from the mutual credit and banking business was KRW 14.3 billion compared with KRW 1.2 billion of net operating revenue from marketing and purchasing business.

In conclusion, the mutual credit and banking business provided the KBC with the foundation of the financial viability, and it enabled the KBC's other business and activities. This is common for most of agricultural and livestock cooperatives in Korea with few exceptions, if any, and for the NACF too.

Table 8. Summarized Income Statements of Korea Beekeepers Cooperative
(Jan. 01, 2010- Dec.31.2010 in million KRW)

	Operating Revenue	Operating Expenses
Mutual Credit and Banking Business	38,113	23,883
Agricultural Marketing and Supply Business	16,853	15,609
Cooperative Insurance Business	1,780	540

Expense for General Administration and Education		11,607
Net Non-Operating Income		32
Income Tax Expense		526
Net Income		4,549
Total	56,746	56,746

Source: Korea Beekeepers' Cooperative

3.4 Agricultural Cooperative College

For a rapid development of agricultural cooperatives in Korea, securing and cultivating capable human resources has been one of the most important strategies.

The urbanization in Korea was very fast to such an extent that farm population decreased from 17 million to only 3 million during 1970-2005 while the non-farm population increased from 16 million to 45 million for the same period. Moreover, the one of the distinct characteristics of the rural urban migration was dominated by the young and the educated implying that it was difficult to secure the talented people in rural and agricultural sector.

The NACF established the Agricultural Cooperative College (ACC) for the purpose of (1) fostering the younger generation committed to rural development and to agricultural cooperative movement; (2) educating advanced farmers in rural areas for rural leaders with the spirit of modern agricultural cooperatives and farming technology; and (3) training cooperative leaders, such as presidents directors and general managers, with knowledge, management skills, and ethics for cooperative leaders.

For full-time student, the ACC offers regular junior college education that vocational bachelor degree authorized by the Ministry of Education is given since its establishment in 1962. The graduates of the ACC were employed by the NACF until early 1980's and by the NACF's member cooperatives afterwards. The number of full-time students graduated from the ACC is more or less one hundred every year. All of the full-time students used to be accommodated by dormitory located in the campus and the two year course was free of tuition until early 1990's.

The curricula for the students consist of the basics of college education with special emphasis on the agriculture, cooperative management, and the courses that build the passion and virtue desirable to workers of agricultural cooperative. That was the reason why the ACC was used to be called military academy for agricultural cooperatives. ACC lengthened the two-year-degree course to three-year course from 2009 freshmen because business of the most agricultural cooperatives continued to increase in size and became more complex requiring more competent and knowledgeable workers.

Figure 7. Main ACC Building (up) and Lecture Building (down).



Education and training of farmers and cooperative leaders are offered in the form of short-term courses; six-month full-time course, one-year programme that meets 3-4 days a month or one day a week and so on. Some of those courses are partly financed by national government and/or regional government and/or the NACF and/or participants of the courses.

The ACC used to organize international training courses on agricultural cooperative development, farm credit and marketing for developing countries usually under the co-sponsorship with international bodies, Korea International Cooperation Agency (KOICA) and/or the NACF.

4. Pilot Testing

4.1 Purpose and Proceedings of Pilot Testing

The rationale for the pilot testing was to check the applicability of the experience of Korean agricultural cooperatives or to derive implication to Mongolian agricultural cooperatives for the reduction of rural poverty. It is important to note that Korean agricultural cooperative development depended upon its

own social, economic, political and cultural setting. Therefore a careful investigation is desirable whenever alien system is to be introduced at grass roots level.

The author visited several institutions in Ulaanbaatar and rural Mongolia and m interviewed with the persons related to rural development policy, agricultural credit and marketing and cooperative movement during 27 – 30 of June 2011. The interviews focused on the identification of the circumstances on which agricultural cooperative is organized and operated, current situation of existing agricultural cooperatives and on the attitude or views on the future of agricultural cooperative in Mongolia.

The institutions visited include Ministry of Food, Agriculture and Light Industry (MFALI), Mongolian Cooperative Training and Information Center (MCTIC), XacBank, National Association of Mongolian Agricultural Cooperatives (NAMAC), Mongolian National Cooperators' Association (MNCA), "Bayan Zugii" Beehive Cooperative in Orkhon soum of Darkhan Uul, and Kahsbayan-Ulziit Savings and Loan Association in Bornuur soum of Tuv province.

