

KUD WALATRA



## 1. Present situation of KUD

### (1) General Characteristics of KUD area

#### KUD Walatra

KUD Walatra administratively locates in Village Pangalengan, Subdistrict Pangarengan, District Bandung, West Java Province. It is with a distance of about 40 km south of Bandung City.

The area of the KUD extends to hilly/mountainous land with a height ranging 800m to 1,600m. Because of this elevation the area keeps cooler temperature annual average temperature of 19 degree C, with lowest 14 and highest 23 degree C in annual average. Rainfall accounts 180 days and precipitation averaged around 2,500 mm in a year. Rainy season stretches from October to March and dry season start in April until September. The area belongs to "highland" in the classification by Agro-eco system.

Land utilization has shown in the table below:

---

Wet land, Semi-irrigated	4,411 ha
Rain-fed	2,722
Estate (tea)	6,801
Forest	10,067
Others	3,292
Total	27,293

---

Population in KUD area is 102,085 and farm household accounts 7,980. Land holding scale by a farmer is limited that 80% of farmer owns less than 0.5 ha.,

Agricultural production in the KUD area is characterized as to attach more importance on vegetable production and dairy farming due to the above-mentioned natural conditions and economic factors i.e the existence of nearby big consuming urban area.

Major vegetable production in Subdistrict Pangarengan in 1994 (See the table below)

---

Item	: Area, harvested (ha)	: Production (kw)
Small red onion	1,078	32,397
Cabbage	3,932	1,181,252
Tomato	2,040	445,854
Chilli	357	12,397
Potato	4,737	1,234,605
Mustard leaf	289	107,170

---

The item which attained the biggest production by the KUD area among 41 Subdistricts in District Bandung are cabbage, tomato, potato and mustered leaf. Among those, potato (share 81%), cabbage (69%), tomato (68%) are grown in the subdistrict with a majority share in the District.

Dairy farmers in KUD area join the other specialized dairy cooperatives in that area. Therefore, no data is collected on dairy farms by KUD Waratra.

(2) KUD's General Characteristics

(1973 July, Established)

(1990 July, KUD Mandiri)

This KUD is in the Sub-District Pangalengan, a vegetable growing area in the cool highlands 30 minutes south of Bandung city. The principal agricultural activities are livestock raising and vegetable farming--potatoes, tomatoes, cabbage, etc. Apart from farming, the area has no local industry worth mentioning. According to the re-evaluation requested in Phase 2, vegetables accounted for 37% of farm-household income, a high rate in comparison to other areas. It is said 300 ton of vegetable are shipped to Jakarta and Bandung market.

The KUD's primary operations are providing fertilizer and fuel to its members, and channelling public funds to vegetable farmers from the farming finance system. The KUD is still not involved in the joint shipment and marketing of the agricultural produce grown by its members. It is also not involved in any way in simple processing businesses relating to agricultural produce.

Because the province's largest dairy cooperative(KPBS) is also located in the same area, the KUD cannot include involvement with the dairy farming sector in its development plans for hereafter.

Although the business of providing fertilizer has shown fluctuations both in terms of quantities supplied and earnings, it has increased by a factor of roughly 6 times between 1992 and 1995.

Revenues in fiscal 1995 were Rp 2,933 million. For a 5,000-member KUD (Vegetable farmer members 1,541,electric members 1,142,Tea producer members 1,342), this is a small scale of operations. Net return on revenues was also a low 0.6%.

The area's principal product, and the one for which greater demand can be expected, is potatoes. The KUD's future will probably depend upon its ability to make itself attractive to members by carrying out well-planned programs that support potatoes, such as the introduction of high-grade varieties, the development of markets, technical guidance and investment.

### (3) Management and Organization of KUD Walatra

#### {1} The Running of the Organization

The area of operation of KUD WALATRA is the entire district of Pangalengan, encompassing 12 villages (DESA). The population in the district is 102,085, of which adults account for 37,708. The KUD has 4,360 members (at the end of fiscal 1996 was 4,660).

The membership rate for this KUD is 11.6% of the adult population. This is way under the province's average of 15.4% and the district's average of 25.5%, and is attributable to the existence of a powerful dairy cooperative the KUD's area of operation, which has siphoned off the area's dairy farmers and workers of the estate company are organized in another cooperative. Some farm households who are engaged in both dairy farming and horticulture are being members of the two cooperatives. The membership of the dairy cooperative is a huge 16,488. The adult population, exclusive of members of the dairy cooperative, is 21,220. The KUD's membership rate in relation to this population is 20.5%, yet the membership rate is low.

The KUD has only 162 female members, which amounts to a small 3.7% of all members. This can be attributed to the following:

- In case a householder is a member, his spouse is treated same as members;
- The KUD is not promoting participation of women positively.

There are 7,980 farming households in the area, spread among them, 1,541 involved in vegetable growing and 1,342 involved in tea production are the members of the KUD. That accounts 36% of membership rate to farming population.

The KUD divides its members horticultural groups (1,541 persons), groups of users of the electricity fee collection service (1,142 persons), chicken growers (195), retailing groups (50), groups of tea farm workers (1,342) and hamlet saving and loan group (50). By holding discussions with these different groups, the KUD is able to respond to the membership in ways that incorporate their desires. At present, poultry farming is not promoted by members but the groups established in the past are still existing.

Membership fees are Rp 5,000 and monthly compulsory deposits Rp 1,000. However, the total paid in membership fee divided by Rp 5,000 is only 440. Because Kerompoktani is holding and controlling a part of membership fee and compulsory savings of the KUD. Including members who paid to kerompoktani, the number of members who completed payment of both membership fee and compulsory savings are around 1,100 persons and the rate of payment is low. As the accounting system between the KUD and kerompoktani is sometimes splitted and sometimes combined together for reporting in the annual business report, it should be unified constantly to adopt one the system.

Among the members who utilize electric fee collection service, 800 of them are accumulating payment of membership fee Rp 200 every month but many of them are not reached Rp 5,000. Regarding compulsory savings, in case of users of electricity fee collection service, most of them deposit every month together with electricity fee. In case of farm households, many of them deposit around one in 4 months.

Membership in the cooperative offers the following benefits:

- Discounts on fertilizer of Rp 10 per kilogram.  
Member's price Rp 540/kg, Non-member's price Rp550/kg
- Financing for operations such as KUT is available.
- The opportunity to exchange agricultural related information, which expands horizons.

There are 64 farmers' groups (kerompoktani) in the area. Of them, 11 groups have their own office and autonomous saving and loan activities are promoted. The KUD dispatch 2 employees by weekly schedule, go around every group to collect savings and to provide loan. Also, the KUD use the group as vehicles to communicate information, to provide guidance in farming technology, to consolidate reservations for fertilizer etc. and KUT loan applications, and as places for various discussions. The saving and loan business between KUD and kerompoktani are splitted in accounting. The saving and loan business of kerompoktani is a mutual finance.

Women members are involved in small scale production of local sweet cake, caramel, traditional potato chips and sport pants for school children, those are sold in the open market in pangalengan early in the morning. Among them, 101 members organized two groups which are running saving and loan business and KUD is providing loan to the groups (KCK). However, the sales outlets are limited to small retailers in the sub-district, with fierce competitions, a big scale development of these small scale home industries will be difficult for the time being.

There are 12 youth groups established at each village named "Karang Taruna". among them, one group (50 members) is cooperating with the KUD all of the group members are also members of the KUD. That group is involved in vegetable production and manufacturing and sales of souvenirs such as key ring and tapestries. The KUD is providing guidance on book keeping and quality control.

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 month. Occupationally, all directors are involved in farming.

There are three auditors, who perform audits once a quarter. Their occupations are former member of the military (one persons) and school teacher (2 persons).

In the process of holding a general meeting, the KUD hold preliminary general meetings by different groups.

In the general meeting held in April 1997, with 1,000 persons attended the preliminary meetings and 500 persons attended the general meeting. Before the general meeting, the different member groups held separate meetings, where the agenda items were explained. The preliminary meeting were held during February to April for 8 vegetable producers groups, 3 electricity fee collection groups, 2 women's groups and 1 KUT users group. Although members who had not paid membership fee and compulsory savings are eligible to attend the meeting but they did not. The representative who attend the general meeting have collected letters of attorney from members absent from the preliminary meeting.

KUD WALATRA has established the position of KUD counsellor (adviser / BPP), held by five persons, including the previous head of the village, retired officers and leaders of the village. The KUD counsellor group is not a internal organization of the KUD; rather it is appointed by a head of sub-district approved by the governor of the province. In case there is a misappropriation by directors, BPP is given authority to

dismiss the directors. However, recently, there is no serious problems and they are not holding meetings.

The KUD is structured into the following departments: general manager; general affairs (cashier, accounting, general affairs); finance (savings and lending, electricity fee collections, telephone service); transportation and store outlets (wholesaling, agricultural tools, rice, petroleum); and processing and marketing (agricultural products, marketing).

The KUD had a total of 21 regular employees, including two general managers (one for loan operations; and one for other operations and KUD finances). In terms of office-related work, the assignments were as follows: special staff, 1; agricultural loan, 1; general loan, 1; accounting, 1; general affairs, 1; electricity fee collections, 2. Those involved in the production side comprised the following: electricity fee collection, 9; transportation, 1; others, 2. This gave a total of 21 regular employees. In addition there were five part-timers.

The gender breakdown was males 17 and females 4, so women employees accounted for 19% of the total.

The KUD also had among its personnel supporting farming operations 5 persons in charge of farming guidance, of them 2 persons are in the financial section responsible for KUT loan repayment guidance to farmers.

## {2} Management

Sales volume in 1995 was Rp 1.609.1 million, an increase of 41% year-on-year. This was roughly 17% of decrease of the amount five years earlier in 1990. Total revenues, which included service commissions and other business revenues, were Rp 1,723.9 million, a 33% increase over the previous year, however, 30% decrease from 1990. the sales me was the lowest in 1994 and gradually recovered ,yet it s not reached to the level of 1990. The major reason is due to the decrease of handling of fertilizer and illegal distribution of fertilizer is affecting competitive power of the KUD.

Sales comprised mainly the supply of agricultural production materials, principally fertilizer. This amounted to Rp 1,414.4 million, or 87.9% of total sales. This operation's contribution to revenues was Rp 1,480.5 million, amounting to 85.9% of the total. In addition to the agricultural production materials business, the KUD also supplied petroleum (kerosene). This business accounted for Rp 131.3 million.

Other business contributed the following: electricity fee collections, Rp 23 million; the savings and loan business related to the collection of electricity fees, Rp 13 million; the employee union, Rp 64.2 million, and members' voluntary organizations (UJO), Rp 11 million.

Gross profit (revenues minus cost of sales) was Rp 194 million, almost even to the previous year.

The current surplus has varied greatly and unstable, going from Rp 16.5 million in 1990 to Rp 6.5 million in 1994 and to Rp 18.3 million in 1995.

Total business profit (gross profit minus operating expenses) was Rp 42 million. By divisions this broke down into the following results: supply of agricultural production materials, Rp 19.2 million; supply of petroleum, Rp 3.3 million; collection of electricity fees, Rp 1.1 million; savings and lending operation related to the collection

of electricity fees, Rp 5.1 million; the employee union, Rp 3.6 million, and members' voluntary organizations, Rp 9.7 million.

The appropriation of current surplus is regulated by bylaw of the KUD, however, the appropriation of current surplus has not done for these three years. there is a possibility to lose trust from members.

The regulation on appropriation is as follows:

- 40% as dividends, commensurate to the amount of savings deposited by members and 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.

