

No. 2

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)  
THE MINISTRY OF COOPERATIVES AND SMALL ENTERPRISES  
DEVELOPMENT OF THE REPUBLIC OF INDONESIA

THE STUDY ON INTEGRATED DEVELOPMENT OF RURAL  
COOPERATIVES  
IN  
THE REPUBLIC OF INDONESIA

The Final Report

Main Report

FEBRUARY 1999

CENTRAL UNION OF AGRICULTURAL COOPERATIVES (JA-ZENCHU)  
SYSTEM SCIENCE CONSULTANTS INC. (SSCI)

THE REPUBLIC OF  
INDONESIA  
THE STUDY ON INTEGRATED DEVELOPMENT  
OF RURAL COOPERATIVES  
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## PREFACE

In response to a request from the Government of the Republic of Indonesia, the Government of Japan decided to conduct a master plan study on Integrated Development Project for Rural Cooperatives in the Republic of Indonesia and entrusted the study to Japan International Cooperation Agency (JICA) .

JICA sent to the Republic of Indonesia a study team headed by Mr. Midori Matsuhira, the Central Union of Agricultural Cooperatives (JA-ZENCHU) five times between February, 1995 and May, 1998.

The team held discussions with the officials concerned of the Government of the Republic of Indonesia, and conducted field surveys at the study area. After the team returned to Japan, further studies were made and the present report was prepared.

I hope that this report will contribute to the promotion of the project and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Republic of Indonesia for their close cooperation extended to the team.

February, 1999



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Kimio Fujita  
President

Japan International Cooperation Agency

February, 1999

Mr. Kimio Fujita  
President  
Japan International Cooperation Agency

Dear Mr. Fujita

Letter of Transmittal

We are pleased to submit you the Report of the Study on Integrated Development of Rural Cooperatives in the Republic of Indonesia. The Report contains the direction of activities of KUD or rural cooperatives, basic plans for integrated development of KUD in 7 provinces, and the detailed plans for activation of 6 model KUD on the basis of field surveys, interviews, and analysis of data, materials and questionnaires.

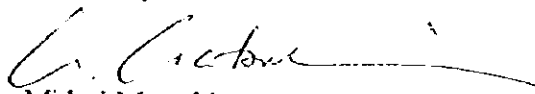
We found a number of deterrent factors for the development of KUD, and most of which are inter-related. More specifically, most of KUD we have surveyed suffered from the lack of funds which have been a hampering factor for introduction of new facilities for diversification of KUD business activities. The weak KUD base for processing of farm and livestock products has resulted in particular factor said above which hampered the value-addition of them. Thus, the increase of members' income has been hampered, and their savings with KUD have not increased. Then, one might pay attention to the small amount of internal accumulation of funds of KUD. In this vicious circle, the factor came back to square one.

To end this vicious circle, development of human resources by means of strengthening functions of government and cooperative training institutions and increasing on-the-job training on the part of KUD; and introduction of necessary funds to KUD and their members through reinforcing government-programmed-loan system and initiating small savings promotion campaign by KUD are considered most important measures.

Also to generate vitalization among KUD, it will be effective to select model KUD to implement comprehensive programs for improvement of their organizations, management and business activities, and disseminate the results to other KUD.

We wish to take this opportunity to express our deepest gratitude to your Agency, the Ministry of Foreign Affairs, and the Ministry of Agriculture, Forestry and Fisheries. We also express our most sincere gratitude to the Ministry of Cooperatives and Small Enterprises Development, the Ministry of Agriculture and BAPPENAS of the Republic of Indonesia for the close cooperation and assistance extended to us during the study.

Very Truly Yours,



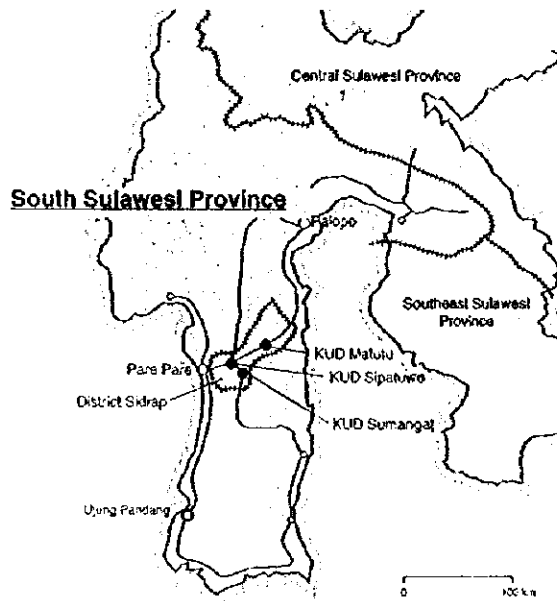
Midori Matsuhira

Team Leader

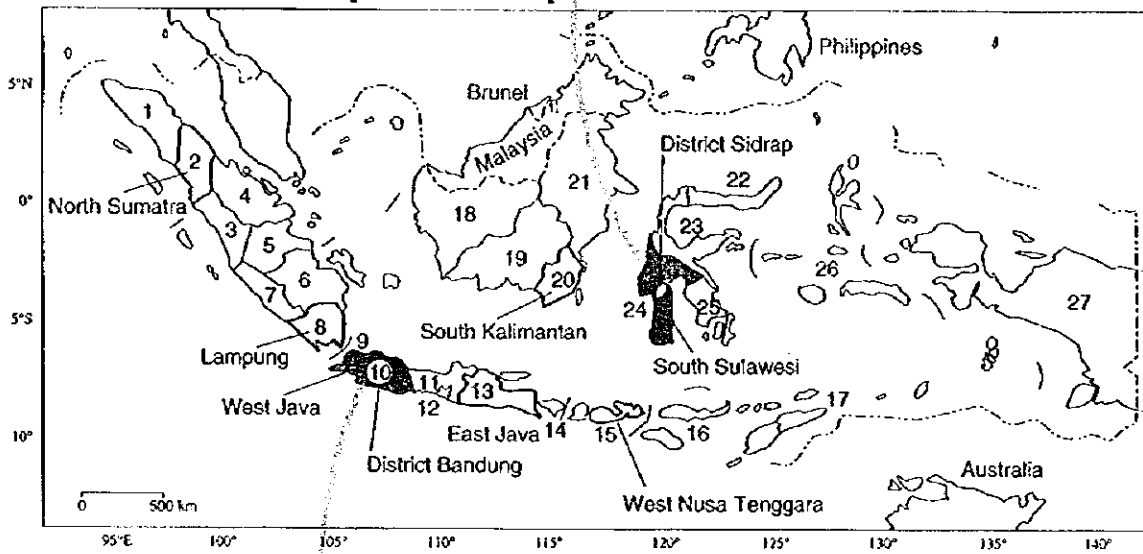
The Study on Integrated  
Development of Rural  
Cooperatives in the  
Republic of Indonesia

# THE STUDY AREA

## STUDY PROVINCE and KUD

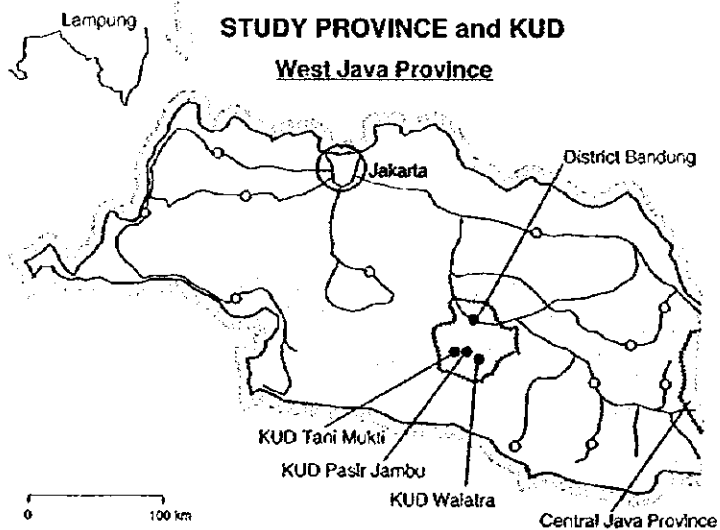


## Map of the Republic of Indonesia

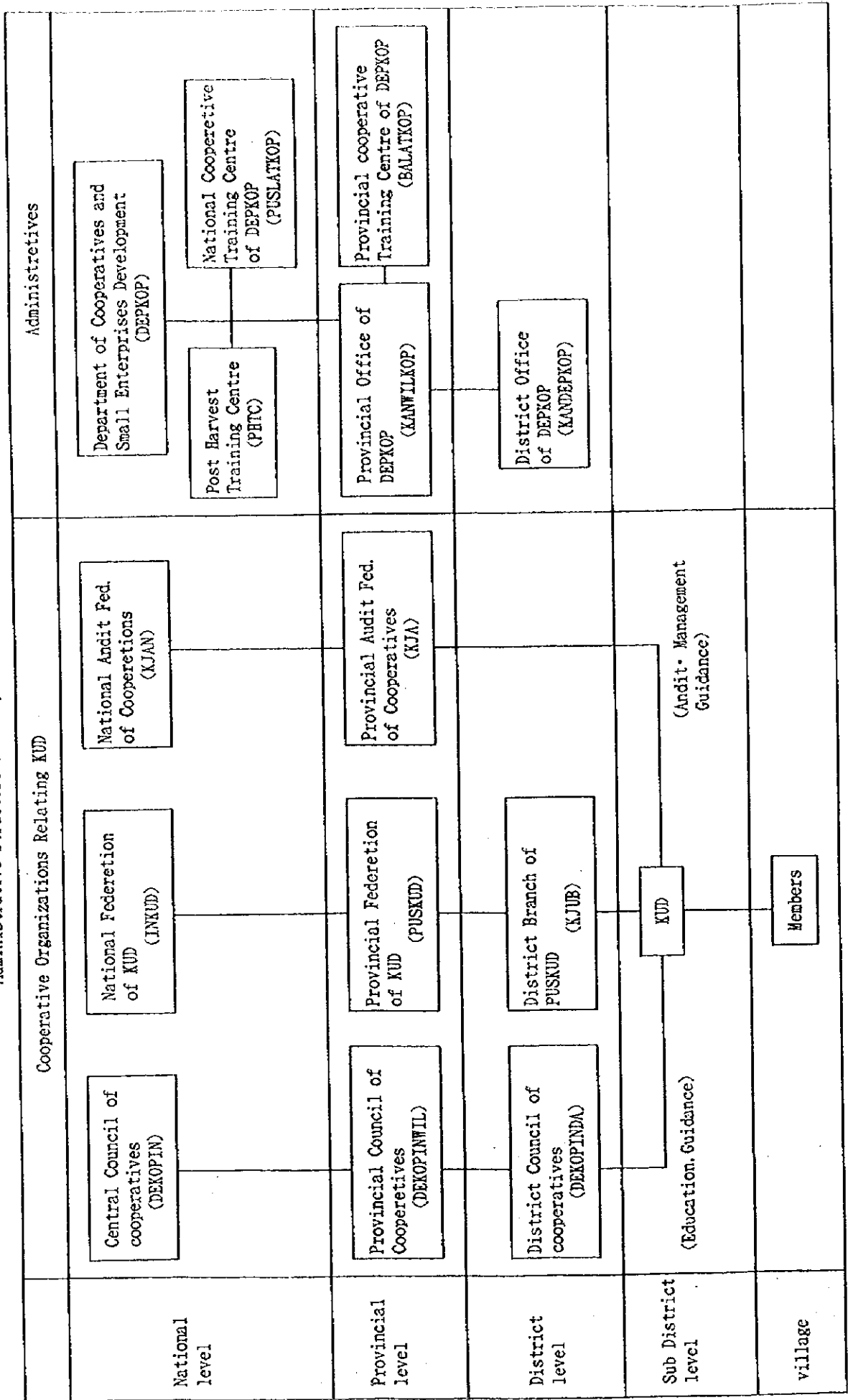


## STUDY PROVINCE and KUD

### West Java Province



Administrative Structure and Cooperative Organization





## ACRONYMS

BAI	Bank Atros Indonesia
BALATKOP	Balai Latihan Perkoperasian/Provincial Cooperative Training Centre
BCA	Bank Central Asia
BIMAS	Bimbingan Massal/Mass Guidance Programme
BPD	Bank Pembangunan Daerah/Regional Development Bank
BPPC	Badan Penyangga P Cengkeh/National Cloves Buffer Stock
BPR	Bank Perkreditan Rakyat/Rural Bank
BRI	Bank Rakyat Indonesia/State Owned People's Bank
BUKOPIN	Bank Umum Koperasi/Indonesia Cooperative Bank
BULOG	Badan Urusan Logistik/National Food Agency
BUUD	Badan Usaha Unit Desa/Village Business Unit Agency
DEKOPIN	Dewan Koperasi Indonesia/Central Council of Cooperatives
DEKOPINDA	District Council of Cooperatives
DEKOPINWIL	Provincial Union of Cooperatives
DEPKOP dan PKK (Depkop)	Department of Cooperatives and Small Enterprises Development
Dinas Pertanian	Provincial/district level agriculture service
Dinas Peternakan	Provincial/district level animal husbandry service

