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# DEPARTMENT OF COOPERATIVES

DIRECTORATE GENERAL OF COOPERATIVE BUSINESS AFFAIRS

## PUSPETA PROJECT

KLATEN, CENTRAL JAVA, INDONESIA



FINAL REPORT ON  
THE EVALUATION OF THE  
PUSPETA PROJECT  
JANUARY - FEBRUARY, 1984

## TABLE OF CONTENTS

### ACKNOWLEDGEMENTS

### EXECUTIVE SUMMARY

I.	INTRODUCTION . . . . .	1
1.1.	Role of Cooperatives in Indonesia . . . . .	1
1.1.1.	Problems of Implementation And GOI Efforts to Strengthen KUDs . . . . .	3
1.2.	The PUSPETA Klaten Project . . . . .	7
1.3.	Purpose and Scope of the Evaluation . . . . .	10
II.	PROJECT INPUTS . . . . .	11
2.1.	CLUSA Inputs . . . . .	11
2.1.1.	P.L. 480 Title II Funds . . . . .	11
2.1.2.	Operational Program Grant Agreement (OPG) . . . . .	14
2.2.	Government of Indonesia Inputs. . . . .	15
2.3.	Heifer Project International (HPI) . . . . .	16
III.	PUSPETA SERVICES TO KUDs . . . . .	17
3.1.	Organization . . . . .	17
3.1.1.	KUD's Organization and Project Objectives . . . . .	17
3.1.2.	PUSPETA Activities and KUD's Organization . . . . .	20
3.2.	Training . . . . .	25
3.3.	Marketing. . . . .	29
3.3.1.	Marketing Channels . . . . .	29
3.3.2.	PPK PUSPETA's Services . . . . .	31
3.4.	Credit . . . . .	32
3.4.1.	Credit Policy . . . . .	32
3.4.2.	Credit Expansion . . . . .	34
3.4.3.	Constraints . . . . .	37

3.5. Development of Economic Cooperative	
Activities	38
3.5.1. Feed for Livestock	38
Dairy Cattle	43
3.5.2.1. Milk Production	44
3.5.2.2. Milk Marketing	46
3.5.2.3. Dairy Economics	49
3.5.3. Poultry	53
3.5.4. Clove Credit Program	56
3.5.5. Tile Manufacture	57
3.5.6. The Embroidery Program	59
3.5.7. Certified Seed	60
IV. PROBLEMS AND ISSUES	66
4.1. Possible Deviation from the Original Plan	66
4.2. Beneficiaries	67
4.3. PUSPETA Compared to PPK	69
4.4. A Management Information System	70
4.5. Project Implementation and Monitoring	72
4.6. Extension of Project Support	74
4.7. Financial Viability of PUSPETA	74
4.7.1. Policy of Administrative and Financial Department	74
4.7.2. Financial Analysis Approach	75
4.7.3. Financial Analysis Ratios	76
4.7.4. Profit and Loss Projection	80
V. RECOMMENDATIONS	84

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## EXECUTIVE SUMMARY

In July, 1981 AID issued a Transfer Authority for the transfer of PL 480 Wheat to CLUSA for use in Indonesia. CLUSA had been working with Indonesian cooperatives since 1976 under an Operational Program Grant Agreement. One of its activities had been to work with the Directorate General of Cooperatives in Kabupaten Klaten in Central Java to study and plan conditions and supporting assistance necessary for making this a successful example of local cooperative development. From this emerged the concept of the PUSPETA (acronym for PUSAT PELAYANAN PETANI meaning Farmers' Service Center).

PUSPETA Klaten was established on January 1, 1980 as a pre-secondary cooperative society operating as a special government project. CLUSA personnel began working with Indonesian counterparts to organize farmers' groups, develop improved management systems and identify agribusiness opportunities. However, resources were inadequate to follow through successfully with planned programs. CLUSA submitted a proposal to USAID in October 1980 for funding. The July, 1981 Transfer Authorization granted CLUSA 5,785 tons of wheat, which CLUSA sold to BULOG for a net revenue of \$1,313,898.12. The funds were deposited in a special account to be used in support of the PUSPETA Klaten Project. Interest from undisbursed deposits had accumulated to \$188,915 by December 31, 1983, providing a total of \$1,482,813 available for the project.

The stated objectives of the project are "to strengthen, reorganize and revitalize village cooperatives by use of a cooperative federation in Kabupaten Klaten. The aim of the project is to improve the rural food systems and incomes by encouraging farm leaders to develop existing cooperatives into growth orien-

ted agribusinesses from the "bottom up" by improving cooperative management and thereby increasing agricultural production, diversifying crops cultivated, building cooperative capital, providing production credit, processing and marketing rural products and initiating activities in new agricultural business areas."

CLUSA, in addition to the financial and commodity support it provides from the PL 480 Title II wheat sales, acts as consultant and advisor to the project. CLUSA personnel costs for support of the project, including the CLUSA representative and a dairy advisor, are provided under an OPG.

The purpose of this evaluation is to assess the development of PUSPETA Klaten, the degree to which the project purposes have been achieved and the impact of PUSPETA and its activities on farmer beneficiaries.

The evaluation was carried out by a four member team from January 19th to February 15th, 1984. The team held discussions with GOI officials in Jakarta before going to the field to study project operations. The following three weeks were spent in the Klaten area interviewing PUSPETA staff, examining PUSPETA's various business activities and holding discussions with KUD board members, managers and cooperative members as well as local government and cooperative officials and drafting the evaluation report.

14

## Major Findings

The Project Document is unrealistic in its expectations that the very ambitious objectives could be achieved within the three year life of the project. This is an "institution building" project involving important social and organizational changes which can not be accomplished quickly. But the Team concludes that the project has made substantial progress, particularly in the last year toward meeting these objectives.

The Project Document made overly optimistic assumptions concerning the success already achieved in reorganizing KUDs in Klaten Kabupaten. Legal, cultural and social factors are constraints that make it difficult to create the kind of "bottom up" democratic local organization envisioned. Nevertheless, PUSPETA has been successful in organizing farmers and laborers into groups for a variety of business activities and through these activities achieved participation of a large number of members in cooperative activities.

The Project Document identified the livestock feed industry as one of the most promising of the agribusiness activities around which PUSPETA should begin its services and funds were committed early to investments in a feed mill complex and silos and equipment for silage making. At the same time over one thousand imported dairy cattle were distributed through the KUDs to farmers in Klaten Kabupaten, dictating that the feed program focus largely on dairy cows and that milk marketing become another major business activity of PUSPETA.

Unfortunately, the practical difficulties of establishing a dairy industry based on modern feed technology and dairy manage-

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ment in an area where farmers had little or no previous experience in dairying was underestimated. Whereas yields of 20 liters per cow per day were expected, the initial production averaged a little better than 6 liters.① The initial formulae for concentrates for the dairy rations depended on expensive imported materials and were not competitive with feeds from local sources. The initial experience with silage making, while producing a good quality feed, proved more costly than expected. This venture absorbed much of the time and effort of the management staff in 1982 and 1983. A research program to identify and solve the dairy management problems and to lower the costs of feed was initiated. In the latter part of 1983, a grant from Heifer Projects International was made through CLUSA for financing a comprehensive dairy management training program and feed research program. These activities are beginning to show promising results. PUSPETA management is introducing a new feed formula this month that substantially reduces the cost of dairy feed. The training program is expected to have an important impact on production per lactating cow and shortly increase the percentage of cows in lactation.

The milk marketing activity has become a major activity, representing 10% of PUSPETA's total volume of business. Farmers are now receiving 20% more per liter of milk than they were before PUSPETA began the milk marketing operation last May. ② ←

The feed mill unit has been used to produce concentrate feed for cattle and extruded bran for the poultry industry. Development of a concentrate feed formula that reduces the costs per kg by 30% is going into production this month and the management projects a large increase in its sales this year.

PUSPETA Klaten began an egg marketing activity last September and in November made arrangement with a wholesaler in Jakarta to deliver 12 tons of eggs a week. Eggs are picked up at the KUDs every other day and paid for on the basis of the wholesale market price in Jakarta.

In 1983 PUSPETA introduced a credit program for farmers who grow cloves. In the past, because of a lack of credit, most farmers marketed their cloves individually to private traders, selling the crop before maturity at well below market prices. The PUSPETA program provided pre-harvest credit so participating farmers could hold their crops until harvest time. The farmers received about Rp.1,000 per kg more for their crop under the program. While the program has generally been very successful some of the very small clove producers did not participate.

Another activity initiated by PUSPETA was a program for production of certified rice seed. Farmers' groups were organized in selected areas to produce certified seed according to instructions and under supervision of PUSPETA staff and BPSB (the seed certification and control organization). The program provided a profitable incentive to the participating farmers and produced 643,455 kg of high quality rice seed to help fill the large provincial deficit in available improved seeds.

PUSPETA has also found opportunities to provide business services to low income laborers and small or landless farmers. One such activity is a program of providing working capital to groups of families making tiles. These are very small scale, labor intensive operations requiring working capital for materials and fuel.

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Recently PUSPETA arranged with a manufacturer and exporter to produce embroidered garments. Under this arrangement 30 young women between the ages of 14 - 22 were selected and trained for embroidering. They are paid on piece-work basis, with income depending on how much they produce. Each girl is provided with a sewing machine on a credit basis which she buys by small payments deducted from her earnings. This activity has been very popular and the number of girls employed in this business is now 90.

The business activities along with extension and training described above are some of the incremental and locally planned services performed by PUSPETA Klaten for the KUDs in addition to supporting them in conducting the government programs that all KUDs are expected to do such as procurement of rice, agro-input distribution, the TRI (sugarcane intensification program), etc.....

The Team observed the functioning of a neighboring Kabupaten, where the regular national system operates, with a PPK office at the Kabupaten level working as an arm of the provincial level secondary cooperative (PUSKUD). The inability of the PPK staff, though obviously competent, to initiate new business activities was clear. The PPK officers had no working capital, had no autonomy and were unable to respond effectively to requests from KUDs for help in developing economic opportunities.

PUSPETA is a pilot project to test a concept similar in purpose to the PPK system adopted by Indonesia in 1980 to act as intermediaries between the KUDs and the provincial level secondary societies (PUSKUD). PUSPETA Klaten is in fact a PPK, but a PPK with a difference. It is, technically PPK-PUSPETA Klaten, with a mandate to serve as a laboratory, to, as the Chief of Research and Development in the Ministry of Cooperatives says

"be a step ahead of the PPKs in finding better ways to provide services to the KUDs."

The Team concludes that PUSPETA Klaten has demonstrated the validity of the concept of an autonomous secondary cooperative at the Kabupaten level, the importance of organizing groups with common interests for productive business activities and the importance of good management and working capital to provide the marketing and credit support required for those business ventures to succeed. The project is an unusual and valuable laboratory for the practical testing of organizational and management concepts as well as improved agricultural production, processing and marketing technology.

The Team does not believe that PUSPETA Klaten is yet well enough established to serve as a model to be replicated. In any case, any model would need modification and adaptation to the particular condition in which it is applied. But it should have CLUSA and GOI support until it can refine its management structure and have a more secure financial position. In the mean time it should continue to explore and test better ways to serve the KUDs and members and establish a system for documenting how these services are organized and operated so that the successful ventures and methods can be replicated.

The project has not been as successful as planned in organizing the KUDs to provide broad, democratic participation for a "bottom up" development. The legal and cultural constraints may set limits on how much can be done and how quickly but the Team believes PUSPTA can do more than it is doing within these limitations. In particular, the Team feels there is insufficient communication from the KUDs to keep management informed of the economic opportunities, the problems of various economic groups and their priority needs so that PUSPETA can plan appropriate programs to meet the priority needs.

## I. INTRODUCTION

### 1.1. Role of Cooperatives in Indonesia

The cooperative movement emerged in Indonesia long before the country achieved her independence in 1945. During the colonial rule Indonesian nationalists established cooperatives as a political umbrella to liberate Indonesians from economic domination by both their colonial rulers and by Chinese businessmen. Consumer cooperatives as well as savings and loans cooperatives were established during this period.

Following independence, after a large meeting of all cooperatives in Tasikmalaya, Indonesia in 1947, the cooperative movement in Indonesia grew rapidly. The growth was stimulated also by the fact that cooperatives had been adopted constitutionally as the pillar of the nation's economy. It was unfortunate, however, that due to political events the cooperative movement was left in a state of relative confusion and with a loss of integrity. In order to correct the situation the GOI decided to screen cooperatives from political interference and adopted a policy of strong support for cooperative development. It has articulated a national policy whereby cooperatives will be the principal economic institution to support its rural development efforts. In 1967 a new cooperative law was enacted which provided a legal framework for the reorganization of the cooperative movement. Many defunct cooperatives were dissolved and new pre-cooperatives (Badan Usaha Unit Desa) and legally chartered cooperatives (Koperasi Unit Desa) were formed. In 1973 the GOI linked the Koperasi Unit Desa with their efforts to increase rice production, assist in its logistical distribution, and utilized them to distribute seeds, fertilizers, and pesticides.

In early 1978 a major event occurred during a cabinet reorganization which has been regarded as being of considerable importance with respect to its impact on cooperative development in Indonesia. The Directorate General of Cooperatives was removed to the Ministry of Trade and Cooperatives and placed under the responsibility of a newly appointed Junior Minister for Cooperatives. At the same time a new Director General was appointed. In March 1983, a separate Ministry of Cooperatives was established which further emphasized the government's commitment to the development of cooperatives.

The GOI has placed a large amount of efforts into the development of cooperatives as a means of ensuring a higher level of economic well being of the rural people in Indonesia. BULOG, the government logistic agency responsible for the procurement and distribution of agricultural products and basic commodities, has decided to increase the amount of commodities purchased and distributed through Koperasi Unit Desa rather than through other sectors by offering slightly beneficial price differentials. The GOI also issued a decree in 1981<sup>①</sup> which stipulates that sugar cane purchased by sugar mills under intensification credit programs must be effected through cooperatives. To further strengthen the UDD substantive links have been forged between cooperatives and the private sector. The subsidy and support of the GOI to the UDDs is evidence of the government's intent to utilize the cooperatives as a vehicle to raise the level of wealth of the rural people in Indonesia.

### 1.1.1. Problems of Implementation and GOI Efforts To Strengthen KUDs

Although the cooperative movement in Indonesia has been officially proclaimed by the GOI as the pillar of the country's economy and thus has been receiving ample political and financial support from the government, in practice cooperatives in Indonesia remain for the most part less than effective as economic organizations as well as organizations to improve the welfare of their members, viz the farmers.

Indonesian economists have identified the lack of capital and managerial skill as the major causes of the failure of cooperatives in Indonesia to achieve their goals. However, if we examine the problems that cooperatives in Indonesia are currently facing, the reasons why cooperatives have failed to reach their expected goals go beyond those two issues.

There are several basic reasons why cooperatives remain ineffective as engines of economic development in rural Indonesia. First of all, Koperasi Unit Desa (Village Cooperative Unit) have deviated from the original philosophy of a cooperative movement. The Koperasi Unit Desa, although it is claimed by the GOI as a true grass root movement, in practice functions more as a government organization to facilitate its efforts to penetrate the rural community. This can be seen clearly from the types of activities that each KUD has. The team found in Klaten that there are six KUDs which in general do not have programs of their own. Most of the programs that these KUDs currently implement are government designed programs such as rice marketing, fertilizer distribution, credit programs, etc. None of their programs came from their members or were designed by their managers.

Such is the dependence of the KUD on the government that not only the managers but also members of cooperative boards consider themselves as government officials rather than as leaders of an autonomous non-government organization. Every time when Board members were asked how they view themselves vis-a-vis the regency cooperative office they invariably replied that they considered the head of the regent government cooperative as their boss. This is understandable given the historical development of cooperatives in Indonesia and the fact that the government's program brings financial benefits to the KUD.

However, members of the team are concerned about the consequences of such attitude on the capacity of KUDs to serve the interest of the farmers. Because managers and members of the boards consider themselves as part of the local kantor koperasi (government cooperative office) in general they have developed a bureaucratic work style which certainly will influence the management style of the cooperative. The cooperative office hours are patterned in a similar way to that of government offices in Indonesia viz, from 7:30 a.m. to 2:00 p.m. Like government officials, managers and members of the KUD in general take a formal attitude towards their clients.

Another problem that the team identified during their visits to various KUDs in Klaten is the amount of time spent by the cooperative managers in attending meetings arranged by either the sub-district heads or the district heads. One manager of a KUD in Klaten indicated that on the average he spends six to ten hours a week attending meetings of various government committees of which he is a member. Consequently he has less time to think seriously about the cooperative which he is supposed to manage. He therefore relies more on the board to do the real management of the cooperative.

A further implementation problem that the team encountered in the field is the almost total absence of services that KUDs receive from the PUSKUD (Pusat Koperasi Unit Desa), or the Central KUD at the provincial level. In theory the PUSKUD is responsible not only for coordination of all activities of KUDs in the province but also for assisting in solving the problems of marketing, provision of additional capital, etc. Many managers and members of the KUDs in Klaten complained that it has always been difficult to get assistance from PUSKUD due to the various bureaucratic procedures which it has developed for its relations with the KUDs. It is to solve this problem that the government established Pusat Pelayanan Koperasi (PPK) or Cooperative Service Centers. In theory this Pusat Pelayanan Koperasi should assist the KUDs which are facing difficulties in processing, marketing, etc. However, as indicated by the manager of the Pusat Pelayanan Koperasi in Boyolali, he can not do much to perform the duties assigned to him for the following reasons :

First of all, the PUSKUD of Central Java considers Pusat Pelayanan Koperasi (PPK) as its representative at the regency level and not as an autonomous body representing KUDs. The manager indicated that he has no freedom to plan the PPK activities. At the moment all he can do is to implement programs designed by the PUSKUD at the provincial level and which are currently limited to fertilizer distribution. He has no working capital except two million Rupian that he receives annually from PUSKUD for minor operational expenses plus fifteen thousand Rupian for monthly maintenance costs. Consequently, he could not do much to solve the individual problems of the local KUDs that need his assistance. For example, PPK in Boyolali once had a plan to assist members of the KUD in a poor Kecamatan to sell their cassava. The manager of the PPK submitted a request on behalf of the KUD for working capital to enable the latter to buy cassava produced by its members. It has been two years now since the manager sent his letter to the PUSKUD but he has never received the money. Every time he goes to the PUSKUD and asks

about the status of his request, the answer from the PUSKUD remains the same, viz, that PUSKUD has not received money from INKUD (Induk Koperasi Unit Desa) in Jakarta. This incident has put the PPK manager in Boyolali in an awkward position vis-a-vis the local KUD which expect PPK to assist them.

The decision of the GOI to establish cooperative service centers at the Kabupaten (regency) level is a good decision although currently it still has an experimental status. The present organization, where PUSKUD is the only institution within the province which gives services to all the KUDs in the province, seems illogical. As the PUSKUD is located in the provincial capital it will never be able to understand the specific services required by each KUD in the province. However, in order for the PPK to function beneficially the government should decide the status of the PPK in terms of its relations with PUSKUD. In this case three questions remain to be answered.

First, is PPK going to function as a branch of PUSKUD in the Kabupaten or is it to be an autonomous body separated from PUSKUD? Second, if PPK is to be an autonomous body, will the government allow the PPK to generate its own funds by, for example, doing business? Thirdly, what is its future relation with the Cooperative Office at the Kabupaten level? Is it to be a partner of the Cooperative Department or is it subordinate to them? These are the basic questions that the GOI has to decide soon.

## 1.2. The PUSPETA Klaten Project

The design of the PUSPETA Klaten Project emerged out of several years of CLUSA experience working with cooperatives in Indonesia. In 1975 CLUSA signed a five year agreement with the GOI to bring the U.S. cooperative experience to Indonesia. The following year USAID provided CLUSA with an Operational Program Grant (OPG) the purpose of which was to "create a capacity within the national, regional and district levels to do agribusiness planning, (including pre-feasibility studies), to implement cooperative projects more effectively and to evaluate on going projects."

