

Increasing Food Security in Indonesia

- Increase domestic food production capacity, particularly by building agricultural infrastructure (land clearing, irrigation facilities) and providing more budget for R&D, and phasing out fertilizer subsidies which have already proven less effective in protecting the welfare of farmers.
- Improve the design and implementation of intervention policies through Market Operations (OP), based on more accurate data, in order to more effectively stabilize food prices in the retail market.
- Seriously consider food imports as an alternative instrument for stabilizing food prices. Indonesia should not solely rely on food imports, but it should not entirely close to imports either. Currently, the role of imports is crucial in achieving food security, as the domestic supply is not yet adequate in quantity and quality.
- Re-examine food import policies which are not based on restrictions and rationing, because they are prone to be politicized and become source of corruption and rent-seeking. The imposing of import duties can become an alternative, as Indonesia could still charge a relatively high import duties.

The Food Law No 18/2012 mentions that the organization of food by government is carried out to fulfill the basic human needs, based on the principles of food sovereignty, food self-reliance, and food security. Food security is not limited to the availability of food, but also entails affordability, quality and safety of food. The government has always tried to balance the interests of both consumers and producers in food policies. At the same time, the government has also been trying to increase the participation of domestic producers in food supply, and even targeting self-sufficiency (*swasembada*) for food products such as rice, corn and soybeans.

Indicators of Food Security in Indonesia

However, a number of indicators have shown the poor condition of food security in Indonesia. For example, in the 2015 Global Food Security Index (GFSI), Indonesia was ranked 74th, far below Malaysia (32), Thailand (52), Vietnam (65), and Philippines (72). Furthermore, Indonesia is performing poorly in three dimensions of food security: availability (72), affordability (74) and the quality/safety (88). Despite having relatively high per capita income, Indonesia's food security is worse than some other countries with lower per capita income.

Global Food Security Index (GFSI), 2015

Country	GFSI		Affordability		Availability		Quality & Safety		Income per Capita
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	
Singapore	2	88.2	1	80.0	11	78.9	13	84.6	53.274
Malaysia	34	69.0	40	68.1	29	69.2	36	70.4	10.073
China	42	64.2	50	61.0	39	65.2	38	69.3	8.280
Thailand	52	60.0	46	63.4	57	58.6	61	58.6	5.246
Vietnam	65	53.4	69	48.9	52	58.4	69	50.7	2.170
India	68	50.9	72	47.4	58	56.1	79	45.3	1.688
Philippines	72	49.4	73	44.4	66	53.4	68	50.8	2.951
Indonesia	74	46.7	74	44.3	72	51.2	88	40.1	3.415
Myanmar	78	44.0	92	29.0	64	54.3	65	42.9	1.268
Cambodia	96	34.6	91	30.3	101	39.1	98	32.8	1.139

Increasing food security requires the existence of a number of enablers, such as efficient logistic infrastructure, regulatory framework and policies that support trade and investments, and the availability of accurate data to support the formulation of appropriate food policies. Furthermore, proper paradigm and implementation of food policies are also required, particularly in the following aspects: **supply side** and **intervention side**. The following explains a number of key issues and recommendations for both aspects.

Supply side

The major challenge of the **supply side** is to increase domestic food production capacity, bearing in mind that the growth of domestic food production has not been able to catch up with the growth of domestic food demands. This has resulted in frequent food scarcities (and consequently high food prices) of some key commodities.

Currently there are four key constraints in increasing the domestic food production capacity. The first constraint is **the lack of available land to grow crops**. Continued reduction in the area of food crops, owing to land conversion to other purposes, has caused a substantial decline in domestic food production capacity (Erwidodo, 2014). Secondly, the domestic production capacity has also declined because **the yields and cropping intensity have been stagnant or deteriorating** due to inadequate irrigation facilities.

Thirdly, the **lack of budget allocation to research and development (R&D)**, which is crucial for technological improvement and the increase of yields (in quantity and quality), has caused lack of significant growth in land productivity. Fourth, the government budget allocation for agriculture sector is mostly spent on **fertilizer subsidies (amounting to Rp 39.48 trillion in 2015), that are ineffective** to support and protect farmers, and even tend to be distortive. Building new (paddy fields, dams, irrigation facilities) and improving available agricultural infrastructures, along with more budget for R&D and the phasing in of crop insurance will be more effective than fertilizer subsidies in ensuring the welfare of farmers and improving the domestic food supply (Erwidodo, 2016).

Intervention Side

On **intervention side**, the government has two main instruments of intervention to stabilize food prices: market operations (OP), and food import policies. In this case, there are several paradigms that need to be re-examined.

In domestic food interventions, the **Market Operation (OP) instrument has proved less effective in the stabilization of food prices, especially rice**. As a result, rice price in Indonesia has always been far higher than the world price of rice. In February 2016, the price of medium quality rice in Indonesia is 78% higher than that in Vietnam.

Several reasons can explain ineffectiveness of OP in the stabilization of prices. *First*, the implementation of OP often does not follow the procedures stipulated by Minister of Trade Regulation No 4/2012. *Secondly*, the number and/or quality is often not appropriate in the distribution of rice during OP. BULOG often does not have supplies in sufficient quantity and adequate quality. As a result, the running thin of rice supplies in BULOG triggers speculative behaviors among wholesalers, which subsequently increases retail prices (Erwidodo, 2016). *Thirdly*, OP is not always well targeted, and thus, is source for frequent abuses by local traders. *Fourthly*, OP is often delayed because of problems and inefficiencies in the distribution process, especially due to poor domestic infrastructure and logistics (World Bank, 2016).

In the interventions involving international trade, there is currently **a paradigm implying that food imports are contrary to Indonesia's national interest**. In fact, there is a general perception that the success of domestic food policy is measured by not having imports. The inclination to avoid food import is often so great, and comes at the expense of Indonesia's food security, i.e. the prevalency of food scarcity and price hikes, that ultimately harms the public.

In addition, imports are still necessary to fulfill the needs of the food industry for high-quality food products (corn, industrial-grade sugar and salt), which domestic suppliers cannot provide at the moment. Processed food industry in Indonesia has a large economic potential to absorb a lot of labor. The availability of raw material is an essential part in sustaining this particular industry.

Tight restrictions on food imports are often justified to provide incentives for local farmers to produce food crops. In fact, the disparity between retail and producer prices are rising, and only traders and middlemen are enjoying most of the benefit from the rise in price. As a result, such a restrictive policy is not effective in boosting domestic food supply. Trade policies on food, which is primarily in the form of import monopolies and restrictions, proved unresponsive to circumstances, ineffective in stabilizing prices, and even prone to rent-seeking. Moreover, lack of clear and data-based guidance/trigger on exactly when and how much to import means that import policies can very easily be politicized.