

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT: <u>USAID/Indonesia/VHP</u> <small>(Mission or AID/W Office)</small> (ES# _____)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input type="checkbox"/> slipped <input type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY ___ Q ___	C. EVALUATION TIMING Interim <input checked="" type="checkbox"/> final <input type="checkbox"/> ex post <input type="checkbox"/> other <input type="checkbox"/>			
D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)					
Project #	Project/Program Title <small>(or title & date of evaluation report)</small>	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
CLUSA 480 Title II Monetization. (TA 497- 000-5316) and TA 497- -7614)	Cooperative Agrobusiness Enterprise Development Project (CAEDP)	FY 86	11/91	2837	2837

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR	Name of officer responsible for Action	Date Action to be Completed
Action(s) Required 1. USAID will closely monitor CAEDP's receipt of Title I local sales proceeds; and if determined necessary by NCBA, intercede with the GOI to expedite their disbursement without further delay (see Recommendation 7.1, page 116 of the Evaluation Report).	Nelson	3/31/88
2. The Mission concurs with Recommendation 7.2 of the Evaluation Report calling for deletion of the establishment of a PUSPETA management unit and a project location at Malang for reasons described in pages 116-17 of the Report.	N/A	N/A
3. The Mission also supports Recommendation 7.3 of the Report calling for the carefully planned and executed transition of CAEDP's present administrative structure to that of a secondary level cooperative with a view towards maximizing existing project achievements (see pages 117-18 of the Report).	N/A	N/A
4. As called for in TA-5316, Mission and NCBA/PUSPETA representatives should meet no later than February, 1988 to established annual benchmarks to measure project progress against objectives.	Nelson	2/29/88
5. The Mission will continue to ensure that periodic narrative and financial reports are made available by NCBA in agreed-upon formats in a timely manner.	Nelson	During LOP

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 1 day 26 yr 87

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Project/Program Officer Signature: <u>[Signature]</u> Typed Name: <u>David Nelson</u> Date: <u>11 Feb 88</u>	Representative of Borrower/Guarantor Signature: <u>[Signature]</u> Typed Name: <u>Gumil Filiaci</u> Date: <u>20 Feb 88</u>	Evaluation Officer Signature: <u>[Signature]</u> Typed Name: <u>Tim Mahoney</u> Date: <u>7/88</u>	Mission or AID/W Office Director Signature: <u>[Signature]</u> Typed Name: <u>David Merrill</u> Date: <u>3/1/88</u>
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H. EVALUATION ABSTRACT (do not exceed the space provided)

The purpose of the Cooperative Agrobusiness Enterprises Development Project (CAEDP) is to help the Government of Indonesia to improve the capacity of its cooperative system to provide production and marketing services to small farmers through their village cooperatives (KUDs). This mid-term evaluation was conducted by a three member team of consultants based on data from project documents, extensive interviews and visits to major activity sites.

Overall, the team found that the project is well managed and making good progress toward meeting its objectives. However, programmed funds for local currency funding for infrastructure and operating capital have not been released from proceeds from PL 480 Title I sales. This necessitated a reduction in the project's scope and the consolidation of activities at two sites into a single organization. In addition, because of declining government revenues, the GOI encouraged the project to become involved in export oriented/employment intensive ventures which have been effective and profitable. Some of these ventures have been far beyond those originally envisioned for the project. Some of these activities have also pioneered mutually beneficial joint ventures with the private sector.

Sales at the Klaten location have increased at an average rate of 29% per annum for the past three years, and are forecast to increase 65% between 1986 and 1987. In 1987, it showed a net profit of over Rp.100 million after net losses in 1985 and 1986. The Luwu location has only been in operation for 15 months and its capital is more restricted than Klaten's. Although income from new activities in Luwu began to be realized only in the last quarter of 1987, it has increased sales steadily. Both project locations are expected to achieve the revenue levels and corresponding margins detailed in their 15-year financial projections.

The team cites three main recommendations: 1) Title I funds should be disbursed immediately. 2) The establishment of the Malang project site should be eliminated from the project's scope. 3) The transition from the current project management structure to secondary cooperative status should be undertaken carefully and gradually to ensure that existing achievements are maintained.

The principal lessons learned are: 1) joint private sector/cooperative working relationships can be mutually beneficial, 2) diversification from government sponsored activities is necessary for the project's long-term viability, and 3) substantial research is essential before large-scale implementation of new economic activities at the farmer level.

I. EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US\$)	Source of Funds
Dr. Russell Olson		AID 497-0249-0-00-7138	19,570	72-1171021 QDNA-87-27497-KG-62 PIO/T 398-0249-3-70027
Prof. Soedjite Sosro- dihardjo, SH MA		AID 497-0249-0-00-7137	4,669	"
Mizra Siregar		AID 497-0249-0-00-7136	5,312	"
2. Mission/Office Professional Staff Person-Days (estimate)		14	3. Borrower/Grantee Professional Staff Person-Days (estimate)	

ABSTRACT

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Indonesia

Date this summary prepared: 30 November 1987

Title and Date of Full Evaluation Report: Mid-Term Evaluation: Cooperative Agrobusiness Enterprise Development Project, National Cooperative Association, Department of Cooperatives - Government of Indonesia, United States Agency for International Development, October-November 1987.

