

Chapter 3

Chapter 3 Directions for KUD Activities

3.1. Analysis and Evaluation of KUD Activities

3.1.1. Organization and Management

According to the principles set forth in "The Cooperative Law of the Republic of Indonesia ", KUD is defined as the service center for the rural society. It is regarded as the core organization assuming the responsibility of bringing forth stability of regional society through the improvement of economic and cultural status of the residents in the agrarian districts. At present, about 9,200 KUD are established throughout the country, and there is no great regional imbalance. We can evaluate that groundwork of the system is in the process of steady formation. However, their organizational sizes are generally small, and there are many problems such as poor membership rate of non-agrarian residents who constitute the basis for co-op operation and business, and variance in the entry rates.

All the local adult residents are eligible for KUD membership. This system is now prevailing in most countries in the Southeast Asia.

One of the present problems is, as mentioned later, the low entry rate of the regional residents in general. It is a drawback in the way of strengthening KUD's financial basis through absorption of idle fund among the local residents. Moreover, regarding the challenges of improving income and stabilizing livelihood of local residents, which is KUD's ideals, performance is short of expectations due to such hindrances as organizational backwardness and vulnerability of managerial constitution.

Poor entry to membership by women among the regional residents is attributable to the fact that KUD is now promoting practically no activity which is closely related to the residents' daily life. It suggests the limit of the present KUD's activities. Weakness in KUD's organizational preparedness to support the activities for the Women Chapter is pointed out as one of the basic questions. Although it is, of course, important to contribute to promotion of agriculture in order to improve the economic conditions of the regions at large, next challenges are replenishment of the guidance program of the members' daily life and beefing up of the women chapter.

One of the conspicuous organizational and management problems affecting many KUD at present is the fact that they have not brought up a squad of experts in the management of co-ops. Fundamental reason for this is the fact that KUD, at present, cannot afford to pay their officers handsome salaries comparable to the social standards. Although its solution cannot be expected without improvement of profitability, it is real problem that KUD themselves and KUD's upper organizations and the central government which directs and supervises KUD lack effective measures to rectify the present situation that is wholly relying on volunteer activities.

Inappropriate line-up of the staff as well as the fact that many of KUD either have very small number of managers who are supposed to represent all other staff-members or do not have any at

all is also a big problem. Relating with the above question, it is suggested as another problem that KUD management offices are ill prepared in terms of organizational structure, and that their organizational and personnel management is far from what should be with a modern co-op. Above facts hamper KUD staff from gaining expertise and experiences which are essential in conducting the business and activities of co-ops which operate based on the market economy. In order that the local residents can feel easy about joining the KUD and obtaining services from its businesses and activities, and join the management of their co-op as its members, it is essential that they can place trust in the staff whom they meet daily. The primary motive of organization of a co-op is solidarity among people. Delay in fostering and retaining the staff members, and insufficient preparedness in the organization and structure of KUD is a big obstacle in the way of materializing above principle.

When we, bearing in mind above questions, make organizational and managerial analysis and evaluation of the survey of KUD throughout 7 Provinces and 13 Districts, we find following problems (See Table 3-1-1).

First, we pick up the annual personal income which is a primary index of assessing the economic conditions of local residents, in relation with the functions expected to the local KUD. Most of the provinces come short of Rp 2,312,000 (=\$1,000; \$1=Rp 2,312, 1995), and there are large variances from one Province to another. This index is closely related to each Province's type of agriculture which exerts decisive influences on the economic status of the Indonesian agricultural community. For instance, East Java, where they engage in multiple-crop agriculture, shows the highest annual personal income in the country of Rp 1,212,000 (\$530), while West Nusatenggara which relies on grains and livestock shows only one-third at Rp 427,000 (\$185). Other Provinces fall between the two: West Java of vegetables and dairy farming earns Rp 941,000 (\$407), South Sulawesi of grain and livestock, Rp 752,000 (\$325), North Sumatra at Rp 902,000 (\$390), Lampung of processing crop at Rp 784,000 (\$339), and South Kalimantan, single-crop area of rice, at Rp 716,000 (\$ 310). Thus most of the Provinces earn less than Rp 1,000,000 (\$432).

It indicates that regions engaged in multi-crop agriculture and stock breeding have comparatively high income, while monocultural regions of rice are low. Geographical conditions also matter. In West and East Java which are close to the capital territory, people basically enjoy high income, while the income in smaller islands and in West Nusatenggara, South Sulawesi and South Kalimantan which are situated near the farthest ends of peninsulas is low. Agriculture in West Java is "vegetables and dairy" type, partly because of its nearness to the capital territory (See Table 3-1-2).

If KUD, as the core of service-centers in the agrarian community, intends to help the regional residents improve their economic conditions, it is needed to establish organization and management which is best suited to the agricultural type of the region concerned, and also to beef up the supporting facilities and business system.

As for organizing performance, West Java ranks top with 759 KUD, while West Nusatenggara is

the last on the list with 134 KUD. The largest number of KUD members is West Java's 3,219,000, reflecting its number of KUD, and the fewest member is South Kalimantan's 99,000. The national average of KUD entry rate defined as against the total adult population is at 11%. There are large variances among Provinces, West Nusatenggara's 18% being the top, and 6% of North Sumatra and South Kalimantan the lowest (1990). The entry rates are generally high in the regions far from the capital territory, and low in the rice-crop regions and in the neighborhood of capital.

The national average members in a KUD is 1,451. The largest number in 7 Provinces is West Java's 4,050, and the least is 333 of South Kalimantan. The difference is so wide. West Java is followed by 3,111 of East Java, 1,799 of West Nusatenggara, 941 of Lampung, 765 of South Sulawesi and 526 of North Sumatra.

We are deeply concerned that KUD's total assets, which is one of the basic parameters in assessing KUD management, is meager. The national average is as small as Rp 158,000 (\$68); the largest figure among 7 Provinces is only Rp 823,000 (\$356), and the least is Rp 103,000 (\$45) of West Nusatenggara. Most KUDs fall between 100 - 200 thousand rupiah.

In general, assets belonging to the "stock account" are far less than the individual annual income belonging to the "flow account", with almost all KUD. Such being the case, KUD at present has at least some financial restraints in contributing to the improvement of residents' income.

Furnishing financial services to the local residents is also an important commitment of KUD. However, here the problem is lack of competence to suck up the hoarded funds, which constitutes the crucial premise. For the financing activities by the co-ops which are based on the principle of mutual aid, to lend out from the savings of co-op members should be the normal practice, thus carrying out the function of facilitating smooth circulation of funds in the region. But such function is particularly poor with KUD, as epitomized in the undersaving of the members. Even the savings amount per member in West Java, the highest among the Provinces, is only Rp 55,000 (\$24), the lowest North Sumatra being Rp 8,000 (\$4). At financial institutions worldwide, the annual amount of redeemed principal in the cases of personal loans basically stands at around 30% of annual income of the debtors. If this parameter is to be applied, the total savings per member in the KUDs in West Java must be at least Rp 56,000 ($941 \times 30\% \div 5$; 5 = redemption period).

However, the actual savings being only Rp 55,000, the loan-savings rate becomes 100%, impairing the fund liquidity of KUD. However, West Java is not the worst case. In North Sumatra, the average savings is only Rp 8,000 as against the needed amount of Rp 72,000 ($1,212 \times 30\% \div 5$), resulting in deficit of Rp 64,000. Unless the KUD here can borrow from outside, there is no way to meet the members' demands for funds. The KUD of other districts are in more or less similar conditions, indicating the weakness of KUD's financial foundation.

As a rule, the deposits of the members are used as the internal funds necessary for operating various co-op activities, thus fostering its independence of management. As a matter of fact, since KUD has no money to spare, it has no choice but to depend on outside funds. If it fails to collect enough money, KUD's business will inevitably be impeded in many ways. All the restraints on KUD's sphere and scope of business stem from such circumstances.

Imbalance among many conditions supporting the organization and management of today's KUD

lies at the root of the various problems clarified by above analyses.

Though KUD of West Java boasts of the largest membership per unit KUD and the highest savings (per member, applicable also to the following cases), its total business amount ranks fifth among 7 Provinces, and its total assets at the second place. East Java which has the second largest member-ship ranks seventh in the total business amount, fifth in the total assets, and fourth in the total savings.

This reflects the fact that majority of the local members rarely make use of KUD services. North Sumatra ranks sixth in the membership, first in the total business, and sixth in the total savings. Performance and foundation of the credit business of KUD in this Province is weak. In spite of its third membership, KUD in West Nusatenggara ranks low in terms of other indices, indicating its dull activities compared to its size. (Table 3-1-3)

As shown in the analyses of KUDs in 7 Provinces, KUD seems to be still in such a state that it cannot benefit from the advantages of scale as measured by the number of members. The factors underlying such phenomena are: wide differences among the members as for the degree of utilizing KUD, and, more deeply, incomplete organizational and management system KUD which the members can daily utilize.

We will explain hereunder our suggestions on reinforcement of KUD system aiming at positive resolution of above questions.

(Table 3-1-1) Analytical indices of KUD in 13 Districts under 7 Provinces.

(A)

	Annual personal income (thousand Rp)	Number of KUD (A)	Total membership (thousand heads) (B)	(B) / (A)	Total business amount (thousand Rp) (Note a)	Total assets (thousand Rp) (Note a)	Total savings (thousand Rp) (Note a)
West Java	941	759	3,219	4,242	689	607	55
South Sulawesi	752	536	410	765	925	823	17
North Sumatra	902	594	312	526	1,631	419	8
East Java	1,212	752	2,339	3,111	300	217	11
Lampung	784	255	240	941	1,317	140	10
West Nusatenggara	427	134	241	1,799	336	103	11
South Kalimantan	716	281	99	353	922	244	19
Nationwide	-	9,200	13,346	1,451	424	158	-

Note a : per member (of KUD)

(Table 3-1-2) Major agricultural and Live stock produce and the types of agriculture in 7 Provinces

	Major produce	Type
West Java	Vegetables, fruits, dairy farming, rice	Vegetable/dairy
South Sulawesi	Rice, Beef cattle, Eggs	Grain/live stock
North Sumatra	Hog, rice, corn	Grain/live stock
East Java	Rice, corn, cassava, shallot, leek, garlic, red pepper, mango, beef cattle	Multi-crop (palawija)
Lampung	Cassava, coconut, coffee	Processing crop
West Nusatenggara	Rice, bean, poultry, (water) buffalo	Grain/live stock
South Kalimantan	Rice	Monoculture in rice

3.1.2. Business

In order that KUD develops as the service center of the agrarian community, an appropriate system is required that can meet the needs of the local residents in general as well as the farmers. For that purpose, diversified operation of business is essential. As a matter of fact, however, the agricultural business including collection of rice crop and distribution of fertilizers is stagnant, and such activities as purchase of daily necessities, consumer loans and health care, which the regional residents badly need, are deplorably delayed. It is particularly ill prepared to develop guidance in

rationalization of livelihood, which will certainly attract women's attention.

