



The Synergos Institute

**Earned Income for Financial  
Sustainability in Indonesia**  
The Dian Desa Foundation

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## Purpose of the Study: Explorations in Earned Income

### Introduction

Across Africa, Asia, and Latin America, citizen participation is a growing and vital force for social change. Through donations of time, energy, materials, and money, citizens – acting usually within the space called civil society – are reducing poverty and increasing equity in their communities. While organizations within civil society vary, locally managed organizations that successfully bridge divides between communities and resources (financial, intellectual, human, and other) are having a significant impact. These organizations are distinct from other non-governmental organizations (NGOs) because, as bridging organizations, they mobilize and facilitate the transfer of financial resources to NGOs and other more informal associations while also convening stakeholders around critical issues and building the capacity of civil society. Although the number of such bridging organizations remains small, they are nevertheless helping to support, strengthen, and sustain thousands of small and large civil society initiatives.

Consensus over the terminology for such organizations has not yet been reached, though they are often referred to as “foundations” or “community development foundations” in recognition of the role they have in common with foundations in the United States, Canada, and parts of Europe. In Southeast Asia, the term “civil society resource organization” – or CSRO – has also been used. The growing universe of such organizations in Asia is only beginning to be systematically studied.

With the support of the Sasakawa Peace Foundation, The Synergos Institute has had the opportunity to expand the field of understanding by publishing a series of three case studies that explore how foundations in Southeast Asia are working to attain financial sustainability. This case study presents the experience of Yayasan Dian Desa, or the Dian Desa Foundation, in Yogyakarta, Indonesia, in implementing earned income activities.

## What is Earned Income?

Nonprofit organizations are increasingly recognizing that earned income from the sale of products, services, or intellectual property can be a source of operational funding as well as a means to build organizational sustainability. Because profits from business activities do not have to be tied to particular programs or the wishes of donors, the discretion that such profits offer often makes earned income a highly desirable form of financing.

On the other hand, trying to earn income is a gamble. A significant investment of capital, time, and effort must be made in order to identify an important market niche or market inefficiency in which an organization can be competitive. It requires drawing on the private-sector expertise within the organization's network of board, staff, and volunteers in order to identify appropriate skills and talents. At the same time, carrying out earned income activities can also mean directing scarce resources away from the pressing social agenda of the organization. Moreover, simply earning income does not guarantee financial sustainability for an organization. It is perhaps not surprising then that few foundations around the world have taken significant advantage of market approaches to earning income.

## Learning From the Experiences of Other Organizations

The potential for both success and challenges makes experiences in conducting earned income activities critically important to understand further. Based on primary and secondary documents on Dian Desa as well as interviews with foundation staff, this case study explores the experience of Dian Desa in this field. It tries to answer how this organization experimented with earned income activities; how it developed earned income approaches that can meet its social goals; how its earned income is managed; the challenges Dian Desa continues to address; and the success factors that other foundations could potentially incorporate into their fundraising strategies.

This study complements two other studies that explore financial sustainability through the mechanism of building an endowment - the Jaime V. Ongpin Foundation, Inc., an endowed organization in the Philippines and the Indonesian Biodiversity Foundation, or KEHATI as it is commonly known.

It is our hope that this case study will be used as a learning tool by other organizations in Indonesia and elsewhere in the world that are interested in learning more about the role of earned income in creating financial sustainability as well as specific opportunities and challenges associated with their creation and implementation.

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# **Earned Income for Financial Sustainability in Indonesia: The Dian Desa Foundation**

Rustam Ibrahim

## **Context of the Study**

Over the past several years, Indonesia has experienced drastic changes in its economic and political fields that have directly affected civil society's opportunity to bring about change in the country. In the economic sector, Indonesia has been enduring a very serious monetary and economic crisis that began in mid-1997. The crisis started with the dramatic fall of the rupiah's value against that of the US dollar, falling from Rp 2,250 per US \$1 to about Rp 10,500 per US \$1 at the end of 2001. It suffered a drop of more than 350 percent within a period of less than five years and, in early 2003, stands at about Rp 8,500 per US \$1.

## **A Time of Political and Economic Change**

The crisis had a very serious impact on the life of millions of Indonesians. Between 1996 and 2001, the number of Indonesians living below the poverty line increased from an already high figure of 22.5 million people, or 17 percent of the total population, to about 45 million people, some 25 percent of Indonesia's total population in 2001. Open unemployment reached 6.2 million people during the crisis; combined with the percentage of the population underemployed, approximately 35 million people were seeking work at the turn of the millennium.

In the political field, the fall in May 1998 of the military-backed New Order regime under Suharto marked a turning point in the country - one that began a transitional process toward democracy. The democratic government formed in 1999 began to restore basic freedoms of citizens, such as freedom of association, assembly, and expression.

## **Civil Society Takes Root**

Indonesian civil society has been a part of this transition process in many ways. Hundreds, even thousands, of new organizations have come into existence since 1998. Moreover, a significant number have been providing education on democracy and human rights. Others

have been asserting the right of citizens to participate in the decision-making process, to fight corruption, and to struggle for law enforcement. At the same time, Indonesian organizations have been providing food security, basic social services, job creation help, and other assistance in income generation for the urban and rural poor.

