

Chapter 4 Detailed Plan for Activation of Model KUD

4.1 Selection of Model KUD

Basic policy regarding the selection of model KUD for the Phase III Survey:

As a rule, the selections will be made from among the KUD included in Phase II.

<Selection Standards>

- (1) The districts in the survey will be Bandung in West Java and Sidrap in South Sulawesi.
- (2) The KUD will be chosen from among those authorized as KUD Mandiri or as KUD Mandiri Inti.
- (3) There will be three KUD from each district, or a total of six KUD.

Based on these indications, the following were selected as the model KUD to be surveyed in Phase III.

Bandung District: KUD TANI MUKTI, KUD PASIR JAMBU, KUD WALATRA
(cool, highland areas)

Sidrap District: KUD SIPATUWO, KUD SEMANGAT, KUD MATUTU (irrigated
areas)

4.2 KUD TANI MUKUTI

4.2.1 Present Situation and Evaluation

In terms of its agro-ecological system, the province is a cool highland area, and befitting this has been designated a promotion area for vegetable and dairy farming. Since 1981 the KUD has operated a system for financing the introduction of milk cows, encouraging the introduction of milk cows principally among tiny farms with small landholdings. Currently 690 dairy farmers are raising 1,300 heads of cattle and all of them are being members of the KUD.

Lending for milk-cow introduction constitutes 82% of the KUD's lending to cooperative members, and 69% of its total assets. One half of the KUD's employees work in areas related to the dairy business. Dairy farming incomes are inadequate because: prices of dairy cows produced abroad are high; high-quality assorted feed cannot be adequately supplied due to inadequate feed-mixing facilities; milk processing is not conducted.

Vegetable production flourishes within the jurisdiction and are shipped daily to Bandung, Jakarta and other areas. The KUD does not conduct gathering and marketing activities but private dealers are handling them. But since its membership includes vegetable farmers, it would be possible to gain the cooperation of the membership and to conduct vegetable-relation operations in the future if it dealt properly with this issue on the basis of a long-term plan.

The KUD has 5,590 members including 1,052 dairy farm households, 904 other farm households and 3,635 members who utilize electricity charge collection service; and its rate of participation among the adult population is a low 16.9%. Thus the range of service of KUD is limited. As the planning administration function is weak, it appears difficult to develop attractive new businesses.

Plans are underway to spin off the savings and loan business from the KUD and create an independent business organization (UUO) in alliance with the Danamon Bank. However, this could cause member groups such as the savings and loan group and others to leave the KUD.

Education programs for dairy farmers that include technical tours of advanced dairy producing areas are conducted, the KUD's two farm advisors in charge of dairy farming are qualified veterinarians. However, this guidance setup is not sufficient. Other than this, there are no systematical member's education and better living guidance.

In order to increase income of members, it is imperative for KUD to promote advantageous joint marketing as well as increasing its business volume. However, except dairy farm households, members cooperating organizations such as producers groups are not established.

4.2.2 Detailed Plan for Activation of KUD

(1) Basic Concept

The basic strategy for vitalizing the KUD will be to consolidate the business foundations of the KUD through encouraging the further development of dairy farming, and to foster an expansion of business and an increase in members' incomes. The activation of dairy business and increase of income for dairy farmers will provide a tangible motivation for other types of members to utilize the business of KUD, it is deemed that it will lead expansion and diversification of business and further activation of the KUD activities.

(2) Promotion of Dairy Business

By generating an increase in milk production through increasing the number of high-quality cattle which yield high quality milk, the KUD needs stable supply of high-quality cattle to dairy farmers with low price. For that purpose, the KUD will construct a system in which it purchases female calves from members, and nurtures and raises the cows to maturity and supply to members. Also, dairy steer calves are to be purchased from dairy farming members and raise them and sell as beef cattle to increase income of dairy farmers. For this purpose, " Female calves feeding facility and dairy steer cow fattening facility" are to be established.

To add value to milk produced by members and to sell the value-added milk products, the KUD will develop a small-scale milk processing plant targeting marketing in the local area as a trial. The commodities to be produced are packed milk and yogurt. The development of facilities for the mixing of high-quality feed and the production of compound feed are essential plans for the production of high-quality milk cows. The necessary staff are to be allocated for each facility for the operation which will also contribute to create local job opportunity, also efficacious management organizations are to be established for each facility.

(3) Establishment of the Planning Administration Division

The KUD will establish a planning administration division to evaluate measures aimed at entering the business of collection and marketing of vegetables through a medium-range vision, improving businesses and managing involvement in new businesses and 5-year plan for promoting KUD membership (decisions are to be made at the general meeting). With respect to its plans to establish an independent business organization (UUO) in alliance with the Danamon Bank, the KUD will, in conjunction with the membership, look into way to prevent members from drifting away from the KUD.

(4) Strengthening of Human Resources and Guidance Activities

Farm guidance structure is to be strengthened to provide better guidance on feeding management and better quality of milk. KUD will strengthen the better living guidance it provides in relation to improving dietary habits, health management and sanitation through retail shop business. The KUD will set aside a fund for education, and enhance the capabilities of its employees by sending them to outside training programs. It will urge the organization of commodity-wise groups as a way of fostering joint marketing as well as joint purchasing of fertilizer.

4.3 KUD PASIR JAMBU

4.3.1 Present Situation and Evaluation

In terms of its agro-ecological system, this region is designated as a cool highlands area, located in the neighborhood of Tani Mukti. It vigorously promotes the development of vegetable and dairy farming. By introducing a system for financing the purchase of milk cows in 1979 earlier than Tani Mukti, the KUD encouraged farmers to begin dairy farming. At present, 1,242 dairy farmers who are members of the KUD are holding 2,800 dairy cattle. Those farmers could improve their lives by introduction of dairy farming and their loyalty to KUD is strong.

The KUD's primary businesses are dairy farming-related. In the economic business, market of milk occupied 71% of the business turnover, and the supply of feed-stuff occupies 14%. In addition to increasing the number of cattle, it is involved in efforts to improve milk quality and increase production by farm advisors who are qualified veterinarians. However, the increase of cattle, milk production and sales has been stagnant since 1994. Because, the price of imported calves is very high, it does not have in its facilities a capacity to produce feed commensurate to this increase in herd. The improvement of milk quality has remained difficult. There is a strong demand among dairy farmers to strengthen farm guidance of KUD.

Also, the area is active in vegetable production. The KUD is involved in the and shipment of about 30 types of high-quality vegetables through a business alliance with super markets. This project has been made possible in part through the support provided from DEPKOP, under the Kemitraan policy. However, the number of farm households who have adequate technology on grading and packaging to meet the request of super stores is small as well as the quantity to be purchased by super stores is limited. Nevertheless, the number of participating farmers is still small. Most of farmers are selling their products to private dealers.

Looking at other business, it has a sufficient assorting of commodities in its retail shop, provides interest rate of market rate, issues certificates for time savings, promotes objective savings for Islamic festivals, provides insurance for medical expenses through "members welfare fund" by collecting premium from members, provides cable broadcasting service to members. It provides their diversified services to its members. Also, better living activities of dairy farmers and

women's group are vigorous. However, membership participation rate among the adult population is 23%. It is desirable to increase members to provide its services to a larger number of local residents.

Although the KUD provides a variety of services, as the planning administration division is not established, each business is implemented by the initiatives and action of individual staff in charge. Therefore, development of new business, development of commodities such as dairy products and processed foods from vegetables and development of marketing channels are insufficient. Also, in the credit business which required accuracy and promptness clerical operations are not well rationalized.

4.3.2 Detailed Plan for Activation of KUD

(1) Basic Concept

The basic strategy for vitalizing the KUD will be to foster the development of the dairy-related business, which is the cornerstone of the KUD's activities and the means of livelihood of the vast majority of the members. With this as a basis, the KUD will then consolidate its business and financial foundations and advance efforts to renew business overall, including ventures into other areas.

(2) Development of Dairy Farming

Increase in the number of excellent milk cattle and production of high quality milk are the basic direction. For that purpose, it is necessary for the KUD to expand loans for purchasing calves to support plans of dairy farmers to increase the number of milk cattle. As the imported calves are expensive, "a facility for nursery of dairy calves" is to be established at KUD to purchase calves born in the area and sell back to members after maturity with reasonable price. Also, "a feed mill" should be established to supply high quality compound feeds sufficiently to improve quality of milk. It is also necessary to strengthen guidance on feeding management, guidance on reducing mortality rate by disease and accident and guidance on quality control to achieve high market price. Also, in order to provide better guidance to member farmers, a farm guidance division to cover guidance for horticulture should be established.

(3) Implementation of Marketing Vegetables

KUD will contribute to the increase of farm household income by expanding collection and marketing of vegetables. For that purpose, the guidance structure should be reinforced to provide guidance to improve the quality of products and strengthening sales to super stores as well as developing new marketing channels.

(4) Policies to Increase Membership Linked with Strengthening of Business

As the KUD provides market interest rate to voluntary savings and the variety of commodities are meeting the needs of member's life, the positive promotion of savings will be possible with the support of women's group and also positive saving campaign should be extended to non-members linked with the campaign to increase its membership. The KUD will simplify its loan approval procedures for the financing system provided to members.

The KUD will disseminate and develop processing technology by ferreting out traditionally processed goods currently being made in the area and by holding training sessions in which members possessing such technology serve as instructors. It will explain the role of the KUD and the obligations of membership to those from whom it collects electricity payments, and in this way promote membership in the KUD. At present, the use of the members welfare fund is limited to dairy farmers only. This should be expanded to other members as well as non-members as an incentive to join KUD membership.

(5) Utilization of computer

Improving the accuracy and speed of clerical procedures in marketing account settlement, credit business, and creating the ability to assess progress of business on a basis of each division basis, through the use of a computer

(6) Establishment of a Planning Administration Division

By the establishment of a planning administration division, KUD should strengthen linkages between various divisions, development of new business and new marketing channel. Also, it will examine the promotion of joint use of facilities with neighbouring KUD.

4.4 KUD WALATRA

4.4.1 Present Situation and Evaluation

In terms of its agro-ecological system, this region is designated as a cool highlands area, where vegetable production and dairy farming are promoted. The area is a leading vegetable production area. Cabbage, tomato and potatoes are mainly produced. Potatoes are high income crop and in which many farmers are engaged in. The potato Seeds Multiplication and Training Centre which was established by cooperation of JICA is located in the operation area of the KUD. It is convenient for KUD to receive guidance from the Centre. The KUD is not involved in dairy-related businesses owing to the existence of the dairy cooperative in its vicinity. Most of the KUD's members are vegetable farmers and dairy farmers are being members of the dairy cooperative. Also, labours of tea estate have established their own cooperative. With this reason, the membership rate of adult population stays 11.6% only.

The KUD's principal businesses are fertilizer, agricultural chemicals, and the supplying

of agricultural equipment and tools which occupy 86% of supply amount. Fertilizer is a commodity which is advantageous to KUD. However, with the increased illegal transaction of fertilizer, KUD is exposed to competition with private sectors. Although it exports vegetables as part of its marketing operations, this is only done sporadically. Vegetable producers are depending on the working capital and marketing to private dealers. They are not satisfied with the price given by dealers. members are demanding KUD to expand collection and marketing of vegetables. However, the KUD has no cooperating members group for joint marketing and the competitive power.

The KUD is not engaged in processing business and not meeting demand of members. It also supplies household fuel (kerosene). It does not have a retail shop operation.

The KUD provides agricultural production loans (KUT) for horticulture. These are channeling institutional loans. These loans were originally available only for rice cultivation, but were expanded to cover vegetables starting in fiscal 1995. The KUD set up regular days for visits to members by Kelompok Tani to promote savings and to assist with the filing of loan applications. Furthermore, the savings and loans groups of Kelompok Tani which is not related to KUD are developed which are the system of mutual financing among the members of each group.

Also, the KUD provides electricity fee collection service and public telephone service which was started since 1996. The large number of traditional processed products such as caramel, shrimp flavored rice cake, tempe and potato chips etc. are produced by women's group in the area and sold in the morning market in the village. Youth group is engaged in manufacturing and sales of souvenirs. However, as the marketing channel is limited, expansion of these business would be difficult.

The majority of employees are assigned for electricity fee collection and public telephone service and only a few employees are in charge of marketing and credit business. Efforts in employee education are not being carried out methodically which hindering employee development.

4.4.2 Detailed Plan for Activation of KUD

(1) Basic Concept

The members are being compelled willy-nilly to accept disadvantageous terms of marketing. To promote renewed vitality in the KUD, efforts will be made to strengthen its marketing capabilities in the area's key commodity, potatoes, and to use this strengthened activity as a basis for expanding into the marketing of other vegetables. Also, it is necessary to strengthen the credit business to meet needs of funds for vegetable growers and then to be competitive with private collectors.

(2) Examination of Measures for Marketing Vegetables

To evaluate methods of securing sales channels, improving product quality, storage and

transportation and packaging/processing etc., the KUD will establish a Vegetable Marketing Evaluation Committee composed of KUD officials and employees and agriculture extension officers and standard grading system regarding quality, size, shape and grades are to be decided in a bit to fetch higher price. Also, the employees who are fully involved in marketing business should be fostered. By further expanding the use of KUT loans, the KUD will reduce the level of working capital loans borrowed by vegetable farmers from private wholesalers.

(3) Measures for Production and Processing of Potatoes

To promote advantageous marketing of potatoes, the KUD needs to establish a potato processing facility and increase production of high quality raw material potatoes. The processing of potatoes will be potato stick for fried potato and potato powder which will be generated in the process of cutting potatoes. The seed potatoes which were developed at the potato Seed Multiplication Centre will be disseminated as raw material potatoes and in future, KUD will engage in production of seed potatoes by itself. Also, members group for potato processing shall be organized to secure stable procurement of raw materials

(4) Dissemination of Agro-processing Technology

The KUD will disseminate unmerchandized agro-processing technology among members to improve the technology and diversify the products. As a first step, the KUD needs to foster women's group, supply spaces for processing activities and facilities. In future, when marketable commodity is developed, the KUD will engage in mass production for marketing purpose.

(5) Strengthening of Credit Business

Objective voluntary savings are to be promoted and loans from savings as financial sources should be promoted. The KUD will provide employee education and training on credit analysis and loan management for member-related financing.

(6) Human Resources Development and Guidance Activities

Because employee education is not being carried out methodically, the KUD will formulate a HRD plan for employees involved in finance and marketing.

4.5 KUD SIPATUWO

4.5.1 Present Situation and Evaluation

(1) Present Situation

In terms of its agro-ecological system, the area is designated as an irrigated area. Its principal agricultural product is rice. Recently, with the progress of small scale poultry farming,

production of egg and local chicken have increased. KUD SIPATUWO was established in 1962 and authorized as KUD Mandiri in May 1990. Since its establishment, the KUD has achieved large increases in membership. The participation rate among the adult population of 1,168 persons is 59.3%, with the participation rate among farmers a high 91.4%. Women account for only a low 19% of the membership. The KUD's principal businesses are rice milling and fertilizer

The balance of savings was equivalent to only 5.1% of total KUD assets, still a low level. The KUD's borrowings from financial institutions consisted of a working capital loan borrowed from the BRI to fund purchases of paddy/rice for its rice milling business.

There are four other KUD in the sub-district of Maritengungae where the KUD operates. A general meeting is held once a year and the regular monthly directors' meetings are held every month (5 directors). Employees numbered 16 persons, including a manager, six regular full-time employees and nine temporary employees. Total revenues consisted almost entirely of contributions from the rice and fertilizer business. The KUD is also engaged in the collection of electricity fees, a transportation business, a tractor service and rice polishing. Commission revenues from these other activities, however, is minimal.

The educational background of officials and employees is relatively high. Reserves in the education fund are glaringly inadequate amount, making a methodical approach to employee training difficult. Currently two farm advisors are assigned to work principally in the areas of rice cultivation and poultry. With the increase in poultry farming in recent years, technical guidance in poultry management and in ways to market eggs profitably have become urgent issues.