Retarded establishment of credit business system is not only against its commitment as the responsible body of agricultural finance, but is an obstacle in encouraging the regional residents to join KUD. Comprehensive evaluation of the present condition of KUD leads to a conclusion that it is far from the stage to fully display its function as the service center of the agrarian community. KUD's inability to fully display its function as a regional financial institution including agricultural finance, is basically due to the poor fund raising as mentioned above. The main reasons are considered to be:

- (a) there is a small amount of reserved funds in the villages which are the basis of KUD business;
- (b) KUD is short of marketing personnel who are engaged in canvassing savings to KUD;
- (c) although it is usual for a co-op to offer higher-than-market interest rate to the members' savings, KUD cannot afford because of its poor financial foundation;
- (d) as it is difficult to find safe and secure investment targets, self-multiplication of funds is in fetters;
- (e) since it is not easy to foster and retain the expert staff in charge of management and collection of credits, KUD is liable to become irresolute in providing loans;
- (f) wholesale financing institutions which will furnish abundant funds at KUD's request are not easily available;
- (g) a system is not well established by which KUD can earn commissions as the lender in behalf of the government and private financial institutions, and at the same time, KUD is not well prepared to deal with such business.

According to the analyses of 7 Provinces, the largest total amount of business per member is Rp 1,631,000 of North Sumatra, and the least amount is only Rp 300,000 of East Java, with the nationwide average being Rp 424,000. The total business amount is the index to assess the level of utilizing KUD throughout the year. It stands at roughly the same level as annual personal income. It is remarkably low. It is basically attributable to the narrow business range lopsided to rice and fertilizer (See Table 3 - 1 - 1).

If we assume a condition of diversified operation of KUD, the total business amount, even supposing that it deals with only in purchasing and distribution, should be at least about twice the annual personal income. (to put it simply, cost (corresponding to purchasing business) + sales profit (corresponding to distribution) ; sales profit = amount equal to income = cost + profit)

One big reasons for delayed diversification of business (for instance, processing of dairy products to enhance value added) is in the backwardness of the equipment and facilities that KUD now possess.

KUD's equipment and facilities through the 7 Provinces are assessed to be definitely inadequate. Even in the best-equipped Lampung, harvesters and drying space of rice is insufficient. The conditions in North Sumatra and South Kalimantan are far cry from being satisfactory.

Such retarded furnishing of fixed assets is suppressing the productivity of the overall KUD businesses and fetter improvement of the productive efficiency of the whole residents centering on farmers (See Table 3 -1- 4).

(Table 3 - 1 - 3) Order of indices in Table (A)

	Membership (a)	Total business amount	Total assets	Total savings
West Java	1	5	2	1
South Sulawesi	5	3	1	3
North Sumatra	6	1	3	6
East Java	2	7	5	4
Lampung	4	2	6	5
West Nusatenggara	3	6	7	4
South Kalimantan	7	4	4	3

Note: (a) Number of members per unit KUD

(Table 3 - 1 - 4) Equipment and facilities conditions of KUD

	Conditions of equipment & facilities (omitted)	Evaluation	Remarks
West Java	O, R, W, Tr, Mo, F, Rs, Mc, MCC, VCC	Advanced fairly	Part of KUD are unsatisfactory.
South Sulawesi	O, R, W, D, T, Tr, Mo, H, Rs	Advanced fairly	
North Sumatra	O, R, W, D, C, Tr, Mo, Rs	Retarded	Equipment is done in favor of partial KUD.
Est Java	O, R, W, D, Tr, Rs	In-between	
Lumpung	O, R, W, D, Tr, Mo, H, Rs, RCC	Advanced fairly	
West Nusatenggara	O, R, W, D, Tr, Rs	In-between	
South Kalimantan	O, R, W, Rs	Retarded	Remarkably retarded.

(Note) O: Office; R: RMU; W: Warehouse; D: Drying area of rice; T: Thresher; Mb: Motorboat; C: Corn thresher; Tr: Truck; Mo: Motorbike; F: Feed mixer; H: Hand-tractor; Rs: Retail store; Mc: Milk cooling apparatus; MCC: Milk collection center; VCC: Vegetables collection center; RCC: Rubber collection center.

3.1.3 Education

Education for the advancement of agricultural techniques and housekeeping measures as well as improving the nourishment of family members is one of the basic commitments of a co-op. It is also necessary to promote a movement to improve the women's status through participation in the co-op activities. Compared to the level of education activities which are practiced in co-ops in general, the contents of educational program which KUD is now practicing is very inferior.

In order to propel education activities smoothly, it is essential to be well prepared with educational funds, competent instructors, education facilities, educational materials and pertinent curriculum. However, few of KUD is well-equipped. A broader concept of co-op education includes fostering human resources for the management of co-ops, which requires highly-qualified leaders in instruction and training. It is too much to be expected.

As for educational facilities, there are some government-operated facilities, and some KUD have their own buildings. But the nationwide conditions are unsatisfactory.

The contents of the educational course are mainly guidance in taxation, farming, financial practices, and the principles of co-op activities. Applicants for educational programs are gradually increasing. But preparation of curriculum for each separate training course is liable to delay, and with some of KUD, education and training system is yet impracticable from the viewpoint of personnel, facilities and preparation of education materials. Poor recognition of the necessity of education and training programs in the areas directly related to the residents' daily life such as living planning, health management, and culture schools which will be helpful in inducing the regional residents to join KUD

as well as weakness of the practicing system is another problem.

3.2 Directions for Vitalization of KUD and the Strategy

For all the above-mentioned problems, comprehensive analysis and evaluation of KUD leads to a conclusion that it has ample probability to make a big leap by means of steadily implementing relevant strategies and tactics. The reasons are as follows;

- (a) The nationwide number of KUD is increasing steadily, and its organizational foundation appears to have been well established.
- (b) The fact that KUD defines itself as the service center of the agrarian community promises a probability of development as the regional cooperative which covers an extensive area of economy, social life and culture of the local community.
- (c) Part of KUD have grown into fairly large sizes, and their managerial foundation is secured. They are qualified to be brought up as examples of successful KUD.
- (d) The business segments of most KUD are lopsided in rice and fertilizers. But as long as these two items are concerned, KUD dominates handsome trade shares, indicating the possibility of

expanding the shares in other fields of business.

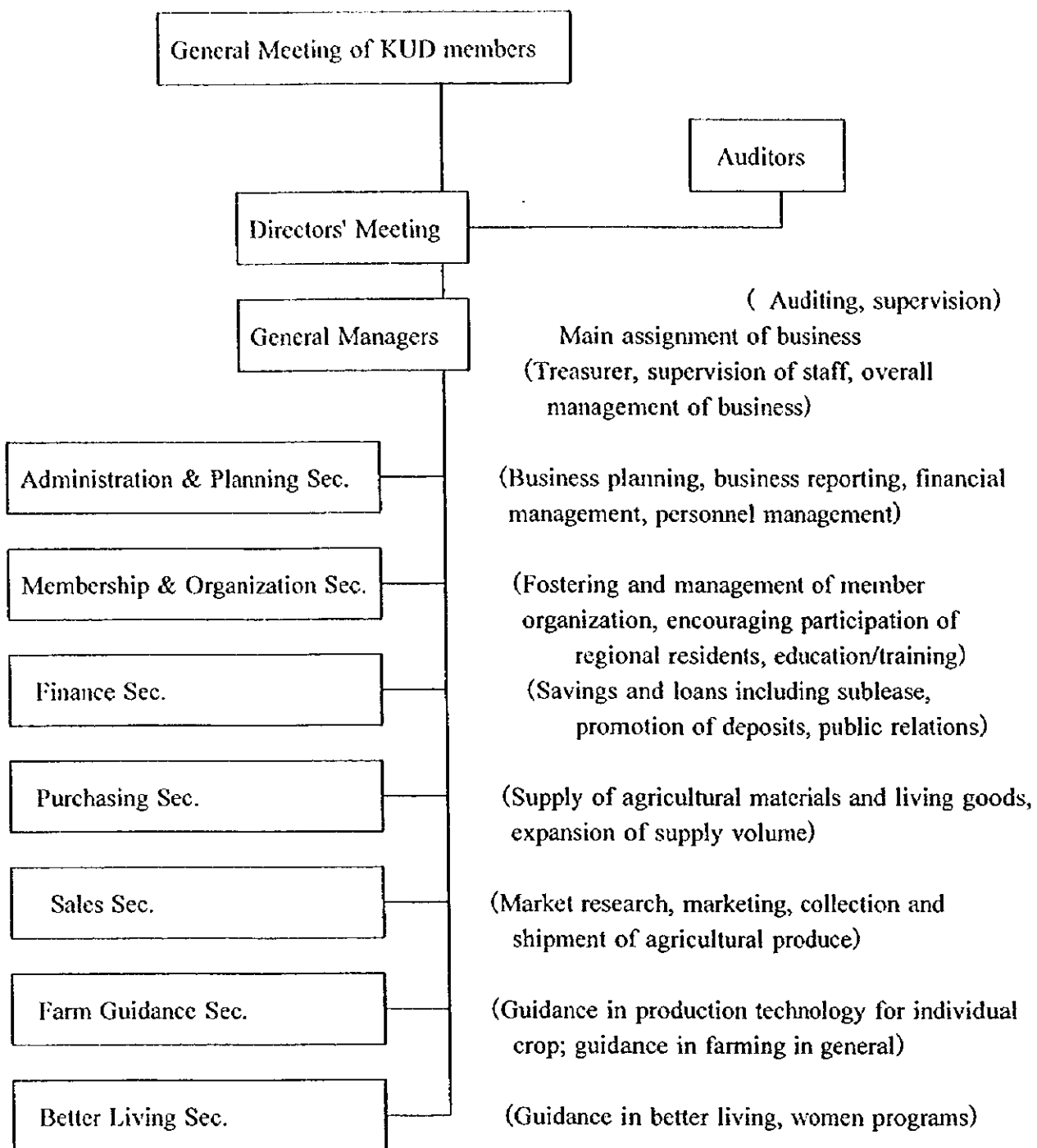
(e) According to a survey on the farmers, many of them want to join KUD and benefit from its services.

We want to show hereunder the path for KUD to develop as the service center of the agrarian community utilizing its advantages, and resolving its present problems, and explain strategies to reach the target.

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

As for the path of development of KUD, we define the present as its first stage. And assuming two stages in the following development process, we visualize the organization and management model at the time when the target is reached as shown below (Figure 3-2-1).

(Fig. 3.2.1) Targeted Organization and Management Model of KUD



When it has reached the target, KUD will comprise following sections:

Administrative and Planning Section ;

Membership & Organization Section which is in charge of encouraging the participation of regional residents, reinforcing and stabilizing KUD organization by means of education and training programs and organizing the production forum life-improvement activities ;

Finance Section in charge of savings and loan business to beef up its credit business ;

Purchasing Section which is centered on supply of production materials of agriculture and living goods ;

Sales Section engaged in the collection and joint selling of agricultural produce aiming at expansion of dealing items ;

Farm Guidance Section in charge of providing guidance in farming expertise for farmers ;

Better Living Guidance Section in charge of providing guidance in livelihood aiming at betterment of life of KUD members as well as the regional residents at large.