Like many of these organizations, Dian Desa was established as a *yayasan*, which literally translates into foundation in English. For many years, the legal requirements to establish a *yayasan* were minimal, requiring only a notarized document listing the founders, structure, and composition of the board, location, and assets. Recognizing the lack of accountability that laws permitted within *yayasan*, the Indonesian government drafted a new, stricter law governing *yayasan* operations. It was issued in 2001 and allows existing organizations to make adjustments within five years from the time of the act's issuance in order to meet these new standards of accountability.

*Similar to the organizations that they assist, Indonesia's foundations obtain the greatest portion of their funds from foreign sources*

Although there are many different kinds of *yayasan* now operating in the country, most are quite small, with limited assets and little capacity to manage endowments. In fact, a high dependence on external sources for funding is one of the main challenges confronting local NGOs and funding organizations alike. Similar to the organizations that they assist, Indonesia's foundations obtain the greatest portion of their funds from foreign sources. A survey conducted of over 25 local funding organizations in Indonesia in 2000 indicates that 65 percent of their funds were obtained from overseas sources, namely official development assistance agencies, international foundations, and NGOs. Other funding sources were in the form of contracts with government agencies and consultancy services, but this portion of funds accounted for only 12 percent of revenues. Meanwhile, funding sources in the form of endowments and contributions from the private sector accounted for only 6 percent. The remaining 9 percent was from other sources, including public donations (Ibrahim 2000). The continuing decline of foreign aid promises to mount an even greater challenge to Indonesian organizations seeking to sustain themselves as well as their impact on critical societal issues.

Nevertheless, *yayasan* like Dian Desa are playing a critical role in Indonesia. According to a survey conducted in 2000, some 25 indigenous foundations in the country disbursed about US \$8 million in grants and loans in that year alone (Ibrahim 2000). As this case study will illuminate, Dian Desa's work underscores the value of developing indigenous organizations that reflect local needs and strategies but that can also provide the financial and capacity building means to strengthen civil society. Moreover, it exemplifies how a profit-generating business can reap positive social benefits at the same time. Earned income opportunities like those pursued by Dian Desa now demand greater attention and consideration.

## **Dian Desa's Beginnings**

In 1971, a small group of university students led by a young engineering student, Anton Sudjarwo, went to live in the villages of Mount Merapi, about 50 kilometers north of

Yogyakarta, Indonesia. The students were assigned by their university to engage in a community service as a prerequisite to obtaining their university degrees. The inhabitants of these villages were very poor. Water was a particularly scarce but critical need; villagers had to travel four kilometers away just to take home about 20 liters of water. Over the course of the year in which Anton and the other students worked with these communities, they collectively succeeded in laying about 80 meters of piping underground that allowed for villagers to access water for consumption and irrigation. Approximately 8,500 people gained access to regular clean water (Bhaskara 1989). The availability of clean water made it possible for farmers in the villages to harvest rice twice in a year. With the increase in income this brought, the villages were transformed.

In 1972, Anton Sudjarwo formed Yayasan Dian Desa in order to continue helping villages gain improved access to clean water. While Dian Desa grew to establish support for other technologies in communities, the organization believed that clean water access was the basis for supporting other projects, like agriculture or animal husbandry.

A second key philosophy behind the early days of Dian Desa was the recognition that they needed to work with the villagers themselves. According to Anton, the Executive Director of Dian Desa, “Our philosophy is partnership. Those who are willing to look for ways to overcome their own problems can get our assistance through ‘appropriate technology’ (Ibid, p.184).” By appropriate technology, Dian Desa refers to simple equipment that villagers are able to produce, reproduce, and maintain by themselves using relatively small funds. The production of appropriate technology most often occurs between Dian Desa staff and community members in order to ensure that it grows out of local capacities, knowledge, and needs. Thirty years later, this philosophy remains a cornerstone of Dian Desa’s work.

Today, Dian Desa has succeeded in becoming one of the largest foundations in Indonesia with a staff of about 300 operating projects all over Indonesia (see the back of this paper for a profile of Dian Desa’s mission). Headquartered in Yogyakarta with branch offices in East Nusa Tenggara, Dian Desa currently runs six operational departments, as listed below. Various divisions support these departments, including a metal workshop, multimedia, a library, and a survey and analysis laboratory (see Appendix for an organizational chart of Dian Desa).

*Water and Sanitation:* This is Dian Desa’s oldest department and is the trademark of the organization. Through its clean water and sanitation programs, Dian Desa works with local communities to plan and implement clean water projects. Dian Desa provides expertise in materials and their technological applications while community members make available their land, labor, and local materials.

*Waste Water Treatment:* This department was established when Dian Desa tried to find new technologies to remove skin wastes from fish processing. Dian Desa has also developed waste treatment technologies for wastes from different industries, hospitals, and households. Currently, Dian Desa is building a water treatment technology center with three years of assistance from the Japanese government. The assistance includes funds for the construction of buildings, complete with equipment and a laboratory, funds for seminars and workshops,

the establishment of a website, human resource development, and funds for several pilot projects.

*Cookstove:* Since the early 1980s, Dian Desa has been developing appropriate technologies based on the idea of using less energy than other conventional methods. In particular, the organization has concentrated on producing energy efficient cookstoves that produce less smoke, are less costly, and can be produced easily in large volumes.

