

APPENDIX

VI

PRESENT SITUATION AND EVALUATION OF
6 MODEL KUD

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KUD TANI MUKTI

1. Present situation of KUD

(1) General Characteristic of KUD area

The KUD is in an administrative unit of Ciwidey Village, Ciwidey Subdistrict, Bandung District, West Java Province. Area of the KUD, about 30 km south west of Bandung city, extends to hilly and mountainous land with height of 900m in an average, ranging from 1,000 to 1,800m above sea level. An annual average temperature of the area is the lowest 18 to highest 26 degree C. The area is classified "highland" in Agro-eco System.

Main economic activity is agriculture consisting of horticulture (mainly vegetable) and dairy farming. Within the area, a state-owned tea estate exists. Arable land is limited. Average farm size on 4 villages including Ciwidey Village is shown below:

Paddy field	0.04 ha
Vegetable	0.06
Others	0.02
Total	0.12

Cool weather condition, small and hilly land and better access to urban markets in Bandung and Jakarta make the area advantageous to grow fresh vegetables as well as to keep milking cow.

Vegetable growing in the KUD area is carried out in a very intensive as well as diversified manner. A limited cultivable land is used in rotating harvests throughout the year. KUD Tani Mukuti does not engage in the business related to collecting, packaging, processing and marketing on rice and vegetable. In particular, on vegetable marketing, KUD at present is not in a position to compete to private marketer who is closely linked with whole seller in Jakarta.

In Ciwidey Subdistrict, the number of cow accounts 5,200 heads producing 9,929 kl a year. Dairy farmers in KUD Tani Mukuti keep about 1,300 heads of cow with milk production of 2,000 kl a year. An average number of cow per farmer is two (2). The biggest dairy farmer keeps 40 heads of milk cow in KUD Tani Mukuti. Cow are usually kept in a pen by largely roughage such as green grass (King grass). In dry season, these feeding staff naturally tends to be scarce.

As to milk, the KUD involves in testing, collecting and cooling procedures. All members of dairy farmer sell their milk to KUD.

Rice and palawija production in Ciwidey Subdistrict is shown in table hereunder.

(2) KUD's General Characteristics

(1977, Established)
(1990, KUD Mandiri)

This KUD, the only one in Sub-District Ciwidey, serves 12 villages in its region of operation.

Cooperative members comprise mainly farm families operating small-scale dairy and vegetable farms. There is another group of members who are thought to have joined the cooperative because of the electricity fee collection service that it provides.

This KUD's major operation is its business related to dairy farms.

Cooperative members, who once had been poor vegetable farmers, began dairy farming in 1981 with a loan from the Indonesia People's Bank, had 1,261 dairy cows as of 1995 to who used to be poor-vegetable farmer. Annual production of fresh milk stands at 1.4 million liters, which is small compared to another dairy farming area. The fresh milk produced by member farms is all stored in the KUD's cooler tanks and is sold to private milk processing companies in Jakarta, where it is transported by the KUD's trucks. The KUD also supplies part of the concentrated feed used by dairy farmers, which includes wheat bran etc. For this purpose it owns a simple feed-mixing plant. Currently the KUD does not become directly involved in activities related to vegetable marketing.

At its small stores and warehouses, the KUD operates delicatessens, and also stores and sells corn seeds, agricultural chemicals, fertilizers, etc., but these are minuscule operations. In terms of procurement of supplies for these operations, the KUD's links with Puskud are extremely weak.

Free deposits total Rp 72 million, twice the amount of five years ago. Incidentally, the interest paid by the KUD on deposits is 24% per annum, equivalent to that of private banks. The KUD has the plan to leave separated joint-business organizations with Bank Danamon for saving and loan, which is called U.U.O. For farm management guidance, two employees of the cooperative team up with personnel involved in farm improvement propagation to teach dairy technology to groups of dairy farmers. The KUD receives large numbers of requests for technical guidance from its members.

Of the approximately Rp 200 million of long-term investments held by the KUD, Rp 70 million has been deposited with GKSI as a membership fee. The KUD's ties with GKSI are strong. The volume of business over the last five years has not shown much change. In 1995, the KUD recorded revenues of Rp 1,964 million and net surplus of Rp 40 million, for a net-surplus-to-revenue ratio of about 2%. The dairy business contributes an overwhelmingly large proportion of total business. Over the past five years, the number of employees has been virtually unchanged.

The head of the cooperative appears eminently qualified to run the KUD's operations. The general meetings and board of directors' meetings are handled democratically, and further are convened periodically.

(3) Management and Organization

1) Organization

The KUD has adopted the milk cow investment fund in 1981 for developing dairy farming. Milk cows were introduced to farm households centering those who had small scale of farmland. This challenge and its success has brought great contributions to improve their life as well as nurturing dairy business as a major local industry in the area.

The KUD's members number 5,590, a 16.9% membership rate for the adult population of 33,019 in the KUD's area of operations. Adding the 8,065 persons who are candidates for membership brings the number to 13,655, or 41.4% of the adult population.

Female members number 160, only 2.8% of the total membership. The membership rate for women is low. As reasons for that, in case a householder become a member of the KUD, a spouse is also recognized to have a right same as a member in the treatment of business with the KUD, therefore, they did not find positive reasons to become a member.

Most of the KUD's members are involved in agriculture centering dairy farming, but of the total membership, 3,634 are simply users of the KUD's electricity fee collection service, and have neither paid membership fees nor made any compulsory savings. Excluding such members, the total number of members engaged if farming is 1,956, of which 1,052, or 53.8%, are dairy farmers. The members who pay membership fee and compulsory savings number 1,956 who observe duties as a member, therefore, the membership rate in real term is only about 5.9% of the adult population.

Through supporting events organized by villages, the KUD introduces people to its propagation activities and urges them to join the cooperative. In addition to encouraging candidates for membership to become official members, the KUD also needs to urge all farm families in its area of operation to become members.

The KUD's area of operations is the entire Ciwidey sub-district, encompassing 12 villages. Of these 12, three villages are located within tea estates. As employees of tea estates are organized in another cooperative, there are no members of the KUD in these three villages.

Membership is open to anyone over 17 years of age, who pays a membership fee of Rp 5,000 and who makes a compulsory savings deposit of Rp 1,000. Membership entitles are as follows;

- 1) A 3% discount on items purchased ,
- 2) Enables the member to borrow funds from the cooperative,
- 3) Dividend from immediate surplus,
- 4) Dairy farming group members can purchase consumer goods from KUD's shop in credit.

In some cases, unemployed youth have applied for membership just to be able to borrow money; as a consequence, about 30% of households have multiple members.

There are 64 members organizations and farmers groups including 20 dairy farming groups, 3 horticulture groups, 6 rice producers groups, savings and loan users groups and electricity fee collection groups, which are used by the KUD to compile orders for

fertilizer, gather applications for system-related financing, and to explain cooperative business operations. On the other hand, although agricultural extension workers (PPL) provide guidance on matters relating to farm management. The KUD's farm advisors and veterinarians are providing guidance to dairy farmers.

There are no organizations for women that are led by the KUD.

The KUD has five directors, who hold weekly board of directors' meetings. Three auditors spend about a week every three months auditing the cooperative's finances, bookkeeping and accounting.

The general meeting is a two-stage process, starting with district-based general meetings (in two locations) followed by the main general meeting, which takes place in mid-January with 50 persons in attendance. For the district-based general meetings, delegates comprise persons elected from among those in attendance at the kerompoktani meetings. These make up 10% of those in attendance at those meetings. The district general meetings then elect 10% of those in attendance there to be representatives at the main general meeting. So the selection process is democratic.

With regard to work place organization, the KUD operates through six divisions under the general manager: the general affairs division (accounting control, cashiering, general affairs, security, cleaning); the dairy division (division management and records, milk production and control, dairy cow lending, facilities management, dairy cow inspections, driving); fertilizers; warehousing; retailing; and electricity fee collections (technology, fee collection control,).

However, no division exists with the responsibility of formulating plans for the cooperative's businesses, or of examining the progress being made by those businesses; nor is there any part of the organization that is in charge of evaluating new businesses or long-term operational plans. Consequently there is insufficient vigor in the prosecution of business, and operations are stagnating.

Internal audits by employees are not carried out. There is also no division devoted solely to providing lending services.

At present, the KUD is promoting a plan for business tie up with Bank DANAMON, the saving and loan business division will split from the KUD independently, aiming at through control of saving and loan business and provision of fund from Bank DANAMON. However, it is recognized that savings and loan business of the KUD is contributing to development of dairy farming and other business. In case the savings and loan business is split from KUD, there will be a possibility to affect to the dairy farming development plan of the KUD and to other business profits.

It is the imminent task for the kud to examine the characteristics and use of UBO (Autonomous Business Unit) as well as benefits to KUD management and roles of the KUD after establishment of Autonomous Credit Business Unit should be thoroughly examined by both KUD management and members.

The trend of number of regular employees including general manager is; 46 in 1994, 41 in 1995 and 44 in 1996, it was proceeded stable. However, the KUD has recruited 11 employees and 12 employees were resigned in 1996, namely one fourth of employees were replaced. In a bid to maintain continuity and prosperity of business, capable and experienced employees are inevitable to be recruited. The KUD need to strengthen its control and supervision to employees as well as fostering volition among

employees for development of the KUD.

2) Management

Of "total business volume in 1995 (including commissions and service income)" of approximately Rp 2,000 million, milk sales accounted for Rp 1,017 million, or 51% of the total, making the collection and marketing of milk the primary business of the KUD. Commissions from the KCK and electricity fee collection businesses were insignificant.

"Gross profit" after subtracting cost of sales amounted to Rp 391 million, of which the dairy division accounted for Rp 313 million, or 80% of the total.

"Business profit" after subtracting business expenses from gross profit amounted to Rp 107 million, of which dairy division accounted for Rp 63 million, or 58.6% and KUD's retail shop accounted for Rp 25 million, or 22.8% and electricity fee collection division accounted for 14.8%.

They are categorizing business expenses and general expenses in different from those of adopted in agricultural cooperatives in Japan and also the concept for business profit is different.

There are also external business profits which are mainly from the earnings of commissions from institutional loans (the balance between interests received from members and interests paid to Banks) accounted Rp 24 million. The KUD did not engaged in collection of rice in fiscal 1995. The total amounts of interest received, dividend and interests received on institutional loan from members were Rp 103 million.

Looking at account settlement of fiscal 1996, the sales of milk, supply of feeds and fertilizer were greatly expanded. Also, the total business volume was boosted with the revision of accounting system and enrolment in profit and loss statement. Namely, the total collected fees of electricity was included in the total sales and the amount paid to the electric power company was included in business expenses.

Out of the business expenses amounted Rp 283 million include reserves for bad debt accounted Rp 94 million, or 33.35, depreciation accounted Rp 41 million, or 14.75, salaries and benefits to employees accounted Rp 54 million, or 19.0%. Interests paid were Rp 25 million, or 8.7%. Including interest paid for banks relating to institutional loans amount to Rp 77 million, the total interests paid were Rp 102 million.

The current surplus of fiscal 1995 was Rp 40,839,000 which was greater than the average of the province of Rp 17.4 million (2.3 times). The contents of appropriation of the current surplus were as follows;

Internal reserves:	Rp 17,357,000 (42.%)
Dividend to members:	Rp 16,335,000 (40.0%)
Bonus for directors:	Rp 2,042,000 (5.0%)
Bonus for employees:	Rp 2,042,000 (5.0%)
Education fund:	Rp 1,021,000 (2.5%)
Social development fund:	Rp 1,021,000 (2.5%)
Building renewal fund:	Rp 1,021,000 (2.5%)

This indicated that the KUD made efforts to increase own capital by accumulating internal reserves. These amount of appropriations were allocated for current liability

and own capital after approved at general meeting and carried forward to the next fiscal year for expenditure.

The contents of dividend to members were 40.0% in proportion of sales of milk and 60% allocated for the dividend in proportion of outstanding savings. in fiscal 1995, patronage dividend for milk per litter was Rp4.57 and that of outstanding savings was Rp75.99 per Rp 1,000(7.6%). the calculation of the dividend for savings include voluntary savings, membership fee, compulsory savings and special savings.

In fiscal 1996, with the boosting of business volume, the current surplus was increased 13.5%.

In 1995, financially, total assets amounted to Rp 2,208 million, a 24% year-on-year increase. Of this, business loans to members accounted for Rp 1,789 million, or 81% of the total. This was a 36.2% rise from the previous year, and indicated a strong appetite for financing. This was brought about with adoption of the milk cow investment fund amounted Rp 450 million from BCA. It indicates dairy farmers have a strong intentions to renewal and adding number of cows.

Of total business loans, funds for the purchase of dairy cows amounted to Rp 1,456 million. This was system-related financing (so-called channelling loans) from BUKOPIN, BRI, BULOG and BCA, against which the cooperative had allocated reserves for bad debt of Rp 226 million (12.6% of outstanding loans), indicative of its effort to add stability to finances. However, these reserved for bad debt were calculated from examination of individual loan borrowers situation and the recovery of the reserves will be difficult. Looking at the contents of reserves for bad debts, most of the portion was allocated for milk cow investment fund. besides that, there are 50% for KCK amounted Rp 337,000 and loan for horticulture amounted Rp 10,000,000. The reserves for bad debts for milk cow investment fund were established to cover the bad debts for dairy farmers who failed in dairy business in feeding management or who sold cow for family members become sick and they needed money. Bad debts for horticulture were caused by the heavy fall of price of red onion.

The cooperative had Rp 533 million in fixed assets, an increase of Rp 18 million from the previous year, but after depreciation, fixed assets were Rp 22 million less than last year. The cooperative uses a fixed-rate method based on tax law to depreciate assets, so assets are being written down on an accelerated basis.

Long-term investments include membership fees, compulsory deposits and special deposits in GKSI, PUSKUD, BUKOPIN, KJUB and other institutions, as well as shares in the Bank of Bali, PT. POKHPAND, PT. Play Wood, PT. Darmala and other companies. Many of these share investments were financed by borrowings from the companies in question, so they are not in actual fact investments.

In a procedure to obtain shares of the companies, the KUD borrows money from the company in question the amount equivalent to the value of the share and the borrowing will be returned from the dividend. After completion of the repayment the share will be held by the KUD. This system is based on the government policy to strengthen bases of management of KUD and cooperation of private companies is needed. The business of KJUB is suspended and recovery of the membership fee and compulsory deposit paid in by the KUD is difficult.

(We will look further into this mechanism.)

Other management-related indices were healthy, with the following all meeting the MANDIRI standards;

	1995	1996	MANDIRI standard
Liquidity ratio:	258.9%	193.7%	125%
Ratio of ability to pay: (total assets / total liabilities)	117.2%	119.3%	110%
Rate of return on own capital:	13.2%	13.5%	10%

However, the cooperative's net return on total assets was far beneath the state's average of 5.7%, while total asset turnover was only about 1 time. Hence there is a need for more efficient use of assets by the cooperative.

Also, the cooperative's own capital ratio of 14.0% was low (16.0% last fiscal year), which gave rise to a high return on equity. But because of a heavy proportion of expensive borrowed capital, the cooperative's return on total assets was low. The cooperative needs to make further efforts to develop an adequate own capital base.

In fiscal 1995, business volume per member (including sales, value of goods supplied, commissions, etc.) were Rp 358,000, exceeding the province's average of Rp 282,000. Members of the cooperative were thus frequent users of its services. By category of business, this use comprised milk sales of Rp 182,000, procurement and retailing-related services worth Rp 120,000, and fertilizer purchases worth Rp 49,000. Moreover, dividing the amount of milk sales through the cooperative by the 1,052 members who are dairy farmers results in an average value of use of Rp 966,000, which bespeaks a high level of income among KUD members.

Total assets per cooperative member were Rp 395,000, 5.5 times the province's average of Rp 72,000. Of this amount, Rp 320,000 was in the form of business loans, indicative of the strong appetite for funds among dairy farmers. On the other hand, free deposits amounted to only Rp 13,000. And while average capital per member was Rp 55,000, membership fees made up only Rp 1,000 of this and compulsory savings only Rp 8,000. The ratio of amounts paid in to amounts owed (pay-in ratio) was only 30.0% for membership fees, and 18.9% for compulsory savings.

