

## INSTITUTIONAL REFORM IN INDONESIA'S FOOD SECURITY SECTOR: THE TRANSFORMATION OF BULOG INTO A PUBLIC CORPORATION

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The National Food Logistics Agency (BULOG) which had managed food security, buffer-stock operations, and domestic food price stabilization through its monopoly over imports and distribution was reorganized into a public corporation, "Perum BULOG," in May 2003. This study investigates the background and the process of reforming BULOG, and seeks to clarify the characteristics and remaining problems of institutional reform implemented in Indonesia since the economic crisis and the impact of globalization. The major findings are: (1) the reforms led by the IMF and World Bank were an attempt to curtail the rent-creation mechanism in BULOG and to improve its corporate governance; (2) globalized and standardized modules of institutional reform methods were applied for reforming BULOG, but the implanted institutions will need substantial time to take root; (3) there is still a failure to coordinate among food security institutions, particularly between the Ministry of Agriculture and Perum BULOG.

### INTRODUCTION

INDONESIA'S National Food Logistics Agency, or BULOG (Badan Urusan Logistik), the national agency which has played an important role in maintaining stability in the procurement and price of rice, the country's staple food, became Perum BULOG,<sup>1</sup> a state-owned enterprise, on May 9, 2003. This study will examine the background factors and the process of BULOG's transition from a national agency to being a public corporation. It will also seek to shed more light on the nature and significance of BULOG's reform since the currency and economic crisis in 1997 and 1998 and on the problems that are still remaining.

The World Bank's *World Development Report* is a highly influential publication dealing with contemporary and crucial issues in economic development. As shown in its 2002 issue which focused on institutional reforms, such institutional aspects are important for bringing about change in the economic systems of developing countries (World Bank 2001). Under the direction of the International Monetary Fund and World Bank, many developing countries have carried out structural ad-

<sup>1</sup> Perum is the abbreviation for *perusahaan umum*, meaning public corporation.

justment policies for restructuring their economies and raising their administrative and financial efficiency. These policies have probed deeply into the mechanisms of their markets and into the institutions constituting their market systems, and this has propelled institutional changes in these developing countries. At the same time, the experience and process of promoting structural adjustment policies have reinforced the recognition that to realize reforms, institutions have to be designed in ways that enable them to function effectively as well as practically.

Such a recognition can be seen in the reforms making BULOG a public corporation. This study will examine the background to the reforms, how these were implemented, and what problems are still remaining. It will follow the changing process as reforms were implemented, focusing mainly on institutional reforms as seen in: (1) their relationship with domestic food policy, (2) trade liberalization and globalization (i.e., the structural environment of the reforms), and (3) the reform of state-owned enterprises in compliance with the demands of the IMF.<sup>2</sup> This examination will follow the reforms up to 2003 when BULOG ceased to be a national agency. An in-depth study of BULOG as a post-reform public corporation is a project for future research.

## I. BACKGROUND OVERVIEW OF BULOG'S REFORM

### A. *The Path of Reform*

BULOG was set up in 1967 directly after President Soeharto came to power.<sup>3</sup> In 1978 it became institutionally an agency directly under presidential control. BULOG's function was to maintain stable supplies of rice and other major food-stuffs. It did this by (1) providing payment in kind to government officials, soldiers and to workers in state-owned enterprises and on plantations, and by (2) maintaining a stable food market through its market operations, protecting consumers through stabilized prices, and most importantly, by controlling regional differences and seasonal fluctuations in market prices. The following discussion will give a brief overview of the path taken by the reforms.

BULOG carried on as usual with its above-listed duties during the Third Five-Year Development Plan (Repelita III), 1979/80–1983/84, and the Fourth Development Plan (Repelita IV), 1984/85–1988/89, while under the control of its second chairman, Bustanil Arifin,<sup>4</sup> one of the generals in Soeharto's inner circle. The Fourth Development Plan was also a period when Indonesia was able to realize self-sufficiency in rice. But already by the time of the Fourth Development Plan,

<sup>2</sup> For the most part the World Bank was responsible for planning and supervising the reform of state-owned enterprises.

<sup>3</sup> Its first chairman was Lieutenant General Achmad Tirtosoediro who served until 1973.

<sup>4</sup> An army general whose chairmanship ran from 1973 to 1993.

BULOG's role was coming under reexamination. In 1993, Ibrahim Hassan, a professor at Syiah Kuala University in Aceh and close to Arifin, became BULOG's third chairman. On taking over the agency, Hassan brought up the issue of turning BULOG into a shareholding company (Saefuddin 2002, p. 381). This suggests that during the course of the 1970s and 1980s, BULOG had grown into a complex agency encompassing a wide range of related enterprises.

Responsibility for food security lay with the State Minister for Food Affairs. During the first half of the 1990s, this position was also filled by BULOG's chairman, Ibrahim Hassan. In 1995 Hassan gave up the latter post while retaining that of food affairs minister. The chairmanship of BULOG was given to Beddu Amang, a bureaucrat who had spent his career in the agency and who was familiar with its business operations and internal conditions. This step separated BULOG and its business operations from the Office of the State Minister for Food Affairs which had the function of drafting law bills, a separation which could be regarded as a prelude to the reform of BULOG. In August 1998 Beddu Amang was compelled to step down as BULOG chairman after being caught up in a rice crisis that brought soaring prices, huge imports, and suspicions of corruption and wrongdoing.

With the advent of the 1990s, the importance and effectiveness of BULOG, particularly of the two-fold duties it carried out, came under closer examination. The direct reason for this was the reexamination of government functions because of the tight fiscal conditions confronting the government. But it was also a fundamental reexamination of the roles played by the market and the government. The reexamination clearly brought out a number of reforms that were needed, but these had to await the fall of the Soeharto regime before any real action could be taken.

President Habibie, who took power after Soeharto, appointed Rahardi Ramelan, the Minister of Industry and Trade, to be concurrently the chairman of BULOG, and at the same time the president transferred his authority over BULOG to the new chairman. Under Abd. Wahid, the next president, Yusuf Kalla, who was Wahid's Minister of Industry and Trade, took over the chairmanship of BULOG. These moves obscured the actual line of authority over BULOG within the administrative structure. Also during this period of post-Soeharto reforms, there was an upsurge of suspicion over election funds and donations going to the president, and a series of corruption incidents came to light, such as the scandal that has become known as "Bulogate" (which is still making its way through the courts today) and the suspected illegal use of Rp 35 billion belonging to YANATERA BULOG (Yayasan Dana Kesejahteraan Karyawan BULOG), the BULOG employees' welfare foundation, which led to the arrest of BULOG's deputy chairman, Sapuan, in May 2000.<sup>5</sup>

<sup>5</sup> To counter the numerous incidents of suspected graft and corruption, this foundation along with other major government agencies, notably PERTAMINA (Perusahaan Pertambangan Minyak dan Gas Bumi Negara, the state-owned petroleum, natural gas, and mining enterprise), the PLN (Perusahaan Listrik Negara, the state-owned power company), and the Reforestation Fund, were

With the outbreak of the currency and economic crises during the latter half of 1997 and the resignation of President Soeharto in the following year, BULOG's reform process started moving forward. This began with efforts to increase the stability and efficiency of the market economy by abolishing BULOG's wide range of monopolistic rights and regulations. The new government then moved on to organizational and institutional reforms. These turned out to be drastic reforms spelled out in a series of government Letters of Intent (LOIs) to the IMF which aimed at implementing reforms within a specified timeframe. Although BULOG was ultimately not privatized by these reforms, the fundamental thrust of institutional reform was toward its corporatization and privatization. A comparison of BULOG before reforms (circa 1997) and immediately after becoming a public corporation are summarized in Table I. For the most part the work of reform progressed from BULOG's duties and functions to matters concerning its funds and financial affairs, then to its legal status as an organization. Before reforms, BULOG as an organization was headed by a chairman below whom were five deputy chairmen who were respectively responsible for procurement, distribution, financial affairs, general business affairs, and inspection. Since reforms this basic configuration, other than in organizational nomenclature, has remained unchanged.