3.2.2. Development Stages of Business System and the Strategy

In order to materialize the organization and management system at the time of attainment of its target, we need to visualize the development stages up to the point. We divide the strategic development process into 3 stages of (I) the status quo, (II) the development stage, and (III) the goal, and describe hereunder the development process from the aspect of business system and recommend the measures which KUD and INKUD should take on their own (See Fig. 3-2-2).

The present stage is centered on the economic businesses which place too much emphasis on rice and fertilizer. The credit business is weak as examined above. In order to rectify the present state of affairs and prepare for the subsequent development stage making the best of KUD development potential, several measures are required.

For instance, the farmers are pretty much interested in joining KUD. So to fulfil their wish, KUD should intensify its membership campaign before the farmers' wish is damped. And INKUD should assist KUD's broader publicity, make market research on agricultural produce, and foster the leaders of education and training.

When KUD enters into (II) Development Stage (about 10 years are anticipated before the systems of the Development Stage are accomplished) , its business activities will be noticeably amplified:

In parallel with expansion of the dealing items of the purchasing, sales and credit businesses and enlargement of the whole mechanism, purchasing of daily commodities to meet the needs of the residents, replenishment of credit business for the non-farmers, supporting cooking schools, guidance in improvement of the residents' nourishment, and health care activities such as group physical examination will be newly launched. Facilities and equipment to support replenishment of

purchasing and sales business will be remarkably improved.

In order to stabilize and strengthen KUD activities in this stage and pave the way to the next stage, extensive and thoroughgoing assistance from all quarters concerned is indispensable.

As a starter, KUD is required to do, on its own, organization of the regional residents, bracing-up of the membership organization, improvement of management and collection of credits, savings campaign, sponsoring communal talk-ins, education for the officers and enlightenment of regional women to participate in KUD activities.

(Fig. 3. 2. 2) Anticipated development stages of KUD and necessary measures

I. At present

(1) Direction of organizational development

Services for farmers	Services for regional residents
Purchasing business (inclined to fertilizers)	
Sales business (inclined to rice)	
	Credit business (weak)
Guidance in farming (insufficient)	

(2) Measures needed for development

KUD	PUSKUD and others
Raise participation ratio	P.R. activities
Secure operating funds	Back up credit standing
Sales with profit	Broaden the selling area
Encourage deposits	Market research
Educate leaders	Foster instructors

II. Development Stage (about 10 years for fulfillment of schedule)

(1) Direction of organizational development

Services for farmers	Services for regional residents
Purchasing business Fertilizers, agricultural chemicals, small machines, seeds, etc.	
Purchase of living goods such as clothing, groceries, etc.	
Sales business Rice, livestock and dairy products, vegetables, fruits (raise collection rate)	
Credit business Enhance absorption of idle funds and lending capability	
Guidance in farming Replenish instruction leaders	
Better Living guidance operation Cooking schools, improving nourishment, group medical check-up	
Education business Enhancement of education and training of staff members	

(2) Measures needed for development

KUD	PUSKUD and others
1. Organizing regional residents	1. Development of co-op merchandise
2. Bracing-up of membership organization	2. Production of P.R. videos
3. Streamlining the access to market	3. Education to improve the auditing ability
4. Application of preferential interest rates	4. Reinforce broader-area marketing
5. Practical training on management and collection of credits	5. Dispatch reinforcing staff
6. Savings campaign to secure own capital	6. Education in quality control
7. Appointment of better living leaders	7. Bringing up the better living leaders
8. Sponsoring community Discussion (or Group Discussion)	8. Replenish the Education Center
9. P.R. activities aided by TV	9. Supply of operation funds to KUD
10. Modernization of personnel management	10. Assistance through launching broader-area business
11. Education for the officers	11. Launching campaign for the improvement of social status of women
12. Encouraging participation of women	12. Preparing plans for merger

III Goal (about 15 years anticipated from fulfillment of the Development Stage to reach the goal)

(1) Direction of organizational development

Services for farmers	Services for regional residents
Purchasing business Fertilizers, agricultural chemicals, large and medium machines, seeds, transportation vehicles	
	Purchase of living goods clothing, groceries, daily necessities
Sales business Rice, livestock and dairy products, vegetables, fruits, raw materials for processing	In-store selling
Credit business (services at main and branch offices) time deposit, overdraft, various types of loans (for agricultural use or for living)	
Guidance in farming Grade-up in guidance techniques	
Better living programs Cooking schools, improving nourishment, group physical examination, culture schools	
Processing business	Sales of processed products
Transportation business Independent shipment of agricultural produce	

(2) Measures needed for development

KUD	PUSKUD and others
1. Replenishment of facilities and equipment	1. Construction of facilities for common use
2. Computerizing of management	2. Establishment of agricultural machinery bank
3. Establishment of staff organization and modernization of personnel management	3. Intermediate business of the lease of farmland
4. Introduction of female officers	4. Personnel interchange with KUD
5. Promotion of merger	5. Take in excess funds of KUD
6. Business cooperation with private companies	6. Assistance to KUD's transportation business
7. Self-support of individual business organization	7. Granting long-term loans to KUD
8. Impartial distribution of profits and accumulation of internal reserve	8. Unification of the grading standards of agricultural produce
9. Introduction of the Meeting of Representatives of Members	9. Preparation of the guideline for the commercial enterprises by KUD, and its diffusion
10. Diversification of the membership organization	10. Construction of processing facilities
11. Deployment of branch shop network	11. Providing KUD with information from its demand research
12. Introduction of ATM	

Measures which will be taken by PUSKUD (and the like) include development of CO-OP merchandise which will become the standardized goods when KUD purchases living goods, production of videos publicizing KUD, broad-area marketing operation, supply of operating funds to KUD, preparation of merger plans of KUD to enable expansion of the enterprise size, as well as advice and guidance in execution of merger.

The participation ratio of the regional residents at the end of the Development Stage is expected to have made an amazing leap from 10% in average at present to nearly 60%. As some of KUD already have participation ratio around 18% at present, above target is not unattainable when above manifold measures are implemented.

During the finishing stage which we call the III Stage (reaching the target will take about 15 years after the end of the Development Stage), replenishment of KUD business structure will be almost completed.

During this stage, in the wake of the achievement during the Second Stage, the Purchase Business sector will start dealing in large and medium agricultural machines and various types of transportation vehicles. In the living goods purchasing segment, daily commodities will be added

to become the core living store for the regional residents. The Sales Business sector will deal in the agricultural raw materials for the processing industry, and retail sales of the local special products aiming at expanding local consumption of the same. In the Credit Business, branch offices will be reinforced, time deposit will be set up, overdraft system will be introduced to enable flexible payment of agricultural and livelihood funds, and ATM will be installed in the shops. Better Living Guidance sector will start such new services as the family planning, improvement of diet, legal and tax guidance.

In addition, KUD will launch, directly or in the form of affiliated enterprise, the processing business using agricultural raw materials which are locally produced. The processed goods will be sold within and outside of the concerned region. And at the same time, it will contribute to the economic wellbeing of the region through creation of jobs in the processing facilities for the residents. During this stage, independent transportation business will be established to ship the agricultural produce to the market. Shipment of agricultural produce to distant districts costs much. Independent transporting business will help increase the net profit of the farmers.

In order to complete and secure the final stage, various effective measures and assistance are necessary.

At first, KUD should try to solve the problems which have been left unfinished from the II stage, such as establishment of computerized management of business and information, review of the staff organization and modernization of personnel management, introduction of female officers to set the management open to the community, reduction of operating costs by means of business cooperation with the local private companies, and deployment of branch office network.

PUSKUD and other upper bodies should extend assistance to KUD in such manners as: construction of large-scale facilities which will be jointly utilized by more than one KUD, establishment of an agricultural machinery bank which facilitates joint utilization of agricultural machines for the purpose of reducing farming costs, introduction of the lease system of farmland aiming at enlargement of the operation scale of farming, collection and furnishing of market information to KUD. The participation ratio in the III stage after practicing above measures is expected at 70-80%.

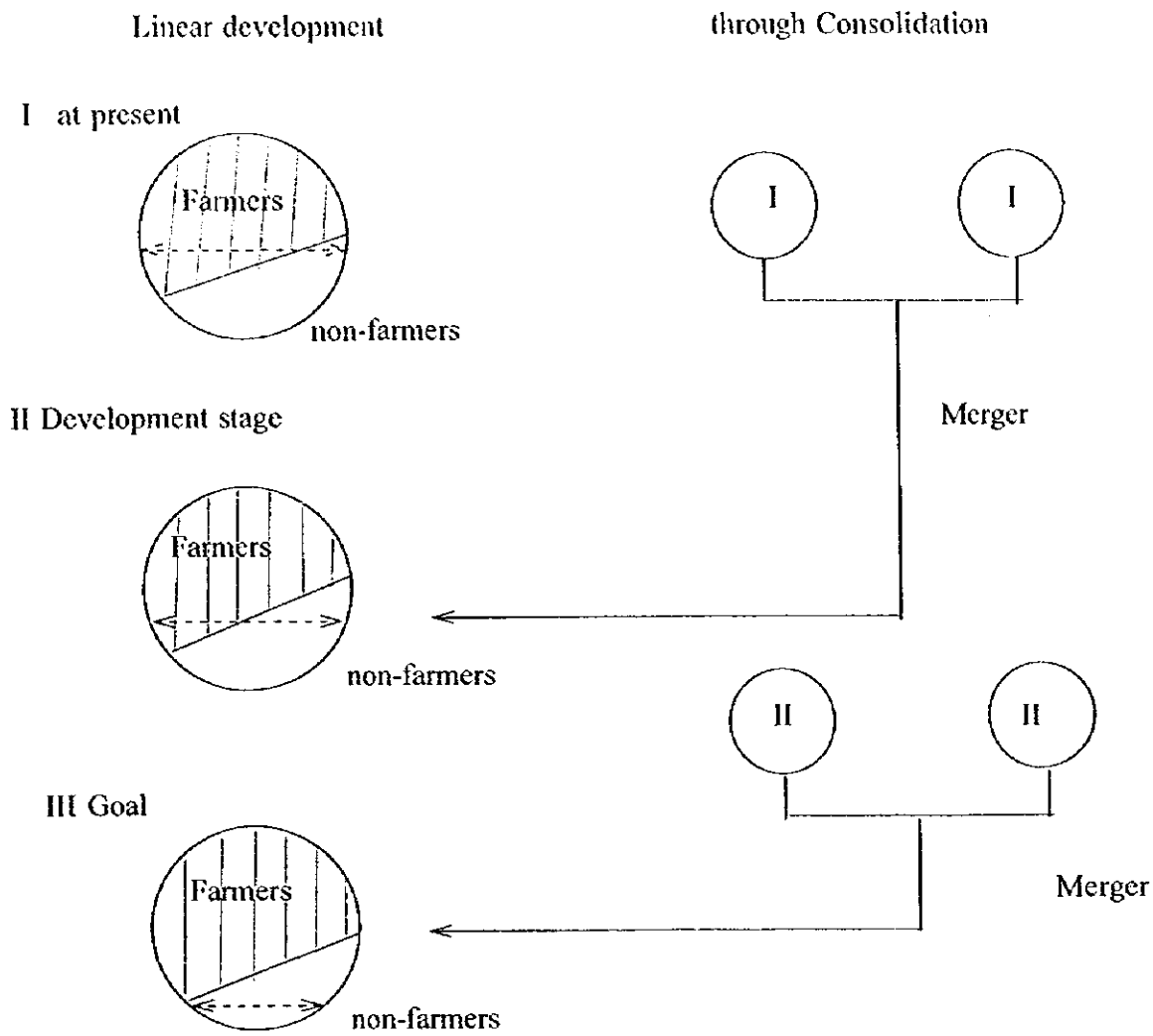
However, for the increment of the participation ratio through above development stages, two patterns of development are assumed (See Fig. 3.2.3).