In exploring with the GOI appropriate ways to implement the program it was decided to use Kabupaten Klaten in Central Java as a special local project in which CLUSA would work with the Directorate General of Cooperatives to study and plan the essential conditions and supporting assistance necessary for this project to become a successful example of local cooperative development. CLUSA recommended the concept of PUSPETA (acronym for PUSAT PELAYANAN PETANI, translating as Farmers' Service Center). It is similar in purpose to the PPKs (PUSAT PELAYANAN KOPERASI, or Cooperative Service Centers) which have been established by the Directorate General of Cooperatives throughout the country to provide technical, management and business services to the primary cooperative societies. However, whereas the PPKs will have the legal status of government projects and will operate at the Kabupaten level as branches of the provincial level secondary cooperatives (PUSKUD), the PUSPETA would operate as an autonomous, independent pre-secondary cooperative integrated with the primary cooperatives (KUD). The PUSPETA concept is that the secondary cooperative is a catalyst for "bottom up" development of the KUD, as an integrated, independent Kabupaten Cooperative System as contrasted to the PPK concept of developing a "top down" secondary system from the provincial level.

PUSPETA Klaten was established on January 1, 1980 as a pre-secondary cooperative entity operating as a special government pilot project. Soon after the establishment of PUSPETA Klaten in 1980 CLUSA personnel began working in Klaten with Indonesian counterparts to organize farmer groups, train membership, develop improved administrative systems and to identify small business opportunities. However, resources were inadequate to follow through successfully with planned programs or to expand the program to larger members. CLUSA prepared a proposal in the form of a Project Document entitled "Integrated Rural Food System Development Through Village Cooperatives" dated October 1, 1980. The Project Document was submitted to USAID for funding and in July, 1981 CLUSA and USAID signed a Transfer Authorization under which P.L. 480 Title II commodities were contributed by the U.S. Government in support of the PUSPETA Project, a project co-sponsored by CLUSA and the GOI Directorate General of Cooperatives, for a three year period, from July 1, 1981 to June 30, 1984.

The agreement authorized transfer of commodities contributed under Public Law 480 Title II to CLUSA for sale to BULOG, with the proceeds to finance the PUSPETA project.

The transfer authorization states that the financial requirements set forth in the multi-year budgets of the Project Document will be met by application of the proceeds from the sale of these commodities in conjunction with the GOI and /or other sources which have yet to be determined. The Transfer Authorization also states that the GOI guarantees that sufficient funds will be provided to the project for its completion as specified in the Project Document if all other sources combined are found to be insufficient for this purpose. The Project Document proposes a total project budget of \$6 million for the three year project.

The stated objectives of the PUSPETA Klaten project are "to strengthen, reorganize and revitalize existing village cooperatives by use of a cooperative federation in Kabupaten Klaten, Central Java. The aim of the project is to improve the rural food systems and incomes by encouraging farm leaders to develop cooperatives into growth-oriented agribusinesses from the "bottom up" by improving cooperative management and thereby increasing agricultural production, diversifying crops cultivated, building cooperative capital, providing production credit, processing and marketing rural products, marketing primary commodities to the village residents and initiating activities in the new agribusiness areas."

The agreement between CLUSA and the Directorate General of Cooperatives (DIKJENKOP) on Operational Guidelines for PUSPETA Klaten (Appendix E of the Transfer Authorization) states :

"Whereas, the GOI is promoting the Development of Cooperative Service Centers (Pusat Pelayanan Koperasi - PPKs) to provide better services to KUDs and their members, PUSPETA Klaten is established as a special government project (PMU) to test various ways to provide these improved services."

Team discussions with Ministry of Cooperative Officials confirm that the project is seen by the GOI as a laboratory for innovating and testing various ways to provide better services to the KUDs and their members.

### 1.3. Purpose and Scope of the Evaluation

The Transfer Authority states that a special evaluation should take place at the end of the first year of implementation to determine if the project is meeting the objectives stated in the Project Document and Transfer Authorization. Implementation began officially in July, 1981, so the evaluation was due in late 1982. However, in the opinion of CLUSA, the project had not been active enough in the first year to warrant an evaluation so, with USAID concurrence, the evaluation was rescheduled. A four member interdisciplinary team was engaged to conduct the evaluation during the period January 20th to February 18th.

The Evaluation Team is charged with assessment of the development of PUSPETA, the degree to which project purposes have been achieved and the impact of PUSPETA and its activities on farmer beneficiaries. Moreover, it is expected that the evaluation will indicate future directions to be taken by the project and provide guidance to CLUSA and PUSPETA staffs on changes or adjustments to improve the operation of the project.

The Evaluation Team views this project as an "institution building" project in which profound social and economic changes are proposed in the structure and functioning of rural institutions. The Team believes the Project Document is unrealistic in its expectation that the very ambitious objectives could be achieved within the three-year life of the project. Accordingly, the evaluation is less concerned with whether or not objectives have been achieved, or will be by the end of the project, than with whether the various project activities are leading in the right direction to achieve project objectives in the long run. | 6

## II. PROJECT INPUTS

### 2.1. CLUSA Inputs

CLUSA support for the project is derived from the proceeds of the sale of PL 480 Title II wheat granted under the Transfer Authority of July, 1981 and Operational Program Grants (OPG) from USAID.

#### 2.1.1. PL 480 Title II Funds

The 5,785 tons of PL 480 Title II Wheat was sold to BULOG for a net revenue of \$1,313,898.12. These funds were deposited in a special account to be used for specified allowable expenditures in support of the PUSPETA Klaten Project. Interest from the undisbursed funds had accumulated to \$168,914.59 by December 31, 1983, making a total of \$1,482,812.71 available from this source for the project.

Table 1 shows the budgeted income and expenditures, by line item, for the life of the project. It also shows disbursements by line item to the end of each calendar year 1981, 1982 and 1983, and CLUSA projections of expenditures to May 31, 1985.

By the end of December 1983, 72% of the budgeted income had been disbursed. Projections indicate that by December 31, 1985, all of the funds can be disbursed prudently. In only two line items have expenditures exceeded the budget. Since CLUSA's authority to adjust among line items is unrestricted, financial support has obviously not been a constraint to implementation of the project.

TABLE I: PROJECT INPUTS PROGRESS (%)

CATEGORY	ORIGINAL BUDGET	DISBURSED TO 31/12/81		DISBURSED TO 31/12/82		DISBURSED TO 31/12/83		PLANNED DISBURSEMENT TO 31/12/1985	
	ALLOCATION (1)	AMOUNT (2)	%BUDGET (3)	AMOUNT (4)	%BUDGET (5)	AMOUNT (6)	%BUDGET (7)	AMOUNT (8)	%BUDGET (9)
<b>INCOME</b>									
41 RENT SALE PROCEEDS	1325000	1313898	99	1313898	99	1313898	99	1313898	99
51 INTEREST INCOME	75000	4494	6	128962	172	168915	225	185000	247
<b>TOTAL</b>	<b>1400000</b>	<b>1318382</b>	<b>94</b>	<b>1442860</b>	<b>103</b>	<b>1482813</b>	<b>106</b>	<b>1498898</b>	<b>107</b>
<b>EXPENDITURE</b>									
<b>SUPPORT SERVICES</b>									
01 PFD ECI SALARIES	29460	1455	5	21556	73	29569	100	55096	187
02 CONSULTANTS	113780	0	0	3404	3	32656	29	90000	79
03 TRAVEL	60300	5445	9	24098	40	54249	90	74000	123
04 ALLOWANCES	82860	6655	8	39648	48	59715	72	82000	99
05 OTHER COSTS/CLUSA	25520	1625	6	13203	50	34317	129	44000	168
06 TRAINING	50000	14176	28	23141	46	33282	67	62000	124
07 OPE CHARGES	0	0	--	0	--	9848	--	15000	--
08 OVERHEAD	97100	8370	10	40870	47	85857	88	125000	144
<b>SUBTOTAL</b>	<b>450000</b>	<b>37686</b>	<b>8</b>	<b>165920</b>	<b>37</b>	<b>329493</b>	<b>73</b>	<b>542296</b>	<b>122</b>
<b>TRUSTEE AGREEMENT</b>									
01 SALARY SUBSIDIES	130000	0	0	34861	27	82836	64	130000	100
02 TRAVEL ALLOWANCES	12000	0	0	3769	31	8129	68	10000	83
03 TRAINING/MISC.	8000	0	0	9424	118	30495	381	50000	625
04 VEHICLES	50000	0	0	19705	39	22591	45	62000	124
05 CONSTRUCTION EQUIP	350000	0	0	259698	74	307324	88	400000	114
06 WORKING CAPITAL	400000	0	0	154351	39	279166	70	298000	75
<b>SUBTOTAL</b>	<b>950000</b>	<b>0</b>	<b>0</b>	<b>481908</b>	<b>51</b>	<b>728941</b>	<b>77</b>	<b>1500000</b>	<b>158</b>
<b>GRAND TOTAL</b>	<b>1400000</b>	<b>37686</b>	<b>3</b>	<b>647728</b>	<b>46</b>	<b>1058434</b>	<b>76</b>	<b>1498898</b>	<b>107</b>

The disbursements made for consultants have been less than planned (32% of amount budgeted). In part it may be less than planned because three of the key technical consultants engaged to advise on the feed program came at no salary cost to the project. The silo construction and milk marketing advisors was provided by the Volunteer Development Corps (VDC) for four weeks at no cost to the project. The advisor on corn silage making contributed his time and paid his own per diem. Only his travel costs were charged to the project. Aside from the consultants engaged in this evaluation there appear to be no specific plans for use of additional expenditures for this line item, except possibly for an Indonesian computer consultant for approximately two months in April and May of 1984.

About one half of the amount budgeted for Participant Training in the non-subordinate agreement portion of the budget has been utilized. This was used in late 1981 for participant training/travel to observe cooperative organizations in the United States and to purchase project equipment. Eight persons took part in that tour, including The Director of Cooperative Business Affairs, Jakarta, three members of the Temporary Advisory Board of PUSPETA, the PUSPETA General Manager and CLUSA staff.

An additional international travel/training program was programmed for the remainder of the training budget. The program is still being designed to determine which participants would provide most benefit to the project and to develop appropriate content to the program. The program will probably include visits to a third world country such as India or Thailand, as well as to cooperatives in the United States, late in 1984.

The major allocation for the project funds the subordinate agreement with PUSPETA Klaten for fixed and working capital, equipment, training, travel and salary subsidies.

### 2.1.2. Operational Program Grant Agreements (OPG)

The Operational Guidelines for PUSPETA Klaten, Appendix E states that CLUSA will act as consultant and advisor to PUSPETA Klaten, its member KUDs and the PUSPETA management. The Guidelines also state that CLUSA will provide PUSPETA Klaten with various technical, financial and commodity assistance from time to time with funds provided from an Operational Program Grant Agreement ... (as well as)... from the sale of PL 480, Title II commodities.

OPG Number 82-3 provided funding in the amount of \$203,973.83 from July 1, 1982 to December 31, 1983 for support of CLUSA personnel expenditures, including the CLUSA representative and a Klaten management coordinator who is now primarily the dairy advisor since the CLUSA representative moved to Klaten. From January 1, 1984 the OPG will continue to support the CLUSA personnel working with the project but will also provide support for the CLUSA FCC Luwu project.

Prior to July 1, 1982 two other OPGs were granted to CLUSA for the period from September 1, 1976 to June 30, 1982 amounting to \$816,234. These grants were not specifically or solely related to implementation of the PUSPETA project but \$48,100 was granted to PUSPETA for initial personnel, training and organizational costs. An additional \$350 was granted for rice bran stabilization.

## 2.2. Government of Indonesia Inputs

PUSPETA receives some of its funding from Government of Indonesia sources, specifically from the Department of Cooperatives and the Ministry of Finance (MOF).

2.2.1. The Ministry of Finance provided PUSPETA with a concessional loan of Rps 630,000,000 at 6% interest. The loan is for 6 years with a 2 year grace period. As of December 31, 1983 PUSPETA has received Rps 424,000,000 of this loan. The loan was planned for four activities :

- a. Working capital for a certified seed program.
- b. Working capital for the feed mill.
- c. Fixed assets for the feed mill - to be used only after the feed mill has become profitable (Rps 188,000,000).
- d. The purchase of trucks.

Funding for the feed mill component of this loan has been revised and PUSPETA will not request further financing for this program. A proposal will be submitted by PUSPETA to the MOF in the near future to mainly finance expansion in PUSPETA's input supply and crop marketing activities. All of these funds except the Rps 188,000,000 for the feed mill and Rps 18,000,000 for fertilizer have been disbursed and utilized.

2.2.2. The Department of Cooperatives has provided PUSPETA with an office, office equipment, trucks and other motor vehicles valued at Rps 125,342,584. In addition, it is providing subsidies for operation of the vehicles, office supplies and salaries. Previous annual contributions for each are as follows :

Table II: Department of Cooperatives Support for PUSPETA (Rp000)

Year	Land and Buildings	Salary Subsidies	Office Supplies	Equipment Operations	Misc.	Yearly Totals
1980	37,700	13,335	-	32,975	10,932	94,942
1981	-	11,765	239	2,119	-	14,123
1982	-	5,652	327	1,708	-	7,687
1983	-	7,057	525	1,005	-	8,587
Total	37,700	37,810	1,091	37,808	10,932	125,339

The Provincial Livestock Office has provided PUSPETA with one milk cooling tank through the GKSI. The Minister of Cooperatives has also provided PUSPETA with a milk cooling tank and several other items of equipment and machinery not included in the annual budgetary support enumerated above.

### 2.3. Heifer Project International (HPI)

Heifer Project International, in response to a proposal from CLUSA, gave a grant to be administered by CLUSA for a livestock training and research program. The program in effect got underway in the last quarter of 1983 and is scheduled to continue through 1985. Total HPI funding for the program is Rp. 139 million with Rps 43,000,000 disbursed through the 1983 budget year grant. The budget for 1984 is Rps 49,937 205 and for 1985 Rps 47,273,745. The main part of the program deals with training of dairy farmers. This part of the program is already underway. Barns have been built, a training center has been constructed, regular two week training sessions are operating as scheduled,

field extension workers have carried out the initial survey of the Klaten dairy farmers (a 209 unit sample) which will be repeated every three months. All PUSPETA's feed research, including research on the complete feed ration is now being funded from this source.

### III. PUSPETA SERVICES TO KUD

#### 3.1. Organization

##### 3.1.1. KUD's Organization and Project Objectives

Business and organizational activities of the KUDs are formally run by the cooperative board (Badan Pengurus) elected in a plenary cooperative members' forum. The meeting also elects the cooperative auditing board (Badan Pemeriksa) and the cooperative development board (Badan Usaha Unit Desa - BUUD). The cooperative board (Badan Pengurus) employs a cooperative manager who is responsible for the daily business operations of the cooperative.

It is a general problem of KUDs in Indonesia that there are some ambiguous relationships among the cooperative elements. For example, to what extent does the manager have the power to act without consultation with the cooperative board, and in what instances must the manager inform or consult the cooperative board. In some instances, for example, the manager must invite a coordinative board meeting and even a cooperative auditing board meeting in order to transact business. In Klaten, these systems are also observed. As a pilot project, PUSPETA can innovate alternative solutions of the problems, apply those alternatives to its KUD operations and publish the experience for

the benefits of other cooperatives in Indonesia.

Indications of progress in Klaten district as a result of PUSPETA activities are the increase in KUD membership and the increase in the number of persons employed at the cooperative level.

Table 3 : The average KUD membership and average number of people employed by a KUD (of 35 KUDs) in Klaten 1979 - 1983. (1)

Years	Average number of KUD members	Average number of people employed per KUD
1979	320	13
1980	322	17
1981	482	19
1982	796	20
1983 2)	1242	34

1) Source : Kantor Koperasi Dati II Klaten.

2) Estimated from October 1983 data.

The average number of KUD members has increased by about 40% per annum and the average number of people employed by the cooperatives increased by about 20% every year since 1979. A sharp increase was observed in 1983, when the PUSPETA program was accelerated.

Observing the above facts we conclude that, while there are still organizational and management problems, PUSPETA has made good progress in meeting project objectives, i.e. to strengthen, reorganize and revitalize existing village agricultural cooperatives. One aim of the project is to assist local farm leaders to

develop their KUDs into growth oriented agribusinesses managed from the "bottom up". The PUSPETA project was planned to develop strong and revitalized rural cooperatives by organizing farmer groups to undertake economic agribusiness activities. The new rural or farmer groups developed by PUSPETA are well established and their activities are well supervised. This was observed with respect to the roof-tile, clove, embroidery, improved seed, and dairy farm groups. The groups have group chairmen, secretaries and treasurers and responsibilities are well defined. However, the organizations have not yet developed a clear concept of how group committees will have a role in determining policies of the KUDs. This needs to be studied, developed, and tested.

There is at least one type of farmer groups that should be paid more attention within the village level. These are "kelompok tani hamparan" (areal advanced farmer groups). These advanced farmer groups are organized by the Ministry of Agriculture agencies for the extension education of agricultural technology purposes. These groups are made up of 15 to 20 farmers oriented toward technical agriculture and are organized on the basis of the location of the land they till. They are groups with very good potential for organizing into cooperative economic units. How these groups could be institutionalized into participatory cooperative groups for developing agribusiness activities, and how these groups would play some roles in revitalizing the KUD, should be studied and tested. ②

### 3.1.2. PUSPETA Activities and KUD's Organization

PUSPETA business activities in 1983 increased sharply compared to that in 1982, as seen from PUSPETA sales in the following Table :

Table 4 : PUSPETA Sales in 1982, 1983, and its Projected Sales in 1984 (in thousand rupiah)

Sectors	1982	1983	1984 1)
Agriculture	227.863	428.857	1.360.550
Food & agricultural inputs	491.375	1.184.683	2.059.344
Services	43.317	84.886	133.793
Total	762.555	1.694.426	4.053.687

1) projected figure by PUSPETA.

Source : Laporan Keuangan 1983 dan RAB dan Pendapatan 1984, PPK PUSPETA Klaten.

Sales by PUSPETA increased by more than 100% from 1982 to 1983 and are projected by the management to double in 1984. Sales by the KUDs in Klaten district increased by 17% from 1982 to 1983. In 1982 PUSPETA sales were only 6 percent of the total volume of sales by Klaten KUDs. In 1983 PUSPETA sales represented 12 percent of sales by these KUDs.

Table 5 shows a significant increase in savings by the KUDs. The 35 KUDs in Klaten district increased their savings by 60% from 1982 to 1983, indicating healthy improvement in the viability-

ty of the cooperatives. The large increase in indebtedness is somewhat misleading. Much of it can be explained by the fact that payments to the farmers for the 1983 sugarcane crop were delayed until after the end of December, 1983, and therefore, repayments for sugarcane marketing credit were not made until 1984.

Table 5 : The Development of Saving, Debt, and Sale Volumes of the 35 KUDs in Klaten (in thousand rupiah)

Categories	1981	1982	1983
Savings	476.444	672.752	1.072.095 1)
Debt	236.875	1.413.582	2.150.033 2)
Sales	8.368.456	12.394.733	14.164.447 3)

1) Projected from September 1983 figure.

Source : Kantor Koperasi Dati II Kabupaten Klaten.

2) Due to (a) farmer sugar payments in excess of Rp 2 billion from the factory/BRI not made by end of December 1983, whereas they were partially made in November 1982; (b) BIMAS credit of Rps 50.288.628 was only administered through KUDs starting in 1983; (c) marketing credit of sugar cane Rps 67.711.310; and (d) marketing credit due of Rps 6.300.000 at end 1983.  
Source : Klaten Cooperative Office.

