

Government policy statements related to rice problems in Indonesia: Review

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Abstract

Rice policy is an important element in food security. In its control, the government regulates food management through Logistics Affairs Agency of Indonesia (Bulog). This research aimed to examine government policy related to rice problem in Indonesia using descriptive qualitative analysis method through literature study. The policy of fulfillment of rice needs in Indonesia has been done since the beginning of independence until now. The high demand of the Indonesian people on rice commodities caused fluctuations in rice availability which had an impact on the unstable price, plus the unavailability of enough land to increase domestic rice productivity. Rice import activities are being undertaken from several neighboring countries to address the problem, with the largest number of imports occurring in 2011 over the last 15 years, and the least imports occurring in 2005. The government through Bulog controls the stability of rice stocks and prices for producers through basic price instruments, marketing, rice distribution (post-production), and the supply of staples at the consumer level. In addition, the government through the Community Food Business Development (PUPM) launched the Indonesian Farmer Shop (TTI) program that sells foodstuffs, including rice, at low prices. This program is created as a form of solution to the high price of food demand in Indonesia as a result of the length of the supply chain so the food supply system becomes inefficient. The government has also set the highest retail price policy (HET) and cost of goods sold (HPP) as an effort to stabilize the price of major food commodities in Indonesia, including rice. In the application of HET and HPP values have undergone some changes but still can not achieve price stabilization and improve the economy of farmers, especially small farmers. It is advisable that government policies related to HET and HPP through the Regulation of the Minister of Trade should pay attention for actual price fluctuations and should be distinguished based on the quality of rice, so that price stabilization and the desire to promote farmers in Indonesia can be realized.

Keywords: *rice, government policy, HET, HPP*

1. Introduction

Rice is a main food for most Indonesians. Rice consumption in Indonesia is increasing every year as the population of Indonesia increases. In addition, Indonesians have high dependence on rice, if the availability of rice can not be fulfilled it will make a problem. Hence, national food security will be interfered.

Food policy, especially rice, is an important element in the government budget sector. For example, in establishing specific policies for food control. Related policies include subsidization of fertilizer prices, grain pricing and various institutional mechanisms. In organizing and controlling food, the government is assisted by the State Logistics Agency (Bulog). This institution conducts market operations if there is a significant increase in the price of rice. Therefore, this study was developed to examine government policies related to rice issues in Indonesia.

The data obtained in this review comes from a study of literature related to government policy, using descriptive qualitative analysis method to provide an overview of the object under study and analyze it.

2. Condition of Rice Fulfillment in Indonesia

2.1 History of rice fulfillment of Indonesia

The history of rice fulfillment in Indonesia, can be described as follows:

- The policy of low-price rice has been implemented since 300 years (since the colonial period), as this is adjusted to the wages of workers. This policy is also applied by the Soekarno and Suharto governments.

- In 1967 Bulog (Logistics Affairs Agency) was formed to maintain Indonesia's food security through rice price stability and monthly procurement for civil servants and the military.
- In 1980 Bulog was assigned to handle several other commodities such as sugar, wheat, corn, soybeans, and others.
- 1984 achieved food self-sufficiency but unsustainable
- In the era of reform achieved rice self-sufficiency (Appendix A).
- Based on data from BPS, Indonesia always imports rice from 2000-2015 with 15.39 million tons with the highest volume in 2011 (2.75 million tons) and the smallest in 2005 (189,616 tons). Some countries that ever become rice importers to Indonesia are: China, India, Pakistan, United States, Taiwan, Singapore, Myanmar, etc. With most sources coming from Vietnam [1].
- In 2016-2017 rice imports are suspended [1].
- In 2018 the government through the Minister of Trade as stipulated in Regulation of the Minister of Trade No.1 of 2018 imports 500,000 tons of rice from Vietnam and Thailand [1]. This import is mandated to Bulog according to Presidential Regulation No.48 of 2016. This action is given the spotlight from the House of Representatives due to the proclamation of the harvest, therefore a program for price stability is needed to avoid harming the farmers [2]. Nevertheless, this import policy is being undertaken to overcome the shortage of rice stocks in the community in the future [2]. Another thing that reinforces the need for rice imports because the Ombudsman finds indications of inaccurate recording of rice stocks (Stocks are barely and unevenly) by the Minister of Agriculture [3].

