

## ROLES OF COOPERATIVE AND SMALL HOLDER FARMERS ON AGRIBUSINESS DEVELOPMENT IN INDONESIA

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### INTRODUCTION

1. The agriculture sector shows substantial roles on Indonesia economy. In the macro aspects, the roles include supplying food, raw materials for Industrial sector, employment and foreign exchange.
2. The agribusiness sectors include up-stream off-farm business, on-farm and down stream off- farm business. The up-stream off-farm business includes supplying seeds, fertilizer, medicines, pesticides and agricultural equipment etc. While the down stream off-farm business includes post-harvesting, packaging, agroindustry, transportation, distribution and promotion. The role of small scale farmers is limited only on-farm activities while the big business handles both on on-farm and off-farm activities which generate more added value.

### CONSTRAINTS ON AGRICULTURAL DEVELOPMENT

The constrain concerning the development of agricultural development can be divided into two situations namely the situation before the Indonesia economic crisis and during the economic crisis and coincide with long dry season.

1. General Constraint facing agricultural development is that most of individual farmers only conducted small scale on-farm activities. They obtain only small added value accordingly. Other problems include the following:
  - a. Due to lack of human resources competencies, farmers found lack of capital, technology, marketing, organization and management.

- b. The farmers generally did not have integration linkages (upstream-downstream activities). Therefore, when changes happened, they could be easily shocked.
  - c. Animal husbandry sub-sector was still dependent upon import, especially for agricultural inputs. The artificial exchange rate made import of agricultural inputs much profitable compared to produce the inputs locally.
  - d. The market of the poultry produce can be categorized into wet market or traditional market and clean / modern market. The agricultural produces of small poultry farmers could only be marketed to wet market. Meanwhile big business that should only supply modern market sometime also supplies wet market without any sanction.
  - e. Financial and banking system were conducted on assets based. Therefore, in this kind of policy, the opportunity of small farmers to obtain capital was very limited.
  - f. Farmers organizations in term of both economy and advocacy were not effective. Therefore, the well being of farmers could not be addressed.
  - g. The tight liquidity gave high interest rates to the market. In this kind of situation, it was very vulnerable for farmers to stay in their business without any subsidy.
2. During this economy crisis and long dry season, the agricultural sector especially poultry business suffering disadvantage impacts. Among the impacts were the inputs price goes up substantially, while consumers purchasing power declines. The farmers can not easily run their business in this kind of situation.

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## THE ROLES OF COOPERATIVE

Cooperative is established more or less because of two (2) main problems faced by the founding fathers. First, there is imbalance of market power, which hampered some of the community members to fully participate in marketing fairly and justly. Several methods starting from price game until constraint to fully participate resulted in the arise of pseudo controlled market. Second, economic and social need, which could not be fulfilled individually because there is a limitation of resources, belongs to individual.

The role of cooperative in agricultural development could not be separated from the instrumental features existed from the cooperative basic principles. These basic principles which distinguish cooperative from the other economic institution in the development. There are three (3) specific basic principles of cooperative, as follows:

1. The User-Owner Principle. People who become cooperative service user are also the people who own and finance the cooperative.
2. The User-Control Principle. People who use cooperative service are also the people who have the right to control the cooperative.
3. The User-Benefit Principle. The main utilization of cooperative is to provide and distribute the benefits to the user base on this participation in the cooperative activities.

The three principles concerned guarantee the members as user / customers and simultaneously beneficiaries of services rendered by cooperative, and the members / consumers concerned. Authority will be divided equally among the members and partially non-members are not given priorities concerned so as cooperative can avoid the effort of non-members to change the direction and objectives of the cooperative from the original objectives.

If the three principles are satisfied, the cooperative will be able to become the right economic institution for the rural development activities. There are some

argumentation which support it, among others are:

1. Cooperative is based on mutual need, so that this organization will be able to help the community to lift up their interdependency as a group,
2. Cooperative has a wide membership basis, so that the benefit will be able to be distributed widely too,
3. Cooperative is based on the interest of the member, so that this organization will be able to anticipate the need arises and take faster action in the effort of fulfilling the needs concerned,
4. The member make decision and control democratically, so that they have the right to more control on their living. This is very important for rural areas where the economic basis which will / have moved outside or at least outside influence is still very big towards their living structure and,
5. Cooperative is locally owned and controlled, cooperative will be remain bound locally. Therefore, cooperative will not easily be able to be removed its location as branch of business of a big enterprises from outside the village, and little possibility for cooperative to remove its business to other places.

