

III NORTH SUMATRA PROVINCE

A Organization and Management

(1) Conditions

There are 594 KUD in the province and 204 of these are KUD Mandiri, making a Mandiri ratio of 34.3%, well below the national average of 61.0%. There were no Mandiri in 15 sub-district out of a total of 243 sub-district. Moreover, 70 KUD had ceased business and 21 Mandiri were no longer able to fulfill Mandiri approval standards. There were 17 Mandiri INTI in all of the 11 districts.

On average, the number of KUD members, the amount of total assets, the number of employees, and business volume of the KUD in the province are well below the national average but 27 new KUD were established in 1995. These were not newly established in districts where there were no KUD but rather "spin-offs" from existing KUD, for the purpose of downsizing.

The main business operations are fertilizer distribution, rice and plantation crops. Corn is almost entirely collected by private enterprises and KUD are not involved in this type of business. Small KUD, in particular, have in some cases stopped operating because they do not have enough funds to buy stocks of fertilizer and other production materials.

If we look at examples of KUD "spin-offs", there is one that only has a fertilizer warehouse and lacks an office and other essential facilities. The land for the warehouse is also leased from the head of the cooperative, who is able to use members' voluntary savings deposits, which account for half of working capital, without paying any interest. In another case, one KUD was separated into two Kecamatan and a new KUD was set up in the new Kecamatan. Most of the cooperative members moved to the new KUD leaving behind a small KUD. Subsequently, a director of the KUD ran off with funds, dealing a heavy blow to KUD activities, and it is currently not operating.

The membership rate is a low 5.9% and the average number of members per KUD is 526, about one-third of the national average.

As the KUD are engaged in agricultural businesses, they are in essence organizations of agricultural producers. However, the rate of membership among farmers is still insufficient and it appears this is because KUD business activities and instructional activities are inadequate and KUD activities have not infiltrated non-members.

Moreover, no examples were evident of newsletters and pamphlets being published.

There was one KUD where all cooperative members were given a commemorative towel and there were a considerable number of people that only realized they were cooperative members because they received a towel.

Many KUD pay the travel expenses of those attending general meetings and there are also examples where cooperative members are paid a bonus of Rp 10,000.

Kelompok Tani are used to put together volumes of rice collected and volumes of fertilizer and agricultural chemicals supplied as well as to put together KUT funds and to make repayments. However, there are many Kelompok Tani members that are not members of KUD.

There is a radio program listening group, programs called "Making Production Plans" and "State of the Market" are broadcast, and cooperative research is carried out. However, there are no direct relations with KUD.

In the case of KUD that have no employees, directors do the work. Even at KUD that have employees, directors themselves take part in the work of the KUD during busy periods. Auditors conduct audits every quarter and these focus on business operations and accounting. When appointing directors, a director recommendation committee selects candidates and they are appointed at the plenary session.

There are general managers at 75% of KUD. However, there are KUD where the general manager is the only employee and the authority of general managers is extremely restricted with directors managing operations at the detailed level. The average number of employees is only 3.73, less than half the national average and many hold posts concurrently. Many KUD have no employees and in Kabupaten Simalugun, as many as 21 KUD out of 55 have no employees.

(Evaluation)

Membership rates are low, organizations are small in size and promotional and educational activities are insufficient. There are hardly any producer organizations or women's groups and the organizational base is weak. In addition, there are concerns that the establishment of new KUD will lead to further downsizing. However, as many people who have not yet joined KUD wish to do so, it would be possible to recruit more cooperative members if active efforts were

made. Moreover, as cooperative members are seeking marketing and technological information and there are KUD that exist as independent organizations, it would be possible to cultivate producer organizations. There are also examples of KUD where the majority of cooperative members are women and so women's groups could be organized. Large KUD could also publish newsletters.

There are many KUD that have no employees and that have ceased operating and businesses and services for cooperative members are inadequate. However, many small KUD feel they lack funds, staff and business capability and the cooperative members of KUD that have ceased operating would like to use KUD businesses and services. If awareness was changed, it would be possible to strengthen functions through mergers. Moreover, the government could dissolve KUD that have ceased operating and are not able to resume operating.

Although many KUD have appointed general managers, their authority is extremely limited and they are unable to perform adequately as management specialists. As directors at KUD are aware of the need for general managers, if directors were given educational instruction, the authority of general managers could be increased and a performance-based salary system could be introduced. It would also be possible to maintain proficient staff.

2 Management and Administration

(1) Conditions

On average, current surpluses are about 60% of the nationwide average and some KUD have recurrent losses. Business turnover is about three-quarters of the national average, total assets are equivalent to only 40% of the nationwide average, and equity capital is equivalent to just under 30% of the national average. Thus, management size is small. However, KUD handling plantation crops have a high level of business turnover. Many KUD derive most of their equity capital from internal reserves, appropriate all current surpluses as internal reserves, ask members to make compulsory savings from dividends, and are striving to increase their equity capital. However, the absolute amount is small. The balance of membership fees and compulsory savings deposits paid by cooperative members is low and payment unit prices are low. In particular, few cooperative members make compulsory savings deposits every month and some KUD have stopped collecting these funds. The majority of external capital is

derived from institutional loans, which are lent directly to cooperative members. Not only do these funds make no contribution to the KUD's real assets, if the KUD is unable to receive repayments from its members, the KUD will take over the responsibility of repaying the funds in some cases. Hardly any voluntary savings deposits are being made. The ratio of current surplus to business turnover is 0.9% for the whole province, slightly below the nationwide average.

As there are few employees and many hold concurrent posts, it is difficult to establish internal checking mechanisms and the risk of corruption is high. In the case of SINGALOR LAU, one female employee audits all businesses internally but hardly any KUD conduct internal audits and there are no KUD at all with departments responsible for such matters. In fiscal 1995, 122 KUD in the province were audited by KJA but only 31 KUD are members of KJA.

Owing to a lack of funds, many KUD have no trucks, warehouses, shared tractors, corn shellers, or other necessary facilities to carry out business and are unable to expand such facilities. As a result, they are unable to compete with private companies. In addition, among the KUD we surveyed, only SINGALOR LAU had telephones installed.

In terms of office facilities, there are KUD that reported receiving donations from the provincial governor and assistance from the governor but owing to a lack of funds, some KUD lease land from the head of the cooperative and have only built fertilizer warehouses.

(2) Evaluation

There were cases where KUD had ceased operating due to stagnant operations and others where KUD had become unable to meet the standard for Mandiri authorization. In general, management was inadequate. However, as many KUD have the desire to improve management, this could be achieved if direction by PKL and KJA were strengthened. Moreover, it would be possible to examine improvement measures mutually by establishing a Kecamatan council.

There are no planning and administration functions and although there are plans to improve management and engage in new businesses and so forth, many items in them have not been made specific. However, many KUD want to improve their management and so it would be possible to appoint staff in charge of planning

and administration. Large KUD could also establish planning and administration departments.

Efforts are being made to increase equity capital but the absolute amount is still small. There are also cases where KUD have stopped collecting compulsory savings deposits. However, some KUD save part of all of their current surpluses as internal reserves and cooperative members could be asked to cooperate in allocating dividends to compulsory savings.

As the majority of funds procured are institutional funds, they are loaned directly to cooperative members and do not form part of the real assets of KUD. In addition, some KUD have problems collecting repayments of institutional funds from cooperative members. However, if institutional funds for facilities and working capital were organized, business could be expanded and as management awareness is growing, many KUD have the capacity to borrow and repay institutional funds.

As there are few employees, it is not easy to establish internal checking mechanisms, and there is a high chance that corruption and mistakes will occur. Furthermore, only 31 KUD are members of KJA. However, directors or general managers could verify accounting figures if they acquired the methods to do so and it would be possible to increase the frequency of audits by auditors and external audits. In addition, as some KUD conduct internal audits, other KUD could adopt the same practice. If the number of employees at KUD were increased through mergers, it would be possible to create internal checking systems and if funds to pay expenses were secured, KUD could not only be audited, but also receive educational instruction from KJA.

Few KUD calculate departmental profit and loss in a timely manner. However, as KUD are aware of the need to calculate departmental profit and loss, some KUD could do this if they learnt how to do so.

B Present Situation and Evaluation of Economic Business

1) Present Situation:

Distribution of chemical fertiliser still remains to be a major business of KUD. During 1995, a total of 310,914 tons was distributed by 159 KUD. Farm chemicals, seeds and other farm inputs are available in the open market.

In 1995 there were 824 warehouses with drying floors, 61 RMUs and 72 rice drying units in the KUD sector. KUD do not own any cold stores or any other agro-processing units except for drying floors for coffee beans and vanilla pods. Some KUD possess facilities for cleaning and storing facilities for cloves and copra. There were 442 retail outlets (waserdas).

Principal business of the KUD in North Sumatra, among others, are rice procurement, procurement of cloves, procurement of cassava and its processing, cash crops like coffee, coconut, cocoa, rubber, oil palm, hog raising, horticulture, distribution of chemical fertiliser, farm credit and consumer goods. During 1995 only 36 KUD had collected 4,454 tons of paddy/rice, and nothing was supplied to the Bulog.

All cash crops move out of the province for further processing and marketing. Primary processing of rubber, coconut, oil palm, rattan is done locally by State-owned and private enterprises. Cloves is handed over to the Puskud for the national buffer stock. There are 8 cattle-feed mills which produce nearly 270,000 tons of concentrates annually. They make use of local products e.g., cassava, copra and oilpalm residues, rice bran and wheat pollard. There is no dairy activity in the province.

A number of farmer-members raise pigs on their own. There are also a number of beef cattle, buffaloes, sheep and horses. Their development and slaughtering facilities are owned by the government and private enterprises.

The total business volume and total surplus of KUD in 1992 and 1995 was as follows:

Particulars	1992 (M.Rp)	1995 (M.Rp)
Total Business Volume	88,524	271,119
Total KUD Surplus-SHU	674	2,369

Some of the KUD had attempted to export fresh vegetables to markets in Singapore and Malaysia. Through some external technical assistance, vegetable handling facilities were also

provided to KUD. Due to its wrong location and high operational expenses, the facilities are not longer in use. The KUD market their products (for exports) through exporters.

The Puskud-North Sumatra (established 1984) is a major cooperative business organisation to which 383 KUD/cooperatives are affiliated. Its business activities include: procurement and supply of paddy/rice, distribution of fertiliser, sugar/other essential commodities, collection of vanilla, coffee, cloves and other farm products and distribution of consumer goods.

2) Evaluation:

KUD main business revolves around government-supported programmes: fertiliser distribution 88% (of turnover), food procurement and supply 7.6%, farm credit, procurement of cloves 57.9% (for Puskud), and sugarcane intensification; Fees and commissions received form the core of KUD working capital; No joint marketing, joint purchasing and joint-use facility concepts adopted by KUD; No pigs and poultry handling and processing business by KUD although they are available in large numbers; Major cattle-feed production in private sector, KUD-Member business transactions are generally in cash; and Farm machines, transportation equipment insufficient.