Information and general impression of the institutions visited that give light on agricultural cooperatives are herein summarized.

4.2 Ministry of Food, Agriculture and Light Industry

Mongolian agriculture is dominated by livestock farming which shared 18.8 % of the GDP, 10 % of the export revenues, and employed 36% of the total workforce in 2008, although aggregate agriculture's share in GDP decreased to 15.9% in 2010.

The nation had 43.3 million heads of livestock in 2009; 88.5 % of which was sheep and goats, 5.8% were cattle, 5.1% were horses, and 0.6% were camels. Intensive livestock farming of dairy cow, meat cattle, swine, chicken, honey and rabbit is negligible in Mongolia now with total farms of only about 1,000.

Crop production is relatively a small part of the agricultural sector. Major products in 2009 include 389,000 tons of wheat, 156,000 tons of potato, and 81,000 tons of vegetables.

The policy emphasis of Ministry of Food, Agriculture and Light Industry (MFALI) is focused on improving pastureland management through mechanization for hay preparation, protection of pasture plants from grasshoppers and gerbils, and developing water wells for pastureland. However MFALI is well aware of the importance of cooperatives in reducing rural poverty.

The Mongolian government seems to be positive in developing agricultural cooperatives. However, it is important to note that there is a contrasting difference between Mongolia and Korea from the viewpoint of legal system that provides the basis of and supports the activities of agricultural cooperatives.

In Korea, the Agricultural Cooperative Law pertains only to the agricultural cooperative system composed of the NACF and its member agricultural cooperatives. When the NLCF was established in 1981, Livestock Cooperative Law had to be enacted. Fisheries Cooperative Law and Consumer Cooperative Law regulate/support relevant cooperatives respectively.

In contrast, all types of Mongolian cooperatives are defined, regulated, and supported by a general law, the Law on Cooperatives, legislated in 1995 and amended several times.

The Mongolian government adopted a resolution in 2009 to approve the Cooperative Development National Program (CDNP) and to assign MFALI, Ministry of Finance and Governors of provinces to finance and implement the CDNP.

Both of the Law on Cooperatives and CDNP do not pay special attention to agriculture indicating that the Mongolian government follows the "generic approach" based on a general law toward cooperatives compared with "industry specific" approach based on special law followed by Korea. Thus, there is no specific law or resolution on agricultural cooperatives.

The Mongolian type of generic approach may be useful in developed countries where farmers and rural residents are well aware of and capable of cooperative management, and where market economy and entrepreneurship penetrates rural/agricultural sector as well as urban/industrial sector. If there are distinct characteristics unique to rural and agricultural sector and if it restrains a cooperative development of the sector, a special attention or industry specific approach deserves a consideration.

According to the Law on Cooperatives, it is allowed that a cooperative can be established if the number of members is nine or more individuals. Two or more of entities also can establish a cooperative. Considering the Korean experience of village level cooperatives which was nominal without any substantial role, this membership threshold of only nine individuals might result in the increase in the number of cooperatives registered and in the decrease of cooperative size and average business volume per cooperatives.

As a result, there were 1,695 cooperatives with 212,589 members in Mongolia as of 2008. The membership per cooperative averaged 125. There existed a total of 486 cooperative in the area of agriculture, hunting and forestry, and 475 in retail and wholesale trade, 500 in small and medium enterprises.

A multi-purpose cooperative can be established in Mongolia in the sense that the Law on Cooperative stipulates that a cooperative may engage in one or more of the following activities: processing, production, saving and credit, sale, supply, procurement, service, housing construction, consumer, and other activities as stipulated by the Charter. However, it is noted that savings and credit business is allowed only to savings and credit cooperative by another law. Consequently, any agricultural cooperative may not engage in the savings and credit business currently in Mongolia.

4.3 Mongolian National Cooperators' Association (MNCA)

The MNCA, established in 2008, is an umbrella organization of all cooperatives in Mongolia. It declares its mission as "to define development strategy and policy of Mongolian cooperative movement and provide leadership to synergize stakeholders' approaches forming enabling environment.