Concerning the need for reforms, Widjanarko Puspooyo, the first president of BULOG as a public corporation, has pointed out the need to (1) reexamine and readjust BULOG's duties following the abolition of import monopolies, (2) bring it into compliance with Act No. 5/1999 prohibiting monopolies and Act No. 22/2000 on regional governance, (3) eliminate political influences on BULOG, and (4) reorganize state-owned trading enterprises to conform with WTO (World Trade Organization) agreements, increase BULOG's organizational transparency in accordance with the LOIs to the IMF, rationalize and professionalize BULOG's management, and enhance accountability (Puspooyo 2003, pp. 27–28). In essence the need for reforms falls into four major areas of concern: BULOG's functions, adjustment to relevant laws, relationship with political affairs, and adjusting to globalization and other external pressures. The organizational and institutional reform of BULOG has been moving ahead since 2000,<sup>6</sup> but they can be summed up as falling into these four major areas of concern.

### B. *Examining BULOG's Functions*

Prior to moving ahead with institutional reforms, an examination was undertaken of BULOG functions concerning its market operations and the maintenance

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subject to a special international audit; and as part of changing them into public corporations, considerable effort was put into setting up a reorganized accounting system.

<sup>6</sup> Reference to the reform of BULOG up to 1999 can be found in Yonekura (2003). The present study examines the changes and the information that has become available since then.

TABLE I  
SUMMATION OF THE BULOG REFORM PROCESS

Institutional Aspect	Before Reforms	After Reforms
Role, functions	Monopolies in the importing of rice, wheat (including flour), sugar, soy beans, garlic; and in designating domestic dealers through the DO (order delivery) system. Establishment of the factors for its monopoly in wheat milling and domestic soybean distribution	Abolishment of its import monopolies, deregulation of its domestic trading, elimination of its monopolies in domestic distribution and processing
	Controlling the domestic price of rice through market operations, managing buffer stocks, food security	Reduction of its market operations, reduction of buffer stocks, oversight of rice floor price, responsibility for food security especially as a social safety net
Funding, finances	Utilization of Bank Indonesia Liquidity Credit system (Kredit Likuiditas Bank Indonesia: KLBI)	Abolished
	Costs and losses in the rice sector covered by earnings from trading in other agricultural products; profits from trading used as BULOG income	Food security and all other public activities funded by the national budget; profit-making activities (including trading in rice and other agricultural products) guided by its own management decisions
Organization, governance	State agency directly under the president	Public corporation under the State Minister for State-Owned Enterprises
	State-owned trading enterprise subject to WTO oversight	Treatment the same as that of private business companies, accounting principles put into effect

Source: By the author.

of buffer stocks. These functions involved the distribution and price stability of foods, especially rice, and this put considerable financial burden on the government. Already in the mid-1980s this burden was seen as a problem within the structural adjustment process. In order to formulate countermeasures, a study was undertaken into the cost-effectiveness of BULOG's price stabilizing functions. Below are some of the findings from this study.

Research work done led by Frank Ellis of the University of East Anglia shows

that farmers store rice largely for their own family consumption and not for the purpose of selling. While BULOG's price stabilization policies are important at the farmer level, and its procurement operations are especially important during the first harvest period from February to May, the inter-seasonal flow of rice is handled largely by the farmers and merchants. For this reason Ellis is of the opinion that the scale of BULOG's procurement operations can be cut back (Ellis 2002, p. 313). In 1985 the price of rice dropped sharply because BULOG suffered a shortage of storage capacity (Ellis 2002, p. 312), and this implies that BULOG's work to stabilize the price at the farmer level, especially in Java, should be concentrated in specific seasons and regions. Ellis points out that the function of adjusting to inter-seasonal and interregional price fluctuations can be handled sufficiently by the farmers and merchants.

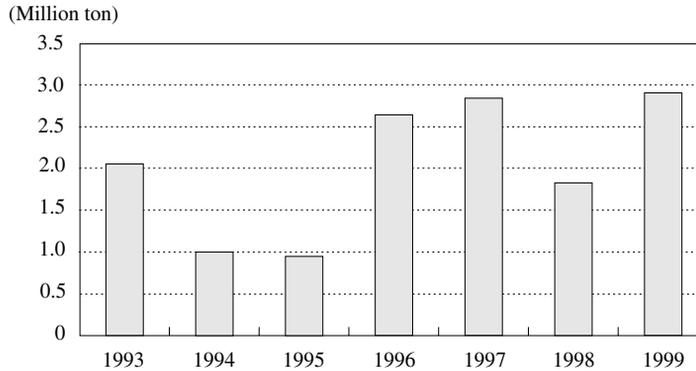
C. P. Timmer (at Harvard University when he published his study) acknowledges BULOG's historical role in stabilizing prices, and he also demonstrates the effect that this role has had on promoting investment and economic growth. But looking into the future Timmer mildly suggested that this role will not be needed (Timmer 1996, p. 45).

During the time of BULOG's monopoly on the import of major agricultural products, the agency was allowed to use the difference between domestic and foreign prices to increase its revenue. This covered the costs of the various functions it discharged connected with food security. However, when its monopolistic prerogatives were abolished and the costs of its public functions came to be subsidized from the national budget, the government's financial authorities had to start taking a close look at BULOG's expenditures. To get a better understanding of BULOG's operation cost, simulations of its rice storage and price stabilization functions were performed under the lead of the National Development Planning Agency<sup>7</sup> (BAPPENAS 2000). The problems that were looked at most closely for easing the financial burden were reducing the volume of BULOG's rice procurements and lowering the level of its rice stocks. Figure 1 shows the level of rice stocks during the 1990s.

Two simulations were run: one on revenues and expenditures for procuring a volume of 2.01 million tons of domestic rice in a year, the other for the procurement of 3.51 million tons. From these the cost to the state was calculated, and the results were very interesting for policymakers. The first simulation limited BULOG's work to supplying low-priced rice to poor households as a safety net and to supplying rice to the army and other budgeted groups, with 170 thousand tons of rice being supplied each month and a corresponding level of procurement taking place. The second simulation of 3.51 million tons included BULOG's long-standing function of stabilizing the market through its market operations; the simulation also

<sup>7</sup> Badan Perencanaan Pembangunan Nasional (BAPPENAS).

Fig. 1. Rice Stocks as of the End of April, 1993–99



Source: By the author based on Amin and Soepanto (2000), p. 33.