C

CREDIT BUSINESS AND OTHER BUSINESS: Present Situation & Evaluation

a. KUD Savings and Loan Performance

KUD SAVINGS - NORTH SUMATERA					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Initial Savings	-	443.5	1,254.0	-	-
o Compulsory Savings	-	1,991.2	2,344.1	-	-
o Voluntary Savings	-	794.6	786.4	-	-
Total Member Savings	-	3,299.3	4,384.5	-	-

Source: BPS

AVERAGE SAVINGS OF SURVEYED KUD - NORTH SUMATERA				
Million)	CATEGORY/YEAR (Rp			1995
	1990	1994	1995	
o Initial Savings	0.2	0.7	0.9	
o Compulsory Savings	0.0	2.9	4.6	
o Voluntary Savings	0.0	0.0	0.6	
Total Member Savings	0.2	3.6	6.1	

Source: KUD field survey, North Sumatera

KUD LOANS - NORTH SUMATERA					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Trader Credit (KCK)	-	235.3	287.3	-	-
o Investment Credit	-	2,892.9	3,501.2	-	-
o Farmer Bus. Credit (KUT)	-	-	-	-	4,120.0
o Savings & Loan Unit(USP)	-	-	-	-	7,029.0
Total Credit (Trade/Invest)	-	3,128.2	3,788.5	-	-
Total Credit (KUT/USP)	-	-	-	-	11,149.0

Source: BPS (KCK and Investment Credit data)

Department of Cooperatives, Central Office (KUT and USP data)

Results of the field survey of five KUD in North Sumatera showed the total institutional loans for the surveyed KUD amounted to Rp. 76.5 million, for an average of Rp. 15.3 million each. Most surveyed KUD cited problems sourcing bank credit for investment and working capital. Total member loans outstanding, including savings and loan business, averaged Rp. 20.7 million per KUD surveyed. Farm production credit outstanding, under member credit channeling programs, averaged Rp. 61.8 million per KUD surveyed.

b. Other business

Financial services, other than credit, practiced by KUD in North Sumatera include collection of utility bill and telephone service business.

c. Evaluations

1) Institutional Borrowing

Primary hampering factors to KUD business growth in North Sumatera appear to be poor access to bank-supplied working and investment capital. It was observed that lack of sufficient working capital was limiting growth in business volume and turnover in rice procurement, fertilizer distribution, and continuous operation of manufacturing facilities (e.g. rice mills), and 80 percent of surveyed KUD had no fixed asset bank borrowings.

Possibilities for expanding North Sumatera KUD access to institutional credit include: greater KUD contact with private commercial banks engaged in agribusiness financing; expanded KUD lending and deposit business with local rural banks; developing banking system policies and procedures (e.g. BUKOPIN, BRI) which supply general standby working capital lines of credit to KUD; and expanded financing from investment partners.

2) Member Savings and Loans

Savings and loan business of North Sumatera KUD grew from Rp. 6.7 billion in 1993 to Rp. 8.3 billion in 1995, yet only represents 3.0 percent of provincial KUD total business volume. USP programs of all surveyed KUD were very small. Primary hampering factors include: failure of KUD to pay interest on savings; low rate of growth in member voluntary savings; delays in loan processing and credit releases; and poor/inadequate KUD loan supervision resulting loan delinquencies and loan losses.

Possibilities for improving North Sumatera KUD savings and loan programs include: ensuring a competitive market rate of interest paid on savings; initiating savings growth contests and promotions; cash payment to members for savings interest earnings; and reducing time for loan processing.

3) Member Credit Channeling

Primary hampering factors for KUD income growth in this business include: too few and underskilled KUD staff to supervise member lending program; lack of KUD sharing in loan risk;

poor coordination between KUD, handling bank, and farmer groups; inability of KUD to supply production inputs and to procure, process and market members' produce; complex credit planning and approval procedures; and reduced volume of bank farm credit to farmers.

Possibilities for increasing income from member credit channeling include: improving KUD human resource skill levels in loan supervision; KUD sharing loan risk with handling bank; improving communication channels between KUD, handling bank and farmer groups in loan planning, processing, supervision and collection; improving KUD capacity to supply production inputs and to procure/process/market members' produce; and simplify credit procedures.

D Human Resource Development and Guidance Activities in North Sumatra

a. Present situation and evaluation of education and training for officials and employees of KUD

The situation of implementation of training for employees of KUD by both Government and Cooperative Organizations in 1995 was as follows.

- BALATKOP - 412 persons from all cooperatives (KUD 90 persons),
- DEKOPINWIL - 70 leaders of all cooperatives of Kabupaten level
- DEKOPINDA - 4 DEKOPINDA out of 17 is conducting training of KUD

b. Situation and evaluation of training and education activities in 5 KUD surveyed

According to the Provincial Office of the Department of Cooperative and Small Enterprises, there is very few KUD which has established the education fund as a part of appropriation of the surplus fund. 2 KUD has accumulated the education fund with the rate of 5% of the current surplus. Generally, these KUD thinks that the amount of the education fund is not sufficient for education and guidance activities.

Three KUD out of five is the member of secondary and tertiary organizations of cooperatives in the province namely, PUSKUD, DEKOPINDA and KJA. 2 KUD are no being members of these cooperative organizations.

Three KUD received the audit of KJA (Audit Service Cooperative) recently and received the guidance on accounting and management.

c. Situation and evaluation of guidance activities in 5 KUD surveyed

In North Sumatra, the concept of farm guidance and better living activities is not adopted by KUD . There are no employees in charge of farm guidance. However, some technical information such as use of a fertilizer and agricultural chemical is provided to members who purchase from KUD. Sometime, directors of KUD are providing technical guidance to member farmers based on their experience in case the director is engaged in farming.

As the average number of employees of KUD is 3.73 persons, it is deemed difficult to set up farm advisors. It is necessary to increase the number of employees of KUD to start their own farm guidance activity.

The better living guidance is not implemented by KUD. This is also due to the small number of employees. There are no specified employees of KUD who are assigned as better living advisors.

E

Organization, Management and Business of Puskud

In 1975, there were 2 PUSKUD established in North Sumatra, but they were merged according to the advice by the central government on 1 April 1982. The main business is clove and sugar. PUSKUD has deficits carried over from previous years, but efforts were made to reduce it.

There are 594 KUD in the province, but the real members which have paid initial fee and compulsory savings are only 366 KUD, while non-members are 228 KUD and membership ratio is 61.6% of the KUD.

The reason for not becoming a member is inability to pay initial money and compulsory savings. The officials consist of 5 directors, 3 supervisors, 13 advisers, and employees with total number of 33 persons. Among the employees, 26 persons of them assigned at the head quarter.

Total assets in 1995 reached 3,490 million Rp. The deficit was 1,027 million Rp. It has been recovering since 1993. However, it was as the result of fixed assets value reassessment of 681.4 million Rp in 1994.

The procurement of external fund is mainly by the long-term borrowing from INKUD, PKK etc., and loans from BUKOPIN. Since they have still deficit carried over, the own capital, mainly from internal reserve fund and fixed assets is less than 21.3% of the total assets.

Looking at the breakdowns of the total business volume of 3,479 Million Rp, sales of sugar 1,904 million Rp (55%).

However, looking at the gross profit, special account of clove business has a share of 28%, the largest source of the profit.

IV EAST JAVA PROVINCE

A 1 Organization and Management

(1) Conditions

Out of a total of 752 KUD in the province, 669 are KUD Mandiri, for a Mandiri ratio of 89.0%, which is well above the national average. However, 40 sub-district had not established a KUD Mandiri. There were 38 KUD Mandiri INTI and these had been established in all districts.

The membership rate was 11.5% of the adult population, which is slightly higher than the national average. The average number of cooperative members per KUD was 3,111, more than twice the national average. On average, the number of cooperative members, number of employees, total assets, and business turnover were well above the national average but profitability is low.

The main businesses are fertilizer, rice and RMUs but many KUD handle beef, milk, parawija, cloves, and sugar cane. Thus, there is a wide range of businesses. In addition, 568 KUD are involved in savings and loan businesses, 387 KUD operate purchasing stores (Waserda), and 20 KUD run telephone stations (Wartel).

The membership rate for farmers in the KUD we surveyed ranged from 4.2% to 57.5%, showing a wide difference in the concentration of farmers. In addition, the membership rate for Kelompok Tani members in KUD was 61.7%. The membership rate for farmers was 97% in the case of one KUD. Hardly any KUD published newsletters or pamphlets and no active measures were being adopted to increase membership.

Many KUD hold sub-regional general meetings in advance or Kelompok Tani meetings and elect representatives to plenary sessions and one KUD elected male and female representatives separately. This KUD's general meeting held in 1995 was attended by 99 representatives, including 42 female representatives. One KUD also held a meeting of representatives to discuss its business plan at a separate time from the regular general meeting.

KUD attach great importance to Kelompok Tani meetings, which are used to put together KUT applications and fertilizer amounts, to communicate information, and to bring together the wishes of cooperative members. With regard to cooperative organizations in KUD, there are women's member dairy groups that conduct cooking

classes based on the use of milk and dairy farming seminars, and they are active in their operations. There is also a KUD that has set up a women's credit business group that provides savings and loan services. In the case of producer organizations, one KUD has formed dairy farming, fertilizer, and sugar cane groups and is engaged in technological instruction and business analysis. However, joint marketing has not been carried out yet.

Directors meetings are held once a month or more at each KUD. About 40% of directors were farmers and others were teachers, self-employed, village chief, public servant and so forth. There were also KUD where no farmers were directors. In addition, managing directors and cooperative heads of the KUD in the province work full time. At some KUD, auditors conduct audits 4 times a year and these focus on cash, assets, inventories, administration, organization, and business operations. An audit takes 2-3 days. Auditors are appointed for a term of 3 years but at several KUD, auditors' terms of appointment were extended each year and one director was re-elected each year. This was to ensure that at least 2 auditors remained in order to avoid having auditors with no experience. Auditors' occupations included teachers and village heads and there were few farmers. Some KUD have established a director recommendation committee.

The average number of employees was 12.3, which was 1.5 times the national average. The average was 22.3 employees in Kabupaten PASURAN and the largest KUD had 217 employees but there were 9 KUD with less than 10 employees. Thus, large differences in the number of employees exist. In general, various departments were established under the general manager and there was one KUD that had established an office for the general manager and allocated assistants to manage the employees and produce reports for directors meetings.

(2) Evaluation

The ability of directors and general managers to develop business and conduct marketing is insufficient. If performance-based salaries were introduced, general managers would have a greater desire to engage in business and the management of KUD would improve.

Although KUD are large in scale, their membership rates are low and they lack equity capital. Few KUD are actively engaged in promotional and educational activities. The number of cooperative members is not being increased sufficiently and

cooperative members do not participate enough in KUD activities. As many people that have not yet joined KUD wish to do so, it would be possible to recruit more cooperative members if active efforts were made and it would be possible to produce pamphlets as well as for directors to all work together in promoting their organizations. Large KUD could also publish newsletters.

· Small KUD lack employees, funds and facilities and are unable to provide adequate services to their members. However, many small KUD feel that they lack funds and business capability so it would be possible to encourage mergers.

· Few KUD have established departments or appointed staff to teach agriculture and life management and insufficient instruction is provided in the agricultural technology that cooperative members desire or in the improvement of their lives. However, as some KUD have appointed staff to teach farming and life management, it would be possible to successively established departments responsible for these functions, beginning with large KUD.

· Few KUD are promoting the cultivation of producer organizations and women's groups and the organizational and business base is weak. However, as cooperative members are seeking marketing and technological information, it would be possible to cultivate producer organizations. In addition, there are cases where women-only dairy farming groups and handicraft groups have been set up, and this practice could be adopted by other KUD.

2 Management and Administration

(1) Conditions

On average, the current surplus was 1.2 times larger than the nationwide average and business turnover was 2.8 times the national average. Average total assets were about 2.3 times larger than the national average of and average equity capital was 1.5 times greater than the nationwide average. However, the equity ratio was 31.7%, well below the national average. As the unit payment price of membership fees and compulsory savings deposits, which form equity capital, is low, amendments are being introduced. In addition, fiscal year-end dividends are being earmarked for compulsory savings deposits and many KUD accept lump-sum payments.