Seven cooperative organizations all of which operate nationwide consist of the membership of the MNCA;

- Central Union of Mongolian Consumers Cooperatives (CUMCC), with 262 primary cooperatives
- Central Union of Mongolian Industrial Cooperative (CUMIC), with 80 primary cooperatives and one intermediary organization
- National Association of Mongolian Agricultural Cooperators (NAMAC), with 360 primary cooperatives and seven intermediaries
- Union of Mongolian Production and Service Cooperative (UMPSC), with 120 primary cooperatives
- Association of Private Herders Cooperatives (APHC), with 35 primary cooperatives and two intermediaries.
- Mongolian Confederation of Credit Cooperatives (MOCCU), with 61 primary cooperatives
- Mongolian Cooperative Training and Information Center (MCTIC), which has branches in 19 provinces (aimags) of the nation.

The membership of the MNCA and its mission statement indicate that its activities are not limited to a specific area of agricultural and rural cooperative development. Rather its effort is to facilitate social and political atmosphere favorable to cooperative movement as a whole.

The MNCA has currently only two full-time staff. However it organized the National Cooperators' Assembly-II in 2010 under the leadership of Mr. Enkhbold Nyamaa, Chairman of the MNCA and Vice Speaker of National Assembly, and emphasized the collaboration with national and international stakeholders to promote sustainable development of cooperatives. In this regard, the MNCA also follows the "generic" approach toward cooperative regardless of different characteristics by different type of cooperatives or by different industry.

4.4 Mongolian Cooperative Training and Information Center (MCTIC)

The Mongolian Cooperative Training and Information Center was established in December 1998 by the participation of four cooperative organizations at national level: the Central Union of Mongolian Consumer Cooperatives (CUMCC), the Central Union of Mongolian Industrial Cooperatives (CUMIC), the National Association of Mongolia Agricultural Cooperators (NAMAC) and the Association of Private Herders Cooperatives (APHC).

The objective of the MCTIC is to support the economic development of the country through promoting and strengthening all types of cooperatives based on the values and principles of cooperatives. The

main activities of the MCTIC are summarized as training, consultation and information.

In Mongolia, there were cooperatives under the centrally planned economy. It was noted that formal cooperatives were formed by the State in 1930's. By 1954, there existed about 200 cooperatives with 15,000 members and around one million head of livestock. However, the government forced the herders into cooperatives or negdels. Land, livestock and other assets of the cooperatives (negdels) belonged to the state. The collectivization continued and by 1959 almost all households were members of herding collectives.