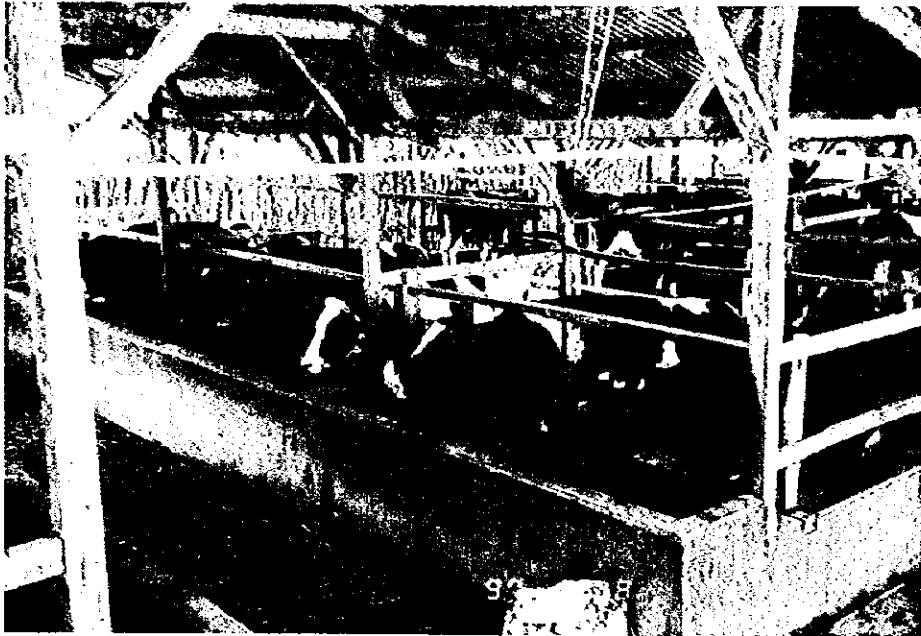
DOLOG	Regional Depot of Bulog
GBHN	Garis Besar Haluan Negara/State Policy of National Guidance
GKSI	Gabungan Koperasi Susu Indonesia/Indonesian Union of Dairy Cooperatives
IKOPIN	Institute Managemen Koperasi Indonesia/Cooperative Management Institute of Indonesia
INKUD	Induk Koperasi Unit Desa/National Federation of KUD
INPRES	Instruksi Presiden/Presidential Instruction
IPS	Industri Pengolahan Susu/Private Milk Processing Industry
Kabupaten	District
KAI	Koperasi Asuransi Indonesia/National Insurance Cooperative
KaKandekop	Head, District Cooperative Office
KaKanwilkop	Head, Provincial Cooperative Office
KANDEPKOP	District Office of Depkop
KANWILKOP	Provincial office of Cooperatives
KCK	Kredit Candak Kukak/Small Traders Credit
Kecamatan	Sub-district
Kelompok Tani	Farmers' Groups
Kelurahan	Community Head
Kiosk	Sales Outlet of a KUD

KJA(KJAN)	Koperasi Jasa Audit/National level audit cooperative
KJUB	Koperasi Jasa Usaha Bersama/a secondary level cooperative business organization
KOPTI	Koperasi Tahu Tempe Indonesia/Soybean Processing Cooperative
KOSIPA	Koperasi Simpan Pinjam/Savings and Loans Cooperative
KOWANI	Kongress Wanita Indonesia/Indonesian Women Congress
KUD	Koperasi Unit Desa/Village Unit Cooperative
KUK	Kredit Usaha Koperasi/Small Business Credit Programme
KUT	Kredit Usaha Tani/Farmers' Business Loan
LATPENKOP	Latihan Pendidikan Koperasi/Institute of Cooperative Education
MANDIRI INTI/KUD	Core Self-sustained KUD
P4K	Proyek Peningkatan Pendapatan Petani Kecil
PAD	Pendapatan Asli Daerah/Real local income
Perum PKK	Perusahaan Umum Pengembangan Keuangan Koperasi/State owned finance guarantee company for cooperative
PIR	Perusahan Inti Rakyat/Nucleus estate company
PJP	Pembangunan Jangka Panjang/25-years Long Term Plan of Indonesia
PKL	Penyuluh Koperasi Lapangan/Cooperative Extension Officer
PPL	Penyuluh Pertanian Lapangan/Agriculture Extension Officer
PPS	Penyuluh Pertanian Spesialis/Specialist Agriculture Extension Officer

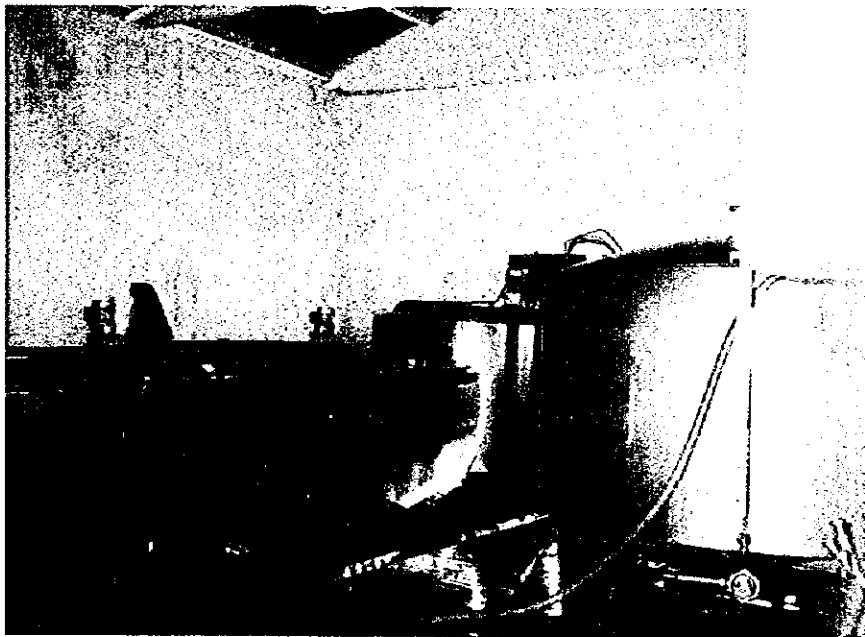
PT Pusri	PT Pupuk Sriwidjaja/State owned fertilizer producing company
PTP	Perusahaan Terbatas Perkebunan/State owned estate company
PUSKUD	Pusat Koperasi Unit Desa/Provincial level business federation of KUD
PUSLATKOP	Posat latihan dan Penataran Perkoperasian/National Cooperative Training Centre of Depkop
REPELITA	Five Year National Development Plan
RMU	Rice Milling Unit
SHU	Sisa Hasil Usaha/ Surplus Fund of the Year
Simpan Pinjan	Savings and Loans
SWKP	Simpanan Wajib Khusus Petani/Special Compulsory Savings of Cloves Business
TPK	Tempat Pelayan Koperasi/Cooperative Service Place
TPSP	Village level credit business counter of KUD
Wartel	Warung Telekomunikasi/Telephone Post Kiosk
Waserda	Warung Sesba Ada/Cooperative Retail Shop

# Introduction of activities of 6 model KUD

## (1) KUD Tani Mukti (Bandung District)



Cattle shed owned by one of the excellent dairy farming members of the KUD



Milk cooling station owned by the KUD:

Fresh milk is marketed to National Federation of Dairy Cooperatives (GKSI)

(2) KUD Pasir Jambu (Bandung District)



Feed Mill owned by the KUD



Milk cooling station and tank lorry owned by the KUD

(3) KUD Walatra (Bandung District)



Potatoes are produced by members of the KUD



Fertilizer warehouse of the KUD

(4) KUD Sipatuwo (Sidrap District)



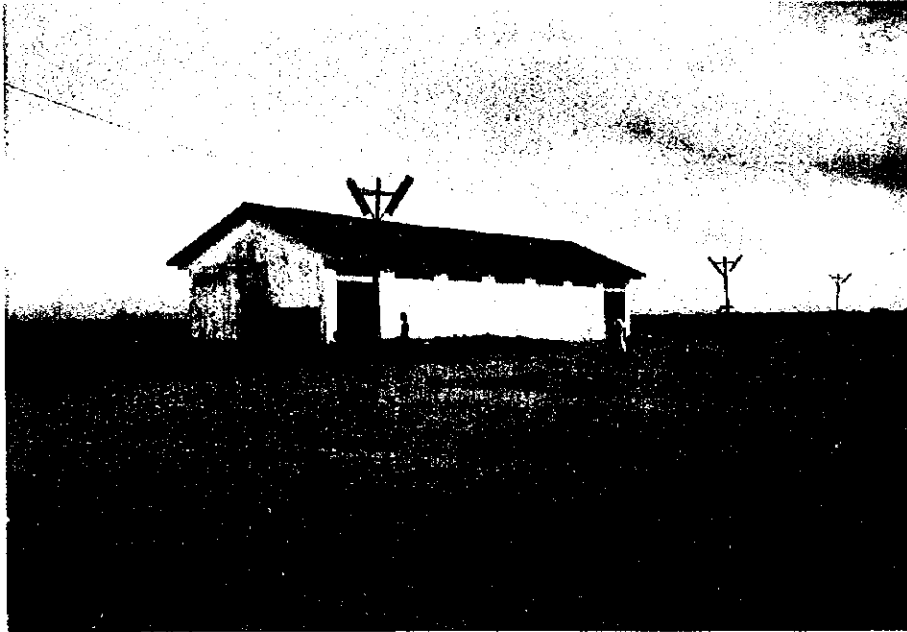
Rice milling facility of the KUD



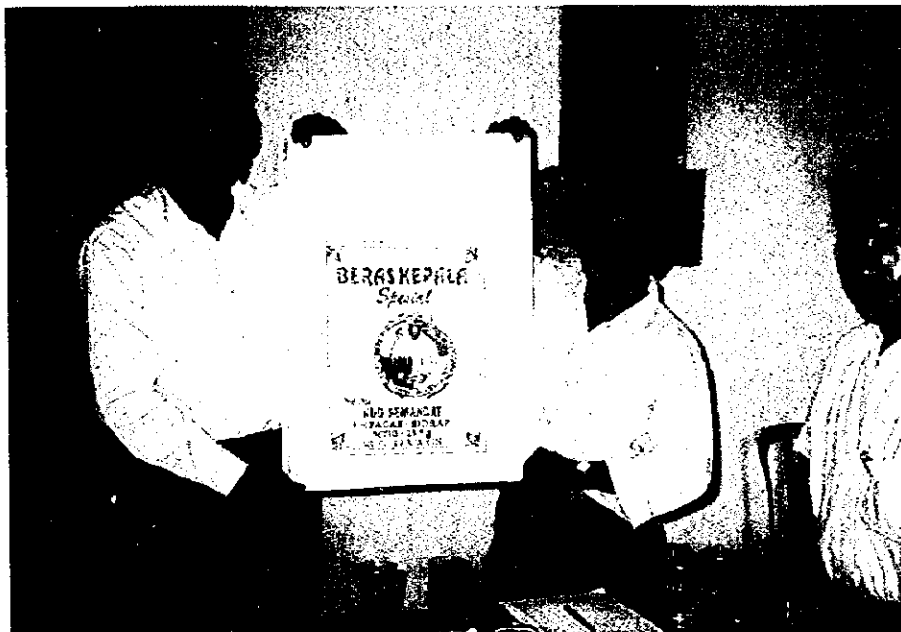
Rice cakes processed and sold by women members of the KUD