One is a linear course where one KUD gradually expands on its own through I, II, and III stages. During following the path, the participation ratio (area above the arrow-tipped dotted line) will eventually increase regardless farmers or non-farmers.

Another pattern of development involves consolidation of several KUDs. In this case, there may be, on the one hand, merger between KUD in the same stages (I or II) and form a KUD in II or III stages. And, on the other, merger between KUDs in the first stage and in the second stage advancing into the third stage.

There is no uniform standard to tell which way to take. It is up to each KUD's judgement of its geographical, organizational, managerial, and constitutional conditions. However, above models are useful in understanding the process of development of KUD.

(Fig. 3.2.3) Development Stages of KUD and the Regional Community



(Explanation)

Right-upward solid line shows partition line (ratio) between the farmers and non-farmers
 Area above the arrow-tipped dotted line shows participation ratio.

3.2.3 Agricultural Development and How KUD Should Operate

(1) Establishment of a Rice Self-Sufficiency System and KUD

1) Rice Self-Sufficiency and KUD

Since independence, the greatest task faced by Indonesia's agricultural administration has been to achieve self-sufficiency in the supply of rice. From the perspective of agricultural administration in accordance with this task, KUD were established together with BUUD (Badan Usaha Unit Desa/Village Unit Business Agency) in 1973 under the Presidential Instruction No. 4 while being linked with BIMAS (Bimbingan Massal/Mass Guidance Programme) for the purpose of attaining this sufficiency in the supply of rice.

Since self-sufficiency in the supply of rice in Indonesia was established as an objective in the 1st Five-Year Economic Plan, which began in 1969, this objective was maintained in the 2nd and 3rd Plans and finally accomplished during the period of the 4th Five-Year Plan under the "Green Revolution". The achievement of rice self-sufficiency can be mainly attributed to the diffusion of high-yielding types of rice and the use of fertilizer as well as the provision of low-interest finance to farmers.

During this period, KUD generally acted as intermediate organizations that pursued the policy of rice self-sufficiency at the village level by being in charge of selling rice and handling chemical fertilizer provided by the government. At the same time, they assisted in rice polishing, acted as an intermediary for government finance, and grew and expanded thanks to various forms of support. The role of the KUD in establishing a system of rice self-sufficiency through such economic activities is one that deserves to be praised.

2) Maintaining a Rice Self-Sufficiency System and KUD

Since the 1990s, demand for rice has again become unstable. Based on the notion of gradual self-sufficiency in the supply of rice, some rice has been imported when production is insufficient and rice has been exported when a surplus has arisen. However, a severe rice shortage occurred from 1994, forcing the country to import more than 2 million tons of rice in 1995. Supply-demand conditions for rice have become extremely tight because of population growth, increased rice consumption, climatic problems such as drought and lower production caused by a high incidence of pests. In recent years, as well, yields per plant and production volume have remained stagnant.

In order to reorganize the rice self-sufficiency system, it is essential to expand the size of rice land

and increase production volume by raising crop yields. The former is particularly necessary on the outer islands while the latter is necessary on the island of Java. Moreover, there is an urgent necessity to establish a rice crop production system that can cope with climatic changes and the incidence of pests. Providing rice crop production infrastructure is the government's role but based on establishing the foundation for such infrastructure, it is the role of the KUD, which are economic organizations at the village level, to encourage the desire of farmers to grow rice and to create organizations aimed at increasing production and improving incomes. In terms of creating the motivation to increase rice production, it is important to try to boost farmers' incomes by selling rice. To this end, it is vital for KUD to establish and implement strategies for collecting large quantities of rice distributed in a system based on family relations (estimated to account for 70% of all production volume), selling it at a profit on the market, and returning the profits to the rice farmers. Rice collected by KUD at present is estimated to account for roughly 7% of all rice production and it is sold to BULOG (Badan Urusan Logistik/National Food Agency) and the wholesale market. In terms of these collection and sales channels, increasing sales to the wholesale market could invigorate KUD rice business operations as well as have an impact on production and sales by farmers.

(2) The Promotion of Regional Agriculture and KUD

The aim of agricultural policies since the 1980s has shifted from simply increasing food production to improving incomes. The former aim was part of efforts to expand the economy through "the development of the two areas of agriculture and industry, the fair distribution of income, and the expansion of employment opportunities" (4th Five-Year Plan). The role of KUD will also change again in accordance with this policy. In other words, under the Presidential Instruction No. 4 of 1984, KUD are required to maintain stable self-sufficiency in the supply of food and to fulfill the role of service centers for villages through domestic development. In addition, the following tasks have been designated.

- a. The promotion of agriculture, forestry and fisheries as well as contributions to plantations and agroindustry
- b. The provision of essentials (food, clothing and shelter) for villages
- c. The promotion of financing and savings, transportation, electrification, construction, etc.
- d. The promotion of handicrafts and cottage industries

For KUD to develop the above kinds of businesses, it is vital for them to grow from simply being sub-contracted organizations that implement policies to independent regional economic organizations.

To this end, the previously mentioned Presidential Instruction No. 4 has designated the following

policies as necessary for "the promotion and development of KUD".

Stage 1 The government will provide management and capital for administrative guidance and diffusion of KUD operations as well as infrastructure assistance.

Stage 2 The development of KUD will involve the improvement of KUD capabilities and the reinforcement of their structure through the fulfillment of cooperative members' basic needs, the promotion of autonomy, and efforts to increase the participation of members at the grass roots level.

Stage 3 KUD will grow into strong, autonomous regional economic organizations.

Under the 6th Five-Year Development Plan with a target year of 1999, the following kinds of items were specified as new agricultural policies to be carried out, and the government policy related to KUD is implemented to achieve these items.

- a. To establish self-sufficiency in food in terms of both quantity and quality through the use of new technology and capital.
- b. To create an efficient distribution system (including KUD) and provide raw materials for agribusinesses.
- c. To increase employment opportunities in rural areas, to enhance labor capability and productivity, and to eliminate rural poverty.

(Other policies included correcting regional disparities, developing Eastern Indonesia, and the conservation of water resources and agricultural land.)

For KUD to meet such expectations concerning agricultural development and promotion, it is essential that they act to promote regional agriculture by providing adequate relevant functions and reinforcing these functions.

(3) The Direction of Agricultural Development and KUD

KUD should develop and promote regional agriculture that matches market needs while attempting to market agricultural produce including rice. For this purpose, each KUD should determine the core items that will become the focus of production and sales, present typical farming methods to farmer cooperative members and provide full guidance in the selection of appropriate agricultural businesses. In addition, KUD must establish a consistent system ranging from production to sales. The following criteria apply.

a. There are limits on farming improvements and technological innovation for small, individual farmer units and so attempts should be made to encourage group organization. (Sharing of machinery and facilities, etc.)

b. Farmers' incomes should be improved through the establishment of rice plus something else farming management. To achieve this, farming on a larger scale should be promoted by growing collectively parauija as a secondary crop and sales channels should be established. In addition, it will be necessary to use paddy fields for many purposes.

c. Attempts should be made to respond to changes in food consumption and demand by creating production areas for vegetables, fruit and livestock farming. Efforts should also be made to ensure uniform quality and standards and for KUD to engage in joint marketing activities.

d. To create production areas for items with high marketability, a farming guidance system should be created based on KUD that are able to manage all processes from production to sales in an integrated manner. For the establishment of this system, it is necessary for KUD to keep close collaboration with PPL in the field of technical guidance and dissemination in connection with the process of cultivation. And when PPL and KUD take same strategy, division of work between PPL and farm guidance staff of KUD will be determined.

e. Products and standards should be unified as well as cultivation and livestock raising methods while producing area brands should be established. In this case, for some production processes, consideration should be given to joint cultivation and joint livestock farming by cooperative members as well as KUD directly taking charge of one business process (raising seedlings, etc.).

f. In order to foster highly competitive producing areas, producer organizations should be formed on the basis of type of produce. These will need to be organized as the producer sections of KUD. It would be desirable for each of these sections to provide farming guidance to KUD. KUD should act as the secretariat to support the voluntary activities (technical training, marketing training, etc.) of producer sections.

g. In order for KUD to act as the control tower for the above kinds of agricultural production, KUD business capabilities should be strengthened while a system should be established to provide funds, materials and guidance in an integrated way with the focus on facilities, which are the base for agricultural production.

(4) Agricultural Development and Promotion functions that KUD should Possess

For KUD to be the nucleus of regional agricultural development and promotion, they will need to have adequate functions centered on farming guidance and these functions will need to be reinforced, as follows.

A. Establishment of Adequate Guidance and Information Functions and their Reinforcement

A-1 Production Technology Guidance Function

In this regard, joint group operations are being developed under the INSUS Program of Indonesia's BIMAS and they are contributing to an improvement in productivity. From hereon, it is necessary to increase yield by further promotion of group farming by means of joint farming works based on the suitable labour power utilization plan. It would be preferable for KUD to employ advisers at their own expense but when this is impossible for financial reasons, exemplary farmers for particular agricultural businesses could be asked to act as advisers in each Desa. In addition, they should maintain links with the existing extension promotion system and extension officers.

A-2 Management Consulting Function

Typical farming methods that suit criteria such as the manpower of the cooperative members and the producing land should be presented and this kind of management should be cultivated. The ability to handle usual management consultation is also necessary.

A-3 Farming Information Provision Function

It is important to provide farming information that matches cooperative members' needs, including changes in the weather, the incidence of pests and market price fluctuations. To achieve this, it would be desirable to set up a symposium in each Desa and a training committee for all KUD as well as to publish an information bulletin, set up notice boards, and so forth.