3) Source : Klaten Cooperative Office

The development of saving, and sales of the 35 KUDs in Klaten also increased. The increases in savings and sales were about 50% and 17% in 1983 over 1982 respectively.

PUSPETA is making efforts to be self supporting in the near future. It has succeeded in greatly increasing its sales in 1983, and has projected a doubling of sales in 1984. As a result, the PUSPETA is expecting to have more surplus in 1984, as shown in the following table.

Table 6 : The 1984 Net and Gross Profit and Subsidy Target of PPK/PUSPETA Klaten (Rp. 000)

Item	1982	1983	1984
Gross Profit	8.838	50.285	94.405 1)
Subsidy	31.880	49.206	41.390 1)
Net Profit (Loss)	(23.042)	1.079	53.015

1) Projected by the PUSPETA.

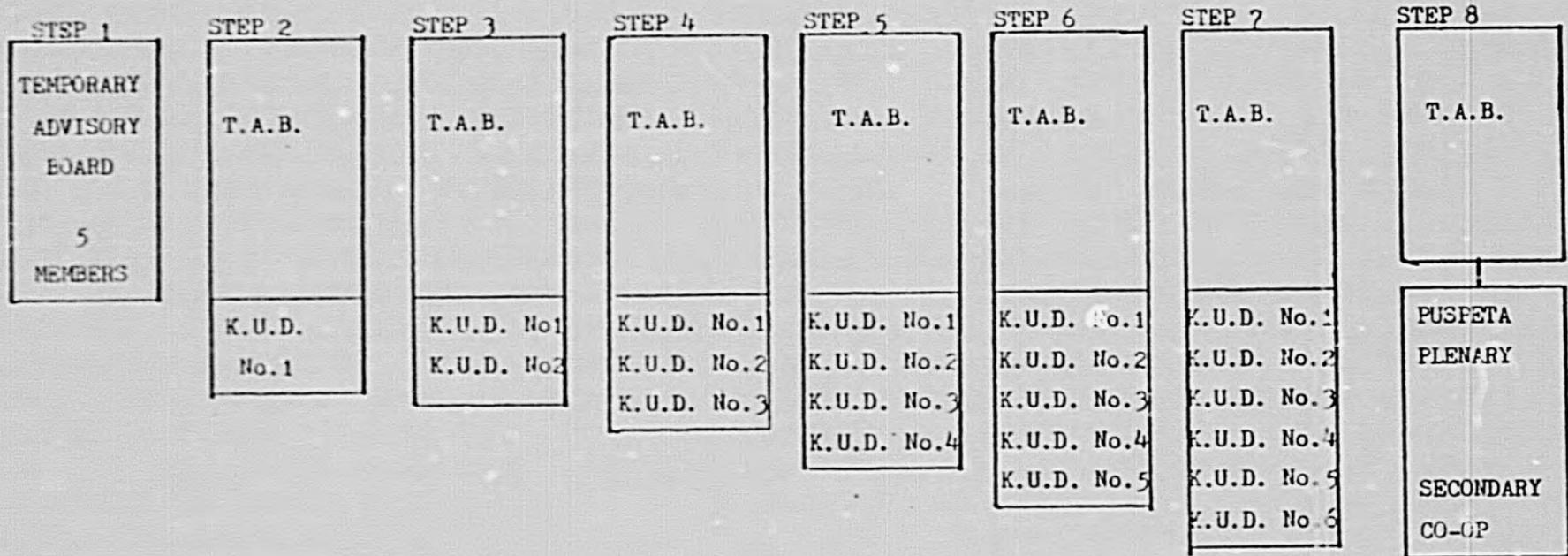
Source : Laporan Keuangan 1983 dari RAB dan Pendapatan 1984, PPK PUSPETA Klaten.

The targeted net profit for 1984 of Rps 53,015,000 is about 1.4% of the 1984 sales volume target. This small profit margin is really SHU, that which is left for savings on behalf of the KUDs and their members. Some of this may be returned to the KUDs but a portion will need to be retained by PUSPETA to finance additional activities, to accelerate the development of farmer groups and to support KUD development. Due to PUSPETA's dualistic goals of self-sufficiency and KUD development, profit margins are purposely kept low to encourage KUD market competitiveness.

The team believes there is good potential for achieving the growth in sales and services projected by PUSPETA management. PUSPETA now has a capable, experienced staff and basic facilities for handling the larger volume of business. The feed research program now promises to make feeds highly competitive and will permit expansion to the capacity of the feed mill complex. The egg marketing program begun in late 1983 has been successful but is still handling a very small fraction of the eggs produced in Klaten district. Expansion in milk production and marketing will continue at a rate at least as fast as in 1983. Plans are well advanced for a substantial expansion of the embroidery activity. A number of new activities have been identified which have potential for the district. Thus the projected doubling of sales and services in 1984 does not appear unrealistic.

PUSPETA is programming to become a secondary cooperative by converting the Temporary Advisory Board (TAB) into the PUSPETA Plenary Board (PBB), wherein the PBB's membership is gradually occupied by the KUD representatives, as shown in Table 7. The 1983 TAB was chaired by Drs. Achmad Mustain (P.D.O.), and the members were Ir. Tugiman (Economic section chief of the Kabupaten Local Government), Gatot Sardjono (Local Depkopin), Sumardoyo (Cooperative Agency in Klaten), and Samuel Filiaci (CLUSA Country Representative). In 1984, TAB added two members as KUD representatives, i.e. Soewarso from KUD Pembangunan and Marsono from KUD Pedan. The decision to gradually shift the TAB into PBB is an important step in making this a secondary cooperative. However, its effectiveness as a secondary cooperative will depend on properly chosen representatives of strong organized KUDs and farmers groups organizations. Therefore, reorganization and revitalization of the KUDs to give farmer groups strong representation should have high priority during this transition period.

Table 7  
 PROCEDURE FOR BECOMING  
PUSPETA SECONDARY COOPERATIVE



### 3.2. Training

PUSPETA training activities are managed by the Extension and Training Division of their Department of KUD Operations. Beginning in March, 1982, PUSPETA has offered training programs in several technical subjects, including : Poultry Input Supply and Marketing (for kelompokks); Dairy Management and Feeding (for dairy farmers in the four participating KUDs); and Seed Certification (for the groups leaders in the 5 KUDs involved in the seed program). Such technical subjects are still important features of the training program but, starting in August, 1983, the program has focused heavily on KUD management, accounting, and auditing. Table 8 lists the various courses held, the number of participants, the purposes and the sources of the instructors.

The dairy management training program has taken on major significance with the grant from Heifer Project International. These funds, administered by CLUSA for support of the PUSPETA dairy and feed project, have been used to build a dairy training, demonstration and research center, to employ and train instructors for the training center and activate extension field staff. This will be a continuous program of a succession of two-week sessions for dairy farmers, dairy farm workers and members of the dairy families. A comprehensive syllabus has been prepared for use in the course and excellent facilities are now in place for the program.

The Team believes the technical training programs relating to PUSPETA business activities with the KUDs is very important in improving the productivity of the farmers and the quality of the products. PUSPETA has drawn on supporting public institutions and organizations such as the Department of Agriculture and Animal Husbandry, the Agricultural Extension Department and the Gadjah Mada University for assistance in designing training programs and for providing instructors for the training sessions.

The Team believes this linkage should be continued and strengthened for the mutual benefit of all the agencies. The PUSPETA experiment provides an unusual laboratory. Other institutions interested in rural development can learn much from it. They can also contribute much towards its success.

The Team notes the recent strong emphasis on training programs for KUD managers and accountants. Such training is very important in developing competent administration in the KUDs. Without reducing this effort, the Team believes more time and effort needs to go into training programs aimed at farm leaders or potential farm leaders to increase their knowledge about the operation of the cooperative system and broadening their visions of what their cooperatives can be and do. This seems important in getting more active participation of the membership in the functioning of the KUDs.

TABLE 8 TRAINING ACTIVITIES OF PPK/PUSPETA

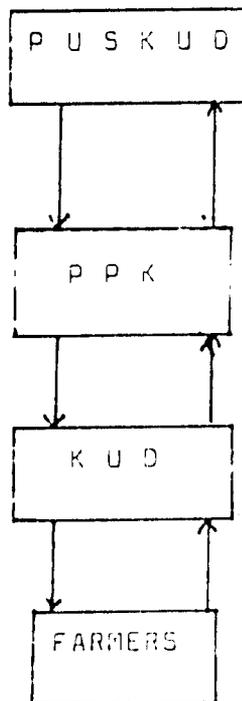
NAME OF COURSE	DATES	PARTICIPANTS			OBJECTIVE	TRAINERS
		NO. KUDS	NO. PERSONS	KIND		
POULTRY INPUT SUPPLY AND MAINTENANCE	MARCH, 1982	2	128	POULTRY GROWERS PELOPONS		
DAIRY MANAGEMENT AND FEEDING	JUNE, 1982	4	36	DAIRY GROUP LEADERS AND PERSONEL PUSPETH FIELD STAFF	IMPROVE DAIRY MANAGEMENT	GAJAH MADA UNIVERSITY DEPT. ANIMAL HUSBANDRY
DAIRY MANAGEMENT AND FEEDING	NOVEMBER, 1982	4	470	DAIRY FARMERS	IMPROVE DAIRY MANAGEMENT	GAJAH MADA UNIVERSITY DEPT. ANIMAL HUSBANDRY
SEED CERTIFICATION	MAY 16-19, 1983	5	14	KUD SEED OFFICERS, PUSPETH SEED STAFF	LEARN SEED CERTIFICATION REQUIREMENTS, PROCEDURES AND PRACTICES	BSPR INSTITUTE
KUD MANAGEMENT	AUGUST 22-29, 1983 SEPTEMBER 19-26, 1983 OCTOBER 10-17, 1983	35	47	KUD BOARD MEMBERS, MANAGERS, PUSPETH STAFF	INCREASE MANAGERIAL CAPABILITIES OF KUD BOARD AND MANAGERS	LPM, GAJAH MADA UNIV. DEPT. OF COOPERATIVES PUSPETH
KUD MANAGERS STATUS	OCTOBER 20-23	15	15	KUD CIVIL SERVANT MANAGERS	DISCUSS KUD MANAGERS' STATUS	DEPT. OF COOPERATIVES PUSPETH
SUGARLANE INTENSIFICATION MANAGEMENT	OCTOBER 24-26 OCTOBER 27-29 OCTOBER 31-NOV. 2	4	50	KUD SUGARLANE UNIT HEADS, TRI GROUP LEADERS	TO IMPROVE MANAGEMENT OF TRI PROGRAM	DEPT OF COOPERATIVES PUSPETH DEPT OF AGRICULTURE DIRECTORATE ESTATE CR

SEED PRODUCTION	OCTOBER	25	90		
KUD ACCOUNTING	NOVEMBER 21-26	17	30 KUD ACCOUNTANTS	TO LEARN COOPERATIVE ACCOUNTING SYSTEM	DEPT OF COOPERATIVES, PUSPETA
KUD DEVELOPMENT	DECEMBER 1-3	17	46 KUD MANAGERS	DEVELOP KUDS	DEPT OF COOPERATIVES PUSPETA
KUD AUDITING	DECEMBER 21-23	27	27 KUD AUDITING BOARDS	TO LEARN FUNCTIONS OF KUD AUDITING BOARD	DEPT OF COOPERATIVES PUSPETA
KUD YEARLY FINANCIAL REPORTS	DECEMBER 31	35	36 KUD MANAGE	LEARN HOW TO USE AND PREPARE BALANCE SHEET	PUSPETA
HANDICRAFT SKILLS	DECEMBER/JANUARY	90			
DAIRY MANAGEMENT AND FEEDING	CONTINUOUS FROM DEC. 1983	4	88 MILK COW OWNERS	DAIRY COW FEEDING, MGMT, SANITATION, INSEMINATION	PUSPETA STAFF UNDER HPI PROGRAM, DEPT OF ANIMAL HUSBANDRY

### 3.3. MARKETING

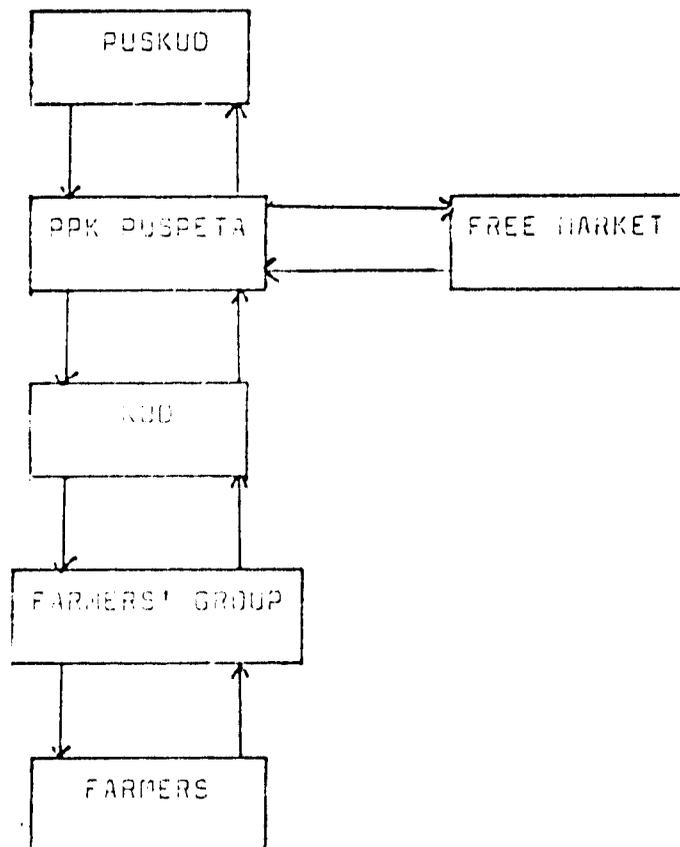
#### 3.3.1. Marketing Channels

The Government of Indonesia, through the cooperative movement, has established cooperative institutions called PUSKUDs at the provincial level and KUDs at the sub-district level (kecamatan). At the kabupaten level, the Government has introduced the PPK (Pusat Pelayanan Koperasi - Cooperative Service Center) serving as the representative of PUSKUD. The system serves as a channel for providing supplies and services to rural areas and for marketing farm products. The channels are as follows :



CLUSA's project in Klaten has introduced a cooperative model called PUSPETA at the Kabupaten level to serve the KUD and farmers in Klaten District. Basically, it replaces the function of PPK but formally it is called PPK PUSPETA. With its wider authority for doing business activities than PPK, PPK PUSPETA has sought new channels for marketing the products supplied by farmers.

In supplying these products PUSPETA not only serves as a supplier but also may act as a wholesaler. By this function PPK PUSPETA has become marketing channel from KUD to the free market and vice versa. With the existence of PPK PUSPETA the marketing channels become :



By entering the free market directly, PUSPETA is able to carry out additional business activities on behalf of KUDs and their members and to increase its profits, or SHU (Sisa Hasil Usaha - the remainder of income). From this SHU it will be possible to develop additional capital for providing more services to KUDs and farmers.

### 3.3.2. PPK PUSPETA's Services

Marketing of agricultural products and other commodities produced by farmers is still a major problem in Indonesia. PUSPETA was established to encourage farmer participation through farmer groups undertaking economic agribusiness activities at the local level and to provide the supporting marketing and distribution system as an intermediary between KUDs and the market.

Marketing services provided by PUSPETA are as follows :

- a. As an active intermediary between farmers, KUDs and the market, PUSPETA accepts agricultural products by farmers through their KUDs and channels those products into existing markets or new markets.
- b. PUSPETA assures the continuity of marketing services, especially in channelling the products into markets and supplying inputs needed by the farmers, so that farmers are encouraged to increase and to improve their production.
- c. PUSPETA purchases the agricultural products and other commodities supplied by the farmers at market prices. KUDs are given a certain portion of PPK PUSPETA's sale margin as a reward for their participation.

d. Besides channelling and supplying the products into the markets, PUSPETA also makes an effort to promote the products in the market and to make them more profitable. It also provides training, extension, and inspection services to improve the quality of products and to enhance their market value.

e. PUSPETA will give information to KUDs regarding the market situation and the trend of market prices.

As an the example of these activities we describe the marketing of eggs. For supplying the product into the market, PPK PUSPETA has made a contract agreement with P.T. TRITAMA, an egg supplier company at Jakarta in the amount of 12 tons/week. For fulfilling the contract, PUSPETA collects the eggs from KUDs (70%) and the rest are collected from non-KUDs. Providing more incentive to KUDs the sale price is Rps 5/kg more than to non-KUDs. The KUDs are regularly informed of the egg market situation by PUSPETA, providing stability to the market. PUSPETA also provides training, extension, and quality control as well as inputs such as poultry feeds for increasing egg production and quality.

### 3.4. CREDIT

#### 3.4.1. Credit Policy

PUSPETA provides credit to finance activities of KUDs and farmer groups. At first PUSPETA supplied only fertilizer and other commodities on what is known as "commodities sales credit" with terms of one to two months. On the basis of its status as a cooperative model allowed to undertake business activities, PUSPETA began in 1983 to implement another kind of credit which it calls "credit program". This type of credit aims to help KUDs

and farmer groups to develop and increase their economic activities by providing working capital. PUSPETA has established the following policies for implementing its credit services:

a. Most commodities sales credit is for implementing or supporting the government programs in the agricultural sector, such as the sales distribution of fertilizer, rice and the TRI program, and for the daily needs of people, such as the nine basic commodities. This kind of credit also is to facilitate marketing of the farmers' products, where PUSPETA gives commodities sales credit to parties in the free market which purchase the product. Such a credit service is provided without any interest charges.

b. The other kind of credit service is providing funds to KUDs and farmers or small businessmen and small manufacturers as working capital for operating and expanding their activities. This kind of credit is charged interest at a rate of about 2 - 3 % per month. This rate is higher than that of government program bank credit but such bank credit is not available for these purposes or on these terms. PUSPETA rates are much lower than those charged by village money lenders. ⑧

c. In providing the credit services KUDs serve as intermediaries and a certain portion of the interest rate is supplied to them as a fee.

d. The credit for working capital is based on the requirement stated by the farmers or small businessmen and submitted through KUDs. After being evaluated by PPK PUSPETA the credit is supplied to KUDs, after which KUDs supply it to the applicants. The term of such credit is normally from three to six months.

#### 3.4.2.Credit Expansion

The credit service has increased from year to year, with a very dramatic increase from 1982 to 1983. Table 9 shows the amount of credit provided by PUSPETA in each of the last three years and how credit was allocated in 1983.

TABLE 9: CREDIT SUPPLIED BY PUSPETA KLATEN

BUSINESS ACTIVITIES	AMOUNT [RP.]		CREDIT OUTSTANDING 31-12	
	KUD	NON-KUD	KUD	NON-KUD
1991 TOTAL:	28534720	39971725	12639286	18162485
1992 TOTAL:	133327014	146983159	43671000	69512112
1993:				
A. COMMODITIES SALES				
CREDITS:				
MILK SALES		103898207		
EGGS SALES		91392330		
DAY OLD CHICKS	2659100			
COW COMPLETE FEED	40793550			
CHICKEN CONCENTRATE	12346810	4145603		
DAIRY COW CONCENTRATE	3374243	10122731		
MILLED CORN FOR FEED	7000000	30135000		
CORN		34105725		
SOYBEANS		9116167		
RICE	57477721	134114694		
SUGAR	93312432	62208288		
WHEAT FLOUR	1449880	2174288		
KEROSENE	36030000			
DRUMS	660000			
CONSUMPTION GOODS	1717944			
STOCK SEEDS	27035091	18023396		
FERTILIZER FOR RICE	224620880			
FERTILIZER FOR SUGARCANE	295877507			
CORN SEED	106850			
SUB-TOTAL 1993	804462008	499436419		
B. CREDIT PROGRAM:				
KUD	5000000			
KUD OPERATIONAL	11798060			
TRANSPORTATION	6224500			
TILE PRODUCTION	8990000			
CLOVE PRODUCTION	40250000			
SUGARCANE MARKETING				
ADVANCE PAYMENT	30334429			
OTHER CREDIT	17881000	48750000		
SUGARCANE HARVEST				
TRANSPORT CREDIT	65524170			
SUB-TOTAL 1993	186002159	48750000		
GRAND TOTAL 1993	990464167	548186419	108751047	70780281

From these figures we can conclude that there has been a substantial increase, particularly from 1982 to 1983. As stated in the Credit Policy section, PUSPETA also provides commodities sales credit to non-KUDs. PUSPETA, in carrying out the market function, channels some of the farmers' products to the free market. These products are channelled to companies such as P.T. TRITAMA for eggs, GKSI or Sari Husada for milk, BULOG for rice, and P.T. SANG HYANG SRI for seed. These products are normally sold in these markets on the basis of commodities sales credit.

