

**2006 FFTC-NACF International Seminar on  
*Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21<sup>st</sup>  
Century, Seoul, Korea, 11-15 September 2006***

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## **AGRICULTURAL COOPERATIVE IN INDONESIA**

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**National Agricultural Cooperative Federation (NACF), Korea, and  
Food and Fertilizer Technology Center for the Asian and Pacific Region  
(FFTC/ASPAC)**

# AGRICULTURAL COOPERATIVE IN INDONESIA<sup>1)</sup>

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## *Abstract*

The history of farm cooperative in Indonesia is inseparable from the government's national development program. The development of farm cooperative was always in line with the country's food sufficiency program. Specially designed law and government's regulation were introduced to develop and establish the functions of farm cooperative. Indonesia's farm cooperatives, with little exception, were in fact government program agents which contributed to the success of self-sufficiency in rice.

**Key words:** Village Unit Cooperatives, agriculture, development.

## I. INTRODUCTION

The history of Indonesia's farm cooperative, the Village Unit Cooperative, or *Koperasi Unit Desa (KUD)*, is inseparable from the record of Indonesia's food self-sufficiency program. The Village Unit Cooperative was given responsibilities in farm credit scheme, agriculture input and incentives distribution, marketing of farm commodities, and other economic activities. The government particularly guaranteed both marketing and market price to encourage the growth of farm cooperatives. The Board of Logistics (*Badan Urusan Logistik, BULOG*), with the government's mandate stabilized the price of the nation's staple food supply, particularly rice, corn, soybean, poultry and meat, and other staple required by consumers. The role of *BULOG* was particularly significant during the harvest period when the board bought and stored farm commodities from farmers through the Village Unit Cooperatives throughout the country.

Facing the 21<sup>st</sup> century, farm cooperative movement in Indonesia encounters great challenge due to the rapid change in global economy and open market competition. Many agricultural cooperatives are struggling to exist, some simply disappeared, but some shown their resistance and keep growing amid such changes. This paper attempts to reveal general information related to the ups and downs of village unit cooperative as the country's farm cooperative supported by the government.

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<sup>1)</sup>: Presented at 2006 FFTC-NACF International Seminar on Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21<sup>st</sup> Century. Seoul, Korea, 11-15 September 2006.

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## II. ROLE OF AGRICULTURAL COOPERATIVES IN INDONESIAN ECONOMY

### 2.1. Agricultural Structure and Its Development.

Agriculture development program during the decades of 1970s and 1980s aimed at boosting food crop production and productivity. The successful effort was due to the massive use of agriculture technology, supported with specially designed supporting institutions such as extension institutions, seed producer institutions controlled by the state, and various cooperative providing credits from national banks and distributing agriculture inputs, as well as orchestrated operations at the field level. In the marketing side, the Board of Logistics (*BULOG*), with its operating organizations at the field level (Depot of Logistics or *DOLOG*) helped farmer to market their commodity to further be distributed to the consumers.

The institutional coercion, including cooperative organizations, to increase food crop and other agriculture production, started in 1964-65 to mid-decade of 1990's (Palmer, 1976, 1977; Sawit and Manwan, 1991; Winarto, 1993). The evolution of coercive agriculture-related institutions went on in line with the central government's political commitment, covering the establishment and coercion of Village Unit Business Board (*Badan Usaha Unit Desa, or BUUD*), and Farm Credit (*Kredit Usaha Tani, KUT*). The *BUUDs*, which further evolved to Village Unit Cooperative or *KUD (Koperasi Unit Desa)*, on the other hand, distributed farm inputs such as seeds, fertilizer and pesticides at subsidized prices (Pretty, 1995). Furthermore, a guaranteed floor price for paddy and local storage facilities were put in place to encourage further adoption. In such a case, the Board of Logistics (*BULOG*) played prominent roles to establish such facilities and to ensure that such farm commodity flowed to the other party without much obstacle.

The coercive approach and strategy of the government to push farm production through cooperative movement was due to the fact that rural farmer's awareness on the importance of a cooperative organization was very low. By the time the agricultural cooperative movement started, few farmers recognized the possible opportunities they might get through joining particular economic oriented institution. The majority of rural farmer was not yet posed on a platform that was able to stimulate and develop self-imposed cooperative organization.