The balance sheet shows total assets of Rp 1,559.1 million, a very large increase of Rp 980.7 million over the previous year. The change was attributable to Rp 924.5 million in new KUT loans to members, and to an investment of Rp 27.3 million related to the telephone service business.

These funds were financed by a Rp 918.5 million increase in borrowings from BRI.

The major component of assets was loans to cooperative members, which amounted to Rp 1,023 million and composed 65.6% of total assets. However, most of this was institutional financing (channeling loans) from the BRI, of which Rp 881 million was made up of KUT loans for vegetable farming. For these outstanding loans, the KUD transferred reserves for bad debt of Rp 3 million. This amount is difficult to recover as it was implemented after careful examination of each bad debt. In 1996, KUT loan was increased to Rp 2,299 million which accounted 69.% of the total assets.

Investments totalled Rp 49.6 million, and consisted of membership fees and compulsory deposits in BUKOPIN, PUSKUD and KAI. The KUD also had investments in WARTEL, the telephone company, and others.

Liabilities amounted to Rp 1,038.4 million, an increase of Rp 921 million year-on-year. This change resulted from the aforementioned channeling loans procured from BRI.

Voluntary savings amounted to Rp 29.7 million, which was only 1.9% of total assets, but growth has been rapid, with the current balance standing at 3.3 times the amount of deposits existing in 1994. We look forward to a continuation of this growth hereafter.

Own capital (including "other liabilities") was Rp 521.6 million, of which membership fees were Rp 57.5 million and compulsory savings Rp 53.7 million. Even combined, these two categories composed only 21.3% of own capital, and 7.1% of total assets.

Other liabilities of Rp 273 million includes Rp 250 million of poultry fund provided from 1983 to 1985 based on the Presidential Decree. As the poultry business was all collapsed due to damage of the explosion of the volcano, it became difficult to recover. This amount is accounted as other liabilities as special loss, it is recognized that repayment is not requested to those poultry farmers.



The following were the various operating ratios:

	1995	1994	Mandiri standard
Liquidity ratio:	109.6%	186.5%	125%
Ratio of payment ability:	150.3%	492.5%	110%
Net return on equity:	3.5%	1.4%	10%
Net return on sales :	1.1%	-	
Net return on total assets:	1.2%	1.1%	

As a result of the increased borrowing from BRI, the current ratio has declined steeply. With respect to profitability, both net return on sales and net return on assets are under the province's average. Thus, although net profit has grown, profitability remains weak. Also, the rate of total asset revolving was only 1.1 times, indicating a need for greater effort to manage assets efficiently.

Including "other liabilities," the own capital ratio is a low 20.2%, so the KUD must work on building a stronger own capital base. This ratio is low, even in comparison to the province's average of 34.7%.

Business volume per cooperative member were a large Rp 395.4 million, 1.4 times the state's average of Rp 282,000. Total assets per member were also a high Rp 357,600, 50 times the province's average of Rp 72,000. However, these favorable comparisons were largely the result of a low average for the province as well as the above mentioned other liabilities included in assets, and thus the KUD still needs to increase usage of the cooperative among its members. Finally, membership fees and compulsory savings per member were Rp 505 and Rp 12,314, respectively. Many a portion is controlled by farmers groups.

With 21 regular employees in the KUD, revenues per employee were Rp 82.1 million, which was sharply under the province's average of Rp 109 million. There is a need to increase the rate of labor efficiency.

Salaries and wages paid to employees amounted to Rp 150,000, which was low in comparison to private businesses in the area.

The major facilities owned by the cooperative were as follows. Apart from the Kios and TPK set up in Bandung, all these facilities are concentrated in the vicinity of the cooperative headquarters.

- Fertilizer kios:	2
- Wartel:	1 (telephones, 4; fax, 1)
- Warehouses:	2
- Truck:	1 (1-ton)
- Minibus:	1 (10-person capacity)
- Scooters:	3
- Computers:	4
- TPK:	26

(4) PURCHASING AND MARKETING BUSINESS

The economic business of KUD Walatra consists mainly of the following: horticulture, savings and loans, distribution of chemical fertiliser, handling electricity utility charges and operating a telephone kiosk (Wartel). The KUD having 4,660 full members (and 5,762 candidate members) from 12 villages serves the community through its 25 full-time employees. The main business of the majority of its members is horticulture. About 15-20% of the members are also concurrently the members of the local primary dairy cooperative (KPBS).

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

Particulars Rp	1994	1995	1996
KUD Total Sales	1,142.2m	1,609.1m	1,991.7m
KUD Total Purchases	1,106.7m	1,530.2m	1,814.5m
Own Capital	362.2m	244.3m	309.9m
Outside Capital	117.4m	1,037.5m	2,717.1m
SHU	47.7m	18.2m	24.3m
Assets	941.1m	1,559.0m	3,309.9m
Members' Deposits	44.4m	85.6m	169.8m
-Initial Deposits	1.8m	2.2m	6.2m
-Compulsory Deposits	33.4m	53.6m	90.6m
-Voluntary Deposits	9.1m	29.7m	72.8m

[01] HORTICULTURE BUSINESS

Main horticulture products of the area have been potato, tomato, green beans, cabbage and other leafy vegetables. As many as 20-25% of the members produce potato. As in July 1997, there were 62 KT's (Vegetable Farmers' Groups) and 2 women's groups. Each group has between 20-40 members. Nearly 42 groups are exclusive potato groups.

Out of 62 KTs there are 8 special groups who do the potato cultivation on a contract basis for a government-owned company, PT SUCOFINDO. The contract was recently facilitated by the KUD. These groups receive imported potato seeds (Columbus variety) from the company, which also provides some farm extension and other technical guidance to the farmers. The company imports seeds from Germany and Holland (Granola variety) and from Holland (Columbus variety) for distribution among the group members. The company undertakes a business of approximately Rp 60 million per year per group - a total of Rp 480 million per year. The company markets the potato abroad and/or in the exclusive markets within the country.

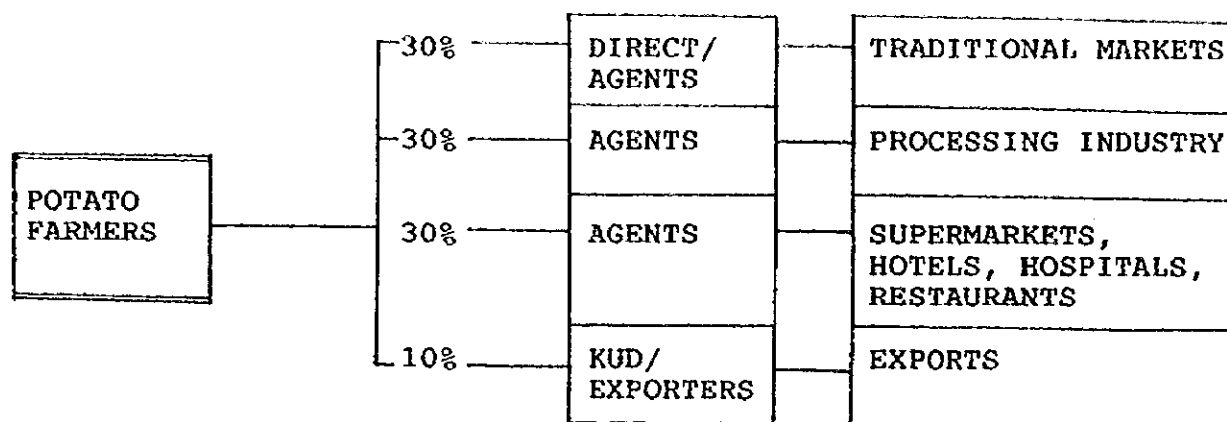
The groups pay to the KUD around 1 to 2% of their profits for the services and guidance provided to them. (This payment, according to the KUD leadership, has not yet started.) The business dealings with the Sucofindo started only in 1996.

The following figures show the amount of production of potato during the years 1992 and 1996:

Year	Potato Production	Percent	Number of Farmers	
1992	8,478 tons	--	785	--
1993	8,553 tons	100.8% of 1992	792	100.8% of 92
1994	9,039 tons	106.6% of 1992	837	106.6% of 92
1995	11,853 tons	139.8% of 1992	898	114.3% of 92
1996	10,800 tons	127.3% of 1992	987	125.7% of 92

The main purchasers of potato from the area have been private food processors e.g., Indofood, Fosters, Hunts through a chain of their procurement agents.

The distribution of potato production in the area is as follows: 30% goes to Traditional Markets in Bandung and Jakarta; 30% goes to Processing Industry e.g., Indofood, fast food outlets; 30% goes to Supermarkets, Hotels, Restaurants and Hospitals; and the remaining 10% goes for exports through the KUD-Exporters, as illustrated below:



The Pangalengan area has 4,200 ha of land suitable for potato cultivation, but only 35% is reportedly used for this purpose. The production ratio of a variety of vegetables in the area is as follows: 40% for potatoes; 30% for tomato; 20% for cabbage; and 10% for other vegetables e.g., carrots, chillies etc. The high price of potato seed is stated to be one of the reasons why more cultivation area has not been brought under potato cultivation.

The value of horticulture products marketed by the farmer-members with their KUD Walatra during 1994, 1995 and 1996 was as follows:

Particulars Rp	1994	1995	1996
KUD Total Purchases	1,106.7m	1,530.2m	1,814.5m
Percent of 1994	--	138.2%	163.9%
Horticulture Products	23.9m	57.4m	139.4m
Percent of 1994	--	237.5%	579.1%
% of KUD Purchases	2.1%	3.7%	7.6%

From the above it is seen that the horticulture products business has significantly increased as compared with the year 1994 - the 1995 business was 237.5% and the 1996 business was 579.1% of the 1994 business. If compared with the total KUD purchases, the horticulture business has shown an upward trend - 2.1%, 3.7% and 7.6% of the KUD total purchases of 1994, 1995 and 1996 respectively.

The KUD does not supply the products to the local market or send them to Jakarta or Bandung. All the horticulture products collected from the members are intended for exports through various exporting companies. The KUD tends to play a safe business without really physically touching the products. The KUD also does not utilize the local vegetable market of Pangalengan in which agents from buyers keep on negotiating horticulture deals.

The members do market their horticulture produce with the private traders as well. However, special groups identified by the KUD, and those groups producing a special variety and quality of horticulture products market their produce with the KUD. The KUD has entered into contract with some of the exports who pick up a variety of horticulture products from the KUD.

The KUD does not have any facilities and technology to hold, grade, pack or forward horticulture products sold to it by the members. It only negotiates deals with the private traders for the supply of products. The products are picked up by the buyers from production points. The payments are routed through the KUD. The KUD makes payments to the farmer-members through the producer groups.

During 1992 and 1993, the KUD had supplied a consignment of about 200 tons of tomato to the Singapore market through PT KHARISMA, an exporting company. In 1994, the KUD supplied four containers of Chinese Cabbage for export to Taiwan. In 1995, PT Kharisma, PT Masindo Lestari Wibawa had contracted the KUD to supply Chinese Cabbage, Pecay, Potato, Lobak and Tomato for exports to Singapore, Malaysia and Taiwan markets. In 1996, the KUD was asked by the exporting companies to supply tomato, buncis and kubis intended for the Singapore market.

Given below is a description of the supply of horticulture products marketed by the members:

Year	Products Marketed by the farmers	Quantity Marketed	Value Worth/Rp	Percent of 1994
1994	Chinese Cabbage	80,000 kg	27.7m	--
1995	Chinese Cabbage, Potato, white Radish, Carrots	156,539 kg	60.7m	217.8%
1996	Tomato, Green Beans, Cabbage	278,589 kg	184.7m	660.7%

As can be seen from the above there is a strong upward trend in the marketing of horticulture produce in terms of quantity as well as in value. While the horticulture business of the KUD in 1994 was just Rp 27.7 million, it went up in 1995 to Rp 60.7 million (an increase of 217.8%), and in 1996 reached Rp 184.7 million - 660.7% of the 1994 business. All these products have been procured by the exporters from the KUD.