2.2 Current rice needs

The need for rice commodity is closely related to the increase of population. Based on data, the population of Indonesia in 2017 amounted to 262 million people with an average need for rice per capita consumption is 114.6-130 kg / capita / tahun [4].

The high number is a challenge for the government, given the limited production area. Viewed from the availability of land, based on 2014 data, the area of land that supports food needs of 14.26 million ha, which is still considered less to meet the consumption needs of Indonesian rice population of 130 kg per capita / year, so that the required minimum land 14.59 million Ha. However, the expansion of the land is not easy to do because of geographical conditions that are less supportive, uncertain climate conditions that affect the productivity of land, land conversion, and others. Nevertheless, several measures implemented by the government to support existing land productivity are: improving infrastructure (making irrigation and reservoir networks), fertilizer and seed subsidies, business capital credit in the form of KUR, regulating optimal management of the trading system, and increasing productivity rice in an integrated manner [5].

2.3 The role of government against rice commerce

2.3.1 *Commerce in Outline*

Trading system is an economic activity that serves to deliver goods from producers to consumers (distribution / marketing). In the process of trading, it takes an intermediary institution that facilitates activities because it is in charge of bringing the product to one channel level afterwards. The trade channel through the government according to Mubyarto [6] can be seen in Figure 1.

The government through the Public Corporation of (Bulog) monitors and maintains the stability of rice prices and supply in the market. Mechanically, Bulog has a minimum purchase contract of five tons with a small rice trader or rice miller in the district or provincial capital. Rice deposited to Bulog is stored as government stock which becomes the national buffer stock. Then the rice is channeled through wholesalers to retailers as the last dealer to the consumer at a price determined by Bulog [7].

This system resulted in additional trading costs that led to an increase in the price of goods. Inefficient trading systems (seen from the trading margin) can lead to greater marketing. This will lead to high selling prices of agricultural products charged to consumers and suppress the purchase price charged to producers [8].

2.3.2 *The Role of government in maintaining national rice stock*

Bulog role in assisting the government, not only to the provision of goods but also to aspects of pre-production, production process, and post production. Thus, price stability at the producer level is achieved through basic price

instruments, marketing, rice distribution (post-production), and supply of staples at the consumer level [10]. Bulog's role as Public Service Obligation in distributing rice for poor families and maintaining rice price stability of farmers, based on the Regulation of the Minister of Trade of Indonesia No. 22/M-DAG/PER/10/2005 on the use of government rice reserves (GRR/CBP) to control price fluctuations. Figure 2 below is a system of rice reserves.

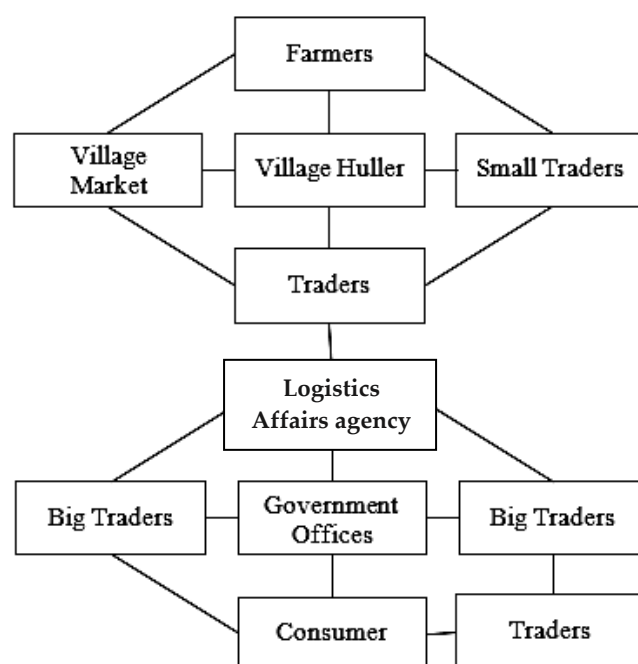


Figure 1. Structure of Rice Commerce in Indonesia through Government Channels (Source: Mubyarto [7])

2.3.3 The role of the government in maintaining rice price stability

The role of government in this case relates to the task of Bulog in supporting the base price and maximum price protection that ensures a reasonable price for consumers. According Saifullah [9], the achievement of these goals is done by the implementation of pricing policy by using instruments consisting of:

1. Basic pricing
2. Make purchases of grain / rice produced during the harvest
3. Provide additional salary in the form of rice to civil servants and military / police
4. Conducting market operations by increasing the supply of rice to deficit areas and general markets during the famine season
5. Isolate domestic rice market from the influence of world rice market through import rice monopoly
6. Distribute rice to different regions and set different rice selling prices between regions to stimulate private trade.