Borrowings that form part of external capital were zero in one case but in others, they were equivalent to 80% of total assets. In general, many KUD have a high percentage

of borrowings. In the KUD we surveyed, annual interest on voluntary savings deposits ranged from 18% to 24% but balances were small. Even at the KUD which had the largest ratio of such deposits to total assets, they accounted for only 2.0% of total assets and were not a major source of funds.

The ratio of current surplus to business volume averaged 0.5% for the province, which is well short of the national average, and overall profitability is low. The ratio of current surplus to total assets was also 1.6% on average for the province, far below the national average.

Hardly any KUD conduct internal audits.

Of the 5 KUD we surveyed, four had telephones and all five had installed personal computers. There were many RMUs, warehouses, drying areas, drying machines, and other rice-related facilities. Moreover, 4 KUD had TPKs and 2 KUD had trucks for transporting fertilizers and other goods. Some KUD had gasoline supply facilities, a motorcycle repair plant, and a roof tile manufacturing plant. However, in response to the wishes of cooperative members, many KUD had plans to increase TPKs and introduce milk cooling units, gasoline stations, small trucks, and other new facilities.

(2) Evaluation

There is a strong desire to engage in new businesses but even though plans exist, many items in them have not been made specific enough. One reason for this is the absence of specialized planning and administration departments. However, as 90% of KUD have organized Mandiri systems, planning and administrative functions could be strengthened by clarifying departments responsible and appointing staff in charge of these functions. Large KUD could also establish specialized planning and administrative departments.

Efforts are being made to increase equity capital but the absolute amount is still small. If cooperative members cooperated in making savings from the net surplus and so forth, it would be possible to ask them to allocate dividends to compulsory savings deposits. As cooperative members are aware that membership fees and compulsory savings per person are low, these could be increased. Moreover, as profitability is generally low, if business commission rates were raised and business profit increased, this would lead to stronger equity capital.

As the majority of funds procured are institutional funds, they are loaned

directly to cooperative members and do not form part of the real assets of KUD. If institutional funds for facilities and working capital were organized, business could be expanded and as management awareness is growing, many KUD have the capacity to borrow and repay institutional funds.

· Voluntary savings are not a major source of finance and fund management ability is low. Voluntary savings could be increased by improving the system used and as some KUD accept part of sales proceeds as compulsory and voluntary savings deposits, this practice could be applied to other KUD. In the case of fund management, KUD could learn from those that are successful in this activity.

· As most transactions involve cash, it is easy for KUD to run short of funds (cash) to buy agricultural produce and cooperative members also have to save cash to buy materials. Consequently, business expansion by KUD is restricted. If KUD opened agricultural settlement accounts, this would be very convenient and could therefore be adopted by other KUD.

· As there are few employees, it is not easy to establish internal checking mechanisms and even large KUD do not conduct internal audits. In the case of KUD that have inadequate internal checking mechanisms, the frequency of audits by auditors and external audits could be increased and large KUD could set up internal audit departments.

· Accounting standards are not thoroughly complied with and few KUD calculate departmental profit and loss in a timely manner. KUD are aware of the need to calculate departmental profit and loss so it would be possible to spread the practice of calculating departmental profit and loss by thoroughly establishing a standardized accounting system.

· Only some KUD have introduced computers and business and work procedures have not been rationalized. Moreover, as there is no policy to unify the introduction of computers and individual KUD have installed them separately, KUD will be forced to bear high software costs in the future if this situation continues. KUD are aware of the need for greater speed and accuracy in their clerical work and if they become more aware of future software costs, joint development and joint use could be introduced in a short time. There are systems to promote this in DEKOPINWIL and PUSKUD.

The total business volume and total surplus of KUD in 1994 and 1995 was as follows:

Particulars	1994 (M.Rp)	1995 (M.Rp)
Total Business Volume	812,378	1288,478
Total KUD Surplus-SHU	12,972	13,224

The Puskud-East Java is a federation of 30 KUD/cooperatives. Its main business activities include: distribution of fertiliser, farm inputs, procurement of cloves on behalf of the Inkud, procurement of cassava and its processing, distribution of other consumer goods among the KUD. Its total business volume in 1995 was Rp 12,988 million and held assets worth Rp 57,186 million. Some of its subsidiary companies are: salt processing factory, cattle-feed factory, automotive workshop, coffee grading company, rice mill, and tempe (soyabeans) manufacture company. Its major source of income has been the commissions and fees.

2) Evaluation:

KUD main business revolves around government-supported programmes: fertiliser distribution 39.7% (of turnover), very low in paddy procurement; 41.3% in fertiliser transportation (for Puskud) and 12.7% for sugar distribution (Puskud), and 2.1% in cloves procurement business (Puskud); Fees and commission received from government programmes form the core of KUD working capital; Milk (almost 35-37% of national production); livestock and other horticulture products are handled by KUD; KUD produce cattle-feed in addition to private producers, but distribution is inadequate as also it is low in nutritional value; No procurement, grading, processing and packaging facilities by KUD for horticulture products; All KUD-Member business transactions are highly cash-oriented; Lack of members' accounts settlement system.

B Present Situation and Evaluation of Economic Business

1) Present Situation:

Distribution of chemical fertiliser still remains to be a major business of KUD. During 1995 a total of 1.3 million tons of material was distributed by 680 KUD. Improved seeds, farm chemicals and other farm inputs are available in the open market.

During 1994 there were 2,640 RMUs with the KUD which handled 8.6 million tons of paddy. In 1995 there were 2,010 drying floors and 274 rice drying units. Some of the equipments have been imported (mostly from Japan) and others locally assembled. Several of the farm equipments and rice processing machines were given to the KUD under OECF and Kennedy Round Programmes. A majority of farm equipments e.g., fumigators, harvesters, sprayers are owned by the farmers themselves.

Principle business of the KUD in the province, among others, are rice procurement, horticulture, milk collection, procurement of cloves, livestock development, cattle-feed manufacture, and distribution of chemical fertiliser, farm credit and consumer goods distribution. In 1995, 452 KUD had procured from the farmers a total of 189,333 tons of paddy/rice and 305 KUD had sold 151,247 tons to the Bulog. The supplies to the Bulog are gradually getting reduced due to: i) shortage of procurement funds; and ii) open market situation.

Horticulture products are procured by the private enterprises, e.g., PT Indofood, from KUD farmer-members through the Farmers' Groups. Autonomous groups within the KUD in the province organise marketing of horticulture products.

Milk is an important commodity which has become a 'profit centre' of KUD/cooperative business. There were a total of 202 KUD/milk cooperatives in the country in 1994, out of which 65 were in East Java (32.1%). Some of the KUD/milk cooperatives have formed their own sub-district business unions. During 1994, the share of East Java cooperatives was 31% in the national milk production, next only to West Java. Although there is a large number of beef and dairy cattle, not many KUD operate any slaughter houses or undertake meat business. The technological level of milk cooperatives in the province is relatively high.

C CREDIT BUSINESS AND OTHER BUSINESS: Present Situation & Evaluation

a. KUD Savings and Loan Performance

KUD SAVINGS - EAST JAVA					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Initial Savings	-	3,240.4	3,495.0	-	-
o Compulsory Savings	-	9,806.0	10,986.1	-	-
o Voluntary Savings	-	3,505.8	4,361.3	-	-
Total Member Savings	-	16,552.2	18,842.4	-	-

Source: BPS

AVERAGE SAVINGS OF SURVEYED KUD - EAST JAVA

CATEGORY/YEAR (Rp Million)	1990	1994	1995
o Initial Savings	4.6	4.7	8.8
o Compulsory Savings	16.4	29.5	31.6
o Voluntary Savings	6.6	12.1	14.9
Total Member Savings	27.6	46.3	55.3

Source: KUD field survey, East Java

KUD LOANS - EAST JAVA					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Trader Credit (KCK)	-	766.1	778.3	-	-
o Investment Credit	-	25,729.5	27,779.9	-	-
o Farmer Bus. Credit (KUT)	-	-	-	-	28,243.0
o Savings & Loan Unit (USP)	-	-	-	-	20,067.0
Total Credit (Trade/Invest)	-	26,495.6	28,558.2	-	-
Total Credit (KUT/USP)	-	-	-	-	48,310.0

Source: BPS (KCK and Investment Credit data)

Department of Cooperatives, Central Office (KUT and USP data)

Results of the field survey of five KUD in East Java showed the total institutional loans for the surveyed KUD amounted to Rp. 407.0 million, for an average of Rp. 81.4 million each. Most surveyed KUD cited problems obtaining bank credit to finance new facilities, repair/modernize existing facilities, and/or finance expansion. Total member loans outstanding, including savings and loan business, averaged Rp. 61.6 million per KUD surveyed. Outstanding farm production credit, under member credit channeling programs, averaged Rp. 273.2 million per KUD surveyed.

b. Other business

Financial services, other than credit, practiced by KUD in East Java include collection of utility bill (523 KUD), telephone (20 KUD) and television service business (392 KUD).

c. Evaluations

1) Institutional Borrowing

Primary hampering factors to KUD business growth in East Java are insufficient access to bank-supplied working and investment capital. None of the KUD surveyed had working capital loans which could be used to support general business operations. Lack of working capital was limiting growth in business volume and turnover, particularly for rice milling.

Possibilities for expanding East Java KUD access to institutional credit include: greater KUD contact with commercial banks engaged in agribusiness financing (e.g. Bank Danamon, BNI, BCA); expanded KUD lending and deposit business with local rural banks; developing banking system policies and procedures (e.g. BUKOPIN, BRI) which supply non-program specific (general) standby working capital lines of credit to KUD; and expansion of financing from joint venture business partners for investment and working capital.

2) Member Savings and Loans

Savings and loan business of KUD in East Java expanded to Rp. 6.7 billion in 1995, yet this performance only represents 0.5 percent of total KUD business volume. Primary hampering factors limiting this business include:

low rate of growth in member voluntary savings; delays in loan processing and credit releases; and poor/inadequate KUD loan supervision resulting in delinquent repayment of loans and loan losses.

Possibilities for increasing capital to support KUD savings and loan business (USP) exist with medium-term loans from new banking sources (e.g. KPI/BNI, BRI, Bank Danamon). Possibilities for increasing member savings include: ensuring KUD pays members a market rate of interest on savings; supporting savings promotion programs; and reducing loan processing time.

3) Member Credit Channeling

In recent years, the total volume of credit in East Java supplied by banks to farmers has declined. Primary hampering factors for KUD income growth in this business include: poor coordination between KUD, handling bank, and farmer groups; too few KUD staff to provide adequate loan supervision; and lack of KUD participation in loan risk.

Possibilities for increasing East Java KUD earnings in the area of member credit channeling include: improving coordination and communication channels between KUD, handling bank and farmer groups in loan planning, processing, supervision and collection; improving KUD human resource skill levels in loan supervision; and KUD participating in loan risk.

D Human Resource Development and Guidance Activities in East Java

a. Present situation and evaluation of education and training for officials and employees of KUD

The situation of implementation of training for officials and employees of KUD by both Government and Cooperative Organizations in 1995 was as follows.

- BALATKOP** - 97 directors, 5 supervisors, 8 employees and 60 leaders of members
- PUSKUD** - Training on clove administration for employees of KUD
- DEKOPINWIL** - 11 training courses for directors, 3 training course for supervisors and 8 training courses for employees of KUD and other cooperatives
Training of 30 trainers from 10 districts
- DEKOPINDA** - 37 DEKOPINDA conducted 9 training courses for directors and training courses for employees of KUD and other cooperatives four times for each DEKOPINDA. Each DEKOPINDA conducted training for 10 cooperatives for 10 days

The education activities in East Java are vigorous and outstanding.