In the year 1985, Indonesia reached self-sufficiency in rice (Kartasubrata, 1993). Since then on, agriculture development program applied an ever aggressive strategy to keep such sufficiency. The coercion towards agriculture related institutions was increasing and the role of farm credit cooperative was escalating. Despite of the weakening capability of some cooperatives, farmers enjoyed a well organized extension and assistance. The condition was due to the strong control of the government in terms of both farm input and commodity price. Nevertheless, the coordination and cooperation between government institutions responsible for agriculture development showed signs

of change for the better as showed by the increasing integration efforts between institutions.

## 2.2. History of the Village Unit Cooperatives.

The Village Unit Cooperative was literally a unit of service center for rural people residing in one or more villages. The Village Unit Cooperatives or the *KUDs* operating at the village level to alter agricultural development and rural business were expected to evolve into a business-oriented network. Supported by the Presidential Instruction No. 2/1978, the Village Unit Cooperative assumed the functions as farm credit organization, distributor for production inputs and other service, processing and marketing farm commodities and products, and other economic activities. Such cooperative was in fact a multi function and multi commodity economic organization and, therefore, possessed diverse and heterogeneous members. Nevertheless, agro industry development was a mere small part of the cooperative's business activity. As example, the dairy industry, fish and vegetable production organizations were given relatively little attention from such government supported cooperative. Yet, dairy farmer's cooperative, known as Dairy Cooperative Union of Indonesia (*Gabungan Koperasi Susu Indonesia, GKSI*) has a different story. The brief story of the dairy cooperative's dynamics will be discussed in the latter part of this paper.

To serve the government's agriculture development program, the Village Unit Cooperative evolved into agriculture input provider and distributor, credit facilitator for the members, processing and marketing farm commodities. The cooperative was also integrated into the massive agriculture development program, the Mass Guidance Program or *Bimbingan Massal (BIMAS)*, to ease the distribution of fertilizer and other farm inputs to farmers engaged in the program. The cooperatives also served large estate plantation for fertilizer and pesticides.

During the decades of 1970s to early 1990s, the Mass Guidance Program put agriculture cooperative to a significant position as a supporting body in the nation's agricultural development. In 1990 the number of cooperative in the country was 36,502 units, increasing from 19,975 in 1973. Of such total number of cooperatives, the number of Village Cooperative Units was soaring from 2,361 in 1973 to 8,334 in 1990 (Table 1).

**Table 1. The Number of Cooperatives, 1973-1990.**

No.	Type of cooperative	1973	1978	1983	1980	1990
1.	Village Unit Cooperative	2,361	4,444	6,373	7,873	8,334
2.	Other cooperatives	17,614	12,986	18,788	25,451	28,168
	TOTAL	19,975	17,430	25,161	33,324	36,502

Source: Ministry of Cooperative (in Statistical Yearbook of Indonesia, 1975-91).

The decreasing number of cooperatives in total from 17,614 in 1973 to 12,986 units in 1978 was due to the government policy to merge the existing rural and other agriculture-related cooperatives into the state-imposed Village Cooperative Units. Among many reasons, the merging of such rural cooperatives was carried out to simplify the management and control system

and to put farm cooperatives to concentrate in helping the government's Mass Guidance Program to boost rice and other farm production.

One among many measures of the cooperative's success was the organization's accomplishments in marketing and distributing fertilizer to farmers engaged in the Mass Intensification Program. Beginning in the planting seasons of year 1973/74, the Village Cooperative Units acted as retailer of fertilizer channeled through the Village Unit Cooperative Centers, the state-owned enterprises, and other private fertilizer factories (Prawiranegara, 1993). On average, the cooperatives were able to distribute the fertilizer to a level of 60% of the requirement of Mass Guidance Program (*BIMAS*), even at the level of 85% in the planting season of 1975. This accomplishment was due to the strong support of the government policy through the *BIMAS* program where the Village Unit Cooperatives were given some privileges in obtaining and distributing fertilizer to farmers. Furthermore, intensive training programs for the cooperative's personnel in terms of fertilizer retailing strategy were provided by the state's largest fertilizer producers. Nevertheless, in 1978, the Village Unit Cooperatives only accomplished 38% of the quantity of fertilizer required by farmers engaged in the government's Mass Guidance Program (Table 2).