In addition, the Government Purchase Price Policy (HPP) is also applied. HPP guarantees the price of grain to a certain level, at a predetermined location and prevails in Bulog Warehouse. The government makes a purchase (in harvest time) with the amount specified at the market price level. With this policy, demand will increase and farmers will gain an adequate profit [10].

2.3.4 The role of government in chain of distribution chain

According to the Minister of Agriculture, the long chain is one of the causes of rising prices of staple food. Structuring the food sector by cutting the chain of trade will have a greater impact on the decline in food prices. One of the efforts that has been done by the government is to buy rice from farmers and directly marketed to consumers, although blocked by several obstacles. For example, in Triyagan, Karanganyar Districts (Central Java), the grain is not absorbed optimally in Bulog Warehouse and milling machine and heater is not operating well. In addition, the revitalization of financing through the People's Business Credit to assist farmers in meeting their needs due to rising prices of seeds and fertilizers [11]. Another effort of the government in cutting the length of the

supply chain is the implementation of the Indonesian Farmer Shop program spread in various provinces in Indonesia.

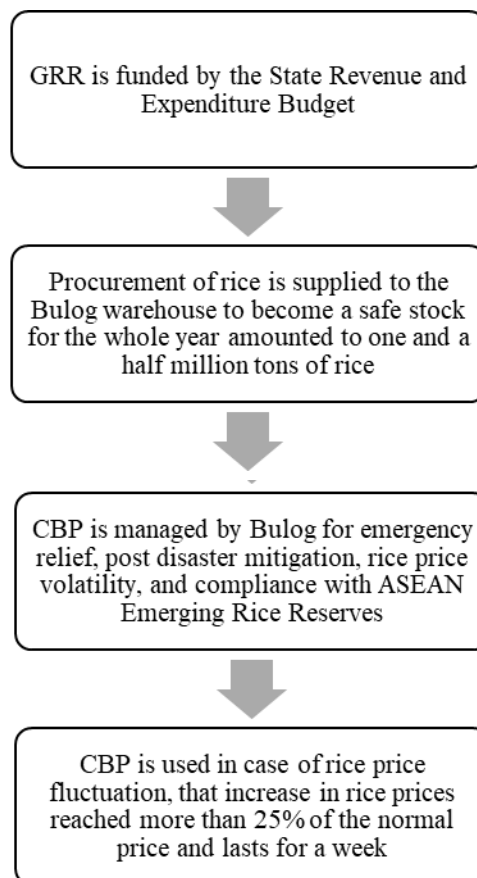


Figure 2. The system of rice reserves

2.4 Indonesian Farmer Shop

2.4.1 Definition, impacts and effectivity

Through the Community Food Business Development (PUPM), the Ministry of Agriculture's Food Security Agency created a program named Indonesian Farmer Shop (TTI). TTI is a solution for the high price of food demand in Indonesia as a result of the length of the supply chain that made our food supply system becomes inefficient. This is indicated by the unbalanced acquisition of margin from each market participant. This crippling condition has lasted a long time and contributed very real to the welfare level of farmers. On the other hand, the length of the food trade actors makes it difficult for consumers to obtain a fair price and must accept the accumulated price of the profit margin obtained from the supply chain actors. The objective of the TTI is to protect producers from falling prices and on the other hand, to protect consumers from high food prices, and to prevent the occurrence of Patron-Client (food supplied by a certain business actors) and prevent marketpower misuse by certain business actors [12, 13]. The framework of PUPM-TTI activities can be seen in Figure 3.

2.4.2 Sustainability

Until now, there are 1652 units of TTI that have been built throughout the region of Indonesia and it was being developed until 5000 units up to the year 2019 [14]. According to the result of monitoring and evaluation from The Ministry of Agriculture, the operational of TTI was active and stable, only 5% of TTI that have been collapse. There are several factors that caused TTI stop operating, such as TTI located in a small and narrow street so its unreachable for the products and consumers. The other causes are the inhibitory of supply from the farmers.