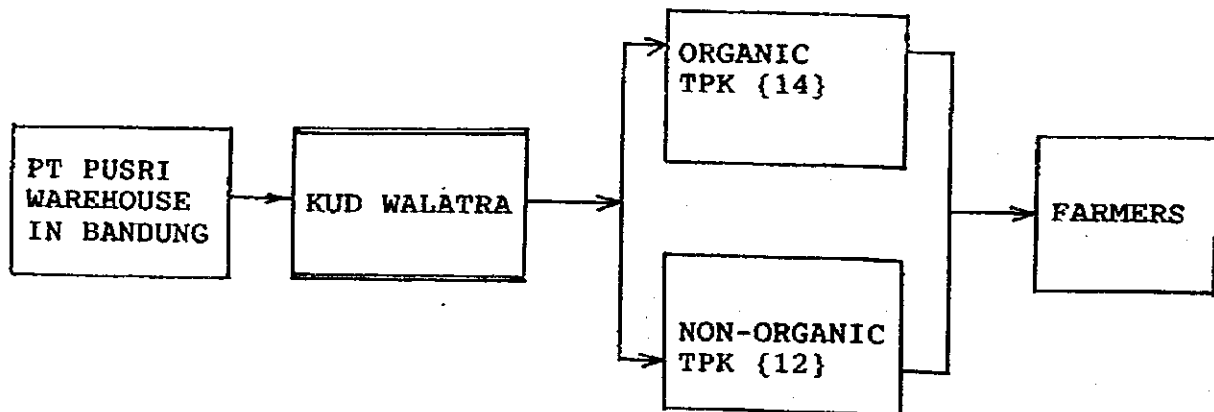
There is a great demand for a quality potato for processing purposes. Potato is processed into sticks, fingers, chips and

flour. Because of the lack of quality seeds and their high price, the production of processable potato is low. With the development work done by the BBI - a JICA-supported Potato Foundation Seed Farm at Pangalengan of the Ministry of Agriculture - quality seeds have been developed which are available at about 60% lower than the price of the imported variety. It is anticipated that in the near future, the farmers will be able to market a higher quantity of better quality potato in the market.

{In the BBI project, the seed potato are being multiplied at the Lembang Horticulture Research Institute-LEHRI, the Foundation Seed Farm-BBI, and the Stock Seed Farm-BBU in Pangalengan. Using these stock seed potatoes, the seed-growers can multiply extension seed potatoes. Then, the extension seed potatoes, the quality of which is expected to be the same as that of the imported seeds, will be placed on the seed market.}

## 02 CHEMICAL FERTILISER DISTRIBUTION BUSINESS

Chemical fertiliser distribution is an important business of the KUD Walatra. The fertiliser is distributed through two channels - organic TPK and non-organic TPK. There were a total of 26 TPKs (December 1996): 14 organic and 12 non-organic. Organic TPK are those which are run by the KUD directly by itself and the non-organic are those which are operated by the private traders as a private business, serving as distributors of fertilisers and other farm-related materials and equipments. These traders obtain their fertiliser supplies from the KUD warehouse. They are not liable to pay any commission etc. to the KUD for being called as non-organic TPK of the KUD. There were two such non-organic TPK within the Pangalengan town itself. The TPKs sell Urea (pills and tablets), TSP, ZA and KCL. The supply of fertilize to the farmers is explained below:



The table below explains the sale of chemical fertiliser and its ratio with the total sales of the KUD during the period 1994, 1995 and 1996:

Particulars Rp	1994	1995	1996
KUD Total Sales	1,142.2m	1,609.1m	1,991.7m
Percent of 1994	--	140.8%	174.4%
Sale of Fertiliser	1,158.0m	1,480.4m	1,773.5m
Percent of 1994	--	127.8%	153.1%
% of KUD Total Sales	101.4%	91.9%	89.0%

The total sales of the KUD has increased over the years between 1994 and 1996 (174.4% of 1994). Also the value of chemical fertiliser distributed by the KUD has increased - 153.1% in 1996 of the year 1994. However, the ratio of distribution of chemical fertiliser to the total sales of the KUD has gradually fallen - from 101.4% in 1994 to 89.0% in 1996. The main reason has been attributed to the unusual increase in the price of fertiliser during 1995 which led to less take off of fertiliser from the KUD warehouse. Another reason has been the increase in the number of private traders who supply a variety of chemical fertiliser, thus forcing an element of competition on the KUD.

The volume of distribution of fertiliser and the fee received by the KUD during 1994, 1995 and 1996 is explained in the chart below:

Particulars	1994	1995	1996
Volume Distributed/Tons	3,947	2,458	5,906
Percent of 1994	--	62.2%	149.6%
Fee Received by KUD/Rp	7.4m	4.3m	5.4m
Percent of 1994	--	58.1%	72.9%

#### PRODUCERS' ORGANISATIONS

Within the organizational structure of the KUD, there are 62 KTs (Vegetable Groups) and two women's groups. Out of 62 KTs nearly 42 groups are exclusive potato groups. Out of the potato groups there are 8 special potato groups which work on contract basis - contract cultivation -- for a government-owned company, PT SUCOFINDO. These 8 groups receive imported potato seeds from the

company which also provides some technical guidance and farm extension to the farmers. The company undertakes a business of about Rp 60 million per year per group. The entire produce is intended for exports. The contract between the 8 farmer groups and the PT Sucofindo was facilitated by the KUD Walatra during 1996.

Other KTs produce other special varieties of vegetables also intended for exports.

The two women's groups are involved in handicrafts activities, as well as handling vegetables - preparing the products for supplies to the exporters. They try to promote marketing of their products, often through the local vegetable market in Pangalengan.

#### 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 chart below explains the situation of own and external funds:

Particulars Rp	1994	1995	1996
KUD Own Capital	362.2m	244.3m	309.9m
Percent of 1994	--	67.4%	85.6%
Outside Capital	117.4m	1,037.5m	2,717.1m
Percent of 1994	--	887.1%	2,322.2%
KUD Deposits	44.4m	85.6m	169.8m
Percent of 1994	--	195.4%	386.3%
% of Own Capital	12.2%	35.0%	54.7%
% of Outside Capital	37.8%	8.2%	6.2%

From the above statement it is clear that the role of KUD's own deposits (members' savings) in its business operations is very limited - it was 12.2%, 35.0% and 54.7% of KUD Own Funds in 1994, 1995 and 1996 respectively. The main operations of the KUD were carried out by making use of external funds. The elements of outside capital were: credit from the exporters and KUT for potato. The element of outside capital increased to 887.1% in 1995 of the 1994 level and to 2,322.2% in 1996 of the 1994 level.



The KUD allows 1.3% per month interest on voluntary deposits made by the members. This has helped increase the voluntary savings levels, as explained below:

-1994 Voluntary Deposits :	Rp 9.1 m,
-1995 Voluntary Deposits :	Rp 29.7 m, (333.3% of 1994)
-1996 Voluntary Deposits :	Rp 72.8 m, (811.1% of 1994).

#### COMPETITION WITH PRIVATE SECTOR

The KUD faces a stiff competition in the sector of fertilizer distribution. A number of private traders in the neighbourhood of the KUD have lured the farmers away from the KUD. It can be seen from the figures of ratio of fertiliser sales with that of KUD total sales, the trend is downward viz., 101.8% of 1994, 91.9% of 1995 and 89.0% of 1996.

In the horticulture business, the KUD also faced competition from private traders. There are procurement agents, especially for potato, tomato and chilies, for large processors e.g., Indofood, Fosters, Hunts who deal with the producer-farmers through middlemen. They make use of the local vegetable market as a negotiating venue.

The KUD does not engage itself in directly handling the vegetables. It organises supplies of potato, tomato and some fresh vegetables from the farmer-members to exporters and agents of large companies e.g., PT Sucofindo, PT Kharisma, PT Masindo Lestari Wibawa etc.

The KUD does not have sufficient resources to pick up horticulture produce from its members although there is a great potential. It lacks technology to handle perishable commodities. It lacks the will to take risks.

It has not developed business links with wholesale market operators. Everything is left between the member-farmers and the private enterprises, who prefer to pick up the produce from the road-head.

The KUD does not deal in any other horticulture items except for the items intended for exports through the exporters. It has not developed any formal market place within the local vegetable market of Pangalengan. The KUD had a sales outlet in the market area of Bandung City, but due to relocation of that market, the sales outlet is left unused and has become unproductive.

(5) Credit Business

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

The KUD's primary business involves fertilizer distribution and operation of a savings and loan (USP) business. Members are active in vegetable production (particularly potato). 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 is very active, serving over 800 members, and generating Rp. 30.1 million in profits during 1995. The KUD's USP employees two persons, representing eight percent of the cooperative's total employment structure (25 employees). The average number of USP loans and loan volume handled per USP employee equals 411 loans and Rp. 327.0 million; an amount highly adequate to justify the administrative overhead for those employed.

2) Savings

For the business year 1995, KUD Walatra showed initial membership savings at Rp. 64.2 million, compulsory member savings at Rp. 122.8 million and voluntary member savings at Rp. 29.7 million, for a combined total member savings of Rp. 216.7 million. Average savings per KUD member amounted to Rp. 49,702. This is considered above average as compared to many other KUD in West Java. The rate of savings growth also is higher than most West Java KUD, showing an average annual growth of 67% from 1990 (Rp. 49.6 total savings) to 1995 (Rp. 216.7 total savings). However, savings growth between the years 1994 and 1995 grew at a more modest rate of 10.6%. Partly accounting for this higher than average savings performance is a KUD policy which requires that ten percent of all KUD channeling loans be automatically applied to savings.

Recent data obtained shows a strong increase in voluntary savings from Rp. 29.7 million in 1995 to Rp. 50.3 million

at the end of 1996, a one-year growth of 69%, reflecting strong member cooperative patronage and trust due to success in the KUD's vegetable business.

In addition to the compulsory savings policy associated with KUT lending, cited above, the relatively strong rate of member savings growth is linked to the fact that the KUD pays at-or-near market rates of interest to members for both compulsory (15% ROI) and voluntary (16-18% ROI) savings. Savings growth can also be linked to the fact that members have a high degree of trust in the cooperative due to the success of the KUD's horticulture business. Continued savings growth for this KUD can be an important source of capital to finance business expansion (see Indonesia: Sustaining High Growth with Equity; World Bank Report No.16433-IND; May 30, 1977).

### 3) Borrowings

Institutional borrowings of the KUD at the time of the field survey total Rp. 120.0 million, which represents one ten-month working capital loan from BRI, at a ROI of 18% p.a., for fertilizer procurement/distribution. The rate of interest for this borrowing is considered to be market rate. No loan repayment delinquencies were reported for this borrowing. As of the end of 1996, total credit outstanding under this loan amounted to Rp. 75.0 million.

### 4) Loans

#### a) USP line of credit

At the time of the field survey, the KUD reported USP lending totaling Rp. 654.0 million, representing loans extended to 823 members, over half of which are farmers. Average loan terms include a loan maturity of four-months, an interest rate of 3% per month, and a maximum loan limit per borrower of Rp. 1.0 million for agriculture and Rp. 200,000 for non-agriculture. Average USP loan size per borrower (1995) for agriculture and non-agriculture was Rp. 870,047 and Rp. 216,800, respectively.