**Table 2. The Cooperative's Accomplishment in Fertilizer Distribution, 1978-83 (in metric tons).**

No.	Planting season	Target (mt)	Distributed (mt)	Distributed (%)
1.	1978/1979	750.983	285.644	38
2.	1979	693.923	107.776	16
	1979/1980	973.972	271.644	28
3.	1980	899.077	165.394	18
	1980/1981	1.570.371	233.757	15
4.	1981	1.194.070	158.805	13
	1981/1982	1.937.650	349.389	18
	1982	1.341.482	137.164	10
5.	1982/1983	1.970.666	284.678	14

Source: Prawiranegara (1993).

In the planting season of 1982 the percentage plummeted to a mere 10% and continued to dive in the following 5 year planting seasons (Table 3).

**Table 3. The Cooperative's Accomplishment in Fertilizer Distribution, 1983-88 (in metric tons).**

No.	Planting season	Target (mt)	Distributed (mt)	Distributed (%)
1.	1983	1.642.632	160.357	11
	1983/1984	2.484.297	379.707	18
2.	1984	1.723.024	143.401	8
	1984/1985	2.548.079	189.139	7
3.	1985	1.831.901	151.854	8
	1985/1986	2.703.514	480.076	18
4.	1986	1.836.026	364.668	20
	1986/1987	2.976.649	816.863	27
	1987	2.063.257	445.263	22
5.	1987/1988	2.986.911	850.476	28

Source: Prawiranegara (1993).

The concern on the worsening of the cooperative's organizational achievement prompted the government to issue the Presidential Instruction No. 4/1984 on the need of developing the Village Unit Cooperatives so they could take action as the service center of rural economic development. Through an agreement between the Ministry of Cooperative and the state-owned largest fertilizer industry (*PT Pusri*), 195 selected Village Unit Cooperatives were given privilege to obtain fertilizer directly from *PT Pusri* for distribution to farmers. Further development of the cooperative's function as fertilizer distributor were encouraged by other government policies as depicted in a mutual decree between the Director General of Domestic Trade of the Ministry of Internal Affair (decree No.03/Dagri/KP/II/1988), and Director General of Cooperative Assistance of the Ministry of Trade (decree No.60/BUK/SKB/II/1988), which emphasized on the distribution of subsidized fertilizer and pesticides by the cooperative that would gradually be reduced to an end in the planting season of 1988/1989.

The government's efforts to empower the cooperative function did work as shown by the ability of the cooperative to improve fertilizer distribution from 58% to 74% of the targeted amount during the period of 1988 – 1992 (Table 4).

**Table 4. The Cooperative's Accomplishment in Fertilizer Distribution, 1988-92 (in metric tons).**

No.	Planting season	Target (mt)	Distributed (mt)	Distributed (%)
1.	1988	2.181.665	1.275.829	58
	1988/1989	3.018.911	2.084.250	69
2.	1989	2.234.925	1.868.881	84
	1989/1990	2.134.282	2.560.639	82
3.	1990	2.532.154	1.986.476	79
	1990/1991	2.806.219	2.283.718	81
4.	1991	2.401.500	1.820.614	76
	1991/1992	2.979.881	2.335.766	78
	1992	2.613.456	1.929.051	74

Source: Prawiranegara (1993).

The allocation of fertilizer distribution to selected cooperatives during the period of 1988-1992 prompted such institutions to restore the organizational structure and business goals. Starting with the selection of 195 capable Village Unit Cooperatives as distributors for fertilizer and other farm inputs, the organizations seemed to be awakened by such accomplishments that they perceived as a positive achievement of their hard efforts. The number of selected cooperatives as farm input distributors climbed to 934 units in the planting season of 1987/88 and even soared to 3,260 units in the planting season of 1992/93. Although the number was relatively small in proportion (nearing 38%) of the total cooperatives in 1993 (8,873 units), such increasing number was primarily due to the thrust of the government policy applied to enhance agriculture production through institutional approach and coercion. The half decade of the 1990s noted the induced growth of agricultural cooperative in Indonesia (Table 5).

**Table 6. The Number of Cooperatives, 1991-1996.**

No.	Type of cooperative	1991	1992	1993	1994	1995	1996
1.	Village Unit Cooperative	8,498	8,749	8,873	9,021	9,200	9,226
2.	Other cooperatives	28,791	30,282	33,182	35,273	37,259	39,165
	TOTAL	37,289	39,031	42,055	44,294	46,459	48,391

Source: Ministry of Cooperative (in Statistical Yearbook of Indonesia, 1995-97).

The increasing number of farm cooperative during the period of 1991-1996 was undeniably due to the strong political will and policy of the government. Secure domestic food production and distribution were always the government's priority on agricultural policy. Nevertheless, the expansion of agricultural cooperative movement was carried out in the same way and strategy, namely, coercion.