According to the BALATKOP of East Java, needs for training for officials and employees are as follows;

- Supervisor** - Auditing of cooperative, Accounting system, Management of cooperative
- Director** - Business management and entrepreneurship, Saving and loan
- Organization and management
- Manager** - Management skills and entrepreneurship, Saving and loan
- Organization and management
- Employees** - Management of electricity

b. Situations of training and education activities in 5 KUD surveyed

Looking at the situation of participation in training programmes in 1995 by 5 KUD surveyed, except for KUD Budi Jaya, other 4 KUD have sent the employees and officials to training courses organized by BALATKOP and DEKOPINWIL. The case for KUD Tani Jaya was as shown below.

KUD Tani Jaya

- | | | |
|------------|---------------------------|----------------------|
| Secretary | - Marketing management | 7 days at BALATKOP |
| Chairman | - Administration of clove | 3 days at PUSKUD |
| Supervisor | - Audit | 7 days at DEKOPINWIL |
| Manager | - Retail shop management | 3 days at KANWILKOP |
| Employees | - Saving and loan | 3 days at BALATKOP |

- Retailshop management 3 weeks at SUKOPINDO

The five KUD surveyed has established the education fund as a part of appropriation of the surplus fund with the rate of within 5% of the surplus fund.

c. Situations of guidance activities in 5 KUD surveyed

The four KUD out of five KUD surveyed in East Java are providing farm guidance and three KUD are promoting better living guidance, although there are no specific section or employees in charge, the employee of KUD is engaged in guidance activities as additional works. Five KUD acknowledge the needs of both farm guidance and better living activities as service to improve welfare of members. In KUD Tani Jaya, for example, 7 employees are in charge of guidance on dairy farming technology and they are specialist as veterinarian, embryo transplant and artificial insemination. With the absense of training facilities for employees in charge of farm guidance, they have a few chance to brush up their technology level and obtain information for guidance.

E Organization/Management/Business of PUSKUD

The East Java PUSKUD was established in 1975, and carries out commercial transaction, services, processing and manufacturing, and activities unique to the PUSKUD. The Puskud East Java is a federation of 30 members (KUD and non-KUD). The officials of the organization comprise seven directors and two supervisors. The total number of employees is 206, spread among 18 different operations. In terms of their roles about half are assigned to the general affairs and administration departments. The lack of personnel with appropriate skills (persons with selling skills) is notable issue.

As of the end of fiscal 1995, total assets amounted to 57,187 million Rp. and own capital to 8,381 million Rp, which resulted in an own capital ratio of 14.7%. Financing from outside sources comprised short-term borrowings from banks of 1,025 million Rp, loans from INKUD of 1,394 million Rp, long-term debt from BRI of 660 million Rp and long-term borrowings from INKUD of 2,578 million Rp.

Total revenues (volume usaha) broke down into merchandise sales and service fees of 12,111 million Rp and commission revenue of 878 million Rp, for a total of 12,989 million Rp.

V LAMPUNG PROVINCE

A Organization and Management

I Organization

(1) Conditions

There were 255 KUD in the province, of which 140 had been authorized as KUD Mandiri, and they were established in all of the 77 sub-districts in the province. However, the Mandiri ratio of 54.9% was lower than the national average. There was one KUD Mandiri in each of the 4 districts and 1 city, making a total of 5.

On average, the number of cooperative members, total assets and business turnover were lower than the national average. The average number of employees was 12.04, above the national average, but this figure was boosted by the large number of employees at plantations.

The major businesses are fertilizer supply, rice and paddy marketing, and RMU operations. Some KUD handled beef and others operated plantations. However, although corn, cassava, and fruit were being produced, they were hardly any KUD that sold goods other than rice and paddy.

The adult KUD membership rate was 7.1%, well below the national average. The average number per KUD was 941, approximately two-thirds of the national average. As businesses are agricultural in nature, 80% or more of cooperative members were farmers in both of the 2 Kabupaten we surveyed. However, we believe that the reason the membership rate for farmers is still insufficient is that the KUD do not carry out enough business activities and educational activities. We saw no examples of newsletters being published nor presentations of KUD activities.

Each KUD used the Kelompok Tani meetings to put together and adjust KUT applications, to communicate with the KUD, to express their desires to the KUD, to put together quantities of rice collected and fertilizer supplied and to learn about production techniques. However, the KUD membership rate for Kelompok Tani members is about 70% so many are not members of KUD.

Regarding members cooperating organizations, one KUD has a youth group that supplies fertilizer and runs a mini market. Another provides loans to a housewives'

industry group that makes tempoh and tofu.

Directors meetings are held 6-12 times a year. Combined meetings with auditors and combined meetings with employees also take place. In North Lampung Kabupaten, there are full-time directors at all of the 107 KUD and 3 directors work full time without remuneration. Many of the directors are farmers and at four of the five KUD we surveyed all the directors were farmers. Audits are conducted by auditors at least once every quarter at many KUD and these focus on business operations and accounting. Many auditors are farmers but there are also KUD where the auditors are public servants and members of parliament.

Various sections had been established under the general manager and they carry out daily operations under the direction of the general manager. One KUD that operates a rubber plantation had a rubber department.

(2) Evaluation

The average number of cooperative members is equivalent to 64% of the national average and the scale of organization is small. The average membership rate is only 7.1% but promotional activities are insufficient. However, as many people that have not yet joined KUD wish to do so, it would be possible to recruit more cooperative members if active efforts were made. Moreover, directors that obtained the cooperation of positive members could all work together in promoting their organizations and large KUD have sufficient capability to publish newsletters.

There are few producer organizations and few KUD that had organized women's groups. However, there were cases where cooperative organizations had been formed and if this practice was more widely adopted, producer organizations and women's groups could be cultivated.

Small KUD have poor financial strength and are unable to provide adequate services to their members. However, they are aware of their lack of financial strength and business capability so mergers would be possible.

2 Management and Administration

(1) Conditions

The KUD average for current surplus was equivalent to about 70% of the national average and business turnover was equivalent to about 80% of the national average. Total assets are also about 80%, which is rather low. All the KUD allocate about 40% their internal savings to equity capital and efforts are being made to increase equity capital but the average amount is only Rp 59.9 million, which is about half of the national average. The average equity capital was only 30.9%, below the national average. All cooperative members pay membership fees as a condition of membership but compulsory savings are rarely made every month. In many KUD they are appropriated from fiscal year-end dividends and paid as a lump sum. In addition, monthly payment levels are low.

External capital was mainly derived from institutional loans and was loaned directly to cooperative members so it did not form part of the real assets of KUD. As most KUD pay no interest on voluntary savings deposits, these are extremely small. Of the KUD we surveyed, three that replied all paid no interest and their voluntary savings deposits accounted for less than 5% of total assets.

The needs of cooperative members are supplied by loans from KUT but only 29 KUD provided general funds, 75 provided special funds, and 10 provided horticultural funds (1995). In many cases, KUT loans are in arrears and as of the end of fiscal 1995, Rp 6,423 million had not been recovered. Among the KUD we surveyed as well, three had KUT loans in arrears.

In terms of profitability, the ratio of current surplus to business turnover averaged 0.9% in the province, slightly under the national average.

According to the KUD, mistakes are made when compiling balance sheets and clerical skills do not appear to be high. Moreover, there are few clerical staff and it is difficult to establish internal checking mechanisms so the likelihood of corruption occurring is high. In the case of the KUD surveyed, one had an assistant manager who was in charge of internal auditing and efforts were made to prevent dishonesty. However, as there are few employees in the province in general, hardly any KUD carry out internal audits.

In fiscal 1995, 32 KUD were audited by KJA. In Lampung Tengah district, which we

surveyed, 18 out of 34 Mandiri were audited by KJA. However, some KUD feel that auditing fees are high.

Of the KUD we surveyed, only KARYA TANI had a telephone installed. In addition, owing to a lack of funds, it is impossible to introduce more RMUs, warehouses, and trucks to upgrade capacity, with the result that KUD cannot compete with private operators. There are also some KUD that do not have enough TPKs and that are unable to provide adequate services to their members.

(2) Evaluation

Owing to a lack of facilities caused by a shortage of funds, many KUD are unable to provide sufficient services to their members. However, if concrete equipment and business plans were revealed, the cooperation of members could be obtained in increasing membership fees and compulsory savings as well internal savings from the current surplus.

Planning and administrative functions are weak. However, staff in charge of planning and administration could be appointed and large KUD could strengthen their planning and administrative functions by clarifying which departments are responsible for these functions.

The majority of funds procured are institutional funds and are loaned directly to cooperative members so they do not form part of the real assets of KUD. However, if funds for facilities and working capital were organized, business could be expanded and as management awareness is growing, many KUD have the capacity to borrow and repay institutional funds.

There are few employees and inadequate internal checking mechanisms so the chance of corruption and mistakes occurring is high. Moreover, few KUD are audited by KJA. However, directors and general managers could verify accounting figures if they learned how to do so and the frequency of audits could be increased. In addition, large KUD could conduct internal audits and if the number of employees were increased through mergers, internal checking systems could be established. If funds were secured to pay the cost, it would be possible to benefit

from audits and educational instruction by the KJA.

Few KUD calculate departmental profits in a timely manner. However, they are aware of the need of this and some KUD could perform such calculations if they were taught how to carry them out.

B Present Situation and Evaluation of Economic Business

1) Present Situation:

Fertiliser distribution remains to be a major business of KUD. During 1995, a total of 155,014 tons of urea was sold by 111 KUD which was 198% of the material sold during 1992. Farm chemicals, seeds and other farm inputs are available in the open market.

In 1995 there were 20 RMU, 87 rice dryer units, 8 units of warehouses and 8 drying floors. KUD do not own any cold stores or any other agro-processing units except for drying floors for cloves and copra and collection centres for rubber. There were 182 retail shops (waserdas) with the KUD.

Principal business of the KUD in Lampung, among others, are rice procurement, procurement of cassava, rubber, sugarcane and cash crops like cloves, coffee, rubber, and distribution of chemical fertiliser, farm credit and consumer goods. During 1995, a total of 12,494 tons of paddy/rice was purchased by 20 KUD, and sold 4,710 tons to the Bulog.

All cash crops move out of the province for further processing and marketing. Primary processing of rubber, sugarcane and coconut is done locally by State-owned and private companies. Cloves is handed over to the Puskud for the national buffer stock. Cassava is widely grown and is used for cattle-feed production and partly converted into chips for export. KUD in Central and North Lampung serve as procurement agents for 10 private feed formulators (producing 991 tons during 1994) using local ingredients e.g., banana chips, bakery, fish and shrimp flour, corn, and cassava. Being closest to consumption areas like Jakarta, a number of private companies have set up large livestock facilities for rearing beef-cattle. Also, there are a number of privately-owned poultry farms. KUD are not involved in this business. There is no dairy activity in the province.

Close proximity to high consumption area of West Java, Lampung farmers have been growing a large quantity of vegetables. Farm products are collected through the KUD network either at the initiative of the traders and their agents or at the behest of the KUD farmers' groups. The business is transacted outside the books of the KUD.

The total business volume and total surplus of KUD in 1994 and 1995 was as follows:

Particulars	1994 (M.Rp)	1995 (M.Rp)
Total Business Volume	175,803	122,085
Total KUD Surplus-SHU	756	1,153

The Puskud-Lampung is a major cooperative business organisation to which 202 KUD/cooperatives are affiliated. Its business activities include: procurement and supply of paddy/rice, corn, collection of cloves and cassava/cassava chips, coffee beans (on behalf of Inkud), distribution of fertiliser, sugar/other essential commodities, soyabeans, wheat flour and sugar. Its source of income consists of commissions and fees. Its total sales during 1995 were Rp 3,211.6 million.