*Agriculture and Aquaculture:* On the northern coasts of Java, Dian Desa has been working with communities to overcome a dwindling shrimp population. Together, they have established shrimp seedlings that can turn out 3 million shrimp eggs monthly. With communities in the coastal areas of East Nusa Tenggara, Dian Desa has developed marine herb farming.

*Small-Scale Industry:* This department encourages and assists rural villagers with their entrepreneurial capabilities in the area of small industries and handicraft businesses. Skills training and soft loans are provided.

In all cases, departments' technologies reflect the philosophy of appropriate technology.

<sup>1</sup> Dian Desa does not have an official or separate Board of Directors. The governance of the organization is very much built into its management. According to Anton Sudjarwo, this is a product of the organization's history that hasn't evolved over time. As an informal organization started by three university students (Anton Sudjarwo, and Christina and Bambang Purwanto), these became the decision makers, along with other managers hired over time. On the initiative of Anton Sudjarwo as Executive Director, three national figures were appointed to be advisory members eventually. They were Emil Salim, former State Minister of Population and Environment, Koesnadi Hardjasumantri, and Masri Singarimbun who was then professor at Yogyakarta's Gajah Mada University. In their advisory capacity, they were invited by Dian Desa staff to contribute their ideas and perspectives in an annual forum.

## Exploring Earned Income Opportunities

Fifteen years ago, in an interview with the prominent Indonesian journal *Prisma*, Anton Sudjarwo said that in order to survive in a sustainable way, NGOs could not, and should not, depend merely on donor organizations because such assistance would be reduced, perhaps even terminated, sometime in the future. "In order to sustain organizations, we have to raise funds through our own undertakings. One way to do that is to produce and sell goods and services....If they can generate profits, such activities will reduce Dian Desa's dependency on donor agencies, and can eventually help increase donors' confidence in Dian Desa," says Anton. The Advisory Board of Dian Desa supports income-generating projects as a way to maintain independence from foreign loans.<sup>1</sup>

Anton further explained that any business activities to be carried out by Dian Desa should take into account two things. First, the activities should always be related to community development programs or the needs of target groups. Second, the activities should rely on the application of appropriate technology, which is the trademark of Dian Desa.

### The Role of Marketing

The first income earning activity initiated by Dian Desa was the processing of various agricultural commodities grown in communities engaged in development cooperation projects with Dian Desa. Dian Desa helped add value to the farmers by assisting in the marketing of their commodities in the larger cities of Indonesia, including for export. For example, in Ambarawa, Central Java, a coffee-producing area, Dian Desa cooperated with coffee farmers. Indonesian coffee farmers there used to sell coffee beans at very low and also highly fluctuating prices. In order to attract higher and more stable prices, the coffee beans needed to

be ground though. Dian Desa introduced the villages in this region to the idea of processing coffee beans and packaging coffee grounds as a post-harvest technology. Dian Desa assisted in the promotion and marketing of the final products.

In other regions of the country, Dian Desa helped farmers planting *kecipir* bean trees to process the beans into a sauce similar to that produced by processing soybeans. Dian Desa also tried to help find markets for this product.

While these projects have since ended, Dian Desa learned about the importance of having sufficient knowledge amongst its staff on marketing from these experiences. Dian Desa's staff found that without a strong background in the marketing of farm products, they could not compete with large and highly competent traders. According to Anton Sudjarwo, who still actively manages the foundation, these experiences taught Dian Desa that if it wished to be seriously involved in earned income activities, it could not be oriented merely to the products turned out, but also to the requirements of competing in the marketplace. "We eventually became aware that technology had been our area of expertise up until then, and that marketing was something else entirely," says Anton.

*Early experience taught Dian Desa that if it wished to be seriously involved in earned income activities, it could not be oriented merely to the products turned out – it needed to also consider the requirements of competing in the marketplace*

### Turning Waste Into a Marketable Product

These initial undertakings in earned income as a means to attain financial sustainability reached a higher level of success only in the mid 1980s when Dian Desa succeeded in developing stingray skin leather processing technology. This initiative, which we will now focus on, began with a program coordinated by Dian Desa called the Coastal Community Development Program. The program began in 1985 and was focused on working with fishermen living on the north coast of Central Java. The program grew out of the sad and ironic fact that while Indonesia is a country with thousands of large and small islands providing rich marine ecosystems for several different species of fish and other sea creatures, 70 percent of the country's fishermen, equivalent to 3.2 million people, lived below the poverty line in 1985. Of all the country's fishermen, 500,000 were then living on the north coast of Central Java. Dian Desa's program initially focused on shrimp farming. It targeted shrimp farmers who were experiencing difficulties obtaining shrimp eggs because they were sold at very high prices. Dian Desa provided them with low-cost shrimp eggs under production sharing arrangements.

Aryanto Sudjarwo, a senior staff member of Dian Desa under Anton Sudjarwo, related how staff felt motivated to find additional ways to help the fishermen. "We undertook small-scale studies to find out what we could do for the fishermen. We identified what technical and financial assistance they had received and from whom. Results showed that they had often received financial assistance and fishing equipment from the government and NGOs so their catch had increased. Unfortunately, they had to face the reality that when their catch increased, fish prices also dropped. Indeed, fishermen were so poor that they often had to bequeath their debts to their siblings. We tried to see which of their catch did not sell; it

turned out to be shrimp skin, jellyfish, marine herbs, and fish skins. It turned out that the fishermen used the stingray fish meat and threw away its skin."