Sipatuwo provides better living guidance. Women members of the KUD have organized an agricultural product processing group composed of 216 persons, which is involved in processing superannuated chickens (into seasoned chicken powder). In addition, women have organized an income creation group whose members sew and carry on a mutual finance arrangement.

(2) Evaluation

1) Polishing and marketing of rice

One RMU is very decrepit and probably in need of replacement. In addition, operations are characterized by a lack of balance among drying, storing and polishing capacity which result in a low yielding rate and increase of broken rice. Also, the working capital to buy up paddy is in shortage. In order to increase equity capital hereafter, voluntary savings must be promoted, and the KUD will need to secure employees for this task.

In order to develop a new marketing business, the KUD needs to obtain information on wholesale market. Further efforts will be necessary to improve efficiency of RMU operation to generate more profit.

The KUD has a weak organizational base, counting only women's groups among its

cooperating organizations. If it can nurture cooperating organizations and support their organizational activity, this would contribute to renewing its overall vitality.

It is desirable to promote joint use of facilities among the Five KUD with exist in the area where Sippers operates. The KUD lacks a sufficient number of employees in its finance operations and in its selling and servicing operation for agricultural machinery and tools. Hence, the first priority of business must be securing funds. Toward this end, the KUD must build its educational fund.

With the increase in poultry farming, the training/hiring of cooperative extension officers with knowledge of poultry-raising technology is an urgent need. The KUD's electricity fee collection business needs to be expanded in response to the electrification of the area in the future.

4.5.2 Detailed Plan for Activation of KUD

(1) Basic concept

An improvement in its rice business which is the main source of all member incomes.

Based on the desires of its membership, the KUD will aim to enhance the incomes and standards of living of its members by developing and executing concrete measures dealing principally with businesses related to the production, distribution and processing of rice and its by-products.

(2) Plan for Strengthening of Economic Business

The KUD will build the following two facilities as major facility plan.

Rice milling and processing facility:

Mini-grain processing. Broken rice and other grains:

Beside rice relating business, the KUD will examine establishment of poultry farm, feed mill, agricultural service centre and members saving accounts for account settlement.

(3) Plan for Strengthening of Credit Business

In order to reinforce the financial condition of the KUD, members savings should be promoted. To expand KUD savings, the KUD will accept savings in kind, it will also generate increase in savings by paying interest equivalent to the market rate. Also, KUD's own lending program should be examined.

(4) Plan for Strengthening of Organization and Management

In order to increase own capital, the amount of initial fee and compulsory savings should be increased and promote more internal reserves from the current surplus. The five KUD in Sipatuwo's area of operation will cooperate in establishing a sub-district KUD council. At this council the KUD will discuss the collection of rice, marketing measures, the renewal of rice milling facilities, the establishment of commercial brands for rice and other issues, and develop and execute policies designed to facilitate progress in these areas.

(5) Plan for Human Resource Development and Guidance Activities

Human Resource Development Plan needs perspective planning. It is necessary to accumulate education fund for training employees. Especially, training of employees in charge of saving and loan will be the priority area. Also, in order to strengthen farm guidance of the KUD, it will concurrently take active steps to hire and train personnel capable of providing farm guidance services.

(6) Other business

It is desirable to establish local site office for collection of electricity fee and retail shop which will supply consumer goods.

4.6 KUD SEMANGAT

4.6.1 Present Situation and Evaluation

(1) Present situation

In terms of its agro-ecological system, the area is designated as an irrigated area. The KUD's jurisdiction covers four villages. Farming households in the area number 1,657, of which roughly 80% manage full-time farming operations involving between 1-2 hectares. Rice production and rice polishing are the area's largest industries. Electricity has still not reached the entire area. Reflecting ever increasing shortages of labor, the use of agricultural equipment is spreading.

KUD Semangat was established in 1970 and authorized as a KUD Mandiri in April 1992. Since its establishment, the KUD has achieved large increases in membership. The participation rate in the cooperative is 26.3% of the adult population in the district. The rate of participation among farmers is a high 65.2%. However, the KUD has no women members.

The KUD's principal business is the sale of rice and the distribution of fertilizer. The operating rate for RMU is a very low 200 tons per year for facilities with a capacity of 1,200 tons per year. Apart from rice milling and rice sales, the KUD sells fertilizer, provides transportation services, and earns service revenues from its RMU.

The KUD does not pay interest on membership fee and compulsory savings. To expand its businesses, the KUD must make effort in increasing member savings. Channeling loans to members that passed through the KUD were rice production loans from the BRI. 5) Organization and management

The general meeting is held once a year in a democratic manner. Directors' meetings are held once every three months. The KUD has one general manager and six regular (full-time) employees (three men, three women), plus 15 temporary employees. Six regular employees are graduated from high school and their educational profiles are rather high.

The KUD has been unable to set aside reserves for its education fund for the past three

years. Its employees handle the KUD's administrative procedures while operating their own farms, so they are not full-time employees and their capacity to deal with administrative matters is inadequate. The KUD currently does not employ any farm advisors. The small number of employees also makes it difficult for the KUD to provide better living guidance.

(2) Evaluation

With the head of the cooperative motivated to actively promote the rice milling business. Currently the bottlenecks operating against the rice milling business are shortage of capital investment for increasing and improving rice milling facilities and working capital for the purchase of paddy and inadequate number of trucks to transport rice to the markets. There is also a need to rationalize account settlement procedures between members and the KUD primarily in the rice and fertilizer businesses.

The KUD does not have the facilities it needs to anchor operations relating to the purchase of paddy. Its shortages of warehouses and drying spaces are making it difficult to collect paddy. Fertilizer distribution is also facing problems. Because prices have skyrocketed, the KUD has been unable to get its allotted supply due to insufficient funds. Accordingly, KUD members either had to purchase from other suppliers or reduce the amount of fertilizer they used.

Although in recent years savings from members have stopped growing, the KUD does not seem aware of the importance of increased savings as a means of generating the internal funds required to get its businesses to grow. While becoming more active in obtaining savings from members, the KUD needs to raise a large portion of its required funds at low cost.

The membership rate among adults is only 26%, while 35% of farm households are also non-affiliated, indicating that the KUD's organizational abilities are still weak. Consequently, in addition to minimizing its influence toward members and causing capital shortages, this is also causing the KUD to fall behind in its rice handling operations.

Signs of a vicious circle are evident: because of fund shortages, business does not expand, making it impossible to hire personnel.

4.6.2 Detailed Plan for Activation of KUD

(1) Basic concept

As a KUD in an area where paddy farming is the basic industry, Semangat must expand and develop production, marketing and processing activities aimed at increasing the added value of rice and miscellaneous grains in order to improve the incomes of its members.

(2) Rice processing and marketing business

The following facilities are to be established.

Rice milling and processing facility

Mini-grain processing. Broken rice and other grains

The KUD will put added emphasis on the development of farm advisors specializing in

rice, and of rice-milling technicians, as an integral part of the effort to promote rice marketing. Regarding rice sales and materials purchases by members, the KUD will establish member farming accounts and introduce a mechanism for settling such transactions.

(3) Businesses other than rice

While encouraging members to operate poultry farms using rice bran and other byproducts, the KUD will sell compound feed and eggs to the PUSKUD and others.

(4) Organization

- * To increase own capital.

- * To promote the launching of new byproduct processing businesses run by women, the KUD will ferret out women leaders and expedite organization.

- * To promote mutual cooperation and development among the five KUD in the Maritengae sub-district, the KUD will establish a sub-district KUD council. At this council the KUD will discuss matters relating to the gathering of rice, marketing measures, the renewal of rice polishing facilities, the establishment of commercial brands for rice and other issues, and develop and execute policies designed to facilitate progress in these areas. The KUD will strengthen its collaboration with KUD SIPATUWO in particular.

4.7 KUD MATUTU

4.7.1 Present Situation and Evaluation

(1) Present Situation

In terms of its agro-ecological system, the area is designated as an irrigated area. The KUD covers a relatively large area, encompassing 19,280 hectares spread over six villages in the Dua Pitue sub-district of Sidrap district. The principal products of the area are led by rice, and also include duck raising, beef cattle, and rattan. The average size of paddy field owned per household is roughly two hectares. In 1996, there were 11,000 heads of beef-cattle being raised in the sub-district. With the Sidrap district animal husbandry department having designated the sub-district an important promotion area for beef cattle, the KUD has indicated that it will be aggressively promoting the industry. There is also a large state-run beef cattle breeding ranch near the KUD, which is providing economic and technical support to the region.

KUD MATUTU was registered as a KUD in July 1982 and authorized as a KUD Mandiri in July 1990. Since its establishment, it has achieved large increases in membership. The participation rate in the cooperative is 36% of the adult population in the district. The rate of participation among farmers is a high 91%. Moreover the rate of women members is also high.

The KUD's businesses center on the purchasing of rice for sale to the National Food Agency, fertilizer distribution, the sale of cloves to PUSKUD, and the commissioned handling of

administration for institutional loans. With respect to beef cattle, roughly 100 member households own approximately 7,000 cattle. These are not sold via the KUD, but instead are allowed to roam on ranches and are only sold to beef suppliers when farmers are in need of cash.

The KUD's primary businesses are the purchasing, processing and marketing of unhulled rice/rice and the distribution of fertilizer. Other potentially promising businesses include retailing, rattan, animal husbandry and poultry farming.

The KUD does not pay interest on membership fees or on compulsory deposits, but it does pay a 1% rate on voluntary savings. But this is still vastly lower than market interest rates (16%). The KUD's borrowings from financial institutions are for purchasing paddy/rice for its rice milling business (and for its "partner members" who are engaged in rice milling).

The KUD has eight (three men, five women) regular employees (full-time, all high school graduates), in addition to a manager. In addition it has 39 temporary employees.

One half of the KUD's gross profit is generated by cloves and around 10% by fertilizer. Fund raising by the KUD is in the form of institutional loans to members, which are equivalent to one half of total assets; of this, most are KUT loans.

The educational backgrounds of manager and employees are relatively high. The KUD has accumulated Rp 4.5 million in its education fund, but this amount is insufficient to allow it to advance its plan to train all of its employees. Its current educational program includes awareness-raising activity on the Law on Cooperatives, on expediting membership in the KUD, and on the rights and obligations of membership held at BALATKOP, DEKOPINDA and the KUD.

Commodity-wise groups have yet to be organized as vehicles for farm guidance. The KUD does not provide better living guidance.

(2) Evaluation

Regarding the production of beef cattle, a product for which demand is expected to grow, however, remains an idea that eludes implementation. The reason is that there has been no one to provide capable leadership, and that farm guidance to the raising and management of beef cattle has been inadequate. However, if the KUD's directors and members with leadership status can develop plans which are consistent with the interests of the members, and can introduce channeling loans and establish systems of cooperative extension, the KUD's livestock business has the potential to develop hereafter.

The two RMUs owned by the KUD, whose combined processing capacity is four tons per hour, have an operating rate of only 5%. The primary reasons for this poor performance are that the KUD lacks the working capital needed to purchase paddy and to carry out its rice milling business, and that 20 "partner" members have participated in the rice milling business.

In order to provide for the necessary inventories of paddy/rice that would permit the KUD to continue rice milling operations during harvest seasons, the KUD must develop plans for the expansion of members' savings. The KUD enrolls almost no profit from its loan intermediating

operation on behalf of members; it should take active measures to assure that it does not let opportunities to earn revenue slip by.

4.7.2 Detailed Plan for Activation of KUD

(1) Plan for Strengthening of Organization and Management

To improve the rate of KUD patronage by members, the KUD will strengthen commodity-wise member organizations such as beef cattle or cashew nuts, and provide market information and information required from a technical standpoint to these groups. To facilitate smoother communications between the KUD and members, the KUD will convene preliminary general meetings. From the perspective of vitalizing the weak KUD in the sub-district, a council comprising the area's six KUD will be established, and projects begun where cooperation is feasible.

(2) Plan for Strengthening of Economic Business

From the standpoint of utilizing the raw material for feed that exists in the form of the byproducts from the rice milling process and locally produced corn etc., the KUD will begin a business to raise and fatten meat cattle. For its rice-related business, the KUD will start business cooperation with PUSKUD, and receive technical guidance from the federation. It will reevaluate the current locations of its rice milling facilities.

(3) Plan for Strengthening of Credit Business

To deal with the current working capital shortage, the KUD will take steps to increase savings by having members deposit savings in kind with the KUD by paying market interest rates on member savings, etc.

(4) Plan for Strengthening Human Resources Development and Guidance Activities

The KUD's farm advisors will receive training at external agencies. The KUD will hire qualified veterinarians. It will carry out better living guidance activity in cooperation with the income generating groups and women's groups that have been fostered primarily by the government.

(5) Facilities plan

Members strongly desire an involvement in beef cattle production in the hilly and grassy regions of the sub-district. Moreover, as there is a large state-run ranch nearby which could be utilized for technical assistance, the establishment of facilities for beef cattle fattening has been proposed.

Chapter 5 Recommendations

1. Government Measures to Support KUD Development

1) Law and guideline

a) From the perspective of making use of organizational size in generating profits, mergers should take place between KUD in order to improve the quality of KUD that have expanded the size of their business operations. Therefore, legislation should be established to support such mergers (basic merger law, law to assist mergers, etc.)

b) Regulations governing financial dealings should be established to provide guidelines for the proper financial management of KUD. (In order to clarify financial relations between KUD and cooperative members and to protect the profits of cooperative members, criteria concerning the appropriate use of finances are needed. For example, there is a need for loan criteria and fund management standards, including owned capital ratios, reserve ratios for deposits, and loans to non-cooperative members.)

c) Reference should be made to "Policy to Support Credit Business of KUD" (3.3.2(2)) to enable greater access by KUD to financial institutions and guidelines concerning the eligibility of KUD to receive credit should be established. In addition, loan conditions such as interest rates should be revised from time to time taking into account the circumstances prevailing in each province and market conditions.

d) KUD need to take into account the importance of introducing, expanding and strengthening their better living guidance activities, which should be common to services for both farmers and residents. Staff in charge of better living guidance should be successively appointed at the Ministry of Cooperatives and Small Enterprises and its affiliated organizations while departments responsible for this function should be successively established and strengthened.

2) Credit, guidance businesses and auditing of KUD

a) Attempts should be made to expand the functions of the Post-Harvest Training Center to respond to the business diversification of KUD.

b) With regard to institutional finance for KUD and KUD members, loan limits applying to the use of funds should be reconsidered and external support should be investigated concerning cases where it is difficult to meet domestic conditions for raising finance and preferential loans.

c) Measures to enlighten KUD on the importance of external audit to keep and increase credibility of KUD should be considered. And also measures to reduce audit fee of KJA paid by KUD, which are suffering from financial burden in this respect, should be introduced.

d) To add support to the accumulation of education funds by KUD, incentive policies, such as making transactions tax-free, should be carried out.

2. Leading Actions of the Government to Vitalize KUD

1) Organization

With a target participation rate of 60% of the adult population, the KUD will formulate and execute a five-year plan aimed at encouraging people to join the KUD. To strengthen communication between cooperative members and the KUD, the KUD will hold village meetings etc. and encourage a consolidation of opinions from members by publishing information bulletin and so on. In addition it will provide members with market-related information. The KUD will also take steps to nurture and strengthen organizations affiliated with it, such as producer organizations, women's groups, etc.

2) Management

Steps will be taken to increase internal reserves from current surpluses, and to increase the membership fees and deposits that result from improved rates of membership in the KUD. The KUD will also pursue the establishment of farm management transaction of members accounts as a means of heightening the awareness of members regarding savings and of strengthening the link between the KUD's credit and economic businesses.

Where there are plural KUD within the same district, KUD should set up District Council to discuss such common problems as how to procure funds necessary for business activities, thus promoting merger at the most appropriate time.

3) Businesses

Based on the agro-eco system of each area, there is a need to activate the KUD in the following ways: by having model KUD encourage the introduction, dissemination and expansion of new activities in horticulture, dairy farming and livestock farming among member farms, and by generating direct improvements in members' farm incomes through improvements in farm management; by developing and strengthening activities related to the marketing of the farm and livestock products, and by enhancing value-addition through the execution of food processing businesses; and by developing and strengthening retailing businesses, such as those selling related farm materials. Moreover, in rice-producing areas, it will be important to generate improved

efficiencies in rice milling and more active use of rice by-products in the promotion of livestock farming.

