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ECONOMIC INFORMATION ON INDONESIA

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ECONOMIC INFORMATION ON INDONESIA

[Following are translations of articles on the above subject, selected from Indonesian sources. Source information accompanies each article.]

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## COPRA TRADE AND COPRA COOPERATIVES

[Following is the translation of an article by I Gusti Gde Raka in Warta Ekonomi (Economic Information) Vol XIII, No 23/24/25, Djakarta, 18 June 1960, pages 428-433]

### Farmers As Producers And Consumers.

Without going deep into the theory of trade, it is wise to mention here that farm produce always fall short of demand. To obtain farm produce is always a struggle. Traders, to ensure that they get the farm produce, are ever ready and willing to make advance payment on the produce.

The products of industries, however, enjoy a more favorable atmosphere. Farm produce also suffers from many unfavorable effects of nature. On top of this, when the produce production goes up, prices go down. To increase industrial production is easier and more profitable. The output of industrial products is greater than demand. Here we see that industrial products have to seek for markets. To induce sale, it has become common practice to extend credit to buyers.

Taking into account what has been said above, it is easy to understand how farmers can easily get tied up with debts in their position as producers and consumers. This dual relationship forces them to accept loans on their future crops to enable them to buy the many things they have to have. Reluctantly they accept these accommodations despite the realization that they weaken their position.

Traders realize the situation. In the transactions of farm produce, traders act as buyers of farm produce and suppliers of the daily needs of the farmers. In this role, they profit from two sources, as will be shown in the discussion of commission agents' role in another section of this article.

### Copra Trading

What has been said above regarding farm produce in general holds true for copra. Copra, other than the small part which finds a market at home, has to be shipped abroad,

which requires engaging big traders who write contracts for substantial quantities of copra, make financial arrangements, for the performances of which, commission agents are needed in copra producing territories.

Engaging of commission agents is not a common occurrence. Even though there is more than one trader in a place, the farmers sell only to the one to whom they are already financially obligated, for their welfare depends upon whether they can continue buying on credit the daily necessities of life from the one to whom they are already financially obligated. The small farmers whose knowledge of marketing is limited, usually prefer to deal with the traders whom they already know.

In general, commission agents work in limited territories, they work with the farmers who already have borrowed money from them or bought goods on credit. The commission agents normally receive money from big operators who carry supplies for the daily necessities of life to be sold on credit to the farmers. In copra trading, there are strong bonds and ties which almost guarantee sure profit for the traders. Honesty found among farmers makes it doubly sure that whatever advance payments traders might have made to the farmers, or permitting them to get supplies on credit, is as safe as money in the bank.

In 1937 the Government sold salt in Bangka at 8 cents per briguet. Yet the villagers preferred to go to the stores to buy salt for 10 to 11 cents per briguet. This goes even farther to show how strong the bonds and ties are between the two groups. The spice producing farmers and storekeepers relations is found also among big operators in towns. The storekeepers do not go to the official market to buy salt, but rather to the big operators who have loaned them money.

On the whole, in copra trading as well as trading in other produce of the land, weighing acts as a hidden method employed by commission agents to extract more profit. In some localities in Bali, commission agents buy coconuts by the kilogram at fixed price. When the price of coconuts is compared with the price of copra, there appears to be hardly any difference, if there is, the coconut price is higher than that of copra. Could it be that the commission agents sell at a loss? Definitely not. Beyond any shadow of doubt the loss has to be covered by some means, which in this case happens to be the use of

falsified scales. The use of falsified scales acts in two ways for the benefit of the commission agents. The apparent high price which he pays for the produce draws the farmers to him. This he covers by cheating on the weight. This double dealing acts incongruous; the price of coconuts in which is included transportation cost is not higher than in the villages. The farmers when selling the produce in the form of copra, in addition to being cheated on the scale, suffer the usual reduction of as high as 16 per cent.

This same kind of relationship is also found between the commission agents and the big operators. If the commission agents cannot be cheated on the weight, the high shrinkage allowances given to the big storage operators is usually high enough to give them profit even though the price they pay is seemingly high.

For the high shrinkage allowances, the commission agents are also at fault. It is not unusual for wet copra to be sold. The storage operators, of course, must dry it again before it is acceptable to be processed in the factories. Moreover, because of the inadequate preparation of the copra, it is not unusual to find much of the copra to be in poor condition. This rush type preparation of the copra is looked upon as minimizing the risks attendant from the market. Greatly responsible for this rush type preparation is the fluctuating copra price recently experienced. A one day delay in the sale of the copra might result in great loss.

In addition to the inadequate preparation given the copra (see article: "Technique of Copra Preparation" in Agricultural Magazine Vol 10 No 5) green picking of coconuts is responsible for the poor quality. From the standpoint of the farmers it is understandable, for they are always in dire need of cash, and their harvest that can easily be converted into cash is coconuts. The commission agents do not have any choice but to accept these poor pickings, particularly if they have already made advance cash payments for other supplies.