### **The Creation of Dian Mandala**

Aryanto Sudjarwo had witnessed the trading of stingray skin-based products in Bangkok. While he tried to identify makers of these products, he found that they kept their business strictly secret. Instead, he observed the use and marketing of such products. "I found that Thailand was the only country producing such items, meaning the potential market to capture was still so large. Moreover, at that time people were prohibited from making foods with reptile skin due to mounting pressures from environmentalist groups to preserve reptile populations. I concluded that fish skin could be a substitute for reptile skin. Surprisingly, Thai fishermen bartered with other fishermen for stingray skins that had been caught in Indonesian waters. They managed to buy the stingray skin at very low prices. Eventually, I asked myself why stingray skins were not processed in Indonesia."

Aryanto discussed this matter with Anton who supported setting up an earned income strategy around the processing of stingray skins. The fact that the organization saw this as an opportunity to earn income to support Dian Desa's other initiatives, however, made it difficult to subsume the business within the foundation. Therefore, staff founded another foundation in 1985 called Yayasan Dian Mandala. Aryanto was appointed its Managing Director. According to Aryanto, "We imagined that this foundation was like a wheel which rotates. It can go up and down; it can succeed and fail. Also, it illustrates dynamism, trial, and error."

Although the legal status of Dian Mandala is a foundation, it is designed and operates as a business by its management. This means its working approach is based on productivity objectives and is fully oriented toward earning profits. Dian Mandala requires working systems that are different from Dian Desa's, including tight work schedules, an orientation to product volumes and a more competitive salary system.

Incorporating Dian Mandala under Dian Desa would have caused salary distortions and upsets in the lower staffing echelons of the latter, as some of the Dian Desa staff is remunerated at a relatively low level in recognition of their willingness to volunteer some of their services. Aryanto explains that on the whole, the level of salaries received by Dian Mandala's workers is relatively higher than in Dian Desa, notably the salaries of those involved in production. They receive labor insurance, which is fully in keeping with government regulations on manpower. "Recruitment at Dian Mandala strongly stresses certain expertise, while the recruitment of Dian Desa staff takes into account one's activist spirit and idealism," Aryanto says.

While Dian Mandala was set up as a foundation, the idea of setting it up as a limited liability company had been considered too. The latter structure was not selected for three main reasons. First, at that time it was relatively easy to establish a foundation; formation simply required the presence of a notary in Yogyakarta. Establishing a limited liability

company was then far more difficult, requiring ratification under the Ministry of Justice in Jakarta. This would have taken a long time and demanded significant amounts of money for processing the many bureaucratic hurdles involved. Second, in addition to the opportunity to earn profits on selling processed stingray skins, this business had the potential to generate social returns related to the needs of poor fishermen. Third, this was viewed as a strategy to raise funds for investment and working capital for Dian Desa and therefore as an opportunity to reduce dependence on donor organizations in the long run.

In addition, at the time of Dian Mandala's incorporation there was neither a law nor regulation determining whether or not a foundation could be involved in purely economic activities; nor was there any regulation stipulating how a foundation could apply its surpluses.<sup>2</sup>

### **Financing the Technology**

After the organization received its legal status, the next task was to invent appropriate technologies for processing stingray skins into leather. In particular, the processing needed to address the fact that the fibers of stingray skin tend to be very tough, making it difficult to soften. While the first five years were therefore very much a trial and error period, it was also rich in the innovation of inventing appropriate technology, not only for processing raw materials but for making end products. For example, for sewing leathers special sewing machines were required because the needles of normal sewing machines would be broken easily if they were used with stingray skins. This led Dian Mandala to reorganize itself into two main divisions, namely leather processing and leather production (see Appendix for an organizational chart of Dian Mandala).

In the beginning, no donor agency was willing to provide Dian Desa with financial assistance for the items produced by Dian Mandala at its experimentation stage. Consequently, Dian Desa had to use its own funds as initial working capital for investments in technological development. This was made easier by the fact that, as Anton Sudjarwo pointed out, Dian Desa was already allocating a certain amount of money into research and development activities because it was an organization founded on the development of appropriate technology.

During the trial and experimentation period, which covered several years, Dian Mandala invested approximately US \$125,000 in research and development. The foundation's revenues from earned income activities in farm product sales, however, only reached approximately US \$250,000 in that same period.

Dian Desa was aware that no donor agencies would be willing to provide financial assistance for Dian Mandala's activities which were still at the experimentation stage. But in 1990 when several end products, including wallets and handbags, began to be marketed, Dian Desa officials decided to submit a project proposal to the Swiss Agency for Development and Cooperation (SDC), an agency of the Swiss government for international development assistance. Dian Desa had been receiving support from SDC since 1988 under the agency's Block Grant Project.<sup>3</sup>

The proposal submitted by Dian Desa was to cover the funds necessary to help Dian Mandala become a real business entity providing long term sustainable income. It was proposed that this could be done by improving Dian Mandala's management systems and developing an in-country marketing strategy. According to the 1997 Final Report to SDC there were three main targets which Dian Mandala wanted to achieve with SDC's assistance:

- improve the organization's human resources capacity and specifically its managerial capability
- develop an in-country marketing strategy and launch activity related to that strategy
- provide special working tools and machinery in order to be able to answer specific quality demands.