2) Evaluation:

KUD main business revolves around government-supported programmes: fertiliser distribution 51.9% (of turnover), paddy 16.2%, sugar distribution 51.3% (for Puskud), farm credit, and sugar intensification. Procurement of rubber (27.4% KUD Kencana Jaya); Fees and commissions received form the core of KUD working capital; No procurement, grading and shipment facilities by KUD for cassava handling (a major product), sugarcane and rubber; Due to transmigration areas fertiliser consumption is high for paddy, cassava, sugarcane and rubber plantations; No joint marketing, joint purchasing and joint-use facility concepts adopted by KUD; and KUD facilities are grossly inadequate due to lack of communication, transportation and electricity.

C CREDIT BUSINESS AND OTHER BUSINESS: Present Situation & Evaluation

a. KUD Savings and Loan Performance

KUD SAVINGS - LAMPUNG					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Initial Savings	-	572.4	643.9	-	-
o Compulsory Savings	-	662.7	801.7	-	-
o Voluntary Savings	-	307.1	345.1	-	-
Total Member Savings	-	1,542.2	1,790.7	-	-

Source: BPS

AVERAGE SAVINGS OF SURVEYED KUD - LAMPUNG				
CATEGORY/YEAR (Rp Million)	1990	1994	1995	
o Initial Savings	1.8	4.0	5.0	
o Compulsory Savings	2.4	4.8	7.7	
o Voluntary Savings	1.7	2.2	8.5	
Total Member Savings	5.9	11.0	21.2	

Source: KUD field survey, Lampung.

KUD LOANS - LAMPUNG					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Trader Credit (KCK)	-	58.7	67.0	-	-
o Investment Credit	-	1,549.7	1,671.0	-	-
o Farmer Bus. Credit (KUT)	-	-	-	-	7,915.0
o Savings & Loan Unit(USP)	-	-	-	-	1,665.0
Total Credit (Trade/Invest)	-	1,608.4	1,738.0	-	-
Total Credit (KUT/USP)	-	-	-	-	9,580.0

Source: BPS (KCK and Investment Credit data)

Department of Cooperatives, Central Office (KUT and USP data)

Results of the field survey of five KUD in Lampung showed the total institutional loans for the surveyed KUD amounted to Rp. 1,251.3 million, for an average of Rp. 250.3 million each. Most surveyed KUD cited problems accessing bank credit for investment and working capital to finance new facilities and/or business expansion. Total member loans outstanding, including USP business, averaged Rp. 17.3 million per KUD surveyed. Agricultural production credit outstanding, under member credit channeling, averaged Rp. 319.0 million per KUD surveyed.

b. Other business

Financial services, other than credit, practiced by KUD in Lampung include collection of utility bill (47 KUD) and telephone service business (2 KUD).

c. Evaluations

1) Institutional Borrowing

Primary hampering factors to KUD business growth in Lampung include: poor access to bank credit. Only 40 percent of surveyed KUD had bank-sourced working capital loans and only 20 percent were able to borrow for fixed asset expansion.

Possibilities for expanding Lampung KUD access to institutional credit include: closer working relationship between KUD and private commercial banks engaged in agribusiness financing; and expanded financing from private joint venture business partners.

2) Member Savings and Loans

The savings and loan business of KUD in Lampung expanded from Rp. 1.3 billion in 1994 to Rp. 1.6 billion in 1995, yet only represents 1.1 percent of total business volume of Lampung KUD. USP programs of all surveyed Lampung KUD surveyed was very small. Primary hampering factors include: failure of KUD to pay interest on savings; low rate of growth in member voluntary savings; delays in loan processing and credit releases; and weak KUD loan supervision.

Possibilities for increasing member voluntary savings in support of Lampung KUD savings and loan programs include: ensuring a competitive market rate of interest paid on savings. Possibilities for improving member lending programs include: simplifying lending procedures and reducing the time for loan processing.

3) Member Credit Channeling

The total volume of credit in Lampung supplied by banks to farmers has declined in recent years. Primary hampering factors for KUD income growth in this business include: failure of KUD to participate in loan risk; poor loan supervision; complex credit planning and approval procedures; lack of coordination between farmer groups, KUD and handling bank; and failure of KUD to provide timely business services to members.

Possibilities for increasing Lampung KUD earnings in the area of member credit channeling include: direct KUD participation in loan risk; improved loan supervision; simplified credit administration procedures; improved co-ordination between member borrowers, channeling bank and KUD; improved KUD business services to members.

D Human Resource Development and Guidance Activities in Lampung

a. Present situation and evaluation of education and training for officials and employees of KUD

Cooperative movement of Lampung is not active for conducting training programmes. Primary level (KUD) is conducting training of officials and employees through On the Job Training and KUD MANDIRIINTI is conducting training of officials and employees of KUD in the district. PUSKUD in Lampung is not conducting training for KUD.

BALATKOP - Trainees received from KUD in 1995 by BALATKOP in Lampung
Directors: 103; Supervisors: 0; Managers: 58; Employees: 40

DEKOPINWIL - No training activity for KUD

DEKOPINDA - No training activity for KUD

PUSKUD - No training activity for KUD

Training needs in Lampung

According to the BALATKOP of Lampung, needs for training for officials and employees are as follows;

Supervisor : Internal control system, Accounting system, Business planning, Management of cooperative, Business development

Director : Guidance activities, Cooperative organizations, Management, Planning

Manager : Management skills and business development, Accounting, Organization and management, Control of budget

Employees : Business Management, Accounting, Marketing, Processing, Distribution

b. Situations of training and education activities in 5 KUD surveyed

KUD Karya Maju: Business administration: 1 ; Accounting: 1; Management: 1

KUD Usaha Bersama: Rice Mill operation: 2; Electricity service: 2 ; Management: 2 ;
Accounting: 1; Agricultural Business: 1

KUD Tri Widodo: Management: 5 ; Accounting: 3

KUD Kencana Jaya: Management: 13 ; Accounting: 4

KUD Karya Tani: Management : 1 ; Accounting: 2 ; Saving and loan: 2 ;
Cooperative business: 2

(Interviews at each KUD, in 1995)

The 5 KUD surveyed has adopted the education fund appropriated from the surplus fund of the year within 5%. KUD Karya Matu adopted 2.5% of the surplus fund while other 4 KUD adopted 5% of the surplus fund.

c. Situation and evaluation of guidance activities in 5 KUD surveyed

The two KUD out of five KUD surveyed in Lampung are providing farm guidance and one KUD is promoting better living guidance, although there are no specific sections or employees in charge, the employee of KUD is engaged in guidance activities as additional works.

Farm guidance

Names of KUD	No. of employees in charge	Contents of guidance
KUD Kencana Jaya	1	Rubber
KUD Karya Tani	2	Cattle

Better living guidance

Names of KUD	No. of employees in charge	Contents of guidance
KUD Karya Tani	3	Commodity knowledge Rationalization of living expenses

The employees of KUD in charge of farm guidance are specialized in their guidance activities while the employees in charge of better living guidance have their daily jobs in KUD as main duty other than guidance activities.

The employees in charge of farm guidance can obtain technical information from PPL when they visit to farm households for extension service together with PPL.

E Organization, Management and Business of PUSKUD

PUSKUD (PUSKUD SABURAI LAMPUNG) in Lampung carries out various business such as handling of sugar, wheat flour, rice, fertilizer, fuel and feeds, transport of fertilizer and, processing of coffee, etc. The sales of sugar covers 51.3% of the total sales (excluding service income).

Looking at the management conditions, in the 1994 settlement of account, the PUSKUD has enrolled much deficits but they recovered it into profits in 1995.

The number of KUD in the whole province is 255 and 184 among them are PUSKUD members excluding candidates. Then, the number of KUD that has not joined the PUSKUD is 71 KUD and the ratio becomes 72.2%. The officials consist of 5 directors (board member) and 3 supervisors. The total number of employees is 51 persons, of which 7 persons are managers in charge of business (including the executive manager) and 44 employees, of which 9 persons are female.

Total assets as of the end of fiscal 1995 was Rp. 4,852.0 millions and total own capital was 1,415.9 million Rp. Capital procurement from outside sources are short term loans and long term loans. Amount of short term loans from bank, etc is 1,344.0 million Rp. which covers 27.7% of the total assets. The amount of long term loans from INKUD, BULOG, etc is 1,586.5 million Rp. which covers 32.7% of the total assets.

The breakdowns of the major business volume (volume usaha) of 4,160. million Rp is as follows; the sales of sugar is 1,648.2 million Rp; the sales of wheat flour is 640.1 million Rp.; the sales of rice is 514.0 million Rp.. The income from the service charge is 904.3 million Rp which is 21.7% of the total income.

VI WEST NUSATENGGERA PROVINCE

A Organization and Management

I Organization

(1) Conditions

There were 134 KUD in the province that were established in all of the 59 sub-districts and all of these were authorized as Mandiri. In addition, there was one KUD Mandiri INTI in each of the 6 districts in the province.

On average, the number of members, number of employees, and business turnover were higher than the nationwide average but the scale of assets and current surplus were below the national average.

The major operations conducted by KUD were the supply of fertilizer, rice and paddy marketing, and RMU operation. The production of parawija and vegetables and the raising of livestock were also being carried out but there were hardly any KUD marketing operations. In the case of other businesses, most KUD operated credit businesses and Waserda (retail shops) and the number of KUD operating telephone stations (Wartel) was increasing.

The average membership rate was 18.1% and the average number of cooperative members was 1,799, both of which were higher than the national average.

The major businesses operated by KUD are agricultural and farmers form the majority of members. However, farmers make up less than half of the membership in some cases. The KUD see the benefit of membership as consisting of the ability to easily obtain agricultural production materials but of the five KUD we surveyed, the highest membership rate for farmers was 51.7% and it was less than 10% in 2 KUD. In the province as a whole, only 52.3% of Kelompok Tani members are members of KUD. We saw one example of a KUD that conducted promotional activities by developing water facility organizations and collecting electricity charges. However, we found no instances of newsletters and pamphlets being published nor of presentations concerning KUD activities.

The KUD use the Kelompok Tani meetings to produce operating plans, to consider production plans related to KUT applications, to put together supply volumes of fertilizer, to provide information from KUD, and to examine the price of agricultural and other products. Meetings are held frequently. Moreover, most groups in Kelompok Tani are rice groups but there are also soybean, livestock, poultry raising, horticulture,

and fishermen's groups. They appear to play the role of producer organizations for KUD. In the case of cooperative organizations, there were a group of credit business users, a krukup (name of food) processing group and a women's rattan handicraft group.

The prescribed number of directors is 3 or 5 and about a quarter of all KUD have 3 directors. Their term of appointment is 3 or 5 years and each KUD decides the term that suits their actual circumstances. Directors meetings are held monthly in many cases and one KUD holds them once or twice a month. There were roughly equal numbers of directors who were farmers, public servants, self-employed, and with other occupations but at one KUD, all 5 directors were public servants.

Audits are conducted every quarter and chiefly focus on finances. At some KUD, there were office employees that acted as assistants to the auditors. In many cases, 3 auditors must be appointed for a term of 3 years. A relatively high number of auditors were farmers and at one KUD, all the auditors were farmers.

Directors were elected at general meetings and director recommendation committees had been established. In many KUD, directors were appointed rather than elected. Furthermore, in many KUD, those attending the general meeting just elect director recommendation committee members rather than those recommended being appointed.