### The Position of Commission Agents

From the above discussions it is clear what an important position the commission agents have. As a lender of money, and at times a provider of supplies which can be bought on credit, can be seen the importance of his position to the economic welfare of the villagers, parti-

cularly if he is a man of influence. Loans that can continue without interruption certainly work wonders. As was aptly said by Mr. de Vries, between the farmer and the commission agent, there has always been a current account. Speaking on copra trading in Minahasa, Mr. de Vries explained: "Since before 1914 the relationship between the commission agent and the farmer, in as far as current accounts is concerned, is known to exist." The former usually supplies rice and other necessities and records them as the equivalent of so much copra. With the passage of time, the transaction grows bigger, but even as late as 1917 it had not grown to the present proportion. The outbreak of World War I resulted in shipping space shortage and sources of supplies becoming scarcer and giving rise to sharply fluctuating price, led the traders to require better assurance. Verbal agreement gave way to written agreement, and to give it added strength the agreement was notarized and the produce or the land became the collateral.

Thus the conditions mentioned above have brought about the present relationship between the commission agents and the farmer. Such relationships between the farmers producing other crops and commission agents are known to exist. So long as the price of the crops gives good profit, the farmers meet their obligations satisfactorily, and traders get sizable profits, everything will be just fine, but when the price goes down, the commission agent begins to act. Many coffee farm lands in Bali have changed hands because of an unfavorable market. The agent does not really want to take over the farm, for all the risks attendant to the farm will henceforth fall on his shoulders, the care of the farm he must turn over to others without any assurance of good crops, while at the same time leaving him in doubt whether his share of the profit will be as much as he rightfully expects. In addition his investment in the land cannot readily be converted into cash, which lessens his chances of making a profit. Viewed from the social standpoint, the taking over of the farm can easily lead to many undesirable reactions, therefore he will only do so under the most pressing conditions.

In general the advance cash payment made to the farmers bears no interest, but if one considers the price of the produce, the loan is really interest-bearing, either by the agent paying less than the market price, using falsified scales, or upping the shrinkage allowances. If the agent happens to own a store, his interest on the money loaned might be in the form of charging higher prices

for the daily necessities of life, or selling lower quality goods the same as high quality goods. The farmer, possibly from his lack of understanding, hardly ever pays any attention to such subtleties. Moreover, getting a loan from an agent is so easy, which attracts friendlier attitudes from the farmers, who are in constant need of cash.

From the above discussions, conclusions can be drawn that the farmer needs the agent for:

1. To act as agent for his produce.
2. Up to a specified amount he is quick to give loan to the farmer either in goods or in cash.
3. He understands the needs of the farmer, at the right time and of the right kind.

#### Things To Observe To Promote Copra Cooperatives

From the above discussion, a few conclusions may be reached.

1. The existence of a traditional relationship among the parties known as the farmer, the agent and the big trader, a tie which is hard to break.
2. Agent and trader combine to make light the burdens of the farmer to the point that his daily necessities are guaranteed by the agent-trader combination.
3. The making of burdens light for the farmer has induced him to give everything to the trader, and hurriedly sell his coconuts without giving thought to whether they are ripe or green. The difference in price between ripe and green coconuts does not give encouragement to improving the quality of the coconuts. In these circumstances, the quality of the copra in the villages is generally poor. Among the farmers, some still believe that green picking will cause the plants to be ruined, although this has not yet been proved scientifically, but it nevertheless acts as a brake on the ruthless desire to pick green coconuts. This belief, however, is getting dimmer by the day. In addition to their being hard pressed for money, theft also plays a part in forcing the farmers to pick the coconuts before they are ready.

The use of falsified weights and the limitless shrinkage allowances in themselves amount to theft.

Such is the condition to be found in the copra trade, which basically weakens the position of the farmers, be it from his lack of knowledge or the economic pressures he finds surrounding him.

Many of these problems can be overcome by cooperative organizations, so long as one is familiar with local conditions and the method employed by commission agents, only this time it will be to the benefit of the members of the cooperatives.

The keeping of current accounts will be continued, but by the members and the cooperatives, and bearing the motto of educating its members. No advance payment will be given, based on the amount of the copra to be surrendered, but part payment on the copra will be given to the farmer who turns over his copra to the cooperatives to be sold. To avoid members going to the stores of others, it will benefit them to have stores of their own from which to buy their daily needs for cash out of the part payment each received for his copra, and if credit is extended, it will be limited to the amount still due him from the cooperatives which handle the copra.

2. When farmers still owe money to agents, the cooperative should make full settlement of the account, because so long as the debts are not liquidated, the operation of the cooperative will be handicapped.

3. That the agents will not remain quiet is understandable. Enough information should be circulated relating to the efforts of the cooperative and how one can become a member. One must remember that between membership loyalty and the service the cooperative can render to its members, a great deal depends on how strong the ties are between them. The ability of the cooperative to fulfill the services mentioned in subarticles 1 and 2 will have an impact on membership loyalty, although the services are made possible by membership loyalty. Fresh territories, clear of agent connections, normally will be a better ground for better membership loyalty since there will be no outside interference.

4. The copra cooperative should accept only coconut farmers as members. Specializing in one product normally gives better results.

5. As a guide post for a successful cooperative, the monthly volume of produce handled by a cooperative must not be less than 30 tons. This figure is also based upon the past experience of DUPKO [Association of Copra Farmers].

