# Rice Development Policy in Indonesia

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## Background

Rice is the main staple food for more than 95% of the Indonesian population. In the production side, rice farming creates employment and income for about 21 million farm households. Due to strategic nature of this commodity, self-sufficiency at an affordable price of rice production has been pursued as desirable policy objectives to achieve food security and maintain political stability. Therefore, the Indonesian government has intervened heavily on rice production, marketing, trade, and pricing policies.

## Key features

During the early green revolution of the 1970-1990, rice production grew significantly at a rate of 4.3% per year. A high growth was mainly attributed to the growth of yield (3.0%/year), and partly by growth area. The high growth of yield indicated a significant technological progress, as a result of massive intensification program from *Bimas* (Mass Guidance) Program introduced in 1960s, *Insus* (Special Intensification) and *Supra Insus* (Super Special Intensification) Programs launched in 1980s in combination with the introduction of the High Yielding Varieties (HYVs), especially IR64 which was introduced in 1985.

In the subsequent periods, the growth of rice production gradually declined. For instance, in the 1990-2000 period, rice production grew only at a rate of 1.40% per year. Contrary to the earlier period, the growth was attributed mainly to area expansion (1.17%/year), while the growth of rice yield was very small (0.23%/year). This relatively low growth was attributed to many changes in the climatic condition, especially when El-Niño (in 1997) and La-Niña (in 1998) hit most of South East Asian Countries, including Indonesia.

During the following period of 2000-2010, the growth of rice production was recovered to a rate of 2.51% per year, which was attributed to almost equal growth of area (1.23%/year) and rice yield (1.28%/year). Finally, after stagnant in 2011, rice production showed very impressive growth in 2012 (5.04%), which was mainly attributed to the growth of rice yield (3.21%) and planted area (1.83%).

According to the food balance sheet data, Indonesia has already a surplus in rice, which on average reached 1.3 millions ton during 2000-2010. However, at the same period, Indonesia imported rice of 791 thousands tons on average. In 2012 when rice production reached the highest record at 38.8 millions ton milled rice, Indonesia imported around 1.9 million tons of rice. The government always argues that rice import is needed to secure rice stock for the purpose of distributing rice to poor families and for price stabilization policies.

The price of rice in both the farm and the retail levels is always used as an important policy indicator for stabilizing rice price for the interest of both rice farmers and consumers. To provide sufficient incentives to the farmers, rice price in domestic market is kept higher than the parity price at the world market. For instance, during 2010-2012 average price of the medium quality rice in domestic market was Rp. 7,316/kg, whereas parity price of imported rice (Thai 5% broken) was Rp.6,496. It means that domestic rice producer enjoyed higher price about 12.6% compared to rice price at the border. On the other hand, during exceptionally higher rice price at the international market, to protect domestic consumers, rice price in the domestic market is lower than that of the world market. For example, during 2008-2009 average parity price of the imported rice was Rp.7,901/kg, whereas average price in domestic price was Rp.5,576/kg (41.7% lower).

**Policy framework**

Government regime on rice policy has changed overtime. In 1965-1985, the rice sector has received the highest level of government support and protection. However, in the subsequent periods, support and protection to the sector gradually diminished which in turn partially explained declining trend on rice production growth over time.

During the early green revolution in 1965-1985 the rice sector has received tremendous government support, which led Indonesia to achieve self-sufficiency in rice for the first time in 1984. At the farm level, the policy instruments were: (i) floor price policy, to protect farmers from price decline below production cost; (ii) inputs subsidy, particularly fertilizer, seeds, and pesticides; and (iii) subsidized farm credit, to enable farmers to adopt the recommended technology. At the market level, the instruments include: (i) stock management and rice import monopoly implemented by BULOG (state owned enterprise), to stabilize price, in order to protect consumers; (ii) provide BULOG with *KLBI* (Central Bank Liquidity Credit) to enable BULOG conducting rice import during shortage season and domestic rice procurement during harvesting season; (iii) provide rural cooperative (*KUD*) with credit for domestic rice procurement; and (iv) market operation done by BULOG when price increase during the shortage season. Some other instruments to accelerate rice production also include: (i) opening agricultural land and irrigation facilities; (ii) developing technology innovation; (iii) developing agricultural machinery; and (iv) institutional development, particularly to strengthen farmers' organization.

In the subsequent periods, government support and protection to the rice sector are gradually reduced, transformed, or even completely eliminated. *First,* floor price policy is modified to become procurement price. Under this policy, every year the government announces the level of paddy price (and the corresponding milled rice price) at which BULOG procure to accumulate its rice stock. This policy, by no means guarantee a certain level of paddy price received by the farmers, since only about 15% of paddy production is procured by BULOG. However, the available evidence shows that this policy contributes toward higher market price of rice. *Second,* BULOG finances its operation by commercial credit which leads to higher cost and rigidities in BULOG's operation. *Third,* government budget to build and rehabilitate irrigation infrastructures has been reduced significantly which leads to poorly maintained infrastructures. *Fourth,* rice intensification program is no longer strongly enforced by the central government, while the local government interest varies across regions.

Current policy instruments applied to the rice sector are: (a) promote improved technology at the pilot sites; (b) procurement price of paddy at the farm level (and the corresponding rice price at the millers); (c) determine the quota of rice import by BULOG and is subject to specific tariff at Rp.430/kg; (d) fertilizer subsidy through fertilizer producer; (e) seed subsidy through state own enterprises (PT Sang Hyang Sri and PT Pertani); (f) subsidized credit for the farmers; (g) government distributes rice for the poor (Raskin) at a subsidized price.

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