(5) KUD Semangat (Sidrap District)



Rice milling facility and paddy drying space of the KUD



Brand name rice which is milled and marketed by the KUD

(6) KUD Matutu (Sidrap District)



Head office of the KUD



State owned farm located near by the KUD

## SUMMARY



# Summary

## Chapter 1 Objectives and Background of the Study

The objectives of this study is to clarify the role of rural cooperatives (KUD) in performing agricultural development (increasing added value and introduction of product-mix farm management); to reduce poverty in rural area and to correct the difference in standard of living between rural and urban areas based on the request of the Indonesian Government, to formulate future development strategies and a plan to activate KUD activities taking into account local characteristics, locational conditions and farming patterns, and transfer of technology necessary for formulating the plan to the Indonesian counterparts by means of on - the - job training throughout the study.

The study was conducted in three phases. The Phase I study encompassed the entire nation of Indonesia centering on KUD activities. The Phase II study covered 7 provinces, including North Sumatra, Lampung, West Java, East Java, West Nusatenggara, South Kalimantan and South Sulawesi. The Phase III study covered Bundung District in West Java province and Sidrap District in South Sulawesi. 6 model KUD, 3 KUD from each district were selected for detailed field study. The 6 model KUD selected for detailed survey were as follows;

Bandung District: KUD Tani Mukti, KUD Pasir Jambu, KUD Walatra

Sidrap District: KUD Sipatuwo, KUD Semangat, KUD Matutu

## Chapter 2 Present Situation

KUD is a village cooperative and can deal with various lines of business activities. Residents of KUD area are qualified for KUD membership regardless of their occupation. However, majority of members is engaged in agriculture.

Indonesia is divided into several administrative units consisting of 27 provinces, 243 regencies, 60 municipalities, 3,837 districts, and 65,198 villages. 9,200 KUD have been established in all of 3,612 districts where the government recognized the need to set up KUD. Since 1989, the government has proceeded to authorize "KUD Mandiri" or

self-reliant KUD which cleared the 13 criteria decided by the government. KUD Mandiri refers both to KUD and members that are able to operate three types of business collection, processing and marketing, financing and purchasing) in an efficient manner and to KUD that are able to respond to the needs of local residents. The number of KUD Mandiri is 6,000 or 65% against the total number of KUD. The government authorises "KUD Mandiri Inti" or core KUD which play a leading role for the development of KUD. The number of KUD Mandiri Inti is 356 that means that they cover all regencies.

The average size of the business operation area of KUD covers 7 desa (villages) or 209 km<sup>2</sup> that means a comparatively large area. Membership ratio is as low as 11% of the adult population. However, it is obvious that the KUD is based on villages and its business operations are centering on agriculture-related ones. Out of the members of Kelompoktani which were organized by the Ministry of Agriculture for farm extension, 58% are members of KUD. Even after the fundamental attainment of self-sufficiency of rice in 1984, mainstay of business activities of KUD has been marketing of rice and supply of fertilizer. In 1993-94, BULOG purchased 1,900,000 tons of rice, and out of which KUD sold to BULOG 1,600,000 tons. During the same period, national chemical fertilizer supply accounted for 5,250,000 tons and 76% of which was supplied through the network of PUSKUD or provincial business federations of KUD. The national level business federation (INKUD) does not handle chemical fertilizer. Its main business are supply of clove, which is an additive to tobacco, to the government, tapioca and tapioca chips, vanilla seeds, coffee and cocoa.

Regarding dairy business, GKSI or National Federation of Dairy Cooperatives is established and mainly dealing with supply of raw milk and settlement of proceeds. KUD do not handle fruits and vegetables positively, and have no processing facilities for them. The 6th National Development Plan aims at the diversification of agricultural products and also improvement of distribution by strengthening of role to be played by KUD. As to credit business, the voluntary savings of KUD is only 1.8% of the total assets and the recognition on the importance of savings is lacking. Credit business of KUD is divided into 2 categories, i.e. savings and loan for members (usually called USP) and management and collection of loans extended by banks to members direct. BRI and BUKOPIN are extending both loans for agriculture and KUD. In December 1992, BUKOPIN was reorganized in to a joint-stock company due to lack of capital base. However, a majority of stockholders are still cooperatives. It will be necessary for KUD to gain more access to these banks, but the basis of KUD credit business is weak. Consequently, KUD need to

tackle with the basic matters.

Regarding human resource development, Department of Cooperatives and Small Enterprises established Provincial Level Cooperative Training Center (BALATKOP) in each province to undertake training of officials and staff of cooperatives and small enterprises including those in KUD. At the national level, National Training and Upgrading Center for Cooperative Development (PUSLATAKOP) was established in Jakarta. For the cooperative side, Central Union of Cooperatives (DEKOPIN) has Cooperative College and Training Institute (IKOPIN) in Bandung and Cooperative Members Training Institution (LATPENKOP). INKUD also carries out training and education for officials and staff of PUSKUD. The National Level Audit Service Cooperative (KJAN) and 18 Provincial Level Audit Service Cooperatives (KJA) are also conducting training on cooperative accounting.

For farm guidance, both the government and cooperatives are not tackling the problems at national and provincial levels. Farm guidance section of KUD has not been established except in some KUD which deal with dairy business. Guidance on agricultural technology to farmers is done by PPL or agricultural extension officers. Some cases are however, observed where the liaison meetings are held between PPL and KUD which already have farm advisors. Farm advisors of the KUD which are engaged in dairy business are qualified veterinarians. They impart guidance on the improvement of quality of milk at the time of milk collection, and on the purchase of feeds. Also, they give advise on the access to necessary finance in case of introduction of calves.

Farm advisors of KUD who are qualified veterinarians are trained at the livestock experimental stations. The main difference between these two types of advisors are: KUD's farm advisors work for guidance on such matters related to KUD business as sales of farm products, purchase of inputs to production, loans to members. On the other hand, PPL are not directly concerned with such KUD business as marketing (where to sell), purchasing (from where farmers buy fertilizer or feed), and credit (KUD loans other than formal institutional loans, and savings) because PPL are public servants, even though they give advice to farmers on the repayment of formal loans in addition to their technical advice.

As to better living guidance, although some advanced KUD deal with this business, most of KUD have little recognition on this business, and especially in case of KUD with few staff, this business is not initiated. There are only a few KUD which foster women's organization, and generally speaking, their basis is rather still weak.

## Chapter 3 Directions for KUD Activity

### 3.1 Analysis and Evaluation of KUD Activities

#### Organization and Management

KUD exist as service centers for rural society, and have been assuming fair roles for the development of agriculture in general and boost of its productivity in particular, also for upright status of rural residents in general and that of farmers in particular. Although they can be credited to some extent with having built the beginnings of the foundations for their structures, the KUD remain generally small in scale, and face numerous problems, such as the fact that their memberships--which form the foundation of their operations and businesses--are excessively weighted toward farmers, and that membership rates vary widely depending on their location.

One current deficiency is that membership rates among area residents are low, a characteristic that is making it difficult to strengthen the KUD' financial foundations through absorption of the surplus funds of area residents. In addition, poor developmental organization and weak managerial constitutions are preventing the KUD from dealing adequately with such issues as increasing the incomes of area residents and enhancing the stability of their daily lives.

The low rates of membership among women are related to the almost total lack of activity by KUD that is closely interwoven with everyday life. This indicates a limitation of present KUD activities. The organizational weakness of the KUD providing support to women's activities is the fundamental problem. Hereafter the issue will be the development of policies designed to augment educational activities relating to everyday life and to strengthen women's organizations.

One problem common to today's KUD is the conspicuous failure of cooperatives to develop into groups of management experts. The fact that the cooperatives are not in a position to pay managerial compensation equivalent to society-wide standards lies at the root of the problem, and there can be no solution to this without an improvement of profit structure. The paucity of effective policies among the KUD themselves, as well as among KUD umbrella organizations and the government agencies which exist to supervise the KUD is a problem.

The thinness of the ranks of KUD employees is also a major problem. The undeveloped state of secretariat organizations to deal with this issue is also a problem, as is the fact that modern organizational and personnel management methods have not yet taken root within the cooperatives. This has become a bottleneck in accumulating the requisite expert knowledge



and experience inside cooperatives, whose existence is premised on the market economy. Cooperatives rely on the integration of human resources to be their paramount organizational catalyst, so the immature state of development of KUD organizations and structures capable of providing education for employees, fostering their long-term commitment and existing as a place of employment are major problems.

In relation to functions that KUD are looked upon to provide, we note the reality that in almost all areas personal incomes among residents is less than \$1,000. This is closely related to the types of agriculture in these areas.

In areas characterized by diverse crops and by grain and livestock farming, incomes are relatively high; in areas that are mainly rice-producing, incomes are low. Geography also plays a part. Incomes in West and East Java, both located close to the capital region, are generally high; on the other hand, incomes are low in West Nusatenggara, South Sulawesi and South Kalimantan, provinces located in the island region of the country or on the far ends of peninsulas.

If KUD hope to exist as key service centers of rural societies and to generate improvements in the economic status of area residents, they must develop cooperative organizations and managements appropriate to the types of agriculture practiced in the respective areas, and must improve and expand facilities and business structures that supplement these efforts.

While the nationwide average for number of cooperative members per KUD is 1,451, the variation is extremely wide, ranging from 4,242 in West Java, the province with largest number among the seven provinces, to 353 in South Kalimantan, the province with the smallest number. The next largest after West Java is East Java, with a high 3,111; in descending order thereafter come the following: West Nusatenggara, with 1,799; Lampung, with 941; South Sulawesi, 765; and North Sumatra, 526.

The low level of a key index of KUD management, total assets per cooperative member, is also cause for concern. Nationwide, the average is an extremely low Rp 158,000 (\$68), while even the highest figure for all seven provinces is only Rp 823,000 (\$356). Generally speaking, in almost all KUD, stock account-related assets are vastly lower than flow account-related personal annual incomes. This indicates that, for KUD intent on contributing to improved incomes, financial constraints currently exist.