The KUD also provides credit, using its own funds, to members using the kios as well as vegetable trade credit to members and non-members. For kios member-borrowers loan terms include a maturity within five months, a maximum loan amount of Rp. 300,000, and an interest rate of 3% per month. For member and non-member vegetable traders, KUD credit terms include a loan maturity of four months, a undefined loan limit, and an interest rate of 2% per month. No data was obtained on the total amount of credit outstanding under these minor loan programs, however, the total number of borrower for all three types

of credit only numbered 10 as of July 1997.

The KUD also operates a separate USP lending program for its PLN service customers using funds from its PLN special savings program. 500 borrowers are currently participating in this program which carries a three-month loan term, interest rate of 3% per month, and maximum loan size of Rp. 300,000 per borrower.

The rate of interest charged on USP loans 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. During 1995, the KUD generated a total of Rp. 30.1 million in profits from its USP credit business.

b) Member credit channeling

Member credit channeling at the time of the field survey totaled Rp. 1,110.5 million, including: (1) KUT horticultural production loans sourced from BRI, in the amount of Rp. 998.5 million, for lending to 1,541 KUD members (representing about 35% of the KUD's present membership), for an average actual loan size per borrower of Rp. 647,955. Loan terms include a one-year loan maturity, a rate of interest of 14% p.a. for members-borrowers, a 5% loan collection service fee for the KUD (which totaled Rp. 197.0 million in 1996), and a maximum individual borrower loan amount of Rp. 2.6 million per hectare; and (2) PPKKP horticultural production loans sourced from RABOBANK/BUKOPIN, in the amount of Rp. 112.0 million, for lending to 730 KUD members (16.7% of total membership), for an average actual loan size per borrower of Rp. 153,425. Loan terms include a two-year loan maturity, an interest rate of 4% per month, and a maximum loan size per borrower of Rp. 2.5 million per hectare.

During 1996, BRI-sourced KUT horticulture production credit extended to KUD members increased by more than 2.5 times to Rp. 2.3 billion, reflecting strong growth in the horticulture business.

No loan delinquency information on this type of lending was provided by the KUD. As the KUD serves only as a channeling agent for BRI, 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.

Information gathered in July 1997 indicates that BUKOPIN also provides funds under the KUK lending scheme for KUD member credit channeling for the purpose of financing women's handicraft projects. While no data was obtained as to total credit outstanding under this program, credit has been extended to a total of 102 borrowers at a 4% monthly rate of interest.

(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 5 directors, 3 auditors and it has 25 employees. Looking at their educational record, out of 5 directors, there are 1 graduate of cooperative academy, 2 graduates of senior high school and 2 graduates of junior high school. In case of auditors, two of them have graduated from senior high school and one of them has graduated from junior high school. In case of the employees, one of them has finished university course through distance education by correspondence, one graduate of IKOPIN( Cooperative Management University Course) , 11 graduates of ordinary senior high school, 10 graduates of junior high school and one graduated from primary school.

The educational backgrounds of officials and employees are not so high level. The employees assignments are as follows;

General manager	1
Deputy general manager	2
Credit business	2
Fertilizer	1
Accountant	1
Cashier	1
Wartel (telephone business)	3
Fuel	1
Electricity	11
Driver	2
Total	25

A number of employees are assigned at electricity section and telephone. The number of employees in charge of credit and marketing business is very small to develop these business.

- Recruitment and wage system

In 1996, KUD has recruited female staff to strengthen credit business. She has graduated from senior high school and the condition of recruitment was having a knowledge of computer. From 7 years ago, the KUD set the condition of recruitment as graduate of senior high school or higher education. The method of recruitment is by document examination and test work for 3 months . They are not adopting a mandatory retirement age .

The wage structure table has set up according to number of years served to KUD. The minimum is Rp120,000 per month for employees who worked for KUD within 5 years and the maximum is Rp200,000 (more than 15 years). Also , KUD pay bonus with 3 months salary according to degree of contribution.

- Education fund

The KUD appropriate 5% of the current surplus for education fund according to bye-law of the KUD. The expenses for education activities in 1995 was Rp 3.1 Million and th of 1996 was Rp 3.6 Million including expenses for meetings. The amount is

too small to promote training for all employees. The employees have very few chance to attend training programs outside the KUD.

-- Situation of training of employees

The annual training plan for employees is not formulated. They just sent employees as they have received invitation letter from training institutions. The in-service training is not held and KUD has no specified instructor for on-the job training. The contents of training conducted in 1995 were as follows;

<u>Participants</u>	<u>Period</u>	<u>Contents of training</u>	<u>Place</u>
General Manager	8.4- 8.9	Cooperative management	BALATKOP
Chairman	3.10- 3.15	Training for chairman of KUD	BALATKOP
Credit staff	11.29- 12.2	Credit business	BALATKOP
Wartel staff	5.28- 5.31	Vegetable marketing	PUSKUD

In 1995, 4 officials and employees have participated in training courses, however, the adequate person is not sent to the training suited to their duties. For example, the staff of wartel (telephone business) was sent to vegetable marketing.

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	Quality control, shipping control, grading, obtaining buyers to develop market channel
Farm guidance	Pest control method, others
Electricity	Joint marketing of vegetables and the system
Directors	Maintenance of electricity transmission cable
	Marketing of vegetables, management, operation agricultural facilities

As education activities to members, the KUD is not publishing monthly cooperative bulletin. The KUD is not conducting field study or group seminar for members. Sometimes, employees of KUD visit to members when there is a need.

2) Present situation of farm guidance and its evaluation

The major marketing commodities of KUD Walatra is potato and other vegetables produced as crop rotation such as tomato, cabbage and corn. The technical level of vegetable producers are rather high level.

Farm guidance by the KUD is done by 3 employees who are in charge of marketing guidance on vegetables. The number of member households engaged in vegetable production is 1,470. One farm advisor is taking care of 500 households.

The details of these farm advisors are as follows;

	Duty	Experience	Education and Training Record
Advisor A	General Manager	14Y	Senior high school, vegetable producer
Advisor B	Deputy General Manager	3Y	IKOPIN, Vegetable producer
Advisor C	Fertilizer supply	15Y	Graduated from Junior High School, vegetable producer

These farm advisors are trained at JICA Seed Potato Multiplication and Training Centre located in Pangalengan which is within the operation area of the KUD.

#### – Situation of producers groups

About 1,500 vegetable producers in the area are all being members of KUD Walatra. s. They are organized in 42 groups which consists of 20 to 50 members for each. Farm advisor of KUD are providing guidance to 42 leaders of the group and the leaders are responsible to provide guidance to their members. The KUD collect advance order of fertilizer and agricultural chemical is promoted from such groups linked with production plan of individual farm household.

In Pangalengan , 6PPL(agricultural extension workers) are visiting member farm households directly to provide guidance. Seed Potato Multiplication and Training Centre of JICA (BBI Horticulture Experimental Centre) is located within the operation area of the KUD. This is advantageous for the potato growers of The KUD and more positive use of the experimental centre would be possible to solve technical problems of . horticulture farmers.

#### 3) Present situation of better living guidance and its evaluation

The better living activities in KUD Walatra is not actively promoted . The guidance from the KUD to member farm households is limited to a loan repayment planning.

At present, no better living advisors are assigned by the KUD and they have no intention to promote better living activities. the needs of members concerning better living are not grasped by the KUD.

#### – Situation of women's group and youth group in KUD

There are 2 women's groups engaged in saving and loan which consists of 101 members and they are members of the KUD. The objective of the group is to support small business of women such as production of traditional sweet cakes. Their products are sold in the morning market established in Pangalengan . KUD is providing financial assistance to these groups.

The number of total women members of the KUD is 361 ,however, they are using electricity bill business and saving and loan business of the KUD and they are not engaged in agricultural production activities.

There are 12 youth groups in the are which is called "Karang Taruna" , producing handicrafts. Among them, only one group is the member of the KUD and KUD is providing training on book keeping.

(7) Other Business

1) Collection of Electricity Utility Charge

The KUD currently generates additional income from service fees associated with public electricity bill collection. This income grew from Rp. 11.3 million in 1994 to Rp. 13.0 million in 1995. Annual net profit after subtracting operational overhead amounted to Rp. 1.7 million for both years (equal to 9 percent of the KUD's overall net income for 1995). During this same period, the number of subscribers grew from 964 to 1,142 (representing 26.2% of the total KUD membership), although it was noted that 450 subscribers do not pay their bills on time. For each bill collected, the KUD receives a Rp. 200 commission from the electric company (PLN). PLN deducts from this commission any unpaid bills and charges the KUD interest on portions of unpaid bills as well.

The KUD also collects a minimum of Rp. 200 per month from each member electric account for its regular compulsory member savings program and an additional Rp. 1000 per month for its special compulsory savings program. Members are paid interest on these savings at an annual rate of 15%. This is a positive example of internal KUD capital formation through savings.

The KUD also began operating a telecommunication office (WARTEL) in 1996. A thirty percent commission is paid to the KUD for operating the WARTEL. 1996 business performance indicated additional earnings for the KUD from this new business amounting to Rp. 1.2 million per month, for a total earnings for the period February through December of that year amounting to Rp. 13.0 million.

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 Walatra has no significant business linkages with the PUSKUD. The Puskud, following its agreement with the PT Pusri and in accordance with the government regulations, provided transportation of chemical fertiliser from the PT Pusri warehouse to the KUD warehouse and distribution of sugar.

The PUSKUD, according to the KUD, could and should provide all logistic support e.g., supply of business information, seeds and guidance for horticulture production. The Puskud could also support the KUD in providing technical and financial support in establishing a waserda/retail outlet.

## 2. The KUD's Potential and Factors Hindering Its Development (WALATRA)

### (1) Summary

{1} Although dairy farming is a thriving industry in the area, the KUD's members have been primarily horticultural farmers due to the existence of a powerful dairy cooperative in the area. In business terms, the KUD has also been prevented from engaging in dairy-related operations, but even with respect to vegetables it has been denied the opportunity to market all products but potatoes because of the strong influence of wholesalers.

However, in addition to holding the initiative with respect to potatoes, the KUD has also successfully exported tomatoes and other vegetables to Singapore in the past. Thus if measures can be taken to improve the quality of the vegetables and to deal with issues relating to storage, transportation and so forth, we believe that it would be possible to secure marketing channels.

{2} Although many traditional processed farm products exist in the area, these have not been commercialized, except in a very few cases. If the KUD could provide support and if this resulted in improved product quality and in production of meaningful quantities, then it might be possible for the KUD to commercialize and market these products. In point of fact, the KUD is now supporting women's manual manufacturing groups; in addition to further invigorating such groups, it would be possible to apply the concept of such groups to other processed farm products.

Moreover, given that the KUD's area of operations is an important transportation hub, and that it contains the town of Pangalengan, with its nearby resort area, we believe that the possibilities for successful marketing are high.

{3} The membership rate in the KUD is low, and its influence in the area's economy weak. In particular, the participation rate among women is low. One reason is that the KUD has adopted a policy of admitting only one member per household. Without necessarily having to make women members, it would still be possible to encourage them to participate in the KUD and to thereby invigorate the activity of the KUD.

{4} Virtually all of the loans made to members are system-based loans, for which the KUD receives only a handling commission from BRI and other banks. The savings and lending operations that KUDs were originally intended to be involved in (in which the KUD collects savings and uses these deposits as the capital for loans) are only a small part of the pie.

Because of a strong demand for funds among the membership, expanding the lending business should be easy. Also, given the affluence of the membership, as indicated by such things as the high 90% diffusion rate for televisions, collection should not pose significant problems provided that a proper loan management system is set up.