Thus, while encouraging the payment of amounts due, there is a need to make improvements to the monthly payment system for compulsory savings. Most notably, members who joined because of the electricity fee collection service have paid in absolutely none of their commitments. While encouraging them to do so, there is a need to urge them to use other KUD services.

In fiscal 1995, the average amount of business per employee for the 41 employees of the cooperative at the end of last fiscal year (including the secretary) was Rp 48,793,000. This average amount per employee was less than half the province's average of Rp 109 million. Also, the net surplus per employee of Rp 996,000 was about 60% of the state's average of Rp 1,582,000, indicating a need to endeavor to raise worker productivity.

The average amount recognized in business expenses for salary and allowances was Rp 1,312,000. Adding bonuses paid to employees out of distributed surpluses brought the total compensation to an average of Rp 1,362,000. This is around the standard of general society.

The major facilities owned by the KUD were as follows. Many of the facilities are

antiquated and short of space. Moreover, another KUD operates a dairy business nearby, and also owns milk-collecting, transportation and feed-mixing facilities, making the setup very inefficient.

Facilities owned by the KUD;

Office:	1	1984	
Warehouse:	1	1988	
Feed mill:	1		
Cattle shed:	1	1994	
Retail shop:	1		
TPK:	8		
Milk cooling unit:	2	1988	1,000 litter(1),5,000 litter (2)
Tank car:	1		
Milk collection truck:	1		
Automobile :	2	1988, 1991	
Motorbike:	8	1984 ~ 95	
Mini bus:	2	1994, 1996	

Although the cooperative has donated a computer from BRI, it is being used only for documents management, which is not putting it to adequate use.

(4) PURCHASING AND MARKETING BUSINESS

Principal components of economic business of KUD TANI MUKTI, among others, are milk collection, its cooling and transportation, feed manufacture and its supply, savings and loans, supply of consumer goods through its retail shop (waserda), institutional credit channelling, electricity fee collection, and fertiliser distribution. The KUD having 5,618 full members serves a total of 13,850 members and non-members from 12 villages.

Main business of majority of its members is dairy farming, livestock development and horticulture production. According to the KUD leadership, 100% of dairy farmer-members market 100% of their fresh milk with the KUD. It has 45 full-time staff members.

The business condition of the KUD Tani Mukti during 1994, 1995 and 1996 was as follows:

Particulars Rp	1994	1995	1996
KUD Total Sales	1,919.9m	2,024.1m	3,864.2m
KUD Total Purchases	1,503.7m	1,609.7m	3,400.7m
Own Capital	285.9m	308.8m	339.3m
Outside Capital	548.7m	524.7m	539.1m
SHU	38.5m	40.8m	46.3m
Assets	1,779.2m	2,207.9m	2,195.1m
Members' Deposits	278.5m	349.7m	375.4m
-Initial Deposits	27.8m	27.9m	27.8m
-Compulsory Deposits	188.7m	249.6m	264.2m
-Voluntary Deposits	62.0m	72.2m	83.4m

[01] MILK BUSINESS

The marketing of milk by the members during 1994, 1995 and 1996 is compared below with the total purchases with their KUD:

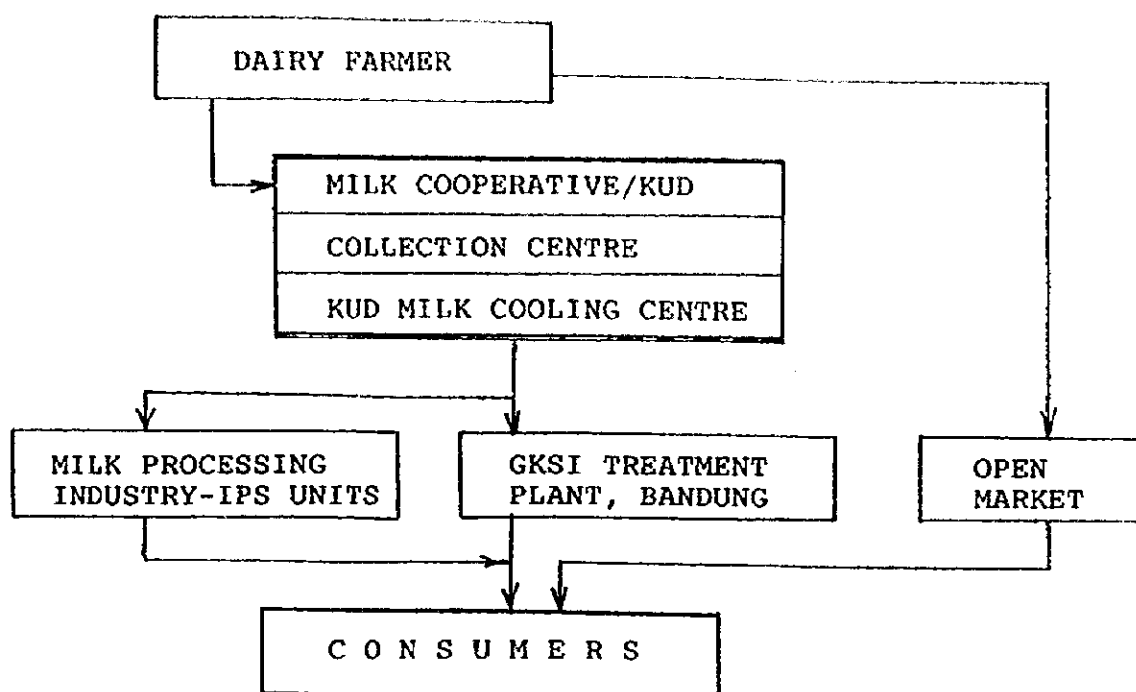
Particulars Rp	1994	1995	1996
KUD Total Purchases	1,503.7m	1,609.7m	3,400.7m
Percent of 1994	--	107.0%	226.1%
Marketing of Milk	694.4m	708.6m	980.8m
Percent of 1994	--	102.1%	141.3%
% of KUD Purchases	46.1%	44.0%	28.8%

Milk marketing is a prime-mover not only for the dairy farmer-members but also for their KUD. Milk marketing formed 46.1% of the KUD purchases of 1994, 44.0% of 1995 and 28.8% of 1996 business. If compared with the total KUD purchases, the ratio appears to be low (46.1%, 44.0% and 28.8%) but if the trend in milk marketing is taken into consideration then the trend is highly encouraging - 141.3% in 1996 of the milk marketing business of 1994.

The KUD picks up samples from the milk delivered by the dairy farmers. The KUD supplies the milk to the IPS, which again takes samples to determine the fat contents and calculates the price. The IPS makes payment to the KUD on fortnightly basis. The payment is made to the KUD through bank transfers. The KUD pays to the farmers in cash, also fortnightly.

The fresh milk is collected by the KUD using its transport from its 20 milk collection centres which are managed by the Dairy Farmers' Groups. The collected milk is brought to the cooling centre of the KUD, which is located within the premises of the KUD itself. From this Centre the milk is transported to IPS in Jakarta and GKSI Milk Treatment Plant in Bandung.

The flow chart, below, shows the marketing of fresh milk and its flow to the consumers:



The KUD Tani Mukti is a member-affiliate of the GKSI. The GKSI also receives fresh milk from the KUD for processing.

A comparative statement of milk purchased by the KUD from the members and sold to the IPS/GKSI during 1996 is given below:

Particulars Rp	Jan 96	Apr 96	Jly 96	Oct 96
Milk Purchased from Members/lt	149,037	141,805	156,467	164,912
Percent of Jan 96	--	95.3%	104.6%	110.7%
Milk Sold to to IPS/GKSI/lt	140,830	137,130	155,690	163,423
Percent of Purchases	94.6%	96.4%	99.5%	98.7%
% of Milk Supply to KUD over Jan 1996	--	95.1%	104.9%	110.6%

The total milk marketed by the farmers with the KUD Tani Mukti in 1996 was 1,777 tons. The KUD supplied a total of 1,774 tons (99.8%) to the IPS/GKSI, as per details given below:

Year	Milk Supplied to IPS by KUD	Percent of 1992	KUD Purchase Price/lt	Sale Price to IPS/lt
1992	1,659,293 lt	--	Rp 500	Rp 625
1993	1,559,076 lt	93.9%	Rp 550	Rp 650
1994	1,515,493 lt	91.3%	Rp 566	Rp 687
1995	1,436,273 lt	86.5%	Rp 585	Rp 707
1996	1,770,989 lt	106.6%	Rp 600	Rp 772

From the above it is seen that the supply of fresh milk to the IPS by the KUD during the period 1992-1995 has been declining. The supply situation improved during 1996 when it was 106.6% of the year 1992. The decline in supply of milk to the IPS was due to a slight shift of occupation among the dairy farmers. There was a lesser inflow of milk from the dairy farmers.

The situation of supply of milk by the KUD to the milk industry during 1994, 1995 and 1996 and its place in its total sales business was as follows:

Particulars Rp	1994	1995	1996
KUD Total Sales	1,919.9m	2,024.1m	3,864.2m
Milk supplied to IPS	1,039.3m	1,021.7m	1,324.0m
Percent of 1994	--	98.3%	127.4%
Percent of KUD Sales	54.1%	50.4%	34.2%

From the above it is clear that the ratio of milk supplied to the IPS had steadily increased: 98.3% in 1995 and 127.4% in 1996 of the year 1994. Except for 1996, the percentage of milk sales to the IPS as compared with the KUD total sales, the ratio was within 50-54%. These figures go to suggest that the farmer-members, almost 100% of them, have been marketing their milk with their KUD, and milk business has been the principal business of the KUD.

The milk cooling unit and milk handling facilities of the KUD consist of the following elements:

- 1 cooling unit-NDA. 5000 lt capacity (1988). 70% operational capacity.
- 1 cooling unit. 1000 lt capacity (1988). Damaged. Needs repairs.

- 1 compressor-Kabuta (1983). Operational
- 1 transfer tank-Indo Lapal (1987). 2750 lt capacity. In working condition.
- 1 small container-DR (1983) 10 lt capacity. Operational.
- 1 Fat Tester-Funke Gerber (1988) 6CC. Operational.
- 4 containers-Taylor/Wharton (1983). 15 lt capacity each. Operational.
- 49 cans (1983). 40 lt capacity each. In good condition.
- 1 milk transfer truck-Mercedese 1991. In good working condition.

The KUD does not engage itself in the processing/pasteurization of milk except for its chilling and transportation. The surplus milk, if any, is sold in the local open market. There is no 'value addition'.

The KUD sends its milk to Indomilk/Fresian Flag in Jakarta, and to the GKSI Milk Treatment Plant in Bandung.

Milk consumption in the country is likely to go up in view of President Suharto's recent suggestion that at least all the industrial workers should drink at least a glass of milk every day. This will naturally boost local production, and the KUD Tani Mukti will naturally also participate in this effort. Milk production is going to be a stable source of income for the dairy farmers. The GKSI has already entered into agreement with some of the large industrial houses for the supply of ready-to-drink milk. The GKSI will eventually fall back on the support and collaboration of its affiliating cooperatives to process an increased volume of milk. The milk business will consequently grow both at the KUD and GKSI levels.

[02] CATTLE-FEED BUSINESS

The members's purchases from the KUD included mainly the cattle-feed, consumer goods of daily needs and chemical fertiliser. The details of sale of these commodities is explained in the table below:

Particulars Rp	1994	1995	1996
KUD Total Sales	1,919.9m	2,024.1m	3,864.2m
Percent of 1994	--	105.4%	201.2%
Cattle-feed sales	628.0m	672.7m	712.3m
Percent of 1994	--	107.1%	113.3%
% of Total Sales	32.7%	33.2%	18.4%
C-F Production Expenses	597.3m	636.5m	651.0m
Percent of 1994	--	106.5%	109.0%
Waserda Sales	-NA-	-NA-	16.6m
Fertiliser Sales	211.2m	274.8m	675.4m
Percent of 1994	--	130.3%	319.9%
% of Total Sales	10.9%	13.5%	17.4%

From the above it is seen that the total sales of the KUD had improved over the three years - 105.4% in 1995 of 1994 and 201.2% in 1996 of the year 1994. The cattle-feed sales had remained at 32.7-33.2% levels in 1994 and 1995. It went down to 18.4% in 1996 of the KUD total sales of 1996. The overall sale of cattle-feed also remained stagnant during 1994-1996. The cattle-feed sales have also a component of a rice milling unit, the incomes of which are also included in the sales of the concentrate. The RMU is generally used for milling a small quantity of rice for members and its by-products for the cattle-feed mixing plant.

The KUD has an outdated (manufactured in 1988 in Semarang), not so efficient a feed mixing plant (installed capacity 2 tons per hour). Its production capacity has gone down. The quality of the product has also fallen. It needs an experienced formulator to blend a high quality feed. The mixing plant is not able to meet the requirements of the dairy-farmers in quantity as well as in quality. The farmers often purchase the remaining quantities from the local market. The machines are maintained by a technician of the KUD. The plant remains idle for longer spells as it often breaks down and the parts are hard to find.

The quality of the concentrate produced is low as the components used for the manufacture of cattle-feed are of low quality. The components used, according to the leadership of the KUD, include:

wheat-bran (obtained under a subsidy programme of the government and lifted by the KUD from PT Bogasari Flour Mills in Jakarta), rice-bran, coconut husk, groundnut cake, soybeans husk and some minerals. Green grass is obtained from the local market. All the components are obtained by the KUD from local suppliers.

In addition to the use of concentrate, the farmers feed their dairy cattle with green grass which is available to them from their farms and other grazing areas or from the local market. Only the lactating and pregnant cows are given the concentrate. The feed-mixing plant is able to cover only 70% of the requirements of 1,300 dairy cattle.

[03] LIVESTOCK DEVELOPMENT BUSINESS

The KUD was able to supply more than 1,500 milch cattle to the dairy farmers for development. After rejections and deaths, there were a net of 1,288 (85.8%) productive dairy cows available with the farmers during 1996. The cattle were procured under a loan programme through the BUKOPIN and other financing institutions. These were imported from Australia. Looking at the increase in production of milk and the increase in the income of the households, and in view of the suitable environment of the highland areas, livestock development has been beneficial. The KUD and the farmers see a lot of potential in this activity to increase their income levels. Lack of funds and lack of application of appropriate technology have been the main hurdles. The farmers are willing to take up to five cattle for development without employing any additional labour.

The situation of dairy cattle on credit basis during 1994, 1995 and 1996 was as follows:

1994	1,082 dairy cows	--
1995	1,261 dairy cows	116.5% of 1994
1996	1,288 dairy cows	119.0% of 1994

In addition to the above, the farmers also rear a small number of locally-developed dairy cattle. The credit given for the imported dairy cows by various banks during 1981-1996 was as follows:

1981/1983	BRI	Rp 334.1m	Loan paid up
1987/1988	BUKOPIN	Rp 442.6m	Not yet paid up
1992	BULOG	Rp 232.3m	Not yet paid up
1995	BCA	Rp 435.0m	Not yet paid up

Credit from local sources was also available to the dairy farmers for purchase of dairy cattle. The dairy farmers find it somewhat hard to utilize credit for the imported dairy cattle. It works out that a farmer has to pay almost Rp 3 million for an imported credit cow. They tend to prefer to purchase the locally-developed

cattle, which, according to them, are durable and suitable to local conditions, although per cattle yield would be slightly lower. Technological innovations are necessary to look after the imported cows and these are difficult for individual farmers. Such services could be institutionalized at the KUD level

Artificial Insemination (AI) services are arranged by the KUD in cooperation with the government livestock development department. On its own, the KUD does not provide any kind of livestock development/animal husbandry services to the farmers. There are no facilities for rearing new-born or for reproduction.