The average number of general managers at KUD in the province was 1.2 and in the case of West Lombok Kabupaten, two had been appointed at each KUD. When there were 2 general managers, one of them was in charge of credit business.

The average number of employees in the province was 10.3, above the national average. However, in 3 Kabupaten out of 6, the average was about 7-8 employees.

(2) Evaluation

The number of cooperative members and the membership rate in the province were higher than the national average but KUD were still small in size. Consequently, they have weak financial strength and are unable to provide sufficient services to their members. However, no KUD were actively engaged in promotional activities. As many people who have not yet joined KUD wish to do so, there is room to increase the number of members if active efforts are made. Directors could all work together in promoting their organizations and pamphlets could be produced and large KUD have sufficient capacity to publish newsletters.

Moreover, small KUD are aware that they lack financial strength and business capability so if their awareness was changed, it would be possible to encourage mergers.

Many KUD have appointed several general managers and the number of employees is higher than the national average. However, they do not adequately respond to the wishes of their members or engage in new businesses. If it were possible to increase the authority of general managers and to introduce performance-based salaries, general managers would have a greater desire to become involved in business and management would improve.

There are few producer organizations and there are some examples of women's groups being formed but few KUD are active in this area. However, cooperative members are seeking marketing and technological information so it would be possible to cultivate producer organizations. As there are some examples of producer organizations and women's groups are being cultivated and supported, this could be more widely adopted by other KUD.

2 Management and Administration

(1) Conditions

As regards operating conditions, average business turnover was Rp 690.8 million, which was higher than the national average but the average current surplus per KUD was Rp 5.7 million, about 80% of the nationwide average. In terms of financial conditions, total assets held by KUD averaged Rp 175.3 million, approximately three-quarters of the national average, and equity capital averaged Rp 79.8 million, which is equivalent to 70% of the national average. The equity ratio was 45.5%, slightly lower than the national average. In terms of profitability, the ratio of current surplus to business turnover averaged 0.8% in the province, slightly lower than the national average of 1.1%.

Various plans exist to start up new businesses (livestock, chickens, soybeans, dried fish, and others), to support the business activities of cooperative members by providing facilities, etc., and to expand the businesses of the KUD themselves. However, many items in these plans had not been made specific. We believe this is due to financial problems but another reason is the fact that planning and

administrative functions are weak and have therefore not been pursued continuously.

As many KUD have few employees and it is difficult to establish internal checking mechanisms, there is a high risk of corruption occurring. Moreover, hardly any KUD carry out internal audits and no KUD have established a department for this purpose. With regard to audits by KJA, all of the 5 KUD we surveyed were continuously audited and we believe that many KUD are audited by KJA.

All KUD had installed RMUs and built warehouses and there were many rice-related facilities. In addition, many KUD had established purchasing stores (Waserda).

(2) Evaluation

Although there are various plans to provide equipment and so forth, many items in them have not been made specific enough. This is due to financial problems and also to the fact that planning and administrative functions are weak and have therefore not been pursued continuously. However, large KUD could set up specialized planning and administration department.

Efforts are being made to increase equity capital but the absolute amount is still small. However, if concrete plans concerning equipment and businesses were shown to members and they were sufficiently persuaded, they would probably cooperate in providing funds.

A high proportion of funds procured are institutional funds and are loaned directly to members so they do not form part of the real assets of KUD. Moreover, there is a lack of working capital and a strong desire for soft loans. If institutional funds for facilities and working capital were organized, business could develop and as management awareness is growing, there is a capacity to borrow and repay institutional funds.

Many KUD make voluntary savings deposits but the balance is still small and they do not constitute a major source of finance. Fund management capability is also low. However, expertise could be acquired and accumulated from KUD that are proficient fund managers.

Many KUD have few employees and it is not easy for them to create internal checking systems. In the case of those that find it difficult to establish these systems, the frequency of audits by auditors could be increased to curb corruption

and mistakes. Moreover, directors and general managers could verify accounting figures if they learn how to do this. Although KUD are being audited by KJA, few KUD are receiving management instruction. If the cost could be borne, KUD could not only be audited by KJA, but also receive management instruction.

Some KUD calculate departmental profit and loss, but most do this only at the end of the business year and there is a lack of management of the progress of businesses and profit and loss. No KUD allocate expenses for business administration. However, KUD are aware of the need to calculate departmental profit and loss and if there were adequate guidance systems, it would be possible to increase the number of KUD that could carry this out appropriately.

Hardly any KUD have installed computers and business and work procedures have not been rationalized. Depending on the region, KUD could jointly install computers as well as participate jointly in the development and use of software.

B Present Situation and Evaluation of Economic Business

1) Present Situation

In the low-rain province, farmers need more of water and fertiliser. Fertiliser distribution still remains to be the principal business of KUD. During 1995 a total of 90,760 tons of chemical fertiliser was distributed by 109 KUD. Farm chemicals, seeds and other farm inputs are available in the open market.

In 1995 there were 261 RMU, 147 rice drying units and 235 paddy drying floors in the KUD sector. A majority of drying floors and rice milling machines are damaged and are not in use due to low maintenance and under-utilisation. The quality of milled rice does not, therefore, meet with the quality standards of Bulog and is therefore often rejected. KUD do not own any cold stores or any other agro-processing units. Some KUD possess facilities for cleaning and storing facilities for cloves, cashew nuts and rattan. There were 127 KUD retail outlets (waserdas).

Principal business of the KUD in West Nusa Tenggara, among others, are procurement of rice, cloves, corn, cassava, cash crops like coffee, coconut, rattan and cashew nut, distribution of chemical fertilisers, farm credit and consumer goods. During 1995 a total of 28,948 tons of paddy/rice was purchased by the 79 KUD from farmer-members and a total of 9,002 tons was sold to the Bulog by 34 KUD.

All cash crops move out of the province for further processing and marketing. Primary processing of coconut, rattan and tobacco is done locally by some private companies. Raw rattan is harvested by the members and delivered to the KUD (KUD Karya Utan) which delivers the material to a private company for further processing and marketing. The KUD, in fact, serves as a collection agent. (This KUD is also engaged in the marketing of fish at the local level). Cloves is handed over to the Puskud for the national buffer stock. Some private companies have their own livestock facilities and poultry farms to serve the high consumption area of nearby Bali Island and East Java. There is no cattle-feed production and dairy activity in the province. There are some very traditional privately-owned slaughter houses.

The total business volume and total surplus of KUD in 1992 and 1995 was as follows:

Particulars	1992 (M.Rp)	1995 (M.Rp)
Total Business Volume	71,644	54,405
Total KUD Surplus-SHU	565	792

The Puskud-West Nusa Tenggara (established 1987) is a major cooperative business organisation to which 126 KUD/cooperatives are affiliated. Its business activities include: procurement and supply of paddy/rice, rice milling, distribution of fertiliser, sugar and other essential commodities, collection of cloves, coffee, pumice stone (Batu Apung) and other farm products and distribution of consumer goods. It has business joint venture with PT Goro, a private wholesale enterprise. Its total sales during 1995 were Rp 3,158.4 million. The Puskud gets fertiliser distribution fee which constitutes a major share of its working capital. It also collects fees for distribution of other commodities.

2) Evaluation

KUD main business revolves around government-supported programmes: Fertiliser 22.9% (of the total turnover) (38.6% in the case of KUD Karya Utan), paddy 13.6% (31.3% for KUD Karya Utan), procurement of cloves 95.8% (for Puskud), and disbursement of farm credit; Fees and commissions received form the core of KUD working capital; No procurement, grading and processing facilities for rattan, coconut, tobacco and cashewnut (important products of the province); RMU, drying floors and warehouses are extensively damaged due to low maintenance and under-utilisation; Transportation grossly inadequate; Due to inadequate rainfall, land tilling and other farm machines are in great demand; No joint marketing, joint purchasing and joint-use facility concepts adopted; Livestock development, tobacco, corn and horticulture have strong potentials.

C

CREDIT BUSINESS AND OTHER BUSINESS: Present Situation & Evaluation

a. KUD Savings and Loan Performance

KUD SAVINGS - WEST NUSA TENGGARA

CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Initial Savings	-	297.9	324.3	-	-
o Compulsory Savings	-	1,277.0	1,464.4	-	-
o Voluntary Savings	-	142.0	214.9	-	-
Total Member Savings	-	1,716.9	2,003.6	-	-

Source: BPS

AVERAGE SAVINGS OF SURVEYED KUD - WEST NUSA TENGGARA

CATEGORY/YEAR (Rp Million)	1990	1994	1995
o Initial Savings	0.0	1.6	2.6
o Compulsory Savings	0.0	7.3	9.7
o Voluntary Savings	0.0	0.2	0.6
Total Member Savings	0.0	9.1	12.9

Source: KUD field survey, West Nusa Tenggara

KUD LOANS - WEST NUSA TENGGARA

CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Trader Credit (KCK)	-	105.4	106.3	-	-
o Investment Credit	-	2,778.8	3,310.1	-	-
o Farmer Bus. Credit (KUT)	-	-	-	-	5,932.0
o Savings & Loan Unit(USP)	-	-	-	-	5,115.0
Total Credit (Trade/Invest)	-	2,884.2	3,416.4	-	-
Total Credit (KUT/USP)	-	-	-	-	11,047.0

Source: BPS (KCK and Investment Credit data)

Department of Cooperatives, Central Office (KUT and USP data)

Results of the field survey of five KUD in West Nusa Tenggara showed the total institutional loans for the surveyed KUD amounted to Rp. 150.3 million, for an average of Rp. 30.1 million each. Surveyed KUD difficult investment credit and working capital to finance business expansion. Total member loans including savings and loan business, averaged Rp. 18.1 million per KUD surveyed (although one KUD accounted for two-thirds of total member lending). Farm production credit outstanding, under member credit channeling programs, averaged Rp. 34.1 million per KUD surveyed observed that lack of sufficient business capital was limiting growth in business volume and supply of fertilizer and continuous operation of manufacturing facilities (e. g. rice mills).

Possibilities for expanding West Nusa Tenggara KUD access to institutional credit include: expanded KUD business contact with local banks and private commercial banks engaged in agribusiness financing; initiating business partnerships with groups with established banking linkages.

2) Member Savings and Loans

The savings and loan business of KUD in West Nusa Tenggara expanded from Rp. 3.7 billion in 1994 to Rp. 5.1 billion in 1995, representing 5.0 percent of the total business volume of NTB KUD. Except for KUD Karya Utan, the USP business of the surveyed KUD was very small. Primary hampering factors limiting this business include: low rate of growth in member voluntary savings; delays in loan processing and credit releases; and delinquent loan repayment and loan losses resulting from poor KUD loan administration.

Possibilities for improving West Nusa Tenggara KUD savings and loan programs include: active KUD promotion of voluntary savings among members; KUD establishing policy supporting payment of market rate of interest on all member savings; developing standardized lending procedures which shorten the time period for loan processing and improve loan supervision.

3) Member Credit Channeling

The total volume of farm credit supplied by banks to farmers in West Nusa Tenggara supplied has declined in recent years. Primary hampering factors for KUD income growth in this business include: cumbersome loan planning and approval procedures; insufficient number and skills of KUD staff and management to provide adequate loan supervision; and lack of KUD participation in loan risk.

Possibilities for increasing West Nusa Tenggara KUD earnings in the area of member credit channeling include: simplified and standardized lending procedures; procedural training for KUD staff engaged in loan administration; and KUD direct participation in loan risk sharing with bank.