TABLE II  
RICE MARKET PRICE LEVEL (NOVEMBER 2001)

Stage of Distribution	Price (Rp/kg)
Marker price at farm-gate level (Dried paddy on farm, Gabah Kering Panen: GKP) <sup>a</sup>	1,095
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Market price	
Dried Paddy on Farm (GKP)	1,253
Milled rice (rice-mill stage)	2,315
Wholesale price	2,567
Retail price	2,690
Thai rice (15% broken: U.S.\$)	167
Imported rice domestic wholesale price	2,417

Source: BULOG, "Indikator pasar gabah dan beras" [Market indicators for unhusked and white rice], December 2001 ([http://www.bulog.go.id/harga\\_pasar/1201.pdf](http://www.bulog.go.id/harga_pasar/1201.pdf)).

<sup>a</sup> Equivalent to the officially fixed floor price of dried paddy just before milling.

raised the farm-gate price of dried paddy as an incentive to increase farmer rice production.

BULOG's 2001 official price for dried paddy, called the floor price (*harga dasar*), was Rp 1,500 per kilogram. This meant a price of about Rp 1,100 per kilogram at the producer stage (the farm-gate price of dried paddy) (see Table II). In the simulation for 2.01 million tons of rice, procurement took place during the harvest periods, BULOG's floor price was set at Rp 1,200 (around the level of the price in 2000 which was supposed to be maintained), and the farm-gate price of dried paddy was estimated to be Rp 900–950. Based on the results of a survey by the Center for Agro-Socioeconomic Research in Bogor, the simulation premised that a farm-gate paddy price of Rp 850–900 gave the producer sufficient earnings. With an exchange

rate of Rp 9,500 to the dollar, an import tariff of Rp 450 per kilogram, and assuming that sufficient rice could be secured from Java as the country's rice-producing center, then even including the demand during the inter-harvest months and the Islamic New Year, the simulation showed that no extremely large private rice importing took place. However, with the 3.51-million-ton procurement simulation, where BULOG procured large amounts of rice and the domestic price was kept high, it was shown that a large amount of rice importing took place.

At an interest rate of 16 percent on its loans, BULOG's losses at the end of 2000 for the procurement of 2.01 million tons of rice would be around Rp 500 billion, and around Rp 1,000 billion at the end of 2002. With the procurement of 3.51 million tons of rice, these losses would rise to Rp 1,000 billion and Rp 3,000 billion respectively. The simulations showed that as the scale of BULOG's procuring grows, its costs rise sharply. But at the 2.01-million-ton level of procurement, its costs would largely be covered by the revenues from the tariff on imports of rice.

Based on the findings of the research and simulations discussed above, it was decided that BULOG as a state-owned trading enterprise should be reformed, that a self-support accounting system should be implemented to the greatest extent possible, that the level of rice held in stock should be reduced to ease the financial burden on the government, and to compensate for this, BULOG should focus its operations on supplying rice to the poor and to the budgeted groups and should curtail its functions concerned with food security.

### C. *Altering BULOG's Functions*

While retaining its important duties involving food security, BULOG as an importer of rice and other major foodstuffs was put on an equal footing with private-sector importers, and in 1998 its special prerogatives were abolished. From 1999, as recommended by the IMF, BULOG could no longer make use of the government's low-interest credit system known as Bank Indonesia Liquidity Credits (Kredit Likuiditas Bank Indonesia: KLBI) to support its rice-procuring operations, and this altered the system that had financially underpinned BULOG's position and duties with their special rights and privileges. This change left BULOG with no other recourse than to borrow from ordinary commercial banks to carry on its work which suddenly made the procuring of funds a major pressing problem.<sup>8</sup> Meanwhile in

<sup>8</sup> Wheat and soybeans continued to be imported in large volumes, and the U.S. government had a program under Public Law 480 that provided collateral money as loans having the exceptionally favorable terms of 30 years at 1 percent interest. From this it seemed that the U.S. government had a policy of actively supporting the importation of wheat and soybeans. The World Bank and IMF looked negatively on the Indonesian government's incentive programs, especially systems of low interest financing, that were intended to increase the production and self-sufficiency of rice and soybeans. Therefore, this U.S. policy that makes use of low-interest funding to support imports of soybeans and wheat from the United States is extremely inconsistent and arbitrary, and Indonesia has dealt cautiously with this program of the United States.

1998 in response to the currency and economic crises, the OPK (Operasi Pasar Khusus [special market operations]) program was begun which directed the distribution of low-priced rice to poor people.<sup>9</sup> The actual implementation of the program was handled by BULOG, and this new activity helped it secure funding and prolonged its operational functions.

The OPK program was set up to supply low-priced rice to specific strata of the poor, and the policy of supporting low rice prices for everyone whether rich and poor was abolished.<sup>10</sup> Proposals were made to setting up systems other than BULOG that could assure the supplying of foodstuffs in an appropriate way, the judgment being that this could achieve the high rate of accountability and transparency that were fundamental for BULOG's institutional reforms. However, no proposal could get around the fact that other than BULOG there was no other system that had the business experience and the capability to distribute rice promptly and to every corner of the country. Even if the task were turned over to another agency or private distributors, in all likelihood they would have to organize a system more or less like the one that BULOG had already built up. For this reason, the regional structure of BULOG's operations had to be kept intact. But as will be discussed below, its position as a national agency brought BULOG into conflict with decentralization laws. Because of this problem, it was hard to avoid converting BULOG into a corporation. Ultimately, in 2002 it became a public corporation (Perum); however, the conception of such a conversion had already appeared in a 1999 report done by the University of Indonesia, and in the end the reform of BULOG took this course (Puspoyo 2003, p. 29). The next section will show how, from among the several choices, it was ultimately decided to transform BULOG into a public corporation. The section will also explore the process of institutional reform and the still outstanding problems.

## II. THE PROCESS OF BULOG'S REFORM

### A. *Reforms in 2000*

During 2000, in the wake of the currency and economic crises and the growing freedom in politics, a quick succession of laws were drafted and government decisions made. These along with the ongoing studies and the progress of BULOG's

<sup>9</sup> This program has now been replaced by RASKIN, the acronym for Beras untuk Orang Miskin (Rice for the Poor), which will be discussed later.

<sup>10</sup> Regarding the policy of targeting specific strata of the poor for rice allocations, see Yonekura (2003) and Tabor, Dillon, and Sawit (1998). The policy let the price of rice rise to a certain degree with the idea that this would act as an incentive to farmers to increase production; the policy was then expected to enable a reduction in the various agricultural subsidies. It was also a policy change in response to the reduced importance of policies for expanding the production of certain foodstuffs such as rice at low prices. This declining importance grew more apparent as Indonesia's economy developed and the consumption and production of agricultural products diversified.

TABLE III  
LAW AND GOVERNMENT DECISIONS AFFECTING BULOG IN 2000

Date	Law/Government Decision	Primary Content
Jan. 1	Decree of the Minister of Finance No. 568/1999 on the stipulation of tariffs of import duty on rice and sugar	Cane sugar 20%, beet sugar 25%, rice Rp 430/kg
Feb. 21	Presidential Decree No. 17/2000 on the realization of the state budget of revenue and expenditure	Rice payments in kind to government officials converted to cash payments
Feb. 26	Presidential Decree No. 29/2000 on BULOG	Limiting its role and management in the distribution of rice
May 17	Letter of Intent (LOI) to the IMF	Intent to implement corrective policies based on the special international audit; requirement to issue quarterly reports
Jul. 31	LOI to the IMF	Undertaking the special audit, change in agricultural policy
Sep. 7	LOI to the IMF	Confirming the official announcement of corrective actions based on the special international audit of LOI
Nov. 23	Presidential Decree No.166/2000 on LPNDs (non-departmental agencies of the central government)	Reforming BULOG's operational and supervisory systems as part of clarifying it as an LPND

Source: By the author based mainly on Pranolo (2002), pp. 417–21.

reforms set the calendar going forward, and the reform process entered the stage of full-scale institutional reform.<sup>11</sup> Table III shows the chronological order of the changes that took place.