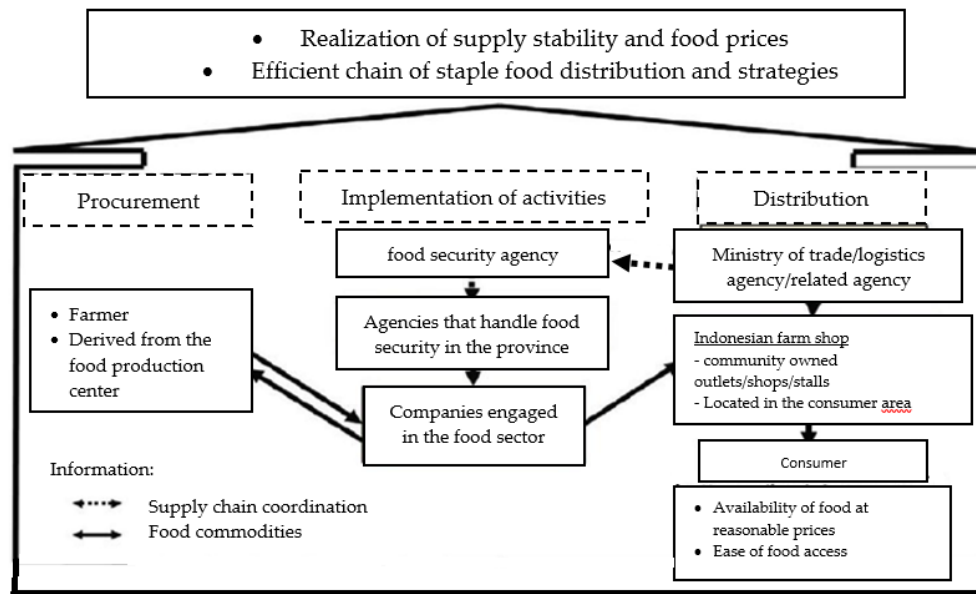


Figure 1. The framework of PUPM-TTI activities. (Source: [13])

2.4.3 Rice selling in TTI

According to Agung Hendriadi, as the head office of Food Security in the Ministry of Agriculture, TTI can sell medium quality rice with a low price, IDR 8000/kg. For example, from the farmer groups, rice was priced IDR 7700/kg, meanwhile the price of dry grain from the farmers are IDR 6200/kg, so the margins are IDR 300/kg. One of the rice supplier in TTI Jabodetabek (Jakarta, Bogor, Depok, Tangerang, and Bekasi) are from Mekar Farmers Group (Gapoktan) in Wargamekar village. There are 650 farmers that joined into 13 farmers group. Gapoktans in that area work in 360 ha rice fields. In Indonesia, there are 900 Gapoktan is supplying rice for TTI [15].

2.5 HET and HPP as policy instruments of rice issues from the government.

2.5.1 Opening

HPP (Government Purchase Price) and HET (Highest Retail Price) are one of the instruments of government pricing policy. This pricing is done by the government for price stabilization. Theoretically, demand and supply will produce an equilibrium price, which is beneficial to consumers and producers. But often the market can not operate perfectly. For example, there are always obstacles in the production process or in the process of distribution of goods. As a result, goods in one period can be abundant, but in other periods there is a scarcity of goods in the market. Barriers in this market cause prices to fall far below the price that should occur, or vice versa causing prices jump too high.

The government has a policy instrument to control the price, either directly or indirectly. Market operations, such as the sale of rice, sugar or cooking oil when approaching the holidays, are also one example of a price control policy, which can directly affect market prices. Price control policies indirectly include taxes, subsidies, import / export duties and import / export quotas.

2.5.2 The Purpose of Price Pricing Policy

Government intervention through pricing policies is done especially when there is a surge in production, such as when a harvest occurs. At harvest time, commodities available in the market abundantly. Finally, if the market mechanism is left to work itself, then the price will fall and then the farmers can lose their money.

The purpose of the maximum pricing is to avoid high price spikes. For commodities, this can happen for example during Eid Al-Fitr holidays. At that time, demand for various food commodities, such as rice, sugar, cooking oil and meat is high. This can trigger prices to soar. If this is left to the market mechanism, then the price can be uncontrollable. Prices fall, when supply is higher than demand, and vice versa, high, when demand is higher than supply. To prevent this things, the government has various price control policy mechanisms.