And, although providing financial services to area residents is an important mission of the KUD, their lack of ability to absorb funds, the fundamental premise of such activity, is also a problem. Symbolizing this is the minuscule amount of total savings deposits per cooperative member. Even in West Java, which has the highest average deposit, the figure is only Rp 55,000 (\$24).

Generally, member savings are used internally to fund the operational requirements of cooperatives and hence are the underlying premise for greater autonomy of cooperative management. But because virtually no KUD is sufficiently funded to be able to do this, they all face the problem of having to depend on outside capital.

### Businesses

For KUD to grow as service centers of rural societies, it is essential that they diversify their business activities. Yet, the fact is that they are excessively devoted to a narrow range of businesses, such as the gathering of rice and the supplying of fertilizer. Efforts to engage in services that meet the needs of area residents, such as farm/technical guidance on new farm products which lead to increased income and reduce cost for farmers, the retailing of goods for everyday life, the financing of everyday-life requirements, and health-management activities have stalled at very elementary levels of development. In particular KUD are deficient in an ability to provide services relating to guidance in matters of everyday life, an area that would attract the interest of women in the communities.

The lack of progress in developing a structure for the finance business poses a problem for an organization that is supposed to become the primary channel for agricultural financing. Not only that, but this has become an impediment to encouraging greater membership among area residents in the KUD.

According to indices used to analyze the KUD in the seven provinces, total business volume per cooperative member is the highest in North Sumatra, where the figure is Rp 1,631,000, and the lowest in East Java, where it is only Rp 300,000. The nationwide average stands at Rp 424,000. This figure indexes the annual level of use of KUD, and stands at about the same level as personal annual income, a comparison that strikingly illustrates how low that level is. The narrowness of activities excessively weighted toward rice and fertilizer is the fundamental reason for this situation.

A major reason for the lack of progress in diversification is the insufficient development of facilities owned by the KUD. Even in the KUD in Lampung, where facilities are relatively advanced, improvements in harvesting equipment and drying facilities are inadequate, while in North Sumatra, South Kalimantan and elsewhere they are extremely deficient. The KUD's backwardness in relation to the installation of fixed assets is reducing the overall productivity of KUD businesses, which in turn is suppressing improvements in productive efficiency for the populations of these areas in general, comprising mostly farmers.

### Education

The smooth execution of educational activities demands improvements in a number of

critical areas, including educational funds, personnel in charge of education, training facilities, educational material and educational curricula. However, the number of KUD that adequately meet these requirements is small. While the concept of cooperative education includes the fostering of human resources capable of running businesses, this requires the KUD to secure high-quality educational personnel. Their failure to adequately meet these requirements is also a problem.

Education and training facilities are also at an undeveloped stage nationally, despite some government facilities and facilities owned independently by KUD being available in certain locations.

The KUD are only weakly motivated and prepared to deal with the kinds of necessary training and education that are closely tied to everyday life, including in areas such as comprehensive life planning, health management, cultural classes, etc.--activities that would also help promote membership among area residents.

### 3.2 Directions for Vitalization of KUD Activities and the Strategy

Through firm and steady execution of appropriate strategies and tactics, the KUD have the potential to develop hereafter. The reasons are as follows: a) the establishment of KUD is proceeding on a nationwide basis, and their organizational foundations are gradually being put into place; b) they possess the potential for developing into service centers for rural societies capable of responding to a wide range of needs in the community--economic, social and cultural; c) a number of KUD are gradually establishing a certain degree of fundamental stability in terms of organization and management, and have the potential of being nurtured into models of excellent KUD; d) while almost all KUD have concentrated excessively on rice and fertilizer, they have acquired considerable market share in these two areas and possess the potential of expanding their operational activities in other product categories; and e) many farm families have intentions of joining the KUD.

#### 3.2.1 Organization and Management Model at the Time when the Target is Reached

If KUD are now in Stage I of their development, it is assumed that they will pass through a development process hereafter which consists of a Stage II (development period), and, a Stage III (maturity).

KUD that have reached the stage of maturity will have established: general affairs and planning administration departments; member organization departments, which promote

participation in the cooperative by residents of the area, and which generate strength and stability in the KUD's organization through educational and training activity, and through the formation of producer sub-committees and groups closely tied to everyday life; financing departments responsible for savings and lending operations that are aimed at strengthening the cooperative's finance business; retailing departments, whose operations center on supplying production-related materials and materials related to everyday life; retail departments, which oversee the gathering of agricultural products and joint marketing activities, and which aim to increase the range of product categories handled; farming guidance departments, which provide expert farm-management guidance to farm families; and better living guidance departments, which are responsible for guidance in matters related to everyday life, focusing on improving the daily lives of cooperative members and area residents.

### 3.2.2 Development Stages of Business System and Strategies

Until the stage of maturity is reached, the KUD and the federations must first independently implement policies aimed at development.

In the current stage--Stage I--the KUD are primarily involved in economic activities, which, moreover, are excessively weighted toward rice and fertilizer. Finance businesses are weak. In order for each KUD to fully realize its development potential and to move seamlessly on to the next stage of development, several policies are required.

To make the intentions of farm families wishing to join the KUD a reality, the following measures are required: strengthening membership promotion drives; enhancing trust in the KUD and raising expectations toward them by providing advantageous retailing services based on a strengthening of the KUD' ability for the joint marketing of agricultural products, etc.; the federations etc. must contribute by providing far-reaching public relations activities for the KUD, by conducting market surveys for agricultural products, and by developing guidance personnel for training and education programs.

In Stage II, which has been designated as the development period (the period planned for the transition to the development period will last roughly 10 years), the structure of business operations will expand and develop rapidly. This will entail the expansion of product categories handled and organizational resources deployed for purchasing businesses of agricultural inputs which lead to the profit of farmers, marketing businesses for farm products and finance businesses; the augmentation of the retailing of daily life products that accommodate the needs of area residents, and of finance operations targeting non-farm households; the commencement of guidance on nutritional improvement for residents, en masse health checks, etc. Progress in this

stage will be premised on the achievement of considerable improvement in the facilities and installations required to build more substantial retailing and marketing operations. A wider and fuller range of educational and training activities will take place, leading to greater overall development in the structure of KUD businesses.

Stabilizing and consolidating KUD activities in this stage will require policies that are far-reaching and of high quality.

Certain measures must be carried out autonomously by the various KUD. These include organizing area residents, developing member-related organizations, improving clerical operations relating to the management and collection of receivables, carrying out savings promotion drives, holding village colloquiums, fostering awareness that will lead to greater participation by women in KUD activities, etc.

Policies under the purview of the federations will include the development of cooperative merchandise, which will be offered as standard products by retailing departments handling everyday merchandise, the production of videos aimed at publicizing the KUD, regional marketing activity, the provision of working capital to KUD, the formulation of KUD merger plans and guidance relating to mergers, etc.

We are assuming that the expected participation rate for area residents at the end of the development period will have expanded from the current 10% to around 60%.

In the period of maturity, designated herein as Stage III (the period of time required to achieve this status is assumed to be about 15 years from the end of the development period), KUD business structures will have achieved their development goals.

In addition to the business systems developed during Stage II, this stage will feature additional developments. In their retailing operations, the KUD will be supplying medium and large-sized farm equipment and various types of trucks, and will begin to handle daily merchandise. In their marketing operations, the cooperatives will begin to offer products that serve processing businesses, while also selling the area's agricultural products through retail outlets.

In finance operations, the role played by branch offices will be expanded and developed, and the KUD will begin offering overdraft facilities, installing ATMs in stores, and so on. In businesses that provide guidance relating to everyday life, the KUD will begin comprehensive involvement in such services as family planning, improvements in dietary practices, and legal and tax-related consulting. Processing businesses will either be directly managed or carried out in the form of related businesses, and, in addition to marketing the community's products in other areas, they will contribute to the expansion of employment opportunities in the area by offering residents the opportunity to work in their processing facilities. The KUD will also develop their own

transportation businesses for shipping agricultural products to the market. These activities promise to help raise the net incomes of farming families.

The KUD themselves would have to implement certain policies to complete the period of maturity and stabilize operations. These include: autonomously expanding and developing facilities; building computer-based systems of control over operations and information; establishing systems for employees and introducing modern systems of personnel management; appointing women directors as part of an effort to create management accessible to all in the community; cutting costs through the promotion of mergers and the establishment of alliances with local companies; adopting a representative system; and developing branch networks.

Policies at the federation level would include: developing large-scale facilities that can be used jointly by multiple KUD; establishing agricultural machinery banks that seek to reduce farming costs by permitting the joint use of agricultural machinery; collecting market-related information and providing this to the KUD; etc.

Through the adoption of such policies, participation rates in the KUD would be expected to reach 70-80% in Stage III.

Two modes of development can be assumed for the KUD as they pass through the above stages of development and see participation rates expand.

The first is linear development, in which a single KUD gradually expands on its own through Stages I, II and III. The other mode of development is integrated development, in which a number of KUD develop through merger. In this case, it can be assumed that KUD in either Stage I or II merge and develop together to the succeeding stage; or that KUD in Stages I and II merge, and develop together to Stage III.

### 3.2.3 Agricultural Development and How KUD Should Operate

#### 1. Establishment of a Rice Self-Sufficiency in System and the KUD

Since independence, the overriding issue for Indonesian agricultural policy has been the achievement of self-sufficiency in rice. From the perspective of agricultural policy pursued in response to this issue, the KUD were linked to BIMAS (plan to increase food production), which was designed to achieved self-sufficiency in rice, and were established together with BUUD by Presidential Order No. 4 in 1973.

Since being included as an objective in the country's first 5-year plan beginning in 1969,

achieving self-sufficiency in rice continued to be cited as a goal in Indonesia's second and third 5-year plans. Self-sufficiency was finally achieved during the fourth 5-year plan, which occurred during the "green revolution."

Over this period, the KUD were considered intermediate organizations at the level of the rural villages in the policy to promote self-sufficiency in rice, and grew and expanded as a result of a variety of support measures received, including the right to handle chemical fertilizers from the government, subsidies for rice-milling operations, acting as intermediaries for government financing, etc. Through such economic activity, the KUD can be credited with having played a role in the establishment of the country's self-sufficiency in rice.

## 2. Promotion of Regional Agriculture and the KUD

Following the establishment of self-sufficiency in rice, the goal of agricultural policy shifted from simply increasing food production to enhancing income levels, as indicated by the following words from the fourth 5-year plan, adopted as the nation's economy was striving for take-off: "development of both the agricultural and industrial sectors, equal income distribution, and expansion of employment opportunities." The role of the KUD also changed in response to this shift. Specifically, in "Presidential Order No. 4" of 1984, the KUD were designated as organizations that would firmly support self-sufficiency in food and function as service centers for rural villages in relation to domestic development. They were also deemed responsible for dealing with the following kinds of issues:

- a. Promoting agriculture, livestock farming and fisheries; contributing to plantations and agro-industries.
- b. Providing materials needed by rural villages (food, clothing, housing)
- c. Promoting financing and deposits, transportation, electrification, construction, etc.
- d. Promoting handicrafts and household industries

In order for KUD to carry out the above kinds of projects, it is essential that they evolve from simple subcontracting agencies set up to execute government policy to independent organizations tied to local economies.

Toward this end, "Presidential Order No. 4 of 1984" spoke of the following kinds of policies for the "promotion and development of KUD."