The great economic crisis that hit Indonesia in 1997, followed by the nation's reform movement in 1998 also influenced the overall production policy of the new government. For more than 32 years, Indonesia's agriculture development program was strictly controlled by the New Order administration, which also affecting the development of farm and farm-related cooperatives, particularly at the operational and field levels. In the last decade of the 20<sup>th</sup> century, particularly the second half of the decade, the development of Village Unit Cooperatives was hampered by the political turmoil and economic chaos that followed the fall of the New Order regime. Such a chaos brought agricultural cooperative movement to a halt. For a while, it seemed that the existence of Village Unit Cooperatives was in a crucial situation. This situation was indicated by the negative growth of such cooperatives from 9,635 units in 1997 to 6,946 in 2000.

**Table 6. The Number of Cooperatives, 1997-2001.**

No.	Type of cooperative	1997	1998	1999	2000	2001
1.	Village Unit Cooperative	9,635	9,216	8,620	6,946	N/A
2.	Other cooperatives	42,571	49,925	81,319	84,819	-
	TOTAL	52,206	59,441	89,939	91,765	109,632

Source: Ministry of Cooperative (in Statistical Yearbook of Indonesia, 2002).

On the other side, the number of other cooperatives that engaged in sectors other than agriculture was interestingly growing (Table 5 and 6). Such consistent and positive growth of other cooperatives was assumed to the freedom they enjoyed that was far greater than that of farm cooperatives. Furthermore, the growth and development of non-agriculture cooperative were not fully dependent upon the government program. In the other words, the non-agriculture cooperatives were not fed by the government programs or government-designed programs.

For more than 32 years, Indonesia's agriculture development program was strictly controlled by the New Order coercive policy, which also affected the development of farm and farm-related cooperatives, particularly at the operational and field levels. In the last decade of the 20<sup>th</sup> century, particularly the second half of the decade, the development of Village Unit Cooperatives was hampered by the political turmoil and economic chaos that followed the fall of the New Order regime. Such a chaos brought agricultural cooperative

movement to a halt. For a while, it seemed that the existence of Village Unit Cooperatives was in a crucial situation. This situation was indicated by the negative growth of such cooperatives from 9,635 in 1997 to 6,946 units in 2000.

On the other side, the number of other cooperatives engaged in sectors other than agriculture was interestingly growing from 14,810 in 1997 to 25,431 units in 2000. Such a positive growth of non-farm cooperatives was assumed to the freedom they enjoyed that was far greater than that of farm cooperatives. Furthermore, the growth and development of non-agriculture cooperative were not fully dependent upon the government program. In other words, the non-agriculture cooperatives were not fed by the government programs or government-designed programs.

Along with the dynamics of cooperative institution, the number of cooperative memberships normally grew in line with the cooperative's organizational vibration. This was true for the non-agricultural cooperative organizations. The total member of 28,791 units of non-farm cooperative in 1991 was around 19 million. In the year 2000 the number of unit has soared to 84,819 with total memberships of over 25 million. On the contrary, the Village Unit Cooperative's memberships showed a decrease from around 20 million members out of 8,494 Village Unit Cooperatives in 1991 to nearing 14 million out of 6,946 units of cooperative in 2000.

The impressive number of non-agriculture cooperatives which in 2001 reached an astonishing number of 109,632 units was due to the facts that the vast majority of such cooperatives were more profit oriented and, therefore, needed to develop and maintain management strategy that insured the sustainability of both the business and the organization. In such a case, small number of membership was considered more efficient in terms of management and business maneuvers. Furthermore, smaller organization was easier to manage and therefore, enable the organization to adjust more easily to the ever changing social and economic situation. On the other side, the Village Unit Cooperatives which exclusively carried out agriculture and farm business activities, as well as engagement with government agricultural development programs, required a huge mass to insure better distribution of farm input required to support the government's broader development program. Yet, both farm cooperative and non-farm cooperative showed decreasing average memberships per cooperative unit from around 650 person per non-farm cooperative unit in 1991 to around 300 in year 2000, and from around 2,300 per Village Unit Cooperative in 1991 to around 2,015 in year 2000, respectively.