In its LOI of May 17, to the IMF, the government pledged it would implement corrective policies based on the findings of the special international audits of BULOG, the PLN, PERTAMINA, and the Reforestation Fund. The Coordinating Minister for Economy, Finance, and Industry required each of these agencies to issue quarterly reports from July 2000 about their progress in implementing the reform policies. The next LOI to the IMF, dated July 31, contained the following:

- (1) Quarterly reports on the implementation of corrective policies required of agencies that were subject to special audits are to be issued by mid-August; also the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan: BPKP) will carry out an audit of all of BULOG's business transactions during 2000.

<sup>11</sup> This section relies greatly on Pranolo (2002, pp. 417–21).

- (2) Implementation of three items fundamental to agricultural policy related to BULOG.
  - (a) Based on consultations, the tariff level on rice imports and BULOG's procurement price will be reviewed and readjusted in August prior to the next planting season. At the same time, preparations for altering the legal status of BULOG (which has to carry out a full-scale rationalization of its accounting and business operation systems to make them more transparent) will continue until September.
  - (b) Regarding the sugar sector, plans will be announced by September to raise the efficiency of the sugar industry by merging the numerous inefficient state-owned sugar factories in Java.
  - (c) The Farmer Credit Scheme (Kredit Usaha Tani: KUT), which provides funds for running farms, will be abolished,<sup>12</sup> and from October the Food Security Credit (Kredit Ketahanan Pangan: KKP) program will begin operating which will furnish funds through ordinary commercial banks.<sup>13</sup>

Presidential Decree No. 166/2000,<sup>14</sup> which dealt with the reform of non-departmental agencies of the central government (Lembaga Pemerintah Non Departemen: LPND), of which BULOG was one, brought about the following changes to BULOG.

- (1) During a six-month transition period, substantial modifications were made in BULOG's operational and supervisory systems, such as making it a central government agency funded through the national budget.
- (2) The above changes made BULOG subject to legislative deliberations and put it under administrative as well as judicial controls and oversight.<sup>15</sup> It also made BULOG subject to the decentralization reforms.
- (3) Limitations placed on the role of the central bank assured that BULOG would no longer have access to the KLBI system.
- (4) In line with the LOI to the IMF, limits were placed on BULOG's role, and its

<sup>12</sup> The KUT was a low-interest financing system that assisted farmers with purchasing fertilizer and other production inputs. With the outbreak of the food crisis in 1998, the Minister of Co-operatives and Development of Small-Scale Businesses, Adi Sasono, greatly expanded the parameters of the system. But non-repayment of loans reached a level of Rp 8,300 billion equal to 50 percent of the KUT's outstanding credit. Clearly most farmers did not benefit from this credit scheme (*Surabaya Post*, Jan. 6, 2001).

<sup>13</sup> For a certain period of time after the financial authorities implemented this program, the deficit caused by high interest would be subsidized. Commercial banks would make their own individual decisions regarding credit, and they would bear all loan repayment risks.

<sup>14</sup> Issued on November 23, 2000. It was revised several times until superseded by Presidential Decree No. 103/2001.

<sup>15</sup> BULOG was the subject of substantial deliberations in the People's Consultative Assembly (Majelis Permusyawaratan Rakyat: MPR) and the People's Representative Council (Dewan Perwakilan Rakyat: DPR). Unfortunately because of restrictions on documents and other materials, the author was unable to closely examine the deliberations that took place in the parliament from 2000 and after.

TABLE IV  
THE CHANGE IN BULOG'S ACTIVITIES

Rice Distribution Channels	(% of rice handled)	
	Before Reforms (Jul. 1998)	After Reforms (Feb. 1999)
Budgeted groups	45	32
State-owned enterprises	2	1
Ordinary market operations	52	21
Special Market Operations (OPK)	0	42
Social assistance	1	4
Total	100	100

Source: Amin and Soepanto (2000), p. 23.

prerogatives for dealing in rice and other major foodstuffs as well as in other commodities were abolished.

Following the presidential decree, BULOG's role of supplying rice to civil officials was terminated by law; its role as an agency that stabilized producer and consumer prices was reduced to that of overseeing the floor price (*harga dasar*) for dried paddy; its ordinary market operations were curtailed; these and other changes (see Table IV) along with the abolition of its special rights and prerogatives threatened BULOG's *raison d'être*. But the presidential decree solidified BULOG's new makeup and its new role and functions. Within the governmental framework it remained under the direct authority of the president and unattached to any ministry. But by taking measures such as abolishing its exclusive rights and privileges that had come with being directly under the president, prohibiting the inappropriate use of fund sources, and funding all of its operations through the national budget, Indonesia's leadership had made the clear and formal decision that BULOG would no longer be under the sole control of the president. These reforms that BULOG underwent, like other such reforms in Indonesia, were carried out in accordance with LOIs clearly indicating that they were implemented under the influence of the IMF and World Bank.

#### B. BULOG during and after the Transition Period

From 1978 with the issuance of Presidential Decree No. 79/1978, BULOG existed as an LPND under the direct authority of the president. But it carried on profit-making activities giving it attributes resembling a state-owned enterprise (Badan Usaha Milik Negara: BUMN). But because of its unclear system of authority, ambiguous system for determining profit sharing, and other institutional deficiencies, BULOG suffered numerous problems, and stakeholders competed fiercely for a share of the rents it generated. During the groundswell of reforms (*reformasi*) that began in 1998, BULOG's reforms were directed at altering or abolishing its special

rights and overcoming its legal and organizational deficiencies. The time period for completing the latter tasks, i.e., from 2000 until BULOG actually became a state-owned enterprise, was set by the government as the transition period during which plans and policies like those enumerated below were drawn up and implemented. These policies set forth the organizational makeup and the role of post-reform BULOG, its relationship with agricultural policy and food security, and they clearly indicated the need for BULOG's continued existence. But the transition period also had another meaning, that of underpinning the foundation of BULOG's business operations which were now authorized to conduct business transactions on the free market after being weakened by the loss of BULOG's special rights and privileges. The guidelines of the transition period were as follows.

(1) Limiting BULOG's activities and duties financed by government funds in line with the stipulations of institutional reform. Those to be limited were: (a) the OPK program directed at the poor, (b) the supplying of rice to groups budgeted for allocations of rice in kind (*golongan anggaran* [budgeted groups]), (c) food security activities.<sup>16</sup>

(2) Seeking to minimize protection for farmers and minimizing BULOG's financial burden. Halt year-round domestic procuring and concentrate it in the harvest seasons with procurement prices set near CIF-plus-tariff prices. Keep buffer stocks at minimum levels, and try to keep domestic procurement prices above CIF-plus-tariff prices while taking into consideration the estimated volumes that need to be procured, crop conditions and international prices.<sup>17</sup> Avoid causing any sudden rise in the rice price during the inter-harvest months while at the same time offsetting drops in the price. Alter BULOG's system of operations to bring it in line with the above procurement initiatives.

(3) Deregulation and reinforcing market transactions. Liberalize the importing of rice by allowing importation by non-nominated private importers. In order to keep domestic supplies at a sufficient level, BULOG is to import rice on a competitive basis whether done directly or indirectly (by purchasing from private importers). All of BULOG's special advantages, support, rights, and prerogatives are to be abolished; however it will be allowed to deal in other commodities in addition to rice.