First stage: Government provides management and capital, considering cooperatives to

be the means of guidance/dissemination and of assistance in infrastructure development

Second stage: The enhancement of KUD capabilities and strengthening of KUD structure through grass-roots level efforts to fully meet the basic needs of cooperative members, promote organizational autonomy, and expand participation of cooperative members

Third stage: KUD grow into strong and independent economic organizations tied to local communities.

In the nation's sixth 5-year development plan, whose target year is 1999, the following kinds of items were specified as new issues requiring action by government agricultural policy, and the government policy related to KUD is implementing to achieve these items.

a. Through the use of new technologies and capital, establishing self-sufficiency in food in both the quantitative and qualitative senses.

b. Providing efficient distribution systems (including KUD), and raw materials to agribusinesses.

c. Generating employment opportunities in rural areas, improving the quality of the labor force and productivity, and eliminating poverty in rural villages.

(The plan also speaks of correcting regional discrepancies, developing Eastern Indonesia, conserving water and agricultural environments, etc.)

### 3. The Direction of Agricultural Development and KUD

To promote the kind of regional agriculture that is responsive to the market while at the same time pursuing the modernization of agriculture, each KUD must establish the basic crop categories to be focused on in production and indicate farm types to member farming households.

Furthermore each must build integrated systems for all processes from production to marketing. To achieve such targets, the following kinds of conditions must be established.

a. There are limitations to what can be accomplished through farm improvements and technological innovations at the level of small, individual farms, so group-based responses must be generated (joint use of machinery, facilities and so on)

b. Direction will be shifted towards an agriculture based on highly merchandisable products; increases in scale will be pursued. In doing so, the establishment of joint venture of



cooperatives and with private companies will be considered.

c. In response to changes in food consumption and demand, efforts at joint marketing will be made, led by the KUD.

d. To help develop areas into specialized product-producing regions focused on highly merchandisable basic products, there is a need to build farm-guidance systems within the KUD that are capable of providing integrated guidance on all aspects of the process, from production to marketing.

e. Efforts will also be made to unify product varieties and standards, and to generate greater consistency in cultivation, breeding methods and so on. In this instance, consideration will be given to the possibility of cooperative members engaging in joint cultivation and joint breeding, and of the KUD directly overseeing one aspect of the process (production of seedlings, etc.).

f. In order to develop areas into highly competitive product-producing regions, there is a need to promote greater organization among producers along product lines and for the KUD to designate these organizations as production sub-committees. It would be also advisable for the KUD to organize their farm-related guidance programs around these sub-committees.

In order for the KUD to perform this kind of "control tower" role in agricultural production, it will be necessary to strengthen the KUD' capacities in business operations and to establish a system capable of providing integrated flows of capital, materials and guidance primarily to facilities that become the anchors of such agricultural production.

#### 4. Required Capabilities for KUD in Terms of Agricultural Development and Promotion-Related Functions

For KUD to play the key role in the development and promotion of regional agriculture, they must augment and strengthen the following kinds of functions relating primarily to farm guidance.

##### A. Augmenting/strengthening guidance and information-related functions

A-1 Production technology guidance function.

A-2 Management consulting function

A-3 Farming information provision function

- A-4 Choosing the future course of regional agriculture
- B. Establishment of an adequate production organizational function and its reinforcement
  - B-1 Cultivation of procedures for particular businesses
  - B-2 Fostering of youth and women group
- C. Reinforcing the establishment of jointly used facilities
  - C-1 Setting up shared facilities and establishment of management system
  - C-2 Establishment of a system for sharing the use of machinery
- D. Establishment of an adequate funding function and its reinforcement.
- E. Establishment of an adequate production in materials purchasing function and its reinforcement.
- F. Establishment of an adequate products marketing function and its reinforcement.
  - F-1 Establishment of an adequate products marketing function (crop gathering / commissioned selling, settlement system) and its reinforcement.
  - F-2 Agriculture product processing and sales functions .
- G. Establishment of an adequate function for dealing with government administration

### 3.3 Necessary Political Support to KUD

#### 3.3.1 By Development Stages

Multifaceted policy-related support from the government is essential for supplementing and increasing the effectiveness of policies that are undertaken by the KUD themselves, or by federations etc., to vitalize and develop the KUD. The following are proposed for specific kinds of policy-related support which should be undertaken by the government at each stage of development.

### Stage I (the present)

Government policies at this stage are designed to help overcome weaknesses and problems inherent to the KUD, and to facilitate transition to the next stage of development.

The specific support policies are enumerated are as follows:

- \* Support in public-information activities
- \* Financing
- \* Formulation of facilities development plans
- \* Establishment of model KUD
- \* Formulation of regulations on financial reporting (measures to rectify KUD accounting)

### Stage II (development period)

During this stage, policies undertaken by government agencies for KUD development are essentially concerned with expected expansion and development of the current KUD and with providing stability for that expansion. These measures also play the role of expediting the kind of development which allows KUD to evolve to the ultimate goal of Stage III maturity.

- \* Subsidies for the preparation of educational materials
- \* Initial establishment of public loan-guarantee agencies
- \* Provision of funds to KUD
- \* Expansion and development of overseas training programs
- \* Support of federations
- \* Nurturing and introducing new technologies
- \* Promoting KUD mergers (enactment of merger support laws etc.)
- \* Adjusting production between crop-producing regions and developing markets

### Stage III (maturity)

Government policies at this stage are measures to facilitate the evolution of mature KUD; their fundamental role lies in assuring the stability and further development of KUD which have reached this point.

- \* Interest-rate subsidies for KUD financing (through higher interest rates on savings and reductions on interest charged on loans)
- \* Support for improved KUD manager and employee training

- \* Support for KUD processing businesses
- \* Promoting KUD mergers (encouraging further mergers)

### 3.3.2 Political Support Relating to Education, Training and Finance

- (1) To expand the functions of Post Harvest Training Center to training related to post harvest other than rice.
- (2) To formulate policy to support credit business of KUD.

## 3.4 Basic Plan for Activation of KUD in 7 Provinces

### 3.4.1 Selection of KUD for Study in 7 Provinces

The criteria for selecting the KUD to be included in our survey of seven provinces were determined after discussions with Ministry of Cooperatives and Small Enterprises. Based on these criteria, the provincial offices of the Ministry in the seven provinces each selected five KUD, for a total of 35, which are shown in attached table 3.4.1.1. Outlines of the major characteristics of the 35 KUD are contained in attached table 3.4.1.2, with further details noted in the Appendices.

### 3.4.2 Basic Plan for activation of KUD in 7 Provinces

In the foregoing sections, KUD activities were analysed and evaluated, and the strategy for the activation of KUD was proposed. The most important aspects were increase of membership and expansion of business activities, reinforcement of education and training of members, officers and staff of KUD, strengthening of function of KUD act as the control tower for the agricultural production, in compliance with the developmental stage of KUD. Based on these viewpoints, current situation was analysed, and evaluation of KUD in each of the 7 provinces was done.

As all of these aspects listed above are aimed at the increase of KUD members' income , needs of farmers were analysed. Thus the Basic Plan for Activation for each of the 7 provinces was formulated and presented in the following sections.

In addition to this, a number of common deterrent factors as well as common desire of farmers for the development of KUD were found. Specifically, low rate of membership, lack of necessary fund including compulsory and voluntary savings, and education fund on the part of KUD.

From farmers side, they expect the KUD to give them more attractive services in order to increase their income.

Therefore, in order to cope with these common tasks, " Common Basic Plan for 7 Provinces" is formulated and placed right after the individual plans.

### 3.4.3 West Java

#### 1. Present Situation and Evaluation

##### (1) Outline of Province of West Java

In terms of its agro-eco system, West Java is classified as a "highlands" area. With its southern plateau bordering a metropolitan market, it produces a large quantity of vegetables and fruits. It is also the leading province in terms of number of milk cows. Its irrigated areas to the north are the nation's top rice-producing area, with the highest production per unit area in the nation.

##### (2) Organization and Management

Of the province's 759 KUD, 756 are Mandiri. KUD members average 4,242, 3 times the nationwide average; the membership rate among adults is 15.4%, which exceeds the national average. Board of director meetings are held frequently, with some KUD holding them weekly. Internal audits are carried out once each quarter. There are many KUD members-dairy farmers who settle their accounts with KUD by cash.

##### (3) Economic Business

The primary businesses are the government-supported fertilizer program, which typically accounts for between 41-52% of total business (in Bayonbong it is 89%); the handling of milk is also widespread, with one KUD generating 70% of its business from this activity. Average number of milk cow owned by one farmer is only about 2. These small-scale farmers request KUD to expand livestock business for them. Although vegetables are not grown much at present, members are asking KUD to deal with this business and requesting technical/farming advice of KUD.

##### (4) Credit and Other Businesses

With respect to voluntary deposits, three of the five KUD surveyed paid market rates of interest. A survey of farming households revealed that 79% of cooperative members repaid their

borrowings in full to KUD by the due date, while 94% of members said they believed that borrowings had to be paid back by the due date of the loan. In West Java members of KUD have little access to short-and long- term credit necessary to expand vegetable and dairy production. In addition to lending activities by the West Java KUD, other financial services provided by KUD include the collection of public utility payments (carried out by 537 KUD) and telephone service operations (carried out by 19 KUD).

#### (5) Human Resource Development and Guidance Activities

Although the five KUD surveyed had not established sections or specific persons to oversee such activity, they were all engaged in providing guidance-related services for both farming and everyday life-related matters in cooperation with agriculture extension officers.

Farm-guidance conducted by KUD with good performance focused primarily on dairy and vegetable farming, while better living guidance covered such areas as family planning, questions about merchandise, legal consultations, cooking and so on. However, better living guidance is not sufficient enough. It is requested by members to strengthen this activity. In West Java, about 10% of the KUD are setting aside funds for education, but these amounts are generally small.

#### (6) PUSKUD

The PUSKUD had 200 total employees. Of amounts purchased in 1995, 58% consisted of agricultural chemicals. Agricultural products purchased from members comprised rice, cloves and corn. Facilities owned by the PUSKUD included a rice milling plant, a super market (under renovation), a Cipinang market, 20 trucks and a printing press.

### 2. Plan for Strengthening of KUD

#### (1) Organization and Management

1. By establishing farming settlement accounts for individual members to be used for remitting sales proceeds and for debiting amounts owed for purchases, the KUD will seek to expedite the process of settlement via accounts.

2. Beginning with the large KUD, computerized savings and loan systems will be gradually introduced.

## (2) Economic Business

1. Feed mixing facilities should be rationalized in order to provide low-cost feed to meet the needs as a result of increase of milk cow owned by members.
2. Good-quality cow should be provided to farmers to enable them increase the production of good quality milk.
3. Small-scale milk processing plant should be built and KUD should start selling branded milk products at local level.
4. To overcome the problem of insufficient funds, KUD will engage in the joint use of facilities, and capital. KUD will also carry out joint purchasing with private companies or with KUD in similar situation or federations of KUD.
5. System will be created to supply high-quality seeds (for example, potatoes)
6. Joint marketing system will be created for highland products.  
Using these structures, the KUD will negotiate prices with large-volume purchasers and supply them through these joint arrangements.
7. Facilities will be built to intermediate the procurement of horticultural products, to grade products, and to pack and shop them.
8. Market-related information will be provided.