[04] KUD WASERDA BUSINESS

The use of KUD-Waserda (retail outlet) was rather limited. The small shop located close to the main office of the KUD holds a limited range of consumer goods of daily use. Members make their purchases from this store when they come to visit the KUD, otherwise it is mostly patronized by the local residents. The shop is located far away from the main shopping centre, and hence its sales are low. The components of the cattle-feed and the requirements of the cooling centre are often purchased through the Waserda accounts. With a view to provide consumer goods especially sugar, kerosene oil, cattle-feed etc., the KUD introduced since end of 1995 a mobile Waserda which visits milk collection centres and some of the villages covered by the cooperatives once a day. The sales of the Waserda during 1996 were Rp 16.6m (0.4% of the KUD total sales).

[05] CHEMICAL FERTILISER BUSINESS

The KUD Tani Mukti serves as a distribution centre for chemical fertiliser to its members. The fertiliser and other farm requirements are supplied through a network of 13 TPKs. The situation of fertiliser purchased by the members from the KUD was as follows:

Particulars Rp	1994	1995	1996
Sales of Fertiliser	211.2m	274.8m	675.4m
Purchases from PT Pusri	205.2m	264.6m	668.4m
Commission Earned	6.0m	10.2m	7.0m
Percent of 1994	--	166.6%	116.6%

During 1994 it was worth Rp 211.2 million, 1995 worth Rp 274.8 million (130%) and in 1996 worth Rp 675.4m (320% of 1994). The ratio of commission earned during 1996 declined due to a

substantial increase in the price of fertiliser. There was a lesser volume of take off of fertiliser from the KUD.

The ratio of fertiliser sales to the KUD total sales was as follows: 10.9% in 1994, 13.5% in 1995 and 17.4% in 1996.

PRODUCERS' ORGANISATIONS

In the KUD area of operation there are 23 milk producers' and milk collectors' groups, and 13 farmers' groups using TPK. Milk is collected from 21 groups two times a day, using the small tanker of the KUD.

SITUATION OF PROCUREMENT OF WORKING CAPITAL FOR THE BUSINESS

The KUD has its limited own capital. There is a severe limitation on the part of the KUD to expand its business. As a result, it has to borrow funds from external sources and make use of its own funds. Given below is the relationship of outside capital with its own funds during the period 1994, 1995 and 1996:

Particulars	Rp	1994	1995	1996
KUD Own Capital		285.9m	308.8m	339.3m
Percent of 1994		--	108.0%	118.9%
KUD Outside Capital		548.7m	524.7m	539.1m
Percent of 1994		--	95.6%	98.1%
Percent of Own Capital		191.9%	169.9%	158.9%
KUD Members' Deposits		278.5m	349.7m	375.4m
Percent of 1994		--	125.4%	134.4%

From the above it is seen that the application of outside capital in the business operations of the KUD is high as compared with its own capital - the outside capital in 1994 was 191.9% of own capital, in 1995 it was 169.9% and in 1996 it was 158.9%. The trend of development in own capital, outside capital and members' deposit over the three years has been rather stagnant.

The KUD is keen to develop its business as is seen from the percentage of outside capital with its own capital. The trend of using outside capital has slightly gone down in 1996 mainly

because the borrowings from outside had become more expensive. Members' savings with the KUD have not improved. The KUD cannot mobilize a higher level of internal savings because the members' considered the interest given by the KUD as too little and unattractive. Whatever surplus funds the members have, they prefer to keep it either in the commercial banks or safely in cash at home.

Main sources of working capital have been the commercial banks viz., BCA, Bukopin, BNI, fee collected from government-supported programmes e.g., electricity bills collection and fertiliser distribution etc.

COMPETITION WITH PRIVATE SECTOR

The KUD enjoys monopoly on procurement and supply of fresh milk, and production and distribution of cattle-feed. It has some minor element of competition in the distribution of cattle-feed mainly due to its own low quantity and quality production. Farmers have often been buying cattle-feed from private traders to supplement their requirements.

OTHER BUSINESS

HORTICULTURE BUSINESS: About 35% of the income of members of the KUD is derived from dairy activities. There are no other industrial or other potentials from which the farmers earn the rest of their income: Horticulture is an obvious and known alternative. Major horticulture products of the area include: cabbage, celery leaves, potato, buncis and tomato. Among the fruits, papaya is widely grown. The farmers produce and sell their products to the agents or market it by themselves in the Bandung market. There are reportedly two types of horticulture producers: one, major ones, who grow vegetables in large areas, grade, pack, transport and sell in Jakarta or Bandung markets themselves; and two, the smaller farmers who grow vegetables in smaller areas and market their produce by themselves in the Bandung market.

The KUD Tani Mukti tried to handle horticulture products during 1986 and 1987, but had to withdraw after suffering losses. It was found that the price structure in vegetables is difficult to hold without supporting facilities e.g., grading, packaging and proper marketing facilities, experience and contacts. This business needs a constant quality control at various levels e.g., production, collection, packaging, shipment and marketing. The KUD did not try to install any of these facilities.

(5) Credit Business

1) General Credit Business Management Assessment and Current Situation of KUD Savings and Loan (USP) Business

The chairman of the KUD is a very good leader and places importance on member savings growth, and this could be one of the encouraging factors for future development. The KUD has a number of primary business activities, including: milk collection, cooling and marketing, vegetable marketing; animal feed manufacturing, consumer store and credit business. Management overall appears capable, but needs further training in the fundamentals of business break-even analysis and cash flow management. Management needs a better understanding of the credit needs of the KUD necessary to support business growth in primary businesses and proposed areas of business expansion. The savings and loan credit business (USP) of KUD employees four persons, representing about eight percent of the cooperative's total employment structure (49 full-time and 5 part-time employees). The average USP loan volume handled per USP employee equals Rp. 1.25 million, an amount far too small to cover the administrative overhead, including wages, of operating this credit business.

2) Savings

Initial savings were decreased from Rp. 26.0 million in 1990 to Rp. 8.4 million in 1995, reflecting a decrease in the KUD's active membership and charges against savings to cover loan losses to members. The KUD's compulsory member savings grew from Rp. 28.2 million to Rp. 47.1 million during this same period, while voluntary savings expanded from Rp. 34.1 million (1990) to Rp. 72.3 million (1995), and to Rp. 83.4 (1996). The KUD's rate of growth in total membership savings grew at an average annual rate of 9.0 %, from Rp. 88.3 million in 1990 to Rp. 127.8 million in 1995. As of 1995, average savings per member in the KUD amounted to Rp. 22,862, which is still considered low for a cooperative which has been in existence for some twenty years.

The KUD does not pay interest to members on initial and

compulsory savings, but does pay interest on voluntary savings at a rate of 24% p.a., which is very competitive (an uniquely high as compared to most KUD within the province), although depositors who withdraw their savings in less than three months do not receive any interest. As a result, voluntary savings grew between 1990 and 1995 at an annual rate of 22.4%, representing the fastest growing category of KUD savings.

The KUD also operates a special savings program, which is compulsory in nature, for cooperative members engaged in dairy farming. The cooperative requires each member to contribute Rp. 10 per liter of milk sold through the KUD to this special savings program. The KUD does not pay interest to its 600 member-depositors on these special savings. The objective of this special savings program is to increase the working capital asset base of the KUD.

The KUD is currently starting (1997) a new pilot savings and loan program, supported by the Department of Cooperatives and Bank Danamon, which offers significant potential for increasing voluntary savings. Known as the savings and loan autonomous business unit (UUO), this pilot program will pay members interest at the rate of 25% p.a. on all new voluntary savings. The UUO will operate as a separate and independent credit and savings business unit, sourcing supplemental funds for lending to the KUD's dairy-members from Bank Danamon and requiring all borrowers to participate in voluntary savings mobilization. As such, the UUO is intended to operate closely in line with fundamental banking principles.

Growth in savings mobilization can be an important means of generating additional needed assets by the KUD to support business growth and institutional strengthening. Such expansion of savings mobilization is in line with recent World Bank policy recommendations (see Indonesia: Sustaining High Growth with Equity; World Bank Report No. 16433-IND; May 30, 1997).

3) Borrowings

Institutional borrowings for working capital of the KUD at the time of the field survey total Rp. 85.0 million, and include: a ten-month Rp. 35.0 million loan from BRI, at a ROI of 14% p.a., to support paddy rice procurement; and a ten-month Rp. 50.0 million loan from BRI, also at a ROI of 14% p.a., for fertilizer distribution. The KUD also reported two institutional borrowings from BRI, both five-year loans at 14% p.a. ROI, to finance an office building (Rp. 60.0 million) and an electric office (Rp. 15.0 million). Total institutional borrowings amounted to Rp. 160.0 million. The rates of interest for all borrowings is considered preferential. No loan repayment

delinquencies were reported for these borrowings. The KUD was able to avail of these loans from BRI because of its previous good working relationship with BRI.

4) Loans

a) USP line of credit

At the time of the field survey, the KUD reported USP lending totaling only Rp. 5.0 million. Average loan terms include a six-month loan maturity, rate of interest equal to 30% p.a., and a maximum loan limit per borrower of 3-5 times savings, generally not to exceed Rp. 300,000 per loan. Even though 24% p.a. interest is paid to voluntary savings, the real interest burden of borrower/member is the same as that of the market-rate-of-interest, therefore, it may be doubtful that such loans could meet member-farmers needs. Given the small volume of total USP lending, only a very few KUD members are currently benefiting from this type of loan. As such, the KUD's USP lending program is currently not meeting the credit needs of the vast majority of its membership.

As previously mentioned, the newly proposed savings and loan autonomous business unit (UUO) can be expected to dramatically improve member lending performance, as administration of lending operations will be separated from other KUD business operations and sufficient working capital to support a significantly increased volume of lending to dairy-members will be provided by Bank Danamon. As such the UUO pilot program will operate in accordance with basic banking principles and will require borrowers to also participate in KUD savings programs.

b) Member credit channeling

Member credit channeling at the time of the field survey totaled Rp. 1,524.5 million, sourced from BRI, BUKOPIN, BULOG and BCA, of which Rp. 1,492.4 million was for dairy farming development (seventy percent of which was lent to 661 borrowers, representing about 12% of the KUD's present membership). For dairy farming development, loan terms include: maturities ranging from five to seven years; rates of interest average 14% p.a. for members-borrowers; and a maximum individual borrower loan amount ranging from Rp. 0.7 million to Rp. 2.5 million. Commissions from credit channeling paid by banks to KUD average 3%. Loan losses in this type of dairy channeling credit total Rp. 226.6 million, due mostly to animal death. The KUD has created a reserve for bad loans.

Member credit channeling from BRI for vegetable production carries loan terms which include: a one-year loan

maturity; an interest rate of 19% to members; and a maximum loan limit of Rp. 50 million. Commissions from credit channeling paid by BRI to the KUD equal 4% on amounts collected. The KUD reports past due loans for vegetable credit channeling totaling Rp. 10 million, due to an unexpected reduction in market price.

As the KUD serves only as a channeling agent for the bank, it does not participate directly in loan risk, and therefore has no direct liability to the bank in case of loan default by its members. It is recommended that, where possible, bank loans be made directly to the KUD for relending to their members. In so doing, the KUD would directly share in loan risk and would be better able to enforce repayment discipline among its members.

(6) Guidance and education activities

1) Present situation of education activities for officials and employees and its evaluation

The KUD has assigned 5 directors and 4 auditors and it has 44 employees. Looking at their educational record, out of 5 directors, there are 1 graduate of university, 1 graduate of senior high school and 3 graduates of junior high school. In case of auditors, one of them has graduated from university, 2 of them have graduated from cooperative academy and one of them has graduated from senior high school. In case of the employees, there are 1 graduate of cooperative academy and 39 graduates of senior high school. Also, there are 17 part-time workers. The educational backgrounds of the officials and employees are rather high level.

The assignment of employees are as follows;

Administration	9
Dairy business	19
Fertilizer	2
Warehouse	1
Cooperative shop	4
Electric business	8

Appropriate persons are assigned at suitable section and employees are young. The age of retirement is 60 years old and most of employees work until the age of retirement as the chance of occupation is small in the area. The wage structure table has set up according to educational background. The payment to the graduates of junior high school in the first year is Rp75,000 per month and that of university graduates is Rp140,000. There is also regular base up between 20% to 25% as well as transportation allowance, technical allowance and over-time allowance. The wage of university graduates at the first year of Rp140,000 is lower than that of private bank of Rp150,000 in the same area.

In 1995, the KUD has appropriated 2.5% of the current surplus for education fund. The current surplus fund of fiscal 1995 was Rp 40 Million and the education fund appropriated in 1995 was Rp 1 Million. The amount was too small to promote training for all employees.

20 employees (about 50%) have participated in the training until 1996 and the contents of training are as follows

Name of participants	Contents of training	Place
Jafar Hidayat	Accounting	BALATKOP
Anwar Seleh	Business management	BALATKOP
Soeparman	Milk Production	BALATKOP
Asep Mulyana	Coop management	BALATKOP
Ali Syambas	Cooperative business	BALATKOP
Dadan Irawan	Accounting	IKOPIN
Evi Permastini	Credit business	BALATKOP
Eka Kartika Yuniar	Credit business	BALATKOP
Tuti Haelati	Book Keeping, member education	BALATKOP
Cucun	Artificial insemination	East Jawa

U. Rahmat	Artificial insemination	East Jawa
Herman	Welfare of employees	Bandung
Wildan	Quality of milk	East Jawa
Adjat Sudrajat	Cooperative business	Bandung
Saleh	Feeds	Bandung
Deni Darajat	Cooperative shops	Bandung
Pepen	Artificial insemination	Jatinagor
E. Cahyana	Electricity business	Bogor
Dadan Suhendar	Electricity business	Jatinagor
Oda Wasida	Electricity business	Bogor

In 1995, 9 persons has attended training course but the same persons attended the training course. The KUD has not formulated education plan for officials and employees. The person in charge of in-service training is not identified , thus the systematic education activities are not operated in the KUD.

The training needs for officials and employees according to their duties are as follows;

Accounting and administration	Management of electricity bill, book keeping
Saving and loan	Computerization
Marketing	Obtaining buyers and business methods
Farm guidance	Improvement of success ratio of artificial insemination
Directors	Observation of advanced dairy farming

As education activities to members, KUD has conducted field study for dairy farmers once in a year by groups. Last year, field study was conducted at Pangalengan. Also, study meetings of 17 dairy farming groups are conducted once in a month by inviting lecturer from livestock bureau.

2) Present situation of farm guidance and its evaluation

The major marketing commodities of KUD Tani Mukuti is milk which occupy about 60% of farm household income. The average number of milk cattle per household is 2 cattle and expansion of production and improvement of quality of milk as well as feeding management are needed to increase income.

Farm guidance by KUD is done by 2 employees who are in charge of artificial insemination. The number of dairy farm households is 1,000 and one farm advisor is taking care of 500 dairy farm households. 2 farm advisors are graduates of agricultural senior high school and attended training of artificial insemination at livestock bureau. their age are 40 and 37 years old . The structure of farm guidance is not satisfactory. beside them, 3 employees of feed mill are providing feeding management guidance to dairy farmers.

— Situation of dairy farming groups

There are 17 dairy farming groups each of which consists of 30 to 40 members. Dairy farmers in the area are all being members of KUD Tani Mukuti and KUD is collecting 100% of milk from members. They are promoting various training through group activities and the bases for farm guidance are established.

PPL(agricultural extension workers) are visiting member farm household directly to provide guidance. The livestock extension office in the area is located at Soreang 12 km away from the KUD head office. PPL and farm advisor of KUD are cooperating in the meeting which is held once in 3 months.

PKL (cooperative extension workers) are visiting KUD once a month to provide business management guidance as well as book keeping and credit business.

3) Present situation of better living guidance and its evaluation

In KUD Tani Mukuti, employees of cooperative shop are providing guidance of commodity knowledge which are dealt with by KUD. Also, 3 employees are engaged in a guidance on kitchen garden and breeding of chicks for income generation. However, KUD considers that life designing activities, health care and improvement of living environment are the tasks of the government and they are not intended to develop better living activities positively. Therefore, at present no better living advisors are assigned by KUD. The demand for better living activities are not grasped by KUD.

Looking at women's organization, there are 2 women's groups engaged in production of handicraft and farm implements. These groups are members of the KUD as small enterprises and KUD is extending assistance to the group.