In order to generate the effective use of facilities, the KUD must obviously seek to improve their abilities and technologies in collection of raw materials, marketing of products, settlement of accounts, and over-all business management, education and training in the broad sense of the term should be reinforced.

Attention should also be paid to previous proposals made regarding to the joint use of facilities by multiple KUDs. (4.8)

3. Promotion and Dissemination of Activation Plan for Model KUD

Given that these KUD are models, it is conceivable that such facilities could be developed through full subsidization of required amounts, and in this way to attempt to illustrate the potential impact of such activities. However, even in that case, it should be stressed to KUD managers, employees and members that such measures were exceptions and that the rule is that the KUD and members were responsible for funding their capital needs on their own. Moreover, in the case of such subsidies, the KUD should be made to assume that the funds had come in the form of low-interest rate loans, and be required to formulate repayment plans--and in this way be made to endeavor to generate the funds required for repayments.

In order to generate the effective use of facilities, the KUD must obviously seek to improve their abilities and technologies in collection of raw materials, marketing of products, settlement of accounts, and one-all business management, and education and training in the broad sense of the term should be reinforced.

Model KUD were selected not only to activate their own activities but also with the view towards disseminating the results of this activation plan to nearby KUD or to KUD possessing similar agro-eco system. Consequently, when the Indonesian Ministry of Cooperatives and Small Enterprises carries out measures aimed at activating model KUD hereafter, it should record and analyze the process by which the measures are carried out, and note what is achieved through the process and in the aftermath of implementation (if no results are achieved, then the reasons for this lack of results should be noted). Measures should then be devised to enable the compilation of such analysis into manuals for KUD activation and the dissemination of such manuals nationwide through regional training centers, etc., thus making it possible for the experiences to be helpful to other KUD planning similar projects.

**The Study on Integrated Development of Rural Cooperatives in
the Republic of Indonesia
The Final Report
Main Report**

Preface
 Letter of Transmittal
 The Study Area
 Administrative Structure and Cooperative Organizations
 Acronyms
 Summary

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- 2 The Result of Commissioned Survey**
- 3 Comparison of KUD Management Before and After Self-Reliance
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- 4 Project Evaluation Sensitivity Analysis**
- 5 Present Situation and Evaluation of KUD Activities in 7 Provinces**
- 6 Present Situation and Evaluation of 6 Model KUD**
- 7 Outline of Bandung District**
- 8 Outline of Sidrap District**

Chapter 1

Chapter 1 Preface

1.1 Background of the Study

In Indonesia, economic development of the nation has been based on the development of cooperatives since its independence. The village cooperatives (KUD) have been expected to contribute to agricultural development through the procurement of rice and the stabilization of rural communities. However, since attaining self-sufficiency in rice in 1984, agricultural development and KUD activities have been delayed compared with other industrial fields due to a slowdown in the growth of rice production and the rapid expansion of the entire scale of economy.

In the 6th national development five-year plan (Repelita VI) started in fiscal 1994, alleviation of poverty in rural area and lessening the differences in living conditions between rural and urban areas are put up as the first priority subjects. In agricultural sector, importance is attached to the diversification of crops and the improvement of added values (by promotion of marketing, processing and agribusiness) in national policy.

On the other hand, villages have problems, such as delays in agricultural technology, insufficient support systems, defects in production/marketing facilities and shortage of manpower. Since it is not possible to cope with the situation by individual farm households, organized activities by cooperatives are indispensable. Also, development and strengthening of activities by agricultural cooperatives are included in the 8 components of the 3rd Japan-Indonesia umbrella cooperation (agriculture and rural development) started in fiscal 1995.

Under such circumstances, the Indonesian Government introduced the function of an industrial union (agricultural cooperative) to KUD, a local cooperative organization, in July 1995, and requested Japanese technical cooperation towards the formulation of an integrated development plan for rural cooperatives(KUD) for activation.

Upon receiving this request, the Japanese government performed a preliminary study in November 1995, and concluded the Scope of works (S/W) on 23rd of the same month.

1.2 Objectives of the Study

The objectives of this study is to clarify the roles 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 correct the differences 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 counterpart by means of on the job training throughout the study.

1.3 Coverage Area of the Study

The study was conducted in three phases and the coverage areas and products of each phase were as follows;

(1) Phase I Study:

The Phase I study encompassed the entire nation of Indonesia .

(2) Phase II Study:

The Phase II study covered 7 provinces, including North Sumatra, Lampung, West Java, East Java, West Nusatenggara, South Kalimantan and South Sulawesi.

(3) Phase III Study:

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.

Bandung District: KUD Tani Mukti, KUD Pasir Jambu, KUD Walatra
Sidrap District: KUD Sipatuwo, KUD Semangat, KUD Matutu

1.4 Contents of the Study

(1) Phase I Study

The study was conducted centering on KUD, a supplementary study and data collection at the inter-province and governmental organizations and national level organizations of cooperatives such as PUSKUD and INKUD.

The period of the study was from February 11 to March 26 1996. The Progress Report-I together with the outline of directions for activation of KUD was prepared and submitted to the Indonesian Government at the end of the study.

(2) Phase II Study

35 KUD were selected for field study and commissioned survey was conducted to cover 420 farmhouseholds for 21KUD out of the 35 KUD. Also, the commissioned survey on social customs and agricultural distribution was conducted in the 7 provinces mentioned above. Progress Report II which included a draft basic plan for activation of KUD was prepared and submitted to the Indonesian Government at the end of the study. The period of the study was from June 17 to December 13, 1996. Also, an Interim Report was prepared and submitted to the Indonesian government during the domestic work period.

(3) Phase III Study

The study period was from June 30 to August 28, 1997. The detailed plan for integrated development of 6 model KUD including facility plan was prepared and business evaluation was made. The Progress Report III was prepared and submitted to the Indonesian Government at the end of the study. Also, Draft Final Report (this report) was prepared during the period of domestic works.

Chapter 2

Chapter 2 Present Situation

2.1 Economic Development Plan

(1) Outline of plan

Since the establishment of the "New Order" in Indonesia in 1969, long-term and medium-term national plans have been drawn up for promoting economic and social development, setting the objectives and making clear policies for development. These plans are the 25-Year Long-Term Plan of Indonesia (Pembangunan Jangka Panjang, or PJP) and the National Five-Year Development Plan (Rencana Pembangunan Lima Tahun, or REPELITA). The current long-term and medium-term plans are, respectively, the 2nd Long-Term Plan of Indonesia (PJP II) from 1994 to 2019 and the 6th (medium term) National Five-Year Development Plan (REPELITA VI) from 1994/5 to 1998/9.

The 2nd Long-Term Plan represents the "take-off" stage, whose foundations were laid in the 1st Long-Term Plan (1969-1994). To this end, it aims to realize the independent development of the economy and society, with the three basic objectives of fair distribution of the products of development, maintenance of sustainable development, and social stability. Based on the successive medium-term plans, each of the objectives has been established and efforts have been made to realize them. Among the objectives of the 1st and 2nd medium-term plans, particular emphasis was placed on food and increasing agricultural productivity. During the course of the 4th Medium-Term Plan, self-sufficiency in rice production, which had been the most important task of all for Indonesia, was accomplished.

(2) The 6th Five-Year Plan

While aiming at the independent development of the economy and society and maintaining the three principles of fair distribution of the products of development, sustainable development, and social stability in accordance with the 2nd Long-Term Plan, the 6th Five-Year Plan will put priority on the following:

1) Basic objectives

To consolidate the independence of the Indonesian people and society and, in order to realize equitable and fair social welfare, to improve the quality of human resources.

2) Priority aims

Improvement of social and economic infrastructure;

Development of human resources;

Elimination of poverty;

Development of Eastern Indonesia; and
Fostering of small businesses, including the village unit cooperatives (KUD)

The macro-economic target figures during the period of the plan are as follows:

Annual average economic growth rate: 7.1%

Population growth rate: 1.5%

Per capita GDP: 1,280 dollars or more

Number of people living in absolute poverty: 12 million or less

2.2 Natural Conditions

(1) Land and climate

The Republic of Indonesia is a great archipelago consisting of 17,508 islands of various sizes extending over the area from longitude 95 to 141 degrees east and latitude 6 degrees north to latitude 11 degrees south. The country's total land area is 1,919,443 square kilometers, about 70% of which is forest. The total area of paddy fields for rice cultivation is about 8,439,000 hectares (4.4%). Of these paddy fields, about 40% (3,396,000 hectares) are in Java. The total area of farmland is 21,224,000 hectares (11.1%).

Since most of Indonesia is distributed over a wide area (about 5,100 kilometers) east and west of the Equator, it has a tropical oceanic climate. There are two seasons, the dry season and rainy season. Although it varies somewhat according to the region, the dry season is generally from June to September and the rainy season from December to March, with transitional periods in between the two seasons. The dry and rainy seasons have a great influence on agricultural development and production in Indonesia. Few areas have a higher annual rainfall of 2,000 millimeters. Humidity is between 75% and 85%.

(2) Division of districts according to agro-ecosystem

Apart from the land extending east and west of the Equator, Indonesia contains many high mountains including volcanoes. In addition to paddy field rice cultivation and large plantations in the lowland areas, various kinds of agriculture are pursued in the highland areas, including horticulture, livestock farming and shifting agriculture. In order to promote efficient agricultural development and the most appropriate agriculture in each region, the Indonesian government has divided the country into districts for the purpose of agro-ecosystem agricultural production.

The agro-ecosystems of the provinces and districts of the village unit cooperatives (referred to below as KUD) studied in this survey are shown in the table below.

Division of districts according to agro-ecosystem

Province	District	Agro-ecosystem	Remarks
North Sumatera	Karo	Highland	High value added and diversified farm products
	Simalungun	Irrigated	
Lampung	Lampung Utara	Lowland	- same as above -
	Lampung Tengah	Irrigated	
West Java	Bandung	Highland	Diversified farm products. 3rd Umbrella, OECF
	Garut	Irrigated	
East Java	Pasuruan	Highland	High value added and diversified farm products, OECF
	Kediri	Irrigated	
South Sulawesi	Sidrap	Irrigated	High value added and diversified farm products. 3rd Umbrella, OECF
	Luwu	Irrigated	
South Kalimantan	Barito Kuala	Swamp area	High value added and diversified farm products. 3rd Umbrella
West Nusa Tenggara	Sumbawa	Lowland	High value added
	Dompu	Lowland	

Notes: 3rd umbrella---Model region under the Third Umbrella Cooperation.

OECF---OECF's target area for rural village loan project

2.3 Outline of Agriculture

2.3.1 Situation of Agricultural Production

(1) Use of farmland

In Indonesia, 43,410,000 hectares - about 23% of the total land area - is used for agricultural production. One of the distinctive features of this land use is the intensive development of farmland in Java, but because this development has almost reached its limit, the Indonesian government is implementing a resettlement project to promote agricultural development in Sumatra, Kalimantan, Sulawesi, and other islands in the east.

Methods of farmland use can be broadly divided into two categories - wet land and dry land farming. Wet land farming is the cultivation of paddy-rice plants once or more a year by means of irrigation or rainwater. In fields which rely on rainwater and where the water supply is insufficient, the land is irrigated in the rainy season and secondary food crops ("palawija" in Indonesian; these are the main foods apart from rice, including corn, cassava, sweet potatoes, maize, peanuts, and green beans are cultivated in the dry season. On the dry land, little irrigation

is carried out and many tree crops (rubber, coconuts, tea, etc.) are cultivated on estates.

(2) Main products

A distinctive feature of agriculture in Indonesia is its basic division into small-scale family-managed agriculture and the production of cash crops through large-scale estate agriculture by private as well as state-owned estates. The main products of the former are rice, "palawija," and horticulture products. The main products of the latter include oil palms, sugar cane and tea. Rice (in this report, unless otherwise specified, this refers to unhulled rice) is the staple food of the Indonesian people and is the most important crop for agriculture as well as for the national economy and the stability of society. After self-sufficiency of rice had been achieved in the mid-1980s, Indonesia pursued what is known as "trend self sufficiency" - importing or exporting according to excess or surplus while maintaining self sufficiency. In 1995, the total area of the rice harvest was 11.44 million hectares, total rice production was 49.47 million tons, and the crop per unit area was 4.35 tons per hectare. Among secondary food crops, the crop with the greatest cultivation area was corn. In 1995, the total corn harvest area was 3.65 million hectares and the total amount produced was 8.25 million tons.

(3) Vegetables and fruit

A large amount of various vegetable and fruit is cultivated in Indonesia. The five vegetables with the highest cultivated area are, in descending order, red pepper, shallot, cabbage, and potato. In terms of the amount produced, the order is cabbage, potato, shallot, Chinese cabbage, and red pepper.

The fruit produced in the greatest amount are, in descending order, banana, mango, papaya, pineapple, citrus fruits, and rambutan. (1994 figures)

(4) Estate crops

For the Indonesian economy, estate crops play an important role from the viewpoints of both domestic agriculture and export income. Indonesia is one of the world's leading producers of coconuts, natural rubber and palm oil. Most estate crops are produced by farmers on a small scale. As mentioned above, products such as oil palms, sugar cane and tea are produced on large estates. The quality of the coconuts has been improved and development for oil palm cultivation, which is considered very promising, is being actively promoted.

(5) Livestock products

As a result of urbanization and the rise of income levels, demand for livestock products in Indonesia has been increasing in recent years. This increase in demand was particularly high for

egg-producing chickens and broiler chickens. In the past few years, there has not been any great change in the number of buffalo and horses being reared. As far as dairy farming is concerned, more than 95% of the cows in Indonesia are concentrated in Java. For religious reason, pig farming is unevenly distributed and is concentrated mostly (56%) in North Sumatra and West Nusatenggara.

2.3.2 Distribution of Agricultural Products and Roles of KUD

(1) Agricultural product distribution infrastructure

Stated briefly, agricultural product distribution infrastructure is still in the process of being developed both qualitatively and quantitatively. The stage which this development has reached varies greatly from region to region. Because Indonesia is an island group consisting of many thousands of islands of varying sizes, the level of development of agricultural product distribution depends on the situation of sea and land transportation bases, means of transport, and road and sea route networks. Even in Java, which is said to be the most advanced island in this respect, apart from the capital Jakarta and surrounding region, asphalt-surfaced roads are short and the number of trucks is extremely low. On the other islands, the level of infrastructure development is even lower. It should be noted that this infrastructure will change together with economic activities as a whole in Indonesia, and cannot be discussed simply in relation to agricultural products.

In view of this situation, distribution to Jakarta, Surabaya and other capital regions of each province constitutes one pillar of the distribution system, while the other stream is the supply and demand for agricultural products in geographically confined regions. The transportation system aimed at supplying the capital regions is based on truck transportation using national highways and ferries, with the result that there is hardly any railway transportation. For distribution from the suburbs, anything from motorcycles to one-ton trucks is used. In confined regions, goods are still mainly carried by people or animals. In some places, 20-year old trucks are still being used, and there is a potential shortage of means of transport. There is also a chronic shortage of facilities for the storage and primary processing of raw materials for agricultural products. Many of the requests made to the KUD are for raw material and product warehouses and for trucks. Even in the capital regions, the distribution system as a whole suffers from imbalance and shortages.

As far as telecommunications infrastructure is concerned, in the rural villages of Sulawesi, South Kalimantan and Sumbawa, and even in remote parts of Java, many areas still do not have telephone lines and are consequently left out of the information society. Although the level of diffusion of electricity and television is high, water supply systems still lag behind.

In response to changes in the industrial infrastructure, migration to the major cities, increasing income levels, and quantitative and qualitative changes in agricultural products, there will be a growing need in industrial areas and regions of high consumption for infrastructure such as cold storage and cold-storage transportation.