The Table shows that in 1981 the outstanding credit of KUD was Rps 12,639,286. This amount included the outstanding credit of cows and goats to Bayat KUD which up to now has been difficult to collect. The outstanding credit data of 1982 shows the amount of Rps 43,671,770 for KUDs and Rps 79,512,112 for non-KUDs.

Total credit provided by PUSPETA increased dramatically in 1983 compared to 1982. In 1983 PUSPETA introduced its "credit program" which provides working capital for supporting production activities of the KUDs and their members. PUSPETA also provides a small amount of this type of credit to some non-KUDs, such as KOPTI (Cooperative Soybean Cake Vendors), which appears to the team to be less related to PUSPETA objectives.

Commodities sales credit to non-KUDs increased because PUSPETA's marketing activities through private companies, where this is the conventional credit practice, increased sharply. In order to compete in the free market, PUSPETA was required to follow that practice. (9)

### 3.4.3. Constraints

The sharp increase in PUSPETA activities in 1983 has caused problems in developing the credit services effectively. The Finance and Administration Department has not had adequate specialized staff for proper management of the credit activities. Credit operations require more accuracy in recording and more effective controlling. One step taken to overcome this problem is the establishment of a computerization plan which is to be started in April of this year. In addition it may be necessary to recruit some additional staff and to develop a specialized unit for managing credit activities.

Another problem affecting the credit service is the fact that some of the KUDs are still very weak and poorly managed. According to PUSPETA, only 8 of the 35 KUDs in Klaten meet the criteria for "KUD Andalan" (well managed KUD). Prudent use of funds limits PUSPETA's ability to provide credit activities in these weak KUDs as PUSPETA has important responsibilities in allocation of credit and in effecting repayment.

Current PUSPETA policies and procedures do not insure that credit is made available to the very small farmers. Credit is extended to participating groups through their KUDs. The KUDs assume liability for loans and of its members and, therefore, exercise some control on allocation of credit and participation in the credit programs. Since the very small farmers are usually at higher risk, and have less of a crop to hypothecate as guarantee, they often receive a smaller share of the programs. While KUDs require some autonomy in allocation of credit, PUSPETA should consider modification of its credit policies and provide guidelines that will encourage greater participation by the small farmers.

### 3.5. Development of Economic Cooperative Activities

A stated aim of the project is to encourage the development of existing cooperatives into "growth-oriented" agribusinesses and to initiate new agribusiness activities. The Project Document identified several potential business activities considered appropriate for cooperatives in the Klaten area and made provision for their support in the budget. It was obviously not possible to anticipate all the potentially profitable business opportunities. It was expected that the capability would be developed within PUSPETA to carry on a continuous, on-going function of identifying new opportunities, evaluating them and helping the KUDs to organize the activities. This function has now become established in PUSPETA and is generating a number of significant activities in the KUDs. These are discussed in the following sections.

#### 3.5.1. Feed for Livestock

Among the most promising of the potentially profitable ventures identified in the project paper was a livestock feed industry. A feed mill was to be a key element. It was expected that this would (a) provide a market for expanded production of secondary crops, (b) provide quality controlled feeds for modern livestock and poultry production, (c) provide income for field workers who will provide technology and management assistance to members and (d) provide extrusion cookers to produce a variety livestock feeds as well as highly nutritious food products from locally produced commodities.

Also to be included in the feed complex was provision for construction of silos for preservation of crop residues and green fodder for livestock feeding.

A feasibility study for the feed complex was included as a part of the Project Document. The feed activity was viewed as the single most promising activity around which PUSPETA would build its services to the KUDs and the membership. A major portion of the Project funds for Capital Assets was invested in the feed mill equipment and silo construction equipment.

The feed mill feasibility study considered beef cattle production as the principal use for silage and an important use for concentrate feeds processed by the mill. Poultry was also expected to be a major market for feed concentrates. However, beginning in 1981 imported Friesian dairy cows were made available to Klaten farmers through the GKSI Credit Aid for Cooperatives Project. 1090 cows were provided to farmers in 4 KUDs of Klaten Kabupaten and these then became a major focus of the PUSPETA feed program. The feed mill would produce the concentrate required for a balanced feed for the dairy cattle and the silo would produce silage which would make up a substantial portion of the green forage of their rations.

While the technology for feed production and dairy cattle feeding is well developed there were a number of problems in working out their practical, economic adaptation to Klaten dairy farming. The initial formulae for the dairy concentrate proved too expensive to compete with the large feed companies. PUSPETA added a nutritionist to its staff early in 1983 to develop new formulae using lower cost, locally produced feed materials and testing them in feeding trials. There were problems also with the silage program. Contracts were arranged, through the KUDs, with groups of farmers in the upland areas to grow corn for silage making. PUSPETA provided a recommended corn variety and fertilizer through the normal distribution channels to KUDs. Late planting, improper application of fertilizers and poor crop management resulted in a much smaller crop than expected, making it necessary to buy additional corn from individual farmers

outside the area to fill the silos. Because of the low production and short supply the cost of the silage was considerably higher than expected. It was decided that in the future PUSPETA would provide more intensive guidance on corn growing for forage to contracting farmers. Also PUSPETA arranged to lease some land and run production trials as a demonstration and to obtain better technical and economic information on growing corn for silage in the Klaten area.

One 16' X 40' concrete stave silo was constructed at PUSPETA and a complex consisting of two 16' X 40' silos and one 16' X 10' tank for molasses was constructed at a site in Karangnongko KUD. While original plans and the construction equipment and materials purchased were intended for at least 20 silos initially, silo construction was halted until feeding trials with these three silos could be evaluated.

PUSPETA's plan was to introduce the silage as part of a "complete" feed mix in which concentrates prepared by its feed mill would make up 18-22% of the ration. Arrangements were made with farmers in Kecamatan Karangnongko to provide complete feed to 72 cattle from the one silo complex (stipulating heifers that were at least 7 months pregnant). The numbers and area were limited to allow close supervision during this trial phase and to simplify the distribution system. PUSPETA staff mixed the feed and packaged it in sacks containing 20 kg. each - the daily ration for one cow. These were picked up by the KUD truck and delivered to the dairy group leader for each desa daily.

Limiting the program to only cows in late pregnancy was done so that the remainder of the feed portion of the credit package provided through GRSI would be sufficient, or nearly so, to finance feed purchases until the cow began lactating so income from milk sales could pay for the feed.

The program was started in late September, 1982. The feed proved to be very palatable and convenient for the farmers. When credit available from the GKSI credit package was exhausted PUSPETA was to provide credit to bridge the gap until income was generated from lactation. However, even after the cows began lactating PUSPETA continued to supply feed on credit at a rate of about Rps 3 million a month. By the end of September, 1983 the program had accumulated a farmer debt of Rps 32 million.

PUSPETA has, belatedly, taken appropriate steps to correct the credit problem. Beginning in September 1983 farmers participating in the credit program had 40 percent of the value of milk delivered withheld for payment of feed. The number of farmers participating in the credit portion of the program was reduced and these farmers began repaying their feed debts through a 10 percent deduction from their milk sales. Efforts in January, 1984 to increase the percentage repayment from 40% to 60% for those remaining under the complete feed program met with stiff resistance. PUSPETA negotiated an alternative arrangement that is acceptable to the farmers and goes a long way towards resolving the feed debt problems. From February 1st farmers will contribute 10 percent of their milk sales toward retirement of old feed debts. They will pay Rps 55/kg for current purchases of complete feed on a cash basis. At present the cost of producing and distributing the complete feed including PUSPETA, KUD and Kelompok profit margins is Rps 70/kg. The difference of Rps 15/kg will be contributed from the Heifer Project International (HPI) grant as a contribution toward initial research on the productivity of the current and future feeds (this is discussed further in connection with the dairy activity in a later section).

The HPI contribution is intended to be temporary - for perhaps the next three or four months - and will be phased out as the costs of the complete feed mix is reduced. The feed research unit of PUSPETA has developed a new concentrate formula that

gives good results and will reduce the cost of the concentrate substantially. Several options are being studied for reducing the cost of the silage component. It is expected that by substituting a hybrid variety of corn suitable for silage for the Arjuna variety used earlier that yields can be increased enough to reduce the costs per kg of the corn silage component from Rps 40 to Rps 25/kg. The feed research unit is also experimenting with peanut vines as a silage. Small pit or trench silos will be constructed at low cost for developing appropriate technology for producing a good quality silage that can be mixed with corn silage. If this is successful, prospects are good that the cost of the complete feed will come down to Rps 55/kg.

PUSPETA also produces and sells dairy cattle concentrates to farmers not participating in the complete feed program. These sales have been limited as their costs have until now been slightly higher than prices charged by competitors. The new concentrate formula has, however, brought the price down to competitive levels. PUSPETA expects sales to increase during the year from less than 4000 kg in February to 20,000 kg per month by the end of the year. Farmers like to have the concentrates in the form of pellets for convenience in handling and reduction in waste. PUSPETA is considering purchase of a pelletizer, which can be justified if production and sales increase as planned.

The feed mill feasibility study projected sales of poultry feeds as a major item. PUSPETA has in the last six months begun production and testing of experimental poultry layer rations with 400 layers. There are no plans yet for marketing a complete poultry layer ration. While there are such feeds in the market most poultry growers prefer to purchase the ingredients separately and mix the rations themselves. PUSPETA has been very successful in supplying this market with ground corn and extruded rice bran. The extruded rice bran activity has operated at a profitable level, supplying a product that is in strong demand by Klaten poultry raisers. The extruded bran product is preferred

because it is apparently more palatable to the chickens and can be held for a considerable time without deterioration. Untreated rice bran begins to turn rancid immediately after the rice is milled and is noticeably rancid within a week. PUSPETA is projecting production and sale of 875 tons of extruded bran in 1984.

### 3.5.2. Dairy Cattle

When the various programs for providing farmers with Freisian heifers imported from Australia and New Zealand were started in 1979-1981 the Klaten area had not previously had a dairy industry. The cattle distributed under these programs went primarily to individuals who had no previous experience with dairy cattle.

The cattle distributed in Klaten Kabupaten were provided under two programs : (1) the Banpres program (Indonesian President Aid) and (2) the GKSI Credit Aid for Cooperatives Project. Only a small number of cows were received under the Banpres program. These were intended for the economically weaker farmers and terms were very generous. Credit was provided on a long term basis with no interest and with low installments, to be collected through the local KUDs from the sale of milk.

The main source of dairy cattle was the GKSI Credit Aid for cooperatives project. The stated objective of that program is to increase the population of dairy cattle, increase milk production per head, increase the incomes of dairy farmers, expand employment and improve people's nutrition. Cattle were distributed under this program only to cooperative members of eligible KUDs. The credit package included the price of the cow plus allowances for feed until the cow came into lactation, an allowance for construction of a suitable cow barn, equipment and a nurturing fund. The total credit package amounted to Rps 1,000,000, of

which Rps 650,000 was for the price of the cow and Rps 350,000 was for the barn, equipment, feed and other allowances.

Under the GKSI credit aid for cooperatives program the credit term is for 7 years or 84 months, including the grace period of one month. The interest rate for the KUD is 10.5% annually. Of this, 9% is for the BRI. The remaining 1.5% is returned to the KUD account at the end of the year as savings of the KUD at the BRI. Repayment is by withholding income from the sale of milk when the cow is lactating. Klaten farmers repay at the rate of 25% of production sold through their KUD and PUSPETA. (12)

#### 3.5.2.1. Milk Production

The productivity of the imported Fresian dairy cattle has been disappointing. Initial planning for feed and marketing was based on expectations of 20 liters of milk per cow per day. Such yields would be considered modest for Fresian cows of reasonably good genetic potential in commercial herds in developed countries. So far it has not been possible to achieve yields approaching that level in Klaten. A sample of 209 cows in the 4 KUDs selling milk through PUSPETA surveyed in December had an average production of only 6.5 liters per day per lactating cow. Average production for the 64 cows participating in PUSPETA's "Complete Feed" program is somewhat better at 8.0 liters per day.

The percentage of cows in lactation has been very low due to inadequate heat detection and ineffective artificial insemination capabilities. Poor sanitation and management have also contributed to poor performance. Investigations by PUSPETA staff identified lack of skill in milking techniques as one important factor causing low yields. The fact that most of the farmers who received the imported cows had no previous experience with dairy

(13)

cattle suggested that an intensive training program was necessary. CLUSA sought support from Heifer Project International (HPI) for a research and training program. A grant from HPI for \$44,000 was received in 1983 and is now being used to fund a training and demonstration center for dairy farmers and a feed research program. PUSPETA has purchased 16 cows for the dairy demonstration center as part of this activity. The program is now in full operation, providing two-week training programs for cattle breeders and their family members, a team of extension workers to give guidance at the village level and a feed research program to develop and test low cost dairy and poultry feeds. The program has already had significant impact. Milk production from the PUSPETA herd at the dairy demonstration center has increased its average production from 6.0 liters to 11.5 liters per day. The sample survey conducted in December will be repeated every three months to monitor many of the management factors as well as milk production in the villages.

The Evaluation Team commends PUSPETA for aggressively attacking the feed and management problem. While research and training may have no important immediate impact on PUSPETA's income, the results could have important benefits for member dairy farmers in the KUDs and throughout central Java. Such research and extension activities are public services normally provided by government institutions. PUSPETA has carried some of the costs for these programs from its earnings but is now covering most of these costs from the HPI grant. The need for research and extension to improve dairy management will continue beyond the expiration of the HPI grant. It is recommended that the Gadjah Mada University Department of Animal Husbandry and Animal Nutrition be invited to cooperate in the research program and to establish a continuing involvement in dairy research for PUSPETA. Similarly, the Central Java Department of Agriculture and Animal Husbandry should be encouraged to cooperate in the dairy extension programs.

### 3.5.2.2. Milk Marketing

By June, 1982 the first of the GKSI cows were in lactation, producing a total of 250 liters of milk per day. By the end of September production had reached 500 liters per day and farmers had difficulties marketing their milk. While PUSPETA had a commitment to eventually market the milk produced in Klaten, it was not feasible at this low volume. PUSPETA did, however, assist the KUDs by negotiating an arrangement with the GKSI milk cooperative in Boyolali. This arrangement did not provide a very satisfactory price for the farmers and early in 1983 PUSPETA began to gear up to take over the marketing by acquiring cooling and transport equipment and developing a collection center.

When the marketing program was begun in May, 1983 milk delivered by the 4 dairy KUDs reached 1250 liters per day. PUSPETA arranged to market some milk directly to the Sari Husada processing plant in Yogyakarta. The arrangement was for 1000 liters per day initially. Sari Husada later agreed to increase this to 1250 liters per day - the present quota. PUSPETA also began selling fresh milk directly to the consumer market. That volume has increased to 200 liters per day. The balance is sold to the GKSI milk cooperative in Boyolali.

When PUSPETA first began marketing milk there were serious problems of quality. In May, milk from PUSPETA worth Rps 2,937,000 was rejected by Sari Husada. PUSPETA has since tightened quality controls and through a more intensive program of extension and monitoring of production practices has greatly reduced this problem.

The milk marketing structure is basically as follows : Milk producers are organized into groups (Kelompok) of 15 to 20 farmers. Each group is responsible for assembling, testing and

keeping records for milk sold by the group. Milk of each group is sold through its KUD. Each KUD is responsible for testing the milk from the groups, rejecting milk below standard quality, providing transportation for collecting, providing equipment and administration. If the milk from a group is rejected, that group suffers the loss. The KUDs sell the milk to PUSPETA. PUSPETA services include cooling equipment and the collection center, operating personnel, transportation to market, arranging for marketing, and testing milk at the KUDs and at the milk collection center. If PUSPETA rejects the milk of a KUD the loss is borne by that KUD. If milk purchased by PUSPETA is rejected in the market PUSPETA is responsible and bears the loss. Thus the system imposes responsibility for quality control at each level in the marketing chain.

At the present time PUSPETA has three market outlets for milk : the Sari Husada Processing plant in Yogyakarta will accept 1250 liters per day. About 200 liters per day can be sold each day as fresh milk in the free market. The balance is sold to the GKSI cooperative dairy in Boyolali. In January, 1984 the average distribution and prices received by PUSPETA were as follows :

Sari Husada	1250 lt/day	@ Rps 307/lt.
GKSI, Boyolali	900 lt/day	@ Rps 255/lt.
Free Market	200 lt/day	@ Rps 300/lt.

This gave a composite average price per liter of Rps 286.5 received by PUSPETA. The volume of milk received by PUSPETA is increasing by about 150 liters per day each month. If the amount that can be sold to Sari Husada and the free market cannot be increased the additional milk goes to Boyolali at the much lower price per liter and thus depresses the average price received. Following is the market price structure for milk in PUSPETA Klaten as it operated in January, 1984.

Table 10 : Market Structure for Milk PUSPETA Klaten

Market level	Price received Rp/liter	Marketing margin Rp/liter	Services performed
1. Farmer	225	-	
2. Kelompok	232	7	- milk testing - record keeping
3. KUD	257	15	- transport for collection - equipment - testing - administration
4. PUSPETA	286.5	29.5(ave)	- cooling equip- ment and build- ing - operation personnel - shipment to market - testing at KUD - testing at collection centers - arranging for marketing  Research and Development - Feed ration research - Milk product development - Training and Extension

The current price of Rps 225/liter received by the Klaten farmers is 20% higher than the price of Rps 187.5 they were receiving in May when PUSPETA took over the marketing responsibility and well above that received by the average Central Java dairy farmer.

### 3.5.2.3. Dairy Economics

The profitability of the dairy activity is examined first from the standpoint of its effects on PUSPETA's profit or loss. But a more important issue, examined later, is its profitability for the farmer members.

For PUSPETA, profitability is concerned with the dairy feed enterprise and the milk marketing activity. The feed activity was discussed in detail in section 5.1. above. That operation has occupied a great deal of management time and used much of the capital provided to the project. The arrangement under which the complete feed was provided to participating farmers on credit led these farmers into debt for feed at the rate of Rps 3 million per month. This arrangement was modified in July and October 1983 to require substantial payment from current milk sales and again in February it was modified to require payment of Rps 55 of the Rps 70 price per kg. The Rps 15 difference is being charged to the HPI project as a research contribution, temporarily, until the cost of the complete feed can be reduced. The research on feed rations now shows very promising results. PUSPETA plans to go into production this month with a new concentrate formula that will reduce costs per kg by Rps 15. PUSPETA is projecting a sharp increase in sale of concentrates to dairy farmers at a profitable margin. The feed activity now appears to be approaching a financially sound basis.