(4) Improving governance. BULOG is to keep account of and strict control over its cash flow whether the funds come from the government budget or from commercial loans.

<sup>16</sup> These included market operations in certain specified regions and food-procuring activities to maintain buffer stocks and in preparedness for disasters. The government intended to incorporate the different national food reserves into the country's food security program in order to strengthen food security at a minimum of cost.

<sup>17</sup> The meaning of this can be understood as keeping farmers' incentives to expand production at a minimum while keeping the level of rice imports from rising rapidly.

TABLE V  
BULOG'S MANAGERIAL ORGANIZATION AND NUMBER OF EMPLOYEES

Positions	BULOG	DOLOG <sup>a</sup>	Sub-DOLOG <sup>b</sup>	Branch Offices	Store-houses	Total
Chairman / Head of Office	1	27	96	31	424	
Deputy Chairman / Deputy Head of Office	5	15	38	—	—	—
Director	14	—	—	—	—	—
Division Chief	49	27	—	—	—	—
Total no. of employees	479	1,086	1,134	31	424	3,154

Source: Badan Urusan Logistik, *Penyebaran kantor instansi vertikal BULOG dan eselonering* [BULOG's vertical office configuration and job echelons] (Jakarta: BULOG, 1998).

<sup>a</sup> Provincial-level offices.

<sup>b</sup> District-level offices.

Deciding the legal status that BULOG was to have after reforms was far from being a straight-forward process. But with the Presidential Decree No. 103 in September 2001, policy was set to make BULOG a state-owned enterprise (BUMN) by the end of May 2003.<sup>18</sup> An important reason for corporatization was that leaving it as a national agency presented problems in adjusting BULOG's operations to the 1999 laws for decentralization. For BULOG to fulfill its public duties which were funded through the budget, there could be no separation of the closely coordinated functions among BULOG, the headquarters of all operations, the DOLOGs (Depot Logistik), the regional logistic offices at the provincial level, and the Sub-DOLOGs, the offices found largely at the district level. (Table V shows BULOG's managerial organization and number of employees)

### C. *The Governance Problem*

BULOG's operations suffered from the lack of transparency and low accountability. It was plagued by problems of wrongdoing and corruption; and like PERTAMINA, the PLN, and the Reforestation Fund which also had been subjected to special international audits, reorganizing BULOG's accounting system was a primary focus of attention. To reform fund management, the following initiatives were taken: (1) The Sub-DOLOG was verified as a responsible unit of management; balance sheets and profits and losses were clarified, and there was more accurate control over the cash flow. (2) Responsibility for liabilities was clearly placed on the offices that incurred them, and from the time of incurring until repayment, at each level within BULOG from bottom to top, liabilities were managed in a consistent and integrated manner.

<sup>18</sup> BUMNs fall mainly into two categories: public corporations (Perum) and joint-stock companies with the government as an investor (Persero). It is unlikely that as of September 2000 any formal decision had been taken to make BULOG a public corporation.

BULOG came under the watchful scrutiny of the Indonesia Corruption Watch (ICW) and other civic-minded surveillance groups who used the Internet to publicize numerous incidents of suspected wrongdoing. Most of these concerned: (1) the subleasing of large amounts of KLBI (abolished in 1999) funds to companies owned by close business cronies of Soeharto when he was president, (2) the off-balance-sheet (“*non-neraca* BULOG”) transactions that BULOG had with companies and other parties run by relatives of former president Soeharto or former chairman Bustanil Arifin, and the various special benefits and advantages that these companies received from BULOG, (3) the graft, unreported transactions and numerous other wrongdoings occurring in the Sub-DOLOGs and DOLOGs. Moreover, as brought to light by the Bulogate scandal, seizing and inappropriately using the public assets of the BULOG national agency was not limited to Soeharto cronies. The affair indicated strongly that BULOG employees themselves as part of institutionalized practices were systematically doing likewise, a sign that BULOG’s problems were deep and complex.<sup>19</sup>

Governance reform was directed at preventing the diverting and misappropriation of BULOG’s funds; while setting up a reorganized accounting system made it possible to clearly separate BULOG and its activities from the business activities of companies belonging to Soeharto cronies and to employee related groups. This was expected to have a major effect on lowering the risks of wrongfully using and misappropriating BULOG’s assets. Thorough accounting principles were an essential condition for raising the accountability and transparency of BULOG’s activities, the movement of its funds, and its internal organization. For this reason the World Bank and IMF paid particularly close attention to the reform of BULOG’s accounting system.

The notable characteristic of pre-reform BULOG was that although being a national agency, its role was to conduct business activities in the manner of a state-owned enterprise. Being the former, it received funding from the national budget; like the latter, it relied on its own income to run its operations; both attributes melded together and could not be distinguished. BULOG was a hermaphrodite (*kebanjian*) entity, and from the time it was set up, critics pointed out that it would become a hotbed of graft and corruption. But the great amount of authority it possessed as an agency under direct presidential control kept this problem swept under the rug. The influence of the IMF directed reforms and the impact of globalization finally com-

<sup>19</sup> YANATERA BULOG, the BULOG Employees’ Cooperative (Koperasi Pegawai BULOG: KOPEL), the BULOG Ladies’ Association (Darma Wanita BULOG) among other groups were making obscure and inappropriate use of funds. Details concerning the BULOG employees’ welfare foundation remain unclear, but BULOG chairman holds the post of the foundation’s head and also the foundation owns and operates companies doing business with BULOG as well as companies working in business sectors connected with BULOG. The large amount of suspicion surrounding the misuse of funds suggests that the amounts diverted have grown to considerable proportions.

pelled BULOG to improve its accountability and transparency. Measures were also taken to alter its legal status in order to reform its governance.

### III. BULOG'S TRANSITION INTO A PUBLIC CORPORATION

Presidential Decree No. 103 issued in September 2001 formalized BULOG's conversion into a state-owned enterprise (BUMN). This section will look at the process that led up to this decree and the government bodies that were involved especially with deciding BULOG's conversion. Based on this analysis, Section IV that follows will examine the problems of demarcating BULOG from related agencies—particularly from agricultural agencies involved with food security—after its emergence as a public corporation.

The government received the results of the special international audits that had been an integral part of the LOIs exchanged with the IMF, and in 1999 it set up an internal investigation committee to look into BULOG's internal reform. Its status and internal organizational makeup were examined at length. Then in 2001 a BULOG Structural Reform Team (Tim Restrukturisasi) was set up with the responsibility of determining the fundamental course of the reforms.<sup>20</sup> Its conclusion was that converting BULOG into a state-owned enterprise (BUMN) would be the most appropriate course to follow. With this decision, Presidential Decree No. 103/2001 was issued, and policy was set for BULOG's transition from national agency to BUMN.