The KUD succeeded in attracting a sharply higher amount of free deposits in 1995 than in 1994. If activities aimed at attracting such deposits are continued hereafter, there is a good possibility that these deposits can continue to grow.

## (2) Management and Organization

### {1} Membership

The membership rate in the KUD is low. Also, paid in membership fee and compulsory savings are small amount. Because, the number of members who completed the payment is small and a part of membership fee and compulsory savings are managed by farmer's groups as their autonomous characteristics are very strong.

As employees of the KUD are visiting farmers groups every week for saving promotion , it will be possible to request members to pay membership fee and compulsory savings. Also, through discussion with farmer's groups, it will be possible to enroll the membership fee and compulsory savings in the account of headquarters of the KUD as those funds belong to the KUD.

The number of women members are 160 or 3.7% of total members. Women's participation is very important for invigorating of the KUD activities. Without necessarily having them become cooperative members, it would still be possible to get women to participate in the KUD. In this regard, women's manual manufacturing groups are the appropriate model.

### { 2 } Dividend to members

Since 1994, the KUD has not paid dividend to members from the surplus fund. It was approved at the general meetings, but dividend are to be paid to members according to the bylaw of the KUD, members may feel that it is insincerity of the KUD. As the surplus fund is created, it is possible to pay dividend to members.

### { 3 } Identification of accounting between KUD and farmers groups of KUD

There are two kinds of saving business in the KUD. One is the saving which is directly run by the KUD and the other is done by farmers groups of KUD. According to the annual reports, the accounting division of outstanding saving of farmers groups is not definite. it was enrolled in the outstanding saving of KUD head office in some year but it has not constantly done. The place of profit and loss is not clear. It would cause distrust toward KUD among members. The consistent measures are to be taken by making decision to select one of the methods. It would be possible to have a guidance of KJA for the establishment of accounting system.

### (3) Purchasing and Marketing Business

#### I. HAMPERING FACTORS

##### LACK OF MARKETING OPPORTUNITIES FOR VEGETABLE AND POTATO GROWERS

01 In the Walatra area of operation nearly 20-25% of the members produce potato. A total of 10,800 tons of potato was produced in 1996 by 987 farmers. The Pangalengan area has 4,200 ha of land suitable for potato cultivation, but only 35% is reportedly used for this purpose.

02 The main purchasers of potato from the area have been private food processors e.g., Indofood, Fosters, Hunts through a chain of their procurement agents. The distribution of potato production is as follows: 30% goes to traditional markets in Bandung and Jakarta; 30% to the processing industry e.g., Indofood, fast-food outlets; 30% goes to supermarkets, hotels, restaurants and hospitals; and the remaining 10% goes for exports through the KUD-Exporters. Potato prices tend to fall during the flush season (harvest time). Farmers suffer losses on account of low prices because there are no price-stabilizing infrastructure facilities e.g., cold stores or warehousing in the area.

03 Potato and dairying business are the profit centres of the area, and for the KUD Walatra, potato is important. Potato holds a strong potential for the economic development not only of the KUD but also of the farmers as individuals. The KUD does not have any price stabilizing factors/technology to help its members during the harvest season.

04 The following main hampering factors have been noticed:

- The KUD does not supply the vegetables products to the local market or send them to Jakarta or Bandung. It has no business relations with the Bandung district federation of vegetables and fruits cooperative. All the horticulture products collected from the members are intended for exports through various exporting companies;
- The KUD Walatra tends to play a safe business without really physically touching the products;

- The KUD also does not utilize the local vegetable market of Pangalengan in which agents from buyers keep on negotiating horticulture deals with producers and local agents;
- The KUD provides potato and vegetable marketing support only to a handful of members - a majority of the rest are ignored. It picks up vegetables only for the exporters. It plays a safe business and hence unable to compete;
- The KUD does not provide any joint collection, grading and shipment facilities;
- The KUD has not established any procurement, grading and shipment standards for vegetables and potatoes;
- The KUD has fragmented members' business through contract farming groups;
- The KUD has not established itself as a business entity in the local fruits and vegetable market thereby letting a plenty of business slipping to the private traders and agents;
- The KUD has not strengthened the economic base of farmer-members by giving them credit for cultivation of specifically requested crops.

05 The KUD currently banks upon the business links with the PT SUCOFINDO, a government-owned company, which purchases potato from 8 designated producers' groups. The business links with other exporters are very thin and of low value. The KUD does not have sufficient resources to pick up horticulture produce from its members although there is a great potential. It lacks technology to handle perishable commodities. It lacks the will to take risks. It has not developed business links with wholesale market operators. Everything is left between the member-farmers and the private enterprises, who prefer to pick up the produce from the road-head.

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

06 The KUD is a member of the Puskud, a business federation of West Java KUD, but has not negotiated any business deals with it. 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.

-----

#### (4) Credit Business

The KUD needs significant increases in assets, particularly for working capital and fixed asset expansion, to achieve higher profitability in its fertilizer, savings and loan and proposed seed potato production/distribution business. The KUD's profit margin in 1995 was only 0.62%. The primary cause for this low performance is the limited range of business services provided by the KUD to its members (primarily fertilizer supply) and the KUD's lack of direct involvement in vegetable marketing, on behalf of its members. Additional causes of low performance include: insufficient working capital to support fertilizer procurement, storage and marketing operations; and insufficient investment capital to support facilities expansion for storage and transport services.

While the KUD has achieved good growth in savings, the policy which requires that ten percent of all KUT channeling loans be automatically applied to member savings could have a negative impact on borrowers' repayment performance of horticulture production loans. Experience in other Asian countries has shown that when compulsory savings associated with production loans exceeds five percent of the loan value, the rate of loan repayment performance declines (e.g. Masagana crop lending program, Philippines).

Interest rate structures for KUD lending under USP business are adequate. At present the KUD reports little earnings from member credit channeling, however, potential annual KUD earnings from loan service fees under the BRI KUT horticultural production lending program, based on current loan volume and bank-approved KUD credit commission policy, could total Rp. 40.0 million.

## (5) Guidance and education activities

### Hampering factors

- i. As the fund for education is limited , employees have a few chance for training.
- ii. There is no employees in charge of systematical training plan for employees and members.
- iii. Absence of instructors who will promote on-the-job training in KUD.
- iv. The number of employees is shifted in electricity business and telephone business. The number of employees in charge of marketing and credit business is very small to develop such business.
- v. Shortage of fund for recruitment of staff for credit business, marketing business, farm guidance and better living guidance.
- vi. The capability of farm advisors to develop marketing channel is insufficient. Almost 100% of vegetables, except potato for export, are sold by members directly to middlemen and members are suffering disadvantageous deal.

### Possibilities

- i. The employees of the KUD are young and the educational back grounds are gradually being high with adoption of condition for recruitment as more than senior high school. If a systematical training programs were implemented, it would be possible to improve capability of employees.
- ii. The awareness of members of importance of joint marketing is high and the bases of farm guidance are established in the producers side. It would be possible to start joint marketing of vegetables if strong leadership is played by the KUD.
- iii. Women's groups are already organized in KUD which are engaged in production of traditional sweet cakes. There are also women members who utilize credit and electricity business of the KUD. These group would be a base for starting better living activities. As the KUD has no cooperative shop handling consumer goods, it would be possible to promote joint purchasing of consumer goods through fostering a female employees of KUD and leaders of women's group.

(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 early performance of the telecommunication (WARTEL) business indicates a strong KUD earning potential, particularly with the growth of telecommunication industry. This can be a very important new source of additional profits for the KUD over the next few years. The television bill collection business is 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.



**KUD SIPATUWO**



## 1. Present situation of KUD

### (1) General Characteristics of KUD area

#### KUD SIPATUWO

The area where KUD Sipatuwo locates is in the central part of Subdistrict Maritengngae. An administrative unit of KUD Sipatuwo is in Subdistrict Maritengngae, District Sidrap, South Sulawesi Province with a distance of about 180 km from Ujung Pandang, the capital of the Province. Topographically most part of the area constitutes low, flat and well-irrigated land, and in terms of "agro-eco" system classification the area is designated "irrigated".

The KUD covers two(2) *desas* (villages), i.e. Serang and Kanie among twelve (12) towns and villages in the Subdistrict Maritengngae. Total population of the KUD area is 4022, in which farm household accounts 687.

The area of paddy field in the KUD is 2,700 ha. According to the statistical data on Subdistrict Maritengngae, in total 12,337 ha, 87% in the paddy field is irrigated in different degree of irrigation i.e. from technical to simple irrigation and 13% of wet land is under rain-fed paddy cultivation. Yield of paddy of the Subdistrict in both seasons recorded as high as 6.83t (rainy) to 6.96t (dry), in terms of paddy (Gabah Kering Giling) in 1990.

Since the paddy field cultivated per farmer are comparatively large, main works of paddy cultivation, e.g. ploughing, transplanting and harvests are carried out by agricultural labourers on contract base. In addition to that, shortage in work force expedites farm mechanization, mainly introducing 2-wheel tractor/tillers.

Other than rice which is the most important agricultural product to the KUD area, poultry has become growing agricultural activity in the area, too. As statistics shows, pure-bred egg-layer hens were actually not kept by 1979 in Subdistrict Maritengngae. Since 1981, the number of birds had reached to the order of nearly 10 thousand, with some fluctuations in figures, a trend of an increment has magnified the order of around 600,000 and for last four (4) years the figures keep the level of 800 to 900,000 birds.

The table below shows major farm/poultry production in Subdistrict Maritengngae, 1996.

	Harvested area (ha)	Production (ton)	Yield (ton/ha)
Paddy	18,947	139,672	7.37
Maize	190	261	1.37
Cassava	268	2,370	8.85
Sweet Potato	7	48	6.89
Peanuts	223	296	1.34
Egg Layer (pure-bred)	849,360 (bird)		
Local chicken	435,600(bird)		

In 1994, 1,982 tons of eggs or 80% of the total production in the Subdistrict was marketed out of the Subdistrict Maritengngae. Processing of poultry meat as a byproduct (seasoned meat flakes) has started in trial scale.

(2) KUD's General Characteristics

(1967, Established)  
(1990, KUD Mandiri)

This small scale KUD covers only 2 villages in Sub-District Maritengngae in District Sidrap widely spread with the flat irrigated farmland.

There are 547 farmer households among around 1,000 households (population 4,000) in this KUD area. The number of members is 683 persons, and 90% of them rely on agriculture income as the major source out of 2,714Ha irrigated land.

Rice production is the main crop from their irrigated land as the matter of course, and soybean, cashewnut as the secondary crop. Recently small scale layer poultry farmers from 1,500 to 3,000 birds are popular as the side-business, utilizing the rice bran out of R.M.U as one ingredient of their compound feed.

The KUD procures paddy and rice and processes and sells them to Dulog and free market. It also supplies chemical fertilizer in cash and on institutional credit base. This KUD has their own credit system and collects electricity fee.

The business volume amounted to 720.2 Mil R.p, close to the South Sulawesi province average in 1995. The surplus fund ratio to the sales volume was only 0.3% low.

This KUD hires only 12 employees. But they have been fostered on the job training not only technically but also spiritually. The chairman had finished one month IDACA seminar in Japan, trying to communicate with members as often as possible following the Japanese Co-operative manner to members as his observation in Japan.

The chairman is so excellent of personality and administers so well that the annual meeting report has been kept so neatly and every data requested can be responded so quickly. We are looking forward to their positive direction, as the chairman evaluates the present and future. The KUD has to listen to the capable young staffs suggestion.