A-4 Choosing the Future Course of Regional Agriculture

KUD which play leading role must have regional agricultural promotion plans. In making the plans, it is necessary to keep collaboration and cooperation with the government and other education/guidance institutions for agriculture and rural development. As far as possible, these plans should involve the participation of core members and they need to be linked with the farming plans of individual members. In addition, KUD need to create and implement single-year sales, purchasing and other business plans in accordance with these long-term (5 years to 10 years) plans.

B. Establishment of an Adequate Production Organization Function and its Reinforcement

B-1 Cultivation of Producer Organizations for Particular Businesses

Apart from producer organizations (e.g., Kelompok Tani) based on local communities such as Desa, it is necessary to organize producers (organize them into groups with the same aims) by type of produce by going beyond the boundaries of local communities and they should take responsibility for production and sales. Farming advisers at KUD should must act as organizers for this purpose.

B-2 Fostering of Youth and Women's Group

In order to raise the organization rate of KUD and strengthen their foundations, it would be desirable to concentrate and organize young cooperative members. Future KUD leaders could also be formed through the activities of such youth organizations.

According to the 1995 KUD census, the cooperative membership rate of women is 21%, or around 280 women per KUD. These women cooperative members should therefore organize women's sections and try to organize the purchase of daily necessities through KUD. Furthermore, the promotion of agricultural product processing, various subsidiary businesses and village industries by women's sections would activate KUD. It would also be necessary to actively train these women's activities leaders as directors of KUD.

C. Reinforcing the Establishment of Jointly Used Facilities

C-1 Setting Up Shared Facilities and the Establishment of a Management System

To overcome the restraints of small-scale individual management and strengthen competitiveness, it is vital to create an integrated system ranging from everyday life to crop sales, as well as to introduce joint marketing, joint purchasing and the joint use of facilities. Many KUD have rice-related facilities such as rice polishing equipment and drying areas but there are numerous problems in terms of efficiency and quality control.

Creating uniform standards and consistent quality is the first step towards meeting market needs and guidance needs to be strengthened to achieve this. Assuming that sales will be carried out jointly, KUD facilities could be used jointly by cooperative members from several KUD, usage charges could be levied from sales proceeds and facility management could be made more efficient. In the case of livestock raising, fodder production facilities could be set up and producer organizations formed based on the principle of the joint purchasing of this fodder while standards could be unified and quality made uniform. It would also be possible to charge for fodder and

collect various commissions through joint sales.

C-2 Establishment of a System for Sharing the Use of Machinery

It is necessary to modernize the field of rice growing by gradually promoting and streamlining the system for mechanization of small-and medium-scale farm machinery. Together with this, diversification of rural agriculture should be aimed by promoting rice plus some other crops.

D. Establishment of an Adequate Agricultural Funding Function and Its Reinforcement

While proceeding to establish credit businesses, providing sufficient loans to finance farming by cooperative members is crucial for the invigoration of regional agriculture. At the same time, this will provide an important opportunity for farming guidance and financing needs to be provided in accordance with KUD farming guidance objectives, including the formulation and implementation of farming plans by cooperative members and the consignment of sales to KUD.

Furthermore, KUD should provide positive support to cooperative members and cooperative member groups who are keen to promote enterprises such as processing businesses. For this purpose, it would be desirable to train and appoint experts at KUD who can provide guidance in areas ranging from business promotion financing to production and sales.

E. Establishment of an Adequate Production Materials Purchasing Function and Its Reinforcement

F. Establishment of an Adequate Product Sales Function and Its Reinforcement

F-1 Establishment of Adequate Product Marketing and Its Reinforcement (Collection / Sales Consignment and Settlement System)

There is a need for KUD to set up a joint sales consignment system. On this basis, KUD and KUD confederated organizations will establish the foundations for large-scale collection and sales operations. Assuming that transportation capability is strengthened, sales need to be targeted at large consumer regions rather than just local markets and sales channels need to be established. Above all, the focus of sales activities from hereon should be changed to products with higher added value. To accomplish this, it is important to provide a farming system and facilities that raise high-value-added productivity, to improve quality, to reinforce processing and transportation capabilities and to establish sales channels. Moreover, amid the trend toward liberalization seen in WTO agricultural agreements, there should be a focus on improving competitiveness with regard to the importation of agricultural and livestock products as well as the promotion of exports.

F-2 Agricultural Product Processing and Sales Functions

Agricultural processing has become more important in terms of its role in adjusting the supply-demand balance for products and guaranteeing employment. Consequently, it would be a good idea to create a KUD version of the "One Village, One Product Campaign."

G. Establishment of an Adequate Function for Dealing with Government Administration and Its Reinforcement

It is important for KUD and KUD confederated organizations to make positive proposals concerning government assistance needed by KUD and government policies while strengthening links with the administration and developing independence from government authorities. For this purpose, it is important to organize KUD on a nationwide basis and concentrate their intentions.

3.3 Necessary Political Support to KUD

3.3.1 By Development Stages

In order to proceed from Stage I to Stage II and to proceed from Stage II to reach the arrival point of Stage III, the above-mentioned autonomous measures by KUD will be necessary and the Federation will need to adopt measures, which will supplement and guide KUD operations.

However, there are limits as to how far just this policy will attain the arrival point, which is the objective. In order to strengthen KUD and enable them to develop, it is essential for the government to provide multifaceted policy support to reinforce measures adopted by KUD, the Federation and others and make them effective (see Figure 3-3-1).

For each development stage below, we propose concrete assistance by the government, which is needed to invigorate KUD.

Stage I (At Present)

At this stage, what is needed in terms of assistance by government bodies is to lay the foundations for KUD organization and management and their business operations. The strategic role of this policy is to overcome weak points and problems that affect KUD and encourage a move toward the next development stage.

With the above aim in mind, we would like to list the following specific assistance measures.

* Assistance with public relations activities

Physical support should be provided for public relations activities by KUD with the aim of ensuring sufficient agreement of wills between cooperative members and cooperatives and an

operational expansion (increase in membership rate) of KUD.

* Financial assistance

In order to strengthen the credit standing of KUD that have weak capacity to raise finance, low interest finance and support (supply of financial resources and subsidized interest payments) should be provided to KUD.

* Formulation of facility establishment plans

Figure 3.3.1 Government Measures by KUD Development Stage (Proposed Measures)

I [Present]

- * Assistance with creation of PR newsletter
- * Establishment of low interest institutional funds for KUD (government guarantee)
- * Formulation of plans to expand KUD facilities
- * Creation of model KUD

II [Development phase]

- * Assistance with creation of educational materials
- * Establishment of credit guarantee system
- * Creation of KUD sublease financing system by government financial institutions
- * Expansion of overseas trainee system for KUD employees
- * Development of national PR activities by cooperatives
- * Expansion of model KUD
- * Reinforcement of assistance by Federation
- * Dispatch of employees to educational guidance enterprises
- * Assistance with group medical examinations
- * Assistance with projects based on cooperation between industry and the academic world to improve agricultural technology
- * Assistance with promotion of mergers

III [Arrival point]

- * Subsidizing of interest rate differences with market interest rates (subsidized interest payments)
- * Preferential deposit system for surplus KUD funds
- * Financial assistance with establishment of jointly used facilities
- * Constant educational training designed to improve the quality of human resources
- * Preferential tax measures for KUD profit-making businesses and associated companies
- * Promotion of mergers over wide areas

A nationwide facility expansion plan (5 years or so will be necessary) should be formulated to improve KUD agricultural-related facilities and office functions.

* Establishment of model KUD

Turning good KUD into models and promoting their diffusion (presentation of model KUD organization and management and business operations and diffusion activities)

* Formulation of regulations on financial dealings

Regulations governing financial dealings (similar to the Prescribed Standards for Financial Dealings in Japan) should be formulated to ensure that KUD financial dealings are carried out appropriately.

Stage II (Development Phase)

The measures by government organizations in this stage which are aimed at ensuring the development of KUD mainly involve expectations of expansion and development among present KUD and attempts to ensure their stability. Moreover, this stage is intended to promote development leading to the arrival point of Stage III, the final objective.

* Assistance with creation of educational materials

Assistance should be provided with the creation of educational materials to ensure the effective education of KUD directors and cooperative members, who form the core of KUD.

* Creation and diffusion of manuals

* Establishment of credit guarantee body

As Indonesia is a rural society where financial markets are still in the stage of developing, a public credit guarantee organization should be established to secure and guarantee loans on behalf of those that require funds but have weak creditworthiness.

* Supply of funds to KUD

Working capital and sublease financing needs to be established and expanded to compensate for the weakness of KUD equity capital.

* Expansion of overseas training

Overseas training measures for KUD directors should be formulated and implemented for the purpose of learning about cooperatives in developed countries.

* Assistance by Federation

Assistance measures aimed at expanding the functions of the Federation, which supplements KUD, should be reinforced.

* Cultivation and introduction of new technology

Joint experimental research projects between industry and the academic world should be promoted and supported to ensure the importation and establishment of new agricultural technology and pest prevention technology.

* Promotion of mergers between KUD

Support should be provided and legislation created to encourage mergers between weaker KUD (formulation of a KUD merger assistance law, etc.).

* Coordination of different producing areas

A wholesale market should be created to ensure suitable price formation for agricultural produce and to adjust differences between producing areas.

Stage III (Arrival Point)

The government measures in this stage are for the purpose of reaching the arrival point and basically should contribute to the stability and further development of KUD.

* Measures to reduce interest on KUD funds

Interest subsidization measures should be introduced to increase interest rates on KUD savings deposits and to reduce them on loans.

* Improvement in training of KUD directors

Assistance should be provided to improve the quality of educational training for KUD directors, including full-time ones and core staff.

* Support for KUD processing enterprises

Preferential tax measures should be introduced for processing businesses and so forth conducted by KUD.

* Promotion of KUD mergers

Mergers between KUD over a wide area should be encouraged to expand the size of KUD that have not yet merged and to stabilize and strengthen the organization and management and business operations of KUD that have reached a certain size.

3.3.2. Political Support Relating to Education, Training and Finance

(1) Political Support Relating to Training

1) Previous Establishment of Post-Harvest Training Center and the Need for Expansion and Reinforcement

Since Indonesia achieved self-sufficiency in the supply of rice in 1984, the Japanese government has responded to the Indonesian government's desire to improve rice polishing capability and the quality of rice by providing Overseas Economic Cooperation Fund (OECF) loans as well as assistance to increase food production and financial grants. As a result, Indonesia has introduced about 1,800 rice milling units (RMUs) and a Post-Harvest Training Center has been set up in Chibiton, West Java Province, which provides training aimed at improving the rice polishing skills

of KUD employees that use these RMUs as well as enhancing their skills to maintain these machines.

One of the major functions of KUD is to collect rice from farmers and to sell it to the National Food Agency (BULOG). In 1993, 32.7 million tons of rice (polished rice basis) was produced and rice consumption per capita amounted to 173 kilograms per year. In 1992, KUD collected and sold 1.9 million tons of rice (19% of the total amount distributed) while BULOG bought 1.8 million tons of rice, of which 95% was purchased from KUD.