Purpose of Activities Evaluated

The Cooperative Agrobusiness Enterprises Development Project (CAEDP) was formed in 1985 as an extension of the successful PUSPETA Klaten project. Its purpose is to "develop the capacity within the cooperative system to plan, organize, and implement programs which will provide comprehensive production and marketing services for food crops, livestock and fishery production to small farmers." The project was to accomplish this by replicating the PUSPETA Klaten system in seven district-level Cooperative Service Centers which would provide effective agrobusiness services to small holders through their primary cooperatives. The project was implemented by developing training and business activities in two areas (Klaten, Central Java and Luwu, South Sulawesi) through a three-level cooperative structure: member groups (kelompok) of 15-30 individuals organized around a common economic activity, primary cooperatives (KUDs) at the village level, and the Cooperative Service Center (PPK-PUSPETA) to act as a pre-secondary organization assisting the KUD.

Purpose of Evaluation and Methodology Used

This evaluation was undertaken to assess the organization and management of the project, the progress made toward establishing a delivery system, and the problems encountered in design and implementation. Between October 5 and November 10, 1987, the three-person evaluation team met with Government of Indonesia (GOI) and USAID officials, observed business operations in which the PUSPETA Klaten is involved, visited several KUDs in the district, visited project activities in Luwu, reviewed published reports, and obtained information on costs, returns and volumes of business for major activities.

Findings and Conclusions

Overall, the project is well managed and making good progress toward meeting its objectives. Technical assistance positions have been filled with well-qualified personnel on a timely basis. The project has made good use of these specialists to solve activities' technical and marketing problems before promoting expanded participation by farmers.

Financing. The GOI committed \$6 million in funds generated from Title I sales to implement the project, but has only approved \$2.3 million. The inability, until now, to obtain funding from the GOI and an initial 30% shortfall from the AID Title II grant have delayed investments in project infrastructure and reduced the amount of working capital available in both project locations. The project has thus decided to combine the neighboring districts of Boyolali and Klaten into one secondary cooperative PUSPETA and is considering the withdrawal of Malang as a project location.

Revenue Production. Because of declining oil and commodity revenues, the GOI has encouraged the project to become involved in export oriented/employment intensive ventures

SUMMARY

with private firms. CAEDP has thus undertaken cooperative agrobusiness and enterprise development activities far beyond what was originally envisioned for the project. These activities have provided a substantial return on investment and fulfilled the original project objectives. For example, it is now operating a large furniture manufacturing joint venture that employs 240 workers and exported nearly \$1 million of furniture in 1987. The project has also been instrumental in developing a joint venture with Land-O-Lakes/CBI and Indonesian cooperatives for a dairy production enterprise that will import 20,000 dairy cattle in the next two years and is now engaged in a corn silage operation to support this enterprise. The project is also developing an arrangement with Pioneer Seed Company and two Indonesian private firms to produce hybrid seed corn, planning integrated rattan pole processing and baby corn for canning operations, and assisting a fishermen's cooperative and a cooperative to produce and export vanilla.

Organization and Management. The Klaten unit has a well designed and computerized accounting system and has shown marked improvement in volume of business and net earnings, particularly in 1987, when it showed a net profit of over Rp.100 million after net losses in 1985 and 1986. In Luwu, income from new activities began to be realized only in the last quarter of 1987. Growth projections for Luwu indicate that its dependence on subsidies will be eliminated within three years.

Economic and Social Assessment. Of Klaten's nine operating divisions, the General Trade Division is the most profitable, earning about 55% of its total revenues and handling principally sugar, fertilizer and molasses. Sales for almost all of its divisions have increased dramatically from those in 1986. Luwu's activities have mainly been in general trade with the KUDs, with the distribution of agricultural inputs (mainly fertilizer, insecticides and herbicides) accounting for 55% of 1987 revenues.

Operational Planning and Implementation. PUSPETA Klaten has operationally diversified widely from dependence on the rice economy, although it still conducts minor operations in milling and inputs provision. Although Luwu initially gave far more emphasis to local rice businesses, it has also begun to diversify. To varying degrees, the PUSPETAs have involved KUDs in all business operations undertaken, although where activities are not yet proven successful, they are undertaken on an "in house" basis. In both PUSPETAs, the products marketed originate from the farmers, and in a few cases (e.g., beef and poultry) joint ventures are active. However, even in the joint ventures, a majority of inputs (e.g., forage) are produced by the KUDs. Only in the furniture venture is the KUD's involvement largely restricted to supplying labor. The CAEDP has emphasized establishing long-term relationships with KUDs by jointly conducting business operations. This has sometimes strained relations among PUSPETAs, their KUDs and the GOI, where perceptions remain that the PUSPETAs are a government project and should not seek profits in transactions with the KUDs and other project beneficiaries.