The number of women members is 160 only (2.8%), however, women are playing vital role in dairy farming and it would be possible to organize these dairy farming women. KUD has an intention to organize women's groups and there are 150 candidate women members.

(7) Other Business

1) Collection of Electricity Utility Charge

The KUD currently generates additional income from service fees associated with public electricity bill collection. For the year 1995, 9,151 customer accounts were handled and the KUD net earnings from this business amounted to Rp. 29.0 million, representing 1.5 percent of the KUD's gross business volume and 71 percent of the KUD's net income that year. The KUD should bear some risk because the KUD should pay PLN in advance of collections on behalf of members.

2) Telephone Service

The KUD is not engaged in telephone service business.

3) Other Business

The KUD is not engaged in other business.

(8) COOPERATION AND BUSINESS LINKAGES WITH PUSKUD

The KUD Tani Mukti has no business linkages with the Puskud. The Puskud, according to the KUD, could and should provide all logistic support e.g., supply of business information, supply of raw materials used for cattle-feed manufacturing, marketing of farm tools and handicrafts material, seeds and guidance for horticulture production. The Puskud could also support the KUD in the procurement of consumer goods for the waserda.

2. The KUD's Potential and Factors Hindering Its Development (TANI MUKTI)

(1) Summary~

Among measures that would contribute to the higher incomes which are sought by the area's dairy farming members are expansion of scale of operations, higher volumes of milk production, and the sale of the male calves that are the by-products of operations.

However, no specific measures are being taken to handle the various issues involved, including ensuring adequate customers for the larger volumes of fresh milk that would be produced; finding the means to use advantageously and efficiently the by-products of greater production, and ensuring that avenues exist for the distribution of such by-products; establishing plans for the creation of quality standards demanded by customers, and for developing new marketing channels; raising capital; and devising long-term management plans (that deal with prospects for people, facilities, capital) for obtaining technology, and for propagating and providing guidance in such technology. In particular there are no personnel who can provide guidance and management for newly introduced technology. Appropriate facilities are also in short supply, while systems at the financial institutions are not adequately geared to respond to the need for investments in these areas. In short, the composite of elements needed to plan and carry out all businesses is not meshing properly, and this has become a major hindrance to the KUD's development.

Also new membership into the cooperative from outside dairy farming families has shown signs of stagnating. The KUD has not done enough to plan and advertise businesses that would appeal to residents, such providing financing services for small borrowers, or expanding the range of products and services at its retail outlets.

However, in recent years, the KUD has benefitted from guidance provided by the Ministry of Cooperatives and Small Enterprises, and this has led to a heightened awareness and desire among the KUD's chairman and other executives to improve. With technical and planning assistance from domestic and international sources, the KUD and its members have the potential of achieving substantial progress.

(2) Management and Organization

{1} Members

Because of a low equity ratio, the KUD's financing costs are high. Notably, of total own capital of Rp 309 million, paid-up membership fees and compulsory savings account for only Rp 55 million. Hypothetically, if all unpaid amounts were paid in, it would amount to Rp 278 million, which would bring equity capital to Rp 531 million.

Although there are 5,590 members, only 1,956 have paid in their membership fees and deposited their compulsory savings. So, apart from dairy farmers, there is a lack of unity in the membership.

The reasons for the low pay-in rates for membership fees and compulsory savings are that members who paid a part of membership fee sometimes resign from membership before completion of the payment. In addition, because deposits of compulsory savings must be made each month, members view it as a chore. Finally, pay-in rates are low because members who are using the cooperative solely to pay electricity fees joined the cooperative for that purpose alone, and are not obliged to pay membership fees or make deposits for compulsory savings.

However, electricity-fee members visit the KUD's service counters each month, and it would be possible to tell them at those times about the cooperative's overall services.

Electricity-fee members and candidates for membership together make up over 40% of the adult population, and it is deemed that the number of people who understand KUD are increasing. Thus, if these persons are actively approached, it could potentially raise the pay-in rate, increase membership among those who are candidates for membership, and stimulate wider use of the cooperative's retailing operation.

{2} Planning and administration function

Both the dairy and fertilizer-related businesses now engaged in by the KUD are subject to price regulation by government agencies and other official bodies, and the KUD earns a certain amount of commission for its activities. Also the bulk of the KUD's lending activity is institutional financing of members' purchases of milk cows, for which it bears only a small risk. The result is that while operations are relatively stable, the primary dairy-related business is not showing any dramatic progress, and there are virtually no attempts to become involved in the gathering and marketing of horticultural products. Consequently, it is undeniable that the cooperative lacks appeal in the eyes of farmers who are currently not members.

The reasons for this are a shortage of funds to purchase milk cows, the risk-averse managerial stance by the cooperative, and the lack of sufficient numbers of experienced technicians capable of providing guidance.

But the major reason is the lack of a planning and control division that can evaluate potential ways of expanding the dairy business and also potential new businesses and new product categories. It would be possible to set up such a division under the direction of the secretary, with the general affairs and dairy divisions each selecting one person to function as staff.

{3} Saving and loan business

The KUD is promoting a plan to split saving and loan section from KUD business by establishment of autonomous business unit tied up with BANK DANAMON. However, the analysis of effects to KUD business and role of KUD are not identified. Before the establishment of the autonomous unit, KUD would be possible to discuss with members on the roles of KUD for development of members in a bid to avoid losing of business opportunities for KUD as credit business has high potential to contribute to the management of KUD.

{4} Efficient use of facilities

There are KUD nearby that are also involved in the dairy business. Each of these possesses similar milk collection, transportation, and feed-mixing facilities, which has resulted in inefficiencies. These inefficiencies are brought about by a mutual lack of communication among KUD because each exists in a different administrative sub-district, and by the strong desire among the KUD to remain independent. However, if the Ministry of Cooperatives and Small Enterprises were to establish settings for discussions, it would make it possible for the KUD to carry on mutual discussions.

The efficient operation of facilities would curb expenses, and contribute as a result to the profit of cooperative members. Moreover, because road conditions have improved and the KUD are developing increasingly reliable means of transportation, it seems safe to say that members would not be inconvenienced even if facilities were consolidated.

{5} Computerization

Computerization is limited to clerical work operations such as documentation management, and remains an under-exploited resource for account settlement of milk or saving loan administration. The reason is that there are shortage of persons assigned to computer-related duties, and they have not received sufficient training since the computers were installed. Consequently, the KUD has been unable to apply the computer a wider range of activities. It would be possible for computer personnel to be sent to outside training programs, and for them to provide training internally to other employees. To expand the range of tasks that are computerized, it would also be possible to receive guidance from the Province Union of Cooperatives, PUSKUD and Provincial Audit Cooperative Federation.

(3) Purchasing and Marketing Business

I. HAMPERING FACTORS

LOW QUANTITY AND QUALITY OF MILK

01 Main business of majority of its members is dairy farming, livestock development and horticulture production. 100% of dairy farmer-members market 100% of their fresh milk with the KUD. Milk marketing formed 46.1% of KUD purchases of 1994, 44.0% of 1995 and 28.8% of 1996 business. It supplied a total of 1,774 tons of milk in 1996 to IPS/GKSI (private milk processing industry/Union of Indonesia Dairy Cooperatives). During the period 1992-1995 there was a declining trend in the supply of milk which was due to a slight shift of occupation among the dairy farmers resulting into a lesser inflow of milk to the KUD.

02 Demand for milk is going to go up sharply in the country in view of President Suharto's appeal to the industrial workers to drink at least one glass of a milk per day.

03 However, the number of dairy cattle has not increased to meet with future projections. Farmers are also reluctant to buy credit-cows because of their value and the demand for great care. The KUD does not come to the rescue of farmer-members if they needed money to purchase new cow or a replacement cow out of the credit programme.

04 Milk yield per cow is less mainly due to: i) low quality of cattle-feed; ii) low level of animal husbandry extension and guidance; and, iii) all the dairy cattle are not fed with concentrate - only the lactating ones are given this feed.

05 The following main hampering factors have been noticed:

- Fluctuating level of milk production due to shifts in farmers' occupations;
- Imported dairy cattle are not only expensive but need special care to look after them;
- Locally-developed dairy cattle are normally not available on credit;

- Cattle-feed manufactured by the KUD is insufficient in quantity and low in quality;
 - Outdated, inadequate and inefficient cattle-feed mixing plant and the milk cooling equipment;
 - KUD does not provide by itself and on its own any animal husbandry extension and AI services;
 - Farmers are ignorant on pattern of feeding the dairy cattle.
 - Complete absence of 'value addition' in milk business.
-

(4) Credit Business

Close-to-market-rate-interest is paid by this KUD to voluntary savings. This fact shows that management has a strong recognition of the importance of savings interest, and can be a driving force for additional savings mobilization in the future. However, it must be well noted that the level of interest rate has a great impact on KUD profit. The absolute amount of savings is still very small, therefore, the KUD has to recognize the importance of savings as one of the fund-raising sources. For this, it is of vital importance to strengthen education and training. Lack of institutionally-sourced working capital is a major factor which is hampering the sound development of KUD businesses. The KUD extends no re-lending loans to members for which the KUD bears risks. However, as the KUD has long experience in member credit channeling by access to lending banks, chances for initiating re-lending to members are good.

As earlier indicated, the KUD needs significant increases in assets, particularly for working capital and fixed asset expansion, to achieve higher profitability in its dairy, feed and vegetable marketing/processing businesses. The KUD's profit margin in 1995 was only 2.1% and its feedmill was estimated to be operating at a level far under rated capacity. The primary cause for this low performance is insufficient working capital to support procurement, milling and marketing operations, and insufficient investment capital to support facilities expansion for milk cooling, young cattle raising, and feed manufacturing/storage.

The volume of credit extended to members under the USP lending business is too low to meet the basic credit needs of the majority of KUD members and to support sufficient profitability. The 2.5 % per month interest rate charge on USP loans may not be sufficient to meet the administrative cost of operating a member lending program. At present the KUD reports little earnings from member credit channeling, yet lending volumes suggest that income derived from commissions could be substantial under this credit business.

(5) Guidance and education activities

Hampering factors

- i. The instructors of in-service training is not nurtured enough and it is difficult to implement systematical in-service training for employees.
- ii. As the fund for education is limited , employees have a few chance for training.
- iii. Employees in charge of farm guidance are assigned only for dairy farming but their experience and knowledge are not sufficient to meet demand of members.
- iv. The number of women members are small and women are not organized in the KUD. Thus the bases for promotion of better living activities are weak.

Possibilities

- i. The employees of the KUD are all graduated from high school and the educational back grounds are rather high. If a systematical training programs e implemented, it would be possible to improve capability of employees.
- ii. It would be possible to improve the awareness of members of importance of better living activities through mutual exchanges with neighbor KUD. It would be possible to organize women in member household as bases for better living activities by organizing women in dairy farm households because there are already 17 dairy farmers groups established in the KUD.
- iii. Improvement of dairy farming technology and increase of milk cattle is the common interest for KUD members. In response to this, it would be possible to strengthen farm guidance structure of KUD by recruitment of experienced persons.

(6) Other Business

The KUD's business expansion in the electricity bill collection business is limited due to the finite numbers of KUD members who are now paying electricity bills. Aside from income/savings generation for the KUD, this business produces non-monetary benefits for the KUD through increased contact with members, leading to information exchange and strengthened overall ties between the KUD and its members.

KUD PASIR JAMBU

1. Present situation of KUD

(1) General Characteristics of KUD area

KUD Pasirjambu

The KUD is administratively in Village Pasirjambu, Subdistrict Pasirjambu, District Bandung, Province West Java with a distance of 30 km from Bandung. It covers 10 villages. The KUD is neighbouring KUD Tani Mukuti under same Agro-eco System i.e. "highland" though slightly lower the elevation than the latter. Topographically the KUD area extends to hilly/mountainous land with elevation of 700 to 800m above sea level. Annual mean temperature ranges from 17 to 21 degree c.

Land utilization in Pasir Jambu district is seen in the table below.

Total area	10,491 ha
Wet land	1,440
Dry land	2,649
Forestry	6,300
Area for housing/yard	102

Agriculture in the KUD area characterizes dairy farming, horticulture (mainly vegetable, paddy and tea production.

The number of farm household classified by farming type has shown hereunder:

Type of farming	Number of farm household
Dairy farmer	2,513
Vegetable grower	525
Tea grower	300
Paddy/palawija	1,424
Poultry	30
Total	4,692

As is shown in the table, more than half (54%) of the total farmer engage in dairy farming. The number of dairy cow being fed in the Subdistrict Pasir Jambu at the end of 1996 was 2,778 with milk production of 5,852 kl during the same year. Both the number of cow and milk production recent years indicate stagnant in development despite the growing demand is projected.

Vegetable production is another important farming activity in the Subdistrict. On the limited available land, various kind of vegetables are grown in the Subdistrict. Strong market demand in Jakarta and Bandung absorb almost of all the products in the Subdistrict. Although share in the total vegetable production is limited (0.7%), worth-noted on the production and marketing of vegetable here is the contract sale on certain higher quality vegetable items with a supermarket in big cities.

Also it is seen in the farming-related activities including dairy-based processing and blacksmith on farming tools in the KUD.

Agricultural Production in Subdistrict Ciwidey, 1994

Item	: Area, harvested (ha)	: Production (ton)	: Yield (ton/ha)
Paddy (wet land)	3,030	20,195	6.7
Paddy (dry land)	238	889	3.7
Maize	74	301	4.1
Cassava	170	2,193	12.9
Sweet potato	221	2,269	10.3
Soybeans	85	126	1.5
Chicken	100,000 (bird)		
Goat	2,000 (head)		
Buffalo	100 (head)		

(2) KUD's General Characteristics

(1973, July Established)

(1990, July KUD Mandiri)

This KUD is in the Sub-District PASIR JAMBU, a mountainous agricultural region located about 30 kilometers southwest of Bandung city. Its area of operations covers 10 villages.

The main business of this KUD continues to be the collection of milk from dairy farmers and the marketing of this milk. But it is a diversified operation, involved also in providing feed and fertilizer, retailing goods used in everyday life, and selling tea and vegetables.

Made up of approximately 5,000 members, this KUD provides guidance to 42 local groups of milk producers and eight local groups of vegetable producers.

The KUD, of course, has a livestock clinic. Notably, it also has 10 university graduates among its 100 employees, and places a strong emphasis on employee training.

Partly because of guidance and cooperation received from the Ministry of Cooperatives in accordance with the policy of Kemitraan: the KUD is also involved in jointly shipping fresh vegetables to supermarkets in Jakarta.

The KUD publishes a newsletter that provides information to the membership. In fiscal 1995, this KUD had Rp 5,807.9 million in revenues, 4.7 times bigger than the province average, and a net surplus of Rp 85.6 million. The net return on revenue was 1.47%.

There is special fund system for members' welfare as medical insurance.

The KUD is actively proposing plans, relating to the improvement of milk quality, the establishment of milk processing facilities, the establishment of a feed plant, etc., that are aimed at improving its operations. These activities, in addition to its efforts to market vegetables, are signs of a well-organized operation. This is a KUD that can be expected to continue to move aggressively into new business areas hereafter.

(3) Management and Organization

{1} The Running of the Organization

KUD PASIR JAMBU was established in July 1973, registered as a KUD in January 1989, and sanctioned as an self-supporting KUD (KUD Mandiri) in 1990.

Its area of operation is the entire sub-district of Pasir Jambu, encompassing 10 villages (DESA). The population in the district is about 64,000, of which adults account for about 25,000. The number of households is 15,265.

The number of KUD members in the end of 1995 was 5,838 which was increased 9.2% from that of 1990. However, in the end of 1996, the membership was slightly decreased accounting 5,817. The causes of decrease in membership were, some members resigned from KUD with their will, expelling non-active members and death. During fiscal 1996, a total of 90 members resigned from the KUD.