An analysis in December of the milk marketing activity by Sam Filiaci of CLUSA showed that the marketing margin for PUSPETA, at that time Rps 30.75/liter, failed to cover costs of that operation by Rps 2.4 per liter. At 2000 liters per day volume this amounts to a loss of rps 4.800 per day for the operation. With production increasing at the rate of 150 liters per day per month the margin will narrow and daily losses increase unless PUSPETA reduces the price paid to the KUD, which it is reluctant to do, or it can channel more milk to the higher priced markets, i.e. Sari Husada or the free market.

The real concern is the profitability of the dairy business for the farmers and the impact PUSPETA's dairy program is having on them. The PUSPETA feed program was based on expectations that the cows would produce 20 liters of milk per day. At that level of production and current milk prices to farmers of Rps 225 per liter the daily return would be Rps 4950 per cow. The complete feed mix at Rps 70 per kg and a daily ration of 20-30 kg per cow would provide an attractive return over feed costs. The farmers participating in the complete feed program are now getting 8.0 liters per day of milk and are using 20 kg of the complete feed. At the old rate of Rps 70 per kg feed costs them Rps 1,400 per day. Eight liters of milk at Rps 225 would give a gross return of Rps 1,800 per day. Farmers who received the imported cattle under the GKSI Credit program received a credit package of Rps 1,000,000 which they must repay over a 7 year period at an interest rate of 10.5%. PUSPETA has been collecting 25% of the sales to be applied against this debt. This would leave only Rps 1,350, not quite enough to pay for the feed. There are other costs. Also, the 8.0 liters production per day is during the lactation period. Because of problems with artificial insemination only 67 percent of the cows are in lactation at any one time. Obviously this looks like a very unprofitable situation. With the reduction in the price of the complete feed to rps 55/kg on February 1st the cost of the daily ration went down to Rps 1.100 per day, making it somewhat more attractive.

Consider now the farmers who are not participating in the complete feed program. The 209 cows in the December survey of Klaten dairy farms were producing an average of only 6.5 liters of milk per day. This was the average for those that were in lactation at the time - 67 percent of the cows. These farmers are not participating in the complete feed program but many of them are buying the dairy concentrate produced by PUSPETA. The green forage portion of the ration is from crop residue and grass, from their own farms or collected from road sides, etc. It may involve little or no out-of-pocket costs - mainly the time and effort in collecting it. After paying 25% of the production toward the credit package debt a cow producing 6.5 liters of milk would have about Rps 1,100 left for feed and other costs.

This certainly does not look like a very profitable enterprise. Yet, the Team found strong support for the dairy cow import program. In each of the 4 Klaten KUDs in the dairy program we were told that they would be pleased to receive more cows under the GKSI program. Why do farmers find it so attractive? A very comprehensive study was carried out by the Faculty of Animal Husbandry, Gadjah Mada University in cooperation with the Provincial office of Cooperatives, Central Java under a grant from the Netherlands. The report on the study, entitled "The Impact of Imported Dairy Cattle on Prospects for Development of Animal Production by Small Farmers and Development on Village Dairy Cooperatives in Central Java." provides a better understanding of the economic variables in dairy production in Central Java. That study involved a survey of 600 dairy cattle breeders in Central Java who were milking local dairy cows as well as those who received imported cattle under the Banpres, GKSI Credit package and the development of Milk Dairy Cattle Breeding Project (PUSP). The study showed that average daily production for imported cattle was higher than for the local cattle but very low in all cases. Average daily production for local cattle was 3.9 liters. For the cattle imported under the GKSI program it was

5.6 liters. Yet even at these low levels of production farmers considered them profitable. The income analysis for the study, using the "farming business" method of computation, actually showed a Return to Cost Ratio of 2.87. In the farming business method of computation input and output variables are those actually spent or received in cash. Thus, if a small herd of dairy cows can be handled with unpaid family labor and feed is primarily crop residue and grass collected in the neighborhood, out-of-pocket costs are very small and the small amount of cash income from sale of a low producing cow gives a positive return to cost. The study also included an income analysis using the "financial" computation method, in which inputs such as family labor, green feed collected in the neighborhood, waste fertilizer etc. that are not purchased for cash are valued at comparative values. For example family labor is valued at, say, Rps 125 per hour. This analysis gave a positive net income of Rps 20,097 per cow, which is very little but it imputs a value to the considerable amount of family labor used in care and feeding of the animal and to waste products.

The study concludes that these cattle, even at these very low levels of production, are of considerable economic value to the farmers. If farmers find the cattle beneficial at these very low levels of production one can be quite optimistic about the prospects for the industry in the future. The genetic potential of the imported cows is probably far above current yields. The major reasons for low production have been identified as poor management, poor milking technique and poor quality and inadequate feeding. The PUSPETA feed research and dairy training programs are putting an intensive effort into correcting these problems. The Evaluation Team feels this will bring costs down and production up. Twenty liters per day per cow is not an unrealistic target for the long term if PUSPETA continues its research and training support. It should do this but this involves costs that justify public subsidies.

What about market prospects? Much depends on government policy. According to the Director General of Animal Husbandry, domestic production of milk was only 11% of overall consumption in Indonesia (1981).

Current GOI policy favors increasing the domestic share of the market. It is the main rationale for the GKSI Credit package program. But it is doubtful that the domestic dairy industry can flourish if it must compete pricewise with imported milk, most of it produced with substantial subsidy. Current GOI policy, we are informed, is to require local milk manufactures to from time to time increase the proportion of raw materials from local sources. We were told that the target is to require 50% of manufacture to come from local sources by the end of Repelita IV. If that is the case the market propsects for the Klaten dairy industry looks very good.

### 3.5.3. Poultry

Poultry feed was expected to be a major output of the feed mill. The propsects are not good for sales of a complete poultry feed unless and until the PUSPETA feed research unit develops a formula that is competitive with that of the major feed companies that dominate the market. The feed unit now has a small flock of layers being used in testing different formulae but up to now have not developed a competitive feed. The market for complete feed for poultry may not, in any case, be as large as expected. Most poultry growers prefer to buy the components separately and mix their own feeds. PUSPETA has had good success in marketing extruded bran and ground corn to this market. Poultry growers especially like the extruded rice bran because the process improves the palatibility, reduces deterioration and stabilizes egg production.

If the feed unit is successful in developing a low cost, high quality complete poultry feed, its success in marketing will depend on establishing a high reputation for integrity so the farmer will have confidence that the ingredients are as advertised and in the proportions advertised. This, as a farmers' cooperative, should be a major objective.

PUSPETA has also been involved in other aspects of the poultry business. For some time it sold day old chicks to farmers. Last summer it began collecting and selling eggs but on an irregular basis. In November it made arrangements with P.T. Tritama (an egg supply company) in Jakarta to deliver eggs on a regular basis. They have a contract to deliver 12 tons of eggs each week, with deliveries on every Monday, Wednesday and Friday. The price depends on Jakarta wholesale price on the date of delivery so it fluctuates from day to day. The following chart shows the egg marketing structure, typical prices received at each level and services performed.

Table 11 : Egg Marketing Services And Prices Paid

Marketing level	Services provided	Price received Rp/kg
Farmer	Production	920 - 930 Brown
		870 - 880 White
KUD	Assembles Sorts	930 - 940 Brown
		880 - 890 White
PUSPETA	Collects	1025 Brown
	Transports to Jakarta from KUD	925 White
	Arranges market	
	Provides extension	
	Provides packaging	

The present staff for this activity consists of 1 manager, 2 assistants, 2 permanent laborers. Equipment includes 1 motor bike and 1 pick up truck. Eggs are shipped to Jakarta on a PUSPETA truck. Transportation costs are Rps 25/kg. Depreciation and other costs are Rps 50 per kg.

At the present time PUSPETA is collecting 30% of its eggs from non-KUD members in order to fulfill its contract with P.T. Tritama. It pays KUDs Rps 5/kg more than non KUDs.

Five KUDs are participating in the program. The Livestock Unit in PUSPETA is organizing Kelompoks for this activity, giving extension advice to producers and attempting to improve the quality control. In initial shipments white eggs were sometimes concealed in the bottom of the crate and crates were sometimes under weight. These practices are being eliminated. Entry of PUSPETA into the systematic purchase of eggs in these KUDs has had an important impact on the market. PUSPETA advises the KUDs daily what the current price is in Jakarta and the corresponding price at the KUD and farm level. This price is posted at the KUD office so farmers know each day what the appropriate market price is. Before this they were uninformed as to what the market price was and dependent on the price offered by the private traders. PUSPETA's entry has thereby stabilized the local market.

At the present time PUSPETA is marketing only a small share of the eggs produced in the Kabupaten. The management intends to seek out additional wholesalers in Jakarta in order to expand their market outlets.

#### 3.5.4. Clove Credit Program

In 1983 PUSPETA initiated a credit and marketing program for farmers who grow cloves. It involved only one KUD, in Kemalang sub district, with 244 participating farmers in 18 farmer groups. In the past these farmers, because of the need for funds at this time of year, have generally marketed their cloves individually to private traders before the crop was mature. The traders would buy the unharvested crop on the basis of their estimates of production at a price well below market value at harvest time.

Under the PUSPETA system farmer groups were formed which contracted with the KUD. The KUD, in turn contracted with PUSPETA for sale of the crop, with the KUD receiving a 5% commission. Each farm was visited during the growing season to estimate production, as a basis for a pre-harvest advance of credit of up to 50% of the value of the crop. PUSPETA provided a total of Rps 44,000,000 in credit to the KUD, which then extended this credit to the participating farmers as pre-harvest credit linked to the purchasing contract. When the crop was harvested and marketed by PUSPETA on behalf of the KUD, farmers were paid the balance of the crop value. Farmers paid 3.0% interest per month, of which 1.0% went to the KUD. Thus, PUSPETA received 2.0% per month, but through an agreement with the KUD 1.1% was kept at PUSPETA as the KUD's member savings.

Repayment on the clove credit loans is virtually assured under this credit/marketing system and, indeed, in 1983 repayment was 100%. The farmers received about Rps 2400 per kg for their crop under this system, which was approximately Rps 1000 per kg more than under the previous system.

Clove farmers generally viewed the program very positively. While some complained that the interest rate was higher than bank credit, it was acknowledged that bank credit was not available and the only other alternative source was the traditional money

lenders and their rates were higher. Farmers who participated in the program benefitted substantially. While the program did include many small and medium farmers, some of the very small farmers, with only a few trees, did not participate. In this, as in other credit programs, the KUDs assume liability for loans to the members. Consequently, there must be some local autonomy in the selection of loan recipients. Credit worthiness is, naturally, one criterion in the formation of the groups and so, understandably, it is the smallest, most disadvantaged farmers who are likely to be excluded in the process. While the Team does not believe PUSPETA should, or could, usurp the responsibility of the KUD for selection of credit recipients, it is recommended that guidelines be provided and practices monitored to encourage equitable participation.

#### 3.5.5. Tile Manufacture

Tile manufacture is generally carried out as a hand-made production process at the village level. Those who do this work usually work in groups consisting of family members or relatives. For those involved in this work this is usually their main job as they are generally landless and totally dependent on this activity. The principal areas of tile manufacture in Klaten are in Ceper 1 KUD and Cawas KUD, in areas that are rich in clay materials suitable for tile manufacture.

In our visit to Cawas 2 KUD we observed tile manufacturing in a sub-village consisting of 31 families. Twenty one of the families, who are involved in tile manufacturing, are landless. As a typical example, we examined the economics of tile manufacture done by a family consisting of a father, mother and three children. They received credit from PUSPETA and the KUD/Kelompok in the amount of Rps 100,000 at 3.0% rate of interest per month for a term of six months.

The production costs for 2500 tiles, the number produced in each batch over a ten day period, and the income generated are as follows :

(1) Production Cost	Rps
2 1/2 truckloads of clay at Rps 1750/truck	4,375
Firewood and transport costs	18,000
50 kg of rice husks for fuel	300
Direct labor costs	6,000
Interest for 10 days ( $1/3 \times 3\% \times 100,000$ )	1,000
<b>TOTAL PRODUCTION COST IN 10 DAYS</b>	<b>29,675</b>
(2) Value of production (at Rps 23,000/1000 tiles)	
(2.5 x 23,000)	57,500
(3) Gross profit per 10 days	27,825
(4) Gross profit per month (3 x 27,825)	83,475
(5) Other costs	3,000
(6) Net profit per month	80,475

This is quite a satisfactory income relative to alternative opportunities for the family. The economic potential for this activity appears to be quite good as there is a continuing demand for the product.

Installment payments of 1/6th of the loan amount are made each month along with the interest payments, so the entire loan is repaid by the end of the six month period. If all the tiles are sold as a batch is produced the amount of working capital required would be less than Rps 100,000. It is sufficient to finance all costs for month of operation - three batches. It is

not clear why the principal must be repaid in monthly installments. Presumably, if Rps 100,000 is required in the first month, that much will also be required in the 6th month. We presume that at the end of the first six month period, if all goes well, PUSPETA will provide another Rps 100,000 loan.

### 3.5.6. The Embroidery Program

The tailoring program initiated by PUSPETA is a new program. The objective is to create productive labor for the unemployed in the rural areas, particularly young girls. At the moment the program involves only one KUD, viz, KUD Pembangunan in Ceper sub-district. However PUSPETA plans to expand the program to other KUD in the region if their experiment in Ceper is successful. Under this program PUSPETA, together with the KUD, initially selected 30 young girls to be trained for embroidering and since then another 60 have been selected. These girls should meet the following qualifications : (1) be young, 14-22 years old; (2) have had no previous experience in sewing and tailoring; (3) be KUD members, and (4) come from villages surrounding the KUD. The selected girl undergo training in embroidery arranged by PUSPETA. The training lasts approximately for one month. To implement the program PUSPETA has worked together with an American Company in Bali. The company is responsible for providing the teachers to train the girls, the embroidery patterns and the materials and for marketing the finished product. PUSPETA sells the sewing machines to the girls on a credit basis, while the KUD provides the space for the girls to work. The girls work on a piece work basis. For example, for a typical piece of finished product the PUSPETA will receive Rps 1,450. From this amount is deducted Rps 175 to pay the thread provided by the company and Rps 150 to pay the gross margin to the KUD. Out of the Rps 1,125 that is left, Rps 1,025 is paid to the girl and Rps 100 is paid by the girl as installment for buying the sewing machines. Ultimately the sewing machine will be owned by the girls individual-

ly. As the girls work on a piece work basis their individual income depends very much on how fast they work and this depends very much on how skillful they are. On the average each girl could finish three to four pieces of embroidered blouse within a week during the first week. This means that on the average each girl will initially receive an income of three to four thousand a week or sixteen thousands rupiah a month. Their individual incomes will continue to increase as they improve their skills. This program has good potential for expansion. There is a market for the product and interest on the part of the KUD. With appropriate selection of participants this program will also contribute to the solution of youth unemployment in the rural areas. Since there is a market for the product and interest on the part of the KUD for support we suggest that the program be expanded.

14

### 3.5.7. Certified Seed

#### a. Background

PUSPETA began introducing the certified seed program in September 1982. This program has two major purposes: (1) to increase the supply of quality seeds and (2) to improve production and incomes of farmers interested and capable of producing high quality seeds. The potential area for implementation of this project is the well irrigated area of the Kabupaten. Rice fields in Klaten fall in the following classes based on the level of irrigation:

- Technical irrigated area	:	15,683 ha.
- Semi-technical irrigated area	:	14,615 ha.
- Traditional irrigated area	:	3,374 ha.
		-----
Total potential area		33,672 ha.
- Area dependent on rain fall	:	1,716 ha.
		-----
Total area		35,388 ha.

The main considerations in implementation of the Certified Seed Program are the planting period and the capacity of PUSPETA's processing facilities. The processing unit can handle up to 1,730 tons of seed each planting period. It requires about 350 ha of rice fields to produce the seeds needed to operate at capacity. That means only about 1.0% of the total rice producing area is required.

b. Procedures

Because this program depends so much on the planting period PUSPETA must make preparation in advance. The preparations made by PPK PUSPETA are :

- PUSPETA offers the opportunity for joining this program to farmers throughout the KUDs in the potential area. KUDs enlist the names of the farmers selected for participation in the program and the area involved and submit the information to PUSPETA.

- PUSPETA carries out field evaluations in the areas.

(15)

- Contract agreements are made between PUSPETA and KUDs and between KUDs and chiefs of the participating farmers groups. The contract has the following provisions:

a. PUSPETA is responsible for supplying the seed and other agricultural inputs required.

b. KUDs are responsible for the success of this project.

c. The chiefs of farmer's groups as local coordinators are responsible for coordinating and controlling all farmer activities in this program, insuring that they use only the seed that has been supplied by PPK PUSPETA and sell the rice only to PPK PUSPETA through KUDs.

d. The incremental sale margins are stipulated as follows :

To KUD	Rps 2/kg
--------	----------

To Farmers group	Rps 3/kg
------------------	----------

To Farmers	Rps 5/kg
------------	----------

e. The sales price is stipulated as follows :

- If the Floor Price stipulated by the government is higher than the market price, PUSPETA will use the floor price as sale price.

- If the floor price is lower than the market price PPK PUSPETA will use the market price as its sales price.

f. Inspection and supervision is as follows :

- The planting of seed is supervised by PUSPETA, farmers, KUD and BPSB (Balai Pengawasan dan Sertifikat Benih - Seed Certification and Control Office). They also conduct field inspections during the growing period.
- Harvesting is also supervised by the above parties; they select the rice that qualifies as improved seed. The rice that does not meet their test can be sold for consumption purposes.
- After being processed through drying, cleaning, sorting and a "three month dormant period", the rice will be tested and certified by BPSB. After passing the test, it will be packed in 5 kg rice-packs, ready to be marketed.

(17)

c. Economic Impact of the Seed Program

The seed program's objectives are to reduce shortages of improved seed, improve the quantity and quality of rice produced and improve farmers incomes through higher crop values. In 1983 seed production under this program was 643,455 kg of dry husk rice (SKG) valued at Rps 111,707,465. This was produced on 280.5 ha, meeting 80% of PUSPETA's capacity. Farmers from 7 KUDs participated in the program. The areas involved from each KUD were :

Perdu KUD	:	37 ha.
Wonosari KUD	:	12 ha.

Delanggu II KUD	:	24 ha.
Gantiwarno KUD	:	32 ha.
Polanharjo KUD	:	43,5 ha.
Teloyo KUD	:	120 ha.
Mardi Rahayu KUD	:	12 ha.
		-----
Total area		280,5 ha.

Compared with the capacity of processing, that is 350 ha. of rice fields, it means that the seed program has reached 30.14% of its capacity.

The most successful KUD, with one of the largest areas in this program, was Polanhardjo KUD. We have calculated the impact of the seed program on the development of economic activities in this KUD as follows :

- a. Total area : 43,5 ha.
- b. Type of Varieties : Cisedane, IR 36.
- c. Total participants : 196 farmers, from one village.
- d. Agricultural Inputs supplied by PPK PUSPETA are :

<u>Component</u>	<u>Quantity</u>	<u>Price</u>
Stock Label Seed	710 kg	Rps 241,875
Urea	13 ton	1563,000
TSP	9 ton	765,000
Systemic Pesticide	360 kg	153,000
Liquid Pesticide	90 lt	137,250
		-----
Total value of agricultural inputs received by 195 farmers :		Rps 2,963,125

or in average Rps 14,508/farmer.

e. Total proceeds = 293,596 kg husk rice @ Rps 100 =

Rps 29,359,600 or an average Rps 149,844/farmer.

f. The average income of each farmer was :

Rps 29,359,600 - Rps 14,508 = Rps 29,345,092 for one

planting period or in three months. The average income

of each farmer per month :  $1/3 \times \text{Rps } 29,345,092 =$

Rps 9,781,697.