## (3) Credit Business

1. The KUD have led the way in establishing important financial relationships with certain commercial banks (for example, BCA and BAI); these kinds of relationships should be expanded to other commercial banks with the potential of becoming partners either now or in the future.
2. KUD will take further steps to actively encourage voluntary savings through savings groups organized by members' wives and farmers.
3. Savings and loan operations at KUD accounted for 1.1% of total KUD business volume, which was fifth in the seven provinces surveyed. KUD in the province will sharply step up activity in their savings and loan operations, especially loans for expansion of vegetable and dairy products by using borrowed capital.

#### (4) Human Resource Development and Guidance Activities

In West Java, the KUD' farm guidance employees are primarily assigned to the dairy farms. However, the KUD and other cooperative organizations do not have training facilities that allow people to acquire farm-related technologies or that allow them to disseminate processing technologies for agricultural products. Accordingly, with the aim of supporting farm-related guidance among the KUD, the BALATKOP, DEKOPINWIL, PUSKUD, the KUD and their national federations (GKSI, INKUD, DEKOPIN and so on) will cooperate in developing and operating a farm technology center that will be established through joint investment.

### 3.4.4 South Sulawesi

#### 1. Present Situation and Evaluation

##### (1) Outline of Province of South Sulawesi

In terms of its agro-ecological system, South Sulawesi is classified as an irrigated area. Agricultural development in the province, with the exception of Java, is advanced in comparison with other provinces, with the region producing predominant shares of the country's output of rice, green bean, corn, and citrus fruits. It is also a major producer of egg-laying hens, domestic fowl, ducks, beef and water buffalo.

##### (2) Organization and Management

Of the province's 536 KUD, 378 are Mandiri. There is one KUD Mandiri INTI in each district and city, for a total of 23 overall. The membership rate among adults is 10.2%, and the average membership per KUD is 765. Each sub-district averages 3.0 KUD. Businesses are focused around the provision of fertilizer, the marketing of rice, and the operating of rice milling facilities. Participation rates in KUD among farmers is 26.3% for the province as a whole, with the participation rate among members of farmer producer groups (Kelompok Tani) at 90%. Employees average 3.47 persons per KUD; virtually no KUD has designated persons to be in charge of farm guidance and better living guidance. Generally speaking, KUD in South Sulawesi are small in scale, and both members and number of employees are small in comparison to the nationwide average. Many of the KUD in this area have rice-hulling and milling facilities (RMU), but facilities are sometimes out of proportion to the size of the operation, or are obsolete.

In terms of operations and management, the KUD lack planning administration capabilities and also face shortages of investment capital and working capital. Because business



is transacted by cash, the KUD can easily fall short of the funds required to purchase rice.

### (3) Economic Business

The economic enterprises of the KUD in the province are centered on the selling of chemical fertilizers, the purchasing and post-harvest processing of rice, and marketing to government agencies. A number of KUD purchase cloves and other cash crops, and provide financing and retailing services to farming households.

### (4) Credit and Other Businesses

The largest lender of working capital to the province's KUD is BRI, with most of this going to finance rice production and collection. Among the factors constraining the development of savings and loan operations are the following: a) the lack of incentives in terms of interest rates and so on; b) the inefficiency of lending-related clerical functions; c) lack of appropriate controls over outstanding loans. Separately, some of KUD are engaged in providing telephone services.

### (5) Human Resource Development and Guidance Activities

KUD-related education and guidance activities in South Sulawesi that are provided through government and cooperative organizations are as follows (1995).

The BALATKOP, PUSKUD and DEKOPINWIL each have training facilities, and, of the 23 DEKOPINDA in existence, 18 have such facilities. The KUD surveyed in the province are setting aside between 2.5-5% of net surplus into their funds for education. KUD in the province do not have guidance departments. Although they offer farm guidance in areas such as rice cultivation and livestock breeding, and consult on family planning, merchandise-related questions and health matters, none is equipped with a structure that oversees the provision of expert guidance. Farm guidance is carried out in cooperation with agriculture extension officers.

### (6) PUSKUD

The PUSKUD in South Sulawesi Province was established in 1974, and of the province's 536 KUD, 415 are members. The PUSKUD has 248 employees.

It is involved in the export of tapioca and coffee; the collection and shipment of soybeans, corn and cloves; and the purchasing of sugar and feed.

## 2. Plan for Strengthening KUD

### (1) Organization and Management

Because there are many small KUD, strengthening business functions will be required to meet pertinently the needs of members. Therefore, the sub-district KUD councils be established to examine and carry out measures in which joint activity is possible.

### (2) Economic Business

Regarding rice, which is a major products, more efficient rice milling equipment and warehouses, rice-hulling and drying facilities, and finishing equipment will be established. At the same time, the by-product rice bran will be use along with straw, corn and other local raw materials to produce, improve and expand the range of feeds to promote poultry. Moreover, methods of processing broken rice, corn, and green bean, etc. into local foods (cookies, cakes, etc.) through the use of simple machinery will be introduced to increase added- value. and steps taken to make effective use of broken rice, a product considered virtually worthless to date.

### (3) Credit Business

Given examples which show that women's groups and others have been successful in savings promotion drives, steps will be taken to expand KUD savings through such steady and low-key efforts. Efforts will also be made to pay market rates of interest on savings.

### (4) Human Resource Development and Guidance Activities

There is a particularly strong need in this province to strengthen farming-related guidance. In this regard, a section to oversee such activities will be established in the KUD Mandiri INTI, and steps gradually taken to disseminate the impact of its work to the KUD.

## 3.4.5 North Sumatra

### 1. Present Situation and Evaluation

#### (1) Outline of Province of North Sumatra

In terms of its agro-ecological system, North Sumatra is classified as both a highland and an irrigated area. The province produces large amounts of rice, maize, cassava and beans of various varieties. In the area of livestock farming, the region is noted for the fact that it produces 25% of all the pigs raised domestically.

## (2) Organization and Management

Of the province's 594 KUD, only 34% of them are Mandiri. 70 KUD have terminated operations. The average membership is 525, and the participation rate among adults only 5.9%. The average number of employees is also only 3.7 and many KUD have no staff. Small scale is the major cause that many KUD to be unable to carry out their businesses. And there will be possibilities of such accidents as errors, unappropriate accounting when internal checking system is not well established. It is important to avoid the splitting of KUD and at the same time to pursue their mergers whenever possible.

Of the five KUD surveyed, the participation rate among farmers was 40% in one KUD, in the 20% range at two other KUD, and around 5% in the other two KUD. There are many KUD which have yet to organize large numbers of people, even among farmers. According to the farm household survey, all respondents expressed their desire to be members of KUD and utilize KUD services. Therefore, there is a great deal of potential for increasing the membership.

The KJA conducts audits of non-member KUD; of the 90 KUD that they audit, only 31 are members of KJA.

## (3) Economic Business

The KUD primary businesses lean heavily towards: fertilizer; the supply of agricultural chemicals; the procurement and marketing of rice; and the handling of plantation-type products (rubber, palm oil). Business turnover is about three-quarters of the nationwide average, so business scale is small as well. Except rice, marketing business is weak. Necessary fund for acquisition of trucks and other facilities is lacking. Results of the farm household survey shows that farmers wish KUD to promote palawija, poultry, fish culture and vegetables, to conduct joint marketing to establish such joint-use facilities such as warehouse. There is a great possibility for KUD to expand and develop their business when KUD jointly concentrate their funds and manpower.

## (4) Credit and Other Businesses

Voluntary deposits are virtually nonexistent, and when they do exist, almost none pays interest. Lending is almost entirely KUT and other channeling loans; lending based on savings on deposit is, for all intents and purposes, nonexistent. According to farm household survey, out of total farmers' savings of Rp. 350,000 only Rp.16,900 is KUD savings. Regarding KUD lending, they wish KUD to increase both kinds of loans and maximum limit.

## (5) Human Resources Development and Guidance Activities

Data on training activities carried out by the provincial government and by cooperative

educational bodies show that, apart from 90 trainees accepted by BALATKOP from KUD in fiscal 1995, and a training session carried out by DEKOPINWIL for 70 provincial-level cooperative leaders, training activity has been anemic. Among the DEKOPINDA, only four districts out of seventeen were carrying out training programs.

The amounts of money set aside by KUD for education funds was also highly inadequate. Farmers get guidance from PPL, and they ask KUD to strengthen guidance on fertilizer, chemical and production, and 40% of the respondents wish KUD to initiate better living guidance, according to the farm household survey. Virtually no KUD was involved in providing farm guidance, because of the small number of employees. KUD were providing no services whatsoever in terms of better living guidance.

## (6) PUSKUD

KUD participation in the PUSKUD was only 62%. This was attributable to the 150,000 rupiah membership fee, and to the KUD being unable to pay the compulsory deposits of 5,000 rupiah each month. The PUSKUD had 33 employees.

Its business was centered on the handling of cloves and sugar, with the latter accounting for 55% of total turnover. In relation to fertilizer, the PUSKUD was involved only in its transportation and did not procure or supply the product to the KUD.

## 2. Plan for Strengthening KUD

### (1) Organization and Management

In order to strengthen the business functions of the small-scale KUD, sub-district KUD councils will be established to discuss measures for increasing KUD membership and policies for improving businesses and services. The KUD will implement the result of these findings, beginning with those are most feasible by joint action. Also, KUD will reconfirm their accounting figures. For KUD which will not be able to re-open business, such necessary measures as dissolution should be taken. Trust in KUD will be enhanced by increasing the frequency of audits by auditors, and of external audits by the KJA.

### (2) Economic Business

Steps will be taken to increase fund and man-power, to expand such facilities as warehouse and truck, and also to implement phase-in of promotion of palawija, poultry and vegetables. To attain these objectives, it is necessary to strengthen farm guidance system and initiate technical guidance on standardization and packing of vegetables in addition to guidance on production. KUD also tackle the production of feeds to make best use of local materials such as

rice bran and corn by joint action of KUD or collaboration with private enterprise.

### (3) Credit Business

Efforts will be made to absorb voluntary deposits through paying market rates of interest on savings. To avoid accident, internal checking system should be firmly established to increase credibility of KUD. In addition efforts will be made to acquire lending know-how in order to enable KUD to manage their assets at rates above funding costs and also to meet the credit needs of members.

### (4) Human Resources Development and Guidance Activities

Educational activity by cooperatives is stagnant, with a high degree of reliance existing on government-related training organizations. Consequently the capabilities of the DEKOPINDA will be strengthened hereafter. Efforts will be made to accumulate training fund.

## 3.4.6 East Java

### 1. Present Situation and Evaluation

#### (1) Outline of Province of East Java

In terms of its agro-ecological system, East Java is classified as both a highlands and an irrigated area. In accordance with these geographic characteristics, agriculture is split into zones of crop and livestock farming. The area's production of rice and many secondary food products exceeds that of other provinces. It ranks first in corn, cassava and peanuts, and is the second largest producer in the country of rice and sweet potatoes. In terms of production of livestock, horticultural products etc., the province often vies with West Java for the number-one ranking. Agricultural income per capita is Rp 610,293, which is only about one-third of the income of other industries. Hence, the province is aiming to increase agricultural incomes by renewing the vitality of farmers' organizations and by developing horticulture, livestock farming (particularly beef), and high-quality rice-producing areas.

#### (2) Organization and Management

Of the province's 752 KUD, 89% or 669 are KUD Mandiri. Their businesses center on commission-generating services and rice, but there are KUD which are also involved in handling beef, milk, palawija, cloves and sugar cane. 568 KUD are engaged in the savings and loan business, 387 in the management of retailing outlets, and 20 in wartel. A large number of the

KUD facilities are rice-related, including RMUs, warehouses, drying plants, drying machines and so on.