2.5.3 Outline of the history of reliable rules

- Instruction of the President of the Republic of Indonesia. Number 5 Year 2015. About Policy on Procurement of Rice / Rice and Rice Distribution by the Government
- Regulation of The Ministry of Trade No 63 / M-DAG / PER / 9/2016 concerning Reference Price of Purchase at Farmers and Reference Price in Consumer revoked and declared no longer valid.
- Regulation of the Ministry of Trade No. 27 / M-DAG / PER / 5/2017 on Pricing of Reference of Purchase Reference in Farmers and Consumer Sales Reference Price
- Regulation of Ministry of Trade No. 47/2017 on Stipulation of Reference Price of Purchase at Farmer and Reference Price of Sales in Consumer
- Regulation of the Ministry of Trade No. 27 / M-DAG / PER / 5/2017 on Pricing of Reference of Purchase Reference in Farmers and Consumer Sales Reference Price
- Current reference in respect of HPP and HET is Regulation of the Ministry of Trade No. 57 / M-DAG / PER / 5/2017 concerning the Determination of the Highest Rice Retail Price.

2.5.4 Impact, effectiveness and sustainability

The Regulation of The Ministry of Trade is a proposal made by the Minister of Trade to substitute The Regulation of The Ministry of Trade Number 27/2017. This previous rule made a lot of problems, especially among farmers, distributors, grinders and traders.

HET and HPP are considered very unreasonable and very detrimental to farmers and small grinders. This HET policy causes them to lose and the big collectors and business owners become greater because the HET value is set very low for them. At the time of the previous regulation used, which has a higher HET value, there was already a lot of people who committed violations, such as grinders that use of any quality rice and sell it for premium price. Further, this condition aggravates the rice price volatility that occurred. A great case example is the case of PT Indo Beras Unggul (IBU) who buys rice from IR64 subsidized at IDR 4,900 / kg from farmers then polishes and sells them at prices up to almost three times. This happens because in this previous regulation, the HET set by the government does not specify the specifications of rice and there are no clear sanctions from the government regarding traders selling above the HET. Bayu Krisnamurthi believes that this regulation does not explain the rules for companies to buy or manage rice from farmers using subsidized seed or fertilizer. Rice produced from seeds and subsidized fertilizers does not mean subsidized rice. The subsidized rice is only distributed by Bulog. This rule is very ambiguous and unclear. It can be imagined if Regulation of Ministry of Trade No. 47/2017 is enacted then it will be a great chaotic in the rice trade in this country. After rejection, finally this 10 days old regulation was canceled and returned to - Regulation of the Ministry of Trade No. 27/2017.

The implementation of HET and HPP is considered merely a mere wish to promote Indonesian farmers, especially those on a small scale. Hasan Zein Mahmud assumes that government do not understand the intricacies of rice production, distribution and consumption; secondly, the regulation was unclear, ambiguous, and the government not know that the gradations of premiums-mediums in the rice industry are influenced by many factors. HPP whose purpose is to protect farmers who do not have a bargaining position to obtain a fair price is considered to be taking inappropriate action when receiving buyers who are willing to pay cash above the HPP, although this is risky from continued cheating.

The chaotic of rice trade is exacerbated by the unenlightened farmers and traders about the trade minister's regulation that is being used, That's why the price fixing on the market is very diverse.

2.5.5 Proposed solution

Make clear sanctions in published regulations and may take regulatory references from several neighboring countries such as: Malaysia dengan peraturan *Price Control and Anti Profiteering Act* No.723 Tahun 2011 yang memiliki skema *price control* dan *festive price control*.

- Malaysia with Price Control and Anti Profiteering Act No.723 of 2011 regulation which has price control and festive price control. This regulation contains clear sanctions for every level and class of violations.
- The Philippines under the terms of The Price Act. This regulation has clear sanctions for perpetrators of both government employees and foreigners.
- Brunei Darussalam with a Price Control Act that implements multiple sanctions for perpetrators who perpetrate repeat offenses. Educate the regulation to all societies so that the policy objectives can be achieved Filipina under the rules of The Price Act. This regulation has clear sanctions for perpetrators, both government employees and foreign parties.

Conclusion

The current government policy in maintaining food security, especially HPP and HET related to rice is still not appropriate. Some government regulations are considered unable to create a balance between small and large farmer groups. The government is also considered not to understand the process and the ins and outs of rice production, so some regulations are still considered less suitable. It is advisable for the government to conduct a direct survey to the field and look for references to the proposed solution by looking at various neighboring countries' policies related to rice regulation to determine appropriate policies, such as making effective and protecting farmers, and encouraging CBP improvement.

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