#### IV. PROBLEMS AND ISSUES

##### 4.1. Possible Deviation from Original Plan

The Project Document plan had a budget of \$6 million from PL 480 Title II sales for support of this project. The Transfer Authorization provided commodities to generate only \$1.3 million, plus interest which has added another \$168,915, for a total of \$1.48 million available for the project -- about 25% of the planned budget. While this sharply reduced the funds available for project inputs this has not been a problem. Financial resources have not been a restraint. The Project Document was unrealistic in its expectations of what objectives could be achieved in a three year project. It underestimated the difficulties of introducing sophisticated feed and livestock technology. It has not been possible to proceed with some elements of the project without first doing considerable research to identify and solve some of these problems. Therefore, the lower funding level has been adequate for a prudent pace in developing PUSPETA's business activities.

The Project Document was overly optimistic about how successful previous efforts to reorganize KUDs in Klaten Kabupaten had been. PUSPETA management has a plan for restructuring the KUDs to provide better representation by the Kelompoks in KUD policy making. However, the plan has only been implemented partially. One major reason for this delay is the fact that the PUSPETA management does not have the legal basis to implement its plan. While, as a central government project PUSPETA management, by definition, is free to carry out steps which are necessary to implement the task assigned to PUSPETA, to implement this task PUSPETA must have a well communicated legal sanction from the Ministry of Cooperatives. The Team feels that unless PUSPETA management is able to get written support for its plan from officials it will never be able to carry out its reorganization

plan completely. Without a written sanction the political risk for PUSPETA to implement its reorganization plan is just too high.

There are four things that the Team suggests the management of PUSPETA should do to complete its reorganization program. First, PUSPETA should secure within a short period a legal sanction from the Director General of Cooperatives to reorganize and implement its reorganization plan fully. Second, meanwhile PUSPETA should start a training program in various aspects of cooperative management for the Ketua Kelompok (Chairman of the interest group) that it has established. This training should be considered preparation for the possibility that they might be selected to represent their group/village within the Board of the Cooperative. Third, simultaneously PUSPETA management should speed up its plan to increase the number of KUD representatives in its Board of Directors. This is important in order to create a feeling among KUD members that PUSPETA is part and parcel of the cooperative movement in the region and not a business entity separated from the KUD. Fourth, the Team suggests that PUSPETA management should take all these steps within this year and at the latest at the early part of next year.

#### 4.2. Beneficiaries

In practice there are two types of PUSPETA beneficiaries, viz the KUDs and the farmers who are members of the KUDs. The Team finds that the presence of PUSPETA in Klaten has been advantageous to the KUDs. PUSPETA through its training and other program such as the marketing and credit programs has been able to improve KUDs' capacities to serve their members. KUD membership has increased by 178% since 1981, the volume of business conducted by KUDs increased by 51% in 1982 over 1981 and by another 15% in 1983. Meanwhile the savings of the KUDs (SHU)

increased by 42% in 1982 and by another 45% in 1983.

It is difficult for the Team to evaluate the impact of PUSPETA program upon the farmers in general, as there is no baseline data as a source of comparison. But despite this, the Team, after examining the various programs that PUSPETA has initiated, concludes that PUSPETA has at the very least been successful in helping the landowner farmers in providing services more economically attractive than through other sectors. Programs to help the very poor and landless are still limited to a few new programs, namely the embroidery, the tile making program, and the egg marketing program. Once successful, the dairy feed and milk marketing program will also assist greatly as current dairy cow owners have limited or no land. Other programs in agriculture appear to be more beneficial to farmers who own land.

To improve this 'imbalance' the Team recommends two things. First, the management of PUSPETA should give more priority to programs that directly affect the landless farmers. There are various programs that PUSPETA could generate to assist the landless. Second, a special landless kelompok (group) should be established to enable PUSPETA management to assist them. To carry out this program the Team suggests that PUSPETA should work closely with the LPJES in Klaten which has experience and expertise in developing programs for the rural poor.

The team believes it is necessary for the PUSPETA management to have more programs for the poor as this will assist to generate a feeling among the poor that KUD is also relevant to them.

With regard to the transfer of technology, the Team views the efforts of PUSPETA to conduct training for the dairy farmers is commendable, as this program would in the long run improve the income of the dairy farmers, most of whom are small farmers with less than 1/2 ha. of land. The Team recommends that this program should be expanded with close cooperation with the Depart-

tment of Animal Husbandry UGM.

#### 4.3. PUSPETA Compared To Pusat Pelayanan Koperasi (PPK)

Conceptually there is a major difference between PUSPETA and PPK. While both are government sponsored projects aimed at improving KUDs' capacities to serve their members, the major organizational difference lies in the relation that each has with PUSKUD. PUSPETA has a great deal of autonomy; it is allowed to carry out business transactions and thus is able to generate its own income. Since PUSPETA is not strictly a branch of PUSKUD it can plan its activities according to local needs.

Quite the opposite is the relation between PPK and PUSKUD. PPK is considered as a branch of PUSKUD at the Kabupaten level. Consequently, as indicated by the manager of the PPK in Boyolali, PPK can not have its own program. Neither is PPK allowed by PUSKUD to conduct business activities as PUSPETA does to generate its own income. PPK's business functions are strictly limited to distributing commodities on behalf of PUSKUD. Another factor that makes PUSPETA different from PPK is that it receives aid from foreign agencies. This has put PUSPETA in a more advantageous position than PPK both in terms of its financial situation and expertise.

Is the PUSPETA model replicable to other areas? The Team is satisfied that PUSPETA Klaten has demonstrated the validity and replicability of some key features of the model. It has demonstrated the validity of having an autonomous secondary cooperative operating at the Kabupaten level and the need for good management, working capital and facilities to develop and support economic business activities for economic interest groups within the KUD.

One part of the model that was emphasized in the Project Document was the reorganization of the KUDs to develop broad, strong, participation for "bottom up" development. PUSPETA has not been very successful in making such changes but it has demonstrated that services and benefits to members can be significant without major changes in KUD organizations. Though the Kelompoks have not achieved representation on KUD plenary committees they have been able to participate in and enjoy the benefits of business activities supported by PUSPETA. In as much as this is a pilot project intended to serve as a laboratory for finding better ways to provide services to the KUD it perhaps ought not to have a commitment to a particular doctrine but rather to evolving a practical system that works well. The Team feels that PUSPETA is evolving a practical pattern of operation but finds it unfortunate that it has not yet developed a plan to document systematically the various steps they have taken in organizing activities to service the KUDs and the results of these steps. The PUSPETA experience is unique and valuable and it should be well documented in a way that will make it possible for other organizations to make use of this experience.

#### 4.4. A Management Information System

The Evaluation Team was requested to "assist PUSPETA management to develop an information system to be used by PUSPETA." The Team learned that CLUSA is planning to use some of its funds to purchase a computer system. A computer programmer who has helped develop a system for LUWU is scheduled to come to Klaten in March or April to help design an appropriate system for maintaining accounting, inventories and financial information for PUSPETA and the KUDs. That should take care of many of the management information system requirements.

One weakness that PUSPETA management is currently facing is that they do not have a comprehensive system whereby they can get and manage information from the farmers and KUDs to enable the management to design programs that reflect the felt needs of PUSPETA clients. To assist PUSPETA to correct this weakness the Team suggests the following :

The management should conduct regular surveys at the village level with the assistance of the KUD's manager. These surveys should be aimed at collecting data concerning the programs that each KUD in the region would like to develop, and plans for which each kelompok within each KUD would like to get assistance from PUSPETA. The information collected from the survey should then be used by the management to plan PUSPETA activities. PUSPETA management then should discuss planned activities with representatives of the KUDs and Kelompoks. This will not only allow the management to know whether their plans reflect the felt needs of their beneficiaries but will also to get the latter committed to support the plans.

The next step to be taken by the PUSPETA management is to monitor the implementation of the program. To make the monitoring easier, management should design a simple form which can be used to collect information on problems faced by either the Kelompok or the managers of KUDs in implementing the program; information concerning who really gets the benefit of the program, etc. PUSPETA management should then discuss the data collected with managers of KUDs and together they should find ways to correct mistakes or misdirection in the implementation of the program.

#### 4.5. Project Implementation and Monitoring

Appendix E of the Transfer Authorization is an agreement between CLUSA and the Directorate General of Cooperatives (DIT-JENKOP), the two co-sponsors of the project, on Operational Guidelines for PUSPETA Klaten Project. The agreement spells out responsibilities of each agency for implementation of the project. Both agencies are represented on the Temporary Advisory Board (TAB), which operates as the Board of Directors during the transition period until PUSPETA Klaten achieves legal status. The TAB meets at least once a month and has full power to hire management, set policies and approve budgets and expenditures.

The Guidelines also state that a Committee for Coordination, Planning and Evaluation would be set up within the Department of Cooperatives "to assist PUSPETA Klaten in setting up meetings with governmental departments and agencies, when necessary, to facilitate coordinating efforts and to assist in project development." The committee was never formed as it was deemed to be unnecessary due to what both parties felt were fluent routine project-department relationships. Both parties have also requested amendment of the agreement to USAID which will delete the passage requiring the committee's formulation.

Until the summer of 1983, the CLUSA representative maintained his office and residence in Jakarta, devoting much of his time to developing and maintaining good communications with the Directorate General of Cooperatives and other GOI offices. A junior CLUSA employee was stationed at Klaten as project coordinator. Since last September, the CLUSA representative has established his residence in Klaten and opened an office there. The team feels that this is a good arrangement. The working relationship between the CLUSA representative and PUSPETA management is excellent and the CLUSA representative has a very intimate knowledge of project problems and operations. At the same time, the CLUSA representative still maintains an office in Jakarta and

makes frequent visits to the Capitol. The communication and working relationship between CLUSA and the Department of Cooperatives seems to be very good.

The Ministry of Cooperatives takes a great deal of interest in the PUSPETA Klaten project. The Director General, the Chief of Research and Development and several Directors in the Ministry attended a meeting at Klaten on February 11th to discuss the results of the evaluation with Team members. The Director General told the Team that the GOI is looking to this project to find answers to important policy questions. They are trying to find better ways to provide services to the KUD and they are especially interested in the question of whether the PUSKUD (secondary cooperative) should operate at the provincial or the Kabupaten level. This project is a laboratory to answer such questions and he thought it needs to continue in this role for several more years to provide answers to some of these important policy questions.

Responsibility for monitoring the PUSPETA Klaten Project on behalf of the Agency for International Development was authorized to USAID/Indonesia. The Team has noted the comments of the AID Audit Team that until April, 1983, neither USAID or AID/Washington were monitoring the project. The Team is not aware of any such deficiency now. CLUSA is complying with provision of the Authorization requiring a quarterly "Progress and Financial Report." These are informative reports about project progress, implementation problems and project expenditures.

Some of the PUSPETA staff indicated that they felt the AID Audit report had been inaccurate and unfair and done in a tone that was generalizing. The staff does, however, appreciate that despite the early problems of developing PUSPETA, USAID has continued to provide financial support and has extended CLUSA

support for assisting the project.

#### 4.6. Extension of Project Support

The scheduled termination date for CLUSA assistance from the PL 480 grant is June 30, 1984. As of December 31, 1983, only 75% of the funds available from that source had been spent and the remainder could not prudently be spent by next June. The CLUSA representative has projected how funds in each line item would best be used and his analysis indicates that an extension until December 31, 1985 would permit a good allocation of funds by that time. The Team feels Advisory and Consultancy Assistance from CLUSA should also be continued through 1985 to give PUSPETA staff more time to refine its administrative structure and introduce the recommended management information systems. By that time PUSPETA should be able to stand the test of operating without advisory services and without CLUSA and GOI subsidies.

#### 4.7 Financial Viability of PUSPETA

##### 4.7.1. Policy of Administrative and Financial Department

As stated in the previous chapter, despite having the same function as PPK, that is to provide services to KUDs and farmers in line with the cooperative movement, PUSPETA has important differences from PPK. One of the differences is that PUSPETA is allowed to do business and make a profit. Based on this, PUSPETA established an Administrative and Financial Department for dealing with financial and personnel affairs. Because of PUSPETA's diverse activities, it is obvious that this department plays an important role in handling the development of PUSPETA as a whole.

For managing the activities, the Administrative and Financial Department has established several policies. According to the manager of this department these policies are :

1. The strict inflow and outflow control of money in order to implement a tight financial policy.
2. Controlling all implementation of financial policy
3. Maintaining an informative financial and administrative reporting system.

The controlling and the informative reporting system can be described as follows :

Table 12 : Financial Reporting

Time	Controlling	Reporting
Daily	Stock Report Statement	-
Weekly	Cash Flow Statement	-
	Sales Volume Statement	-
	Receivables Analysis	-
Monthly	Operating statement	-
	-	Production Volume Report
	-	Profit and Loss Analysis
	-	Cash and Bank Report
Quarterly	-	Balance Sheet and Profit and Loss Report
	-	Physical Stock Taking

#### 4.7.2. Financial Analysis Approach

Several financial analysis approaches are used to evaluate the viability of PUSPETA's financial condition. The approaches utilized were:

1. Financial Ratio Analysis
2. Fund Flow Analysis
3. Profit and Loss Projections

Various sales and processing activities performed by PUSPETA interrelate commodities procured and manufactured and the final products sold. These include final commodities that include input from several procurement activities and/or final product output sold through more than one activity (human consumption, livestock feed and by-products from a single input, or goods with secondary processing requirements for their output). Fixed and variable cost delimitation between these activities individually is difficult. Thus, the analyses will combine costing and thus viability determination of interrelated activities.

#### 4.7.3. Financial Analysis Ratios

I. <u>Liquidity Ratio</u>	<u>1983</u>	<u>1982</u>
Current Ratio	399%	553%
Cash Ratio	81%	279%
Acid Test Ratio	193%	370%
Working Capital to Total Asset Ratio	42%	58%

## II. Leverage Ratio

Total Debt to Equity Ratio	90%	140%
Total Debt to Total Capital		
Asset Ratio	47%	58%
Long term Debt to Equity Ratio	63%	109%

## III. Activity Ratio

Total Assets Turnover	1.27 times	0.78 times
Receivable Turnover	10.22 times	6.23 times
Inventory Turnover	6.98 times	4.39 times
Working Capital Turnover	3.04 times	1.33 times

## IV. Profitability Ratio

Gross Profit Margin	15%	14.44%
Operating Income Ratio	0.2%	(-3.3%)
Operating Ratio	99.8%	103.3%
Net Profit Margin	2.95%	1.16%
Net Earning Power		
(Rate of Return on Investment)	3.94%	0.90%
Rate of Return on Net Worth	7.49%	2.17%

From the financial ratio analysis we can conclude as follows :

### 1. Liquidity :

The liquidity of PUSPETA decreased in 1983 because of increased use of cash/bank funds for merchandise inventories. Much of current assets accumulated in merchandise inventory (34.47%) and accounts receivable (28.25%) categories. The composition of current assets were :

	<u>1983</u>	<u>1982</u>
Cash/Bank	20.21%	50.33%
SPPB (Bank Notes)	12.17%	6.73%
Account Receivable	28.25%	16.50%
Accrued Income	1.20%	-
Prepaid Expenses	3.70%	3.04%
Merchandise Inventory	34.47%	23.40%
	-----	-----
Total Current asset	100%	100%

The composition of current assets in 1983 was better than in 1982, but having 20.21% of Current Assets in the cash/bank account indicates some idle funds. As a whole, PUSPETA's liquidity was adequate to cover the short term obligations.

## 2. Solvability :

The ratio between Equity and Total asset to the Total debt in 1983 was better than in 1982. Short term and long term debt can be covered by current assets. One of the reasons was that PUSPETA achieved profitability in 1983 while creating a depreciation reserve.

## 3. Profitability :

Gross Profit and Operating Income obtained by PPK PUSPETA were still low. This was due to the low operating margins and priority of providing goods and services to KUDs at competitive rates. The rate of Return on Investment was low only 3.04% per annum.

#### 4. Activity Analysis

The activity of operation was reflected by the turn over of working capital, which was 3.04 times per annum or once in 118 days. This turnover increased compared with that of 1982, when it was 1.33 times or once in 271 days. But we consider that the working capital turnover in 1983 was still slow compared with the rapid growth of business. It is understood, however, that this was due to the sales policy followed by the management for seasonally storing some types of commodities such as clove and seeds, in inventories, waiting for the most profitable time to market them. Seeds have to be held through one growing season to meet dormancy requirements before they can be marketed.

#### Statement of Fund Flow Analysis (Rps 1:000)

##### Source of Fund :

1. Profit	:	Rps.	50.255
2. Depreciation	:		61.996
3. Ex CLUSA	:		212.449
			-----
Total of fund	:		Rps. 324.700

##### Applications :

##### 1. Investment in :

Land	:	Rps.	15.667
Building	:		55.679
Machinery & Equipment:			214.755
Vehicles	:		25.966
Office Equipment	:		33.945
Other Asset	:		1.308
			-----
Total Investment	:		Rps. 347.339

2. Long term debt installment :	20.000
	-----
Total applications of fund :	Rps. 367.339
	-----
Decrease of Capital :	Rps. 42.639

Working capital decreased because it was used to increase PUSPETA's fixed assets in the amount of Rps 42.639. It is calculated as follows :

1983	Current Assets	:	Rps. 708.679
	Current Liabilities	:	177.754
			-----
	Net working capital		Rps. 530.925
1982	Current Assets	:	Rps. 700.094
	Current Liabilities	:	126.530
			-----
			Rps. 573.564
			-----
	The decrease of working capital		Rps. 42.639

There has been an increase in fixed assets purchased with funds from working capital. From the financial management viewpoint it appears that PUSPETA is gradually reducing its liquidity for acquisition of fixed assets. Such a policy should be guarded in the future to insure enough liquid funds for future principal loan amortization.

#### 4.7.4. Profit and Loss Projection

The term profit in this discussion refers to the net income, or what is called SHU (Sisa Hasil Usaha). To estimate the projection of profit and loss for 1984 we look back at the actual value of sales volume in 1983 compared with its budget. The

total value of sales volume reached by PPK PUSPETA was Rps 1,698,425,533.84 compared with the sales budget that was Rps 2,300,000,000. It means that 74% of sales budget has been realized by PUSPETA. For the activities in 1984 PPK PUSPETA has stipulated the sales budget in the amount of Rps 4,053,687,602. (see Appendix 2) Guided by the PUSPETA's previous activities and taking into account its existing condition we make assumption as follows :

a. To project the total amount of sales that will be needed in 1984 we assume that 74% of sales will be realized. So, the projection of the value of sales will be :  $74\% \times \text{Rps } 4,053,687,602 = \text{Rps } 2,999,728,825$ .

b. Assuming that the net profit margin obtained in 1984 is the same as that of 1983. The net profit in 1984 will be :

$$2.95\% \times \text{Rps } 2,999,728,825 = \text{Rps } 88,492,000$$

This amount will include other income in the amount of Rps 54,025,470 which come from :

Credit interest	: Rps 12,000,000
Checking account interest	: 636,720
Subsidies :	
Ex CLUSA	20,516,750
Cooperative Dept.	8,460,000
HPI	12,413,000
	-----
Total	Rps 54,025,470

From the estimation above, we can conclude as follows :

1. Net Operating Income :

The income generated from operations will be :

Net Profit Margin	:	Rps 88,492,000
Other Income, including subsidiaries	:	54,026,470
Estimated net operating income	:	34,465,530

2. Long Term Debt Installment :

According to the Loan Agreement No. RD1/021/001/1981 dated December 23, 1981 the Department of Finance of the Republic of Indonesia has provided PPK PUSPETA a long term loan in the amount of Rps 630,000,000 with 5% rate of interest per annum. From this amount, Rps 424,000,000 has been disbursed. This agreement stated that the repayment of the amount of Rps 630,000,000 will be started in June 1, 1984 and repaid in every semester, until December 1989, or in 12 installments with the amount of Rps 52,500,000/semester. In connection with this agreement, in 1984 PUSPETA has the obligation to repay two (2) installments. These are :

June 1, 1984	:	1/12	X	Rps 425,000,000	=	Rps 35,416,667
December 1, 1984	:	1/12	X	Rps 425,000,000	=	Rps 35,416,667
						-----
Total						Rps 70,833,334

The interest of this loan has been calculated in the operating expenses. Seen from the liquidity position of the Balance Sheet, there will not be great difficulty in meeting these obligations.