Cooperative can create new employment opportunities and increase the income in rural areas. They will be able to increase income or improve services to the members. Further on the income concerned will be able to be spent in the rural area so that it will be support to increase the economic and social growth in the rural areas. Some of the existing services in the rural area to day will not be provided without the existence of cooperative.

Stanford *et al.* (1989) stated that there are at least four (4) strategies, which can be followed by cooperative to contribute to agricultural and rural development in general, among others, are:

1. Activities to increase rural based added value which locally will create new employment opportunity and income, and will retain most of the economic value of the end product in the rural areas,

2. Cooperative in the rural areas, which bought materials for its activities, will utilize the available local resources. This can be backward and forward connection from production process in the rural areas, so that it can lift-up the economic activities in the rural areas,
3. Cooperative can diversify its business so that there will be more need of the communities in the agricultural aspect as well as other needs which be serviced by cooperative,
4. Cooperative can render service and consultation to the members, especially in the case of developing alternative markets for commodities, which are not the main priority service of cooperative.

Historically, in general, cooperative is related to business scale problem in the marketing, purchasing and services activities. Scale of business constitutes general problem faced by rural areas. By the common bound in purchasing, sale and services, community member of cooperative will be able to be more efficient and cost effective. Further, it will be able to be utilized for development efforts.

Cooperative can also help to integrate the community participation, planning and commitment within the frame of improving possibilities and opportunities of development. Knowledge on interconnection among economic activities, physical infrastructures, finance and social services can be combined with the identification of local need and resources contribution, which further could be used in the development planning.

Understanding the role of cooperative in agricultural development in Indonesia, we should not forget the basic thinking concerning dimensions of the cooperative body. Cooperative in Indonesia shall at last have four dimensions of roles, which could be implemented, i.e.: (1) Cooperative as a process where roles and cooperative development represent a line of sustainable activities, (2) Cooperative as a method where cooperative roles and development concerned could be method and standard of development system, (3) Cooperative as a program where roles and development of

cooperative constitute a collection of planned activities in its implementation, and (4) Cooperation as a movement where the cooperative roles and development present a vehicle to motivate the participation of members and the community to improve their standard of living.

Based upon those four dimensions concerned, the roles and development of cooperative in Indonesia should be developed. Experiences of cooperative development in the previous times shall be replicated in the effort of further cooperative development. This matter needs the creation of a standard methodology. New innovation should be condensed to become further promotional methodology. If analytical diagnosis accompanied also by proposal to solve problems, decision-makers and the implementers will be very respective and will make effort to apply it. However, every methodology is not universal in character, therefore adaptation is needed or even must not be applied at all in local condition and culture which are different with the origin of the methodology concerned.

Cooperative has many built-in superiorities, beside character explicitly could be seen from the principles of cooperative which maybe very useful in the effort of development. Cooperative institution also produces leadership knowledge to organize the community and economic function beside providing physical facilities, human resources and finance.

Nevertheless, cooperative remains to be a business. It has to achieve goals and their benefits on the first thing or it can be destroyed. If the benefits is only directed to limited amount of members and with specific interest (for example their interest will not be overlapping extensively with the interest of the community surroundings), cooperative shall be object to more emphasized the interest for their needs.

#### **ROLES OF COOPERATIVE IN HUSBANDRY**

Among several husbandry cultivated by small scale farmers for their living, poultry and cow milk are the two largest

animal that involve big number of small scale farmers. From both widely cultivated livestock only in cow milk agribusiness cooperatives have shown their services and shares to improve their members business and welfare as well. In poultry business, little number of cooperatives still exists to serve their member.

Nowadays, there are about 353,000 milk-cow population in Indonesia, concentrated in the high lands of Java Island. Almost all-dairy farmers are cooperative members, and utilize cooperative, as real economic member owned institution. Total production of all dairy farmers share is about 12.11% of the total Indonesia animal protein need per year.

In order to grow dairy cattle for their business, farmers require farm inputs among other one: quality of parental stock, animal feed, medicines and vaccines. Since milk is a perishable agriculture product, in order to market their product, the farmers need a certain market. And so they realize the need to have an economic owned institution, starting with the government facilitation in importing and subsidy the credit to the farmers through cooperative. Dairy cooperatives began their role to serve their members in agribusiness related to their member needs. To do so efficiently and effectively, all primary dairy cooperatives established a secondary cooperative in national level which then to better services to the members. Primary and secondary cooperative serve their members include provision of parental stock, animal feed, medicines and vaccines production services and marketing services.