(2) Agricultural and livestock product processing

1) Product quality

In supermarkets in the capital regions, apart from vegetables and fruit, special-brand rice and imported agricultural products, there is a need to make improvements in order to carry out modern product distribution. That is to say, with the exception of some products, the general quality standards of public organizations as well as consumers are not clearly stipulated. For example, the surplus from vegetables and fruit cultivated by estate owners for their own consumption is distributed in local areas and sold by middlemen in small markets and the meat of livestock slaughtered behind farmer's homes is distributed without refrigeration.

Carrot and potato, which seem to have been introduced to Indonesia when it was a Dutch colony, are so small and uneven in size that they do not qualify as products. The quality of vegetables and fruit is not maintained by prefreezing, etc. For rice, the BULOG (National Food Agency) quality standard is applied and quality and price differences are stipulated in the market. However, the checking of agricultural products for residue of agricultural chemicals, etc, is also unreliable. Although estate crops such as cocoa, coffee, and palm oil are distributed overseas, many of them have been assessed as not meeting top international quality standards.

2) Processing of agricultural products

In the large cities and surrounding areas, a lot of the production of juices and snack products such as potato chips is already being done by private enterprises through joint ventures with overseas corporations. Indonesia used to depend almost entirely on imports from overseas for its dairy products, but now some production is done domestically and certain dairy product processors are operating using overseas capital. However, almost all these processors are concentrated in the suburbs of Jakarta and Surabaya. In the rural villages, although agricultural products are collected and stored and primary processing of raw materials is carried out, there was no evidence of large-scale commercialization of special products in the surveyed locations.

Modern facilities for livestock meat processing can be found in Jakarta and Surabaya, but such facilities have not yet been developed in local areas. In one case, the head of a KUD in East Java has received a slaughtering license and processes meat himself in order to improve profitability.

In many places, traditional processing techniques still seem to be used, but no systematic survey has been conducted. However, it seems possible to commercially process jams, cakes and snacks using various cereals, and dried fruit products.

(3) The Main Agricultural Product Distribution and Roles of KUD

1) Rice distribution

Distribution of Indonesia's staple food rice has three main features.

Firstly, producers can make use of two distribution routes: the sale of rice as buffer stock for

BULOG via KUD and sale on the free market via private-sector dealers.

Secondly, producers still consume quite a high proportion of the rice they produce. There are no precise statistics but it is said that the proportion of rice not put on the market may be 60% or 70%. Production also varies according to the demand and supply situation.

Thirdly, there is still a lot of post-harvest handling waste and loss at paddy field.

In Java and Sulawesi, harvesting is carried out by employing workers on a contract basis. In this system, laborers from harvest contract workers' groups are employed to do reaping, threshing and bagging. Although the conditions of the contract vary slightly from region to region, these workers generally receive a fixed proportion of their wages in the form of unhulled rice.

Farmers either sell the bagged raw unhulled rice to village middleman or KUD as it is or sell it after drying and sorting. Because it is particularly difficult to dry harvested unhulled rice in the rainy season, farmers try to sell it off quickly before its quality deteriorates and some waste occurs when the rice can no longer be sold. Unhulled rice collected in village units is distributed as it is by merchants or via rice mills as polished rice to local markets and central wholesale markets.

Figure 2-3-2 is a flow chart showing rice distribution in Indonesia.

BULOG is responsible for determining distribution policies for the staple food rice. Every year, the government's standard unhulled rice purchasing price is determined through consultation between the Department of Agriculture's Food and Horticulture Crop Bureau, and the Department of Cooperatives and Small Enterprises Development. This is the standard price at which BULOG purchases rice from KUD.

In 1990 the unhulled rice purchasing price was Rp 270 per kilogram, but in 1995 it was raised to Rp 400 and in 1997 to Rp 520. Since 1994, because of the slump in rice production due to climatic irregularities, the standard market price has tended to be higher than the BULOG standard price and this difference has increased year by year. In November 1997, the consumer price reached over Rp 1,300 per kilogram.

The annual amount purchased by BULOG on an unpolished rice basis is about 2 million tons, and about 80% of this is procured via KUD. In recent years, low domestic rice production has forced BULOG to implement emergency imports. Since 1994, because the market price has become higher than the purchasing price, there has been a partial shift towards sales to the market in the KUD studied in the survey. (The amount purchased by BULOG since 1994 is not known.)

As a government policy, the KUD are given the right to sell rice to BULOG, but there still only seem to be a few KUD that have a great influence on the rice market as producers' groups.

2) Distribution of Vegetables and Fruit

There has been a remarkable increase in the production and consumption of vegetables and fruit in Indonesia. Particularly in Java, with economic development and urbanization, the population has grown considerably and demand is increasing both in qualitative and quantitative terms. The Kramatjati Vegetable and Fruit Central Wholesale Market in Jakarta forms the center of a distribution network through which goods are distributed to six regional satellite wholesale markets.

In 1989, it was stipulated by a governor's ordinance that all vegetables and fruit from the producing regions must be distributed via this central wholesale market, and since then about 60% are said have passed through this official route.

The reason why 40% of vegetables and fruit are not distributed via the central wholesale market seems to be that the narrowness of the road to the market facilities has resulted in a transportation bottleneck. Because perishable vegetables and fruit only last for a short time, storage processing during transportation is important. At present, merchants are coping with this problem by delivering them quickly in small trucks.

The traditional sales route in big cities is farmer - local merchant - secondary purchaser - district-level collector - wholesale market dealer - vegetable store - consumer. However, with the appearance of supermarkets, distribution has been shifting to direct sales to local merchants including KUD.

Farmers basically have three ways of selling their produce: (a) direct sale by the farmer at the local market; (b) collection by a merchant in the village or at the roadside; and (c) purchase by merchants of unharvested crops in the fields. In most cases, products are carried by hand from the field to the road, and sometimes wheelbarrows are used. In the case of (a), farmers take their products to the pick-up place using bicycle-drawn carts or the like. In the cases of (b) or (c), the merchant collects the goods in small or large trucks.

At the end of 1994, there were altogether 501 KUD undertaking sales of vegetables and fruit. Of these, 296 were selling vegetables, 194 were selling fruit, and 11 were selling vegetables. These sales operations were being conducted together with private-sector companies. The Indonesian government has not drawn up any guidelines for farmers' vegetable and fruit sale prices.

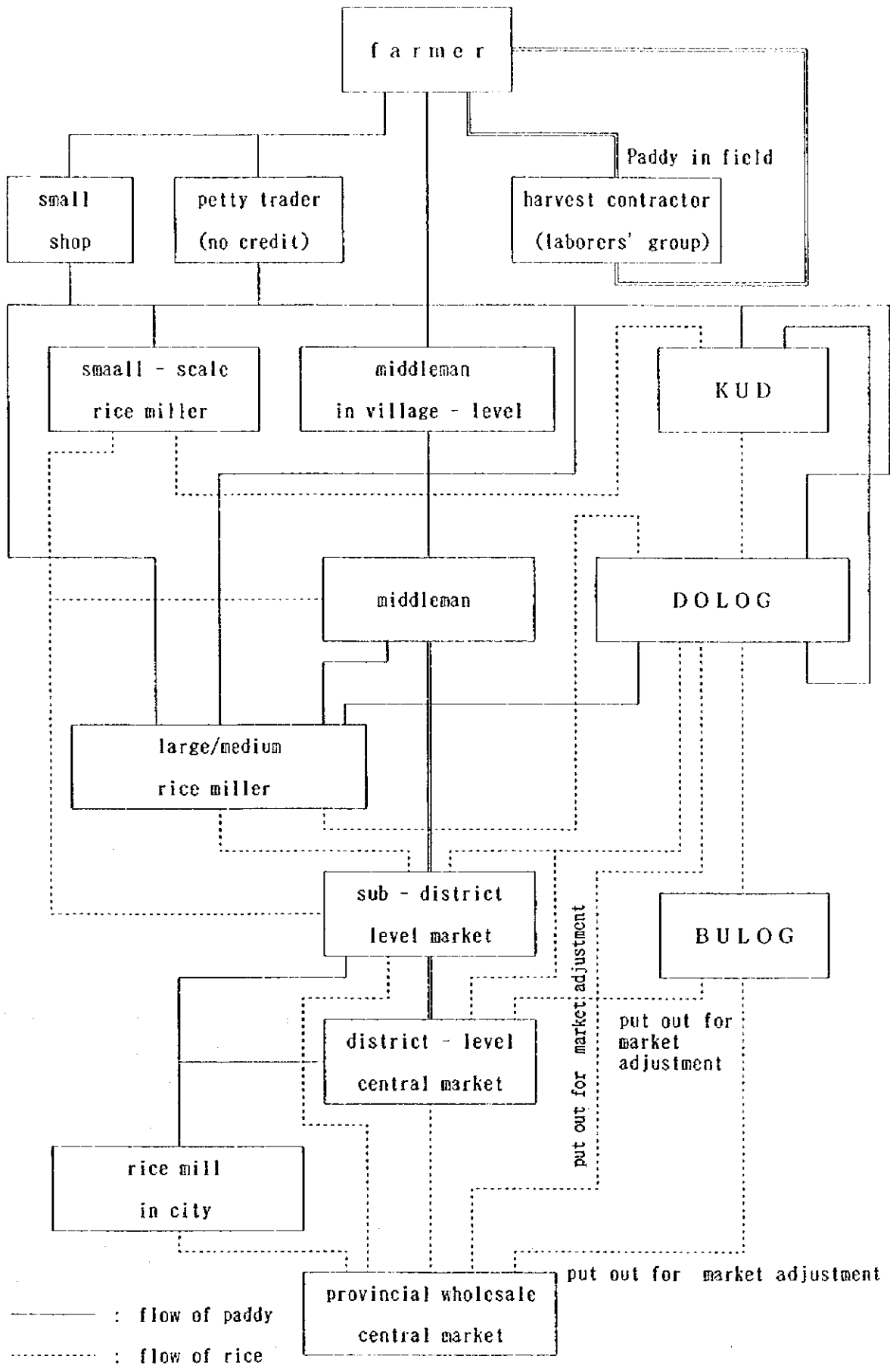
3) Distribution of milk, etc.

In 1983, dairy cows were introduced to Indonesia and full-scale milk production began. Before this, the custom of drinking milk did not exist in Indonesia, and certain milk products were imported. In Jakarta and Surabaya, several companies now operate milk processing plants through joint ventures with overseas corporations.

Supermarkets in the capital region sell milk, processed milk and yogurt products, including imported goods from countries such as Australia. However, the annual per capita milk and milk product consumption of Indonesians was only 0.5 kilograms in 1993, indicating that they are still only supplied to limited number of consumers. The popularization of milk and milk products seems to have been hindered by the fact that the level of diffusion of refrigerators among ordinary Indonesian families is still low and that the retail price of Rp 4,000 for one liter of milk is high relative to income levels. The popular milk product is canned condensed milk, sold at the retail stores and some KUD that collect raw milk from farmers. However, in order to improve the diet of the Indonesian people, the optional expansion of milk as a livestock product has been included in the national economic plan.

In 1994, there were about 80,000 dairy farmers owning a total of 330,000 cows, and 201 KUD and dairy farming cooperatives sold about 85% of the 4.25 million kilograms of milk produced to

2.3.2 Marketing flow of rice & paddy



private milk processing companies. (For further details, refer to the section on KUD economic business.)

2.4 Rural Finance

As a result of the reform of the Bank Law in 1992, banks in Indonesia were divided into the following four categories.

	No. of banks in 1994	No. of branches
Commercial banks (state-owned banks)	204 (5)	4,059 (498)
Development banks	29	490
Savings banks	3	139
Rural credit banks	8,757	8,757
Total	8,993	13,445

Rural credit banks - savings and loans institutions based in farming villages - amount to 8,757 banks. These banks constitute an official part of the financial structure, but since each bank only has one branch, the amount they loan is very small. Most of them are controlled by large banks and are in effect offices for handling loans by the large banks.

The amount loaned to KUD by banks is still small. In 1993, out of the total bank loans of Rp 148,298,000 million, agricultural loans accounted for Rp 12,074,000 million - about 8% - and only 6.4% of these agricultural loans were to KUD.

A total of 6,255 KUD have received bank loans as of 1993. The amounts loaned are as follows.

Loan (unit: Rp 1 billion)	Less than 5	5-50	50-500	More than 500	Total
	3,129	1,602	1,089	435	6,255

Note:

Based on statistics of the Department of Cooperatives and Small Enterprises Development. These loans are the cumulative totals of loans actually made. The period of the loans is estimated to be about 10 years but it is not known for certain. These figures for loans received by the 6,255 KUD are therefore only rough estimates.

The following two banks play an important role in rural finance.

- 1) Bank Rakyat Indonesia (BRI)/State-owned People's Bank

BRI is a state-owned bank which plays the most important role in providing loans to KUD and their members, particularly in the area of agricultural loans. It has over 300 branches throughout Indonesia as well as about 3,500 village units. About 2,000 KUD have transactions with BRI.

2) Bank Umum Koperasi Indonesia (BUKOPIN)/Cooperative Bank

In order to achieve the 8% ratio of net worth to deposits stipulated by the Bank for International Settlements, BUKOPIN became a commercial bank in December 1992. The break down of capital is as follows respectively: cooperative 51%, government 37%, and private corporations 12%.

As of April 1996, about 242 KUD in six provinces have transactions with BUKOPIN. The bank still has only 20 branches, but it has 70 offices. BUKOPIN operates in 16 of the 27 provinces in Indonesia.

In addition to the above, loans are extensively made in Indonesia through unofficial channels. To give one example from a survey of farmers, 72.7% of loans in Lampung province were made through such channels and 69.5% of loans in West Nusatenggara and 77.7% of those in West Java were also made through these channels, including unspecified sources of loans other than KUD.

Because these unofficial loans are usually without collateral, interest is high in order to cover the risks, ranging from 5 to 8% a month (60-96% a year). In regions where banks operate, the principles of competition operate and the interest rates are usually lower than this.

2.5 Village Unit Cooperatives (KUD)

2.5.1 Historical Background of KUD and Assistance Extended by Aid Countries

(1) History of KUD

1) Cooperatives in the Dutch colonial era

The history of cooperatives in Indonesia can be traced back to the period of Dutch rule at the beginning of the twentieth century. To counteract high interest rates, credit cooperatives based on the Raiffeisen principle were established in the second half of the nineteenth century. With the promulgation of the Cooperative Law by the colonial government in 1915 and the rise of the Indonesian independence movement in 1927, these regulations were reformed and instituted in regions producing cash crops such as rubber and copra. However, even at their height, there were only 728 cooperatives which could only gather several thousand members, and three quarters of these cooperatives were credit unions.

2) Period after Indonesian independence (1945)

At the initiation of Vice-President Hatta, cooperatives were incorporated into the Indonesia constitution in 1956 based on the spirit of mutual support. After independence, cooperatives were rapidly established and by 1956 there were already 11,901 cooperatives. In this way farmers in Indonesia, who had long been robbed by middlemen and money lenders, sought the fairer distribution of incomes.

3) The 1960s

By 1962, there were 52,716 cooperatives. From this figure it may seem that the cooperatives were flourishing. In fact, through the influence of a political party over a certain period, cooperatives were given special privileges such as the right to distribute food. This led to the rapid establishment of cooperatives, but they could not serve their original purpose of assisting their members and their development was hindered as a result. The situation eventually changed in 1965 with the failure of the attempted coup d'etat by the Indonesian Communist Party.

With the strengthening of administrative control, the bad and idle cooperatives were weeded out. The number of cooperatives in 1966 was 73,406 but by 1968 this had been reduced to 8,892. The Cooperative Law was reformed with the change of government, but this did not give rise to any particularly vigorous activities on the part of the cooperatives.

4) The 1970s

With the arrival of political stability in the 1970s, the Indonesian government began to implement economic development policies to realize the aims of increasing food production, particularly rice, and achieving self-sufficiency. In this connection, village business unit agencies (Buday Usaha Unit Desa, or BUUD) were set up by a presidential order in 1973. Finally, in 1978, the village unit cooperatives, or KUD, were established. While the purpose of the existing agricultural cooperatives was restricted to promoting agricultural production and farmers' welfare, the KUD were to be comprehensive units responsible for rural finance and loans, the supply, processing and sale of daily commodities, and other economic activities. Each BUUD was responsible for advising and monitoring the KUD in its region.