### 3. The Role of Subsidies :

To carry out its operation, PUSPETA has been provided subsidies from CLUSA and from GOI through the Cooperative Department. These subsidies are fully used for salary and wages. The data on subsidies are as follows :

Table 13 : Source of Subsidies to PUSPETA (Rp.000)

Year	Cooperative CLUSA Department		HPI		PUSPETA (non-subsidy)		Total Salary		
	₹	₹	₹	₹	₹	₹	₹		
1983	7.080	10.76	41.033	62.35	-	-	17.696	26.89	65.809
1984	8.450	3.24	20.516	19.97	12.413	12.08	61.336	59.71	102.716

1983 - The Table shows that the role of subsidies was primarily to contribute to salary and wage payments. From the total salary of Rps 65,809.750, 73.11% of this amount was contributed by subsidies from GOI and CLUSA. The rest was paid by PUSPETA itself from its income generation or SAU.

1984 - 1. Subsidy from Cooperative Department : This subsidy is budgeted by GOI through the Cooperative Department so it is likely to be continued until PUSPETA reaches its self-sustaining status.

2. Subsidy from CLUSA : PUSPETA has budgeted for CLUSA's 1984 subsidy to reduced to Rps 20,516,750. The total annual subsidy at the beginning of the year was Rps 41,033,500, or Rps 10,258,375 on a quarterly basis. It will be reduced according to the following schedule :

Quarter I	:	80%	X	Rps 10.258.375	=	Rps 8.206.700
Quarter II	:	60%	X	Rps 10.258.375	=	6.155.025
Quarter III	:	40%	X	Rps 10.258.375	=	4.103.350
Quarter IV	:	20%	X	Rps 10.258.375	=	2.051.675
						-----
Total per annum						: Rps 20.516.750

3. Subsidy from HPI : According to the manager of

Finance and Administrative Department, the HPI's subsidy should be considered not as a subsidy from HPI but as a receivable from a non-business, non-income generating activity that PUSPETA has prefinanced. PUSPETA has budgeted the grant from HPI to be utilized for training and demonstration purposes.

It is clearly shown through Table 13 that the subsidies are gradually being reduced, especially the subsidies from CLUSA. In other words, despite the fact that subsidies are still helpful to cover its operational cost, PPK PUSPETA is reducing its dependence on subsidies.

V. Recommendation

1. The PUSPETA project is an unusual laboratory for the practical testing of organizational management concepts as well as improved agricultural production, processing and marketing technology. Department of Agriculture and Animal husbandry and faculties of Gadjah Mada University should be encouraged to participate in the research and training activities of PUSPETA for their mutual benefit.

2. PUSPETA engages in business activities as a service to the KUDs and members. Income in excess of the cost of providing the services are in a very real sense not "profits" to PUSPETA but savings on behalf of the KUDs and members. It is recommended that PUSPETA emphasize the savings and capital formation nature of this net income for its psychological value in promoting better appreciation for PUSPETA's service relationship to the KUDs and members.

3. Legal, cultural and social constraints to reorganizing the KUDs limit PUSPETA's ability to effect broader participation among the various social strata and economic interest groups in the villages. However, PUSPETA should do whatever it can within these limitations to foster broader participation and more democratic control of the cooperatives. Among the activities recommended are : (1) Broadening of the participation in the training program for managers and board members to include farm leaders and potential leaders to give them a broader vision of how the cooperative should work for them; (2) identify business opportunities for which a wider range of interest groups can participate actively as members of kelompok; (3) identify business activities suitable for young people and organize Kelompok appropriate for them (as for example the embroidery activity for young women), not only to provide economic opportunities but to give training opportunities in cooperative operations to young potential leaders.

4. The Project Document proposed that a base line study be implemented early in the project. This was not done. Such a study would have been helpful to the Team in measuring progress up to now but even more helpful in the implementation of the project by providing base data on important social and economic characteristics of each village. Such a base line study would still be useful and the Team recommends that it be done as soon as possible and followed up by a system of regular reporting from the Kelompok through the KUDs to PUSPETA, providing information

useful to PUSPETA in identifying services needed and projecting requirements for credit and other services.

5. For the most orderly and prudent use of funds remaining from the P.L. 480 Title II Grant it is recommended that the terminal date for disbursement be the end of December, 1985. It is also recommended that CLUSA's Advisory support be continued through Calendar Year 1985 and that this extended period be used also to assist the Ministry of Cooperatives document the PUSPETA Klaten experiences in developing income generating business activities and in assessing their policy implications.

## G L O S S A R Y

APEGTI	:	Association of Sugar and Flour Distributors of Indonesia.
BPSB	:	Balai Pengawas Dan Sertifikasi Benih/Seed Certification and Inspection Center
BRI	:	Bank Rakyat Indonesia/Indonesia Peoples Bank
BULOG	:	Badan Urusan Logistik/Logistics Management Board
Bupati	:	Chief of Governmental Regency
Camat	:	Chief of Governmental Sub-Regency
CLUSA	:	Cooperative League of the U.S.A.
Desa	:	Village
DOLOG	:	Depot Logistik/BULOG Substation
GKSI	:	Gabungan Koperasi Susu Indonesia/National Dairy Cooperative
Kabupaten	:	Regency
Kecamatan	:	Subregency
KUD	:	Koperasi Unit Desa/Village Unit Primary Cooperative
P.T. Sari Husada	:	Yogyakarta Milk Processing Plant

PL 480 Title II : Methodology by which PUSPETA Project  
Received Foreign Financing

PUSPETA : Pusat Koperasi Unit Desa/Provincial  
Level

PPK : Pusat Pelayanan Koperasi/National  
Kabupaten Level Cooperative Service  
Center Project

PUSRI : National Parastatal Fertilizer  
Production, Import and Distribution  
Company

TA : Transfer Authority : Documentation  
Transferring PUSPETA Project Commodity Financial  
Assistance

TAB : Temporary Advisory Board : PUSPETA  
Initial Phase Management Body

TRI : Tebu Rakyat Intensifikasi/Government  
Sugar Intensification Program

UGM : Gadjah Mada University

USAID : United States Agency for International  
Development

\*\*\*\*\*

APPENDIX 1

PARTIAL LIST OF OFFICIALS INTERVIEWED DURING THE EVALUATION

1. Director General of Cooperative Business Affairs :  
Department of Cooperatives
2. Director General of Animal Husbandry : Department of  
Agriculture
3. Chief of Cooperative Research and Development :  
Department of Cooperatives
4. Director of Capital Formation : Department of  
Cooperatives
5. Director of Livestock and Fisheries : Department of  
Cooperatives
6. Foreign Project Coordinator : Department of  
Cooperatives
7. Chairman : INKUD
8. Chief of Cooperative Educational Institutions :  
Department of Cooperatives
9. National Chief of PPK Programs : Department of  
Cooperatives
10. Planning Chief : Directorate of Livestock and Fisheries  
: Department of Cooperatives
11. Voluntary/Humanitarian Programs Division Chief : USAID
12. Voluntary/Humanitarian Program Division Project Officer  
: USAID
13. Evaluation Officer : USAID
14. Provincial Chief of Cooperatives, Central Java :  
Department of Cooperatives
15. Provincial Chief of Business Affairs : Department of  
Cooperatives
16. Provincial Chief of PPK Program, Central Java :  
Department of Cooperatives
17. Manager : Central Java PUSKUD
18. Bupati : Kabupaten Klaten

19. District Economic Officer : Kabupaten Klaten
20. District Cooperative Chief : Kabupaten Klaten
21. Manager : PPK Boyolali
22. Management of KUDs Pedan, Manisrenggo, Mardirahayu, Karangnongko, Jatimom, Kemalang, Pembangunan, Cawas, Wedi, Trucuk, Bayat, Delanggu, Jogonalan, Cibogo (Boyolali)
23. Management of PUSPETA

APPENDIX 2

PROFIT/LOSS PROJECTION  
PPK PUSPETA KLATEN 1984

TOTAL PRODUCT SALES	3919894102	
TOTAL SERVICE SALES	133793500	
TRACTOR AND RMU SERVICES	11000000	
	-----	
	4064687602	
COST OF GOODS SOLD	3746635959	
	-----	
GROSS PROFIT		310051633
ADMINISTRATIVE AND GENERAL EXPENSES:		
SALARY, WAGES AND OVERTIME	102716500	
STATIONERIES	5400000	
TELEPHONE AND CABLE	5400000	
REPRESENTATION & CONSUMPTION	9000000	
TRAVELLING	13200000	
MAINTENANCE .	17100000	
OFFICE SUPPLIES	2100000	
BANK CHARGES	750000	
DEPRECIATION	48000000	
INTEREST	34437084	
AUDIT AND CONSULTANCY	4500000	
OTHERS	4800000	
	-----	
		247403564
SALES AND DISTRIBUTION EXPENSES :		
PRODUCTION DIVISION	6808800	
AGRICULTURAL DIVISION	10726978	
LIVESTOCK DIVISION	7728950	
GENERAL TRADE DIVISION	5209500	
	-----	
		20269620
		-----
		40378421
OTHER INCOMES :		
CREDIT INTEREST	12000000	
CHECKING ACCOUNT'S INTEREST	638720	
CLUSA SUBSIDY	20516750	
COOPERATIVE DEPT. SUBSIDY PPK PROJECT	8460000	
KPI SUBSIDY	12412000	
	-----	
		54026470
		-----
NET PROFIT (SHU)		74404891

PPK PUSPETA  
Financial Administration

APPENDIX 3

COMPARATIVE PROFIT AND LOSS

	1983 (RP)	1982 (RP)
TOTAL SALES OF :		719237327
GOODS	1613539460	43317166
SERVICES	84895974	
	1598425534	762554493
COST OF GOODS SOLD OF :		
GOODS	1423131525	649661286
SERVICES	15298461	2797261
	1438429986	652458547
GROSS PROFIT ON SALES	259995548	110095946
OPERATING EXPENSES :		
GENERAL & ADMINISTRATIVE EXPENSES	156155626	90721404
SALES EXPENSES	35007724	2221514
EXPLOITATION EXPENSES		9208146
DEPRECIATION	65428606	33072554
	256651956	135227618
GROSS INCOME	3043591	25127672
OTHER INCOMES :		
CLUSA SUBSIDIES	4103500	24090000
COOPERATIVE DEPARTMENT SUBSIDIES	3172000	7559845
OTHERS	459000	2085995
	4967500	33965840
OTHER EXPENSES :		
TRAINING EXPENSES	2753900	
OTHERS	10000	
	2763900	
	46911600	33965840
NET INCOME (SHU)	50255191	9839169

APPENDIX 4

COMPARATIVE BALANCE SHEET AS OF  
DECEMBER 31, 1982 - DECEMBER 31, 1983

ITEMS	1983 (RP)	1982 (RP)
<b>CURRENT ASSETS :</b>		
CASH IN HAND & BANK	143298558	352417875
SPPB	86243540	47130260
ACCRUED INCOME	3511500	
ACCOUNT RECEIVABLES	200185666	115479847
PREPAID EXPENSES	26236177	21269375
INVENTORIES	244293435	163707250
<b>TOTAL CURRENT ASSETS</b>	<b>708678876</b>	<b>700093707</b>
<b>FIXED ASSETS :</b>		
LAND	28084528	12417928
BUILDINGS	145346074	89668144
MACHINERIES & EQUIPMENT	375611075	160655966
VEHICLES	93876663	67890760
OFFICE EQUIPMENT	47371610	13427170
OTHER ASSETS	10324301	9015737
DEPRECIATION	-134758485	-72761526
<b>TOTAL FIXED ASSETS</b>	<b>565856200</b>	<b>280514180</b>
<b>TOTAL ASSETS</b>	<b>1274535076</b>	<b>980607887</b>
<b>CURRENT LIABILITIES :</b>		
ACCOUNT PAYABLE	135415584	107373153
INTEREST	37036344	7479757
ACCRUED EXPENSES		11677182
TRF FUND	9301182	
<b>TOTAL CURRENT LIABILITIES</b>	<b>177750610</b>	<b>126530072</b>
<b>LONG TERM DEBT</b>	<b>425951458</b>	<b>445951458</b>
<b>CAPITAL :</b>		
EX TANU MAHMOU	225126013	225126013
EX OLUSA	269721700	157273220
EX COOPERATIVE OFFICE	43470000	43470000
PROFIT AND LOSS ACCUMULATION UP TO LAST PERIOD	17742996	26561464
CURRENT PROFIT AND LOSS	30255191	9833168
<b>TOTAL NET ASSETS</b>	<b>579830008</b>	<b>408126337</b>
<b>TOTAL LIABILITIES</b>	<b>1274535076</b>	<b>980607887</b>

APPENDIX C

FUNDS FLOW ANALYSIS  
(RP 000)

ITEMS	1983	1982	FUNDS		WORKING CAPITAL	
			SOURCES	APPLCTNS	INCREASE	DECREASE
<b>CURRENT ASSETS</b>						
CASH IN HAND AND BANK	143209	352418				209209
SPPS	86243	47130			39115	
ACCURED INCOME	8512				8512	
ACCOUNT RECEIVABLES	209186	115490			94796	
PREPAID EXPENSES	26236	21269			4967	
INVENTORIES	244293	163797			80496	
TOTAL CURRENT ASSETS	708679	700074				
<b>FIXED ASSETS</b>						
LAND	29085	12418			15667	
BUILDINGS	145346	99668			55678	
MACHINERIES AND EQUIPMENT	375611	160856			214755	
VEHICLES	93977	67891			25986	
OFFICE EQUIPMENT	47372	13427			33945	
OTHER ASSETS	10324	9016			1308	
DEPRECIATION	-134758	-72762	61996			
TOTAL FIXED ASSETS	565857	290514				
TOTAL ASSETS	1274536	990588				
<b>CURRENT LIABILITIES</b>						
ACCOUNT PAYABLE	135416	107373				28043
INTEREST	35037	7480				25557
ACCURED EXPENSES	0	11677			11677	
TAX FUND	9301	0				7301
	177754	126530				
LONG TERM DEBT	425951	445951	20000			
<b>EQUITY</b>						
EX TANI MAHMUR	225126	225126				
EX BLOSA	369722	157273	212449			
EX COOPERATIVE OFFICE	43470	43470				
PROFIT/LOSS ACCUMULATION	32512	-17743	50255			
TOTAL NET WORTH	670830	408126				
TOTAL LIABILITIES	1274535	589507				
			324700	367355	229471	272110
			42639		42639	

A P P E N D I X    6

C O M M E N T S

**DEPARTEMEN KOPERASI**  
**DIREKTORAT JENDERAL BINA USAHA KOPERASI**

Jl. Let. Jen. Haryono M.T. Telp. : 797525, 797192, 797785, 790449  
Tromol Pos 384 Telex : 47381 DIJKOP IA  
J A K A R T A.

Jakarta, 2 Agustus 1984

No. : III/BUK-6/VIII/1984  
Lampiran :  
Perihal : Tanggapan terhadap hasil  
evaluasi Proyek PUSPETA  
Klaten

Kepada  
Yth. Sdr. Samuel D. Filiaci  
Representative CLUSA  
di

K L A T E N

Bersama ini kami beritahukan bahwa kami cukup puas dengan laporan evaluasi proyek PUSPETA Klaten yang baru saja dilaksanakan. Meskipun belum semua rencana proyek dapat diselesaikan pada saat ini, laporan evaluasi proyek tersebut benar2 dapat memperkuat pendapat kami bahwa proyek tersebut berada pada tingkat perencanaan yang benar. Kemajuan2 proyek akan diperoleh apabila kondisi2 tertentu yang terdapat dalam gerakan koperasi dipenuhi. Kondisi2 yang diperlukan tersebut antara lain adalah:

1. Pra koperasi sekunder yang berada ditingkat kabupaten.
2. Management team yang berpengalaman luas dan memperoleh gaji yang cukup baik.
3. Tersedianya dana yang cukup untuk membiayai kegiatan2 operasional.
4. Prioritas pengembangan koperasi yang tumbuh dari bawah.
5. Pengurus sementara kepada siapa manajemen bertanggung jawab.

Dalam hal ini Direktorat Jenderal Bina Usaha Koperasi mengakui bahwa penasehat CLUSA dan bantuan keuangan dari USAID serta Management Team PUSPETA adalah sangat penting artinya untuk mencapai tujuan proyek.

Pengalaman2 yang didapat di PUSPETA Klaten pada saat sekarang dan pada masa yang akan datang sebagaimana telah kita rencanakan akan dipergunakan untuk perluasan pengembangan koperasi di daerah lain dalam suatu system pengembangan koperasi ditingkat kabupaten secara comprehensive yang menyangkut aspek2 organisasi, management, pendidikan / latihan dan usaha terutama yang menyangkut system koperasi dibidang supply dan marketing dengan berpedoman pada prinsip2 ekonomi dan usaha yang sehat.

Sesuai dengan hasil laporan evaluasi tersebut, kami dapat menyetujui sepenuhnya terhadap sebagian besar kesimpulan dan rekomendasi daripada evaluasi proyek tersebut. Hal ini akan memperkuat keyakinan kami terhadap kemajuan proyek. Sebagaimana dinyatakan dalam laporan evaluasi, fungsi proyek adalah sebagai laboratorium bagi Departemen Koperasi yang pada saat sekarang dianggap sebagai salah satu faktor yang penting di dalam merumuskan kebijaksanaan2 sional.

Demikian tanggapan kami terhadap evaluasi proyek PUSPETA Klaten dan untuk dapat dipergunakan seperlunya.

DIREKTORAT JENDERAL BINA USAHA KOPERASI  
DIREKTUR BINUS KELISTRIKAN/KOORDINATOR  
PROYEK BANTUAN LUAR NEGERI

  
( MAMIET MARYONO )

Tembusan :

1. Bpk. Dirjen Bina Usaha Koperasi (sbg. laporan)
  2. A r s i p .-
-

TRANSLATION

DEPARTMENT OF COOPERATIVES  
DIRECTORATE GENERAL OF COOPERATIVE BUSINESS AFFAIRS  
JAKARTA

Jakarta, August 2, 1984

Number : III/BUK-6/VIII/1984  
Attachments:  
Subject : Response to PUSPETA  
Klaten Project Evaluation  
Findings

To  
Mr. Samuel D. Filiaci  
CLUSA Representative  
Klaten

With this communication, we would like to inform you that we are satisfied with the results of the recently implemented evaluation report on the PUSPETA Klaten Project. Although all of the project objectives have yet to be fully satisfied at this time, the evaluation report strengthens our feelings that the subject project's planning was realistic. These are that project progress will be achieved if certain conditions are present which the cooperative movement can fulfill. Some of these conditions that are needed are:

1. A Presecondary Cooperative that is located at the Kabupaten Level.
2. A Management team that has wide experience and is given high enough salary levels.
3. Sufficient working capital to fund operational activities.
4. Cooperative bottom up development priorities.
5. A temporary advisory board to whom management can be responsible to.

Concerning this issue, the Directorate General of Cooperative Business Affairs also finds that technical assistance from CLUSA and financial assistance from USAID along with the PUSPETA Management Team were also very important in achieving the goals of the project.

The experience that we receive from PUSPETA Klaten at this time and in the future is planned to be utilized for replication of cooperative development in other areas within one cooperative development system at the kabupaten level in a comprehensive manner and include aspects of organization, management, training/education and businesses that mainly concern cooperative supply and marketing activities utilizing the principles of viability.