Figure 8. Interview at the MCTIC Head Office

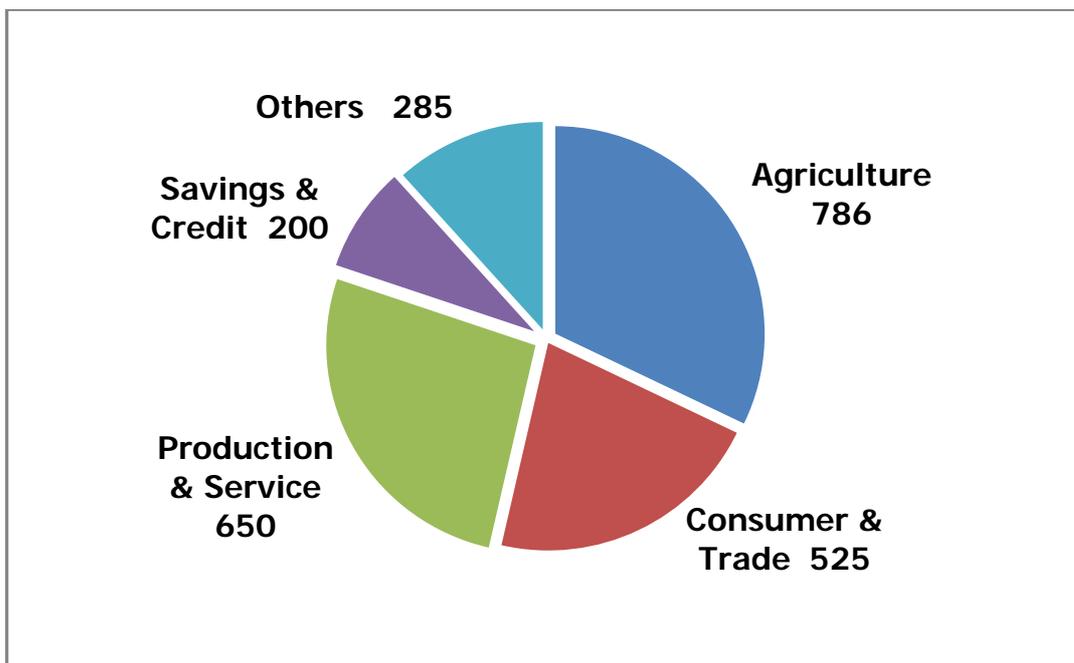


It was noted in Mongolia that a general understanding on the differences between the former cooperative (negdels) and cooperatives in the market economy might be a focal point to motivate people to join a cooperative. The word cooperative reminded the general public of the negdel under the centrally planned economy. Therefore, it was easy to have sense of unease toward a cooperative for most people and they were reluctant to participate in a cooperative activity. This implies that education and training the people accustomed to former economic system might be a prerequisite for cooperative development in privatized market economy. Because the success of a cooperative depends on the individual behavior toward the cooperative and a person's cognitive structure influences his/her attitude and behavior.

The training and consultation services provided by the MCTIC include (1) training on the self-help group development and on business plan preparation, (2) diversified training courses for leaders, managers, and members of cooperatives on all issues of cooperative movement, (3) training courses for trainers, consultants, bookkeepers, and auditors of cooperatives, (4) consultation on new technologies and knowhow and (5) research and studies on related fields.

The total number of cooperatives in Mongolia is 2,446, consisting of 786 agriculture related cooperatives, savings and credit at 200 and other types at 85, as shown in **Figure 9** below.

Figure 9. Number of Cooperatives by Type in Mongolia



Currently, the MCTIC has 35 trainers and 13 advisers in Ulaanbaatar, 489 trainers and 64 advisers throughout the country.

4.5 National Association of Mongolian Agricultural Cooperatives (NAMAC)

The National Association of Mongolian Agricultural Cooperatives (NAMAC) was established in 1992 by transforming former Supreme Council of Agricultural Cooperatives (SCAC) under centrally planned economic system. The SCAC was formed in 1967 and contributed to the increase of agricultural production efficiency and improvement of rural standard of living.

The purpose of NAMAC is to strengthen the economic viability of member agricultural cooperatives by improving their management and developing human resources for them. As of 2009, NAMAC is composed of 19 provincial associations with a total of 360 member primary cooperatives and seven secondary cooperatives. The members of those cooperatives were estimated to be more than 100,000 individuals covering about 38,000 households in 270 soums throughout the country.

The number of primary cooperatives decreased from 404 in 2007 as a result of consolidation of cooperatives under the slogan of "Consolidate Our Strength".

Agricultural cooperatives associated with the NAMAC are mostly located in the rural areas although urban cooperatives comprise 20 percent of the total. Livestock was the most important commodity comprising 42% of the total amount of commodities and services handled by NAMAC-associated

cooperatives while trading service and crop production shared 28% and 16%, respectively.

NAMAC estimated that the sale of those cooperatives amounted to 13 billion Mongolian tugrug in 2009 benefiting more than 300 thousand people directly or indirectly. The total amount of the dividend paid to shareholders was estimated at 500 million tugrug averaging about 500 tugrug per member, assuming 100,000 members.

It is generally enumerated by the NAMAC that the following factors limit the development of Mongolian agricultural cooperatives; (1) vulnerability of rural economy caused by frequent natural disasters, (2) shortage of financial resources for investment in farming sector, (3) lack of government support to agricultural cooperative movement, (4) lack of capable human resources for cooperative leadership and (5) poor development infrastructure in rural areas.

Figure 10. Chairman of the NAMAC and the author



4.6 Other Organizations Visited

4.6.1 XacBank

XacBank is one of the largest banks in Mongolia and known as Mongolia's largest microfinance institution. As of December 31, XacBank had total assets recorded at 468 billion MNT or 47 percent increase from previous year. Gross loan of the Bank amounted to 324 billion MNT.

XacBank maintained a nationwide network of 84 branches, out of which 49 were rural branches or support centers located in every province in the country. In addition to the Bank's own rural network, it maintained close relationship with 64 savings and credit cooperatives (SCC) rural provinces under

franchise contracts. It was estimated that the SCCs provided microfinance to 9,000 members in 2010.