D Human Resource Development and Guidance Activities in West Nusa Tenggara

a. Present situation and evaluation of education and training for officials and employees of KUD

Cooperative movement of West Nusa Tenggara is not active for conducting training programmes. The situation of implementation of training for officials and employees of KUD by both Government and Cooperative Organizations in 1995 was as follows.

BALATKOP: Directors:198; Managers: 52; Employees:93

DEKOPINWIL - No training activities conducted for KUD

DEKOPINDA - No training activities conducted for KUD

PUSKUD - No training activities conducted for KUD

According to the BALATKOP of WNT, needs for training for officials and employees are as follows;

Supervisor : Saving and loan, Enterprenurship, Business planning (Retail business)
: Feasibility study for credit business, Business development (Trade and service)

Director : Management development

Manager : Management skills and business development

Employees : Office Management, Saving and loan

b. The situation of participation in training programmes in 5 KUD surveyed

The number of persons participated in training courses in 1995

KUD Karya Utan : No training activity was done so far

KUD Kita :Saving and loan:1; Electricity service: 3 ; Management: 2 ;
Retail shop management : 1

KUD Pelita :(Total of employees who have experienced training)
Retail shop management: 4; Accounting: 6; Rice mill operation: 4
Electricity service: 8; Saving and loans: 3

KUD Doro Cumpa: Saving and loan:2; Accounting:1; Wartel: 3; Post harvest:2

KUD Ritam: Rice mill operation: 1 ;Business Management:1 ;Saving and loan :1
Retail business:1

Five KUD surveyed are all adopted the fund for education with the percentage of 2% to 5%.

c. Situations of guidance activities in 5 KUD surveyed

In West Nusa Tenggara, farm guidance and better living activities are adopted by some of KUD which are handling livestock business and rubber. In case of KUD handling rice and vegetables, there is no specified employee in charge of farm guidance. However, some technical information such as use of a fertilizer and agricultural chemical is provided to members who

purchase from KUD. The better living guidance is conducted by some of KUD in West Nusa Tenggara. However, there are no specified employees of KUD who are assigned as better living advisor who exclusively engaged in guidance activities.

In West Nusa Tenggara, there is a total of 60 BPP (Agricultural Extension Office), 394 PPL (Agricultural Extension Workers) and 25 PPS (Subject Matter Specialist) is working as public workers. The employees or directors often visit farm households together with PPL when PPL provides guidance to a farmer. KUD employees are able to obtain the latest information through PPL by working together for an extension guidance.

Regarding better living guidance, the Department of Cooperative and Small Enterprises of Lampung, assigned about 7 PKL in average per District as public workers who facilitate cooperative extension to members and nonmember of KUD. They are promoting member education together with officials and employees of KUD.

E Organization, Management and Activities of PUSKUD

The main business conducted in Puskud, West Nusa Tenggara is that of the handling of cloves and transportation focusing on fertilizer. Other business includes pumice stone, sugar, the handling of bran wheat, warehousing, RMU, trucking service and the credit business. Gross business turnover (Volume Usaha) are Rp 135.7 million from business commissions, Rp1,792.5 million from the sales of commodities, Rp 1,079.8 million from service-related income, for a total of Rp3,008.0 million. In addition to this, income from sources other than business totals Rp150.4 million.

There are 134 KUD in the province, 124 of which are members of Puskud, and ten of which are non-members, which means that the KUD membership rate is 92.5%.

The Board of Directors is the job execution agency. There are five appointed directors, three of which serve full-time. The Puskud has 53 full-time employees including a manager.

At the end of fiscal 1995, gross assets were Rp4,094.5 million, and owned capital was Rp1,295.6 million. There were no bank loans.

Clove sales accounted for Rp1,650.0 million, or 54.9% of the total business volume, and sales from the transportation business came to Rp955.1 million, which was 31.8% of the total earnings, with these two forms of business combined accounting for 87%.

VII SOUTH KALIMANTAN PROVINCE

A Organization and Management

1 Organization

(1) Conditions

There were 289 KUD in the province, of which 215 had been authorized as KUD Mandiri, making a Mandiri ratio of 74.4%, well above the nationwide average. There was also one Mandiri INTI in each of 1 city and 9 districts.

The main businesses operated by KUD were fertilizer distribution, rice and paddy marketing, and RMU operation but in plantation regions, plantation produce was being handled. In the case of other businesses, 213 KUD operated purchasing stores (Waserda), 79 KUD were engaged in credit businesses, and 9 KUD handled coal. In addition, 98 KUD operated electricity charge collection businesses.

Of the 5 KUD we surveyed, 2 KUD were located in immigrant regions and were operated by immigrants who came from Java and other places around 1985. One of these covers a region with 4 villages but cooperative members are concentrated in an immigrant region with 2 villages and there were no cooperative members in 1 village where fishing is the main business so KUD activities do not extend to all areas. Moreover, except during rice planting and harvest seasons, cooperative members work away from home. A general meeting was scheduled to be held in February 1996 but it was unable to be held because it was impossible to bring cooperative members together. As of September 1996 it had still been postponed.

One KUD was established in 1995 but even though it was in a region where another KUD existed, the founders were unaware of this because its business had not extended far. In addition, although it covers a region containing 5 villages, cooperative members are in only one village and the main business is buying and selling land.

The cooperative membership rate was 5.9%, far below the national average. The average number of cooperative members per KUD was 343, which is only a quarter of the nationwide average. The majority of members are farmers and in the case of the KUD we surveyed, there were no cooperative members that were not engaged in farming. The benefits of membership are access to KUT loans and the fact that it is easy to buy fertilizer, access to fertilizer loans and payment in arrears; dividends; the fact that it is easy to sell rice and paddy; the use of RMUs; and a high limit on credit payments. Nevertheless, the rate of membership among farmers is low.

One KUD continuously gives presents to cooperative members at Islamic festivals and another has distributed pamphlets concerning the law on cooperatives to its members. However, hardly any other KUD have taken any active promotional or educational measures and as KUD loans are restricted to KUD members, every KUD aims to increase KUD dealings. In this regard, increasing the number of cooperative members is being encouraged.

With regard to cooperative organizations, the female cooperative members of one KUD had formed a women's group. Their membership fees and compulsory savings deposits were refunded and were used to assist them in operating a credit business. In the case of producer organizations, one KUD has a local chicken and goat raising group and the leader is a KUD director but KUD marketing operations are not being carried out.

In one case, 5 directors have set up system dealing with 16 Kelompok Tani and they visit one each month. However, many Kelompok Tani members have not joined KUD and some Kelompok Tani have no KUD members.

Many KUD hold directors meetings monthly but some KUD meet on a daily basis. Moreover, at many KUD, directors work without receiving any remuneration. In terms of occupations, 65% of directors in BARITO KUALA district are full-time farmers and also there are many teachers, former service personnel, PPL (Agriculture Extension Officer) and PKL (Cooperative Extension Officer).

Audits are conducted every quarter and mainly focus on finances. In 5 KUD that we surveyed, all of the auditors were full-time at 4 KUD, and at the other KUD, they were village heads and teachers.

Some KUD elect only the head of the cooperative by ballot at the general meeting and he or she appoints the other directors. At other KUD, directors are decided on by discussion and a general vote to elect directors at the general meeting is not carried out nor a ballot to nominate directors. Other KUD have a system whereby each Desa selects one director recommendation committee that recommends directors and directors are decided on by discussion with the village head of the Desa and the leader.

General managers have been appointed at 74% of KUD but there were 587 employees in the province and the average is only 2.03 per KUD. The largest KUD has 20 employees. About 25% of KUD have no employees and the directors operate the

business directly while there are several KUD where the only employee is the general manager. As there are few employees, many hold concurrent posts and it is difficult to establish internal checking systems. As a result, the risk of corruption is high. Moreover, no KUD conduct internal audits. There is also one KUD where one director and 8 cooperative members work without remuneration. In addition, one KUD had established a branch office in the provincial capital Banjarmasin and this was used to collect rice marketing information and to make arrangements for fertilizer.

(2) Evaluation

KUD tend to be small in size and suffer from a lack of employees and funds. Many are also unable to provide sufficient services to their members. Despite the small organizational base, new KUD are being established and separating from their original organization, raising fears of downsizing. Many small KUD are aware that they lack financial strength and business capability so mergers could be encouraged. Moreover, if there are concerns that this could lead to downsizing, they could be prevented by persuasion.

The authority of general managers is extremely limited on the whole. General managers have been appointed at 74% of KUD and many KUD are aware of the need for general managers. If their authority were increased and performance-based salaries were introduced, general managers would have a greater desire to engage in business and this would lead to improved management of KUD.

Although there are few cooperative members and the membership rate is low, few KUD are actively engaged in promotional activities. However, as many who have not yet joined KUD would like to do so, there is enough room to increase the number of members if active efforts are made. It would be possible for directors to obtain the cooperation of positive members and to all work together in promoting their organizations. There are cases where directors are responsible for particular *Kelompok Tani*, which they visit each month to promote their organizations. Pamphlets could be produced and large KUD could publish newsletters.

There are hardly any producer organizations and joint marketing is not carried out. There are few women's groups. There are also *Desa* where no TPK have been set up as well as regions that are difficult for cooperative members to use. However, cooperative members are seeking marketing and technological information so producer organizations could be cultivated. There are some KUD

where there is a high proportion of female members and as there are independent women's groups, KUD could also cultivate women's organizations. Furthermore, if cooperative members were entrusted with their management, TPK could be established.

As transportation and telecommunications conditions are inadequate, communication with cooperative members and business activities have not reached some members. However, with the cooperation of many KUD, wireless telephone facilities could be set up.

2 Management and Administration

(1) Conditions

Operating conditions are weak in the province. The average current surplus was Rp 5.6 million, about 80% of the nationwide average; average business volume was Rp 155.2 million, about one quarter of the national average; total assets averaged Rp 85.2 million, one-third of the national average; and equity capital averaged Rp 36.7 million, one-third of the national average. The average equity ratio was 43.1%, which is slightly below the national average. In migrant areas, a large percentage of equity capital is derived from donations. This is because at the time of migration, the Department of Transmigration, the provincial governor, and the village head donated land and buildings. Membership fees and the balance of compulsory savings deposits are small at all the KUD and there are few internal savings. Few cooperative members pay fixed compulsory savings every month, with these being appropriated from dividends from the fiscal year-end current surplus in many KUD.

The ratio of borrowings to total assets is low and besides loans from financial institutions, funds are also provided by KANDEPKOP, PUSKUD, electric power companies, BULOG (Food Procurement Agency), and others. There are hardly any voluntary savings.

The ratio of current surplus to business turnover averaged 3.6% for the province, well above the national average, and profitability is high.

Of the KUD we surveyed, only one KUD had a telephone installed and there was also one at the branch office in Banjarmasin. Owing to a lack of funds, it is impossible to introduce more RMUs, warehouses, TPKs, motor boats for transporting cargo, trucks, animal feed plants, gasoline stations, roof tile plants, and other facilities. There is an

RMU in only one place and in some business areas, it is impossible to provide adequate services. Cooperative members complain of places being too "far away" and too "small".

(2) Evaluation

Although plans exist, many items in them have not been specified because of weak planning and administration functions. Staff could be appointed and planning and administrative functions could be strengthened while large KUD could establish specialized staff responsible for planning and administration.

Efforts are being made to boost equity capital but absolute amounts are small. Some KUD put aside part or all of the current surplus as savings and appropriate part or all of dividends to increase compulsory savings. These practices could be more widely adopted. Attempts to raise business profits would also lead to stronger equity capital.

The majority of funds procured are institutional funds and they are loaned directly to cooperative members so they do not form part of the real assets of KUD. Business could be expanded and as management awareness is growing, there is a capacity to borrow institutional funds. There are hardly any voluntary savings deposits and fund management capability is lacking.