As with the results of this evaluation report, we agree fully with most of the conclusions and recommendation of the report. These issues strengthen our committment to the progress of the

project. As evidenced within the evaluation report, the function of the project is as a laboratory for the Ministry of Cooperatives that at this time we feel is one important factor in making National policy decisions.

Thus these are our findings on the PUSPETA Klaten Project evaluation and they can be utilized as such.

Directorate General of Cooperative  
Business Affairs  
Director of Rural Electrification/  
Coordinator of Cooperative Foreign  
Assistance Projects

(Jamiet Maryono)

Copies:

1. Director General of Cooperative Business Affairs (as a report)
  2. Files
-

EXECUTIVE SUMMARY

Major Findings

1. - Alasan lain juga karena petani menganggap cara tradisional beayanya sangat rendah antara lain petani tidak menghitung beaya rumput yang diambilnya dan tidak menghitung tenaga kerja yang datang dari dalam keluarganya.
2. - Disamping menerima 20 % lebih dibanding dengan sebelumnya, juga kepastian mendapat uang hasil susunya lebih terjamin, karena setelah susunya diterima KUD/Puspeta, petani dibebankan dari resiko.
3. - Lebih baik kalau disebut wanita yang membuat embrioder berumur 17 - 22 tahun, (sebab 14 tahun sebenarnya dilarang oleh undang-undang perburuhan).

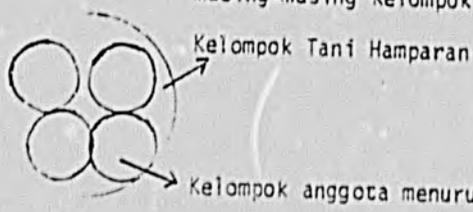
INTRODUCTION

- halaman 2 4. - Sebenarnya sejak tahun 1975 dengan adanya INPRES 9. th. 1975.
- halaman 4 5. - Sebenarnya yang sering melakukan rapat adalah chairmain/pengurus bukan manager.
- halaman 10 6. - Apakah perlu disebut demikian ..... the evaluation is less concerned with whether or not objectives have been achieved .....

PROJECT INPUTS

PUSPETA SERVICES TO KUD

- halaman 19 7. - Sebenarnya naggota Kelompok Tani Hambaran mencakup seluruh desa (jadi lebih dari 20 anggota).  
Yang anggotanya 15 - 20 adalah kelompok menurut jenis kegiatannya di masing-masing Kelompok Tani Hambaran yang bersangkutan.



- halaman 33 8. - Kesulitan lain juga karena kredit dari Bank harus melalui prosedur sesuai dengan syarat-syaratnya, seperti garansi dll.
- halaman 36 9. - Perlu diketahui bahwa komodite yang dijual kepada non - KUD berasal dari KUD. Jadi impac kepada KUD tetap ada.
- halaman 40 10. - Jumlah complete feed tergantung kepada Berat Badan Sapi. Juga formulanya berbeda antara untuk sapi sedang laktasi dengan sapi dara.
- halaman 43 11. - Paket Kredit Sapi
- halaman 50 14. - Ex New Zealand Rp 730.000,-  
Ex Australia Rp 650.000,-  
termasuk kandang, konsentrat, dana kematian, dana kemajeran dan dana pembinaan

PUSAT PELAYANAN KOPERASI

PUSPETA

ANTOR / OFFICE : KLEPU, CEPER, KLATEN \* ALAMAT SURAT / ADDRESS : P. O. BOX 66, KLATEN, JAWA TENGAH

- halaman 44 12. - Grace period, 1 tahun. Yang 1 bulan adalah jika sapi mati pada bulan 1 maka masih menjadi tanggung jawab importir.
- halaman 45 13. - Cattle breeders = Farmers ?
- halaman 60 14. - Perlu ditambah  
Berdasarkan pengalaman di Bali untuk pekerja yang sudah pandai mendapatkan income lebih dari Rp 30.000/bulan.
- halaman 61 15. - Puspeta bersama-sama BPSB mengadakan evaluasi 1.  
Setelah dinyatakan boleh u/ seedfarm kemudian KUD melakukan kontrak
- halaman 61 16. - Puspeta bertanggung jawab untuk menjamin benih SS (stock seed), sedangkan pupuk + pestisida diberikan oleh Puspeta lewat KUD.
- halaman 63 17. - Masa dormansi 3 minggu s/d 1 bulan tergantung varietasnya.
- halaman 71 18. - Sudah dilaksanakan sebagian - IRI  
- INSUS  
- KBU  
- Cengkeh  
- Kredit Program

=====

TRANSLATION

PUSAT PELAYANAN KOPERASI  
PUSPETA

EXECUTIVE SUMMARY

MAJOR FINDINGS

1. Other reasons are also that the dairy farmers feel that the costs of the traditional systems are extremely low because the farmers do not count the cost of their family labor used to gather and cut grass.

2. In addition to receiving a milk price 20% higher than before, they are also guaranteed of a market and price for their milk whereas as before PUSPETA marketed milk, all farmers were responsible for each others' risk of rejection.

3. It is more accurate to state that the embroidery program participants are between 17-22 years old.

INTRODUCTION

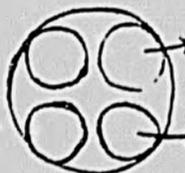
Page 2: 4. It was in fact since 1975 with the release of INPRES 9 of 1975.

Page 4: 5. In fact, most often KUD meetings are often held by the chairmen/board of directors, not the manager.

Page 10: 6. Is it necessary to state that therefore.....the evaluation is less concerned with whether or not objectives have been achieved.....

PROJECT INPUTS  
PUSPETA SERVICES TO KUD

Page 19: 7. In fact, the members of the Kelompok Tani Hamparan include the whole village (thus more than 20 people). Those that have 15-20 members are kelompok according to their types of activity and they are all within the Kelompok Tani Hamparan.



Kelompok Tani Hamparan

Kelompok of Members according to their activity.

Page 33: 8. Another difficulty also is that bank credit has to be distributed through procedures with conditions such as guarantees, etc.

Page 36: 9. It is necessary to be stated that commodities that are sold to non-KUDs originate from KUDs. Thus the impact to the KUDs is still there.

Page 40: 10. The amount of complete feed depends on the weight of the cow. Also, the formula differs depending upon whether the cow is lactating or not.

Page 43: 11. Cow Credit Package.

Page 50: 14. Ex New Zealand Package Rp. 730.000  
Ex Australia Package Rp. 650.000

The above packages include the stables, concentrates, insurance, and guidance funds.

Page 44: 12. The Grace period is 1 year. What is one month is that if the cow dies within the first month, the importer takes responsibility.

Page 45: 13. Cattle Breeders=Farmers?

Page 60: 14. It is necessary to add:  
Based on experience in Bali with those workers who are already skilled, the income exceeds Rp. 30.000 per month.

Page 61: 15. PUSPETA ALONG WITH bpsb do the initial evaluation. After it is evident that it can be used for a seed farm, then PUSPETA will establish a contract.

Page 61: 16. PUSPETA is responsible for the distribution of stock seed while the fertilizer and pesticides are distributed by PUSPETA through the KUD.

Page 63: 17. Dormancy Periods last from 3 weeks to one month depending upon the varieties.

Page 71: 18. A part of have already been implemented:

- Sugarcane Intensification Program
- Paddy Intensification Program
- Sugarcane Seed Program
- Clove Program
- Credit Program

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44  
Cooperative League  
of the USA

A Voice for America's Cooperatives

June 1, 1984

COMMENTARY ON PUSPETA EVALUATION

As an attachment to the recently conducted PUSPETA Evaluation, the Cooperative League of the U.S.A. wishes to provide the following comments and observations on findings of major significance within the final document:

1. Evaluation Scope-CLUSA feels that under the circumstances of the evaluation's undertaking and the less than quantifiable yet important human resources development nature of the project, the team did a commendable job in both obtaining a valid picture of the national level priority placed upon the project's functioning and in its dissection of the project's critical essence.

CLUSA feels that although not all issues contained within the scope of work for the evaluation were addressed comprehensively, the approach utilized by the team was as time efficient and subject relevant as circumstances permitted and provided its audience with a document of the necessary substance. It has been CLUSA's feeling since the onset of the evaluation that its scope was overly ambitious relative to the time and financial constraints involved and the nature of the project and its history. CLUSA/Indonesia was for the most part responsible for the design of the evaluation's scope and accepts responsibility for its extent relative to project resource constraints.

2. Initial Project Planning-CLUSA is in basic agreement with the team's conclusion concerning the project's initial design and planning as contained within its project document. The extremely optimistic expectations of what could be achieved within a three year project life were overly ambitious. As the team also stated, assumptions of what had already occurred prior to the project in the area of KUD reorganization were perhaps overestimated relative to their significance to eventual project achievements. CLUSA finds however that the experience gained by project management through these initial activities was instrumental to the achievements it later made through a much more practical approach to primary cooperative reorganization.

3. Organizational Development-The evaluation recommends an acceleration of project efforts to strengthen and initiate reorganization of Klaten primary cooperatives and their subprimary member groups. CLUSA and PUSPETA are sensitive to the importance and fundamental nature of this task and to the fact that in the long term its achievement will ultimately determine the success or failure of the project. What the project has learned very clearly through its first two years of implementation however is that the first, most difficult and lengthy step in achieving that goal lies in the establishment of an entity capable of viable and economically attractive service provision to the KUD and member groups involved. Initial project attempts at cooperative organizational development without a strong economic basis were unsuccessful in creating viable entities and in most cases

had a negative impact upon future program development. PUSPETA has since, as also mentioned in the evaluation, concentrated all of its organizational development activities in conjunction with its ability to conduct joint commercial operations with the primary cooperatives and their member groups. The project thus plans to continue in encouraging the organization of member representative grass roots organizations as a major priority. The speed with which such organizational development is undertaken will however be fully commensurate with PUSPETA's ability to provide viable economic services to these organizations.

4. Model Replicability-The evaluation stated "The team does not believe that PUSPETA Klaten is yet well enough established to serve as a model to be replicated. In any case, any model would need modification and adaptation to the particular condition in which it is applied.....In the mean time it should continue to explore and test better ways.....so that the successful ventures can be replicated."

CLUSA is in partial agreement with this conclusion. Although the project has yet to by any means achieve its long term potential, CLUSA feels that several elements essential to PUSPETA's accomplishments could greatly and immediately enhance current PPK kabupaten level operations on a nationwide basis if properly introduced. These elements, uncommon to other kabupaten level cooperative organizations include:

a) Management and financial autonomy to plan, establish and conduct economic service oriented operations with KUDs at the kabupaten level.

b) The hiring of qualified and experienced private sector management in top level positions and the payment of salary levels to maintain their long term employment in the organizations.

c) A Temporary Advisory Board initially managing the organization of the project and composed of district rather than strictly national or provincial level decision makers.

In conclusion, CLUSA feels the evaluation was fairly done, and documents the resulting developments now taking place under Indonesian management with concessions supported by special agreements with the GOI. The evaluation should become an important document in the early life of the Klaten approach to grass roots cooperative development in Indonesia. CLUSA thus commends the evaluation team under the leadership of Dr. Russel Olson. The team's professional objectivity and their understanding of the complexity of rural systems development demonstrates credibility which is essential in the early life of what is usually long term cooperative development. Through recent indications of future project potential and its expected impact upon national cooperative policy determination, CLUSA feels that a future follow-up to this evaluation could be of further assistance to the project.



UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT

AMERICAN EMBASSY  
JAKARTA, INDONESIA

Letter No. \_\_\_\_\_

001-1281

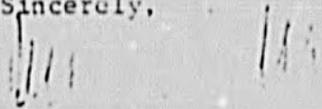
Mr. Samuel D. Filiaci  
Representative  
CLUSA  
P.O. Box 4 Klaten  
Jawa Tengah

Dear Sam:

Thank you for providing us with a revised draft of the PUSPETA Evaluation per your letter of May 28, 1984. The mission would appreciate it if you would append a copy of both this letter and my letter of April 6, 1984 on this subject to the final document. With the exception of many editorial changes and clarification of some points I was disappointed to find no significant improvement in the revised draft. Although the mission does not, therefore, endorse the final evaluation report we have no objection to its distribution, provided our comments are appended.

At the same time, I would like to reemphasize that the mission continues to be pleased with the new management of the project and looks forward to continued close collaboration with CLUSA.

Sincerely,

  
Walter North  
Project Officer  
Office of Voluntary and  
Humanitarian Programs

cc. Ms. Meg Brown  
Mr. Tim Mahoney  
RIG/A-Manila  
CLUSA/W  
FVA/FFP/Title II

Letter No.: II/1884

April 6, 1964

Mr. Samuel Piliaci  
CLUSA INDONESIA  
Jl. Sri Asih III/1  
P.O. Box 4  
Klaten  
Java Tengah

Dear Sam:

The mission has completed a review of the draft report on the Evaluation of the PUSPEIA Klaten Cooperative Project : January - February 1964. There are a number of observations which we would like to share with you. A majority of these are concerned with typos, editing and presentation. Rather than clutter the record with those, I am sending you a copy of our well marked copy of the draft along with a copy of my rough notes for your use in cleaning up the document. In the final document I think it would also be helpful to append an Indonesian translation of the executive summary (including major recommendations), a copy of the original record of work and a copy of the comments which follow.

Although, as will be seen below, I continue to have reservations about several aspects of the program and I find elements of the evaluation team unrealistic, I also feel that it shows progress has been made in improving project management and, thereby, prospects for success. The mission recognizes the completion of the understanding of the participants, and repeatedly by the evaluation and recent field visits, is of a dedicated staff grappling with tough issues in a sensible, restrained fashion. This encourages us to endorse in principle, the final recommendation made by the evaluation team. Therefore our comments on the evaluation should be read against a positive backdrop, one which we hope will allow for a collegial, productive working relationship between all concerned through December of 1965.

To move toward that objective we would like to review a CLUSA plan of action for an extension of both the Title II sales program and the credit grant through December 31, 1965. This document should clearly indicate CLUSA's proposed strategy for responding to the recommendations of the evaluation team in the areas of 1) stimulating participation by the government and university community in training and research aspects of the project, 2) increasing capital and savings formation through cooperatives, 3) a reorganization of the cooperative structure to foster greater "democracy" and participation, and 4) the carrying out of a baseline study and the initiation of an effective monitoring system.

Best Available Document

# Available Document

- 2 -

Additionally, the mission would expect such a document to clearly set out criteria for measuring the success of the project. In part plans for the monitoring system would relate to this but more basically these criteria would come from a more complete understanding of how CUSA defines, for this project, terms such as participation, bottom up planning, institution building, replication, self sustaining, the right direction etc. Upon receiving this document the mission would hope to be able to reach agreement quickly and to take the necessary actions to extend the projects. I look forward to seeing the plan.

The remainder of this letter concerns direct comments on the evaluation. In many respects the current document is hard to grapple with. In some instances it seems inconsistent, misleading and not germane to the original scope of work. To begin with the tone of the executive summary suggests that the project has been more successful than the contents of the evaluation would appear to support. Problems are raised without convincing detail and then passed by. Terms are used without definition. The first pages are emblematic of this. Why was the original project document unrealistic and overly optimistic? What is "institution building" in the context of this project?

The executive summary fails with only one action which was planned in the original project document. The rest of the summary covers a list of selected activities, most recently initiated, which are presented as promising or successful. Item: Page 4. Farmers may be producing 1.2 more litres of milk but they still aren't breaking even when their total cost and PI inputs are included. This is not to say that the experimental dairy effort should be stopped but rather that it should be more carefully presented. The evaluation also fails to discuss the marketing problems which the dairy farmers and Puspeta face with increased milk production.

Item P1. It is stated that Puspeta has established the viability of an intercooperative secondary cooperative. Then the report continues to say that it is too soon to use it for a model. 1) What is meant, or how do we know that the "viability" is? 2) If the Puspeta experiment is viable, why is it too soon to use it as a model. More explanation could clarify this seeming contradiction.

Item: Page 5. The comments on the feed mill. It estimates costs, even with a large increase of value up to 20,000 kg per ton, the profit from feed sales will be minimal. Item. The clove program is listed as a success but in the body of the evaluation the same program is depicted as being very problematic. Some of the farmers were private traders and non-CCC members. Some people did not receive credits.

The egg, pig and tile programs seem excellent but are they truly "locally planned"? What is meant by that term?

It would also be helpful to include in the summary an assessment of prospects for the profitability of HUSPETA or any such an investment as well. In short, I believe the executive summary should be more realistically stated to better reflect the project's track record and issues as identified in the text of the report.

I found much of the report to be illuminating. There was much good information but sometimes it seemed contradictory or confusing. In particular I had trouble following the methodology for calculating the profit/loss statements and sales projections as well as some of the terminology associated with this analysis. Many of my questions are marked in the attached marked up copy, especially on pp. 86, 87 and 88. Perhaps of more general concern is the statement on p. 88 that the analysis was unable to make a distinction between fixed and variable costs and that this, understandably, would hamper "further evaluation concerning cost, profit, volume analysis".

Yet in the report, it is predicted the project will be self sustaining by December 1985. An important element in such a calculation would seem to be absent or unclearly presented. One aspect of this would be how all CLUSA/AID/HPI contributions/inputs to the project are characterized and what kind of depreciation schedule is used by the financial analyst. I would agree that the GPC support and parts of the Title II and HPI contributions might not be costed into profit/loss calculations. However, the failure to clearly lay out how these distributions were made, makes reading and judging hard. Certainly, CLUSA inputs to the project were considerably greater than what is currently shown in the report and this would seriously affect bottom line projections.

Likewise the financial analysis in the body of the report seems to contradict the appendix. I calculate, very roughly (accepting the figure given for depreciation and using the assumption that PUSPETA will reach 75% of annual projected sales) that without subsidies PUSPETA will continue to show a significant loss on operations. In considering this kind of information it would also be useful to be able to see an organization chart of PUSPETA with staff size.

The only other major issue I would comment on is the paucity of information on beneficiary impact. Some of the causes for this are stated in the report but I think it should also be noted that from the start of the project CLUSA consistently informed the mission that such monitoring was going to be included. It has been frustrating to find that such did not happen. This is especially disappointing because the few case studies included in the draft, poorly edited and a bit journalistic in tone, do suggest that the current KUD system may preclude meaningful small farmer participation in the project. The clove and goat credit schemes come to mind as does the dairy debt.

Several small points. The mission, given the ongoing audit situation, does not feel it could approve additional international travel for training purposes. Likewise, we would not expect CLUSA to make changes in budget line items or make large purchases of equipment without the concurrence of the mission. Our review of a revised plan of action should be a good chance to review with procurement and the budget. I would appreciate receiving a copy of the Dutch report on the dairy industry mentioned on p. 82. In tables it would be helpful to insert commas between numbers and to round off, especially percentage figures. On page 84 it is mentioned that the Dir Gen Koperasi looks to the project "to find answers to important policy questions". Perhaps this section could be filled out a bit to give the reader a notion of what the Dir Gen feels are the priority issues. The

101

comment on p. 85 on AID monitoring would benefit from substantiation or clarification of the reported feelings or a balancing statement of the mission perspective.

The team's suggestion for closer collaboration with LPJES is worth exploring. I would be especially interested in this opportunity, given that we also support the LPJES program in Klaten.

I apologize for the delay in this response and its length. I hope our comments will help to move us towards a final report which is fair and informative. There are few easy judgements on this large project but, as stated earlier, we look forward to working on remaining issues and moving forward.

Sincerely,

Walter E North

cc. RIC/A/Manila  
OLUSA/WashDC  
FVA/FFP/Title II

Clearances:  
WEP:FCongins:(in draft)  
WFO:TWatoney:(in draft)  
WGI:Brown:(in draft)  
WIK:WFuller:(in draft)

Drafted:  
WEP:WNorth:au:04/2/84