The decisive factor behind the decision to convert BULOG into a BUMN was decentralization which had commenced in January 2000 and was gradually being carried into effect. The fundamental policy decision of decentralization was that the functions of the central government would in principle be limited to financial and monetary affairs, defense, public peace and order, foreign affairs, and religion. All other functions were to be transferred to the authority of the local governments. All local agencies and offices of the central government were to be abolished or, as in the case of the DOLOGs and Sub-DOLOGs, were to be transferred to local government authority. BULOG and a number of other agencies, which included the National Family Planning Coordination Agency (BKKBN),<sup>21</sup> the National Land Agency (BPN)<sup>22</sup> and the Central Statistics Agency (BPS),<sup>23</sup> asked to be excluded from or to postpone compliance with decentralization. BULOG was allowed to postpone com-

<sup>20</sup> PricewaterhouseCoopers, an international audit corporation working as a consultant, drew up the overall plans for structural, personnel, financial, and business reforms. Other participants were the University of Indonesia and Arthur Anderson, the now defunct audit corporation that had carried out the special international audits.

<sup>21</sup> Badan Koordinasi Keluarga Berencana Nasional.

<sup>22</sup> Badan Pertanahan Nasional.

<sup>23</sup> Badan Pusat Statistik.

pliance and was given until the end of May 2003 to terminate its local operations. For it to continue performing its remaining duties, however, it was essential that the framework of BULOG's central and local operations remained intact. The only way to achieve this was by converting BULOG into a corporation.

In February 2002 a meeting headed by the cabinet secretary took place to examine the drafting of laws concerning BULOG's corporatization, and it made a number of proposals. One called for better clarification of BULOG's core activities; another dealt with the authority and status of the concerned cabinet ministers (Minister of Finance, State Minister for State-Owned Enterprises, State Minister for Research and Technology); a third one concerned employee job regulations; and a fourth concerned policies and initiatives during the transition period. After reaching an agreement in principle on BULOG's corporatization (which also covered the problem of employee pensions), Panitia P4 (Panitia Persiapan Pendirian Perum Pangan [State Food Corporation Preparatory Committee]) was convened on May 29, 2002. This committee examined a wide range of issues that covered legal statutes; BULOG's internal regulations, social compliance, and the position of its employees; BULOG's organizational makeup, personnel, and financial and accounting systems; assessing BULOG's finances, food stocks, and assets; and analyzing the problem of performing public duties along with carrying on profit-making activities.

The Panitia P4 committee planned to work up a first draft of the reform bill by the end of July 2002 and inaugurate BULOG as a public corporation on January 1, 2003. Each section of the committee pressed ahead with the work of scrutinizing the budget draft of the business plan (Rencana Kerja dan Anggaran Perusahaan: RKAP) for 2003, drawing up a mid-term business plan and other planning tasks. Fundamental to BULOG as a public company was the division of its work between a non-profit-making section concerned with the public interest and a profit-making section like that of a private company. The tasks of the former would be: (i) procuring rice from the farmers while also keeping a stable floor price for dried paddy, (ii) supplying the RASKIN program which furnished government regulated low-priced rice to the poor, and (iii) supplying rice to the military and the police.

The latter's sphere of business activities would include (i) food processing, (ii) domestic and international trade, (iii) transporting goods, and (iv) dealing in foods (including non-rice staples). Initially the public non-profit section was to be the more important, but over time the profit-making section was to gradually grow in importance. The near-term action plan for the latter was to get into a broad range of business activities straight away in 2003. These included the (i) dealing in plastic bags, (ii) purchasing business, (iii) research business, (iv) maintenance and repair business, (v) transporting business, (vi) retail sales business, (vii) warehouse leasing business, and (viii) rice, soybean, and sugar importing business.

Over the long term the planning is to select and expand rationally into sectors

where returns can be expected taking advantage of BULOG's existing marketing network. Thought has been given to future moves into the distribution of manufactured goods, into the manufacturing sector itself, and into other sectors. The profit-making side of BULOG intends to become involved in a wide range of business including (i) sugar manufacturing, (ii) purchasing and sales, (iii) plastic bag manufacturing, (iv) wheat milling, (v) rice-related businesses (e.g., rice estates, rice milling), (vi) real estate, and (vii) other businesses (e.g., education, research, consulting). Investing in these fields is to be carried out and managed appropriately so that BULOG will not incur problems in its cash flow.

On August 29, 2002 the final draft of the reform law was submitted by BULOG to the president. With this draft its appellation was modified to Perum BULOG thereby leaving BULOG in the company name but no longer as the acronym for Badan Urusan Logistik but as part of the official name of a state-owned enterprise. Meanwhile, back in 2001 on the issue of food security, the Ministry of Agriculture, which was starting the Agency for Food Security (Badan Bimbingan Masyarakat Ketahanan Pangan: BBKP), submitted to the cabinet secretary a Draft Government Regulation on Food Security (RPP Ketahanan Pangan) in opposition to the law being drafted to make BULOG a public corporation.<sup>24</sup> A reexamination of both drafts was carried out to iron out points of conflict. On December 23, 2002 BULOG resubmitted its public corporation bill to the Cabinet Office. Finally on January 13, 2003 at a meeting of the cabinet, the president approved the final draft of the law. Thereupon, Government Regulation No. 7, dated January 20, 2003, promulgated the law establishing Perum BULOG, and on May 9, 2003, BULOG under its new appellation made a new start.

#### IV. INSTITUTIONAL REFORMS

##### A. *Characteristics of the Reforms*

Based on the preceding analysis, this section will look at particular characteristics of BULOG's reforms. The first characteristic is related to the process of the reforms. Studies undertaken during the latter half of the 1980s brought to light the financial burden on the state caused by BULOG's functions of providing rice to government officials, maintaining food security, and stabilizing the domestic market price of rice. This increased the awareness that institutional reforms were needed. There needed to be greater rationale to BULOG's roles and duties; the effectiveness and efficiency of its functions had to be improved; in order to achieve these, it

<sup>24</sup> This bill was promulgated with Government Regulation No. 68 dated December 30, 2002. This law seems to be in conflict with the law creating the new, corporatized BULOG. This is supposed to reflect the fact that BULOG in its new form has been put under the State Minister for State-Owned Enterprises although there was also the idea that it should have been put under the Ministry of Agriculture since the new BULOG is responsible for maintaining food security policy.

TABLE VI  
CHANGES IN THE PROTECTION OF BULOG'S COMMODITIES (AFTER SEPTEMBER 21, 1998)  
(% tariff rate)

	WTO Commitment (Upper Limit)		Condition Right after September 21, 1998		
	1995	2004	New Import Duty	Non-tariff Barriers	BULOG's Role
Rice	180	160	0	None	Price stabilizing
Sugar	110	95	0	None	None
Garlic	60	40 <sup>a</sup> 50 <sup>b</sup>	0	None	None
Wheat	30	27	0	None	None
Wheat flour	10	9	0	None	None
Soybeans	30	27	0	None	None

Source: Amin and Soepanto (2000), p. 31.

<sup>a</sup> Dried garlic.

<sup>b</sup> Raw garlic.

became clear that BULOG's organizational makeup had to be changed, and it had to be separated from politics. Another big problem was that execution of these reforms had to remain consistent with agricultural and food security policies. Following the currency and economic crises, it became particularly important to strengthen BULOG's safety net function which played an important part in food security for the poor. The food security reform will be taken up again later.

The second characteristic was that BULOG's reform took place under strong external pressure in the name of globalization which had become economic mantra during the 1990s. This could be seen in Indonesia's structural adjustment process that had been taking place under IMF and World Bank direction since the 1980s; it could be seen in the reforms set forth in the LOIs exchanged with the IMF, and in the reforms to liberalize trade in compliance with the WTO. Other outside pressure came from the changing international trade environment. The entry of Vietnam affected the international rice market;<sup>25</sup> rising wages that came with economic development changed the structure of Indonesia's comparative advantage; there was the need to comply with the ASEAN Free Trade Area (AFTA).