Not only farmers but any resident in an area could become a KUD member.

5) The 1980s

Through a presidential order in 1984, the KUD were developed by composing them with "plural desa" (villages) in order to further economic self-sufficiency and strengthen their functions as service centers in rural communities. The KUD gradually expanded their business, mainly in the areas of supplying fertilizer to farmers and procuring and selling rice to BULOG. In response to changes in food demand, imported dairy cows were introduced in high, cool regions in Java and the KUD dairy farming cooperatives steadily expanded. By 1988 there were 7,404 KUD, but their management size and capabilities varied greatly. By an order of the Department of Cooperatives and Small Enterprises Development, a five-year program was set up to foster self-sustained KUD (KUD Mandiri) based on the requirements and decisions of cooperative members, and 2,021 KUD received official approval.

6) The 1990s

In the 6th National Five-Year Development Plan beginning in 1994, in order to develop the KUD as sound business organizations that could make more use of sales markets, technology and financial sources, the number of KUD Mandiri was further increased and a plan was formulated for the development of KUD Mandiri Inti (core self-sustained KUD) that would play a leadership role in each district. By 1994, there were 9,021 KUD, of which 5,590 were KUD Mandiri. Many of the KUD only had small-scale facilities and few staff members, but in spite of these problems their total business turnover was Rp 4.8377 trillion and they had surplus funds of Rp 53.5 billion. From a long-term perspective, they have expanded significantly. The diversification and expansion of their business and services will be expected in accordance with the needs of local residents.

(2) Assistance from Aid Countries

Let us now examine the role of aid countries in the development of the KUD. Over a period of two years from December 1972, the ILO-UNDP conducted a "cooperatives training and development project," which was the first step in developing new organizational, administrative and accounting systems for the KUD. In October 1975, after a one-year feasibility study, the ILO-UNDP "cooperatives development and training project" ending in 1980 was implemented with the aims of developing management, educational and training programs for assessing and improving the business activities of the cooperatives.

In the 1980s, the World Bank conducted an extensive study on cooperatives, including the KUD. This study concluded that the organization of KUD needed to be more related to public welfare and more business-oriented, and that emphasis should be placed on human resources development. Japan coordinated various systems for cooperation and implemented them in the form of the comprehensive "umbrella cooperation" system. The 1st cooperation program of 1981-85 and the 2nd cooperation program of 1986-90 have already been implemented. Both programs made significant contributions; the 1st umbrella cooperation program assisted in the achievement of rice self-sufficiency and the 2nd program promoted increased production of rice, soybean and potato. In October 1995, an agreement was reached to start the 3rd umbrella cooperation program aimed at improving the standard of living of farmers by increasing their incomes. Specifically, the program had the following three objectives:

- 1) To improve agricultural productivity, efficiency, and sustainability
- 2) To increase, diversify and improve the quality of agricultural products
- 3) To enhance the added value of agricultural products

The ILO "Organized Development Program" from 1983 to 1985 assisted the Department of Cooperatives and Small Enterprises Development in drawing up an education and training manual.

The ILO-SWISS Project from 1985 to 1988 placed emphasis on providing management advice and training of key KUD members.

The Asian Development Bank has not conducted any project directly related to the KUD, but at the beginning of the 1990s it proposed a project to clarify and strengthen the links between the KUD, PUSKUD (provincial-level business federations of KUD), and INKUD (the national federation of KUD).

Germany proposed the concept of setting up an organization to monitor the cooperatives and this is now being put into practice by the Indonesian government. Although Holland is not conducting any project directly related to the KUD, the Dutch Specialists' Association dispatches specialists to KUD projects supported by the United Nations. Switzerland has been promoting closer coordination between KUD and PUSKUD over a period of six to seven years, but is not currently involved in any project directly related to the KUD. The Danish Cooperatives Center, using funds from Danish International Development Assistance (DANIDA), provided assistance in 1987 for a cooperative members' educational institution in Bandung owned by the Central Union of Cooperatives. The Canadian Cooperatives Association has drawn up a program for training KUD

councilors aimed mainly at members of KUD (particularly women).

As the above examples show, various organizations are providing wide-ranging support for the KUD, placing particular emphasis on education and training.

2.5.2 Organization and Management

1 Organization of KUD

(1) Conditions concerning the establishment of KUD

Based on the Presidential Order No. 4 of 1984, KUD are currently defined as village cooperatives that are concerned with three main types of business: 1) the collection, processing, and marketing of products produced by cooperative members or by regional communities; 2) the provision of services such as loans that are needed by cooperative members; and 3) the supply and distribution of the necessities of life as well as equipment and input materials for agricultural production.

Since Indonesia gained independence, cooperatives have provided the foundation of the nation's economic development and in rural areas as well, various types of village cooperatives have been established. KUD, in the continued form of the cooperative organization of village cooperatives called BUUD (Village Business Unit Agency), have started up as cooperatives based in particular areas with a number of functions. Moreover, they have developed as one of the key players in the expansion of food production by receiving various kinds of government assistance. These include receiving preferential treatment in the supply of fertilizer and in the purchase of polished rice supplied by BULOG (National Food Procurement Agency) as well as receiving credit from BRI (State Owned Peoples Bank), which compensates for the lack of funds held by KUD.

Self-sufficiency in the supply of rice is an important national issue and since the start of the BIMAS Plan (Mass Guidance Program) in 1965, the government has focused its efforts on increasing the supply of food products. As a result, the country basically managed to become self-sufficient in rice in 1984.

The KUD were asked by the government to engage in the supply of fertilizer, the supply of rice, and other activities, all of which contributed to the achievement of self-sufficiency. At the same time, these activities ensured the stable management of KUD.

As KUD operate in "villages", it is only natural that most members are farmers and most of their operations are agricultural in nature.

As of the end of December 1995, there were more than 9,200 KUD in Indonesia. As of September 1996, 3,612 (out of a total of 3,837) Kecamatan (sub-districts) in Indonesia had been recognized by the government as requiring the establishment of KUD and KUD had been set up in all of those Kecamatan.

(Table 2.5.2.1) Changes in the Number of KUD

PERITA-I	PERITA-II	PERITA-III	PERITA-IV	PERITA-V	PERITA-VI
1969 2,733	1974 2,993	1979 4,532	1984 6,629	1989 8,276	1994 9,021
1970 3,637	1975 3,514	1980 4,710	1985 6,979	1990 8,334	1995 9,200
1971 3,809	1976 3,670	1981 5,176	1986 7,350	1991 8,875	
1972 4,133	1977 4,042	1982 5,911	1987 7,470	1992 8,516	
1973 2,361	1978 4,042	1983 6,373	1988 7,562	1993 8,873	

Source: Ministry of Cooperatives and Small Enterprises Statistik Koperasi dan Pengusaha Kecil

(2) Cooperative members

A KUD is "village" cooperative and anyone may join it- besides farmers, this includes business people, fishermen, and so forth, men or women - regardless of their occupation. The only essential qualifications for membership are to live in the region and to be an adult.

Membership of a KUD is on an individual basis and prescribed membership fees must be paid at the time of admission. Once admitted, members have to make compulsory savings deposits which are added to the equity capital of the KUD and used for its management and development.

As of December 1995, there were 13,346,000 cooperative members in Indonesia, for a ratio of 1,451 per KUD. According to the KUD census (1993: BPS), the proportion of female members was about 21%.

(3) KUD Mandiri

Since 1989, the government has proceeded to authorize "Mandiri" in the aim of encouraging self-reliance. Mandiri refers both to KUD cooperatives and members that are able to operate three types of businesses (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. As KUD that are not Mandiri or Mandiri candidates are not allowed to deal directly with state corporations handling fertilizer, it is very important for KUD to be recognized as Mandiri.

As of September 1996, 65%, or 6,031, of all the 9,287 KUD in Indonesia were recognized as Mandiri. In addition, the government is endeavoring to establish Mandiri in all Kecamatan but as of September 1996, there were no Mandiri in 180 Kecamatan (sub-districts).

Authorization of Mandiri is based on a standard that measures the degree of self-reliance in relation to 13 items, and approval requires auditing by KJA (Audit Service Cooperative) or by government authorized accountants as well as proof of compliance with the standard. Applications

are sent through the Kabupaten (district/regency) or provincial government to the head office of the Ministry of Cooperatives and Small Enterprises and the head office issues a certificate of authorization.

(Table 2-5-2-2) Changes in the Number of KUD Mandiri

Year	1990	1991	1992	1993	1994	1995	1996
No.	615	1,429	1,569	3,088	3,663	5,590	6,031

Source: Ministry of Cooperatives and Small Enterprises

(Notes) 13 criteria for KUD mandiri

- 1) Having more than 25% of adult population who are qualified to be a member of KUD in the business operation area.
- 2) More than 60% of the business turnover is raised through members patronage.
- 3) The annual general meetings are held within 6 months and it has continues for more than 3 years.
- 4) Directors and auditors are selected from members and the maximum numbers are 5 and 3 respectively.
- 5) Owned capital is more than Rp.25 million.
(Donation should be less than 60% of the owned capital or less than Rp.15 million)
- 6) No particular problems are checked as the result of audit by KJA or public Accountant.
- 7) The deviation between a plan and performance should be within 20% in minus and 50% in excess.
- 8) Rentability, liquidity and fixed assets ratio are sutisfying more than 75% of the standard.
- 9) Business turnover per member per annum should be more than Rp.250,000.
- 10) Gross revenue is exceeding the amount of gross expenditure.
- 11) Sound management of all appropriate facilities owned by KUD.
- 12) No manipulation by the management to incur loss to KUD.
- 13) No uncollected money or bad debts.

(4) KUD Mandiri INTI

The government authorizes core KUD (KUD Mandiri Inti), whose role is to act as leaders and as a medium for research and training for the KUD in their region. As of December 1995, there were 305 Mandiri INTI. One Mandiri INTI is appointed for each Kabupaten or city and Mandiri have been established in all the 243 Kabupaten and 60 cities in Indonesia. As of September 1996, the number had risen to 356 and in some provinces there were several Mandiri INTI per Kabupaten.

(5) KUD businesses and membership rates

The average KUD, based on a national level, is located in a business region comprising 6-7 Desa (villages) and measuring 209 square kilometers. The average population of the area is 20,500, with 1,451 KUD members.

In addition, each Desa generally has an area of 32 square kilometers and a population of 3,200.

The KUD membership rate for the national adult population (those aged 15 or more: as of 1990) was 11.1% at the end of 1996. On a provincial basis, the membership rate ranges from a minimum of 5.2% to a maximum of 18.6%, with large differences evident between provinces.

The foundation of KUD is the village and most businesses engaged in by KUD are agricultural in nature. Consequently, the percentage of KUD members that are members of Kelompok Tani - an organization of farmers that was formed to enable the Ministry of Agriculture to provide guidance on agricultural technology - was about 58% as of September 1996, indicating that the coverage rate of farmers is still inadequate. Furthermore, there is a need for business activities that meet the desires of farmers and action to promote membership.

As environmental conditions differ greatly among regions, a simple comparison is impossible but efforts need to be made to raise the national membership rate and to investigate the cause of low membership rates in certain regions. In addition, assistance needs to be provided by the government and national organizations in actively developing activities that will win the trust of farmers.

(Table 2.5.2.3) Changes in KUD Membership Rates (Unit: 1,000 / %)

	1987	1990	1993	1995
Population aged 15 or more	100,697	120,757	120,757	120,757
Total no. of KUD members	6,571	11,361	13,493	13,346
Membership rate	6.5%	9.4%	11.1%	11.1%

Source: BPS, Ministry of Cooperatives and Small Enterprises

2. Management of KUD

(1) KUD by-laws and the model standard by-laws

KUD can be established by 20 or more individuals but KUD have to make by-laws to govern themselves on establishment. The Ministry of Cooperatives and Small Enterprises publishes

"model by-laws" and although it is not compulsory to use these, most KUD make by-laws that conform to these. However, depending on the region, size of business, and type of business, regulations are established to suit actual conditions (e.g., age of membership, terms of appointment for directors, membership fees and amount of compulsory savings deposits, etc.).

(2) General meetings

Most KUD adopt a financial year beginning on January 1 and ending on December 31 and they have to hold a regular annual general meeting within a prescribed period following the end of the fiscal year. In addition, in the case of large KUD, general meetings are held in advance in each sub-region and the representatives of these meetings attend the main general meeting.

According to the Ministry of Cooperatives and Small Enterprises, as of the end of June 1996, 65.3%, or 6,062, of a total of 9,287 KUD held general meetings to close accounts for fiscal 1995 and procedures at the general meetings of the majority of KUD were carried out in a democratic manner. However, as of the end of September, 1,558 cooperatives had not held general meetings. It seems that these cooperatives had practically ceased operating or lacked the ability to create financial statements and business plans.

(3) Directors

The general meeting is the supreme decision-making body for KUD and the board of directors is the body responsible for executing operations. Based on the standard by-laws, there must be no more than five directors who are appointed for a 3-5 year term. Specific business is carried out under the direction of a general manager by the board of directors and various sections are established under the general manager.

There must be no more than 3 auditors (supervisors) who are appointed for a 3-5 year term and their duty is to check whether the board of directors has carried out its business properly and whether accounts have been properly maintained. According to the standard by-laws, an audit must be carried out at least once a year. There are no statistics available on the number of times audits are implemented or the results of audits but many KUD conduct audits 2-3 times a year. Moreover, in June 1997, "Efficiency Guidelines" were released by the Ministry of Cooperatives and Small Enterprises. This recommended that KUD that fulfilled specific conditions, including being audited by KJA and having a general manager appointed, did not need to appoint auditors.

As a familiarity with the business is necessary when conducting an audit as well as specialized accounting knowledge, the Ministry of Cooperatives and Small Enterprises puts great priority on education and training. However, the proportion of auditors that participate in such educational programs is low.

Educational background and the courses one has studied are not directly linked to the competency of an auditor but highly competent auditors are essential for the sound development of KUD. Moreover, as executives require administrative competency, it would be preferable for education and training to be expanded and for there to be a rapid increase in the number of people that undertake studies.

(4) Personnel and internal organization structure

Large KUD have established a general affairs and administration sections (accounts, guards, office building management, night watchmen, etc.) and an operations department (savings and loans, food procurement, dairy, stores, electricity and TV charge collection services, etc.) under the general manager to carry out their business. However, according to the Ministry of Cooperatives and Small Enterprises, the average number of employees including the general manager was only 8.3 as of December 1995 and many KUD did not have this kind of structure. It appears to be difficult to create internal checking mechanisms. Furthermore, there are almost no KUD that have established a planning and administration section or in which the staff carry out internal auditing.

Only 18% of KUD have a general manager and it is doubtful whether operations are carried out efficiently at some KUD.

The proportion of female executives is rising according to statistics. In 1993, 1.8% of auditors, 5.7% of directors, and 26% of employees were female compared with only 1.6% of auditors, 4.8% of directors, and 23.0% of employees in 1990.

(5) Auditing by KJA (Audit Service Cooperative)

According to the Ministry of Cooperatives and Small Enterprises, as of the end of December 1995, out of a total of 9,200 KUD, only 2,235, or 24.3%, received external audits (by KJA) related to the closing of accounts for fiscal 1994. However, as of September 1996, 3,692 KUD out of a total of 9,287 had received external audits related to the closing of accounts for fiscal 1995. Thus, KJA's audit execution rate is rising. However, according to the KUD census, the proportion of KUD whose business procedures were deemed to be improperly carried out, had risen to 16%. This also includes cases where normal accounting procedures were unable to be performed and where it was impossible to carry out an audit.

In order to enhance the reliability of KUD members, there is a need for a basic improvement in management such as the introduction of proper accounting procedures.