6. Calculating on the basis that each coconut tree can produce 10 kilograms per year, to produce 30 tons (See Copra Magazine, Vol X No 5), the following formula is given:

$$\frac{12 \times 30.000}{10} = 36.00 \text{ trees or } 300 \text{ acres.}$$

A cooperative composed of only one village will certainly be unable to fulfill the required amount of copra estimated for a successful operation.

7. For the copra to be of good quality is not enough; it has to have uniformity. This can be accomplished only when the preparation of the copra remains in the hands of one, in other words in the hands of the cooperative member himself.

8. In cooperatives with large membership owning wide acreage of farm lands which may experience difficulty in orderly picking, the cooperatives should provide for caretaking service. In this way the cooperative will participate actively in overseeing that the coconuts that are picked are those that are already ripe, a system that will assure better copra quality.

9. What is the best method of determining the price of the coconuts? According to the writer, the price should be based on weight, wherein the bigger coconut is priced higher than the smaller one. The scale used in measuring must be an official standard measure.

The cooperatives, when weighing the produce of its members, must avoid the practices of commission agents.

10. In the US where the cooperative system has reached such a high stage, payment for the produce of its members is made in either one of the three ways described below:

a. Some cooperatives buy the produce of its members at the prevailing market price, a practice that is

common among traders. Such practice is common among wheat and fowl cooperatives. The benefit of this system is that the member will know ahead of time what amount of money he will receive for his produce. The risks involved in the sale of the produce will be shouldered by the cooperatives, but the risk is small because price fluctuations are not great.

b. The cooperatives sell for the members at the risk of the members themselves. This system is found among cooperatives of vegetables and fruits, where the produce is wrapped and sorted by the members themselves. The benefit of this system is that the cooperatives do not shoulder the risks attendant on the sale of the crops, and viewed from the principles of cooperatives, this system best suits the purpose for which it is established.

c. Pooling system. This system is also prevalent among cooperatives of vegetables and fruits. The produce turned in by the individual member is selected by the cooperatives, which produce is later mixed into one pool, but is graded according to quality. Each member will receive the same price from each grade sold from the pool.

The benefit of this system is that each member will receive a standard price for each grade of produce at a particular time. Price fluctuations are shared equally by the members.

The pooling system is prevalent among cooperatives of vegetables and fruits. The period involved in determining the standard price varies with the produce and market conditions existing at that particular time. With potatoes, a one week period is usually taken.

After the discussion above, the question will certainly arise: Which system is best? This question cannot be answered decisively, as a lot depends on the knowledge of the members.

An ideal system for cooperatives is the combination of method b) and c) where the cooperatives do not act as buyers but as a channel, and the produce of the members is mixed and each individual member receives the same price for his produce as the other.

11. The sale of copra, particularly when sold outside its territory, is time-consuming; therefore coopera-

tives should have sufficient funds so that they can make advance payment expediently. Care should be taken to see that no member should wait for weeks before he receives his money, as such an occurrence will weaken his membership loyalty.

12. To enable members to get the highest possible price, that part of the coconut such as half coconut shell fibre that is salable should be given the best treatment possible. In long range planning, it is not impossible for cooperatives to give thought to the treatment of coconut fibre so that it can be made into useful and valuable articles.

13. Since copra is an export product requiring high quality, it becomes an obligation of the cooperatives headquarters to place and train experts to handle copra, who in turn would be able to instruct those in charge of the copra trade.

## FIRST INDONESIAN AUTOMOBILE PLANT

[Following is the translation of an unsigned article in Warta Ekonomi (Economic Information), Vol XIII, No 26/27.28, Djakarta, 9 July 1960, page 483]

An automobile plant capable of producing approximately 4,000 bodies of jeeps and trucks and between 10,000 to 20,000 auto parts, such as springs and exhaust pipes, is in the midst of construction by the Indonesian Service Company in Djakarta and is expected to begin production by the middle of 1961.

The plant, located on Lodan Street, Djakarta is expected to save approximately 175 million US dollars [annually?].

The automobile bodies to be produced are for Willys jeeps and Dodge trucks, while the parts such as springs, exhaust pipes, and the like are for all makes of cars, and for this an agreement has been drawn between the Indonesian Service Company on the one hand and the Willys and Dodge Companies on the other, providing that the products must equal in quality those produced in the United States.

In the plant construction, the Willys and Dodge Companies in addition to sending experts will train Indonesians in the US.

The plant to be constructed is to be financed by a loan from the Development Loan Fund in the amount of 2.6 million US dollars.

The agreement between the DLF and the President/Director of the Indonesian Service Company, Hasjim Ning, was signed last Tuesday in Washington, D. C.

The loan, bearing an interest of 5 3/4 per cent per year, is payable in ten years in Indonesian currency.

The construction cost of the automobile plant, according to information from the Indonesian Service Company, will be approximately 275 million rupiahs.

The Indonesian Service Company up to now has been engaged in assembling cars only, running from 3,000 to 4,000 annually.

The assembling of these cars represents about 30 to 40 per cent of the annual import [of automobiles?] to Indonesia.