The association of the XacBank and SCCs is a result of an effort to alleviate the difficulties arising from the low population density in rural Mongolia. On the average, there are a little more than two XacBank's branches or supporting centers per province. Considering that average land area of a province in Mongolia is 74.5 thousand Km² or 75% of total land of Korea, it is not uncommon to find a situation that potential borrowers are located 100 or 200 kilometers away from nearest XacBank's office. An SCC located in rural town (soum) is a good window for XacBank in extending credit to remote rural residents. This franchise arrangement increases credit accessibility for rural borrowers, as it enables the SCCs to be viable through providing them with financial resources for lending, technical training and supervision for more efficient management.

For the franchise agreement with the bank, an SCC is required, among other things, to have at least 21 members, to have at least MNT2.0 million in share capital, and to agree with the terms of the franchise contract.

The bank has implemented a policy of withdrawing from direct lending through the bank's mobile banking service in remote rural areas of Mongolia. Instead of mobile banking, the bank adopted the new policy of lending only through SCCs and the bank has transferred its loan portfolio to corresponding SCCs where the franchising agreements are in effect. This means that credit risk associated with loans is transferred to SCCs.

The Bank has a standing agreement with the Ministry of Food, Agriculture and Light Industries under the Ministry's financing support program to support small and medium industries including the cooperative sector.

The Bank maintained the 1.46% of non-performing loan (NPL) ratio which was the lowest in the industry. The average NPL ratio of Mongolian banking sector was 8% in 2010, declining from the peak of 20 percent in 2009. The extremely low NPL ratio of the XacBank indicates the possibility of stringent underwriting in loan approval.

4.6.2 "Kahs bayan-Ulziit" Savings and Loan Association (KUSLA)

KUSLA is an SCC located at Bornuur Soum of Tuv Province, Mongolia. The soum or township has a population of about 5,000, most of whom are engaged in agricultural sector. Major farm products of the town include potato, vegetables and wheat.

KUSLA was established in 2006 with the purpose of meeting the economic and social demands for credit. The business of the SCC focuses on providing loans and savings services for residents in rural areas with limited access to financial services.

Initially, the total amount of share capital was 1.8 million MNT invested by 34 members. Average share capital per member was 54,000 MNT or less than 50 US dollars. However, the

share capital increased to 71 million MNT for five years and the number of members increased to 180 individuals during the same time. It is noticed that 70% of total membership of the KUSLA are engaged in agriculture.

The KUSLA is providing short-term loans less than 12 months with an upper limit of loan amount 5 million MNT per loan. The interest rate was 2 percent per month or 24 % a year. Currently, two employees are carrying out the SCC management with the Chairman in a rented office room.

Figure 11. Inside the Office Room of KUSLA



4.6.3 "Bayan Zugii" Beehive Cooperative (BZC)

The BZC is a beekeepers' cooperative located in Orkhon Soum of Darkhan Uul, about 200 km north of Ulaanbaatar. The soum, with approximately 1,000 households or 3000 population, is famous in Mongolia for its favorable soil and water condition for agriculture.

Out of about 48,000 hectares of total land area, 1,300 hectares of rich and brown soil is suitable for producing potatoes and other vegetables. Benefited by Shariin Gol River, 800 hectares of land is irrigated. The fact that a large scale vegetable processing plant was constructed here with Bulgarian assistance and operated during 1987-1997 indicates favorable natural condition for vegetable production.

Honey production was an important part of agriculture in Orkhon soum. However, the apiculture in the region has almost collapsed in the process of privatization of agriculture in early 1990's. After the transition of national economy, farmers with beekeeping experiences under the former economic system began to produce honey in late 1990's. Apiculture in the soum became a newly growing

industry and cooperation among beekeeping farmers in production and marketing seemed to be urgent.

However it took four years before the inauguration of the BZC for a cooperative leader, who was the first Chairman of BZC he led its foundation and is the current Speaker of the local assembly of Orkhon Soum, to enlighten potential members on the differences between a cooperative in a market economy and the one experienced under centrally planned economy. It was important to explain that the nature of a cooperative that is to be organized was not an attempt to returning back to the former negdels. As mentioned before, a negdel was a “cooperatives” under the State ownership of the land and other materials for production.

In 2006, the BZC was organized with the participation of 10 beekeepers. The number of the membership increased to 100 apiculturists or about one third of the total apiarists in the soum.