In Indonesia, as of 1994, private-sector operators and KUD had introduced a total of 3,176 large RMUs and 26,940 small RMUs, of which KUD owned approximately 2,800 units.

At present, the training center is operated by cooperatives and small enterprises, and in fiscal 1994 and 1995, it provided training for 876 and 770 KUD-related persons, respectively. However, in terms of training facilities, several improvements are currently required because there are no warehouses for storing unhulled rice, there is a lack of unhulled rice for training in rice hulling skills, and there is a shortage of accommodation facilities for trainees. Moreover, under the 6th National Development Five-Year Plan, the diversification of agriculture is a priority, the role of KUD is emphasized, and in the case of rice polishing enterprises, KUD are expected to play an important role in ensuring stable rice supply.

From hereon, it would be desirable for KUD in their capacity as technological training centers aimed at contributing to the improvement of post-harvest technology, the upgrading of rice quality, agricultural diversification, and the promotion of agricultural production and processing to fulfill the functions below.

- a. Training plans and facilities related to post harvest, including grains other than rice, should be expanded as well as agricultural production and processing facilities for horticultural produce (vegetables and fruit).
- b. Accommodation facilities for trainees should be expanded in order to accept more employees from KUD and enable training to be provided for cooperative members.
- c. Agricultural warehouses should be established, sufficient unhulled rice should be secured as training materials, and training in warehousing technology should be started.
- d. Competent educators should be secured, information should be provided to KUD by creating domestic information networks, publishing regular bulletins, and so forth, and educators should be dispatched to provide training at local KUD.

c. Besides post-harvest rice growing technology, research departments and inspection departments concerned with agricultural production and processing, packaging, production materials handled by KUD, residual agrochemicals, and plant protection technology should be established. Researchers (educators) should also be secured as a means of transmitting technical information to KUD.

2) Support for formation of the fund for education activities

The cooperative law of 1992 prescribes that KUD is obliged to reserve 5% of the surplus fund of the fiscal year for the purpose of education activities. At present, there are a few KUD which has reserved the fund for education. The incentives such as tax exemption measures shall be adopted for further encouraging precipitation of education fund in KUD. Also, KANDEPKOP in the district needs to extend thorough guidance and supervisions to KUD so that the fund would be used for education activities in KUD.

3) Promotion of education and training activities by the government institutions and cooperatives organizations based on the division of function

The contents of division of function to be suggested are prescribed in this report at chapter 3, 3.4.2 (2) in the part of basic plan for strengthening of human resources development and guidance activities. The governmental assistance to secure budget for training expenses in BALATKOP and guidance to cooperative organizations to enable them to play anticipated functions would be necessary.

4) Implementation of overseas training for officers of DEPKOP, KANWILKOP and KANDEPKOP including PKL

In order to uplift capability of officers in charge of guidance to KUD, these officers are to be sent to foreign countries advanced in cooperative movement as a regular program.

(2) Policy to Support Credit Business of KUD

1) Preliminary Statement

The following presents draft general criteria for institutional lending to Village Unit Cooperatives (KUD) and on-lending to KUD members. It is meant to serve as a general guide for establishing standardized rules and regulations governing bank lending to KUD; and also provide a framework for establishing a channeling mechanism for domestic and/or internationally-sourced Revolving Financial-Intermediary Loan (REFIL) funds in support of KUD business development.

2) General Credit Policies

The fundamental credit policies to be observed within the institutional lending program for KUD shall include, but not be limited to, the following:

- (a) that all lending shall be consistent with sound lending and business principles;
- (b) that interest rates applied for KUD lending/on lending programs and KUD savings programs shall be consistent with existing financial market rate structure;
- (c) that borrower eligibility shall be based on sound credit factors;
- (d) that the lending system as a whole shall stress financial integrity, equity growth and profitability;
- (e) that diversified lending activities shall be pursued;
- (f) that an active program for membership savings shall be supported; and
- (g) that human resource development will be supported in order to enhance lending and savings activities and accelerate lending system institutional growth.

3) The types of financing

The types of financing programs for KUD and KUD members are:

(a) Agricultural Procurement and Storage (APS) Loans:

Supporting KUD procurement and storage of agricultural commodities and production supplies for periods of eighteen months or less;

(b) Farmer Agricultural Production (FAP) Loans:

Supporting agricultural production loans from banks to KUD for periods of 2 years or less in support of KUD on-lending to members for periods of 18 months or less;

(c) KUD Savings and Loan Unit (USP) Lines of Credit:

Supporting USP working capital requirements for KUD on-lending to members for periods of 5 years or less;

(d) General Working Capital (GWC) Lines of Credit:

Supporting diversified KUD business working capital requirements for periods of 3 years or less; and

(e) General Investment Capital (GIC) Loans:

Supporting KUD and KUD-member on-lending for facilities, transport, equipment and machineries investment capital requirements, for periods of 3-10 years.

4) Proposed Handling Banks and Authorized Lenders

Proposed handling banks, or intermediary financial institutions (IFIs), designated to administer

Revolving Financial-Intermediary Loan (REFIL) funds shall include: (1) Bank Umum Koperasi Indonesia (BUKOPIN); and (2) Bank Rakyat Indonesia (BRI). BUKOPIN and BRI have each established a strong track-record of performance in providing institutional lending to KUD and KUD members.

5) Borrowers Eligibility

Borrowers eligibility for Agricultural Procurement and Storage (APS) loans, General Working Capital (GWC) credit lines, and General Investment Capital (GIC) loans, shall be open to KUD who meet the following basic conditions:

(a) KUD shall be duly registered with the Ministry of Cooperatives and Small Enterprises Development;

(b) KUD shall have received official classification as Mandiri or Mandiri Inti from the Ministry of Cooperatives and Small Enterprises Development;

(c) KUD shall be licensed to operate a business by the appropriate local government authorities having territorial jurisdiction in the location(s) where KUD business activities are performed;

(d) KUD must follow business accounting, bookkeeping and financial reporting practices consistent with or exceeding the minimum standards as prescribed by the Ministry of Cooperatives and Small Enterprises Development; and

(e) KUD must present evidence of an external audit of its business operations completed, within one year prior to its application to borrow, by KJA or other duly accredited external audit service.

Borrower eligibility for Farmer Agricultural Production (FAP) loans, and KUD Savings and Loan (USP) credit lines, shall be open to individuals and groups of KUD members who met the following basic conditions:

- (f) KUD member must meet membership qualifications as prescribed by the KUD;
- (g) KUD member must meet age requirements as set by lender and his/her KUD to qualify for borrowing;
- (h) KUD member must be duly certified by his/her KUD to be a full-member in good standing;
- (i) KUD member must not be engaged in any business activity which directly competes with the business or services offered by his/her KUD;
- (j) KUD member must not have delinquent accounts with lender and his/her KUD; and
- (k) In the case where loans may be extended to groups (group lending), all members of the group must be members of the same KUD and must meet all basic conditions as outlined in (f) through (j), above.

6) Credit Requirement

Credit granted only after a careful analysis of credit factors:(e.g. Borrower Character, Loan Purpose/Term, Repay-ment Ability, Financial Condition, Operations, Economics)

7) Loan Purposes, Amount of Loan, Interest Rate and Term of loan

The above matters are stated in the table 3.2.2 .

8) Collateral Requirement

Recommended in use of REFIL funds supporting KUD lending program that a loan guarantee/collateral insurance program be established with the Cooperatives Financial Development Corporation, Perum PKK, for designated handling banks.

9) Service Fee and Other Charges

Banks may collect, in advance, a service fee per loan of up to 2% of original KUD loan principal and a collateral insurance/loan guarantee fee, through guarantor (e.g. Perum PKK), of up to 2% of loan principal.

10) Business Agreement/Certifications

For FAP Loans, a three-party Marketing Agreement for types of products financed should be executed between the sub-borrower (farmer or farmer group), the marketing agent (usually KUD), and bank/lending agent (KUD).

11) Lending and Savings Procedures

A detailed set of procedures must be written for each type of lending and savings activity supported by the KUD institutional lending program. General guidelines are presented here for loan releases, savings, and KUD on-lending under USP lines of credit.

12) Loan Monitoring and Supervision

It shall be the responsibility of the authorized lending institution to monitor and service KUD and KUD member lending activity on a routine and regular basis.

13) Loan Repayment

The repayment schedule will vary in terms of frequency and procedure between different loan programs. A variety of options should be discussed before a plan for loan repayment is finally determined. Once a policy is established, it should be subjected to periodic review and remain flexible to actual field operations.

14) Loan Guarantee/Insurance Program

Recommended that a general loan guarantee facility be established to cover types of lending covered under program.

Table 3.2.2 Loan Purposes, Terms, Rate of Interest & Maximum Amount

Types of Loans	Loan Purposes	Loan Term	Rate of Interest		Maximum Amount of Loans (million Rp.)
			for KUD	relending to member	
Short-term	APS (Agricultural Procurement & Storage)	not more than 18 months	14-18%	-	500
	PAP (Farmer Agricultural Production)	for KUD not more than 2 years relending to members not more than 18 months	(2-3% p.a. service charge is paid to KUD by lending banks.) 14-18%		(Estimated/Actual market value multiplied by fixed percentage) Fixed percentages: Foodcrops 50%, spices, coffee 40%, perishable crops 30%, livestock and poultry 40% of the appraised value of the stock existing at the time the loan is granted.
Medium and Long-Term	GWC (General Working Capital)	not more than 3 years	18-21%	-	250
	GIC (General Investment Capital)	not more than 10 years	18-21%	21-24%	1,000 relending to members (per one person) 20
	USP	for KUD not more than 5 years relending to members not more than 3 months	(supply of lending fund) 18%	30% Interest rate on savings 18-24%	Mandiri 50 Mandiri Inti relending to members (per one person) 100 1

3.4 Basic Plan for Activation of KUD in 7 Provinces

3.4.1 Selection of KUD for Study in 7 Provinces

The criteria for selection of the KUD for study in 7 provinces were specified as a result of discussions with the Department of Cooperatives and Small Enterprises Development (Depkop). The provincial offices of Depkop in the 7 provinces each selected 5 KUD on the basis of these criteria and the total of 35 KUD selected are shown in Table 3.4.1.1. In addition, an overview of the 35 KUD is provided in Table 3.4.1.2 while more detailed information is shown in the appendices.

<Criteria for Selection of the 35 KUD for Study>

- (1) The intended agro-ecosystem in the province determined by the Ministry of Agriculture
- (2) The possibilities in the province for diversification of agricultural production and the creation of higher value-added agricultural produce
- (3) In principle, KUD recognized as KUD Mandiri, Mandiri and Mandiri candidates as well as those with a good management base
- (4) In principle, 2 districts should be selected in 1 province, while 2 KUD should be selected in one district and 3 KUD in the other district.