But it went beyond just pressure. The third characteristic was that the reforms introduced by the IMF and World Bank under structural adjustment were real and substantial. One good example was the special international audits that sparked the reform in governance set down in the LOIs. Another example is provided in Table VI which sets forth the tariff framework agreed on with the WTO and the goods affected by the termination of BULOG's role. These examples show that Indonesia

<sup>25</sup> For information on this development, see Satō (2001).

was compelled to comply with globalization through the employment of real coercive force; and compliance meant making changes in domestic laws. The formulation and enactment of the 1996 food law followed by enactment of the anti-monopoly law and the laws concerning decentralization all had major direct and indirect impacts on the reform of BULOG.

Looking next at how BULOG was (and is being) transformed by institutional reforms (Table I), the factors affecting the choices BULOG has over the form and functions of its organization will be examined in the following paragraphs.

First is BULOG's organizational makeup and the factors that determined it. In order to ease the financial burden it was putting on the national budget, BULOG would have to expand the range of its business activities. To do this it would have to avoid the breakup and transfer of its local functions to local governments in accordance with the revised decentralization laws. But to avert dismantlement and keep its local organizational structure intact while at the same time complying fully with reforms, BULOG would have to convert itself into a public company. Because of its public functions involving food security and providing a safety net for the poor, BULOG was not to be quickly privatized and turned into a joint-stock company. At the same time, however, as can be inferred from scandals like that involving YANATERA BULOG, BULOG itself has been an entity whose systems and organizational strength have produced enormous amounts of economic rent, and this is probably a major underlying factor that has worked to keep BULOG organizationally intact.<sup>26</sup>

Secondly, although BULOG had always possessed functions that carried on profit-making activities, these had lacked transparency. These activities were to be retained, but they would be institutionalized and made transparent. One reason for doing this, of course, was that BULOG's purpose was not to create rent; its *raison d'être* was to become established in profit-making sectors in order to support itself and its continuance as an enterprise. Another reason was to cope with globalization which was a factor for East Asia's currency and economic crises, and to meet global standards as called for by the WTO and other international bodies. To further economic liberalization and competition through deregulation, BULOG's operations in the food sector would no longer receive exceptional treatment. Where they would be involved in profit-making activities, they would participate in market competition on an equal basis with other companies. BULOG's special authority and prerogatives were abolished before it became a public company, except in those areas concerned with public functions like food security. Also the Anti-Monopoly and Fair Competition Act (the anti-monopoly act), which the government had specifically committed itself to in a LOI in April 1998, took effect on March 5, 1999. As a

<sup>26</sup> This point could also be a major factor for still unresolved issues over dividing the duties and authority for food security between BULOG and the Ministry of Agriculture.

public corporation this law would apply to all of BULOG's profit-making business activities including the sale of agricultural products.

The third characteristic is the creation of institutional conditions for realizing fair and proper coexistence of BULOG's public functions along side its profit-making functions. What has made this coexistence possible has been the reform of BULOG's organizational governance, the creation of a scrupulous system of accounting that fund all of BULOG's public functions from the central government budget and keeps them separate from its profit-making activities, and reform of business administration especially in the area of cash flow management. These changes should essentially prevent collusion between BULOG's two disparate functions; they should also make BULOG more accountable and better able to maintain itself as an enterprise. But the reform of accounting governance does more than just prod organizational adjustments and improvements. It also provides institutional backstop that shuts BULOG off from the political process. All of these reforms and the reform methods have been carried out thoroughly under IMF and World Bank direction. This has been a major characteristic of BULOG's reform as well as the reform of other Indonesian state-owned enterprises. The reform of governance is expected to improve the conduct of these enterprises as well as increase their accountability and their organizational transparency. These reforms in Indonesia will be watched as an experiment in new public management in a developing country.

Fourth is the impact of change in rent distribution. The change or the disappearance of rents can have a great effect on BULOG's conduct and role and therefore on the results of its activities. It was expected that liberalization, deregulation along with reforming the governance of accounting would put an end to the privileges and prerogative, i.e., the rent-creation mechanism, that the Soeharto family and its business cronies had enjoyed. Without doubt, however, there was either another fight over these rents among concerned government agencies, groups, and powerholders, or rent-harvesting battles broke out in the process of reform.<sup>27</sup> The dispute between BULOG and the Ministry of Agriculture over the food security system and other issues (discussed below), and the protracted examination into the jurisdictional authority of the ministries and departments can be seen as competition within the bureaucracy to acquire greater authority. This can be regarded in another sense as rent harvesting. Whether the reforms will prevent the reappearance of meaningless rent-seeking has yet to be seen; and we will have to observe future developments to see if reforms will guarantee the rational management of BULOG and secure its continued existence as an enterprise while enabling it to perform its public functions efficiently and effectively.

<sup>27</sup> See Thee (2002, p. 332). This is a paper on Indonesia's policy on competitiveness and the character of its new anti-monopoly law.

### B. *Problems in the Food Security System*

The reform of BULOG has left behind many unresolved problems. One concerns the demarcation of rents that was examined under the fourth point above. Administrative jurisdiction over BULOG has been moved to the State Minister for State-Owned Enterprises. What is to be BULOG's new relationship with the Minister of Finance or the Minister of Industry and Trade which formerly had control over BULOG? On the matter of food stocks, what is the relationship of the Ministry of Home Affairs and the local governments in regard to the food reserves maintained by the villages and by the Lumbung Desa, the system of food security at the village level? There appears to be inadequacies and contradictions on this matter as it relates to the RASKIN program and its function as a safety net for the poor. There are numerous other jurisdictional problems needing resolution, and one of the most important ones concerning BULOG is whether its relationship and allotted duties can be adjusted to the planning and law-drafting authority that the Ministry of Agriculture possesses over food security matters.

Another problem, which concerns BULOG and the country as a whole, is the need to better verify whether or not the effectiveness of food security can be improved. For example, will the changes in rice procurement methods and the curtailment of BULOG's market operations be capable of maintaining stable prices? Since the decision to reduce the level of domestic rice procurements, procuring operations by BULOG and the DOLOGs have been halted in most parts of the country, and they have terminated most of their dealings with the village cooperatives (Koperasi Unit Desa: KUD) which are responsible for procuring rice at the village level. This has substantially curtailed the operations of the KUDs.<sup>28</sup> Changes are occurring in the framework for rice distribution, but at present there is an insufficient amount of documentation to undertake a comprehensive study of these. The remainder of this section will examine in particular the problem of the division of duties between BULOG and the Ministry of Agriculture in the area of food security.

The government's basic policy of securing self-supply in staple foods shifted over time. Particularly for rice, during the period of the BIMAS Program, the government's goal was to expand production and achieve complete self-supply. From the late 1980s and through the 1990s, it shifted to a policy of "self-sufficiency on trend." Since the economic turmoil and the sharp rise of rice imports in the late 1990s coupled with globalization and its call for market liberalization, policy has shifted to securing "food self-reliance" (*kemandiran pangan*). According to Pantjar Simatupang, director of the Center for Agro-Socioeconomic Research, the Minis-

<sup>28</sup> Since the reform of BULOG there has been a coolness toward the KUDs which are a holdover from the Soeharto period. For an empirical study of the rice distribution structure at the local level, see Jamhari and Yonekura (2003).

try of Agriculture, maintaining a 90 percent level of self-supply until the year 2015 can be considered as “food self-reliance.”<sup>29</sup> In terms of the financial cost to the state, the basic direction of food policy is: (1) to provide subsidies only to the poor and other specific target groups, (2) to maintain protective tariffs for the present while moving toward free trade and a gradual reduction in tariff rates,<sup>30</sup> and (3) to make the central government budget the sole source for all financial subsidies.