The membership rate for the adult population is 23.4%. Although this exceeds the province's average of 15.4%, it is slightly less than the district's average of 25.5%. The KUD has 1,465 women members, so women make up a high 25% of the membership. These women are engaged in dairy farming and are playing important role such as feeding, judging timely mating period for artificial insemination. They joined KUD as they need guidance for dairy farming technology

According to the KUD, there are 4,179 farm households in the sub-district, comprising 2,513 involved in dairy farming, 525 in vegetable growing, 1,424 in rice farming and 30 in poultry farming. Of these households, 64% are members of the KUD. Also, 94% of member farm households is engaged in dairy farming and the core of the KUD's activities are made up for dairy farmers.

Anyone adult can join KUD. The membership fee is Rp 5,000, and compulsory savings is Rp 2,000 per month as duties of a member.

Membership in the cooperative offers the following benefits:

- Possible to borrow KUD fund. (Non - members are not qualified);
- Easy access to by fertilizer and chemical, patronage dividends are provided;
- Provision of guidance on use of fertilizer, chemical and farm technology;
- Purchasing commodities with credit form weserda. (Non-members pay in cash.)

The KUD is the center of farm management and life for dairy farmers. According to the opinion raised in the discussion meeting with dairy farmers the following opinion as a merit to join the KUD was expressed by members.

"When the KUD appealed starting dairy farming with adoption of the milk cow investment fund, the farmers who engage in dairy farmers had meagre income, as they did not have farmland, raised from selling vegetables produced at small scale tenant farmland or selling firewood picked up in the mountain. After starting dairy farming, their income was stabilized and they could even create some surplus for their living, although not sufficient, to purchase daily necessities and send their children to higher education."

The KUD divides its members into 30 dairy farming groups (totalling 2,513 persons), eight horticultural groups (649 persons), four manual industry groups (243 persons), and 12 groups of those who use the savings and loan business and the electricity fee collection service (2,921 persons). By holding discussions with these different groups, the KUD is able to respond to the membership in ways that incorporate their desires (there is some overlapping membership in these groups). Each group is actively involved in their group activities and many a opinion raised at general meeting.

The KUD use 8 horticultural and other commodities groups positioned as kerompoktani as vehicles to communicate information, to provide guidance in farming technology and everyday life, to consolidate reservations for fertilizer etc. and KUT loan applications, and as places for various discussions. Two of these groups are organized covering two villages.

The horticulture and other commodities groups include 200 tea producers and 30 poultry farmers. Tea producers established autonomous business unit (UUO) for tea processing. The tea factory has suspended operation in 1996 due to decreased export to Middle East countries but it is recovering in 1997.

The area's manual industries are household-based, and engage in the manufacturing of long-bladed hoes, scissors for clipping tea leaves, sickles, tools for use on palm oil estates, handicrafts such as a key ring, etc. The KUD is supplying raw materials (scrap iron) to these manufacturers. Their products are sold to tea estate and dealers in Bandung.

The KUD has 34 women's groups as cooperating organizations. KUD is providing credit for these groups to support various home industries. The groups are promoting poultry farming, production of local sweet cakes. Another group is engaged in production of handicrafts such as wood works and local processed foods such as smoked fish to sell as souvenir, produced at home and sell individually. These wood works are exhibited at show room of the KUD.

The KUD's five directors consist of the head of the cooperative, one deputy head of the cooperative, two secretaries, and one director in charge of accounting. Regular board of directors' meetings are held once a week. Occupationally, two of the directors are retired public workers, while three are self-employed.

The KUD has three auditors, who perform audits once every three months. The occupations of the auditors are self-employed (two persons) and dairy farmer (one person).

The general meeting was held in February 1996, with 505 persons representing the membership in attendance. The KUD's representatives (general meeting delegates) numbered 580 persons, or 10% of the total membership, and of these 87% attended the general meeting. In addition, preliminary general meetings by area were held in five locations, and 1,273 persons participated in these.

Before the general meeting, the different member groups held separate meetings, where the agenda items were explained. Operations are carried out democratically.

The KUD operates eight business departments: dairy farming, agricultural production, savings and lending, retailing outlets, electricity fee collections, rice polishing, autonomous business unit (UUO), and tea processing. In addition the KUD has a general affairs department.

According to its business report, the KUD had a total of 103 employees, who were assigned to the daily tasks of the organization as follows: general manager 1; general affairs and bookkeeping 18; dairy farming 51; agricultural production 2; retailing outlets 13; savings and loan 3; electricity fee collections 5; autonomous business unit (UO) 5; and veterinarians and others 5. The dairy farming department absorbed half of the KUD's employees. The number of employees are large and the structure of business execution well organized.

These employees comprised 88 regular employees, two part time workers, and 12 trainees. There were also 11 temporary workers. The gender breakdown was males 83 and females 20, so women accounted for 19% of the total.

The KUD also had among its personnel supporting of farming operations 3 veterinarians, 4 persons in charge of dairy farming guidance, and 2 persons responsible for better living guidance. Out of farm advisors, one is temporary assigned from the local livestock office and the KUD pays technical guidance allowance.

{2} Management

Sales volume in 1995 was Rp 5,762 million, an increase of 9.9% year-on-year. This was roughly 1.8 times the amount five years earlier in 1990, reflecting rapid growth. Total revenues, which included service commissions and other business revenues, were Rp 5,954 million, a 9.1% increase over the previous year, so operations are expanding.

Sales of milk contributed Rp 4,065 million to total sales. Adding commissions to this amount resulted in milk-related revenues of Rp 4,211 million, which was equivalent to 71% of revenues. Feed supplies contributed another Rp 861 million, or 14% of total revenues. Hence, the dairy-related business was the crucial foundation of the KUD's operations.

Other parts of the business included: retailing outlets, which contributed Rp 555 million, or 9.3% of revenues; sales of vegetables, which contributed Rp 134 million, or 2.3% of revenues; and provision of fertilizer, which amounted to Rp 151 million, or 2.5% of revenues. The weight of these businesses was small in comparison to dairy-related operations.

Other revenues were contributed by the following operations: electricity fee collections, Rp 14 million; savings and lending, Rp 12 million; and processing at the rice polishing plant, Rp 17 million. The total business volume in fiscal 1996 was Rp 5,646 million which was stagnant due to decrease of collection and sales of milk as the quality of milk was dropped.

Gross profit (revenues minus cost of sales) was Rp 674 million, a sharp increase of 1.5 times over the previous year.

The current surplus has increased steadily, rising from Rp 40 million in 1990 to Rp 67 million in 1994, Rp 82 million in 1995 and Rp 93 million in 1996 reflecting a strengthening of the KUD's profitability.

This KUD allocates general and administrative expenses by department, and follows a strict system of calculating the profit and loss for each department.

The current surplus was distributed as follows: 20% as dividends commensurate to the amount of savings deposited by members, and another 20% as dividends commensurate to the amount of business done by members with the cooperative; 40% as internal reserves; 5% as a fund for employees and 5% as a fund for directors; 5%

as an education fund; 2.5% as a social fund; and 2.5% as a reserve for buildings and regional development. Thus appropriate consideration is being given to dividends for KUD members.

Dividends are paid out to members on the basis of the following: 8.2% of the total of membership fees and compulsory savings paid in; Rp 1.32 per liter of milk sold through the cooperative; etc.

The balance sheet showed total assets of Rp 3,629 million, a Rp 28 million decline from the previous year. This was attributable to a smaller amount of long-term debt and to a reduction in fixed assets as a result of depreciation.

The KUD had Rp 1,055 million in receivables to members and Rp 291 million in receivables to non-members, for which it recognized in the channelling loan, Rp 53 million was not collected from members after KUD returned to the bank.

The other assets of Rp 459 million is a loan to members for milk cow investment, but it is suspended as the cow died, thus recovery of this amount will be difficult.

Investments totalled Rp 599 million, consisting of Rp 200 million of share in the "HERO" supermarket, which is a purchaser of the cooperative's vegetables; Rp 170 million in GKSI; and Rp 134 million in BUKOPIN. However, the KUD had only Rp 10 million invested in PUSKUD. the KUD is not selling milk through GKSI.

Liabilities amounted to Rp 2,550 million, a decline of Rp 154 million, reflecting the reduction in long-term borrowings. Capital, on the other hand, was Rp 1,079 million, an increase of Rp 126 million as a result of additions to reserves.

The KUD had long-term borrowing of Rp 1,526 million, including borrowings of Rp 501 million from the Ministry of Cooperatives and Small Enterprises, Rp 327 million from the Food Procurement Ministry, Rp 248 from BUKOPIN, and Rp 175 million from "HERO". The loans from the Food Procurement Agency and from BUKOPIN were institutional loans relating to milk, which were lent to members.

The outstanding voluntary savings are Rp 20 million which is small amount. The KUD is promoting time savings, ordinary savings and Fitri savings to absorb savings. a 2% annual interest is provided for one year time savings and a 1% monthly interest is given to voluntary savings. The Fitri savings started to save money from the surplus of family expenses as a preparation of Idle Fitri as members were used to borrow money from KUD when Idle Fitri comes close. this is useful to nurture the custom of savings among members. The KUD issue time saving certificates for depositors, holding events for Cooperative Day on 12th July every year where they give presents with lottery to depositors of time savings.

Women's groups are also promoting autonomous saving campaign, collecting Rp 5 million during the period of May to July, 1997. As one of the reasons for stagnancy of savings, there are saving and loan groups established at village level numbered three and the KUD's business is competing with the groups. However, as a result of aggressive saving promotion campaign, the outstanding savings are increased in 1996.

Although the KUD had Rp 1,079 million in own capital, membership fees and compulsory savings together accounted for only 19.4% (Rp 12 million and 197 million, respectively) of this amount, or only 5.8% of total assets.

The following were the various operating ratios;

	1995	1994	Mandiri standard
Liquidity ratio:	151.4%	140.7%	125%
Ratio of payment ability:	142.3%	135.2%	110%
Net return on equity:	7.6%	7.1%	10%
Net return on revenues:	1.4%	1.2%	
Net return on total assets:	2.3%	1.8%	

Although the net return on own capital was slightly low, the KUD's finances were stable. While net profit has been increasing, net return on revenues and net return on total assets are slightly under the average of the province.

With respect to profitability, profit of the year was increased but profitability was low. The rate of total asset revolving was only 1.6 times, indicating a need for greater efforts to manage assets efficiently.

The equity ratio is a low 29.7%, so the KUD must work on building a stronger equity base. This ratio compares unfavorably, even lower than the average of the province of 34.7%.

Business volume per cooperative member was a very large Rp 1,016,000, 3.6 times the province's average of Rp 282,000. Total assets per member were also a high Rp 620,000, 8.6 times the province's average of Rp 72,000. However, these favorable comparisons were largely the result of a low province level average, and thus the KUD still needs to increase patronage of business of the KUD among its members. Finally, membership fees and compulsory savings per member were Rp 2,026 and Rp 33,608, respectively.

With 88 regular employees in the KUD, revenues per employee were Rp 67.7 million, which was sharply under the province level average of Rp 109.1 million. There is a need to increase rates of labor efficiency.

Salaries and wages paid to employees amounted to a range of Rp 80,000 to Rp 450,000, which are around even in comparison to private businesses in the area.

The major facilities owned by the cooperative were as follows:

Facilities in the head office land area

- Head office:	1	
- Shop for savings and loan:	1	
- Credit business group shop:	1	
- Waserda (retail shop):	1	
- Worship room:	1	
- Garage:	1	
Other facilities		
- Milk cooling unit:	1	
- Tank car:	2	(8 tons, 6 tons)
- Small tank car :	8	(2,500 liters each)
- Feed mill :	1	
- Cattle shed:	1	
- Kios :	8	
- Rice milling unit :	1	
- Truck :	4	
- Car :	2	
- Motor bike :	6	

The KUD has installed three units of computer, one is used for management of milk collection (LOTUS: Daily base record of amount of collection of milk, quality, for each member, use for account settlement to members), one is for book keeping (LOTUS: management of cash in hand-every day, trial balance sheet-every month, section-wise profit and loss - every month, management analysis - quarterly) and the another one set is use for documents management (Word Star). However, processing works by LOTUS are input of data prepared by manual works as interim data table used for making a data table and analysis by computer, thus the input of original data is not practiced.

(4) PURCHASING AND MARKETING BUSINESS

The main components of economic business of KUD PASIR JAMBU, among others, are milk collection, its cooling and transportation, feed manufacture and its distribution, horticulture, savings and loans, supply of consumer goods through its retail shop - Mini Market - livestock development, institutional credit channelling, electricity utilisation fee collection, and fertiliser distribution. The KUD, having 5,817 full members from 10 villages, serves the community through its 91 full-time employees. Main business of majority of its members is dairy farming, livestock development and horticulture production.

The business condition of the KUD Pasir Jambu during 1994, 1995 and 1996 was as follows:

Particulars Rp	1994	1995	1996
KUD Total Sales	5,458.5m	5,954.5m	5,646.0m
KUD Total Purchases	5,001.2m	5,276.9m	4,970.7m
Own Capital	953.0m	1,082.6m	1,267.1m
Outside Capital	1,685.9m	1,425.7m	1,221.4m
SHU	67.2m	85.2m	93.0m
Assets	3,657.3m	3,632.4m	3,566.8m
Members' Deposits	196.6m	227.9m	261.2m
-Initial Deposits	11.3m	11.8m	12.3m
-Compulsory Deposits	160.5m	197.0m	225.7m
-Voluntary Deposits	24.8m	19.1m	23.2m

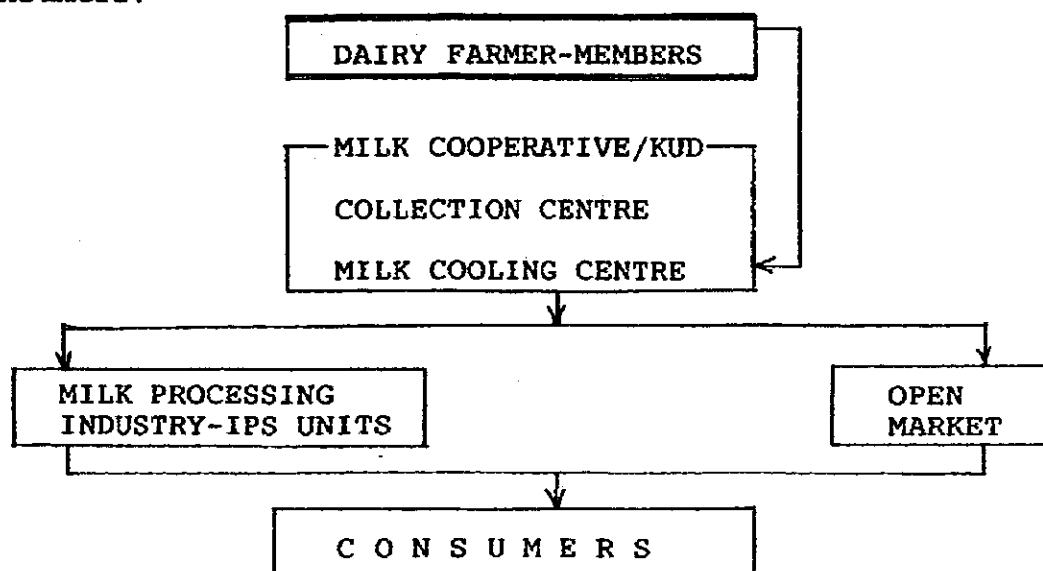
01 MILK BUSINESS

Milk marketing is a prime-mover not only for the dairy farmer-members but also for their KUD. The value of marketing of fresh milk by the members during 1994, 1995 and 1996 is compared below with the total purchases of the KUD:

Particulars Rp	1994	1995	1996
KUD Total Purchases	5,001.2m	5,276.9m	4,970.7m
Percent of 1994	--	105.5%	99.4%
Marketing of Milk	3,205.9m	3,634.9m	3,303.8m
Percent of 1994	--	113.3%	103.0%
% of KUD Total Purchases	64.1%	68.8%	66.4%
Marketing of Horticulture	76.2m	112.8m	220.5m
Percent of 1994	--	148.6%	290.7%
% of KUD Total Purchases	1.5%	2.1%	4.4%

Marketing of milk is between 64-66% of the KUD total purchases. The business is almost stagnant. Fresh milk is collected by the KUD from its 30 milk collection centres which are managed by dairy farmers' groups. The collected milk is brought to the cooling centre of the KUD from where, the milk is transported to IPS (PT IndoMilk and PT Fresian Flag) in Jakarta. The KUD handles about 17 tons of fresh milk every day.