After examining Dian Mandala's technological capacity, inventions, and products, SDC agreed to provide it with funds for a stingray skin processing project in 1991. Initially, SDC's support was limited to research and development but in 1996 it was expanded in order to increase the quality of ready-made goods for commercial use.

In line with Dian Mandala's desire to develop its managerial capabilities, it hired a production manager in 1996 who had a leather industry background and was able to manage the relatively large personnel of Dian Mandala. The staff then also outlined a production working system and financial system.

With support from SDC, Dian Mandala was able to purchase additional machinery and tools in order to meet specific quality needs. Additional machinery purchased included, among others, sewing machines, leather cutting machines, and leather ovens for final drying and spraying of the products.

### **Marketing the Products**

Being aware of its weaknesses in marketing its products domestically, Dian Mandala asked for assistance from Kenzo Hani in 1991, a Japanese consultant. Hani was the previous chairman of the Yogyakarta-Kyoto Sister City Arrangement who traveled both a lot outside and within Indonesia. Moreover, he had extensive business contacts. Kenzo met with Aryanto Sudjarwo at an exhibition and was attracted by the leather items produced by Dian Mandala; this prompted him to assist in their marketing.

Hani's analysis was that Dian Mandala's leather products were unique and should be categorized as exotic products catering to specific market segments, specifically higher income residents and tourists. Accordingly, Hani recommended that Dian Mandala undertake direct marketing through certain exclusive stores in tourist destination cities like Denpasar (Bali), Yogyakarta, and Jakarta. It was also decided that a portion of processed leathers should not be developed into final products but instead exported to countries like Japan, South Korea, and European countries like Switzerland and France. The ratio was 30 to 40 percent for exports and 60 to 70 percent for the domestic market. (Admittedly, the buyers of the products on the domestic market were mostly foreigners like tourists and business people who later sold the items in foreign countries.)

For overseas promotion, Dian Desa received assistance from the Indonesian government through the National Export Development Agency. The agency sponsored many small and medium enterprises to take part in various exhibitions. Based on a recommendation made by the Association of Indonesian Handicrafts Industry, Dian Desa took part in exhibitions in Japan, Switzerland, and Australia.

SDC's financial assistance was very meaningful to the financial development of Dian Mandala. In looking at a comparison of Dian Mandala's income from the sales of its products to its total expenditures in 1996, the balance sheet was in the deficit position. "The story would be different if the money all came from Dian Desa's own pockets," according to Aryanto. It was only at the end of 2000 that Dian Mandala recorded a real profit of approximately US \$43,000 (Rp 434,500,000).

### **Creating Social Impact**

The leather industry developed by Dian Mandala not only generated profits but also benefited small fishermen who were clients of Dian Desa's programs. According to Aryanto, fishermen had for long been discarding stingray skins as wastes. Even fishermen did not believe that Dian Desa intended to buy them. It was only after the foundation gave them a down payment that they believed it. Currently, Dian Desa takes stingray skins from the north coast of Central Java and East Java which allows them to produce 4,000 to 5,000 pieces of leather monthly. Measuring 20 to 80 centimeters on average each, the leathers are tanned at Dian Mandala's workshops.

For the development of the leather tanning unit, Dian Desa received assistance from AusAID to utilize fish waste and natural cocoons for improving and creating job opportunities for poor people. The AusAID assistance project, which lasted 18 months from June 1999 to December 2000, aimed to assist poor people in rural villages who were hardest hit by Indonesia's economic crisis by creating income generating opportunities. Over its duration, the AusAID project provided US \$50,000 of support.

This project had two components. The first was training to increase farmers' skills in making fabric and high quality yarn from silk cocoons. The second was financial assistance to Dian Desa to conduct several activities for fishermen, namely providing training and guidance for fishermen groups in urban and rural areas in the north coast of Central and East Java to increase their knowledge of stingray skin collection, pretreatment techniques, and preservation (to in turn ensure a quality product for Dian Mandala to buy). No less than 2,000 fishermen have attended such courses. The result is that fish leathers, which had been worthless, are now generating income. For example, 192 families of poor fishermen succeeded in earning extra income by selling fish leathers. Extra income per family, based on year 2000 data, reached US \$400 annually. This is very significant considering that the annual per capita income of poor fishermen in Indonesia was only about US \$450 in 2000 (Dian Desa, 2000).

AusAID also provided Dian Desa with assistance funds to buy processed fish leathers from fishermen so that the foundation could further process them under one of its two units – the fish leather processing unit and the ready-for-use production unit. For the first unit, AusAID provided funds for making tanning drums, dyeing drums, and waste treatment systems. For the second unit, AusAID provided the foundation with funds for buying heavy-duty sewing machines. Training has also been held for young people from poor families in urban areas. They are trained in fish leather tanning and the production of ready-for-use items. Some of them have even been recruited to work at Dian Mandala.

Grants from donors like SDC and AusAID have proven to be vital funding sources for Dian Mandala's working capital as it has never borrowed from banks, individuals, or other institutions. Borrowing money from banks would have required collateral that Dian Desa did not have. Its legal status as a foundation has in fact been an obstacle for borrowing.