3.4.2 Basic Plan for Activation of KUD in 7 Provinces

In the foregoing sections, KUD activities were analysed and evaluated, and the strategy for the activation of KUD was proposed. The most important aspects were increase of membership and expansion of business activities, reinforcement of education and training of members, officers and staff of KUD, strengthening of function of KUD act as the control tower for the agricultural production, in compliance with the development stage of KUD.

Based on these viewpoints, current situation was analysed, and evaluation of KUD in each of the 7 provinces was done. As all of these aspects listed above are aimed at the increase of KUD member's income, needs of farmers were analysed. Thus the Basic Plan for Activation for each of the 7 provinces was formulated and presented in the following sections. In addition to this, we found a number of common deterrent factors as well as common desire of farmers for the development of KUD. Specifically, low rate of membership, lack of necessary fund including compulsory and voluntary savings, and education fund on the part of KUD. From farmers side, they expect the KUD to give them more attractive services in order to increase their income. Therefore, in order to cope with these common tasks, "Common Basic Plan for 7 Provinces" is formulated and placed right after the individual plans.

3-4-1-1 List of 35 KUD

Province	District	KUD	Year, established	Category	Agro-ecosystem
West Java	Bandung	Tani Mukti	Feb.,1977	M	Highland area
		Walatra	July,1973	M	
		Pasir Jambu	July,1973	MI	
	Garut	Bayongbong	1973	MI	
		Cikajang	Dec.,1974	M	
South Sulawesi	Sidrup	Semangat	1970	M	Irrigated area
		Matutu	1962	M	
		Sipatuwo	1962	M	
	Luwu	Lamasi	1967	MI	
		Belopa	1982	M	
North Sumatra	Karo	Singalor Lau	Nov.,1974	M	Highland area
		Laubahing Simalem	1989	TDK	
	Simalungun	Citama	1980	MI	Irrigated area
		Naga Dolok	1974	CM	
		Mular Mulia	1974	M	
East Java	Kediri	Tani Jaya	1979	MI	Highland area
		Pagui	1973	M	
	Pasuruan	Budi Jaya	1973	M	Irrigated area
		Budi Makmur	1993	M	
		Satijam Jayate	1986	M	
Lampung	Lampung Utara	Kencana Jaya	Jan.,1975	MI	Lowland area
		Usaha Bersama	Oct.,1979	M	
		Karya Maju	May,1980	M	
	Lampung Tengah	Tri Widodo	May,1977	CM	Irrigated area
		Karya Tani	May,1980	M	
West Nusatenggara	Sumbawa	Karya Utan	1967	M	Lowland area
		Kita	1975	M	
		Pelita	Dec.,1978	M	
	Dompu	Doro Cumpa	Feb.,1973	MI	
		Ritam	1986	M	
South Kalimantan	Barito Kuala	Tungtung Pandang	1978	MI	Wetland area
		Tunas Karya	1984	M	
		Bima Sena	1983	M	
		Harapan Pertama	1995	CM	
		Hidup Baru	1992	M	

* Note: M:Mandiri MI:Mandiri Inti CM:Calon Mandiri TDK : not Mandiri

3.4.1.2 OUTLINE OF 35 KUD

KUD	Member/KUD	Staff/KUD *1	Agriculture status *2	Major facilities/KUD *3	Total business volume (million Rp)	SHU (million Rp)	Total asset amount (million Rp)	Voluntary saving (million Rp)	Total saving (million Rp)	Note
Tani Mukti	5,530	61(44)	D, H	O, R, F, R _s	1,964.0	40.8	3,024	47.1	127.8	
Walatra	4,360	26(21)	D, H	O, R _s , Tr, Mo	2,933.0	18.3	1,659.1	29.7		
Panis Jambu	5,862	110(104)	D, H, R	O, R, Mc, F, W, Tr, VCC	5,807.9	85.2	3,632.4	3.3	549.7	
Bawongbong	9,504	118(95)	D, H, R	O, Mc, F, MCC, Tr	6,207.1	101.5	5,423.4	218.0	532.7	
Cikajang	3,590	70(61)	D, H	O, Mc, F, R _s	3,003.8	102.3	3,003.8	249.0	306.5	
Semangat	2,192	8	R	O, R, D, R _s	1,377.8	3.3	821.8	4.0	5.0	
Matutu	3,551	49(10)	R, A, E	O, R, W, Tr, Mo, D, R _s	2,147.6	23.5	823.1	26.5	81.4	
Sipatavo	683	17(0)	R, P	O, R, W, Tr, C, H, R _s	720.6	2.4	372.3	11.3	20.2	
Lemasi	1,080	21(0)	R, E	O, R, R _s	2,506.9	5.9	3,085.4	0.2	13.0	
Belopa	830	44(34)	R, E, P	O, R, D, R _s	958.3	13.7	1,842.4	16.6	21.2	
Singkajau	1,441	8	R, P, R, E, A	O, R, C	1,827.3	8.1	733.4	0	11.9	
Laubuhing Simalem	128	1	R, P	W	7.69	0.98	6.6	3.01	5.4	
Citama	1,451	9	R	O, R, D, Tr, Mo, R _s	1,116.1	25.9	492.2	0.01	11.0	
Naga Dolok	170	1	R, E, R	O, W	0	0.01	149.9	0	1.21	
Munra Mulia	787	11	R	O, R, D	957.9	0.9	167.5	0	0.8	
Pani Jaya	11,290	327(50)	R, P, D, A	O, R, D, W, Tr, R _s	4,205.3	35.2	2,302.3	46.9	156.9	
Pagui	6,646	40(25)	R, E, P, H	O, R, D, W, Tr, R _s	1,313.0	13.6	1,706.1	3.4	73.0	
Budi Jaya	3,212	27(21)	R, E, P	O, R, D, W, Tr	549.6	7.1	681.2	0	17.1	
Budi Makmur	507	1	R, P, H, E	O, R _s	20.6	2.4	24.2	16.6	17.5	
Sativam Jayate	2,520	16(10)	H	O, W, Tr, R _s	1,163.7	11.4	522.1	7.7	13.0	
Kencana Jaya	1,200	31(3(98)	R, E, H	O, R, W, Mo, H, R _s , RCC	6,403.1	174.4	688.8	14.3	34.4	
Usaha Bersama	900	20(9)	R, P	O, R, W, Tr, Mo, R _s	1,036.2	4.1	123.8	0.4	3.2	
Karya Manu	814	10	R, P, R	O, W, Mo, Tr	450.1	5.6	39.2	13.3	24.9	
Tri Widodo	2,284	11	R, P	O, R, W, H, R _s	608.5	11.8	325.8	0	8.8	
Karya Tani	3,811	32(13)	R, P, R	O, R, D, H, Mo, R _s	4,022.3	172.5	177.0	7.9	21.6	
Karya Utan	1,376	10(8)	R, P, E	O, W, R	411.6	7.7	178.3	1.3	12.4	
Kita	527	9(6)	R, P	O, W, R, D	328.3	5.7	106.0	0.8	11.8	
Perita	1,300	14	R, P	O, W, R, D, R _s	455.6	1.5	131.9	0.3	11.0	
Doro Cumpa	1,856	14(12)	R, P, E	O, W, R, D, R _s	673.6	6.7	42.6	0.7	18.1	
Ritum	848	14(8)	R, P, E, A	O, W, R, Tr, R _s	112.8	3.9	127.7	0	10.8	
Tungtung Padang	2,025	36(13)	R, E, H	O, R, W, R _s	2,346.2	2.8	444.5	12.5	26.1	
Tunas Karya	300	7(6)	R, P	W, R _s , R	50.1	0.4	45.5	0	3.0	
Bima Sona	212	4	R, E		18.9	0.2	37.3	0.7	1.3	
Harapan Pertama	50	0	R	W, R _s	55.5	0	100.5	16.4	18.6	
Hidup Baru	152	4	R	W, R _s , M ₅	52.5	1.4	31.4	0	1.5	

Note #1: () : Number of permanent staff
 #2: Expansion of Agriculture status R: Paddy, F: Pajawja, H: Vegetable and fruits, S: Estate crops, D: Dairy, A: Animal Husbandry/Ascend dairy
 #3: Major facilities of KUD P: Office, R: RMU, W: Warehouse, D: Paddy drying area, T: Thresher, M: Motor boat
 C: Corn Grader/Shearer, Tr: Truck, Mo: Motor bike, F: Feed mixer
 R: Hand tractor, F: Ester pump, R_s: Retail shop, Mc: Milk cooling unit
 MCC: Milk collection center, VCC: Vegetable collection center, RCC: Rubber collection center

3.4.3 West Java Province

(1) Present Situation of KUD in West Java and its Evaluation

1) General Situation in West Java

West Java belongs to the "highland" type of agro-ecosystem. In the southern highlands large quantities of vegetables and fruit are produced for the markets in the large cities and production of cabbages, tomatoes, carrots, potatoes, cucumbers and aubergines is the highest in Indonesia. Production of bananas, rambutans and pineapples is equivalent to about one third of the national amount. The number of head of dairy cattle is the highest in the country but there is little fodder production and efficient fodder supply is needed. The northern irrigation region boasts the largest rice growing area in Indonesia as well as the nation's highest yield per plant.

2) Organization and Management

756 of the 759 KUD are Mandiri and nearly all KUD have attained the government's specified "criteria for autonomous KUD". The average number of cooperative members is 4,242, which is three times the national average, and the adult membership rate is 15.4%, also higher than the national average. As the main businesses conducted by KUD are dairy farming-related, most cooperative members are farmers. However, according to statistics we were able to obtain on both Bayongbon and Cikajan KUD, the farmer membership rate was 33.3% and 19.5%, respectively. Consequently, we believe there is plenty of room left to increase the number of KUD members. Directors' meetings are held very frequently and are held once a week at some KUD, while audits by auditors are held every three months. However, only 100 KUD are members of KJA (Koperasi Jasa Audit/National level audit of cooperatives) and only 24 KUD were audited by KJA in 1995. There are many KUD member dairy farmers who settle their accounts with KUD by cash.

3) Economic Business

The main business activity is the handling of fertilizer, which is a program supported by the government, and this accounts for 41-52% of total business volume. A large amount of milk is also handled and this business accounts for 70% of total business volume at some KUD. Average number of milk-cows owned by one farmer is only about 2. These small-scale farmers request KUD to expand this business activities for them. Although vegetables are not grown much at present, the members are asking KUD to deal with this business and requesting technical /farming assistance by KUD. They will become an important product in the future. According to a survey of farmers conducted at 3 KUD, dairy farming income accounted for 67% of their total income,

vegetable and fruit farming accounted for 27%, and rice farming income accounted for only 5%. In the case of livestock farming-related operations, KUD produced 70% of the fodder, which was made from wheat bran. Milk handled by GKSI (Gabungan Koperasi Susu Indonesia/Indonesian Union of Dairy Cooperatives) contributes to KUD milk-related businesses. Although KUD provide guidance in dairy farming, there is little cooperation with PUSKUD and there is a lack of farming guidance and technical training concerning other products.