After the 1998 reform movement, inter institution interaction and coordination were influenced in a way that data and information exchange was to some extent limited. The Ministry of Cooperative was evolved to a larger institution, namely, Ministry of Cooperative and Small-Medium Scale Enterprises. It was now dealing not only with cooperative movement, but also with any other enterprises in certain range of capital and business operation. Beginning in



year 2000, the growth and development of cooperative was no longer presented in terms of number. It was now measured in terms of credit distribution through the organizational activity. The farm business credit in the period of 2000 – 2003 showed a decline from US\$ 9.1 million in 2000 to a mere US\$ 0.5 million in 2003 (Statistical Yearbook of Indonesia, 2004). Such a decline was partly caused by the rapid change of global economy which further affected Indonesia's domestic economic activity, as well as the change of the country's development strategy.

### **2.3. Development of Indonesia's Dairy Cooperative Union: a Different Story.**

Indonesia's dairy cooperative movement was initiated in 1949 in sub-district of Pangalengan, West Java. During the period of 1962-1970, several dairy cooperatives were developed in Java, particularly in the centers of dairy farm production activities. Dairy farmer groups in the highlands of West, Central and East Java formed their own dairy cooperatives. In 1979, Indonesia's Dairy Cooperative Union (*Gabungan Koperasi Susu Indonesia, GKSI*) was officially formed. Assisted by concern government officials and local farmer leaders, the dairy cooperative flourished and survived the great economic depression of 1997. In 1982, a collaborative ministerial decree that support the development and expansion of milk marketing was issued. Such decree has become the important entry point for the *GKSI* to expand its marketing strategy. Prior to such decree, the Presidential Instruction No. 2/1978 that allowed the Village Unit Cooperative to assume the multipurpose functions enhanced self-reliance and increased the participation of dairy farmers in cooperative movement. The presidential instruction directed dairy farmers to better development of the cooperatives where they engaged.

The general development of dairy cooperative was similar with that of other farm cooperatives: its development was supported by strong government policy. The difference was that the dairy cooperative was not fully acting as the government's development program agent. Some of strong government policy supports enjoyed by dairy farmer cooperatives were Indonesia's fourth Five-Year Development Plan (1984-1989), in which the government gave even greater emphasis to dairy development. Moreover, the fifth Five-Year Development Plan (1989-1994) had as its target an increase in milk production to arrive at a 1:1 ratio of domestic milk purchased by milk-processing factories to imported milk.

The positive development of the dairy cooperative was often associated to the nature of the business and the material involved in such a business. The nature of dairy products was often assumed as the push factor for dairy farmers to cooperate. Milk has specific biological characters that give farmers considerable pressure: it is voluminous and perishable and, therefore, requires proper handling. Consideration on milk's biological characters encouraged dairy farmers to develop a network in collecting and marketing such perishable product. Yet, this was not true for other perishable and voluminous commodities such as fish and vegetables, which did not show

significant development in cooperative movement. On the other side, a large number of Village Unit Cooperative dealing with milk production and marketing showed interesting development. Such a development was also due to the dairy farmer's higher level of awareness to cooperative marketing compared to that of paddy farmers. They were also more responsive to market condition due to the product's biological considerations.

The history of *GKSI* was inseparable from the support and leadership of several prominent figures who stimulated local dairy farmers to establish and join local dairy cooperative in their respective areas. High ranking government officials at the Ministry of Agriculture and Ministry of Cooperative, as well as university academicians positively exercised their positions to actively support the development of dairy cooperatives. Social campaign on the positive aspects of cooperative and motivating dairy farmers to join the cooperative as well as appropriate strategy on technology transfer were significant factors that helped the Village Unit Cooperative dealing with milk producers growing. Baga (2003) pointed out a high ranking official at the Ministry of Agriculture, the late Dr. Daman Danuwijaya, as the most influential figure in the development of dairy cooperative. Dr. Danuwijaya established South Bandung Dairy Cooperative in 1969 when he held the position as the head of Bandung Livestock Service. With his tireless effort, the Dairy Cooperative Union (the *GKSI*) was then established in 1979. Nowadays, milk processing units and factories owned by local dairy cooperatives under the umbrella of *GKSI* still doing profitable business and marketing pasteurized milk, ice cream, yoghurt, and other dairy products.

As a well-established national cooperative organization, the *GKSI* is managed by a board of 15 persons. The board members are elected every three years. Each region of milk producing centers where the *GKSI* operates has its own coordinator. Within its operational areas, the *GKSI* has six regional coordinators for West, Central and East Java, Jakarta, Yogyakarta, and West Sumatra, respectively.