The relationship between Dian Mandala and its customers was maintained mainly through "cash and carry" methods. Customers were obliged to pay in advance through banks designated by Dian Mandala before products were sent to them. This of course required an extraordinarily high level of confidence between Dian Mandala and potential customers. Similarly, in purchasing goods, Dian Mandala made cash payments. "This provides a new challenge for Dian Mandala if it wishes to further advance," Aryanto says. In the future, borrowings from banks will be an option. Aryanto is aware that borrowing from banks means Dian Mandala's burden will become even greater. "But, when production has become stronger and the market has been guaranteed, it could be the right time for Dian Mandala to borrow from banks and other parties. It is now time to grow Dian Mandala. It now [owns] 0.75 hectares of land which can be used as a new location for the leather industry as the present location is too small."

#### **Additional Opportunities for Earned Income**

While Dian Desa serves poor communities in largely rural areas of Indonesia, within this population there are varying needs to address and opportunities to harness. Dian Desa has tried to meet these variations with different support programs, not all of which use appropriate technology. One of these programs is its micro finance and soft loan program, aimed at fulfilling the needs of rural people requiring access to working capital with relative ease and low cost methods. The program, which began in 1995, provides low interest loans (below market interest rates) for different groups and individuals involved in small enterprises like small-scale farming, small industries, the craft industry, cattle breeding, food stalls, small traders, etc.

The funds channeled to borrowers come from the "revolving funds" set up in the block grant projects with SDC. These funds were placed in Dian Desa's bank accounts and now total US \$400,000 (Rp 4 billion). The amount of loans made to an individual borrower average between US \$100 and \$3,000. Loans channeled to a group average between US \$500 and \$5000. By 2001, Dian Desa was serving no fewer than 2,800 clients.

The interest earned by Dian Desa reached more than US \$4,500 (Rp 45 million) per month, or US \$54,000 per year. The amount was enough to finance all of the organization's operating and administrative costs, as well as generate some profits. The earnings have been placed in Dian Desa's program accounts and are being used to increase the organization's available working capital.

Dian Desa's fish leather business is now going to be followed up on with the development of a silk making operation, as mentioned previously. Silk fabrics are potentially profitable commodities but silk weaving technology is not an industry commonly practiced. With the assistance of AusAID, Dian Mandala has been able to introduce this technology to farmers and craftsmen in East Nusa Tenggara, a province already well-known for its traditional woven products. These communities have been trained in silkworm raising technology and silk yarn spinning for making fabrics. Dian Mandala has looked to Japanese silk making industries for deriving its technology. In cooperation with an organization in Japan, Dian Mandala has been teaching this Japanese weaving technology. At present, the products turned out are still at the experimental level and include items like shawls, scarves, and sweaters. As of yet, they have not reached sufficient volume for contract sales. Dian Mandala hopes that, like its fish leather business, its silk weaving operations will also generate profits for the organization.

### **Allocating Earned Income**

Profits earned by Dian Mandala are transferred to Dian Desa's banking accounts and used to support other Dian Desa activities, notably its experiments and pioneering programs such as those dealing with waste treatment. Wastes produced from tanning leather require treatment before being disposed but very few clean technologies exist to do that in Indonesia. Upon testing the waste waters from this specific production process, results demonstrated that the tanning waste water could be used for farming various kinds of fish, if cleaned. Developing waste treatment technologies has thus become a significant focus for Dian Desa. It is not only handling its own production wastes but also those produced from other industries and households. Surplus monies earned on these technologies are invested in part in ongoing research and development in order to increase its production capacity.

The surpluses gained by Dian Mandala are also being used for improving the welfare of Dian Desa's employees. As a private voluntary and nonprofit organization, it has been difficult to receive sufficient funds from donors to fully cover the remuneration of Dian Desa staff.

In addition to the core activities described, Dian Desa also applies its earned income to running assistance in the following areas: helping university students gain on-the-job training; assisting other organizations involved in activities to help street children; and allocating funds for emergency needs and charitable activities.

## Lessons Learned

The experiences and challenges faced by Dian Desa demonstrate the following six important lessons regarding earned income as a mechanism to build financial sustainability:

### **Lesson: Perseverance and leadership are critical**

It seems that any success can be achieved only through perseverance and hard work over a long period of time in which considerable trial and error is undertaken. According to Aryanto Sudjarwo, the first five years of Dian Mandala's existence were full of challenges. While several are detailed below in the other lessons, the question of how to invent appropriate technologies for processing fish leather was a very difficult one. At that time, fish leather processing technology was not yet known in Indonesia. Moreover, the technology could be found only in Thailand, where it was held secretly. Dian Mandala had to invent its own technologies, including required machinery for production.

### **Lesson: Sufficient seed funding needs to be raised upfront**

A second main challenge was related to the availability of funds that could be used for initial investments and as working capital. As stated by Aryanto Sudjarwo, it is quite difficult to imagine Dian Desa's success in carrying out earned income activities without assistance from donor agencies. Tireless efforts were needed to produce good proposals and convince donor agencies that the programs they supported would be intended not only for the interest of Dian Desa but also for poor people who had become the target groups for Dian Desa's programs. (Unfortunately, borrowing from banks in Indonesia requires significant collateral which Dian Desa has not had.)