### (3) Management and Organization

#### {1} The Running of the Organization

KUD SIPATUWO was established in 1962, registered as a KUD in December 1967, and authorized as a KUD Mandiri in May 1990.

Since its founding, the KUD has achieved large increases in membership; from 309 in 1980, the number grew to 724 in 1990 and stands at 693 today. This amounts to 59.3% of the adult population in the area of 1,168 (547 farmers, 621 non-farmers), which exceeds both the average for the province and for Sidrap Province. The decline in membership since 1990 is attributable to 689.

There are 687 farm households in the area, and of these 628 belong to the KUD, resulting in a membership rate of 91.4% for total farm households. Thus almost all farming households belong to the KUD. In addition, of the 117 non-farming households, comprising hunters (wildfowl), merchants, government workers and others, 65 households have joined the KUD, so there is a high rate of membership among non-farming households as well.

On the other hand, female members number 131, constituting a low 19% of the membership.

The KUD's area of operation encompasses two villages (DESA) in Sub-district MARIENTENGAE. There are four other KUD in the Sub-district. These two villages were once a single village, which was divided into two jurisdictions in 1995.

Qualifications for membership are that a person be an adult living in the area of operations, pay a membership fee of Rp 1,000, and make a deposit of Rp 100 in compulsory savings each month. The compulsory savings are collected either in a single payment after the rice harvest, or deducted from members' dividends, which are distributed out of the net surplus.

Membership in the cooperative offers benefits as follows;

- Provision of loan for fertilizer ( in kind)  
Repayment is from the sales account of paddy, interest rate 14% / Year
- Discount of rice mill utilization charge (processing of paddy to rice) 20%  
member - Rp20/kg , non-member - 2Rp/kg

There are 16 farmers' groups (kerompoktani), in which 640 farmers participate. One group has membership of 20 ~ 40 persons. The KUD members who join the farmers' group are positively participating in the activities of the group. In the relations with KUD's business, farmers' groups are cooperating to KUD for collection of advance order of fertilizer and delivery as well as arrangement of collection of paddy. Members of KUD carry paddy to rice mill by themselves and receive the account directly. Farmer's group is engaged in coordinating works on paddy farming such as maintenance of irrigation canal and distribution of irrigation water.

The area also includes a women's livestock group, in which 210 persons participate. The group manufactures "minced chicken meat" from superannuated hens. The KUD

provides marketing support for this product. Also, for the members of the women processing group, KUD presented cocoon. Recently, KUD is providing farm works to the members of processing group at harvest seasons to gain additional income.

In addition there is handicrafts group that consists of 10 persons, but there is no connection between it and the KUD.

The KUD's five directors consist of the head of the cooperative, two deputy heads of the cooperative, one executive director and one director in charge of accounting. These directors hold regular board of directors' meetings once a month. The board members' occupations are livestock farming (two persons) and crop farming (three persons). The KUD has three auditors, who audit the organization four times a year, focusing principally on finances. Each audit takes 2-3 days to complete. Occupationally, the auditors include one person who is a company employee and two who are self-employed.

In addition, the KUD has five BPP (advisors) including two heads of village, and Muslim leaders who are engaged in duties such as efficient promotion of the decision of general meeting, attracting notice to members who are not cooperating to KUD and joining loan examination to members etc..

The general meeting was held in March, and out of 693 members, 354 (about 51%) attended. Because of the small number of members in the cooperative, the KUD does not hold preliminary meetings preceded by general meeting. However, members meet in their kerompoktani before the general meeting, and are given the opportunity at these meetings to listen to explanations of agenda items and to raise questions. We believe that the general meetings are being run democratically.

Under the secretary, the KUD operates 10 sections; general affairs, rice, production materials, livestock materials, purchasing outlets (waserda), financing, transportation, electricity fee collection, agricultural equipment, and rice milling facility.

According to its report for fiscal 1995, the KUD has 16 employees. In addition to the secretary (manager), there are six regular (full-time) employees (3 men and 3 women). The others include four part-time workers who works short time and five temporarily employees.

The regular employees are assigned to the daily tasks of the organization as follows: secretary 1; general affairs (accounting 1, cashier 1, general affairs 1); rice 1; rice polishing facility 1; livestock materials 1; electricity fee collection 1; agricultural tools 3; and warehouse 1.

For the extent of its business operations, the KUD has a small number of regular employees. Furthermore, among the cooperative's regular employees, three are responsible for farm management guidance, and two others for daily life guidance, in addition to their regular duties.

## {2} Management

Total business turnover (including commissions and service income) in 1995 were about Rp 721 million. Of this, the marketing of rice accounted for Rp 361 million, or 50.0%, while the supply of fertilizer accounted for Rp 314 million, or 43.5 %. These two activities accounted for virtually all of the cooperative's business.

Other activities include the collection of electricity fees, transportation services, tractor operations, rice polishing, and the cooperative insurance business. Commissions and other revenue from these activities were minuscule.

Net profit (revenues minus cost of sales) was Rp 28.4 million. Gross profit (total sales turnover minus operating costs) was Rp 62.2 million. The operating margin in the rice milling business was Rp21 million, while that in the fertilizer business was Rp 15 million. The KUD reported no non-operating revenues. Its net surplus was a small Rp 2.4 million, which was less than one-fourth of the average for the province of Rp 9.7 million.

The KUD also categorizes operating expenses and general expenses differently from agricultural cooperatives in Japan, resulting in a different concept of operating profit.

Business expenses of Rp 33.8 million include rice milling costs of Rp 7.2 million.

The entire amount of current surplus is carried forward to the following fiscal year. The appropriation of the surplus fund carried over from the last fiscal year is decided in the general meeting. As this indicates, the KUD is endeavoring to build a firmer base of equity capital by allocating funds to internal reserves. After approval at the general meeting, these allocations are transferred to current liability and capital accounts, and expended in the following or later fiscal years.

The net surplus was allocated in the following way:

Transfers to internal reserves:	(40%)
Dividends to members:	(40%)
Bonuses for directors:	( 5%)
Bonuses for employees:	( 5%)
Education fund:	( 5%)
Fund for social contributions:	( 2.5%)
Fund for building repairs:	( 2.5%)

Dividends to members are allocated for patronage of savings 50.5% and fertilizer and sales of paddy 50% that the KUD is endeavoring to pay out its surplus to the membership.

The balance sheet shows total assets of Rp 392.3 million, which was a Rp 5.4 million decline from the previous year, or in percentage terms a drop of 1.4%. Behind this decline was a Rp 6.4 million reduction in equity capital. This, in turn, was caused by an insufficient amount of reserves being recognized from the surplus of the previous year.

Loans outstanding were Rp 211.0 million, of which the bulk, Rp 194.2 million, was made to members. Loans to non-members amounted to Rp 16.8 million, or 8.0% of loans outstanding. Of loans made to members, Rp 127.7 million, or 60.5%, was in the form of KUT loans. Loans related to the KUD's savings and loan operation accounted for a mere Rp 1,121,000. Also, loans to members included Rp 57.4 million business account receivables.

The reserves for bad debt was not accumulated by the KUD.

The borrowing for working capital was Rp30.9 million as of the end of the fiscal year which included Rp13.2 million for procurement of rice and Rp17.7 million for fertilizer

operation. No new fixed assets were purchased, and depreciation is being recognized in an appropriate manner.

Investments consisted of membership fees and compulsory deposits in PUSKUD, INKUD, BUKOPIN, KAI and KJA.

The sources of capital were KUT funds for rice-acquisition funds and fertilizer funds, which amounted in total to Rp 195 million, and accounted for 50% of total assets. Of total capital raised, KUT loans accounted for Rp 164.4 million. KUT funds are so-called channelling loans, from which the KUD only earns a management commission, so they are not actually borrowings.

Voluntary savings were Rp 11 million, which amounted to only 2.9% of total assets. On the other hand, long-term liabilities were Rp 129.3 million, of which Rp 110.9 million were loans for the KUD's equipment and facilities. Included in this amount were loans of Rp 51.5 million for a rice-polishing plant and Rp 34.0 million for a fertilizer Kios that were borrowed as part of the Kennedy Round.

As of the end of the fiscal year, borrowings for working capital amounted to Rp 30.9 million, which consisted of Rp13.2 million for procurement of rice and 17.7 million for procurement of fertilizer.

Own capital amounted to Rp 56.3 million, of which 77.2% was internal reserves. Membership fees and compulsory deposits from members accounted for only 15.8% of this total.

The following operating indices were more or less in line with the MANDIRI standards:

	1995	1994	MANDIRI Standard
Liquidation ratio:	124.1%	124.6%	125%
Ratio of payment ability: (= total assets / total liabilities)	116.8%	118.7%	110%
Net return on equity:	4.3%	15.4%	10%

Profit ratio was extremely low, as indicated below;

	1995	1994
Net return on revenues:	0.3%	2.0%
Net return on total assets:	0.6%	2.4%

Also, revolving of total assets was 1.8 times (cf. 1.2 times last fiscal year), indicating a need for more efficient management of assets.

The own capital ratio was low, at only 14.4% (cf. 15.8%). The KUD will have to build a more substantial equity base.

The business volume per KUD member (including sales, amounts supplied, commissions received, etc.) were Rp 1,040,000, above the province's average of Rp 827,000, reflecting very satisfactory usage of the cooperative. The contents are Rp5,215,000 for marketing rice and Rp4,533,000 for supply of fertilizer.

Total assets per member were Rp 566,000, exceeding the province's average of Rp 422,000. Loans accounted for Rp 304,000 of this amount. Loans to cooperative members have been extended to 222 persons (Rp 258,000 per person), loans to non-cooperative members to 4 persons (Rp 3,571,000 per person). KUT loans were



borrowed by 159 persons (Rp 301,000 per person). The range of persons being financed by the cooperative was limited.

On the other hand, voluntary savings were a mere Rp 16,000. The own capital was Rp 81,000, and of this paid-in membership fees and compulsory savings amounted to only Rp 1,000 and Rp 11,800, average per person respectively.

There is no delayed payment of membership fee, however, a part of compulsory savings are not paid (the amount is unknown). KUD is not visiting members for collection of compulsory savings. KUD request members to deposit compulsory savings at the time of collection of electricity fee, however, most of members come to KUD office to pay electricity bill only. The clerical works for collection of compulsory savings are not advanced. KUD intends to collect compulsory savings out of dividend to be paid to members (yet to be implemented).

The number of regular employees, including the general manager, as of the end of the fiscal year was seven. Business volume per employee were Rp 102,942,000 consisting of revenues from rice marketing of Rp 51,643,000, and the value of fertilizer provided of Rp 44,943,000. Business volume was 56% of the province's average of Rp 183 million. The current surplus of Rp 2,438,000 was slightly less than the average for the province of Rp 2,793,000.

Total of regular employees and temporary employees numbered 16, and business volume per employee including temporary employees was Rp 45,037,000.

The average salaries and benefits recognized from a part of operating expenses amounted to Rp 967,000. Adding to this the amounts paid out of net surplus as bonuses to employees results in an average of Rp 983,000.

The cooperative's primary facilities are mostly relating to rice business as follows;

Office:	2
Warehouse:	3
Rice Milling Unit:	2
Shop(WASERDA):	3
KIOS to supply fertilizer:	4
Paddy dry space:	1
Rice refiner:	1
Husking machine:	1
Corn sheller:	1
Irrigation pump:	4
Truck:	1

Notably, the KUD had no computer.