3. Financial Management of KUD

(1) Finances

In 1980, before self-sufficiency in the supply of rice was accomplished (in 1984), total assets per KUD were approximately Rp 35.5 million (estimated from various data created by the Ministry of Cooperatives and Small Enterprises; the same source is used for subsequent examples). However, in 1990, the figure had soared about 2.3 times to Rp 81.2 million. Furthermore, strong growth continued, with total assets per KUD reaching Rp 150.8 million in 1992 and Rp 229.8 million in 1995. (However, the rate of increase in consumer prices has not been taken into account here and in subsequent figures.)

If we examine sources of financing based on the 1993 KUD census, current liabilities accounted for 36.7%, long-term borrowings for 21.3%, and own capital, including current surpluses, for 42.0%.

Internal reserves (cadangan) represented two-thirds of equity capital, showing the results of efforts made to create funds.

However, the proportion of equity capital provided by membership fees and compulsory savings deposits — the finances provided by cooperative members that form the foundation of cooperatives — was only 11.7%.

In addition, as voluntary savings (simpanan sukalera) represented only 1.8% of total assets, it is evident that few deposits were made by KUD members.

If we break down the employment of assets, according to the 1993 KUD census, current assets accounted for 48.9% of the total, long-term loans for 3.6%, external investments for 21.4%, and fixed assets for 16.5%. Intangible fixed assets and other assets represented 9.7% of total assets. Thus, few assets are employed in providing long-term loans and are mainly employed in the short term. Trade receivables accounted for the majority of current assets at 17.7%, followed by KUT (Farm Business Credit) loans, representing 14.5%. Approximately 0.9%-1.5% of each credit obligation is held as security for irrecoverable debts.

External investments in PUSKUD and other secondary organizations account for a high proportion of assets but besides membership fees paid to higher-level confederations and compulsory savings deposits, these consist of shares in affiliated companies.

(2) Business turnover

The main businesses conducted by KUD are the supply of fertilizer and the marketing of rice. In 1980, before self-sufficiency in the supply of rice was achieved, the supply amount per KUD was

approximately Rp 146 million. In 1990, after achieving self-sufficiency, it rose to Rp 295 million, then to Rp 460 million in 1992, and to Rp 616 million in 1995. In 1994, business volume fell sharply because a drought caused a large reduction in rice revenues.

(3) Current Surplus

Net after tax surpluses per KUD generally ranged from Rp 2 million to Rp 3 million around 1980, rising to Rp 2.7 million in 1990, Rp 4.6 million in 1992, and Rp 6.8 million in 1995. Thus, since 1990, there has been a solid increase.

If we examine the situation since 1990, the ratio of current surplus to business volume (current surplus/business turnover) has generally been about 1.0-1.1% and the ratio of net surplus to total assets (current surplus/total assets) has remained in the region of 3%.

(Table 2.5.2.4) Operating Trends for KUD

No. of KUD	No. of members (000)	Equity capital (Rp mn)	External capital (Rp mn)	Total assets (Rp mn)	Supply amount (Rp mn)	Surplus (Rp mn)
1973	2,361	2,972	4,516	23,798	n.a.	27,612
1977	4,042	7,483	38,844	146,750	n.a.	115,507
1980	6,629	7,827	n.a.	n.a.	289,462	859,628
1987	7,485	6,571	63,337	329,256	671,231	1,291,795
1990	8,410	11,361	163,065	507,021	683,123	2,487,207
1992	8,516	12,404	388,970	786,640	1,247,283	3,807,838
1993	8,873	13,493	700,639	919,364	1,626,815	6,256,310
1994	9,021	12,990	814,102	928,046	1,742,148	4,837,685
1995	9,200	13,346	1,049,504	1,100,951	2,114,606	5,669,412

Source: Ministry of Cooperatives and Small Enterprises Raker Depkop dan PPK Maret95

* 1980 figures are compiled from data supplied by the Ministry of Cooperatives and Small Enterprises for 1980, 1981, 1982, and 1983 and from the 1983 KUD census.

4. Economic Business

(1) KUD and economic business

KUD were established (Presidential Decree 4/1973) as multipurpose cooperatives in the rural areas as instruments to boost food production by receiving various governmental assistance such as privileges for supplying fertilisers, farm chemicals, procurement of rice for BULOG (National Food Agency), disbursement of loans to support production and supplement shortages of funding needs of KUD. Presidential Decree 2/1978 granted the KUD the status of an economic business unit. KUD were intended to serve as basic economic business units at the village level. Self-sufficiency in rice supply has been the main goal of the nation. Since the introduction of BIMAS (Programme for boosting food production), the government has placed major emphasis

on agricultural policy, directed towards increasing food production. These goals were successfully achieved in 1984. Presidential Decree 4/1984 emphasised the participatory role and responsibility of the rural community for its own development - social and economic. The government has also facilitated stabilisation of KUD management through various means e.g., Presidential Decrees and Instructions from the Ministers. KUD continued to occupy an important place in all the National Economic Development Plans (REPELITA).

(2) Supply of agricultural input materials

KUD have gradually become major suppliers to the national food-stock (BULOG), as also the important consumer goods suppliers in rural areas through their retail shops (waserdas). Major commodities handled are: rice, corn, soybeans, cloves, coffee, dairy and livestock, farm inputs and infrastructure like rice milling units, paddy drying floors and warehouses. A majority of KUD are affiliated to their business federations - Puskuds - which, in turn, are members of Inkud at the national level. Procurement of primary products is done by the KUD and supplied to the market through their federations or directly. Procurement prices of key crops e.g., rice, cloves are fixed by the government. Federations conduct business independently and on indenting basis. Export is handled by federations. Chemical fertiliser distribution to the farmers is through the KUD, who lift the material from PT Pusri's bulk warehouses. Inkud is a buffer stock holder of cloves. Inkud has floated several companies as well as invested in joint venture enterprises. Dairy products and livestock availability has gradually increased although the market share of cooperatives is still low. Chemical fertiliser is produced by six State-owned companies. The distribution of the material is coordinated by PT Pusri. KUD lift the material from PT Pusri's warehouses and distribute to the farmer-members through a network of KUD's TPK. During 1988-89 out of a national distribution of fertiliser of 5.2 million tons, the 2,322 KUD distributed 2.9 million tons (55.7%). During 1993-94 out of a total national distribution of 5.25 million tons, 3,174 KUD distributed a total of 3.99 million tons (76%).

(3) Marketing of rice

The KUD remain the principal channels of procurement of rice for the national food stock. They are regarded as strong contributory factors to ensure food security for the country. A close relationship between the two exists. Given below is a brief description of the role played by the KUD in rice procurement:

- 1) 1983-84. National paddy/rice production 22.8 million tons. Bulog purchased 2.0 million tons (9.2% of the national production). 2,078 KUD purchased a total of 2.0 million tons from the farmer-members. 2,193 KUD supplied a total of 1.9 million tons of rice to Bulog (almost 97.7% of the total purchased by the Bulog). The highest procurement was from East Java - 557 KUD supplied 377,972 tons.

2) 1990-91. National paddy/rice production 29.9 million tons. Bulog purchased 2.5 million tons (8.4% of the national production). 2.09 million tons (about 7.21% of the national production) was purchased by 2,357 KUD. 2,131 KUD supplied a total of 2.05 million tons (81.5% of the Bulog's total purchase). The highest procurement was from Central Java - 437 KUD supplied 163,875 tons.

3) 1993-94. National paddy/rice production 30.2 million tons. Bulog purchased 1.9 million tons (6.2% of the national production). 1.78 million tons (5.9% of the national production) was purchased by 2,258 KUD. 1,989 KUD supplied 1.66 million tons (86.2% of the Bulog's total purchase). The highest procurement was from East Java - 522 KUD supplied 776,960 tons.

(4) A sample of total business volume of KUD

(Table-2.5.2.5) Economic business turnover of KUD

Period	No. of KUD	Business Volume (Rp)
1983-84	6,579	437.6 million
1984-85	6,875	811.4 million
1987-88	7,834	1,316.3 million
1988-89	8,027	1,856.9 million
1990-91	8,498	966.9 million

On an average the total business turnover per KUD and per KUD member has constantly increased during the period 1973-1993:

(Table -2.5.2.6) Economic business turnover of KUD per member

Year	Per KUD	Per KUD Member
1973	Rp 10 million	Rp 9.2 million
1977	Rp 28 million	Rp 15.4 million
1984	Rp 124 million	Rp 68.8 million
1990	Rp 380 million	Rp 197.4 million
1993	Rp 705 million	Rp 463.6 million

(5) Business facilities owned by KUD

KUD own and operate dryers, drying floors, rice milling units, warehouses and trucks. There were 7,172 warehouses, 2,792 rice milling units and 1,858 dryer machines within the KUD sector during 1995. Some of the KUD also own farm equipment like tractors, harvesters, fumigators etc.

(6) Livestock business

In the sector of dairying and livestock development, many of the KUD operate milk units which work in close collaboration with the Union of Indonesian Dairy Cooperatives-GKSI. Primary level milk cooperatives and KUD milk units procure milk, chill it and transport it to the private milk processors as well as to the GKSI treatment plant located in Bandung. KUD also assist farmer-members to procure dairy and beef cattle. The concentration of milk units is within the KUD in Java.

(Table-2.5.2.7) Present situation of dairy farming, livestock production and trend of prices

Particulars	1977	1992	1994
Milk Coops/KUD Milk Units	2	198	201
No of Dairy farmers	980	72,346	80,480
Local Milk Production/Mil kg	60.70	367.20	425.00
Cooperatives Share/Mil kg	1.56	322.98	361.33
No of Dairy Cattle - National	0	312,226	330,481
Cooperatives Share/Nos	0	289,384	321,921
Farm Gate Price Rp/kg	60	4471,650	516
Factory Price Rp/kg	70	1,650	1,850
Average Milk Price Rp/kg	180		1,850

As the table above indicates, the share of cooperatives in dairy farming, especially, the holdings of dairy cow is very high with 97% in 1994. Also, the share in milk production in the same year was 85%. In 1994, the prices of raw milk and city milk were increased from 1992 as well as the number of milk cow increased from 312,226 to 330,481. Thus the demand for milk is expected to be increased in the future.

The highest milk collection was from West Java (161.84 million kg, 38.1% of local milk production), closely followed by East Java (131.75 million kg, 31%) at the end of 1994.

(7) Constitution of economic business in KUD

In spite of their long presence and strong support from the government, the KUD economic business structure still remains weak. Absence of key economic development factors e.g., value addition, integrated approaches, easy credit supply and lack of coordination in farm input distribution have hampered KUD business growth. KUD has not yet adopted agricultural promotion planning, own farm guidance and better-living activities. Since the introduction of open market economy, paddy/rice can be liberally imported and farmers can sell their products in the open market, the sale of paddy/rice to Bulog has gone down resulting into lower receipts of economic commissions to the KUD. Distribution of seeds, farm chemicals and some forms of chemical fertilisers has also been decontrolled. Except for distribution of urea from the PT Pusri to the farmers through the KUD network, farmers have been purchasing farm inputs from the open market. The KUD continue to receive commissions from the government for the distribution of urea, which, in fact, forms nearly 40 - 90% of their working capital. KUD have limited access to easy credit, not diversified their economic business and have limited economic support or guidance from their business federations. Very few KUD have entered into joint ventures with private enterprises.

(8) High dependency in government programmed business

A large percentage of KUD marketing and purchasing business revolves around the government-supported programmes e.g., procurement and supply of rice, other food items e.g., wheat flour, sugar, soybeans and essential supplies like the kerosene oil, distribution of fertiliser, farm credit supply, procurement of cloves, and sugarcane intensification. KUD collect a commission or a service fee in handling these programme commodities. Some of the examples are: on handling fertiliser (an average of 62.1% of their total turnover in case of KUD in North Sumatra - the highest being 88% in respect of KUD Lau Simalen, 51.9% in Lampung - the highest being 79.3% in KUD Karya Maju, 49-52% in West Java - the highest being 89% in KUD Bayongbong, 39.7% in East Java - the highest being 100% in KUD Budi Makmur, 22.9% in NTB - the highest being 38.6% in KUD Karya Utan, 50.1% in South Kalimantan - the highest being 97% in KUD Tunggung Pandang, and 22.7% in South Sulawesi - the highest being 43.5% in KUD Sipatuwu; on handling rice business it was 7.6% for North Sumatra, 25-30% for Lampung, very low in West Java, very low in East Java, 13.6% in NTB, 17.1% in South Kalimantan, and 75.8% in South Sulawesi; farm chemicals 3-11% and Rubber business (27% in Lampung).

(9) Diversification of agricultural production and response to farm mechanization

Consequent upon significant progress made in agricultural and industrial sectors besides registering an increase in per capita income and calorie intake, a change has taken place in life style of the community in rural and urban areas. Demands for better quality rice, milk, meat, fruits and

vegetables, and cereals have risen. Besides reduction in farmland due to non-farm use, migration of active farmers to urban centres, especially in Java, has led the elders being left behind to look after farming, raising need for farm mechanisation. Although there would be increase in national population and agricultural production, percentage of rice consumption per capita is likely to reduce because of other food alternatives being adopted. KUD role as major rice suppliers to national food stock will continue to remain prominent. Although the KUD in rural areas enjoy a significant presence and tremendous influence they have yet to undertake a variety of steps to improve their capacities and capabilities. They have a strong potential to become a great social and economic unifying network in rural Indonesia.

Sustainability of economic business of the KUD on their own in the absence of government-supported programme is very low because the concepts of joint marketing, joint purchasing, joint-use facilities, joint capital, members' accounts settlement systems have neither been introduced nor understood. Puskud/Inkud's business policies often do not support the KUD business. KUD waserda/kiosk do not handle sale of farm machines, maintenance and servicing. Consumer goods range is low and facilities are inadequate.

5. Credit Business

(1) Business and Credit Activities of KUD and their Members

Village Unit Cooperatives, or KUD, are generally engaged in agriculture-based business activity related to the supply of inputs to production, the procurement of agricultural commodities, processing and marketing.

Non-agricultural business activities of KUD include: operation of retail shops; collection of utility charges on commission basis; and other diversified manufacturing and sales activities.

The credit business activity of KUD is divided into two general classifications:

- 1) Savings and loan business with members, known as Unit Simpan-Pinjam (USP)
- 2) Supervision and collection of agricultural production loans from banks to KUD members (bank channeling loans).

As of 15 June 1996, a total of 5,090 KUD, or 55.3 percent of all active KUD, were engaged in the savings and loan business. Under USP, these KUD had a total working capital amounting to Rp. 157.2 billion and total member borrowings amounting to Rp. 98.5 billion, a 25.3 percent increase from 1993.

For agricultural production loans channeled from banks through KUD to KUD members under the Farm Business Credit (KUT) program, records show as of 15 June 1996 that a total of 2,449 KUD were participating in this credit supervision and collection business, with KUT loans to members amounting to Rp. 148.0 billion.

(2) General Credit Needs of KUD and their Members

KUD require bank-supplied credit to support their general business growth and expansion. Short-term, medium-term, and long-term institutional credit is needed to supplement KUD general and seasonal working capital requirements supporting operational business cash-flow needs and fixed asset investment capital requirements necessary for facility improvements, expansion and acquisition of needed equipment and machineries.

Bank credit to support expansion of KUD savings and loan (USP) business is another important need of KUD to improve credit services to members while at the same time accelerate capital formation through membership savings. Under the Cooperative Law of 1992, KUD were encouraged to engage in savings and loan business with their members by setting up savings and loan units, known as Unit

Simpan-Pinjam (USP). Presidential Instruction No. 9 of 1995 provided additional guidance for operating USP profitably as autonomous business units. The USP savings and loan business of KUD has not only shown itself to be an important profit center for KUD business, but has also served to increase members' access to credit while at the same time encouraging members to accumulate savings, which is consistent with government and recent World Bank policy recommendations calling for domestic savings growth to support local business expansion (see Indonesia: Sustaining High Growth with Equity; World Bank Report No.16433-IND; May 30, 1997).

KUD members also require increased access to bank-supplied production credit to support diversified agricultural production, particularly for agricultural commodities outside of government priority food crop programs which show significant promise for value-added processing and export growth. In order to improve credit supervision and repayment performance, wherever possible, bank-supplied production credit should be extended directly to the KUD for re-lending by the KUD to members.