The flow chart, below, shows the marketing of fresh milk by the farmers to the KUD and then from the KUD to the IPS and consumers:



The KUD picks up samples from the milk delivered by the dairy farmers. The KUD supplies the milk to the IPS, which again takes samples to determine the fat contents and calculate the price. The IPS makes payment to the KUD on fortnightly basis. The payment is made to the KUD through bank transfers. The KUD pays to the farmers in cash, also fortnightly, according to the quality of the milk delivered by them to the cooperative.

The KUD Pasir Jambu is presently not the member of the GKSI. The KUD parted ways with the GKSI in 1993 on some policy matters. The KUD wanted to deal with the IPS direct and receive the payments from the IPS directly, not being routed through the GKSI. The GKSI wished the KUD to have the payments from the IPS routed through the GKSI accounts.

A comparative statement of milk purchased by the KUD from the members and sold to the IPS during 1996 is given below:

Particulars Rp	Jan 96	Apr 96	Jly 96	Oct 96
Milk Purchased from members/lt	616,552	457,345	467,306	511,160
Milk sold to IPS/lt	591,774	446,146	456,127	508,717
Percent of Purchases	95.9%	97.5%	97.6%	99.6%
Percent of Milk Sold to KUD over Jan 96	--	74.1%	75.7%	82.9%

From the above it is seen that during the year 1996 itself the ratio of supply of milk to the IPS against the milk marketed by the members has remained steady - between 95.9% and 99.6%. As to the ratio of marketing of milk by the members with the KUD, as compared with the milk marketed in January 1996, has also remained steady - between 74.1% and 82.9%.

The total milk marketed by the farmers with the KUD Pasir Jambu in 1996 (January-December) was 5,851.9 tons. The KUD supplied a total of 5,729.5 tons (97.9%) to the IPS.

The situation of supply of milk by the KUD to the milk industry during 1994, 1995 and 1996, and its place in its total sales was as follows:

Particulars Rp	1994	1995	1996
KUD Total Purchases	5,001.2m	5,276.9m	4,970.7m
Percent of 1994	--	105.5%	99.4%
Milk sold to IPS by KUD	3,598.5m	4,211.3m	3,378.1m
% of Total Purchases	71.9%	79.7%	67.9%
Total Milk Purchased	3,205.9m	3,634.9m	3,303.8m
Percent sold to IPS	89.0%	86.3%	97.8%

It is seen from the above that as compared with the KUD total purchases of 1994, the purchases in 1996 had declined to 99.4%. Similarly the percentage of milk sold to the IPS as against the total purchases of the KUD had declined to 67.9% in 1996. 97.8% of the milk purchased was sold to the IPS in 1996. This trend remained within 89-97% during the three years period, indicating that the flow to the IPS from the KUD remained fairly stable.

It has, however, been observed that over the years there has been some reduction in the number of dairy cattle, and the milk produced and supplied to the KUD by the members. The following figures explain the trend:

Particulars	1994	1995	1996
No. of Dairy Cattle	2,924	2,808	2,778
Percent of 1994	--	96.0%	95.0%
Milk Production/lt	6,238,794	7,145,107	5,851,975
Percent of 1994	--	114.5%	93.7%
Milk Sold to IPS/lt	6,094,389	7,123,910	5,729,513
Percent of 1994	--	116.9%	94.0%

While the ratio of population of dairy cattle looks marginal, it looks prominent if the milk production and its sale is analyzed. The milk marketed with the KUD in 1996 was 81.9% of the milk marketed in 1995. When analyzed against the milk marketed in 1996 with that of 1994, it was 93.7%. More or less a similar trend is seen in the case of selling the milk by the KUD to the IPS. When analyzed against the milk sold in 1996 with that of 1994, it was 94.0%. On investigation, the KUD leadership had informed that the KUD had implemented rather strictly the quality controls on

Fat/SNF contents with the objective of giving the farmers a higher income and obtaining better prices from the IPS. The farmers found it difficult to maintain a higher level of fat contents (because they were not able to afford a higher quality of cattle-feed) and thus started selling some of their dairy cattle and switched on to other occupations - bike-taxi drivers or moved to Bandung for odd jobs. The main reasons attributed to this indifferent attitude of the farmers have been: i) lack of dairy extension activity; and ii) low quality and low nutrition of cattle-feed used by the dairy farmers.

Farmers still maintained that dairying has been the most profitable business for them and which also requires far less space as compared with other farm occupations. Their highest expectations from their KUD were: supply of good quality livestock for development; credit for replacement of the lost livestock; higher level of dairy extension; a higher level of technological development in the production of quality and a higher quantity of cattle-feed.

The KUD owns a milk cooling unit of 17,500 lt/per day capacity. The unit is located under one roof in a secure area. The unit consists of the following items:

- Cooling unit-6. Combined capacity 17,500 lt/day
- Generator sets-2 units
- Milk pump
- Compressor
- Containers of various capacities
- 106 milk cans
- Water tanks, water heaters, freezers
- Milk testers
- Milk transfer tankers-2 units (used for Jakarta trips)
- Small milk tankers for collection of milk-5 units

The milk is collected from 30 collection centres twice a day using the smaller collection trucks. The farthest collection centre is 10 km away from the cooling station and the nearest one not even 1 km. The KUD does not engage itself in the processing/pasteurization of milk except for its chilling and transportation. There is no effort in 'value addition'. In the past, the KUD used to produce some local sweets (e.g., dodol, caramel, yogurt) from the surplus milk, but was discontinued due to insufficient milk supplies and uneconomic situation. The surplus milk, if any, is sold in the local open market.

[02] HORTICULTURE BUSINESS

The KUD Pasir Jambu helps coordinate marketing of horticulture products. For this purpose the KUD had entered into business agreements with several companies. One major agreement is with the Hero Supermarket of Jakarta according to which the KUD supplies nearly 30 farm products. These include: cabbage, green beans, leeks, baby-corn, reddish, carrots, tomato, zucchini, green chillies, mint leaves, cauliflower, beet-roots etc. Major supplies to the Hero have been: Carrot, Beans, Tomato and some green leafy vegetables. There are two agricultural groups (horticulture) consisting of 20 members who produce the above mentioned major items. One of the members of the KUD is a coordinator who helps collect the vegetables and maintain contacts with the Hero Supermarket. The coordinator gets a collection fee which is shared with the other officer-bearers of the concerned groups.

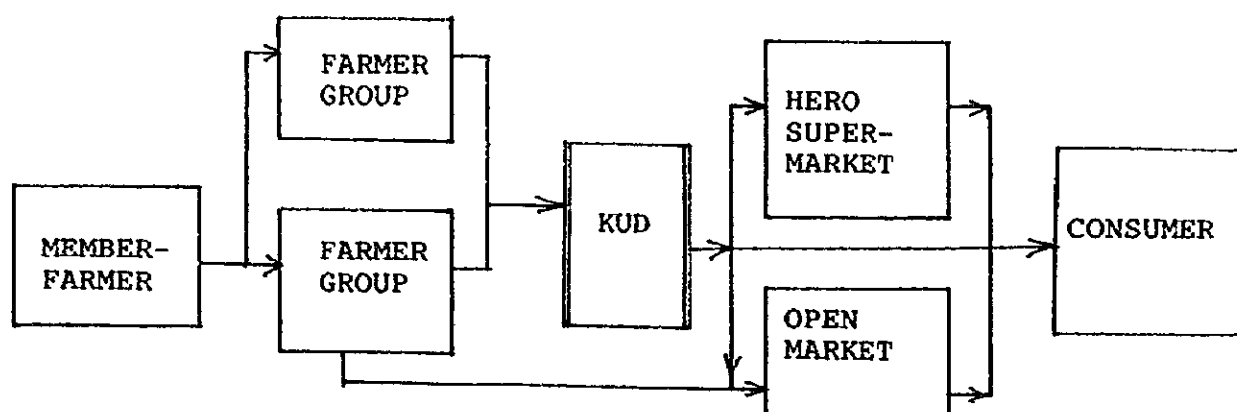
As per agreement, the Hero is supplied with properly cleaned, graded and packed products. The standards and quantity requirements are provided by the Hero. Quality controls are exercised by the KUD through the Coordinator. There is no specific quality control staff within the KUD structure. The producer groups are expected to purchase the packing material from the Hero. The cost of packaging material, and transportation of vegetables is subsequently adjusted against the price of the products supplied. The KUD also organises the collection, grading and packaging of vegetables, and, for this purpose, has provided a small space for grading, packaging etc. The KUD also has a Box Van for the shipment of fresh vegetables to Hero receiving centre in Jakarta.

During January 1997, the farmer-members marketed the following products to the Hero Supermarket through the KUD:

Products	Marketed with the KUD		Sold by KUD to Hero	
	Kg	Rp	Kg	Rp
Green Beans	7,488	8.8m	7,488	11.4m
Carrots	7,174	3.8m	7,165	4.9m
Tomatoes	3,038	5.9m	3,038	6.4m
Kacang Jogo	1,188	3.8m	1,188	5.4m
Daikon	1,548	0.7m	1,545	0.9m
Total of Products (including above)	24,945	32.2m	24,913	40.5m

As is seen from the above, the KUD was able to receive a commission of Rp 8.3 million. A majority of horticulture business is done through the group coordinator and only a small fraction of the business is routed through the books of the KUD.

The flow chart given below explains the flow of horticulture products from the farmers to the consumers:



The KUD receives payments from the Hero Supermarket on fortnightly basis in accordance with a procurement price list issued by the Hero every week. The KUD pays to the farmers in cash also every week and as per the contract entered into by the two parties.

In order to negotiate better price for the producer-farmers, the KUD ensures quality of the horticulture products through on-the-spot checks and guidance. The Hero picks up products worth Rp 1.5 million per day. The monthly supply is about 25 tons worth Rp 40.5 million.

The KUD also promotes marketing of agricultural products through exports. It has an agreement with PT Tohuku Hikaku for export of salted Chinese Cabbage to Japan. The agreement has remained dormant for quite some time.

03 CATTLE-FEED BUSINESS

The KUD has an outdated, not so efficient cattle-feed mixing plant. There are 3 units of mixers of 400 kg capacity each, one unit of 4 tons per hour, one unit of grinding mill and one unit of stitching machine. The total production capacity is between 6,000 to 10,000 kg per day. The machines remain idle for several days due to poor maintenance. The machines are maintained by KUD's own technician.

The quality of the concentrate produced is low as the components used for the manufacture of cattle-feed are also of low quality. The ideal composition, according to the leadership of the KUD, for a quality concentrate should be: Wheat-bran 40%, Bungkil 15%, Maize 10%, gabeng 20%, Rice-bran 12% and Minerals 3%. The components are obtained through private suppliers. The wheat-bran is picked up by the KUD from PT Bogasari Flour Mills in Jakarta under a government subsidy programme. Green grass components are procured from the local market.

The mixing plant is able to meet only 70% of the needs of the dairy farmers of the area. There are about 3,000 dairy cattle in the area. The concentrate requirement is around 350-400 tons per month.

The main components of the cattle-feed mixing plant are as follows:

- Mixer - 1 unit
- Grass Cutter - 1 unit
- Huller - 1 unit
- Paddy diesel machine - 1 unit
- Stitching machine - 1 unit
- Concentrate godown - 1 unit

The condition of the equipment and of the place housing the facilities is out-dated, worn out and need extensive improvements. There is no qualified formulator for the cattle-feed.

The situation of concentrate purchased by the members from the KUD, and the expenses incurred by the KUD on its manufacture during 1994, 1995 and 1996 is given in the chart below:

Particulars Rp	1994	1995	1996
Concentrate sold by KUD	675.8m	860.7m	912.6m
Percent of 1994	--	127.3%	135.0%
Production Expenses	687.9m	864.0m	935.8m
Percent of 1994	--	125.5%	136.0%
Results	(12.1m)	(3.3m)	(23.2m)
% Expenses over sales	101.7%	100.3%	102.5%
% of KUD Total Sales	12.3%	14.4%	16.2%

The economic results of the feed-mixing plant have not been encouraging. The cost of production has been going up - 101.7% to 102.5%. However, the ratio of concentrate sales to the overall sales of the KUD has shown some rising trend e.g., 12.3% (1994), 14.4% (1995) and 16.2% (1996). Although the KUD is concerned about the losses suffered in the production of concentrate, the leadership maintained that the production and distribution of concentrate is a service towards the members. The losses are going to pile up when the number of cattle in the area increase in the subsequent years, and if the existing facilities remain in their present condition.

This also means that private suppliers of cattle-feed have begun to establish their hold and identity in the area. The presence of KUD in the sector is likely to get eroded.

[04] WASERDA/MINI MARKET BUSINESS

The Mini Market is ideally situated within the KUD complex along the main highway, and right in the middle of the town. The market is designed using modern layout, racks, glass show cases, electronic cash registers. It handles a large variety of merchandise - food items to wearing apparels, household items, stationery and some farming implements. The market is patronized by travellers, town folks, members and schools and offices in the area. In spite of its ideal location and dealing in a wide range of merchandise, the sales of the market did not show a strong rising trend. The sales were as follows:

Year	KUD Sales	M.Mkt Sales	Percent of 1994	Percent of KUD Sales
1994	5,458.5m	Rp 384.5m	--	7.0%
1995	5,954.5	Rp 554.5m	144.1%	9.3%
1996	5,646.0	Rp 456.9m	118.7%	8.0%

Supplies to the waserda are obtained by the KUD from private suppliers, Indofood and about 10% from the PT Goro (not from the Puskud).

[05] CHEMICAL FERTILISER DISTRIBUTION BUSINESS

The KUD serves as a distribution centre for chemical fertiliser to its members. The fertiliser and other farm requirements are supplied to the farmers through a network of 8 TPKs and 40 farmers' groups. The situation of value of fertiliser purchased by the members from the KUD was as follows:

Year	KUD Sales	Sales	Percent of 1994	Percent of KUD Sales
1994	5,458.5m	Rp 85.5m	--	1.5%
1995	5,954.5m	Rp 150.6m	175.5%	2.5%
1996	5,646.0m	Rp 94.3m	109.3%	1.6%

Supplies of chemical fertiliser are obtained from PT Pusri Warehouses in Bandung. Sales of fertiliser have gone down because the KUD did not lift enough supplies from the PT Pusri warehouses due to its high price, and there being limited cash available for this purpose.

[06] RICE MILLING UNIT BUSINESS

The KUD is not engaged in the government rice procurement programme. The KUD, however, offers rice milling facilities to the members and general public. It mills some rice for sale through the Waserda/Mini Market. The following figures indicate the business operation of the rice milling unit during 1994, 1995 and 1996:

Particulars Rp	1994	1995	1996
Milled Rice Sold	12.2m	16.6m	17.7m
Paddy Purchased	8.6m	12.6m	13.5m
Commission Earned	3.6m	4.0m	4.2m
Percent of 1994	--	111.1%	116.6%

[07] GREEN TEA PROCESSING UNIT

200 of the KUD members (3.4%) hold 300 ha of tea plantation. These small-holder members market their tea leaves with the KUD which operates a small tea processing factory in the vicinity of the KUD complex. They are able to market about 3-4 tons of green leaves per day. The tea factory handles only 50% of its installed capacity. The tea business has not progressed enough on account of the downward trend in tea prices not only within Indonesia but also in the international market. The business situation of the tea factory was as follows during 1994, 1995 and 1996:

Particulars Rp	1994	1995	1996
Tea sold by KUD	150.0m	263.8m	53.9m
Tea Leaves Purchased	145.2m	247.0m	54.4m
Commission Earned	4.8m	16.8m	(-) 0.5m
Percent of 1994	--	350.0%	10.4%

There is a strong potential in the area for processing tea leaves. The factory had, in the past, made some profits. According to the KUD leadership, the business of the factory has started picking up again during 1997.