(4) PURCHASING AND MARKETING BUSINESS

The KUD is located in a well-irrigated rice-growing area. The primary business of its 783 members is paddy cultivation, its processing and marketing. Other business activities of the KUD include retailing business and corn grinding. On a smaller scale it also undertakes business in cassava, and distribution of farm inputs e.g., chemical fertiliser, farm chemicals etc. KUD members also undertake soybeans and poultry business in a smaller way.

The business situation of the cooperative has been stagnant. But there are vast potentials for the development of the KUD business in other sectors besides paddy cultivation. The KUD area of operation and the surrounding areas produce commodities like poultry. The KUD has tried to take up other business such as crushed corn supply service but has not yet reached a satisfactory level which could generate some operational funds for the cooperative. The KUD intends also to establish a new poultry complex.

The financial situation of the KUD during 1994, 1995 and 1996 has been as follows:

Particulars	Rp	1994	1995	1996
Total Sales		474.4m	720.5m	676.4m
Total Purchases		403.9m	658.4m	593.0m
Own Capital		62.0m	56.3m	57.1m
Outside Capital		335.7m	336.0m	385.5m
SHU		9.6m	2.4m	3.0m
Assets		397.7m	392.3m	445.1m
Members' Deposits		18.3m	20.3m	21.9m
-Initial Deposits		0.7m	0.7m	0.7m
-Compulsory Deposits		6.8m	8.1m	9.3m
-Voluntary Deposits		10.5m	11.2m	11.6m

[01] RICE AND PADDY BUSINESS

There are two kinds of purchasing forms either as paddy or as rice. As a matter of policy, and in a logical manner the cooperative should procure paddy from the members, mill it and then sell the rice to the Dolog. But the KUD collects rice from members' small rice mills and submits it to the Dolog under the name of the KUD. According to the Chairman of the Cooperative, such a system is adopted because the existing rice milling unit is not fully operational - it was purchased in 1982 and hence produces low quality and quantity of rice. Its present milling capacity is 400 kg per hour against its original capacity of one ton per hour. The KUD tries earnestly to operate the RMU to its maximum and in the best possible way although the machine is old and of a small capacity.

The following figures explain the situation relating to the purchase of paddy and sale of rice during the years 1994, 1995 and 1996:

Particulars	1994	1995	1996
Quantity of Rice Sold:	315.2	528.4	425.2
-To Dolog (tons)	89.8	365.9	257.5*
-To Open Market (tons)	164.9	120.2	167.7**
Value ('000Rp)	191,446	361,419	333,634
-To Dolog	71,832	265,245	191,618
-To Open Market	119,614	96,173	142,026
Rice Inventory (tons)	11.7	3.6	22.2
Value ('000Rp)			
-Paddy	3,420	848	5,949
-Rice	2,351	1,105	6,094
Rice/Paddy Purchased:			
-Paddy (tons)	377.090	289.071	425.200
-Rice (tons)	108.518	367.972	148.774
Value ('000Rp)	181,241	345,473	328,532
-Paddy	118,578	101,171	166,510
-Rice	62,664	144,442	162,022
Crude Profit of Rice Business ('000Rp)	1,020	1,595	510

\*)@ Rp 743 per kg.

\*\* )@ Rp 861 per kg

According to the leadership of the KUD, the sales ratio between the Dolog and the free market in 1994 was about 40%:60%, which reversed to 60%:40% in the year 1996. The open marketing to Ujung Pandang, Pare Pare, Central Sulawesi, Irian Jaya is on the increase. There has not been a decreasing trend in members' sales.

In addition to the crude profit generated from the rice business, the KUD had additional income from RMU fee and RMU refiner fee, as per the details of 1994, 1995 and 1996 given below:

Particulars ('000Rp)	1994	1995	1996
RMU Fee Income	4,955	6,271	5,112
RMU Refiner Fee	4,695	6,680	2,796
Total Fee	9,650	12,951	7,908
Percent of 1994	--	134.2%	81.9%

#### [02] CHEMICAL FERTILISER BUSINESS

The KUD undertakes the distribution of chemical fertiliser in its area of operation. The fertiliser is procured from the PT Pusri warehouses and then distributed among the farmers through the TPK network. For the transportation of fertiliser, the KUD relies on the members' trucks to the extent of 80%, and on Puskud's trucks only to the extent of 20% - being a member of the Puskud.

The business situation for the year 1994, 1995 and 1996 was as follows:

Particulars	1994	1995	1996
Quantity Sold (tons)	1,010	1,357	929
Quantity Purchased	1,010	1,357	929
Value Sold ('000Rp)	240,836	314,168	220,271
-"- Purchased	230,800	303,231	203,784
Commissioned Earned/Fee	10,036	6,667	5,341
Percent of 1994	--	66.4%	53.2%

The sale amounts decreased drastically in 1996 due to a substantial increase in the price of the fertiliser. The ratio of breakdown of fertiliser's variety is as follows: Urea 60%, TSP 30% and KCL 10%.

#### [03] CORN AND RICE-BRAN BUSINESS

These items were the main components of the poultry feed which remains in high demand in the area. The business situation of these items during 1994, 1995 and 1996 was as follows:

Particulars	1994	1995	1996
Rice-bran Sold ('000Rp)	6,591	8,162	9,534
Corn Sold ('000Rp)	1,577	505	66,973
Corn Purchased	--	352	65,323
Crude Profit	6,591	8,315	11,184
Percent of 1994	--	126.1%	169.6%

The high demand is from the poultry farmers. There has been a significant increase in the supply of crushed corn and rice bran mainly used for poultry feed.

#### [04] WASERDA (RETAIL OUTLET) BUSINESS

Due to lack of working capital and the downward trend in the business of the KUD waserda, the facility was recently closed down.

#### [05] FARM MACHINES UNIT

4 units of water pump have regularly been leased each year. The BUKOPIN has nominated this KUD to be a liaison distributor for the whole district of Sidrap for two-wheel tractors. Under the programme 280 two-wheel tractors have been distributed under a special grant implemented by the Bukopin.

#### PROFIT AND LOSS FACTORS

RMU, fertiliser distribution, and corn crushing are the main sources of income for this KUD. These are the main constituents of the working capital.

(5) Credit Business

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

KUD has good overall management, maintains good accounting system and financial records. Management is also progressive in area of promoting member savings, and most of the 782 members actively participate in KUD savings programs, including voluntary savings. Presently, the KUD does not have a member lending program (USP) but plans to start this type of credit business in the future. The primary business of the KUD is related to rice procurement, milling, refining, fertilizer distribution and corn grinding. Management needs a better understanding of the fundamentals of business break-even analysis and the credit needs of KUD necessary to support business growth in its primary business and proposed new business expansion areas.

2) Savings

The KUD's rate of growth in total membership savings grew at an average annual rate of 9.1%, from Rp. 13.9 million in 1990 to Rp. 20.2 million in 1995. During this period, compulsory and voluntary savings showed consistent annual growth. However, initial savings recorded no growth, due to the fact that no new members joined the KUD during this time (From 1996 to 1997, membership grew from 691 to 782, representing a 13.2% increase and added initial savings of Rp. 1,000 per member, for an initial member savings gain of Rp. 91,000). As of 1995, average savings per member in the KUD amounted to Rp. 29,575. While overall savings growth has occurred within the KUD, total levels of savings are still small in proportion to overall assets, accounting for only 5.1% of total KUD assets. The fact that the KUD paid no interest to members on any form of savings may account for this overall low level of membership savings. As the KUD is in need to increase assets to support business growth, greater attention should be paid to mobilizing member savings to support needed asset growth.

### 3) Borrowings

Institutional borrowings of the KUD at the time of the field survey total Rp. 75.0 million, representing a one-year working capital loan from BRI, at a ROI of 14% p.a., to support paddy rice procurement for rice milling operations (about 17% of the KUD's working capital need to support continuous milling operations). The cooperative had no investment borrowings for fixed term assets. The rate of interest for existing borrowings is considered preferential. The KUD did not report any delinquencies in payment of institutional borrowings.

### 4) Loans

#### a) USP line of credit

At the time of the field survey, the KUD reported no USP lending to members. The KUD had previously operated a USP lending program, but the business was discontinued following loan losses amounting to Rp. 2.0 million. The KUD did cite plans to again start such a lending program to members in the future, using improved lending and supervision procedures.

#### b) Member credit channeling

Member credit channeling at the time of the field survey totaled Rp. 201.0 million, sourced from BRI, for KUD rice production loans to 480 members (representing about 70% of the KUD's present membership), for an average actual loan size per borrower of Rp. 418,750. Loan terms include: a seven-month loan maturity, a rate of interest of 14% p.a. for farmers and a 2.5% per cropping season service fee paid to the KUD for loans collected by the cooperative, and a maximum loan limit per borrower of Rp. 500,000. The KUD had previously participated in the government-sponsored KCK member credit channeling program, but that program was discontinued by the government as part of a financial sector reform policy in 1992.

The KUD reported a total of five accounts with loan delinquency for this type of lending, with total past due amounting to Rp. 278,500. Measures taken by the KUD to deal with past due loans include: having a friend meet with past due borrower and discuss the problem; providing frequent technical support to the troubled borrower; and using group pressure to encourage the borrower to repay his loan.

As the KUD serves only as a channeling agent for BRI, 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, BRI production loans be made directly to the KUD and that the KUD relend these funds directly to their members. In so doing, the KUD would directly share in loan risk and would be better able to enforce discipline among its members to sell produced paddy rice directly to KUD rather than to the open market. This would undoubtedly contribute to greater business product procurement, milling and marketing volume for the KUD. It would also contribute to higher rates of loan recover and higher service fee (interest rate) profits for the KUD.



(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 3 auditors and it has employed 12 employees. Looking at their educational profile, out of 5 directors, there are 1 graduate of cooperative academy and 4 graduates of senior high school. In case of auditors, 1 graduated from university and 2 graduated from senior high school. In case of the employees, there are 1 graduate of university, one graduate of cooperative academy, 6 graduates of senior high school, 2 graduates of junior high school and 2 graduates of primary school.

The educational backgrounds of the officials and employees are rather high level. There are also 10 part-time workers. The assignment of employees are as follows;

General manager	1
Administration	2
Rice Milling	1 (3 part-time)
Rice business	1 (5 part-time)
Warehouse	1
Livestock materials	3

The range of ages of employees are spreading between 27 to 50 years old .

In 1996, the KUD has appropriated 5% of the current surplus for education fund.

The current surplus fund of fiscal 1996 was Rp3,046,273 and the education fund appropriated in 1996 was Rp 152,314. However, the amount was extremely small to promote training for all employees.

According to the business report of 1996, the KUD has conducted only one training for employees on operation of rice milling unit at Post Harvest Training Centre in Cibitung (West Java). In 1995, one employee has participated in the training course.

The KUD has not formulated education plan for 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 employees according to their duties are as follows;

Accounting and administration	Processing of accounting and management
Rice Milling Unit	Operation of rice mill
Better living	Nutrition and diet, health care
Warehouse business	Management of distribution

In the education of officials, improvement of business administration capability is needed.

As education activities to 693 members, KUD has conducted activities for enlightenment such as health care, organization and management of cooperative , farm management planning and family planning .

2) Present situation of farm guidance and its evaluation

The major marketing commodities of KUD Sipatuo are rice and egg which occupy about 100% of farm household income. The average land holding per household is

1--2 Ha and expansion of production and improvement of quality of rice directly lead increase of income.

Recently, the number of poultry farmers has increased and feeding management or advantageous distribution of egg are the imminent task for the KUD. Two directors and two employees are in charge of farm guidance on paddy farming and poultry farming, but they are not specified in the guidance activities only and their capability is not sufficient.