Dian Desa's experience demonstrates that donor agencies can provide significant assistance for the development of earned income activities conducted by locally managed funding organizations. In the case of Dian Desa, ODA agencies have made significant contributions to research and development opportunities, especially for leather tanning technology, waste treatment technology, and the invention of machines for producing leather products. They have also assisted in the provision of working capital for starting a micro credit program.

### **Lesson: Staff need to have marketing skills**

A third main challenge was deciding on the market for Dian Desa's products and then how to penetrate those markets successfully. Consumers already knew crocodile leathers and other reptile skins, but they were not familiar with fish leather when Dian Desa first introduced their products. Accordingly, a process for introducing fish leather products was required. It took quite some time to convince the targeted populations that using fish leather

products was no less prestigious than using products made of other leathers. In order to decide and control the market segment, Dian Desa asked for help from a Japanese consultant (with funds from SDC). As exotic leather of high value, the product was marketed to medium and high earning buyers. “The Mercedes car company could produce and sell low-priced cars but if it does, it commits suicide. Similarly, we [Dian Desa] need to have our own market segment,” remarked Anton Sudjarwo.

**Lesson: The organization’s core competency must be applied**

Dian Desa has always been consistent in carrying out its mission and in maintaining its expertise, or core competencies. Since its inception, Dian Desa’s philosophy has been to disseminate the application of appropriate technology, work with communities on community development activities, and support local earned income activities that improve the economic conditions of the rural community. Earned income activities carried out by Dian Desa have never been outside the realm of the organization’s core competency.

**Lesson: Know the community being served**

A fifth factor behind its success is Dian Desa’s closeness to the communities it has been serving, namely fishermen and other rural poor. Dian Desa developed joint programs together with fishermen – it collected fish leather from them and also trained them. This encouraged trust to develop between the fishermen and the organization, with the former developing great confidence in the foundation. In carrying out its micro finance program, Dian Desa entered the business world of the community that it wanted to serve, and studied the details of existing businesses in the community. Behind these achievements, Dian Desa has always strived to have at least adequate knowledge about the social, economic, and cultural backgrounds of its clients. Its prudence and care in selecting clients has also not been removed from macro situations like Indonesia’s national banking context.

**Lesson: Recognize what the enabling environment will and will not allow**

Finally, the experiences of Dian Desa illustrate that, depending on the legal and economic policies in a country, organizations may have to make certain decisions and follow certain rules and actions should they desire to pursue an earned income strategy. Knowing full well what this environment will and will not permit is critical to determining how one makes the most informed decisions possible.

## Conclusion

With more than thirty years of experience, Dian Desa has become accustomed to identifying technological solutions to poverty. Inventing appropriate technologies has been its greatest contribution to rural communities in Indonesia. As echoed by Aryanto Sudjarwo: “In developing businesses, Dian Desa always begins with the logic of seeing the experience of other people and learning from them. The most important thing is willingness to try. In my opinion, this is the essence of Dian Desa’s successes.”

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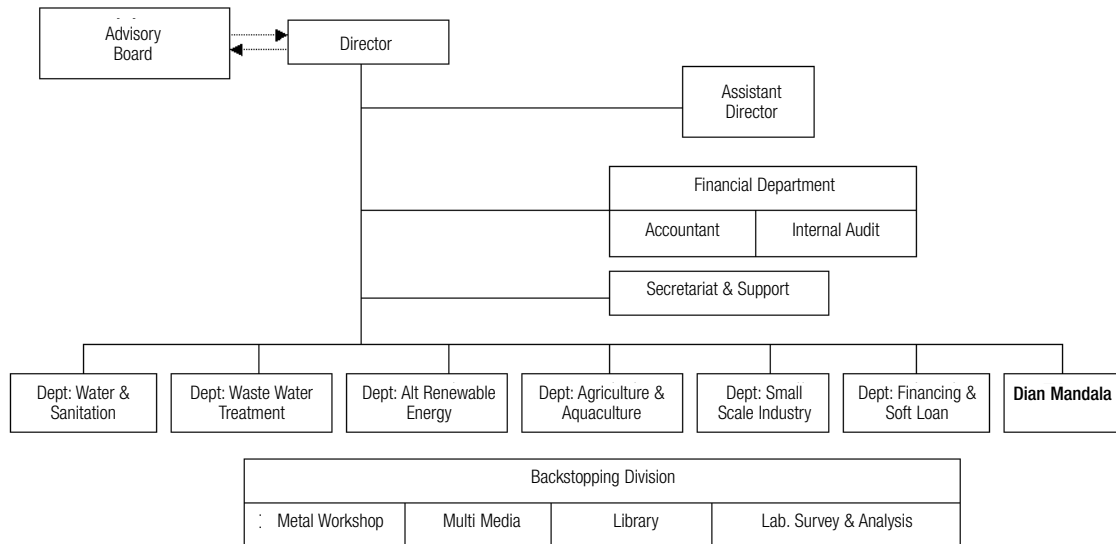
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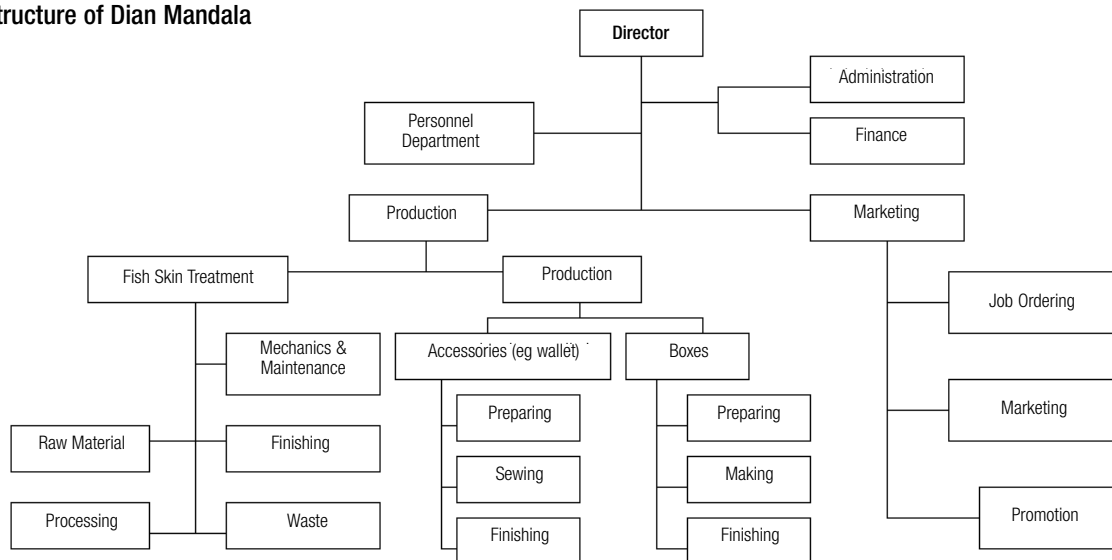
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## Appendix: Organizational Structures