[08] FARM IMPLEMENTS MANUFACTURING UNIT

The KUD, with a view to provide marketing opportunities to some of the blacksmith-artisanal members, promoted production of farm tools for plantations and tea estates and handicraft material for tourism industry. There are four producers' groups of 150 members (2.5%) who are engaged in this activity. These four groups are: Farm Implements; Hand Tools; Wood Carving; and Handicrafts. The KUD had provided them with 6 units of spring hammers to produce better quality and higher quantity of implements. The KUD provides them with organizational support in securing orders, and certification as to the quality of farm tools produced.

This unit too has not generated sufficient funds for it to develop further due to severe lack of working capital. The KUD leadership, however, believes that this is a service provided to its members. The following figures explain the business situation during 1994, 1995 and 1996:

Particulars Rp	1994	1995	1996
Sales by the Unit	35.6m	60.3m	10.3m
Percent of 1994	--	166.6%	27.7%
Expenses by the Unit	34.5m	55.2m	12.2m
Commission Earned	1.1m	5.1m	(-) 1.9m

PRODUCERS' ORGANISATIONS

Within the organizational structure, there are several producers' groups - each group consisting of 10-20 persons. These are:

- 02 Horticulture Groups
- 17 Farmers' Economic Groups
- 40 Dairy Farmers' Groups
- 40 TPKs (out of which 30 are milk collection centres)
- 04 Blacksmith-Artisanal Producers' Groups

From the TPKs, fertiliser and other farm services/implements are supplied. Each group has a coordinator. Most of the groups have their own place of work. Artisanal groups include Farm Implements, Hand Tools, Wood-carving and Handicrafts.

The groups get loans to carry out their activities. Dairy group and cattle-feed group coordinators receive incentives e.g., Rp 2 per lt of milk collected, and Rp 2 per kg of concentrate purchased from the KUD, which are distributed among the other office-bearers of the groups e.g., the leader, secretary and the assistant.

SITUATION OF PROCUREMENT OF WORKING CAPITAL FOR THE BUSINESS

The KUD has its limited own capital. There is a severe limitation on the part of the KUD to expand its business. As a result, it has to borrow funds from external sources and make use of its own funds including the members' deposits. The situation of savings has been as follows: Rp 196.6m in 1994, which went up to Rp 227.9m (115.7%) in 1995, and in 1996 up to Rp 261.2m (132.4% of 1994).

Main sources of working capital have been the members' deposits, borrowing from the commercial banks, fees collected from government-supported programmes e.g., fertiliser distribution, electricity fees, and profits generated from the business of the KUD etc. The outside capital of the KUD consisted mainly of the credit given by BUKOPIN/KPBS for the purchase of 100 dairy cattle during 1994 and 1995. It formed almost 50% of the total of outside capital. It also includes the shares given to the KUD by some private companies e.g., PT Hero and PT Metro Data.

The business diversification and expansion of the KUD has not undergone any significant change during the last three year. The main reason could be the inability of the KUD, due to lack of working capital, to expand its milk-handling, vegetable-handling and cattle-feed business although there is a great potential for development. Due to inadequate members' savings, the KUD has to look for external funding sources which are expensive and

difficult for the KUD to afford. The loan provided by the BUKOPIN for purchase of dairy cattle in 1993-94 was so heavy that it formed nearly 50% of the external capital.

COMPETITION WITH PRIVATE SECTOR

Almost 100% of the dairy-farmers market their fresh milk with the KUD. Almost all the dairy farmers purchase their cattle-feed requirements from the KUD. Nearly 30% of the farmers market their agricultural products, esp., horticulture products, with the KUD. While the KUD enjoys the confidence of the members in milk and cattle-feed, the other sectors are open to competitors. Due to low production of the cattle-feed plant and the rising demand of the concentrate in the area, there are several private operators who are selling the concentrate to the farmers. Competition has begun to build up in this sector. The waserda/mini market is not patronized by all the farmer-members, and all the horticulture produce is not marketed through the KUD. The KUD does not have sufficient and appropriate infrastructure to enter this field.

(5) Credit Business

1) General Credit Business Management Assessment and Current Situation of KUD Savings and Loan (USP) Business

The KUD is well-organized and has a number of primary business activities, including milk and vegetable marketing, animal feed manufacturing, consumer store and credit business. Management overall appears capable, but needs further training in the fundamentals of business break-even analysis and cash flow management. Management needs a better understanding of the credit needs of the KUD necessary to support business growth in primary businesses and proposed areas of business expansion. The savings and loan credit business (USP) of KUD employees six persons, representing about six percent of the cooperative's total employment structure (104 full-time employees). The average number of USP loans and loan volume handled per USP employee equals 66 loans and Rp. 11.0 million; an amount adequate to justify paying the wages for those employed.

2) Savings

Available data as of the time of the field survey for the year 1995 showed KUD initial membership savings at Rp. 12.6 million, compulsory member savings at Rp. 130.8 million and voluntary member savings at Rp. 5.1 million (representing a small number of large accounts), for a combined total member savings of Rp. 148.5 million. Average savings per KUD member amounted to Rp. 25,333. This is considered quite low for a cooperative which obtained its legal status in 1976. Comparative savings growth from prior years was not possible due to lack of data. However, information gathered in July 1997 indicates that savings for growth was stagnant for the years 1994, 1995 and 1996. The KUD does not pay interest to members on initial savings, but does pay interest on compulsory and voluntary savings according to a formula, which in 1995 yielded 8.7%, well below market rates. This perhaps suggests why many members have been reluctant to increase savings with their cooperative.

In an effort to increase savings the KUD introduced, in 1996, a passbook system for ordinary savings and paid a flat rate interest payment on its 5,800 ordinary savings accounts amounting to 12% p.a.; still well-below market rates. However, for one-year time deposits, a new savings program also introduced in 1996, the KUD now pays an interest rate of 20% p.a., which is more in line with market rates. This new time deposit savings program has, as of mid-1997, attracted Rp. 19.0 million in deposits from some 400 member-depositors. Another new savings program started by the KUD in May 1997 to help members accumulate capital for annual religious ceremonies, known as Fitri savings, pays members a monthly interest rate of 1% and has generated Rp. 120,000 in total deposits during its first two months of operation. Also in May 1997, the KUD initiated a women's group savings program which collected deposits amounting to Rp. 5.0 million in its first three months of operation. The KUD has also recently started a lottery system, open to 12-month member-depositors, to generate additional income. Other savings promotion activities of the KUD include annual savings promotion on cooperative day and holding periodic quiz and cooking contests.

3) Borrowings

Institutional borrowings of the KUD at the time of the field survey total Rp. 175.0 million, and include: (1) a Rp. 85.0 million working capital loan from PTB, at a ROI of 12% p.a., for tea processing activities; (2) a Rp. 90.0 million five-year loan from BUKOPIN, at a ROI of 12% p.a., for working capital to operate the KUD's animal feedmill; and (3) a Rp. 60.9 million village development planning fund loan from BUKOPIN, at a ROI of 18% p.a., for open-use relending to members (683) at 4% interest per month for 3-6 month periods. The latter BUKOPIN borrowing was originally extended to the KUD for a five-year period, beginning in 1990, but has since been extended to the year 2003. Current balance as of July 1997 on this open-use, collateralized relending program loan is Rp. 26.0 million. The rates of interest for these borrowings is considered preferential as they are less than money market rates. No loan repayment delinquencies were reported for these borrowings.

4) Loans

a) USP line of credit

At the time of the field survey, the KUD reported USP lending totaling Rp. 65.9 million, representing loans extended to 396 members. Average loan terms include a rate of interest equal to 2% per month, a loan term of one

year, and a maximum loan limit per borrower of Rp. 1.0 million. Average actual loan size per borrower for USP lending was Rp. 166,414. The 2% rate of interest for this type of USP lending would appear to be too low to adequately cover administrative costs and still generate a profit, given the volume of accounts handled.

A second type of membership loans are made by the KUD to members, using the KUD's internal funds. Total member lending under this second credit program, at the time of the field survey, amounted to Rp. 51.3 million, representing loan to some 994 members (about 17% of the KUD membership). Average loan terms include a 3% per month rate of interest, 3-6 month loan term, and a maximum loan limit per borrower of Rp. 300,000. Average actual loan size per borrower amounted to Rp. 51,610. The rate of interest charged on this lending program is viewed to be very adequate and high enough to cover general administrative costs, including costs associated with interest paid on savings, leaving an acceptable profit margin.

In order to qualify for both types of membership loans described above, potential borrowers must have KUD initial savings of Rp. 5,000, minimum compulsory savings of Rp. 2,000, and voluntary savings of not less than Rp. 5,800, kept on deposit for five or more months. Both lending programs require borrowers to offer collateral (e.g. motorcycle, tv set, cattle, etc.). Typical loan uses by borrower category include: (1) for employees, housing acquisition or improvement; (2) for farm households, farm implements and input acquisition; and (3) for merchants, business expansion and/or working capital. The KUD records few delinquencies in loan repayment from these lending programs, with most borrowers repaying their loans on or before the maturity date.

At the time of the field survey, total USP lending under the above two credit programs amounted to Rp. 117.2 million. By July 1997, after eleven months, combined USP lending to members had grown to Rp. 140.0 million, nearly a 20% increase.

b) Member credit channeling

At the time of the field survey, the KUD only reported one type of member credit channeling loan, a 13.3 million, sourced from BRI, for KCK lending to 238 members (representing about 4% of the KUD's present membership), for an average actual loan size per borrower of Rp. 55,882. Loan terms include a rate of interest of 4% per month for members-borrowers and a maximum individual borrower loan amount of Rp. 300,000. No loan delinquency information on this type of lending was provided by the

KUD.

Data obtained in as of the end of the 1996 business year revealed several additional types of member credit channeling loans, including:

- o Vegetable financing from BRI under the KUT lending scheme totaling Rp. 13.3 million to 87 borrowers; Loan terms: ROI 2% per month; 9 month term; loan package Rp. 260,000 per hectare.
- o Dairy cattle financing from BRI totaling Rp. 67.4 million.
- o Dairy cattle financing from KOPKAI totaling Rp. 79.5 million.
- o Dairy cattle financing from BUKOPIN totaling Rp. 312.1 million. [loan program ended]
- o Dairy cattle financing from BULOG totaling Rp. 238.5 million; loan term of 5-years, Rp. 2.5 million maximum loan size per borrower, loan guarantee provided by Bank Central Asia (BCA)
- o Dairy cattle financing BCA totaling Rp. 120.2 million; Rp. 3.0 million maximum loan size per borrower, loan importation to be done by KPBS (Southern Bandung Dairy Federation). [lending program not yet started]

Repayment of dairy cattle loans normally begins at the time of milking and the KUD collects payment in-kind from its members in the form of milk, monetizes it through milk sales, and remits cash loan payment back to the financing institution.

As the KUD serves only as a channeling agent, it does not participate directly in loan risk, and therefore has no direct liability to the bank in case of loan default by its members. The KUD reports that it has experienced a total of Rp. 53.2 million in bad loans under member channeling loan programs, but that the loans were repaid to the bank by the KUD which now treats this loss as an account receiveable to the KUD.

(6) Guidance and education activities

1) Present situation of education activities for officials and employees and its evaluation

-Educational backgrounds of officials and employees and their duties

The KUD has assigned 3 directors, 3 auditors and it has 109 employees. Looking at their educational record, out of 3 directors, there are 1 graduate of university and 2 graduates of senior high school. In case of auditors, one of them has graduated from university, one of them have graduated from cooperative academy and one of them has graduated from senior high school. In case of the employees, there are 7 graduates of university, one graduate of junior college, 23 graduates of ordinary senior high school, 4 graduates of livestock high school, 4 graduates of agricultural high school, 18 graduates of management high school and 6 graduates of engineering high school. the educational backgrounds are very high level. The employees who graduated from university are assigned as manager of livestock business, credit business analysis, registration, quality control of feed-stuff, general manager, assistant for auditors and secretary. Thus the major part of works are provided for graduates of university. Also, there are 36 graduates of junior high school and 10 graduates of primary school and they are in charge of security, driver, warehouse business and tester of electricity. One of the directors are in charge of education plan of employees and the KUD has one advisor from IKOPIN.

- Recruitment and wage system

In 1996, KUD has recruited 16 new staff to strengthen maintenance of feed mill, quality control of feed-stuff, registration management, tester of electricity and farm guidance. Appropriate persons are assigned at suitable section and employees are young. The average age of employees is 33 years old. The wage structure table has set up according to educational background. The payment to the graduates of junior high school in the first year is Rp60,000 per month and that of university graduates is Rp300,000. Also, KUD pay bonus with the range between Rp15,000 to Rp100,000 every year.

- Education fund

In 1995, the KUD has appropriated 2.5% of the current surplus for education fund. The current surplus fund of fiscal 1995 was Rp 85.2 Million and the education fund appropriated in 1995 was Rp 2.13 Million. The amount was too small to promote training for all employees. In 1996, the percentage of appropriation for education fund became 5%. By using a part of this education fund the KUD is publishing monthly bulletin "BEWARA" and circulating 1,000 copies to members. The cost of the bulletin per copy is Rp700.

- Situation of training of employees

25 employees (about 23%) have participated in the training relating to their duty at BALATKOP or cooperative federations until 1996. The annual training plan for employees is formulated by the director in charge of education. The human resource development section of the KUD is in charge of implementation of training program for 109 employees. The in-service training is held every Saturday which manager of each section is playing a role of instructor. The contents of training conducted until 1996 are as follows;

<u>Participants</u>	<u>Contents of training</u>
Chairman	Accounting, management, credit business
Manager of KIOSK	Accounting, management, tax
Manager of credit	Management administration, audit, accounting
Milk market manager	Improvement of quality of milk-- GKSI
Local Coordinator	Administration, guidance, accounting, beef cattle raising
Security	Security
Manager of Agriculture	Production management
Market in charge	Operation of KIOSK
Artificial insemination	Animal hygiene, artificial insemination
livestock manager	JICA training, hatching, breeding, quality control of feeds
Registration	Tax filing
General affairs	Computerization of office works
General manager	Management, accounting, credit business
Book keeper	Tax filing
Tea processing	Accounting, management
Credit sale in KIOSK	Accounting, credit business
Secretary	Management, audit
Loan administration	Credit business, accounting
Manager of electricity	Accounting, credit business
Production administration	Improvement of quality of milk

The training needs for officials and employees according to their duties are as follows;

Accounting and administration	Management of electricity bill, book keeping
Saving and loan	Computerization, loan administration
Marketing	Obtaining buyers and joint market methods
Farm guidance	Nursery of calves, artificial insemination
Better living	Fostering of women's group, health care
Waselda	Joint Purchasing activities
Directors	Observation of advanced dairy farming

As education activities to members, the KUD is publishing monthly cooperative bulletin, also, KUD is conducting field study for dairy farmers twice a year by groups and the expenses for the group leaders are borne by the KUD.

2) Present situation of farm guidance and its evaluation

The major marketing commodities of KUD Pasir Jambu is milk. The average number of milk cattle per household is 2 cows and the KUD has a plan to increase the number of milk cattle to 5 cows per household by the year 2000. The expansion of production and improvement of quality of milk as well as feeding management are needed to increase income.

Farm guidance by the KUD is done by 7 employees who are in charge of artificial insemination, milk production and feed management. The number of dairy farm households is 1,242 and one farm advisor is taking care of 178 dairy farm households. KUD has established cable communication system between Head office and dairy

farming group leaders to use for communication of urgent matters. the details of 7 farm advisors are as follows;

	Duty	Age	Education and Training record
Advisor A	Artificial insemination	49	Trained at Livestock Bureau
Advisor B	Manager milk production	40	Trained at GKSI
Advisor C	Quality control	34	Graduated from Junior High School
Advisor D	Artificial insemination	34	Trained at Livestock Bureau
Advisor E	Manager livestock	37	University graduate, JICA training on feed quality
Advisor F	Feed production	28	University graduate
Advisor G	Artificial insemination	37	Engineering High School

The KUD has a good structure of farm guidance in the field of dairy farming. Beside them, 3 employees of agricultural production section are providing guidance on vegetables, rice and fertilizer through their daily routine works.