#### **2.4. Legal Framework for Agricultural Cooperatives.**

The agricultural cooperative movement in Indonesia was fully supported by the government policy and mainly directed to enhance the nation's food crop production. Significant changes in the organizational structures, type of business, mode of operation and other measurement were set, defined, and supported by and through the government's policy. Besides the Constitution of 1945, a number of presidential decrees and instructions were issued and made as foundation of agricultural cooperative movement and development. To allow the already operating rural agricultural cooperative to a higher pace of activity, related ministries and institutions issued several decrees which all supported the sustainability of agricultural cooperative in the country. The Law of Cooperative No. 25/1992 reinforced the emphasis of cooperative business activity on an economic basis and harmony in the society. This is not to mention many ministerial decrees issued to help agriculture cooperatives developing and expanding. At least three ministries played significant roles in

helping the cooperative movement on its track as to improve the well being of its members and rural people as well as helping Indonesia's agricultural productivity improving. The ministries were Ministry of Cooperative, Ministry of Internal Affair, Ministry of Trade and Industry, and Ministry of Agriculture.

The basic organizational structure of Indonesia's farm credit was also set forth by government policy's guidance and direction. The organizational structure of cooperative set forth in the Law of Cooperative No. 25/1992 consisted of general assembly, board of director, and board of control. In general, the structure of farm credit emphasized on the unit of businesses in which the type and number of business was determined by the typical socio-economic situation of a development area. The organizational structure of the cooperative was also relatively homogeneous throughout the country. The difference existed primarily at the type and number of businesses managed by such organization. Furthermore, such a model structure did not undergo significant changes, except for some minor changes made to adjust the institutions to the existing social economic surroundings.

### **III. CURRENT SITUATION OF AGRICULTURAL COOPERATIVES**

#### **3.1. Institutional Arrangements.**

As the establishment of both Village Unit Business Board (*BUUD*) and Village Unit Cooperative (*KUD*) were based on coercion, it was obligatory for farmers, particularly paddy farmers, to join both the *BUUD* and *KUD* to have access to farm incentives provided and distributed by those institutions. For paddy farmers, being a member of these institutions meant compulsory acceptance of new technology, input and guidance of extension workers. Yet, although farmers were given vouchers to purchase subsidized fertilizer, often they could not acquire such an input at their expectation. There were cases where farmers obtained the inputs they needed not at the required amounts at the right time.

Apart from such a situation, the cooperatives dealing with paddy farmer showed impressive achievements in terms of boosting the nation's rice production, particularly during the period of 1970s to 1980s. Such accomplishments were largely due to the fact that inter institutional and inter sector coordination was strongly centralized in which food sufficiency and food security were the government's primary concern. Efforts and coordination between the Ministries of Agriculture, Internal Affair, Trade, Industry, Cooperative, the Central Bank, and their field level institutions, produced significant results. Each institution has its personnel and necessary facilities at both the central and local or field levels so they could be able to communicate specific field information to related institution responsible to overcome such particular situation.

### 3.2. Business Scope and Performances.

The development of rural agricultural cooperative was supported by the government-programmed businesses which, in part, was designed to provide the Village nit Cooperatives with a secure financial base upon which they could develop non-programmed businesses to address the needs of their members (Ministry of Cooperative, 1985). Such government-programmed businesses provided the cooperatives with an initial base upon which profitable general purpose rural shops then be established to serve members with farm inputs and consumer goods with discount prices. On a larger scale, the cooperatives were also engaged in the National Rice Procurement Program. The cooperatives purchased paddy from producers and small traders and sold it to the Depot of Logistics (*DOLOG*) at guaranteed prices set by the government. This policy enabled the cooperatives to play significant roles in the open market sale of rice to both retailers and consumers. Furthermore, the cooperatives were encouraged to expand their roles as channels of government programs designed to serve the broader national interests. The cooperatives then engaged in various businesses which were mostly initiated by the government. With the exception of some non-paddy farmer cooperatives, among various businesses where agriculture cooperative played significant roles were:

#### 1. *The fertilizer distribution program.*

The fertilizer development program was designed to enable paddy farmers to receive the fertilizer and other farm inputs they needed at the price they could afford and at the time they needed. Yet, the program was often unable to send fertilizer to arrive at the farm through the cooperatives in a timely fashion and in the quantities required. The cooperative as the supply channel was often inconsistently managed due to the misunderstanding of the cooperative's absorptive capacity.