Most transactions involve cash and good cannot be purchased appropriately because of a lack of cash. There are not enough essential facilities and equipment such as trucks.

Many KUD have few employees and it is not easy to establish internal checking systems. There are no systems for conducting internal audits. Few KUD are members of KJA. Corruption and mistakes could be curbed by increasing the frequency of audits by auditors and external audits. Directors or general managers could verify accounting figures. If funds to cover the cost could be secured, KJA could not only provide audits, but also management education. It would also be possible to clarify internal audit department and staff in charge of this function.

Although accounting standards have been indicated, they are not thoroughly implemented and few KUD calculate departmental profit and loss in a timely manner. KUD are aware of the need to calculate departmental profit and loss and so a standardized accounting system could be thoroughly implemented.

B Present Situation and Evaluation of Economic Business

1) Present Situation:

Distribution of chemical fertiliser still remains to be the principal business of KUD in the province. During 1995 a total of 29,839 tons of urea was sold to the members by 28 KUD. Farm chemicals, seeds and other farm inputs are available in the open market.

In 1995 there were 29 rice milling units, 70 rice dryer units and 33 warehouses with paddy drying floors. A majority of rice milling machines are either not in working condition or are under-utilised. The milled rice does not meet with the quality standards of the Bulog and are often rejected. Some of the KUD have drying floors and warehousing facilities for cloves, groundnuts, coconut, rubber and coffee beans. There were a total of 221 KUD retail outlets (waserda).

Principal business of the KUD in South Kalimantan, among others, are procurement of rice, cloves, corn, cassava, coal mining, cash crops like coffee, coconut, farm credit, and consumer goods distribution. During 1995 a total of 4,396 tons paddy/rice was purchased from the members by 54 KUD, and a total of just 49 tons was supplied to the Bulog by 2 KUD.

All cash crops move out of the province for further processing and marketing. Primary processing of groundnut, coconut, cassava, rubber, coffee beans is done locally by some of the private companies. Whatever quantity of cloves is produced (6,823 tons in 1994) and procured by the KUD is handed over to the Puskud for the national buffer stock. There is no significant processing business for livestock, poultry and horticulture. Most of the slaughtering facilities are operated by the government, and the entire production is consumed locally. There is no dairy activity in the province.

The total business volume and total surplus of KUD in 1994 and 1995 was as follows:

Particulars	1994 (M.Rp)	1995 (M.Rp)
Total Business Volume	43,224	44,362
Total KUD Surplus-SHU	1,400	1,626

The Puskud-South Kalimantan (established 1975) is a major cooperative business organisation to which 160 KUD/cooperatives are affiliated. The business activities of the Puskud include: procurement and supply of paddy/rice, distribution of fertiliser and sugar and other essential commodities, procurement of cloves for the buffer stock and to provide development support

to its affiliates. It collects commission/fees for the supply of fertiliser and cloves which form a significant part of its total working capital.

2) Evaluation:

KUD main business revolves around government-supported programmes: Fertiliser 50.1% (of turnover) (highest being 97.0% for KUD Tungtung Pandang), paddy 17.1%, cloves 6.4% (for Puskud), and farm credit; Fees and commissions received form the core of KUD working capital; No processing of oranges undertaken by KUD (a major product of the province); Farm machines, transportation equipment grossly insufficient; Transportation of goods difficult due to low-lying areas and inadequate surface roads; All KUD-Member business transactions are in cash; No joint marketing, joint purchasing and joint-use facility concepts adopted.

C CREDIT BUSINESS AND OTHER BUSINESS: Present Situation & Evaluation

a. KUD Savings and Loan Performance

KUD SAVINGS - SOUTH KALIMANTAN					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Initial Savings	-	203.4	220.7	-	-
o Compulsory Savings	-	540.7	621.0	-	-
o Voluntary Savings	-	174.8	277.1	-	-
Total Member Savings	-	918.9	1,118.8	-	-

Source: BPS

AVERAGE SAVINGS OF SURVEYED KUD - SOUTH KALIMANTAN					
Million)	CATEGORY/YEAR (Rp				
	1990	1994	1995		
o Initial Savings	0.1	1.6	1.7		
o Compulsory Savings	1.2	2.4	3.3		
o Voluntary Savings	0.0	2.6	5.9		
Total Member Savings	1.3	6.6	10.9		

Source: KUD field survey, South Kalimantan

KUD LOANS - SOUTH KALIMANTAN					
CATEGORY/YEAR (Rp Million)	1991	1992	1993	1994	1995
o Trader Credit (KCK)	-	165.0	164.4	-	-
o Investment Credit	-	1,608.2	2,246.4	-	-
o Farmer Bus. Credit (KUT)	-	-	-	-	1,291.0
o Savings & Loan Unit(USP)	-	-	-	-	5,930.0
Total Credit (Trade/Invest)	-	1,773.2	2,410.8	-	-
Total Credit (KUT/USP)	-	-	-	-	7,221.0

Source: BPS (KCK and Investment Credit data)

Department of Cooperatives, Central Office (KUT and USP data)

Results of the field survey of five KUD in South Kalimantan showed the total institutional loans for the surveyed KUD amounted to Rp. 31.5 million, for an average of Rp. 6.3 million each. Surveyed KUD cited problems sourcing bank credit for business growth and expansion. Total member loans outstanding, including savings and loan business, averaged Rp. 0.7 million per KUD surveyed (only one KUD had active member lending program). Agricultural production credit outstanding, under member credit channeling programs, averaged Rp. 18.7 million per KUD surveyed.

b. Other business

Financial services, other than credit, offered by provincial KUD include collection of utility bill (104 KUD) and telephone service business (2 KUD).

c. Evaluations

1) Institutional Borrowing

Primary hampering factors to KUD business growth in South Kalimantan are: the inability of most KUD to borrow formally-sourced capital due to poor accessibility and underdeveloped banking services.

Possibilities for expanding South Kalimantan KUD access to institutional credit include: developing business partnerships with private sector organizations with established bank linkages; expanding contact with private commercial banks engaged in agribusiness financing; and developing banking system policies and procedures (e.g. BUKOPIN, BRI) which supply general-use standby working capital lines of credit to KUD.

2) Member Savings and Loans

The savings and loan business of KUD in South Kalimantan was reported at only Rp. 449.5 million in 1995 (79 KUD), representing only 1.0 percent of total business volume of provincial KUD. None of the surveyed KUD reported active savings and loan business. Primary hampering factors include: no access to capital to support savings and loan business; low rate of growth in member voluntary savings; delays in loan processing and credit releases; and poor/inadequate KUD loan supervision.

Possibilities for increasing member voluntary savings and improving KUD savings and loan programs in South Kalimantan include: creating incentives for members to save by establishing a competitive interest rate policy paid by the KUD to members on all forms of savings; educating KUD members on the importance of savings; and reducing impediments to timely loan processing.

3) Member Credit Channeling

In recent years, the total volume of credit in South Kalimantan supplied by banks to farmers has declined in response to high rates of loan default. Primary hampering factors for KUD income growth in this business include: underdeveloped financial markets; insufficient number and skills of KUD staff and management to provide adequate loan supervision; and inability of KUD to adequately supply production inputs and to procure, process and market farmer members produce. Possibilities for improving South Kalimantan KUD earnings in the area of member credit

channeling include: improving member credit discipline through credit awareness training; improving credit administration skills of KUD staff through training programs; expanding working capital of KUD through member savings and formal/informal borrowings to enable KUD to provide timely business supply and marketing services to members.

D Human Resource Development and Guidance Activities in South Kalimantan

a. Present Situation and evaluation of education and training for officials and employees of KUD

The situation of implementation of training for employees of KUD by both Government and Cooperative Organizations in 1995 was as follows.

BALATKOP - 92 supervisor, 85 directors ,43 managers, 46 employees and 26 members of KUD were accepted in 1995. All costs were paid by BALATKOP.

DEKOPINWIL - Lecture for leaders of all types of cooperatives was held in the occasion of the cooperative day.

DEKOPINDA - 3 DEKOPINDA out of 10 conducted training of 120 employees of KUD

PUSKUD - 44 employees of KUD in charge of clove account

DEKOPINDA in South Kalimantan are not active in training activities due to shortage of employees. Also, KUD which has a small number of employees is difficult to send their employees for training courses.

According to the BALATKOP of South Kalimantan, needs for training for officials and employees are as follows;

Supervisor - Management skill of KUD to minimize miss management; Business of KUD and relating legal system; Establishment of internal control system

Director - How to improve management and organization; Skill of member extension

Manager - Enrichment of knowledge on business;How to develop business; Management skills; Case study on problem solving; Study visit to advanced KUD

Employees - Training for improving skills to persue their duty; Cooperative law of 1992 / cooperative principle; Cooperative accounting system; Credit evaluation system

b. Situations of training and education activities in 5 KUD surveyed

According to the South Kalimantan Provincial Office of the Department of Cooperative and Small Enterprises, the total of the education fund accumulated in KUD accounts 75.9 Million Rp. The percentage of the appropriation of the surplus fund for an education purpose is within 5% and each KUD decides the percentage at the General Meeting.

They acknowledged that the amount of the education fund is not sufficient for promotion of education and guidance activities. Some of the KUD has a budget for guidance activities as one of account item in the general account. In the KANDEPKOP of Barito Kuala, with Rp.3 million, they facilitate on the job training of KUD employees at KUD Mandiri Inti. This system is appreciated by KUD.

E. Situations of guidance activities in 5 KUD surveyed

In South Kalimantan, neither farm guidance nor better living activities are adopted by KUD. KUD has no employees in charge of farm guidance. However, in 13 KUD, PPL (Extension worker) are working for KUD as a supervisor or a director while providing technical information as PPL.

As the average number of employees of KUD is 2.03 persons, 25% of KUD has no employees, it is deemed difficult for KUD to set up farm advisors. It is necessary to increase the number of employees of KUD to start their own farm guidance activity.

The better living guidance is not implemented by KUD. This is also due to the small number of employees. There are no specified employees of KUD who are assigned as better living advisors.

The five KUD surveyed in South Kalimantan does not conduct farm guidance and better living guidance. There are neither specific sections nor employees in charge of guidance. Two KUD has PPL working as a director or a supervisor of the KUD who are serving to KUD with no remunerations.

F**ORGANIZATION, MANAGEMENT AND BUSINESS OF PUSKUD**

The main business and products handled by PUSKUD are transportation of fertilizer and sugar, clove rubber and coal. Fishery business is not conducted and also PUSKUD is in charge of transportation service of fertilizer as agent and fertilizer is not supplied by PUSKUD.

There are 289 KUD in the province, but the regular members which have paid initial fee and compulsory savings are only 160 KUD, the membership ratio is 55.4%.

The officials consist of 5 directors and 3 supervisors. The number of employees is 19 persons including one general manager. Among the employees, 2 are in charge of coal and there are 48 part-time workers in coal business department.

Total assets in 1995 was 1,307.2 million Rp. The own capital became minus 326.2 Million Rp as the deficits of 579.8 million Rp was created. It is the urgent task for PUSKUD to liquidate the deficits as soon as possible. The procurement of external fund is mainly by the long-term borrowing from banks etc., and the ratio of borrowing to the total assets was 31.4%.

The total purchases were Rp 78,816,425 which was 5.5% of the total turnover (Rp 1426.3 million). The business condition of the Puskud is very weak.

During 1995 the Puskud did not undertake any significant marketing business. The total sales of the Puskud during 1995 was Rp 81,332,602 which was 5.6% of the total turnover.