#### **THE ROLES OF THE GOVERNMENT IN COOPERATIVE DEVELOPMENT**

From the previous discussion, it has been stated that there are at least two main problems in agricultural development, i.e. to increase productivity of each farmer and additional manpower in rural / agriculture area. These problems will still predominantly exist until the end of the Second Stage of Long Term Development (PJP II). At the end of REPELITA X (The Tenth of Five Year

Development Plan) later, the average productivity of the labour force of agriculture sector remains around 30% of the average productivity, While the rate of manpower absorption by non-agriculture sector will still slow. These problems weakened, because the weaknesses and the lack of rural institutions and the low degree of manpower absorption of non-agriculture sector.

Cooperative, as one of the rural economic institutions which so far was supported and grown-up by the government, can be simply said that in general it still weak and underdeveloped to become self-reliant economic institution. Anyhow, it does not mean that cooperative should continuously depends on the government. Therefore, in developing cooperative it needs to seek balance of the government's roles. Bearing in mind of the heterogeneity inter region and area as well as different human resources capability, surely the standard formula cannot be applied equally to every region.

The implementations of government policy in many developing countries have many criticism duet excessive movements itself which is not able to be self reliant. Abrief review concerning this matter could be seen of the analysis of Veerhagen as quoted by Hanel (1989): "*Model of intervention which has ever applied and now is still applied in many countries is directive from central to regions, a model taken from central planned economic system, the ironical is that cooperative organizational model which will be disseminated is taken from western industrial country. That in why to alien observer, description on cooperative in developing countries show a confusing outlook since there are authoritarian and political intervention of the government, but formally framed-up by the philosophy of self-support and participation of the community*".

In view of the cooperative movement itself, sometime they were trapped between two parties. In one side there is influence and strike supervisor of the government, and on the other side they have to be able to compete in free market, whereas they are not free to determine their business policies as their competitors. This was showed by Laidlaw as follows: "*So as can be said cooperatives in developing countries felt many most things*

*for both worlds: they have to compete but have to do according to the rules stipulated and, some time have to live under the management provided by the government. Thus, they seems like a horse rider who rides two horses simultaneously, which for a circus actor is not too difficult but an ordinary horse rider is not easy”.*

The roles of the government in cooperative development can be conducted through regulations and legislations, initiative of establishment and development, business protection, taxation, guidance and extension and so on. The roles concerned could be positive, neutral as well as negative. Government in developing country generally has positive, basic attitude against cooperative development. Various strategies and policies aiming at developing and improving cooperatives that were established by the government respectively, wide bias sometime happens between concept, policy and implementation, resulted in bad image concerning the role of the government.

In Indonesia, the government has the basic attitude, which tends to phasing out the role of the government. Strategic of cooperative development is known as officialization, deofficialization, and autonomization, could be the indicator for that. In the era of future development later on, cooperative development strategy will more directed to autonomization and deofficialization for certain things, considering the inter regional heterogeneity as it has been discussed previously. In the meaning, the role of government will put on the priority of cooperative self-reliance principle without interfering the internal affairs of cooperative organization.

If we study the law number 25 of 1992, specifically Chapter XII concerning Promotion, we will obviously see the form of role of government in cooperative development. Article 60 stipulate the essential of government role concerned, i.e.:

1. The government shall create and improve conducive climate stimulating the growth and socialization of cooperative, and
2. The government shall give guidance, facilities, and protection to cooperative societies.

By this provision, the government has a strong and clear basis to implement his role in deciding promotional policies necessary to encourage the growth, development and socialization of cooperative. According the principle of self-reliance, the respective promotion is conducted without interfering cooperative internal affairs. Cooperative growth, improvement and socialization are efforts conducted by the government so as to the community at large understand cooperative ideas with full awareness to establish and utilize cooperative to fulfil their economic and social interest. Provision of guidance, facilities and protection by the government is effort of cooperative development conducted through the issuance of policy, providing facilities and consultation needed so as the cooperative is capable to implement the function and the role and achieve the goals. Thus, it is the obligation of all government apparatus in national level as well as in regional level to do so.

It has been identified that the basic problem faced by the cooperative is the capability of human resources. Weaknesses in human resources capability caused weaknesses in other aspects, which includes weaknesses in access to market and capital resources, organization and management, access to technology. Therefore the strategy in cooperative development, is basically to cope with several of these weaknesses which includes:

1. Increase market access and strengthen the market share,
2. Increase capability and access to capital sources and strengthen capital structure,
3. Improve managerial and recognizability capability,
4. Strengthen access to technology, and
5. Strengthen business networking.
6. Empowerment of the members or the community through the possibility to set up cooperative according to the most efficient economic interest.