#### 2. *Sugar cane intensification program.*

The sugar cane intensification program was designed as an import substitution device to stimulate the production of refined sugar and therefore, improving the income of sugar cane farmers. The program did improve sugar production and small farms surpassed the plantations of large sugar mills in terms of the amount of sugar cane being produced. The Village Cooperative Units which were posed as government program agents were unable to mediate the conflicts between large mills and sugar cane farmers that occurred during the latter years of the program.

#### 3. *Clove collection program.*

The clove collection programs carried out in the late 1980's to mid 1990's was unable to increase rural farmer's income. It was also incapable to strengthen farm cooperatives as business enterprises. Such failures were due to the unpredictable price fluctuation of clove, competition with private importation of clove, lack of knowledge of cooperative personnel in

clove production and marketing, strong control of traders of clove collection with farmers.

#### 4. *Rice procurement program.*

The National Rice Procurement Program was in many ways a remarkable success story. The program has contributed to the nation's self-sufficiency in rice and has largely managed to stabilize the price of rice to consumers throughout the country. The government targets were largely met and seasonal surplus production was largely removed from the market and safely stored in the Depot of Logistics (*DOLOG*) warehouses. Yet, the government policy did not help improving marketing system and strengthening the financial and managerial skill of the cooperatives.

#### 5. *Sugar distribution program.*

The government distribution programs through the Board of Logistics or *BULOG* in sugar, rice and wheat flour were purportedly designed in part to provide saleable commodities to the existing Village Cooperative Units at a reasonable wholesale price. However, such distribution programs have little significance in the development of the village cooperative level retail operations. The sugar distribution program was conceived with the interests of village unit cooperatives and rural people, but its implementation in a manner provided benefits to various institutions, few of which were farm cooperatives, and to a number of individuals, few of whom were cooperative members.

The strong policy of controlling the dynamics of agricultural cooperatives through feeding the government programs to the cooperative's activity hampered organizational initiative and discouraged the cooperative to take reasonable business risks to serve various needs of the members. Consequently, farm cooperatives could not function as business enterprises serving their members; instead, they acted as agents serving the government programs. The government control and guidance did not encourage the participation of rural farmers in rural cooperatives.

### **3.3. Management Performances.**

The primary task of farm cooperatives was a routine of assisting the members to continue improving and expanding their farm activities. The Village Unit Cooperatives supplied the information on the organizational and technical skill of their farmer members to local extension center at the sub-district level, namely the Sub-district Extension Office (*Balai Penyuluhan Pertanian, BPP*). The Social campaign on the cooperative activity was carried out by both the cooperative and field extension personnel. Routine meetings were carried out between the cooperative, farmer's leaders and local extension personnel. Furthermore, business discussion between the cooperative and the business community was also conducted at a frequent basis.

To finance the cooperative's activities, local extension personnel assisted and coordinated farmer's groups to expand their capital to support facilitating the group's needs. The group leaders also encouraged their members to save some of their farm earnings in their cooperative. In return, the cooperative provided farm credit with low interest to help its members expanding their farm activity as well as providing other farm-related services. A Village Unit Cooperative usually provided some farm-related facilities such as machineries and warehouses that could be rented, leased, or even bought. The credit was granted based on the group's activity plan submitted prior to the incoming planting season. The credit could either be directly given to individual farmers or through the group where the individual belonged. The decision making of most group or cooperative activity and policy was usually reached through consensus and farmers were usually receptive towards decisions concerning their needs. In terms of the usage of new technology, the majority of farmers usually understood its better efficiency and effectiveness.

Apart from some accomplishments, the management performances of the majority of the cooperatives remained poor. This was due to the low quality of manpower and intervention of the government with strong top-down policy so that the cooperatives were unable to develop their own business orientation. Yet, when the cooperatives were unable to cope with the government program, critics were thrown to the cooperative's poor performances. As example, the Regional Director of Cooperative stated that the Village Unit Cooperative in West Java were unable to cope to the government's pro-cooperative development program (Pikiran Rakyat daily newspaper, February 2005). Furthermore, in April 2005 the daily Newspaper "Kompas" reported that more than 50% of Village Unit Cooperatives in the Province of Jambi were near bankruptcy.