Members organization such as commodity--wise groups as bases for promotion of farm guidance are not formed yet. KUD is utilizing farmers groups established in the local level for supply of fertilizer and collection of rice. KUD is coordinating with 16 farmers groups in the use of rice milling unit. Regarding collection of rice, 35% of rice produced by members is collected by KUD and others are marketed to free market by members.

In a bid to improve the patronage ratio of marketing business, it is imperative to organize producers who utilize the business of KUD. It can be said that the role of farm guidance by KUD will be increasingly important.

KUD has established joint use of farm machinery bank equipped with 2 tractors, 3 pumps and one husking machine.

PPL (agricultural extension workers) are visiting member farm household 2 times a month and they are providing guidance directly to leaders of farmers group. The extension office in the area is located 500m away from the KUD head office.

PKL (cooperative extension workers) are visiting KUD once in a week to provide business management guidance.

### 3) Present situation of better living guidance and its evaluation

KUD Sipatuo is providing better living guidance to its members and 2 directors are in charge. KUD is not assign employees for better living activities as the number of employees is not sufficient. The contents of better living guidance by KUD are nutrition and diet and health care. Members are demanding guidance on family planning, health, hygiene, improvement of living environment securing drinking water and demanding to strengthen the structure of guidance in KUD.

There is the government initiated activities so called "POSYANDU" for promotion of home life improvement lead by village office. They are providing guidance on improvement of nutrition and kitchen garden activities. The guidance on family planning is provided by the Ministry of Population Planning.

As a group of women, KUD has one agro--processing group of women organizing 216 women who are engaged in processing of chicken. Also, one income generating group is formed who engaged in sewing and mutual credit.

KUD is not promoting organizing women's group within the member family. However, the awareness of importance of such women's group is gradually developing in KUD.

(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, representing 500 individual accounts, amounted to Rs. 1.0 million, representing only 0.14 percent of the KUD's gross business volume and nearly 42 percent of the KUD's net profit that year. Growth potential of this business is considered low due to the fact that the KUD does not expect significant increases in new accounts for the foreseeable future.

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 LINKAGE WITH PUSKUD

The KUD does not have any economic business with the PUSKUD. As to the transportation of chemical fertiliser from the PT Pusri's warehouse, the KUD relies only 20% on the transportation from Puskud, 80% on using own members' trucks.

Recently the Puskud Rice Centre has started strengthening. It collect the surplus rice from the KUD operation area because the KUD had the limitation of capacity, space and resources. The Puskud has not discussed the procurement of paddy with the KUD. There is no business relation between the two institutions.

## 2. The KUD's Potential and Factors Hindering Its Development

### (1) Summary

The impression one receives is that the head of this KUD is trusted by those around him. In all likelihood, therefore, the KUD stands a very good chance of making progress. The ledgers and annual reports of the organization are kept in good order. The atmosphere is one of unprofitable integrity.

However, from the perspective of entering or developing new businesses that would contribute to improving members' daily lives and economic welfare, the KUD appears somewhat unenterprising.

Apart from providing polished rice and fertilizer to the Food Ministry, [as a part of its role as recipient of guidance and instruction from the government], the KUD is not actively engaged in selling, or in providing other material, in the free market. The quantity of rice sold has not varied significantly over time.

Even if farmers in the vicinity begin to raise poultry, the KUD does not provide good-quality, low-priced mixed feed to the members.

There are no efforts being made to develop value-added businesses, such as those involving beans and other miscellaneous cereals, which are cash crops. As this illustrates, the KUD may not realize that it is being left behind as agriculture changes and technology advances. The KUD should take the initiative to obtain this kind of information. It should try always to maintain contact with the Ministry of Cooperatives, the Ministry of Agriculture, and private companies.

Based on the news and other information gathered from these sources, it is important that the KUD plan specific benefits for the members and communicate these plans to them. If such steps are carried out, development should begin to move in a positive direction.

One rice-polishing facility is not well-balanced in terms of capacity to dry/mill/store/polish rice. If these functional imbalances can be rectified, and the KUD can raise capital for the purchasing of pre-polished rice, then an improvement in operating condition would be possible.

## (2) Management and Organization

{1} Because the KUD lacks financial strength and is unable to renew and expand its facilities, it has fallen behind private-sector companies in the marketing of rice. These conditions have also made it difficult for the KUD to expand its operations and to develop new businesses.

However, members in the area are showing an interest in expanding their farming operations and increasing their farming incomes, through such steps as instituting the use of hand tractors, introducing improved breeds of egg-laying hens, and beginning small-scale food-processing operations based on the use of superannuated hens.

Also, most of the farm families in the area are cooperative members, and there is a strong bond among these members. Hence, financial cooperation would probably be available from them if they could be shown the direction of the KUD's development hereafter.

{ 2 } The own capital is Rp 56 million while fixed assets after depreciation amount to Rp 106 million and external investment is Rp 30 million making total of Rp 136 million.

Fixed assets are desirable to be covered by own capital which the most stable fund. However, the own capital below greatly the amount of fixed assets and including external investment which is also to be covered by own capital there is a shortage of about Rp 79 million. This shortage is covered by borrowings but if it were asked to return, KUD would have to dispose their fixed assets or would face serious management difficulties.

Since most of borrowings are types of long-term borrowings, as it was not asked to return in a short period, KUD would not face management difficulties soon. It would be possible to boost own capital with gaining cooperation of members.

{ 3 } In spite of holding unpaid compulsory savings, KUD management is not grasping the amount. This is due to delay of clerical works indicating the amount to be paid by members and amount paid in are not recognized timely. Cooperatives are formulated with participation of individual members and compulsory saving is one of the fundamental duties for a member. This means the KUD is providing same service to members who did not pay compulsory savings as other members who paid. this will be unfair treatment for members who paid compulsory savings.

As a simple clerical work is needed to grasp the situation of payment for each member, it will be possible to implement collection of compulsory savings.

{ 4 } KUD has no members' cooperating organizations other than women's group. If members cooperating organizations were formed, it would be possible to invigorate their group activities through assistance from KUD. As members are strong bond, it will be possible to organize producers groups such as commodity-wise groups. The women's group will be a good example for organizing such groups.

{5} The area's adult population is 1,168. Even if everyone joined the KUD, there are limits to how much the KUD's facilities and businesses could be expanded. There are five KUD in the sub-district. Through mutual cooperation, an efficient use of capital would be possible by establishing jointly used facilities etc.

### (3) Purchasing and Marketing Business

01 The KUD is situated in a well-irrigated rice-growing area. The primary business of a majority of its members is paddy cultivation. Other business include rice milling, chemical fertiliser distribution, corn and rice-bran business, waserda and distribution of water pumps and two-wheel tractors. RMU, fertiliser distribution, and corn crushing are the main sources of income for this KUD. These are the main constituents of the working capital. The business condition of the KUD, on the whole, is weak and stagnant although the leadership with all the good intentions tried to make the best use of the facilities available at the KUD. The leaders and the employees tried to operate the old RMU to the advantage of the KUD.

02 KUD leadership and the employees have not been able to take the best advantage of the location of the KUD and the vast business potential available to it. The economic problems of the KUD are attributed to the following limiting factors:

- The present rice milling unit (1982) is inefficient, most of the time out-of-order, and produces low-quality rice. As a result there is a high level of "off grade" and broken rice. The broken rice is sold as rejects at very low price. Its original capacity is one ton per hour but operates at 400kg per hour. As a result, the KUD collected milled rice from the local private rice mills (most of which are owned by members of the KUD) for supply to the Dolog. The KUD even purchases rice from the members for supply to the Dolog. This is illogical and neither in the interest of the members nor in the interest of the KUD;
- This KUD is a potential link in the chain of rice centre under the PMU in association with the Puskud. The Puskud could provide stimulation to the KUD's rice milling operations;
- The KUD does not have enough of its own transportation equipment. It thus relies heavily, almost 80%, on members' trucks for the transportation of paddy, rice and fertiliser;

- Although a plenty of corn is grown in the area, and the KUD had started crushing it for supply to the poultry-keepers, yet the business had remained stagnant. It has neither been developed further nor diversified with 'value addition'. Poultry-feed demand in the area remains high. Private formulators and traders have been making good business out of the business opportunities lost by the KUD;
- Increase in the price of chemical fertiliser and lack of funds available with the KUD resulted into a lower level of business - only 68.4% of the fertiliser was handled during 1996 as compared with that of 1995. This not only resulted in lower level of commission to the KUD, but have also raised the fears that it might adversely affect the harvest of paddy;
- The KUD is unable to accept all the paddy offered to it because of its limited milling and warehousing capacities. It has, as yet, also not developed any suitable joint venture with the Puskud which has large milling and warehousing capacities on the basis of joint marketing or joint purchasing or on joint-use of facilities;
- The KUD does not provide, on its own, any farm guidance, extension or advisory services to the members. It does not have its own member education programmes.

-----



#### (4) Credit Business

As previously indicated, the KUD needs significant increases in assets, particularly for working capital, to achieve higher profitability in its rice-related business. The KUD's profit margin in 1995 was only 0.33% and its RMU operated at only 12.6% of rated capacity during 1995. The primary cause for this low performance was due to the fact that the RMU is in need of basic repairs and the KUD had insufficient working capital to support rice procurement and milling operations. The KUD also lacks sufficient paddy rice drying and storage area to support the rated capacity of its RMU.

For its rice procurement working capital needs alone to support a six-month business cycle (one production season), the KUD needs an estimated Rp. 450.0 million to support continuous business operation of a 1-TPH RMU. If the KUD was able to raise 30 percent of this working capital internally through expanded membership saving, such savings would have to grow from the current level of Rp. 20.2 million to Rp. 135.0 million, or roughly six and a half times its current size.

As the KUD is not presently active in USP lending to members, no revenue is being generated from this type of credit business.

At present the KUD reports little earnings from member credit channeling, yet its potential earnings from this business at present lending volumes, on an annual basis, equal Rp. 16.1 million. The KUD should be more aggressive in capturing this lost revenue.

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

### Hampering factors

i. The systematic planning for employees is difficult as the number of employees is reduced as well as shortage of fund for education . Thus, a chance for training is limited to a part of directors.

ii. KUD is not organizing women's group among member households and the bases for promotion of better living activities is weak

iii. Employees in charge of farm guidance are not specified KUD. Only directors and employees are providing guidance in cooperation with agricultural extension workers. Their experience and knowledge are not sufficient to meet demand of members such as production and marketing of high quality rice and egg. To that end, the production activities and marketing activities of farmers are not co-related and advantageous marketing are being difficult.

iv. The awareness of importance of producers organization is developing among poultry farmers, however, there are no organization as bases for promotion of farm guidance by KUD. The measures to solve problems of members systematically through organization such as production, post harvest measures and distribution of high quality rice are not sufficient.

The technical level of the member farmers attained a certain standard , in poultry farming, it is necessary to consider joint marketing through group activities.

### Possibilities

i. This KUD is advanced in the business planning. It would be possible for KUD to improve capability of employees through budgeting for training systematically.

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 through agro-processing group and mutual credit group and in cooperation with other women's groups organized by the government.

iii. Improvement of paddy farming technology ,post harvest technology as well as distribution of rice and poultry farming technology are the common interest for KUD members. In response to this, it would be possible to strengthen farm guidance of KUD in cooperation with agricultural extension workers.

(6) Other Business

The KUD's business expansion in the electricity bill collection business is limited due to the fact that the KUD needs to expand the number of field offices in its service coverage area, and some locations are presently not connected to electricity. Future expansion of KUD field offices for utility bill collection and additional expanded electrical services in these areas should contribute to increased business volume for the KUD over time. 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.