By studying the experience of several other developing countries, studies of expert, cooperative characteristic as discussed previously, and national condition, hopefully, policies of the government in developing

cooperative will be effective and efficient for the interest of the community of course be remain paid attention to the flexibility of a policy. Flexibility of a policy can be a very encouraging matter, but it could be conversely, where the flexibility concerned become a boomerang which result in uncertainty in the application of a policy. This flexibility is determined by the power of an authority besides the existing loop-holes in the prevailing regulations and legislations.

In the Law number 25 of 1992, those loop-holes among others are regulation of the Government which will complete it and, for promotion especially, article 62 stipulates: "Promotion as stipulated in Articles 60,61, 62 and article 63 is conducted by taking into account on the national economic condition and interest and equalization of business and employment opportunities". For that, more intensive studies and researches on policies are necessary so as big bias between basic attitudes and policies and its implementation will arise. Community, at large, they only see and evaluate the role of the government from what they feel, see and experience.

#### AGROINDUSTRIAL DEVELOPMENT POLICIES

Economic crisis, which have experienced for a year resulted in serious sufferings of the poor populous as poultry farmers as well as consumers. Production cost has tremendously increased while the purchasing power of the community decreased, specifically for cattle farmers, and this means that the demand or the volume of the business decreased. On the other side, it is more difficult for the consumers to fulfill their needs for food, especially for the source of the protein. Agroindustrial development is expected simultaneously to be able to solve those problems of both sides, producers and consumers, by increasing productivity and added value of the producers or the farmers, which represent the majority of the populace. On the other hand, the product that they produced could be reached by the consumers where all the populace are consumers. In other words, agroindustry should be developed in the frame of people economy

i.e. the economy of the most people of Indonesia.

In this case, several measures should be taken so as agroindustry can really be a great support for the interest of the people's economy. The measures that should be taken are as follow:

1. The farmer populace should manage and control or master the upstream industry such as the industries of agricultural tools, fertilizers, pesticides for food agriculture or feed, seed and vaccines for fishery and animal husbandry could be managed and controlled by the farmer as much as they can through their organization. To materialize the managing and controlling of the above matters, farmers should join in solid producers' cooperative where they have strong link and trust on their cooperatives, so as the secondary level of cooperative constitutes a cooperative with a high scale of capability to master the upstream industry. Cooperative can also increase their capability to produce quality products in line with the market demand.
2. The farmers' community is encouraged to have the capability to manage and control the downstream industries with the distribution network through their cooperatives. The downstream industries such as processing can as much as possible is handled by cooperatives so as the added value and the bargaining position of the farmers can be increased.
3. Consumers organization in the form of consumers' cooperatives need to be developed and improved so as they can function to strive for the interest of the members who can easily gain the goods and services under reliable price and quality.
4. The establishment and functioning of the consumers cooperative simultaneously constitutes effort to structure market of producers cooperatives' or customers, so as cooperative traditional market or wet market as well as cooperative modern or clean market can have high competitive position. Business networking between consumers' cooperative and producers cooperative is also an effort to increase

the efficiency and competitive position of the cooperative society.

5. Financing and licensing that partial to the small populace such as provision of credit which shall not based on the collateral of the asset belong to the farmers but on the business feasibility, credit shall not be extended to the land owner but to the tenants, the right on managing governments' asset such as the right on forest management shall not be given to big enterprises but to the people through their organization i.e. their cooperative.
6. Advocacy to cooperatives and small and medium business so as the right of the populace can really be utilized by them and shall not be exploited by other parties. Regarding to this matter, it is necessary to set up advocacy units in the regional areas for cooperative and SME's at least at the district level.
7. The establishment of supporting institution or agency in the area of cooperative and small and medium business technology and human resources.

#### CONCLUDING REMARK

Recovery of economy crisis that has resulted in suffering of people, mostly small people whether producers or consumers, mostly depend on the agricultural sector. This sector is expected to be able to supply sufficient food for the people under reachable price, generate job opportunity, foreign exchange, raw material for the industry and create domestic demand to stimulate other economic sectors.

Major players in agriculture sector are small farmers. Therefore great challenge in the agriculture sector development is how to empower the farmers. In this case, cooperative is among the most suitable mean or institution to deal with, since in the cooperative embodied characteristic such as participation, democracy and transparency. Therefore the development of sound producer cooperatives, consumer cooperatives, network or integration among them, and control of upstream and downstream

agroindustry, is expected to generate efficiency, higher bargaining position, self sufficiency and dignity of the farmers.

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