### Organizational Structure of Yayasan Dian Desa



### Organizational Structure of Dian Mandala



## Profile of Dian Desa

Based in Yogyakarta on the island of Java, Dian Desa is one of Indonesia's largest foundations with a staff of more than 300 people. Translated into English, Dian Desa means "light of the village." Its name underscores the organization's belief that its role is to work with people to create a means to lead a better life. Staff often say their purpose is to help people help themselves.

Since its establishment in 1972, Dian Desa's philosophy has been to spread the use of "appropriate technology" to improve living conditions among poor communities in Indonesia. Working as a catalyst, Dian Desa introduces technological ideas that are relatively simple and draw on local capacities and knowledge to rural communities. Making the technology "appropriate" implies that it can be maintained, refined, and spread by community members themselves. This means that community members are involved from the beginning and work closely with Dian Desa technicians in the planning and implementation stages of a project. Dian Desa's guidance and support fosters self-confidence within communities to help them meet their most basic needs while seeking new economic opportunities at the same time.

Over the past few years, Dian Desa's earned income activities have accounted for 35 to 40 percent of the organization's total annual budget, itself approximately US \$1.3 to \$1.4 million.

## About the Author

Rustam Ibrahim started his career in the nonprofit sector at Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial (LP3ES – Institute for Economic and Social Research, Education, and Information) in Jakarta, Indonesia in 1976 as an editorial staff of Prisma, a journal of social and economic affairs published by LP3ES. He then held various positions in the organization including Executive Director (1993 to 1999), Senior Advisor (1999 to 2000), and Senior Research Associate (2000 to now). He also acts as an independent consultant.

He is one of the founders of the Center for the Study of Democracy, housed in LP3ES, and YAPPIKA (Yayasan Pengembangan Partisipasi, Inisiatif dan Kemitraan Masyarakat Indonesia). From 1998 to the present, he has been Board Chairman.

Mr. Ibrahim is a prolific writer and editor on the growing civil society sector in Indonesia. Publications include: *The Indonesian NGO Agenda Towards the Year 2000* (1994), *The New Order Political Format: Reconsidered* (1997), *Strategy to Build Civil Society* (1999), *The Directory of Civil Society Resource Organizations in Indonesia* (2000). He has also written several articles for Indonesian newspapers on the subjects of democracy and civil society. As a consultant, he has conducted evaluations, case studies, and facilitated public consultations for the World Bank and the Department for International Development of the United Kingdom.

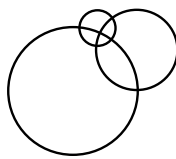
Mr. Ibrahim holds a degree in Political Science and acquired his postgraduate diploma on Rural Policy from the Institute of Social Studies in The Hague, Netherlands (1984).

## About Synergos

The Synergos Institute is an independent New York-based nonprofit organization founded in 1986 to develop effective, sustainable and locally-rooted solutions to poverty. Synergos and its partners mobilize resources and bridge social and economic divides to reduce poverty and increase equity around the world.

Our goals are to:

- strengthen the capacities of grantmaking institutions in Africa, Asia and Latin America to mobilize resources and build collaboration to reduce poverty and increase equity in their countries
- strengthen the capacities of leading philanthropists from around the world to deepen the effectiveness of their social investments and to forge partnerships to leverage their impact
- build effective collaboration and partnerships across social, economic and institutional divides by advancing the development and application of collaborative leadership and bridging dialogue processes.



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