The rate of participation among adults is 11.5%, and the average number of KUD members is 3,111. The following can be cited as organizational deficiencies: 1) membership is not increasing satisfactorily, and participation by members is inadequate; 2) only a few KUD have placed persons in charge of guidance departments related to farming and better living, and thus services in relation to technical guidance in farming--including marketing as well as technical information--and to guidance for improvements in daily life are inadequate.

The following may be cited as managerial deficiencies: 1) while capital shortages contribute to the lack of concrete progress in establishing new businesses, another factor is the lack of planning administration departments and personnel to carry out that function; 2) accounting standards are not adequately applied, and only a handful of KUD produce department-by-department breakdowns of profit and loss on a timely basis; 3) only a small number of KUD have introduced computers into their operations, preventing progress from being made in clerical and operational matters.

### (3) Economic Business

The principal businesses of the province's KUD are: rice; the gathering of milk; the purchasing of cloves; the supplying of livestock, feed and fertilizer; the financing of farming households; and the selling of consumer products.

Milk is an important product, and KUD, equipping themselves with refrigeration stations, engage in the gathering, refrigerated storage, and shipping of fresh milk. These activities have become a major source of commissions for the KUD. The East Java cooperative accounts for 31% of all milk produced nationwide, which is second to West Java. Although the number of meat cattle and milk cows being bred is large, very rarely do KUD become involved in meat-related businesses.

### (4) Credit Business

Although savings and loan departments in East Java KUD recorded revenues of Rp 6.7 billion in fiscal 1995, this was a mere 0.5% of total KUD business volume across the province. The following can be cited as the primary reasons for the constraints on expansion of this business: the stagnation in voluntary savings due to the unattractive rates of interest offered to cooperative members; delays in loan executions; the occurrence of arrears and defaults due to the lack of appropriate controls over outstanding loans, etc.

### (5) Human Resources Development and Guidance Activities

Government and cooperative-related educational and training systems in East Java are well organized, with BALATKOP and DEKOPINWIL both offering training programs. There are 37 DEKOPINDA in the province, and all conducted nine training courses four times. Each training program was offered to 10 cooperatives, and lasted for 10 days each.

A notable fact about the five KUD surveyed was that all of them were reserving funds for educational purposes. Their rates of allowance were also a high 5% of net surplus for the term.

Despite differences in areas of specialization due to variations in their respective principal products, each of the five advanced KUD in the survey had appointed a person to be in charge of farm-related technical guidance--in the areas of rice, dairy farming, livestock farming, and vegetables. In terms of guidance on matters of everyday life, three KUD were providing services related primarily to merchandise-related questions.

## (6) PUSKUD

The PUSKUD in East Java comprises a federation of 30 KUD/cooperatives. Its principal areas of business include arranging the transportation of fertilizer; purchasing cloves for the INKUD; purchasing and processing cassava; and the sale of other consumer products. While the PUSKUD is viewed as a potentially promising contributor in regional development plans, this will hinge on whether it can cooperate in the development of businesses which contribute to the KUD hereafter and whether it can strengthen its collaboration with the KUD.

## 2. Plan for Strengthening KUD

### (1) Organization and Management

By establishing farming settlement accounts for individual members to be used for remitting sales proceeds and for debiting amounts owed for purchases, the KUD will seek to generate a link between members and their finance businesses. Toward this end, efforts will be made to foster greater rationalization through the phased implementation of computerized systems for the clerical aspects of savings and lending businesses, beginning with the large KUD.

### (2) Economic Business

By adopting concepts such as joint commissioned marketing, joint procurement, and joint use of facilities, the KUD will engage in activities such as feed production, livestock/milk cow breeding, calf breeding, and the handling of fruits and vegetable; they will also carry out product grading, packaging, shipping and processing. With respect to milk, the KUD will establish medium-sized processing plants and sell products under a common brand.

### (3) Credit Business

Shortages of working capital are hindering the development of the rice-polishing business in particular. Therefore, in addition to developing sources of financing through the BRI and the BUKOPIN, with which access is already available via channeling loans, the KUD will begin to develop sources of financing through other commercial and development banks. They will also foster expansion in the financing businesses of their savings and loan departments by using borrowed funds.

### (4) Human Resources Development and Guidance Activities

To respond to the recommendations contained in the province's agriculture promotion plan, and to reflect the businesses in which the KUD are currently involved, training for KUD farm-guidance personnel will be directed, for now, primarily to employees in charge of training and to leaders of crop sub-committees. These training programs will deal with agricultural processing technology (livestock production, fruit trees), technology relating to dairy and poultry farming, fattened cattle, the operation and management of feed plants, etc. The government and cooperatives will establish a training center for farm technology at the provincial level through a joint plan of investment.

## 3.4.7 Lampung

### 1. Present Situation and Evaluation

#### (1) Outline of Lampung Province

From the point of view of agro-ecological systems, the classification of the two districts in our survey, North Lampung and Central Lampung, are lowland area and irrigated area, respectively. Partly due to the region's geographic proximity to West Java, the province has set its sights on increasing the value added of its agricultural products and on promoting and diversifying agricultural production. The incomes of farming households in Lampung are heavily dependent on agriculture, but in the north and central Lampung districts, there are many farming families who also make a living not only by producing food crops but also rubber, sugar cane, palm oil, nutmeg and other plantation-type products. One characteristic of agricultural production in Lampung is the large amount of production of plantation-type products, such as pepper, coconuts and coffee, by small-scale farms.

#### (2) Organization and Management



There are 255 KUD within the province, of which 140 are KUD Mandiri. KUD Mandiri exist in all 77 sub-districts within the province. The province has a total of five KUD Mandiri INTI, located in four sub-districts and one city. The participation rate for the adult population is 7.1%, while the average number of members per KUD is 941.

The province's KUD are primarily involved in the provision of fertilizer, the marketing of rice and the operation of RMUs. Many of them have full-time managers, and they commonly undergo internal audits at least once a quarter. Their dissemination activity is inadequate, and they have made little progress in organizing producer and women's groups. The KUD also face a shortage of employees. Some have no phones. Increasing facilities and adding to capacity in relation to RMUs, warehouse, trucks and so on is proving to be difficult.

### (3) Economic Business

The major businesses of the KUD in Lampung are the selling of fertilizer and the gathering and shipment of rice. Their facilities include 20 RMUs, eight warehouses, a drying facility for cloves and copra, and a gathering and shipment facility for rubber.

In relation to cash crops, the KUD ship cloves via the PUSKUD to the National Cloves Buffer Stock.

### (4) Credit and Other Businesses

The KUD do not have ready access to bank financing for the investment funds and working capital needed to build new facilities or expand operations.

### (5) Human Resources Development and Guidance Activities

Human resource development and guidance-related activity involving the KUD in Lampung province are provided only through the BALATKOP. Also, because Lampung is located close to Jakarta, its KUD frequently participate in programs offered at training facilities in Jakarta.

Regarding guidance provided to members of the surveyed KUD, a couple of KUD had appointed guidance personnel to be in charge of matters relating to rubber cultivation and cattle fattening, while another had appointed employees to be involved part-time in guidance relating to everyday life, in which advice was provided on questions that members had on merchandise and on ways of improving everyday life. With respect to technical guidance on farm-related matters, information exchanges were taking place through regular meetings held between agriculture extension personnel and cooperative extension employees.

## (6) PUSKUD

The PUSKUD in Lampung is involved in multifarious activities, including the buying and selling of sugar, flour, fertilizer, feed, and fuel; the transporting of fertilizer; and the processing of coffee. Notably, revenues from sugar account for 51.3% of total sales. Of the 255 KUD in the province, 184 are members. The PUSKUD has 51 employees.

## 2. Plan for Strengthening KUD

### (1) Organization and Management

Because of the province's many small KUD, sub-district KUD councils will be established to meet pertinently the needs of members. A forum for discussions from a sub-district-wide standpoint on measures for increasing KUD membership and policies for improving businesses and services will be organized.. The KUD will then carry out these measures jointly in order, beginning with areas that are feasible.

### (2) Economic Businesses

The KUD will commence joint procurement businesses to carry out the product grading, packaging, shipping and marketing of locally produced fruits and vegetables. And, by launching joint businesses that purchase heretofore unused raw material--cassava, corn, pineapple waste, sugar cane tassels, copra, waste material left after the extraction of palm oil, wheat bran, etc.--the KUD will engage in the production and marketing of feed.

### (3) Credit Business

Many of the province's KUD are currently implementing plans to encourage compliance with rules regarding compulsory savings and to increase voluntary savings, but tangible results are not being achieved. The [lack of growth in] savings is the main cause, and the KUD will begin paying market-level interest rates on such savings in order to increase members' credibility to KUD and promote their savings behavior.

### (4) Human Resources Development and Guidance Activities

Because the province lags in terms of developing training facilities, and particularly because province-level cooperative organizations do not have training facilities, the KUD will strengthen the educational programs that are available through DEKOPIN and PUSKUD.

### 3.4.8 West Nusatenggara

#### 1. Present Situation and Evaluation

##### (1) Outline of West Nusatenggara Province

The province is designated a lowland area from an agro-ecological standpoint.

Among the seven provinces surveyed, this province ranks with South Kalimantan at the bottom of the list in terms of agricultural production volume and productivity. For this province, rice represents the largest and most important agricultural product. The average scale of operations per farming household is tiny, with 67.2% of households farming less than 0.5 hectares.

Hereafter the principal opportunities for increasing incomes will lie in expanding paddy cultivation based on plans for irrigation development, and in development of the livestock industry on Lombok Island.

##### (2) Organization and Management

There are 134 KUD in the province, distributed over all of the its 59 sub-districts; all have been authorized as KUD Mandiri. Each of the province's six districts has one KUD Mandiri INTI.

The KUD are primarily involved in providing fertilizer and in polishing and marketing rice. Almost all of the KUD operate savings and loans businesses and retailing outlets, and the number operating Wartels is increasing. Most members of the KUD are farmers.

The participation rate among adults is 18.1%, the average number of members per KUD is 1,799, and each KUD averages 10.3 employees.

The following may be cited as organizational and management-related deficiencies.

- 1) The membership rate in KUD continues to be low.
- 2) Planning administration capabilities, which would allow plans for new businesses (livestock, poultry, soybeans, dried fish, etc.) to be put into action, are weak.
- 3) Almost no KUD conducts internal audits.
- 4) Equity capital is small in absolute terms, and KUD lack sufficient working capital; there is a strong appetite for soft loans.
- 5) Almost all transactions are settled by cash; farming settlement accounts have not been established.
- 6) Controls for the monitoring of progress in businesses and in profit and loss are inadequate.
- 7) Almost no KUD calculate profit and loss on a departmental basis, or use computers in their operations.

### (3) Economic Business

The KUD of West Nusatenggara are primarily involved in the purchasing of rice, cloves, corn and cassava, and in the purchasing of cash crops, including coffee, coconuts, rattan, and cashew nuts; in the sale of chemical fertilizers; in the financing of farm operations; and in the sale of consumer items.

Even now, the selling of fertilizer continues to be the primary business of the KUD.

In 1995, the KUD owned 261 RMUs, 147 rice-drying machines, and 235 drying facilities for unhulled rice. Most of the drying facilities and RMUs are broken; and because there is a lack of ability to repair them, the rate of facility utilization is low.

### (4) Credit Business

With the exception of KUD Karya Utan, the KUD surveyed had small savings and loan operations. The main factors hindering the expansion of these operations were: sluggish growth in voluntary savings by members; delays encountered between the filing of loan applications and the execution of the loans; and the occurrence of arrears and defaults as a result of unskilled loan management by the KUD.