–Situation of dairy farming groups and other producers groups

About 2,000 dairy farmers in the area are all being members of KUD Pasir Jambu and KUD is collecting 100% of milk from members. They are organized in 40 dairy farmers groups which consists of 30 to 60 members for each. They are promoting various training through group activities. It can be said that the bases for farm guidance are established.

Also , in case of horticulture , 200 members of vegetable producers are organized in 2 groups.

KUD is organizing 1,500 women in dairy farm households in 34 groups. As the role of women in dairy farming is very important and they are playing vital role in milking, juggling timing for artificial insemination and contact artificial insemination of KUD. The KUD is providing training for these dairy farming women on cleaning of cattle shed, milking technology, quality control and timing for artificial insemination.

PPL(agricultural extension workers) are visiting member farm household directly to provide guidance. The livestock extension office in the area is located at Soreang 10 km away from the KUD head office. PPL and farm advisor of KUD are cooperating in the meeting which is held once in 3 months. Livestock bureau of Soreang has 2 PPS (subject matter specialist), 29 PPS and 8 advisors in charge of KUD.

PKL (cooperative extension workers) are visiting KUD once a month to provide business management guidance as well as book keeping and credit business.

3) Present situation of better living guidance and its evaluation

The better living activities in KUD Pasir Jambu are promoted centering 34 dairy farming women's groups with 1,500 members. Besides, training on dairy farming technology, they are engaged in saving promotion to KUD, cooking class and sports activities. They are conducting gymnastic exercises from Wednesday day to Saturday by age groups inviting instructors. This is a kind of farmers exercises to heal backpain and shoulder stiffness caused by milking works and care of cattle. In the KUD 2 female

staff are in charge of promotion of such activities. Details of the employees in charge of better living activities are as follows;

Advisor A	57 years old	Secretary	Graduate of university
Advisor B	24 years old	Welfare of employees	Graduate of high school

They are providing guidance based on their own experiences and better living section is not established in KUD. The secretary is very capable person who has a lot of experience, however, as she is very busy for her own duty, fostering of her successor would be necessary for the development of better living activities.

The member's demands for better living are as follows;

- Health care activities, Implementation of Group Health Screening
- Objective saving for Group Health screening
- Consultation on legal affairs and tax filing
- Cultural activities such as cooking class

(7) Other Business

1) Collection of Electricity Utility Charge

The KUD currently generates additional income from service fees associated with public electricity bill collection. For the year 1995, the KUD earnings from this business amounted to Rp. 500,000, representing 0.01 percent of the KUD's gross business volume and 1.9 percent of the KUD's net profit that year. For each bill collected, the KUD receives a Rp. 200 commission from the electric company (PLN). The KUD also collects a minimum of Rp. 200 per month from each member electric account for its compulsory member savings program. This is a positive example of internal KUD capital formation through savings.

2) Telephone Service

The KUD also receives a commission for television (TVRI) bill collections. No data was reported on this type of income, however.

3) Other Business

The KUD is not engaged in other business.

(8) COOPERATION AND BUSINESS LINKAGES WITH PUSKUD

The KUD Pasir Jambu has no business linkages with the PUSKUD. The Puskud, according to the KUD, could and should provide all logistic support e.g., supply of business information, supply of raw material used for cattle-feed manufacturing, marketing of farm tools and handicraft material, seeds and guidance for horticulture production. The Puskud could also support the KUD in the procurement of consumer goods for the waserda/Mini Market.

2. The KUD's Potential and Factors Hindering Its Development (PASIR JAMBU)

(1) Summary

{1} Dairy farming is a thriving industry in the area, so the core of the membership is dairy farming households. Although the KUD has established milk collection facilities and is engaged in the gathering and marketing of milk, there are no milk processing facilities, and production of value-added products is inadequate. Moreover each member raises about one milk cow, and the amount of cows in production fell between 1994 and 1995.

This decline in the number of cows is thought to be due to many of the cows having been at the end of their production lives at that time and to the fact that milk prices had fallen.

However, milk products and milk consumption in the domestic market are increasing. It should therefore be possible to increase the number of cows in production by providing financing for their purchase, to increase the amount of milk produced by improving breeding technology, and to increase value added by improving milk quality and by creating processed products. There are indications of strong potential among cooperative members to respond to such measures, including the fact that milk production per cow has been increasing.

Also, between 1994 and 1995, the quantity of feed provided by the KUD to its members rose. If the KUD can manufacture high-quality feed mixtures, this will further increase in milk production.

{2} In addition to milk, vegetables are a major product. The KUD collects vegetables from its members and sells them to the supermarket "HERO." In reality, however, it functions as little more than a go-between for the members and the store. Because the KUD's sorting and packaging capabilities are limited, this has meant that there are large numbers of members who have been shut out from the KUD's operations because they are unable to sort and pack according to standards. In addition, the rates of product spoilage are high.

The KUD has a sufficient number of employees, so it should be possible to improve the system of guidance and to raise quality. Since the area is also near the major markets of Jakarta and Bandung, it should be possible to develop new marketing channels.

(2) Management of Organization

{1} Farm guidance

In the KUD's crucial dairy-related operation, the amount purchased per member engaged in dairy farming was Rp 1,619,000. The KUD is thus contributing in a major way to members' incomes. However, because the number of cows being bred is small and mismanagement for feeding caused death of cow and the quality of milk is declining.

Besides dairy farming, a variety of vegetables is being grown in the area. By intermediating with the supermarket HERO, the KUD is cooperating in members' marketing efforts. However, members are unable to participate in marketing via the KUD because marketing outlets are limited and because the KUD's fruit sorting and wrapping technology is immature. Only 5% of horticultural farmers in the area is members of the KUD.

Therefore, farm guidance division should be established independently, to provide guidance on vegetable marketing as well as dairy farming, the productivity of vegetables and commodity value will be improves which in turn to increase income of members and attract non-member horticultural farmers to join the KUD. The KUD has sufficient potentiality to establish farm guidance division.

{ 2 } Planning and administration function

A variety of business is performed by the KUD, however, as the planning and administration division is not established and the business are executed by individual idea or action of employees. Therefore the business linkage among different divisions are the weak point of the KUD. Also, the development of new business, new dairy products, vegetable processing and market research are not performed satisfactory. In the KUD, directors, general managers and top management are unifying the opinion through meetings, but it is not sufficient to develop business to a large extent, hence it is necessary to establish a division which is responsible to examine business policy and establishment of new business through daily works. As the KUD has enough man power, it will be possible to establish a planning and administration division.

{3} Membership

The membership rate in the KUD is not what it should be, reflecting the still inadequate status of the KUD in the area's economic activity. Consequently, private operators have entered the market of vegetables from other areas and are making a large impact, while running profitable operations.

A higher membership rate would mean an enhancement of the economic influence of the KUD, which would make it possible to create advantageous marketing for the members. This would result in higher member incomes.

A considerable time and preparations will be necessary for the KUD to participate in the market of vegetables, however, by increasing the number of embers and with thorough discussion with members the way of solutions will be found.

The users of electricity fee collection business are about 7,000, however, there are only

70 members out of them. As KUD is collecting the fee every month, it will be possible for the KUD to talk with the users about rights and duties of KUD members and appeal them to join KUD.

The KUD is supporting processing activities of women's group. The members of the group are participating in the activities willingly besides provision of loan, this means that it will be possible to attract participation of more women in the activities through enrichment of contents of the activities.

{4} Computerization

Although the KUD uses computers, the number of employees capable of handling them is small, and their use is limited to "input of processed data by manual." So computers are not being used to their full potential in the area of improving the efficiency of office procedures.

Purchasing or developing new software would make it possible to improve the speed and accuracy of clerical work. It would also enable the KUD to stay abreast of developments in its businesses at appropriate times, and allow it to respond appropriately. The cost for development of software will be a huge amount, however, if employees are trained, even a software available in a city market will be enough to achieve a considerable efficiency in office work procedures.

(3) Marketing and Purchasing Business

I. HAMPERING FACTORS

01 Milk marketing is a prime-mover not only for the dairy farmer-members but also for their KUD. Milk business formed between 64-68% of the total purchases of the KUD during 1994-1996. Its annual supply of milk to the IPS is around 5,700 tons. There was also a reasonable number of dairy cattle in the KUD area of operation. The KUD also produces cattle-feed which satisfies about 70% of the needs.

02 In addition, the KUD is actively engaged in the procurement and distribution of quality vegetables to some reputable buyers. The business of the KUD is multifarious. The KUD faces acute shortage of working capital for horticulture business, although the management systems, methods and practices are fairly stable and well-established.

HAMPERING FACTORS : HORTICULTURE

03 The following main hampering factors have been noticed:

- Shortage of working capital for expansion of horticulture business;
- The KUD does not supply the vegetable products to the local market or send them to Jakarta or Bandung. It has no business relations with the Bandung district federation of vegetable and fruits cooperatives, Puskud's Citra Supermarket and PT Goro. All the horticulture products collected from the members are intended for HERO Supermarket;
- The KUD Pasir Jambu tends to play a safe business without really physically touching the products;
- The entire collection, preliminary grading, packaging and shipment is coordinated by a group coordinator without any direct involvement of the KUD staff in guidance and control;

- The KUD provides vegetable marketing support only to a handful of members - a majority of the rest are ignored;
- The KUD does not provide any joint collection, grading and shipment facilities to its members;
- The KUD has not established any procurement, grading and shipment standards for vegetables;
- The KUD has not strengthened the economic base of the farmer-members by giving them credit for cultivation of specifically requested crops.

04 The KUD currently relies heavily on the business deal with the HERO Supermarket of Jakarta which asks for nearly 30 items, and to which about 6-8 items are supplied by the KUD. Major supplies for Hero are cultivated by two agricultural economic groups (horticulture) of about 20 members. Rest of the farmers have to fend for themselves and market their products themselves on their own either locally, or in Bandung market or through the agents. The monthly take off by Hero is about 25 tons worth Rp 40.5 million, which is insignificant if compared with the total sales of the KUD (0.7%).

05 The KUD, as a facility for grading and packaging, has provided a space with no operational facilities. It has also inducted a box-van for shipment of vegetables from Pasir Jambu to Hero warehouses in Jakarta. It lacks technology to handle perishable commodities. The farmers are provided with broad guidelines on grading and packaging material by the Hero. The packed material is shipped by the KUD or sometime picked up by the Hero for Jakarta. Packing material is purchased from the Hero. The Hero pays for the shipment costs. The role of Pasir Jambu KUD is more of a supplier without having any bargaining power because there are many more who would like to supply vegetables to the Hero.

06 The KUD has not established any business links with large consumers (buyers) e.g., hotels, restaurants or supermarkets aside from the Hero Supermarket. It has also not developed any advisory or consultative links with other organisations in the area e.g., vegetable marketing committee.

07 The KUD is a member of the Puskud, a business federation of West Java KUDs, but has not negotiated any business deals with it, not even for supply of vegetables for its Citra supermarket. The KUD has not solicited any business information from the Puskud. The Puskud, also, on its own, has not initiated any business development support to its affiliate.

: MILK BUSINESS

01 Milk marketing is a prime-mover not only for the dairy farmer-members but also for their KUD. It is between 64-66% of the KUD total purchases. The business is stagnant at a plateau. It handles about 17 tons of fresh milk every day. Percentage of milk sold to the IPS as against the total purchases of the KUD had declined to 67.9% in 1996. 97.8% of the milk purchased was sold to the IPS in 1996. This trend remained within 89-97% during 1994 to 1996 indicating that the flow to the IPS remained stable.

02 Milk is a highly perishable commodity. It has to be handled fast, cooled fast, processed fast and shipped fast. The best economic returns are in its fast movements - on the road as well as in the market. The most important factor is fast decision-making.

03 It has, however, been observed that over the years there has been some reduction in the number of dairy cattle, and the milk produced and supplied to the KUD by the members. This trend was explained by the KUD leadership thus: the KUD had implemented rather strictly the quality controls on Fat/SNF contents with the objective of giving farmers a higher income and obtaining better prices from the IPS. The concept was neither clearly explained by the KUD nor understood by the farmers. The farmers found it difficult to maintain the prescribed standards because they were not able to afford a higher quality of cattle-feed, and, consequently started selling some of their livestock. They switched on to other occupations e.g., motorbike taxi drivers - ojeg. Lack of dairy extension and low quantity and low nutrition of cattle-feed were also the other main culprits.

04 The present cooling capacity is 17,500 lt per day. Milk is collected from 30 collection centres twice a day using KUD trucks. The KUD is not engaged in any kind of 'value addition' in milk processing. The KUD is not presently the member of the GKSI. It has direct dealings with the IPS - not through the GKSI.

05 The following main hampering factors have been noticed:

- Number of dairy cattle and production of milk has gone down due to low quality of cattle-feed and lack of extension;
- Credit level of an imported dairy cow is considerably high (worth about Rp 3 million per dairy cow) for a farmer to easily afford;
- In the case of death of a credit-cow, replacement is expensive and generally not done;

- In the absence of any 'value addition', expansion of milk business is not possible;
- The KUD is out of mainstream of milk federations e.g., GKSI, KPBS of Pangalengan etc., thus does not receive current information on milk business development and guidance.

(4) Credit Business

As earlier indicated, the KUD needs significant increases in assets, particularly for working capital and fixed asset expansion, to achieve higher profitability in its dairy, feed and vegetable marketing/processing businesses. The KUD's profit margin in 1995 was only 1.47% and its feedmill was estimated to only operate at 33% of rated capacity. The primary cause for this low performance is insufficient working capital to support procurement, milling and marketing operations, and insufficient investment capital to support facilities expansion for milk cooling and feed manufacturing/storage.

Savings mobilization from members is an important means for the KUD to generate additional assets internally to support business growth. New savings schemes and savings promotions recently introduced by the KUD hold significant potential for expanding internal capital formation. The active involvement of women's savings groups is seen as a new savings innovation of the KUD and one which should be encouraged, as regional and worldwide experience in recent years have shown women to be aggressive savers.

Interest rate structures for KUD lending under USP business are adequate but for other KUD member lending programs are too low to support profitability. At present the KUD reports little earnings from member credit channeling, as lending volumes under this program are quite small.

(5) Guidance and education activities (Hampering factors and possibilities)

Hampering factors

- i. Although the structure of education activities is well organized, as the fund for education is limited, employees have a few chance for training.
- ii. Specified better living advisors are not assigned by KUD and KUD is not meeting diversified needs of members.
- iii. The farm guidance structure is well established in dairy farming, however, knowledge of each advisor is not satisfactory to solve various technical problems faced with members. The farm guidance on joint marketing of vegetables are not established and members marketing channel is limited due to lack of information on market situation.

Possibilities

- i. The employees of the KUD are young and the educational back grounds are rather high. If a systematical training programs were implemented, it would be possible to improve capability of employees. Regarding new business activities such as loan programs and mutual insurance programs and computerization of office works, in case there is no successful example in other KUD, it would be possible to invite lecturer from private sectors through exchange programs with private sectors such as Inkubator Program. The KUD has enough capacity to increase education fund.
- ii. The awareness of members of importance of better living activities is high and women's groups are already organized in KUD. There are 1,500 dairy farming women and they are already active in farm management and better living activities. These group would be a base for further development of better living activities.
- iii. In a bid to improve quality of milk, the KUD is positively recruiting engineers. Improvement of dairy farming technology and increase of milk cattle is the common interest for KUD members. In response to this, it would be possible to improve capability of farm advisors through various training programs.

(6) Other Business

The KUD's business expansion in the electricity bill collection business is limited due to the finite numbers of KUD members who are now paying electricity bills. The television bill collection business is also likely to remain small, as few members presently own television sets and are paying these fees. Growth in per capita income should result, over time, in a growth in the number of KUD members able to afford television sets, and hence a growth in KUD revenue in this area. Aside from income/savings generation for the KUD, these businesses produce non-monetary benefits for the KUD through increased contact with members, leading to information exchange and strengthened overall ties between the KUD and its members.