

Agriculture

ACHIEVING GREATER FOOD SECURITY

- ▶ The prevalence of undernourishment in Indonesia has declined significantly since the early 2000s, but rates are still high.
- ▶ Indonesia provides significant market price support and fertiliser subsidies to agricultural producers, which are among the most market-distorting forms of support.
- ▶ A recent OECD study found that as a result of policy interventions, domestic rice prices were 60% higher than international prices in 2010-12.
- ▶ Given current policy settings, Indonesian food security is more susceptible to domestic economic and natural disaster risks than international events.
- ▶ Indonesia should develop a portfolio of policies that can respond to a diversity of food insecurity scenarios, rather than focusing policy attention on domestic production of staple foods.

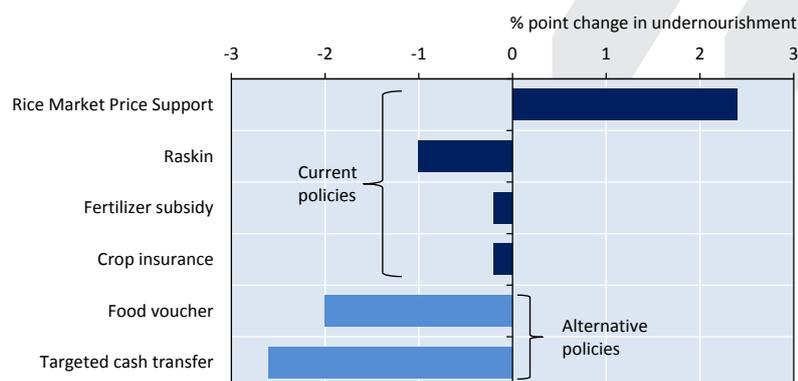
What's the issue?

Domestic agricultural production and food security are economically and politically important in Indonesia. In 2012, agriculture accounted for around 14% of GDP and 35% of employment. Food security in Indonesia has improved significantly since the early 2000s. The latest FAO estimates put the prevalence of undernourishment at 8.7% of the population in 2012-14, half of what it was only a decade ago. Further reducing this should remain a policy priority, but Indonesia's current food security strategies are not the best way to achieve this goal.

Indonesia introduced a new Food Law in 2012 that sought to strengthen the principles of food sovereignty and food self-reliance in ensuring food security by giving priority to the domestic production of staples. Self-sufficiency targets exist for 5 key staples — rice, maize, soybeans, sugar and beef. The new Indonesian government has revised the timeframe for achieving self-sufficiency to 2017 for rice, maize and soybeans, and 2019 for beef and sugar. To foster self-sufficiency, Indonesia provides significant market price support and fertiliser subsidies to agricultural producers,

Changing the policy mix could significantly improve food security

Probability-weighted impact of policies on undernourishment, based on food insecurity risks



Notes: Insecurity risks include natural disasters, crop failure, a macroeconomic crisis along with international rice and fuel price spikes.
 Source: OECD (2015), *Transitory Food Insecurity in Indonesia*, forthcoming.

amounting to around IDR 24 trillion in 2014 (USD 2 billion).

A significant focus of Indonesia's food security programme is on rice, which constitutes the major source of calories for most Indonesians. The food security programme for rice is pursued through self-sufficiency targets; price stabilisation; and a "rice for the poor" (RASKIN) programme, which delivers rice at subsidised prices, prioritising poor or near-poor households. Fertiliser and other input subsidies are also being increasingly used to stimulate domestic production.

A recent OECD study questions the effectiveness of the various rice programmes, showing that domestic rice prices were 60% higher than international prices in 2010-12 as a consequence of policy intervention, compared to just 8% higher in 2000-02. Further, the current price support measures exacerbate undernourishment (by between 2% and 22% percentage points depending on the degree of price transmission from international markets). Moreover, the RASKIN programme does not offset the negative impact of price support on undernourishment, reducing it by only an estimated 1.3% percentage points, driven in part by ineffective targeting, with a significant proportion of subsidised rice going to non-needy households. Fertiliser and other input subsidies were also found to have only minor effects on decreasing rates of undernourishment as they do not effectively decrease production costs and hence have limited effects on rice prices. In addition, as a result of current policy settings, Indonesian food security is more susceptible to domestic economic and natural disaster risks than international events. But even for international risks, current policy tools were found to be less effective than alternatives. For example, export restrictions on rice can only help avoid a surge of undernourishment in the case of a rice price spike estimated to occur once every 30 years, and otherwise proves less effective than alternative measures.

Why is this important for Indonesia?

Further reducing undernourishment and building greater stability to food availability, accessibility and utilisation continues to be a policy priority in Indonesia. Current programmes have increased prices for most staples in the hope of spurring greater production. However, they have worked against enhancing food security as many of those who produce also spend a significant amount of their income on food. The programmes also carry with them high opportunity and budgetary costs. Importantly, the push to achieve food security through self-sufficiency is diverting limited government funds away from other activities that may provide better long-term investments for food security and agricultural productivity.

Properly addressing the issue of food security will require an effective policy platform that can respond to a diversity of food insecurity scenarios, rather than focusing policy attention on domestic production of staple foods.

What should policymakers do?

- ▶ Replace RASKIN with a targeted food voucher and cash transfer programme.
- ▶ Refocus Bulog, the public logistic agency that manages many of the rice price support and stabilization programmes, so as to reduce its commercial operations, and instead focus on the neutral management of emergency food reserves.
- ▶ Phase out fertiliser subsidies and use these budgetary outlays for investments in infrastructure, innovation structures, and the creation of risk management tools.
- ▶ Reform the administrative requirements for agro-food imports and exports, in particular import permits for rice and other licensing arrangements.
- ▶ Promote a coordination agreement within ASEAN to restrain the use of export restrictions.



Further reading

OECD (2013), *Agricultural Policy Monitoring and Evaluation 2013*, OECD Publishing. http://www.oecd-ilibrary.org/agriculture-and-food/agricultural-policy-monitoring-and-evaluation-2013_agr_pol-2013-en

OECD (2012), *OECD Review of Agricultural Policies: Indonesia*, OECD Publishing. <http://www.oecd.org/indonesia/indonesia2012.htm>

