

# EXECUTIVE SUMMARY: Effectiveness of State Trading Enterprises in Achieving Food Security: Case Studies from BERNAS in Malaysia and BULOG in Indonesia

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## Introduction

*Food security* is related to how a society can control food accessibility, availability, utilization and stability (FAO, 2009). Many countries increasingly rely on food importation to supply their deficit in production to fulfil the growing domestic food demand, which is often implemented through State Trading Enterprises (STEs). Despite the prevalence of STEs in Southeast Asia, relatively little work has been devoted to try and identify the consequences of these centralised food trading entities in achieving food security objectives. Therefore, it is necessary to assess on a country case basis in order to understand the specific successes and failures of STEs in achieving food security.

As the staple food of most Southeast Asian peoples, rice is an especially important commodity in the region. In the process of transitioning from food self-sufficiency to food security, many of these countries have utilized STEs to conduct food trading as well as to achieve some agricultural policy objectives. The STEs in Malaysia and Indonesia, BERNAS and Bulog respectively, have been selected for analysis due to their similarity as being instrumental entities holding state-mandated monopoly power over the trade of the nation's staple food.

## The Evaluation of BERNAS in Achieving Food Security

In 1971, the National Paddy and Rice Authority (*Lembaga Padi dan Beras Negara/ LPN*) was established by the government as an STE to combat the issues faced by the rice and paddy industry during the 1970s. The LPN was a protectionist regime with the purpose to insulate the industry from market vagaries and shocks. LPN also provided support in the form of subsidies and income transfers, in order to incentivise producers and hence expand production. LPN ruled the industry for over two decades, but was later privatised into *Padiberas Nasional Berhad* (BERNAS) in 1994. As the sole importer of rice and its involvement in marketing and distributing activities, BERNAS is among the major institutions that define the structure of the industry.

Recently, the underlying political and economic conditions for an STE has changed so much that it warrants a reexamination of the role STEs play in the current era. BERNAS may have, to an extent, fulfilled their functions of price stabilisation, ensuring a sufficient supply of rice, managing the national stockpile and acting as the buyer of last resort. However, their presence has overshadowed the potential improvements in sectoral performance that would have been realised under a relatively liberalised structure. The costs of having BERNAS to the industry are the unintended consequences or missed opportunities.

Some of them are:

- Competition and cooptation are undermined and hence all the benefits that come with it;

- The monopoly and monopsonistic structure of the import and milling sector, respectively, are not conducive to innovations;
- Limited upstream development;
- Downstream development was virtually missing;
- Incubation programmes were not undertaken;
- Rich local paddy varieties are suppressed and sustainable farming practices are side lined;
- Non-transparent market information system left paddy producers and small scale industry players “isolated” with limited bargaining power.

The trade-offs of the policies are clear. The short term objective of stabilisation (price and supply) through an STE is achieved at the expense of resource efficiency, equity, growth and sustainability in the long term.

## Food Policy at The Crossroads: Wither are The Roles of Bulog?

Food policy in Indonesia seem to be at a crossroads: whether it proceeds towards market reforms or strengthens the role of government by establishing the new National Food Agency (*Badan Pangan Nasional*) mandated by Food Law No. 18/2012. For the past four decades, food price stability has been a policy priority to achieve food security in Indonesia. In the past, the price stabilization policy was well-regarded as it was effectively enforced from central to regional levels of government. However, its effectiveness has recently been questioned.

As the Indonesian economic policy shifted toward greater openness in 1999, Bulog’s closed and centralized management system started losing its effectiveness and acceptability.

In this context, the food-price instability appeared to be related to the inefficiencies of food-value chains in Indonesia, as well as the asymmetric information and non-competitive market structures. The production and distribution chain cannot be artificially cut short as it is influenced by the geography of the Indonesian archipelago. This chain can only be shortened if farmers had more market information and are able to reach millers directly. However, this requires strong government support such as development of physical infrastructure and information technology.

Bulog’s role in domestic rice procurement has decreased significantly from 2.96 million tonnes in 2016, to 2.16 million tonnes in 2017, and further declined to 1.49 million tonnes in 2018. Some possible explanations are: low supply of rice in the market, aggressiveness of private sector traders in rice procurement, and increasing rice stocks by households.

Bulog’s stock management to achieve its objectives of food availability and price stability also began to face problems during Bulog’s transition in 2004-05 from a government agency to a more corporate structure. After becoming an SOE, Bulog’s operational costs were no longer directly covered by the state budget (APBN), and had to be financed by the commercial banks. Bulog still obtains operational costs from the state budget, primarily for market operations or the distribution of the government reserves and buffer stocks (*Cadangan Beras Pemerintah/CBP*). However, the state budget has been reallocated to

the Ministry of Social Affairs that manages the Non-Cash Food Assistance (*Bantuan Pangan Non-Tunai/ BPNT*) budget.

The current government administration under President Joko Widodo has redesigned the “rice for the poor” (*Rastra*) program from a direct in-kind rice distribution to a Non-Cash Food Assistance (BPNT). The switch from *Rastra* to BPNT changed the food subsidy objective that aimed at both price stabilization and social protection, to just a social protection policy. These redesigns shift Bulog’s rice distribution towards a more market-based food distribution system while strengthening small and medium food retailers. At the same time, the government has been improving the cost-effectiveness of the programs by providing more assistance in urban areas, tightening eligibility criteria, increasing public awareness, and improving the reporting mechanism of the beneficiaries.