(3) Importance of Credit Access & Financial Services to KUD Business Growth

In order to grow, every business, including cooperative business, requires access to credit and financial services which are timely, fairly priced and responsive to the needs and type of business the enterprise is engaged in.

Not only do KUD members need access to sufficient short-term capital to maintain farm productivity in support of value-added processing and marketing activities conducted by their cooperative, the KUD itself needs access to institutional financing to support its short-term, medium-term and long-term capital requirements associated with business growth. This means

improved access to bank financing for working capital for routine business operations, seasonal credit for procurement, storage and trade, and fixed investment financing for facilities improvement and expansion.

In addition to the need for improved access to institutional financing, the KUD must develop internal capital formation through either business growth by increasing sales and/or reducing costs, or by encouraging expanded member investment/capital formation through membership savings programs. Promotion and development of farmers and womens' groups for production and savings purposes will accelerate capital formation in rural areas.

KUD need in general to be better aware of the importance of using borrowed capital to support business growth and expansion. In this regard, management needs a better understanding of basic business performance indicators such as profit margin, return on investment, inventory control and turnover, cash-flow planning and analysis, debt-to-equity ratios, etc.

(4) Informal Credit and Banking Services in Rural Areas

Traditional sources of credit in rural communities play an important role in meeting the credit needs of KUD members in Indonesia. These informal credit channels are well-established and account for the majority of credit activity at the village (desa) level. Typically, these informal credit sources include: money lenders, traders, community leaders and family members. Informal credit sources also include retail shops (kiosk), pawnshops, credit unions, savings and credit associations, and savings and loan (simpan/pinjam) revolving funds established within the community. The cost of money sourced informally by KUD members varies widely, depending upon the source. Generally, the annual interest rate on such borrowings ranges between 30-300 percent, however, compounded effective rates for short-term loans when computed on daily interest charges can exceed 1,500 percent on an annual basis.

Formally-sourced bank lending to KUD in Indonesia has been restricted due to the fact that formal banking and financial services in rural areas of the country remains underdeveloped. In spite of the existence of over 8,000 rural credit "banks" in Indonesia, many of these operate under the supervision of larger regional or national banks and are little more than lending units, with undertrained staff, poor facilities, poor communication, and lacking basic office equipment. Others operate at the district (kabupaten) level or the sub-district (kecamatan) level, far away from KUD business locations and the village (desa) level where most KUD members reside, and are primarily engaged in "non-rural" lending activities.

The rate of growth in recent years of banking in rural areas, where most KUD exist, has lagged significantly behind that of banks serving urban areas. Between 1991 and 1994, the number of rural-based banks grew at 8.8 percent as compared to urban-based banks, largely commercial and

foreign banks, which showed a 36 percent expansion in this same period. The range of financial services offered by urban versus rural banks also shows a significant contrast, with the later group offering only basic banking services.

This underdeveloped rural banking sector suggests the opportunity for KUD to become more actively engaged in the savings and loan business to meet the financial needs of their members. As earlier noted, KUD savings and loan (USP) business expanded 25.3 percent from 1993 to 1996, for an average annual growth rate during this three-year period of 8.4 percent.

Historically, two banks have actively served the credit needs of KUD and their members; Bank Rakyat Indonesia (BRI), which operates an extensive network of field offices within the country and is the largest bank serving the needs of the agriculture sector, and Bank BUKOPIN, a general national cooperative bank established in 1970 and converted in 1992 into a limited liability company. Some regional development banks (BPD) rural banks (BPR) and rural credit cooperative banks (KBPR) are engaged in extending loans to KUD and KUD members. Since the financial sector reform legislation of 1990 (PAKJAN 1990) and the following Banking Law revision of 1992, a number of commercial banks have shown an active interest in commodity-specific lending to KUD.

(5) Credit Programs Available to KUD and KUD Members

In an effort to stimulate agriculture, small business and cooperative growth in rural areas, the Government of Indonesia, through its banking system, has initiated a number of special credit programs. Those credit programs of particular significance to KUD and KUD members include the following:

1) KUK - Kredit Usaha Kecil (Small Business Credit)

The KUK credit program, administered by BRI, began in 1989. The source of funds under this program comes from cooperative society funds collected by handling banks. KUK is a countrywide program providing investment and working capital for small enterprises. Credit supplied under KUK is generally not applied for agricultural purposes.

Total credit extended by banks under KUK as of July 1995 amounted to Rp. 38.3 trillion, although it is believed that only a very small portion of this amount was actually lent to KUD. No information is available as to the total number of KUD under the KUK credit program are generally set according to market rates, typically varying between 16% p.a. - 21% p.a. depending on individual bank policy and loan purpose.

2) KCK - Kredit Candak Kulak (Small Retailers Credit)

KCK is a small-scale credit program serving low-income groups and petty traders which was started in 1976. Funds for the KCK program come directly from the Government budget. KCK lending is channeled through KUD to support short-term working capital requirements for small business and cooperative enterprises.

As of June 1995 a total of Rp. 15.0 billion in KCK loans vary between banks and according to loan purpose, ranging from a low of 12% p.a. to a high of 4% per month for an annual rate of 48% p.a. interest rate as set and revised from time to time by Bank Indonesia.

3) KUT - Kredit Usaha Tani (Farm Business Credit)

The KUT credit program was introduced in 1985 to replace the Government's earlier farm production credit program, known as Bimas. The credit program was designed to integrate through KUD the functions of farm input supply, marketing, credit and extensions services. KUT credit is generally extended to KUD members for the purpose of financing farm crop production. Funds for the KUT program are sourced from Bank Indonesia. The major handling bank for KUT credit is BRI, although other banks were authorized to handle KUT beginning in 1990.

As of June 1996, 2,449 KUD had received KUT loans totaling Rp. 148.0 billion. Interest rates charged on KUT agricultural production loans to farmers are generally 14% p.a.

4) KKPA - Kredit Koperasi Primer untuk Anggota (Credit for Primary Cooperative Members)

Like KKUD as latter mentioned, funds for the KKPA program are also sourced from Bank Indonesia and channeled through designated handling banks. KKPA, which was also started in 1984, provides investment and working capital for members of primary cooperatives. The term of this credit includes up to one-year for working capital and up to ten-years for investment capital needs of cooperative members.

As of June 1995 a total of Rp. 733 billion had been lent to 2,305 KUD under the KKPA program. Interest rates charged on KKPA loans are get according to the market interest rate as set and revised from time to time by Bank Indonesia. Interest rates generally range from 12% p.a. - 18% p.a., depending on the lending bank and the type of activity being financed.

5) KKUD - Kredit Koperasi Unit Desa (Credit for Village Unit Cooperatives)

Like KKPA, funds for the KKUD program are sourced from Bank Indonesia and channeled through designated handling banks. KKUD, which was initiated in 1984, provides up to one-year

working capital loans to KUD for procurement purposes.

As of June 1995, KKUD program loans had been extended to a total of 7,149 KUD totaling Rp. 112.7 billion. Interest rates charged on KKUD loans are determined by Bank Indonesia and vary according different types of procurement activities. No compound interest is applied to loan interest rates. Common interest rates vary between 14% p.a. - 18% p.a., depending on the particular procurement activity.

(6) Current Credit Access for KUD and their Members

Insufficient access to institutional borrowing for working capital and investment capital is a primary factor currently limiting KUD business diversification, growth and expansion.

Where KUD have access to bank-supplied working capital loans, these loans are designated for specific business applications, and cannot be used to support diversified or general business operations, such as maintaining supply inventory, agricultural commodity procurement, and seasonal storage. Lack of access to sufficient bank-supplied working capital is limiting growth in KUD business volume and turnover. Many KUD cannot operate processing facilities on a continuous basis due to this capital shortage.

Again, insufficient access to bank-supplied investment capital is a major factor limiting KUD business volume and business expansion. Most KUD have not been able to source institutional borrowings to support fixed asset facility expansion, improvements, alterations and maintenance (e.g. land acquisition, office buildings, storage, processing facilities, drying floors, etc.), or purchase new equipment, machineries and transportation needed to improve processing and other business services to members.

KUD also do not have sufficient access to bank credit to expand KUD savings and loan (USP) business to their members. They also need improved access to institutional production credit, channeled through the cooperative for re-lending to farmer members, to support agricultural commodities which show promise for value-added processing and increased domestic and export market growth. At present, most KUD members continue to rely upon informal credit channels, which often charge excessive rates of interest, as their primary source for obtaining credit to support farm family business needs.

6. Human Resource Development and Guidance Activities

(1) Present situation of education activities at national level

Until 1967, a formal cooperative education has been facilitated by the National Academy and Cooperative High Schools under supervision of the Directorate General of Cooperatives. In 1972, the Presidential Decision No. 34 was issued to restructure the educational activities to reduce increasing burdens of the Department of Education and Culture. In the governmental organization, now, the Department of Cooperatives and Small Enterprises is undertaking training of officials and employees of cooperatives and small enterprises including those in KUD through Provincial Level Cooperative Training Centre at each province (BALATKOP). The National Training and Upgrading Centre for Cooperative Development (PUSLATKOP) is in charge of training of instructors of BALATKOP. According to the KUD census of 1993, since its inception, BALATKOP has accepted 18,421 supervisors, 29,072 directors, 5,174 managers, 52,778 employees and 7,570,185 members of 6,255 KUD surveyed out of 8,873 KUD during about 20 years.

Cooperative Council of Indonesia (DEKOPIN) has a cooperative college and training institution (IKOPIN) which was restructured in 1984 and until 1993, it has received 8,216 students as well as 2,322 bachelors program. The Cooperative Members Training Institution (LATPENKOP) which was established in 1996 for training instructors of member education which has trained 134 facilitators and 3,191 farmer leaders. Each province has DEKOPINWIL and each district has DEKOPINDA. However, except several successful cases, these secondary and tertiary level cooperative unions are generally not active in educational activities. The apex organization of KUD (INKUD) is also conducting training of KUD staff and Provincial Organization of KUD (PUSKUD). There are 26 PUSKUD, however, generally, PUSKUD is not active for education of KUD staff and its members. The National Level Audit Service Cooperative (KJAN) and 18 Provincial Level Audit Service Cooperatives (KJA) are also conducting training for cooperative accounting.

(2) Training institutions at district level

On the job training for employees of KUD is promoted at District level promoted by KUD Mandiri Inti with assistance of District Office of Department of Cooperatives and Small Enterprises (KANDEPKOP).

According to the Article 45 of the Cooperative Law of the Republic of Indonesia 1992, it encourages KUD to reserve an education fund from current surplus within 5%. However, it has just started and the percentage of KUD that adopted the education fund is still small.

There are some DEKOPINDA which conducts training for officials and employees of KUD, however, generally, DEKOPINDA are not active for training due to lack of employees and budget. Difficulty in collection of membership fee is also one of the reasons that DEKOPINDA is remained inactive.

(3) Priority area for the employee's training

There is more than 2,000 KUD that has no general manager and recruiting manager by accumulating a fund through an increase of a surplus fund and conducts training for manager is imperative for these KUD. Also, development of credit business through training of employees would be useful to increase voluntary savings as one of measures for increasing working capital. Also, the subjects on distribution and marketing are put high priority and introduced at BALATKOP. Some KUD are sending their employees for training at private banks.

(4) Present situations of guidance activities of KUD at the national level

1) Farm guidance of KUD

In primary KUD level, farm guidance to members of KUD is conducted by employees of KUD although they are not specified for guidance. The situation of farm guidance activities by KUD nation wide is not grasped, however, generally, the farm guidance is not active in KUD except KUD in charge of dairy business.

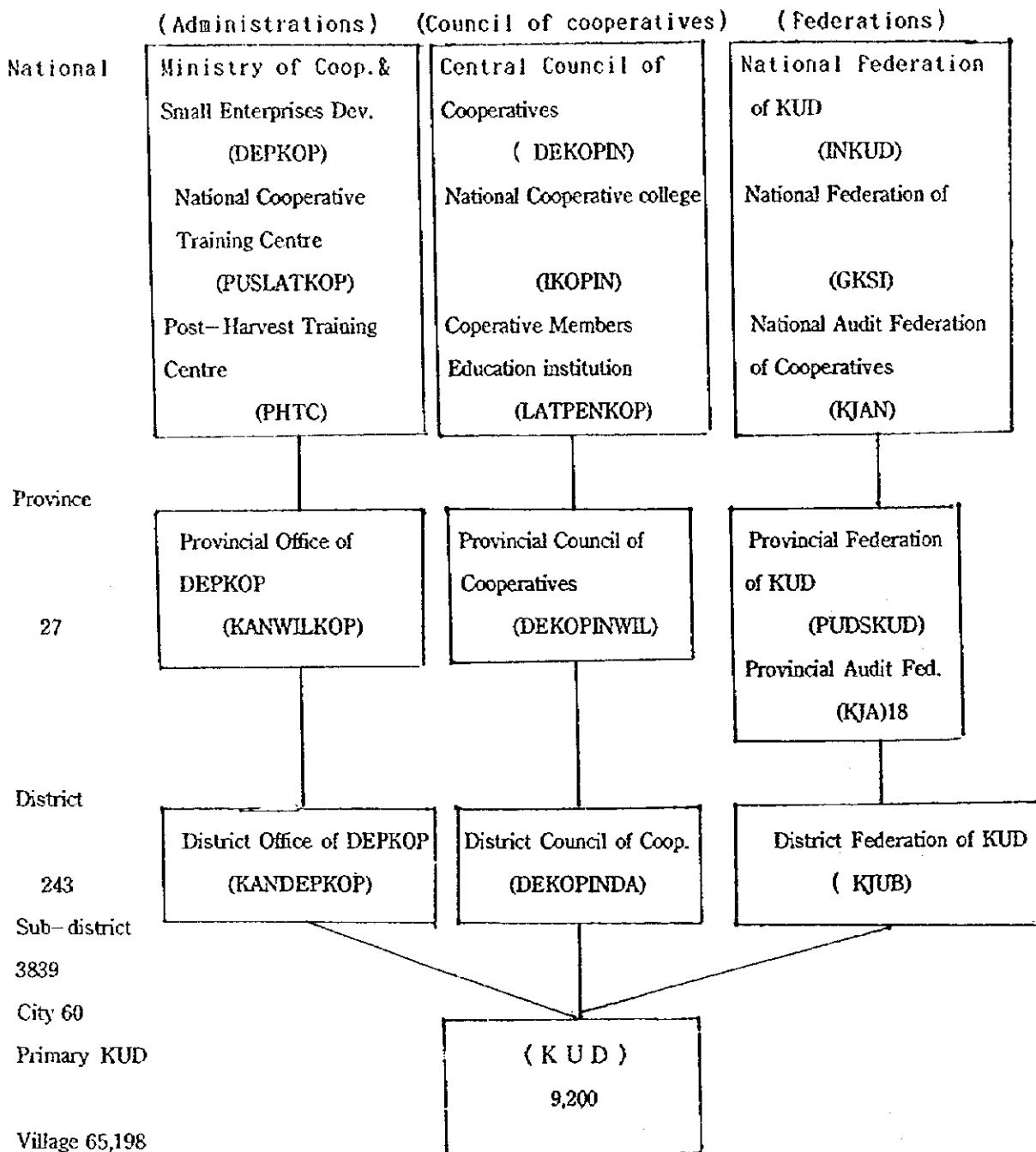
The employees of KUD who are in charge of farm guidance have a few chances of training to brush up their technical knowledge. The cooperation with PPL would be necessary at local level through setting up some forum to meet together and promote a systematical guidance.

2) Better living guidance

The capacity for providing better living guidance depends on the number of employees in KUD, however, generally KUD is providing better living guidance such as family planning, commodity knowledge, rationalization of family expenses, legal and tax consultation, nutrition, child care and others. KUD recognizes needs of better living service as service to members and employees are providing such guidance as additional service beside routine works.

The better living activities are the area which KUD can contribute to the life of local residents. It is necessary for KUD to identify the objective of the better living guidance and grapple with them adopting measures suitable for the local condition.