Financial Analysis. Klaten's sales have increased at an average rate of 29% per annum for the past three years, and are forecast to increase 65% between 1986 and 1987. The 15-year financial plans made by this PUSPETA appear attainable once sufficient capital is disbursed, and it should have little difficulty in meeting its targets. Luwu has been in operation only 15 months and its capital is much more restricted than Klaten's. The first year of operation has seen steady increases in sales, which should be maintained over the next several operational quarters. Thus, it should be able to achieve the revenue levels and corresponding margins detailed in its 15-year financial projections.

National Impact. CAEDP implementation has been replicated by other donors together with the Department of Cooperatives in other areas of Indonesia. This replication usually consists of establishing a pre-secondary cooperative organization at a district level involved in autonomous business operations. The project has also undertaken pilot

activities prior to their inception on a larger scale. Last, and perhaps most important, will be the government's judgment on the validity of locating secondary cooperative organizations at the district level and levels below that.

Recommendations

1) Title I funds provide 70% of the project's inputs, including technical assistance. Further growth and achievement of project objectives will not, however, be possible without the timely disbursement of Title I funds. This disbursement should be made immediately. 2) Due to unforeseen circumstances, including the late and greatly reduced amount of Title I funds, the delayed commitment of Title II funds, and a broadening of the project's scope, the team recommends dropping Malang as a project location. 3) The transition from the current project structure to secondary cooperative status should be undertaken carefully and gradually so as to ensure that existing achievements are maintained. Steps should be taken to ensure that: the future PUSPETA boards of directors represent a broad base of cooperative member clientele, that future boards undertake their primary function of providing policy decision making authority to project management and not assume day-to-day operational functions, and that provisions be made to carefully follow the plan for continued (albeit substantially limited) involvement of the project management unit and steering committee in the decision making process of the PUSPETAs once they are made secondary cooperative organizations. This process needs to get underway early.

Lessons Learned

1) The PUSPETAs' activities in furniture and crop production have demonstrated that mutual benefits can result to the PUSPETAs, GOI and private sector from joint ventures. 2) Diversification from government sponsored activities is necessary for long-term project viability. 3) Substantial research is necessary before new economic activities geared to the farmer level can be implemented on a large scale. 4) Strict control over granting credit to both KUDs and non-KUDs is essential to long-term financial solvency. 5) Replication of the project model to other areas on a uniform basis will fail. The main element of the project that is replicable broadly is the establishment of secondary cooperative organizations at the district level rather than the provincial level and providing them with managerial and financial autonomy to implement business operations outside normal cooperative activities.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

ATTACHMENTS

Mid-Term Evaluation: Cooperative Agrobusiness Enterprise Development Project, National Cooperative Business Association, Department of Cooperatives-Government of Indonesia, United States Agency for International Development, by Dr. Russel Olson, Prof. Soedjito Sosrodihardjo, and Mirza Siregar, October-November 1987.

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

MISSION COMMENTS ON FULL REPORT

During its review of the draft evaluation report on November 5, the progress of the CAEDP project as measured against its goal/purpose(s) was a subject of much discussion. The Mission was not in consensus as to whether the evaluation report adequately focused on this issue. According to some, the TA implies that CAEDP should be devising models of employment-generating cooperative development which could be replicated in other parts of Indonesia. Holders of this view point out that the evaluation report did not assess CAEDP's progress in achieving this objective.

According to the goal/purpose statement of TA-5613 the objectives of the project are ... "to strengthen and revitalize existing village agricultural cooperatives by use of cooperative federations in Kabupatens Klaten and Boyolali in Central Java, Kabupaten Malang in East Java, and in Kabupaten Luwu in South Sulawesi. The project will focus upon the provision of business services in the areas of input supply, credit, processing and marketing to support small holder production."

Others in the Mission interpret this provision of the TA to mean that NCBA and its counterparts in PUSPETA are correct in attempting to offer within the CAEDP model being implemented in Boyolali, Klaten and Luwu, opportunities to test experimental policies and concepts devised in conjunction with the Dept. of Cooperative Development. According to NCBA, if these experimental policies are found viable, they could be replicated in other parts of the country. However, NCBA/PUSPETA management and the evaluation team contend that the significant economic, cultural, and demographic diversities of Indonesia argue against attempts to replicate models of cooperative development in a widespread manner per se.

The evaluation report states (see page 112-13) that the project management's major objective, namely, demonstrating through the CAEDP model the advantages of establishing independently-managed secondary cooperatives below the provincial level, is being achieved. In fact, on November 12, 1987, the Mission was informed that the Dept. of Cooperative's Directorate-Generals of Research and Development and Cooperative Organizations agreed to issue instructions permitting for the first time, sub-district level cooperatives. Thus far, three such cooperatives have been formed in East Java. The success of the CAEDP project's cooperatives, which were the first to be organized at the sub-district level, was a factor in influencing this decision.

Secondly, President Soeharto's instruction to cooperatives to look for joint venture opportunities with the private sector issued on December 4, 1987, was also influenced by the success of CAEDP in pioneering such linkages since 1985.