It became apparent that national food policies, especially for rice, needs to be formulated more comprehensively, from the farmers level to the consumption level. Stable prices cannot be achieved through Bulog market operations alone. The challenge for policy-makers is how to integrate food and rice procurement policy with the management of government food reserves (CBP). The integration of policies and coordination among the ministries directly involved in food policies are needed. Food policies should consist of supply-side components by increasing food production. In addition, policies have to be more aware of food demand in line with the increased production.

## Conclusion

Due to the importance of rice in Southeast Asia, state trading enterprises in the paddy and rice industry, such as BULOG and Indonesia and BERNAS in Malaysia as analysed above, have often been formed to operationalise the government’s goals of ensuring food security. These organisations were thus created with the intent to address market imbalances, such as correcting market deficiencies, as well as to provide social objectives such as ensuring food availability and affordability for consumers and guaranteed buyers for producers. With staple foods such as rice, one of the most important functional roles of STEs is in providing insulation and protection from global market instability to ensure the availability of food even during times of international crises.

An analysis of both country situations show that on aggregate, the respective STEs have been relatively successful in achieving the goal of food availability and affordability through the support of their market protection instruments. However, what becomes clear is that a tradeoff appears between ensuring food security through a centralised trading agency and nurturing a strong domestic food industry.

Several commonalities appear in the analyses of Malaysia and Indonesia:

1. The rice policies in each country that were intended to achieve food security through price stabilisation and availability, have to a larger extent, resulted in windfall losses to the paddy and rice industry.
2. Food security objectives, as conventionally seen through the lense of accessibility, availability, utilisation and stability, has generally been achieved by the functionalities of the STEs. However, the resulting structural imbalances of having a state monopolistic and monopsonistic organisation give way to unintended market distorting outcomes.

3. The price stabilisation instruments employed by each country have largely been successful at protecting both paddy producers and rice consumers from international price shocks. However, this stabilisation policy comes at the cost of consumers, who bear the burden of indirect taxation, particularly when global rice prices fall below the domestic price of rice.
4. The global and domestic landscape, and hence the so-called 'market failures' and policy premises surrounding STE justifications, have differed immensely since their initial establishment.

## Policy recommendations

### Malaysia

1. **Reconsidering the need for an STE under current market dynamics.** The changing landscape of technology provides a new paradigm of doing business. An STE may not be that relevant under the new dynamics as some functions can be carried out by farmers themselves and the private sector with the help of technology. With ICT and IoT, a level playing field provides equal opportunities to all market participants, particularly the farmers, to venture beyond their territories.
2. **Market deregulation may be a relatively efficient alternative to an STE.** The experiences of Bangladesh, the Philippines and Ghana are evidence on the plausibility of some deregulations to be emulated with local modifications. In such policy making, informed decisions must rise above political interest for building a progressive and competitive private sector.
3. **Boosting food security requires a lengthy process of building an efficient, growing paddy and rice industry.** This involves institutional reformation involving private sector investment and economically conducive policies. The crucial institutional supports include: infrastructure, R&D and extension, innovation, farmer institutions, input development, machines and mills for small scale producers, ICT and IOT applications, and precision farming.
4. **Access to and responsibility for the maintenance of the stockpile could be shared among a subsector of importers.** Such players would be advantaged, but, as access would be shared and standards maintained, manipulations would be less likely.
5. **Collective action may provide the substitute for or replace action by the government or the private parastatal.** There is a dire need to revive the framework for new cooperatives, which are independent and self-governing, among the producers or the small millers.
6. **The re-introduction of a “National Rice (Value Chain) Board” is needed to undertake a long-term structural transformation.** Ideally, it would be funded by taxes imposed on rice imports and exports, would enable regulatory, research and developmental work, as well as enabling monitoring and evaluation functions.

## Indonesia

- 1. If Bulog is still to be in charge of price stability, the distribution of rice needs to originate from absorbing farmers' grain harvests.** This option certainly requires a much larger budget for Bulog to reduce the opportunity for speculation from rent-seekers in the rice business. The argument behind this first option is that it is too risky to solely rely on market mechanisms in food affairs. The state has to be present during episodes of price falls in the harvest season and during price soars in the dry seasons.
- 2. Government rice reserves (CBP) need to be kept at 2.5 million tonnes providing Bulog with the flexibility to maintain food availability and price stability (KPSH).** A new financing scheme needs to be developed to increase these government rice reserves either through regular market operations or through the *Rastra* program.
- 3. Presidential Instruction (Inpres) No. 5/2015 on Provision Policy on Rice and Rice Distribution must be revised and improved, rather than simply increasing the reference price of rice for administrative purposes.** Policy instruments and mechanisms for the procurement of grain and rice must change; especially since the rice production and consumption systems differ between regions and cultures. This option shall provide incentives for local governments to play a more active role in increasing the productivity and quality of rice in their regions.
- 4. The management of government rice reserves (CBP) should become more flexible, in line with Government Regulation No. 71/2015 on Food and Nutrition Security that provides discretion for rice stock disposal.** Provisions in the state budget (APBN) for CPP and CBP are based on budget availability, not based on reserve requirements. The budget for food security should be transferred from the central government to the regional and local governments through special allocation funds (*Dana Alokasi Khusus* or DAK) that cover the provision of food services and nutritional improvement in urban and rural areas.

\* Download the full report at: [www.ideas.org.my/publications/reports/](http://www.ideas.org.my/publications/reports/)