Chart-2.5.2 Educational Institutions Concerned KUD



2.5.3 PUSKUD and INKUD

INKUD, set up in 1979, is the national federation of all the KUD and PUSKUD. It is organized so that its activities do not clash with those of the PUSKUD, which are responsible for business operations in each province. The PUSKUD in the 27 provinces are vertically organized federations of KUD, but PUSKUD members are not limited to the KUD. For example, out of the 963 cooperatives that were members of the West Java PUSKUD in 1988, 865 (93%) were KUD, 23 (2.3%) were TEMPE/tofu cooperatives, 26 (2.6%) were sales and commerce cooperatives, one was a workers' cooperative, seven were fishing cooperatives, three were livestock industry cooperatives, and the remaining four were various other kinds of cooperatives. Similarly, the member organizations of INKUD are not only PUSKUD. In 1989, the members of INKUD were the 27 PUSKUD, one provincial federation of livelihood cooperatives, one provincial federation of sales and commerce cooperatives, and one district-level livestock industry cooperative.

The work of the PUSKUD can be divided into five categories: (1) sales and distribution; (2) procurement; (3) purchasing; (4) processing; and (5) services. The PUSKUD buy products from the KUD, process and sell them, and supply the KUD with consumer goods such as fertilizer, agricultural chemicals, and living necessities. Most of the crops handled by the PUSKUD, such as rice, sugar and wheat, are stipulated by BULOG. Similarly, most of the products they supply, such as manure, fertilizer and seeds, are government-controlled items. The goods handled by the PUSKUD are therefore nearly all government-controlled items related to food and agricultural production.

The PUSKUD receive commission through handling these goods, but the amount handled and the rate of commission are determined by the government. In recent years, they have also been making agricultural loans to KUD. Five PUSKUD export dried cassava flour. In 1997, the West Java PUSKUD opened the superstore GORO. PUSKUD also provide training relating to clove accounting to KUD.

INKUD coordinates all the activities of the PUSKUD, provides them with some operating funds, market information, customer information and business opportunities, and conducts research, essentially operating like a domestic and international commercial corporation. Neither INKUD nor the PUSKUD play a leading role in purchasing rice, beans, corn, and so on. However, an important role of INKUD is the purchase of cloves in place of the government's Clove Procurement Office. INKUD also purchases products such as coffee, cassava, vanilla and cocoa, and imports cattle for meat in place of KUD. The joint-venture operations undertaken by INKUD include fruit processing, salting, livestock feed production, slaughterhouses, and civil engineering.

2.6 Situation of the Rural Community

The population of the Republic of Indonesia is 195 million, the fourth highest in the world (as of

1995). The population growth rate from 1980 to 1990 was 1.98% a year, exceeding the target figure of 1.51% in the 6th National Five-Year Development Plan. Distinctive features of the composition of Indonesia's population are the high proportion of young people (of 15 or under), the population concentration in Java (62% of the population; 7% of the total land), and a rural/urban population ratio of 69:31. However, recent economic growth has led to urbanization resulting in a population shift from rural to urban areas.

After the introduction of the "New Order" in 1969, the Indonesian economy has achieved phased expansion. During the 5th medium-term plan (1984/85-1988/89), the annual economic growth rate reached 6.8%. Through this economic growth, the share of the agricultural sector in the GDP decreased from 21% in 1987 to 18.5 % in 1993. Although the relative weight of the agricultural sector (including forests and fisheries) has decreased in relation to the GDP, its share is still large and it still plays a very important role in the economic development and stability of the country by supplying food and raw materials and providing employment opportunities in the rural villages.

Underpinning this important role of agriculture in Indonesia's economy and society, the KUD, which are in direct contact with producers' groups, together with the Kelompok Tani, are economic and social organizations that promote agricultural development. In Indonesia, there are cooperatives such as company workers' unions, occupational groups and mutual aid associations, but the KUD, as their name implies, are cooperatives based on the village unit. When they were first established in 1967, they were viewed not as profit-pursuing businesses but as social and philanthropic organizations. However, with economic development and the promulgation of successive laws and government ordinances, they came to be seen as "the smallest economic units for the development of rural society" (Presidential Order No. 2/1978). In other words, KUD are no longer agricultural cooperatives; they are village unit cooperatives for promoting all kinds of economic activity, including agriculture.

Therefore, those eligible to be members of KUD are not only farmers and fishermen but also traders, civil servants and indeed any adult resident, man or woman, in the area where the KUD is located. As of December 1995, there were altogether 9,287 KUD with a total of 13,346,000 members - an average of 1,451 members per KUD.

Judging from the situation of Indonesia's agriculture and rural population, it can be assumed that the majority of KUD members are farmers, but no statistics on the occupations of KUD members are available. However, these 13,346,000 members account for 11.1% of the total adult population (127,600,000 people aged fifteen or above as of 1990).

As of September 1996, the proportion of KUD members among members of the Kelompok Tani was about 58%.

Table:2.6.1 Proportion of GDP and Employed Population by Sector

Sector (unit)	Value (Rp.billion)	Share (%)	Employment ('000 person)	Share (%)
Agriculture	55,746	18.5	40,072	50.6
Food Crop	31,404	10.4		
Non-Food Crop	6,956	2.3		
Estate Crop	2,466	0.8		
Livestock	7,026	2.3		
Forestry	2,541	0.8		
Fishery	5,353	1.8		
Mining & Manufacturing	98,191	32.5	8,784	11.1
Commerce, Hotel & Restaurant	49,789	16.5	12,508	15.8
Others	98,292	32.5	17,836	22.5
Total	302,018	100.0	79,201	100.0

The Table 2.6.1 shows that although the share of agriculture including forestry and fisheries in terms of GDP is less than those figures on manufacturing and other industries, in terms of employment the share of agriculture is the biggest as high as 50.6%. The share of agricultural employment varies among provinces in the country. For example, in the provinces in Java the share ranges between 37% and 50%, on one hand, and in eastern part of Indonesia in particular Irian Jaya and East Nusatenggara corresponding figure rises to more than 75%, on the other.

Relatively bigger population in the agricultural employment earns lesser income due to lower productivity in rural area comparing to urban area. With regard to the most indicators in connection with educational (school enrolment, literacy rate, etc), cultural (listening radio, watching TV, etc) and medical (the number of hospitals, doctors etc) aspects, it is observed a noticeable difference between urban and rural areas and Java and outer islands as well.

As a result of the acceralated economic development in recent years, urbanization is proceeding steadily accompanying outflow of rural population and shrinking farm land especially nearby large cities like the Greater Jakarta. Under such circumstances traditional concept of "Gotong Royong" or mutual cooperation in rural area is gradually loosening its significance.

The growth of the industrial sector exceeded the targets of the 6th National Five-Year Development Plan and is changing Indonesia's industrial economic structure. The share of the industrial sector, which was only 9.2% at the beginning of the 1st five-year plan, had increased to 24.3% by 1995. Furthermore, while Indonesia was one of the world's poorest nations with a per capita income of only 70 US dollars at the beginning of the 1st five-year plan, the per capita income has now reached the level of 1,000 dollars. The main economic indicators in 1995 were as follows:

(unit)		
GDP	(1 billion Rp)	383,051
Current deficit	(1 billion US dollars)	6.9
Government savings	1 billion Rp)	19.0
Inflation rate		8.6%
Foreign currency reserves	(1 billion US dollars)	16.0
Revenue	1 billion Rp)	71,558

Exchange rate against dollar (1995) 2,312 Rp = 1 US dollar
(based on the 1997 Indonesia Annual Report)

2.7 Legal System and Administrative Services to KUD

2.7.1 General Situation

1) The Cooperative Law

The legal measures taken with respect to the development of cooperatives, including KUD, are as follows:

Cooperative Law UU12/1967

Cooperative Law UU25/1992

These two laws are the basic laws for the establishment of all types of cooperatives in Indonesia. As such, they constitute the regulations regarding the purpose, functions, membership qualifications and all other matters relating to cooperatives. However, while the old Cooperative Law of 1967 emphasized the non-profit and social aspects of cooperatives, the new law of 1992 stated that cooperatives should be very efficient management organizations and should make decisions on the basis of economic rationality. There are no specific references to the role of KUD in either law.

2) Presidential orders regarding KUD

Presidential Order No. 4/1973

Presidential Order No. 2/1978

Presidential Order No. 4/1984

Through the above presidential orders, concrete instructions were given regarding the establishment and development of KUD. Presidential Order No. 4/1973 established the BUUD

(village business unit agencies), the predecessor of the KUD. Presidential Order No.2/1978 stated that KUD should be developed as the units to provide credit, supply materials for production and consumer goods, conduct processing, and undertake other economic activities. Presidential Order No. 4/1984 stipulated that the KUD, as the smallest cooperative economic unit, should be composed of members from village units (one or more villages). This order stated that the aims of further promoting the KUD were (1) to maintain the stable supply of food and (2) to strengthen the basic framework of KUD as rural society service centers for the development of the nation. It also states that, as the main organizational units of rural society, the KUD must fulfill this role in the following specific fields.

- * Promotion of agriculture (including food production, livestock farming, and fisheries), estates, and agro-industry.
- * Provision of basic materials necessary for rural society, particularly food, clothing and housing.
- * Provision of services such as loans and deposits, land and sea transportation, electricity, and construction.
- * Promotion of handicrafts and domestic crafts.

The following government or ministerial orders are regulations relating to the implementation of the above legal measures.

- * Government Order No. 4/1994 Detailed regulations for the implementation of the presidential order relating to cooperatives.
- * Government Order No. 17/1994 Regulations concerning the closure of cooperatives by the government.
- * Government Regulation No.9/1995 Detailed regulations for the implementation of savings and loans relating to cooperatives.

3) Revision of the Bank Law

(1) Financial Deregulation

Recognizing the need to remove obstacles in the formal institutional finance system that were restricting economic growth in rural areas, particularly the development of small enterprises in the agricultural sector, the government made a series of reforms to the financial system in 1990. Through these reforms, known as the "PAKJAN 1990," the banking and loans system was simplified and rationalized and various deregulation measures were taken to make the economy more market-oriented. The PAKJAN 1990 reforms placed particular emphasis on the need for a loans system to respond to the growth of the business of cooperatives. To assist the KUD, various loan plans were implemented at banks, including the Small Business Credit Program (KUK), Small Traders' Credit (KCK), Farmers' Business Loans (KUT), loans for cooperatives (KKUD), and loans from the main cooperatives to their members (KKPA). However, except for BRI (State-owned People's Bank), BUKOPIN (Cooperative Bank) and the Rural Credit

Cooperative Bank (KBPR), most banks have tended to avoid high-risk rural projects, particularly loans to those run by cooperatives.

(2) Revision of the Bank Law

Through the adoption of 1992 Law No. 7 relating to banks, major revisions were made to the Bank Law of 1967. Up to then, banks in Indonesia had been divided into the categories of general banks, development banks, savings banks, rural banks (general district-level banks outside urban areas), village banks, rural credit banks (predominantly savings and loans institutions based in rural communities), and workers' banks (financial services restricted to workers of government organizations and private companies). The 1992 Law No. 7 divided banks in Indonesia into two categories: commercial banks and rural banks. The law stated that the role of banks is to mobilize capital in the form of public savings and control its flow in order to improve citizens' standard of living. Law No. 7 recognized the right of commercial banks to do business appropriate to their particular specialties and fields of interest and approved the setting up of profit-sharing plan banks. The new law thus established the foundations for direct financing of KUD according to the specialist fields and concerns of commercial banks.

(3) Reorganization of BUKOPIN and Funding Institutions

When the new law was put into effect in December 1992, BUKOPIN, which had been suffering from capital shortages, was reorganized into a limited liability company to attract additional capital from outside. The conversion of BUKOPIN into a commercial bank resulted in a dramatic increase in its deposits, net worth, and loans. It became the main source of working capital and equipment funds for KUD in 14 provinces and has continued to expand its loans to KUD.

The BRI is another major source of funding for KUD and their members, particularly in the area of capital for agricultural production. Other small financial institutions that provide services to KUD and their members are the Indonesian Financing Companies Cooperative (KPI), the Savings and Loans Cooperative (KSP), and the State-owned Company Profit Fund (BUMN).

2.7.2 The Department of Cooperatives and Small Enterprises Development

The organizational structure of the Jakarta-based Department of Cooperatives and Small Enterprises Development consists of the Minister, Permanent Vice-Minister and Director-General, and two basic areas of administration: general affairs and planning and the divisions responsible for each field. Under the heading of general affairs and planning are policy, budgeting, general affairs, and facilities. The various specific divisions are the four bureaus responsible for food crop cooperatives, livestock cooperatives, plantation cooperatives and fisheries cooperatives. Food crops are subdivided into general crops and horticulture products, and livestock are subdivided into

large animals and small animals. In its division according to fields, apart from the addition of "cooperatives," this organizational structure resembles that of the Department of Agriculture.

At the local level, there are division offices of the Department of Cooperatives and Small Enterprises Development in every province and district. Together with the administration of the Department of Agriculture, the ultimate aim of this administrative structure is to increase farmers' incomes and improve public welfare. However, while the most important purpose of the Department of Agriculture is to increase agricultural production, the Department of Cooperatives and Small Enterprises Development pursues the above-mentioned ultimate aim while promoting closer links with companies and businesses involved in agricultural activities, such as processing of crops after harvesting, in order to further the interests of cooperatives and small enterprises.

2.7.3 Agricultural Extension Services

To extend KUD activities, it is very important to increase agricultural production and productivity, which form the foundation of business activities in rural villages. At the same time, production is necessarily linked to processing, distribution and sales. After achieving self-sufficiency in food, particularly rice, the aims of agricultural development are to increase added value, diversify, and concentrate on agricultural products for which increased demand is expected.

To improve and promote the extension technologies for agricultural production, the Department of Agriculture has been setting up agricultural extension organizations. In 1995, there were 32,771 agricultural extension officers (PPL) throughout Indonesia. These officers are attached to provincial governments and assigned to district agricultural diffusion offices. In 1994, cooperative extension officers (PKL) were appointed to the Department of Cooperatives and Small Enterprises Development (1,397 officers as of July 1996) to disseminate information, provide training and act as consultants to promote the extension of cooperatives and small enterprises. The diffusion of agricultural techniques was not originally included in the duties of the PKL, but they hold regular meetings with PPL and exchange information.

Before cultivating crops, farmers determine the materials - seeds, fertilizer, agricultural chemicals, and operating funds - they need, and draw up a plan of the materials required for production (RDKK). The RDKK is submitted to the KUD and is used as the basic document for determining the necessary capital loan plan.

2.7.4 Roles of Related Private Companies and Relations with KUD

After self-sufficiency, mainly in terms of rice, had been achieved in the 1980s, the objectives of the Indonesian government's agricultural development strategy were to reduce poverty, eliminate regional differences, increase farmers' incomes, and improve their welfare while maintaining self-sufficiency. To achieve these objectives, the government has placed emphasis on strengthening the links between small farmers and agro-business, diversifying agriculture and

promoting agro-industry for this purpose. It is trying to improve agricultural production both quantitatively and qualitatively, increase productivity, and promote the extension of the KUD (Indonesia 1997, An Official Handbook). It is also necessary, based on the agreement of the ASEAN countries, to respond to requests for the deregulation of trade, including trade in agricultural products.

Nevertheless, in order to implement market-oriented production in response to demands placed upon agricultural production and products both at home and overseas, efforts to increase productivity and product quality are more necessary than ever. In addition, infrastructure for processing, distribution and sales after harvesting are needed and coordination with related private companies must be strengthened.

As one measure to realize these aims, the government is pursuing a plan to promote sales through mutual support between KUD and private agriculture-related companies. According to this plan, in order to expand and promote the sales of agricultural products and processed goods handled by KUD, large retail outlets such as Hero cooperate with the KUD, providing sales spaces and teaching them sales and distribution know-how. The plan also aims to improve productivity while strengthening mutual cooperation through the formation of joint ventures between large food processing corporation such as Indo food and the farmland of small farmers around them.