#### **IV. RECENT DEVELOPMENTS: INNOVATIONS AND OPPORTUNITIES AND THEIR EFFECTS**

##### **4.1. Organizational Structure.**

The organizational structure of Indonesia's Village Unit Cooperative is still based on the Cooperative Law No. 25/1992. The increasing number of cooperative other than farm cooperative in the period of 1998-2001 (from 10,135 to 25,431 units) was not related to people's awareness but was primarily related to the Presidential Instruction No. 18/1998 that stimulated the society to develop new cooperatives. The typology of cooperative no longer followed the norms set forth by the government's regulation. Such a situation created difficulties to organize both the business and the cooperatives into either vertical or horizontal organization.

#### **4.2. Business Scope and Performances.**

So far, the cooperative's activity is still limited to fertilizer distribution and trading. There are opportunities for the existing farm cooperatives to engage in warehouses development and management, transportation and loading and unloading of farm input and commodities as part of its profit oriented activity. Furthermore, the cooperative should also open the opportunity to be an equal partner with large fertilizer factories to distribute farm inputs to farmers. Processing and distribution of farm machineries are other possibilities the cooperatives may reap in the future. All possible prospects require an improvement in human resources. Better quality of human resource is the cooperative's primary challenge if they are to advance in the near future global economic competition.

#### **4.3. Governance Structure and Management Performances.**

The power structure of Indonesia's farm-cooperative is solely in the hand of the general assembly in which the members seek consensus related to the concern of the organization. Although the agriculture cooperative plays a role more as the government program agents, other organizational activities shows a more democratic fashion. For example, the appointment of the cooperative's chairperson is selected through an election, and the establishment of any unit of activity is based on the real need and potential of the organization. Yet, the management performances among Indonesia's farm cooperative are far from the expectation. The low quality of management performances so far is caused by the following problems:

- a. Different understanding and awareness of the farmer communities on the importance of a farm cooperative. Such circumstances are strongly related to low education and organizational skill.
- b. Relatively wide gap between the cooperative and its members due to the fact that the cooperative is often unable to develop an aspiratory management to serve its members.
- c. The gap between the cooperative and extension's operational areas. This situation is strongly linked to each organizational system and structures with different strategy of program implementation.
- d. Limited knowledge on the importance of rural cooperative among the extension personnel as well as lack of knowledge of cooperative personnel on the activity of farmer and farmer groups.

From the organization side, adequate managerial skill to assist the cooperative to thrive is needed which further directly related to man power quality. Understanding the society's socio-culture situation is also crucial due to the country's diverse community and institutional norms and rules. Cognizance should also be taken on the significant potential of people's participation.

## V. IMPLICATIONS AND EMERGING NEEDS

Although the government's powerful grip on Indonesia's farm cooperative movement and direction has, to some extent, produced positive sector development, the future of farm cooperative in Indonesia is still hazy. One suggested perspective is that the government should reduce its intervention towards the cooperative movement and strategy (Soetrisno, 2003). The revitalization of the existing agricultural cooperative should be in line with the need of the stakeholder of agriculture development. A revitalization process should be carried out in an organic way which avoids conflict with the existing norms and institutions. It should also consider the structure of the imposed cooperative institution, the potential to utilize the available resources, the legitimating process of the leadership, and the management style. These aspects are in fact have already exist within the farming communities and, therefore, it is crucial to understand the communal goals of such a society, its leadership and social system, as well as understanding the management style within the existing local institution. Lastly, the government should also develop an affirmative policy that takes side on the cooperative member's aspiration.

The above thought implies the need of a shared perception on the importance of people participation, the cooperative's tangible goal, and the availability of a support system. Farmer's active and interactive participation will significantly support the revitalization process on agricultural cooperative organization. Such participation will also stimulate the growth of an aspiratory management. Through active participation, the cooperative's members will be able to determine the future of their organization by using their analysis capability and program development.

An organization without tangible goal may face problems related to the member's expectation. The members of a farm cooperative as the primary stakeholder of agriculture development will only invest their time, ideas and their efforts if they see a tangible goal from their organization. Consequently, a revitalization effort should be able to set up clear objective and goals that are able to serve the needs of the stakeholder of development. In addition, the existence of a support system, both from the farmer's side and from the organizational point of view, will encourage a healthy process of revitalization efforts. The farmer's attitude toward new organizational rules and norms, knowledge and skill, as well as their willingness to actively participate, is some of many components of such a support system. On the other side, the existing social system, political condition, interaction form and style between institutions are the external support system, may also influencing the revitalization process of agriculture cooperative.



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