4) Credit and Other Businesses

As regards voluntary savings, 3 of the 5 KUD we surveyed paid market interest rates while 1 KUD paid no interest. 2 KUD reported that they had no borrowings. KUD bear extremely little risk of loans becoming overdue but there are generally many overdue loans where only commission for managing and collecting loans is received. According to our farmer survey, 79% of cooperative members had completely repaid loans from KUD on the maturity date and 94% of cooperative members thought they had to repay their loans on the maturity date. Members of KUD have little access to short- and long-term credit necessary expand vegetable and dairy production.

The inability to borrow sufficient working capital and investment capital in West Java is a major impediment to business development but it is necessary to strengthen the management base and to reinforce owned capital, above all, savings deposits and capital, in order to gain greater access to bank finance. In addition, staff education mainly focuses on loan management and collection and promoting savings, so it is also important to produce manuals for this purpose.

As regards financial services other than loans conducted by KUD in West Java, 537 KUD levy public charges and 19 KUD are engaged in telephone service businesses.

5) Human Resource Development and Guidance Activities

None of the 5 KUD we surveyed had established departments in charge of these activities or appointed special staff responsible but they were cooperating with extension officers and others and engaged in providing both farming and educational guidance.

Farming guidance focused mainly on dairy farming and vegetable growing while educational guidance covered such areas as family planning, product knowledge, legal discussion, and cooking.

In West Java, about 10% of all KUD save money in educational funds. The amount of savings is generally low, with the ratio of educational fund savings to net surplus ranging from 1.25% to 5%. Areas where training will be required from hereon include credit business, marketing strategy, and internal checking systems.

6) PUSKUD

PUSKUD (Pusat Koperasi Unit Desa) is a provincial level business federation of KUD that is engaged in KUD purchasing and marketing operations. At the end of 1995, 658 out of 714 KUD were members of PUSKUD, of which 23 were tofu cooperatives and 33 were other cooperatives. The KUD that had not joined PUSKUD were unable to pay the membership fees and bear the cost of compulsory savings. The board of directors consisting of 5 directors (which holds meetings 6 times a year) had set up a management team of 5 people under it and they were responsible for general affairs, accounting, trade, tofu cooperatives and cloves. In addition, one employee in charge of auditing had been appointed under the general manager. In the service center in each district there were 3-4 employees, respectively, while there were 14 employees in other factories and 28 employees in supermarkets. The total number of employees was 200.

The value of goods supplied in 1995 was Rp 14,205, of which agrochemicals accounted for 58%. Produce purchased from cooperative members comprised cloves, rice and corn, and rice was purchased by the following parties.

Amount of rice purchased from member organizations	195,557 tons
Amount sold to BULOG	76,139 tons (39%)
Amount sold on the public market	119,418 tons (61%)
No. of KUD that purchased rice	393 KUD

Facilities owned by PUSKUD include rice polishing plants in Karawang District and Indramayu District, a supermarket in Bandung, Cipinang Market, 20 trucks, and printing machinery. In fiscal 1995, the operating rate of rice polishing facilities declined. The supermarkets were under improvement. Cipinang Market is currently on lease. The trucks are used for transporting cement and fertilizers.

As PUSKUD handles products whose price is regulated by the government, namely, cloves, rice, sugar and fertilizers, it is rare for it to suffer losses caused by competition with other enterprises.

(2) Analysis of Needs of Farm Households and Needs for Activation of KUD

Respondents: 62 persons (47 cooperative members, 15 non-cooperative members)
(59 persons were engaged in farming)

KUD surveyed: KUD Tani Mukti, KUD Walatra, KUD Bayonbong

An overview of the results of the farmer survey is presented in Appendix II in the Appendices volume. However, the relation between the results collected from the survey and the basic plans

for activation of KUD is described below.

1) Plan for Strengthening of Organization and Management

The average number of members per household was 1.69, indicating progress in achieving several members per household (referred to hereafter as several members). On the other hand, there were many farmers who were not members so there is a need to encourage membership among farmers. As many as 90% of the members who responded thought the membership fees were priced at a suitable level. As for compulsory savings deposits, 39 out of 47 members thought the amount was appropriate while 9 people replied it was rather low. From hereon, an increase in owned capital can be expected to result from a review of the amount of compulsory savings deposits. Many respondents thought KUD activities were beneficial and expressed a strong sense of trust and satisfaction toward KUD. All the non-member respondents said they wanted to join KUD and use their business services so it would be possible to encourage membership.

2) Plan for Strengthening of Economic Business

Few farmers buy agricultural machinery from KUD but they hope that KUD will become more involved in this operation. Many members use Waserda (cooperative retail shops) and they hope to see improvements in the shops and range of goods sold. As for produce that is being promoted, Walatra is concentrating on vegetables, Tani Mukti on dairy farming and horticulture, and Bayonbong on dairy farming and palawija (generic name for secondary produce of cassava, corn, etc.). Moreover, there was a strong desire (75%) for KUD to engage in joint marketing and joint purchasing so it would be desirable for KUD to respond to these wishes from hereon.

3) Plan for Strengthening of Credit Business

The average amount of savings of the cooperative members surveyed was about Rp 1 million and about 50% of this was in the form of voluntary savings deposits at KUD. The average amount of cooperative members' loans was about Rp 6.2 million and 40% of this was borrowed from KUD. As regards loans, 78.6% of respondents said they had already repaid them and if the 11% who said they had not yet matured are included, roughly 90% of respondents replied that they had no problems with repayment. However, as 10% of people do have problems repaying loans, there needs to be an improvement in loan supervision and guidance concerning repayment plans. Some people wanted the types of loans to be increased and their finance limits to be raised but almost everyone was satisfied with the level of interest rates.

4) Plan for Strengthening of Human Resource Development and Guidance Activities

With regard to KUD employees, 74% of member respondents said they worked hard but non-members held negative views concerning the accuracy and speed of their work so the clerical ability of employees needs to be improved. Information on agricultural technology is obtained from both farming guidance and PPL (Penyuluh Pertanian Lapangan/Agriculture Extension Officer) and half considered it reliable while the other half did not. Respondents hoped that farm guidance and guidance concerning fertilizers would be strengthened. As regards better living guidance, 20% of respondents wanted it to be reinforced and members still lack a good understanding of better living guidance so there is a need to make efforts to deepen cooperative members' understanding.

(3) Plan for Strengthening of Organization and Management

1) Agricultural settlement accounts should be opened for each cooperative member to enable transfers of sales proceeds and settlement of purchases by bank withdrawal so that more settlements are carried out through bank accounts. In addition, as the management of bank accounts requires a high level of administrative capability, competent employees should be appointed for this purpose.

2) A computerized savings and loan system should be introduced gradually beginning with large KUD, the convenience of cooperative members should be enhanced, and accuracy and speed should be encouraged in office work.

In the short term, computers should be shared by several KUD and an organization should be set up by DEKOPINWIL (Provincial Union of Cooperatives), PUSKUD and KJA to reduce future software costs.

(4) Plan for Strengthening of Economic Business

1) In order to overcome the problem of insufficient capital, facilities should be used jointly, capital should be used concertedly, and inventory should be purchased jointly with private-sector firms and KUD in a similar situation as well as upper-level federations.

2) A joint marketing system should be created involving produce from highland regions, including potatoes, tomatoes, chilies and other fresh vegetables and fruit. Prices should be negotiated with large purchasers such as fast food stores, hospitals, hotels and restaurants and they should be supplied with produce.

3) A system for supplying good quality seeds should be created (e.g., potatoes).

- 4) Facilities for mediating the procurement of horticultural produce, as well as for grading, packaging and shipping should be created.
- 5) Milk and high-grade fodder production should be raised while the amount of high-grade milk should be increased.
- 6) Small milk processing factories should be set up in each area to handle surplus milk and their products should be sold to local consumers.
- 7) A cooperative member bank account settlement system that makes use of computers should be set up.
- 8) Market information should be provided.

(5) Plan for Strengthening of Credit Business

- 1) The KUD in West Java have taken the initiative in establishing important financial business relations with commercial banks (e.g., BCA and BAI). They should expand such relations with commercial banks, who will be their partner now and in the future.
- 2) The average amount of farmers' savings in West Java is higher than in many other provinces but these savings are not deposited with the KUD. The KUD in West Java should encourage voluntary savings more actively through savings groups composed of the wives of cooperative members and farmers.
- 3) The investment yield on the capital of cooperative members of KUD in West Java is 16.4%, which is the highest level among the 7 provinces surveyed. This means that KUD in the province generally earn a yield equivalent to that on current one year fixed term bank deposits or higher. Our conclusion following an analysis of management is that KUD in the province could receive even higher investment yields by boosting sales and expanding their borrowings, so these methods should be encouraged.
- 4) The amount of savings per KUD member farm household was Rp 5,195, the lowest level in the 7 provinces surveyed. This means that KUD in the province should try to boost cooperative member savings deposits, and this includes paying market interest rate yields to increase the amount of savings deposited at KUD by cooperative members.
- 5) Savings and loan business operations conducted by KUD in West Java represented 1.1% of all KUD business volume, ranking 5th among the 7 provinces. The KUD in the provinces should use

borrowed funds and greatly activate their savings and loan business operations.

6) KUD should continue to expand their local telephone services businesses (WARTEL). Especially when considering the technological progress being made in regional telecommunications businesses, this is a unique business opportunity for capital formation by KUD.

(6) Plan for Strengthening of Human Resource Development and Guidance Activities

In West Java, the average number of employees in KUD is higher than the national average and education activities by BALATKOP and cooperative organizations are vigorous. In future, it is desirable to be independent in cooperative education and play a part of functions of BALATKOP, the division of functions between primary KUD, district union, provincial union and federations are to be identified as mentioned in the former part of the common plan for KUD in 7 provinces. The specific matters to be added to the common plan in West Java are as follows.

1) In West Java, employees of KUD in charge of farm guidance are assigned mainly for dairy farming. Their source of technical information is PPL and PPS and Cooperatives sectors in West Java has no technical training facilities for obtaining farm management technology and agro-processing technology. Therefore, in a bid to support farm guidance of KUD, with joint investment of BALATKOP (KANWILKOP), DEKOPINWIL, PUSKUD, KUD and national level federations (GKSI, INKUD, DEKOPIN), farm management technical training centre are to be established and to be operated by DEKOPINWIL. Instructors are to be obtained with cooperation of Ministry of Agriculture, PPL and PPS, PUSKUD, GKSI and private research institutions. The preparatory committee shall be organized by relating organization to materialize the training centre based on middle term plan. In response to the agricultural development plan of the province, the contents of the training handled at the centre are training on agro-processing, dairy farming technology, feed mill operation production materials and others. The target for trainees are KUD employees in charge of farm guidance and leaders of commodity-wise groups.

2) Regarding computerization, the system for rationalization of clerical works is to be developed jointly by DEKOPINWIL, PUSKUD and KJA and formulate training programs for employees of KUD for its dissemination. Especially, computerization for saving and loan business are to be grappled with as soon as possible to use the unified system in the province.