The major functions of the cooperative are to develop and share information and production technology on the beekeeping, jointly managed beehives put into the cooperative production, and market honey produced under cooperative production.

It is common to member beekeepers of the BZC to put some of his or her bee colonies into cooperative production and the remaining beehives are under his or her own control. However, labour required to take care of the bee colonies under cooperative production is provided by member farmers. Therefore the BZC may be categorized as a production cooperative.

The cooperative produces 500Kg-1,000Kg of honey each year, while the annual honey production in the soum is estimated to be 1,500Kg-3,000 Kg.

The BZC has a small independent wooden building for its office located next to current Chairman's house (upper-left of **Figure 12**) but doesn't have an employee yet as of 2011.

Figure 12. BZC Beekeepers' Cooperatives



□ In front of BZC office.

□ Apiary for cooperative production

□ Lunch with BZC members



□ With BZC members



5. Wrap-Up Meeting and Recommendations

The wrap-up meeting was held at a meeting room of the Ministry of Food, Agriculture and Light Industries in the afternoon on June 30, 2011. Participants from the MFALI, NAMAC, MCTIC, MNCA and RPRP made a discussion on the issue of agricultural cooperative development in Mongolia with reference to Korean experience. Major issues discussed and consensus reached among the participants are summarized below.

5.1 Top-Down Approach

There existed high expectations of rapid socio-economic development through cooperatives since early 1960's particularly in developing countries. The governments of the most developing countries began to use comprehensive support in order to establish large number of cooperatives in predominantly in rural areas following top-down approach.

The cooperatives, in that case, are characterized by government-sponsored or government-controlled or "officialized" cooperatives compared with voluntary, autonomous, self-reliant non-governmental organizations.

Participants of the wrap-up meeting generally agreed that it is important to note that (a) agricultural cooperatives in Korea were established as government-sponsored cooperatives but they changed, to a significant extent, toward self-reliant and autonomous cooperatives particularly since late 1980's; (b) Korea's top-down approach enabled the rapid rural/agricultural development, reduction of rural poor, and made agricultural cooperatives as essential organizations in rural Korea; (c) although the top-down approach has its own merits and demerits, from a longer-term point of view, it deserves an in-depth investigation on the factors affecting the potential performances of the approach in Mongolia in order to reduce rural poverty rapidly; and (d) bilateral or multilateral exchange of experiences may be beneficial for the in-depth investigation of the merits of the top-down approach.

5.2 Multi-Purpose Cooperative with Savings and Credit Business

It was understood that the NACF was a banking institution as well as a national agricultural cooperative federation from its birth in 1961 in order to meet the demand for rural credit by savings from urban areas. Rural credit was most urgent in Korea because farmers were ready to invest into crop farming on the lands they own as a result of the land reform implemented in early 1950's.

However, primary agricultural cooperatives at grass roots level were incapable of carrying the savings and credit business because they were not even viable. Savings and credit business of the primary cooperatives were allowed to the cooperative with a certain degree of viability and with minimum required management capability. The primary cooperative strived to upgrade their capability for the savings and credit business. It was only in late 1970's when most primary cooperatives were allowed to engage in the mutual credit business.

In Mongolia, agricultural cooperatives as well as other cooperative except for SCCs (savings and credit cooperatives) are not practically allowed to engage in savings and credit business regardless of the code of Law on Cooperatives. It was noticed that many cooperatives experienced bankruptcy due to inappropriate handling of the savings and credit business.

Therefore, a step-by-step approach, cooperative-by-cooperative approach, and specific function-by-function approach (savings first and loan later, for example) may be considered similar to the Korean experience.

The wrap-up meeting participants considered that it is time for Mongolia to allow savings and credit business to qualified agricultural cooperatives. The qualification must be strict and may be adapted in accordance with changing economic environment. Assuming that financial constraint is one of the strongest limitations for farmers and herders, savings and credit business of agricultural cooperatives will ease the constraint through the increase in the mobilization of rural financial resources.

In addition, the savings and credit business of primary cooperatives would encourage their member-farmers to live thrifty lives and would increase other types of cooperative services for their member-farmers, following the Korean experience.

5.3 Economy of Scale & One-Town-One-Cooperative Movement

A cooperative is a business entity, although it has its unique characteristics and substantial differences from other types of enterprises. In a market economy, a cooperative as a form of enterprise must be viable through strengthening its competitiveness in the market. Consequently, the economy of scale in cooperative activities becomes crucial.