The KUD in the survey complained of difficulties in receiving financing for the investment capital and working capital needed for expansion of businesses. Among the factors to which the poor performance of the KUD lending operations could be attributed were: complicated loan procedures; the lack of operational training for employees involved in loan management; avoidance of the risk taking of the KUD direct loans.

### (5) Human Resources Development and Guidance Activities

West Nusatenggara has a fully functioning BALATKOP, the government-run cooperative training center. Neither PUSKUD, DEKOPINWIL nor DEKOPINDA conduct training activity. The training capabilities of these umbrella organizations is weak.

Of the five KUD surveyed, four had sent managers and employees to training programs offered by BALATKOP. While courses taken differed by KUD, the following summary of number of persons actually attending these sessions gives an idea of range: electric power business, 11; rice polishing technology, 7; store management, 6; accounting, 6; savings and loan operations, 6; and business management, 1.

All five KUD were reserving funds for education, ranging from between 2-5% of net surplus.

Of the five KUD surveyed, only KUD Ritam was sufficiently engaged in guidance activity, as indicated by the three employees it had assigned to farming guidance and the three others it had assigned to better living guidance. In the former category, it was providing guidance

relating to rice, tobacco and poultry farming, while in the latter, it was answering questions relating to merchandise and providing guidance relating to the economizing of family expenditures and to family planning. The source of technical information for employees involved in farm guidance was agriculture extension officers, while for those involved in better living guidance it was primarily guidance officers. Each district had an average of seven extension officers each.

## (6) PUSKUD

The PUSKUD in West Nusatenggara (est. 1987) had 126 KUD/cooperative members. It is involved in the following businesses: purchasing and supplying of unhulled rice and rice; rice polishing; fertilizer sales; the selling of sugar and other daily life necessities; the gathering of cloves, coffee, Batu Apung and other agricultural products; and the sale of consumer items. It is also engaged in a joint project with the private-sector wholesaler, PT Goro.

## 2. Plan for Strengthening KUD

### (1) Organization and Management

To enhance their planning administrative capabilities, the KUD which have a number of advisers on their staffs will assign at least one to be solely responsible for planning administration and have that person develop and execute plans for new businesses, market development, the raising of capital, etc.

To heighten awareness of the importance of savings and to reinforce the link between economic and financial businesses, the KUD will establish farming settlement accounts for cooperative members. Computerization will be necessary for this purpose as well, so computers will be introduced in phases, starting with the large KUD first. For the time being, computers will be shared among a number of KUD.

### (2) Economic Business

To remedy the problem of working capital shortages in businesses that process rattan, coconuts and cashews, and that produce feed, the KUD will launch joint enterprises with private companies and the PUSKUD. The KUD will make improvements in their agricultural machinery, transportation equipment, rice polishing machinery and warehouses.

### (3) Credit Business

To date the KUD have virtually no experience cooperating with banks other than the BRI and the BUKOPIN. So the KUD will select companies with experience in marketing and processing as their joint venture partners and receive supplemental financing from them.

#### (4) Human Resources Development and Guidance Activities

Because cooperative organizations do not have training facilities, the KUD will establish a training center for farm technology at the provincial level through joint investment with the government. The aim will be to provide training that responds to the recommendations contained in the province's agricultural promotion plan and that reflects the kinds of businesses that the cooperatives are operating (hence, processing technology for agricultural products, horticultural technology, rice production technology, repairing agricultural machinery and tools, etc.).

### 3.4.9 South Kalimantan

#### 1. Present Situation and Evaluation

##### (1) Outline of South Kalimantan Province

From an agro-ecological standpoint, the province is designated a wetland area. Annual income for farming families ranges from Rp 1 million to Rp 3.47 million.

##### (2) Organization and Management

There are 289 KUD within the province, of which 215 are KUD Mandiri. The principal businesses of the KUD are: the supply of fertilizer; the marketing of rice; rice polishing; and the handling of plantation-related products.

In terms of scale, the participation rate for the adult population is as low as 5.9%. The KUD are extremely small, averaging only 343 members each. Employees number only 2.3 per cooperative. With funds in short supply, many KUD are unable to provide adequate service to their members.

Deficiencies from a managerial standpoint would include: weak planning administration capabilities, which prevents the KUD from executing plans that they have developed; inadequate equity capital and undeveloped systems of channeling loans prevent the KUD from developing needed facilities and equipment, making them unable to respond to the needs of cooperative members; each KUD has only a few employees, which makes it difficult for them to establish internal systems of checks.

##### (3) Economic Business

The principal item sold by the KUD in the province is fertilizer, which accounts for

50.1% of total business transactions. Also, 213 KUD own 221 retailing outlets (Waserda), which supply materials for everyday life. Marketing businesses sell primarily rice, and the KUD own 29 RMUs, 70 rice drying machines, and 33 agricultural warehouses which have drying facilities for paddy annexed to them. Many KUD are involved in the handling of cloves. Producer groups have not been established, and the KUD do not operate businesses, such as joint marketing and purchasing, which exploit the advantages offered by cooperatives.

#### (4) Credit Business

As of the end of 1995, the outstanding balance of loans made by the savings and loan businesses of South Kalimantan's KUD represented around 1.0% of the total business conducted by all of the province's KUD. Among the five KUD surveyed, there was none actually making loans in its savings and loan operation. Among the principal bottlenecks are the following: the KUD inability to gain access to funds that would support the savings and loan operations; sluggish growth in voluntary savings by cooperative members; delays encountered in loan execution; unsatisfactory management of loans outstanding.

None of the five KUD surveyed paid any interest on voluntary savings.

#### (5) Human Resources Development and Guidance Activities

The government and cooperative-related training organizations in South Kalimantan are properly set up in a structural sense, and each is offering training programs. The PUSKUD provided training to employees responsible for clove-relating accounting; the DEKOPINWIL offered training programs to cooperative leaders at the sub-district level; and three of the 10 DEKOPINDA held training sessions, which were attended by 120 persons.

All five of the KUD surveyed recognized allowances for educational funds. Although they each had only a few employees, the KUD were strongly motivated with regard to training.

The services offered by KUD in South Kalimantan do not include providing guidance on matters related to farming or everyday life. The KUD have no employees responsible for providing instruction to cooperative members.

#### (6) PUSKUD

The principal businesses of the PUSKUD are transporting fertilizer and sugar, and selling cloves, rubber and coal. It handles fertilizer only indirectly, as an agent involved solely in transportation.

The membership rate in the PUSKUD is 55.4% of the 289 KUD in the province.

## 2. Plan for Strengthening KUD

## (1) Organization and Management

1. To strengthen the business capabilities of small KUD sub-district KUD councils will be established, where discussions will be held from a sub-district-wide standpoint on measures for increasing KUD membership and on policies for improving businesses and services.

2. To establish a means of communication with cooperative members, the KUD will consider the possibility of building facilities for radio telephones, through a cooperative effort among the KUD.

3. Managers or advisers will acquire a knowledge of the methods used to confirm accounting figures, and make sure the practices are carefully followed. In addition the KUD will increase the frequency of internal audits and audits by the KJA.

## (2) Economic Business

1. To acquire working capital for businesses that are involved in the purchasing, selling, and primary processing of oranges, rattan, coffee, limestone, coal, etc., the KUD will enter into joint ventures and business alliances.

2. KUD will start joint ventures involved in the livestock and poultry businesses (the provincial government has identified broilers as one of the area's "strategic products"). They will also begin to produce feed, using raw materials that can be obtained locally.

## (3) Credit and Other Businesses

1. KUD in South Kalimantan have the opportunity to expand the financing services that they offer relating to the collection of electricity fees. Funds generated from this service will be important for increasing the capital available to them and for building stronger cash flow for business needs. Therefore, the province's KUD will actively pursue the expansion of these kinds of operations.

2. Of the five KUD surveyed, three were not using the channeling loans that were available for supporting business activity generally. The only financial institution that was actively lending money to this province's KUD was BRI. Faced with this kind of capital shortage, the KUD in South Kalimantan will build even closer relationships with PUSKUD, which has the ability to raise funds for the businesses that the KUD engage in, and with the companies that are their opposite parties in joint ventures.

3. Results generated by the KUD savings and loans operations accounted for 1.0% of total



turnover, which placed the province sixth among the seven provinces surveyed. The KUD in this province will rapidly expand their savings and loan operations, through the use of as much borrowed money as possible.

#### (4) Human Resources Development and Guidance Activities

The educational activity of DEKOPINDA (the offices of the district union of cooperatives) is stagnant, and there is a need to strengthen the capabilities of BALATKOP. In addition, because of their small numbers of employees, the KUD do not offer guidance on matters related to farming or everyday life. Accordingly, it is believed that in the process of executing the previously described common basic plan for the seven provinces, the following kinds of differences will emerge.

1. In DEKOPINDA with no employees, managers will play the key roles for the time being. These unions will play the role of district level educational organizations.
2. The KUD Mandiri INTI will incorporate departments for farming guidance into their operations, and develop these into models for such activity. Moreover, because their employees have no experience in farming guidance, the Mandiri INTI will pursue the hiring of candidates for agriculture extension officer or of persons who have retired as agriculture extension officers.

### 3.4.10 Common Basic Plan for Activating KUD in 7 Provinces

#### 1. Organization and Management

##### (1) Organization

- 1) The KUD will develop plans which aim to achieve at least 60% participation rate among adults. In executing this plan, the focus will be on increasing membership among farmers.
- 2) The KUD will take steps to develop and strengthen such organizations as producer groups, women's groups and so on.
- 3) The KUD will find and develop capable personnel.
- 4) Mergers among small KUD will be expedited (takeovers, establishment of KUD councils at the sub-district level).

5) The KUD will diligently carry out internal audits.

(2) Management

1) The KUD will strengthen their planning administration functions.

2) The KUD will take steps to supplement their equity capital.

2. Economic Business

1) The fundamental concepts relating to the advantages of joint marketing, joint purchasing and joint use of facilities by KUD will be disseminated.

2) Steps will be taken to establish joint marketing structures that are advantageous to members.

3) The collaboration between the KUD and the PUSKUD will be strengthened.

4) Joint ventures will be expedited between the KUD and private companies.

3. Credit Business

1) Savings

Market rates of interest (at the time of the survey, between 18-24%) should be paid. Visits to members' homes by managers and employees of the KUD will be an extremely important measure for fostering savings. Women's groups and other internal organizations will also be utilized to promote periodic savings programs, including approaches that use "bamboo coin containers," etc.

2) Borrowings

It is believed that about 10% of the KUD in the seven provinces, or about 270 cooperatives, possess the qualifications to borrow from financial institutions. Lending to cooperative members should ideally take the form of KUD re-lending funds that are borrowed from financial institutions.

3) Loans to members

Loan procedures should be standardized and simplified. Regarding loan management and collection, the KUD should endeavor always to be aware of the economic conditions of members through maintaining direct contact with them.

#### 4. Human Resources Development and Guidance Activities

- 1) In accordance with the principles of cooperatives as specified by the International Cooperative Alliance, KUD will set as their goal to reserve a maximum of 5% of net surplus as education funds.
- 2) With respect to personnel development and training, the government and the cooperatives will clarify the way their respective functions are to be divided.
- 3) For farm guidance, the KUD will endeavor to utilize farmers with high levels of technology, retired agriculture extension officers, and other like persons in this role.
- 4) With respect to better living guidance, the KUD will seek in particular to increase organization among women.