It is not uncommon to see the cooperatives, in developing countries, that exist in name only without any business or services for members. Korea's experience of the nationwide amalgamation of village level cooperatives into township level cooperatives may be suggested to be replicated by the Mongolian cooperative movement. It is important to emphasize that the number of cooperatives are

not important. The important factor is the benefit a cooperative provides to its members. In most market economy, developed or underdeveloped, the number of cooperatives has decreased significantly over the years.

In this regard, the cooperative membership threshold stipulated by Article 6 of the Law on Cooperative requires a reexamination for Mongolian cooperative development.

The minimum number of membership required for a cooperative may be differentiated by type of cooperative.

With reference to Korea's experience and bearing a multi-purpose cooperative with savings and banking business, participants of the wrap-up meeting agreed upon "one-soum-one-cooperative movement" in Mongolia deserves much attention than ever before from cooperative leaders and policy makers.

A field survey or research to understand the actual activities of the primary cooperatives is recommendable. It is important to have such information as annual business volume, number of members, amount of share capital, number of employees, annual budget size and benefits generated.

5.4 Industry-Specific Cooperative Approach

The agriculture and rural sector receive special attention from the viewpoint of cooperative movement in most countries. In Korea, the Agricultural Cooperative Law, as a special law, pertains only to the NACF and its member cooperatives. Substantial similarities are found in agricultural cooperative system in Japan, Taiwan, and Korea. One of the similarities is that all of the three countries have industry-specific cooperative law as far as agricultural sector is concerned.

It is considered that the industry-specific legal approach enabled the Government to formulate and implement agricultural policies and cooperative development programmes that are practically adoptable and workable at grass roots level of those countries where successful rural poverty reduction was rapidly implemented.

In case of Mongolia, the livestock industry dominates the agricultural sector and nomadic herding on the Government-owned pasturelands is a predominant way of livestock production. For an efficient and sustainable livestock industry in Mongolia, it is important to improve pasture management through systematic grazing in a predetermined schedule to maximize the feed efficiency. Improvement of quality and increase of quantity of grasses from a given area of pastureland require capital investment to increase water availability and to establish animal shelter.

Under the Mongolian land ownership system, the Government may consider to make a long-term rental contract allowing a agricultural cooperative in a region to have an exclusive right to manage and utilize a certain amount of pastureland in accordance with the number of the cooperatives, for example. Various conditions and qualifications as well as rights and responsibilities must be defined and stipulated. This type of system, for example, may be effectively supported by industry-specific

approach for rural and agricultural sector.

However, the participants of the meeting emphasized that there is a possibility that the industry-specific approach may entail the problem of Government intervention to cooperative management, which may hamper the march towards self-reliance and autonomy of cooperatives.

5.5 Education, Training and Saemaul Undong

It is not uncommon in developing countries that agricultural cooperatives movement driven by a strong government initiative would soon fail and members would become disappointed and lose even more faith in cooperative activities. Most of such cooperatives have common characteristics that they were established by top-down approach, have centralized organizational structure, they suffer from the lack of member participation and excessive government intervention.

Agricultural cooperatives in Korea used to have such problems but it is notable that they were able to make a crucial contribution to rural poverty reduction. In addition, the NACF and its member cooperatives made a remarkable evolution from a government-sponsored cooperative to a self-reliant autonomous cooperative, from centralized operation to decentralized business, and from a bureaucratic and authoritative decision-making system to a democratized organization.

The Chairman and President of the NACF began to be elected by the Chairmen of its member cooperatives since late 1980's whereas the position was previously appointed by the President of the country.

The transformation of the agricultural cooperative system was made possible, in large part, through continuous education and training of cooperative leaders, cooperative employees, and advanced farmer-members. The new village movement also contributed to enlightenment of farmers towards market economy in Korea.

A few days of exposure visit by Mongolian stakeholders may not be sufficient to satisfy their desire to learn Korea's agricultural cooperative, to comprehend the factors affecting the success and failure of the cooperatives and to derive useful lessons for cooperative development in Mongolia.

Participants of the wrap-up meeting agreed that longer-term training courses in Korea for the Mongolian stakeholders may be considered by the related national and international institutions.

Figure 13. Wrap-Up Meeting