The reform of BULOG has affected agricultural policy in a number of significant ways including: (1) linking a range of reform-induced changes, such as reduced agricultural policy-based financing and subsidies for agricultural inputs, enhanced market distribution, and deregulation, with overall agricultural policy along with diversified food consumption and agricultural production; (2) carrying out the administrative reform of food security under the Ministry of Agriculture in parallel with BULOG's reform; (3) changing the method and approach to policy toward the poor; (4) seeking to reduce the financial burden on the state by altering the approach to stabilizing price. The institutional reform of BULOG for the most part has been consistent with agricultural policy. But on the matter of food security, as already discussed, there are numerous unresolved problems remaining.

The Act on Food Affairs (Act No. 7/1996), enacted in November 1996, is the legal foundation for food matters in Indonesia. It sets down basic policy on foods, food safety (*keamanan*) and food security (*ketahanan*). Based on this law, in 2000 a new office for food security, the Agency for Implementing Food Security (Badan Usaha Ketahanan Pangan: BUKP), was set up within the Ministry of Agriculture. This agency was merged with the BIMAS Agency, which was in charge of increasing rice production in Indonesia. This merger led to the creation of the BBKP in 2001. As of 2003 this new agency was headed by a director below whom were the agency secretary and five centers which were responsible for food supplying, food distribution, food security, community food security enhancement, and the early warning of food shortages.

The agricultural ministry's regional agencies in each province (*kanwil*) were reorganized, and local councils for food security were set up under the BBKP. At the national level the Council of Food Security (Dewan Ketahanan Pangan) was formed with the president as its chairman while the BBKP became its secretariat. This new system has for the most part taken over the work of the Office of the State Minister for Food Affairs. At the same time renewed attention was being directed at the Lumbung Desa, the traditional system used for storing food at the village level. In 2001 the Minister of Home Affairs issued a ministerial decree to begin work on

<sup>29</sup> Suryana (2003, pp. 173–78). The actual expression “*kemandirian pangan*” was coined by Siswono Yudo Husodo, head of the Mutual Assistance Association of Indonesian Farmers (HKTI).

<sup>30</sup> Saefuddin (2002, pp. 375–81) examines the differences in the impact between rice tariffication and BULOG's import monopolies on vested interests and the positions of concerned institutions (including the IMF and WTO) and BULOG's stakeholders.

making the Lumbung Desa a part of village government administration.<sup>31</sup> In the BBKP the office with corresponding responsibility is the center for community food security enhancement. However, since the Lumbung Desa is closely involved with local government, the Ministry of Home Affairs which oversees local government would never accept instructions directly from the Ministry of Agriculture, let alone from the BBKP, one of its agencies, without the instructions or coordination of the president as the chairman of the Council of Food Security. For this and other reasons, particularly the weak commitment of the president, it appears that adjusting responsibilities and jurisdictions is proving to be a difficult problem.

The highest decision-making body on food security is the Council of Food Security chaired by the president. BULOG and the Ministry of Home Affairs are both members of the council, but they are in no position to receive from the council's secretariat, the BBKP, which in effect means from the Ministry of Agriculture. These jurisdictional conflicts and bureaucratic infighting are creating concerns about the effectiveness of Indonesia's food security policy.

To augment its authority and functions in the area of food security, the Ministry of Agriculture probably would like to press for the complete transfer of price stabilization and other functions from BULOG. In August 2003, just as BULOG was about to start operating as a public corporation, Burgaran Saragih, the Minister of Agriculture, stated that with BULOG becoming a business-oriented corporation, its food security operations or its social welfare section should be put under the jurisdiction of the agricultural ministry's BBKP; at the same time he said that his ministry was exploring the feasibility of such moves.<sup>32</sup>

The RASKIN program, which became the mainstay of BULOG's public functions, is presently complying with the major change in agricultural policy which entails shifting from protecting the general consumer to protecting the producer. RASKIN took over from the OPK which was set up at the time of the food crisis in 1998 as an emergency safety net targeting only the poor.<sup>33</sup> RASKIN continued as a program to protect the consumer at small financial cost to the government. Accepting the initiatives of the World Bank and IMF, the government successively abolished the investment funding, the subsidies, and the agricultural policy-based financing that had supported its policies for expanding food production. At the same time it allowed the price of agricultural products to rise to a certain extent as an incentive for producers to increase production without distorting the market for agricultural products while also easing the financial burden on the state. In line with this the government also introduced a tariff on rice (at around 30 percent), but there

<sup>31</sup> The Ministry of Home Affairs changed the name of the Lumbung Desa to Lumbung Pangan Masyarakat Desa/Kelurahan: LPMD/K (Villagers' Food Storage) which began operating in 1998.

<sup>32</sup> "Badan Bimas Ketahanan Pangan Depan Pengganti BULOG" [The agency for food security is BULOG's future replacement], *Berita Buana*, August 12, 2003.

<sup>33</sup> Regarding the OPK and other social safety nets that started in 1998-99, see Yonekura (1999).

has been strong demand from producers to raise the tariff even higher. A program of supplying low-priced rice targeting only the poor seemed like a good way to achieve the twin goals of protecting both the consumer and the producer. However, from observing the way it has been implemented, it is hard to say that the RASKIN program has progressed as the government originally planned. In most cases the program has not distinguished between rich and poor in providing low-priced rice. Within village society there is a strong tradition of treating everyone equally, and the local officials responsible for implementing the program in the villages cannot ignore this tradition. At the same time there is no institutionalized mechanism at the village level for realizing the program as it originally had been planned.

### CONCLUSION

To recapitulate the problems, the characteristics, and the significance of reforming BULOG—firstly, Indonesia was compelled out of necessity to undertake institutional reforms to ensure overall consistency with its agricultural policy which encompassed such areas as food security, price stabilization, international competitiveness, protecting low-income consumers, policies for increasing agricultural production, and protecting agricultural producers. The reform of BULOG was carried out against this backdrop of broad-ranging changes taking place in Indonesia's agricultural sector. However, with the implementation of the reorganized food security system, the government now faces the difficult task of adjusting the overlapping authority and the conflicting roles of the concerned government offices. Giving the new BULOG the role of supplying low-priced rice to the poor and allowing a certain amount of increase in the price of agricultural products is a good two-fold policy approach for protecting the consumer and the producer while simultaneously reducing the financial costs born by the government. But the institutional deficiencies and insufficiencies within the system raise concerns of how well the new approach to food security can actually be implemented, a matter which will have to be watched carefully.

Secondly, one important characteristic of BULOG's reform was that it took place within the context of structural adjustment begun in the 1980s and globalization from the 1990s which demanded privatization, decentralization, and deregulation. With Soeharto's resignation the reform process under the direction of the IMF began to make rapid progress, but the study and planning for reforms had started during the period of structural adjustment policy in the 1980s. Moreover, as a state-owned trading enterprise, BULOG became the subject of WTO oversight. The change in BULOG's legal status, per agreement with the IMF, was carried out in conjunction with the reform of the state-owned petroleum enterprise PERTAMINA, the state-owned electric power company PLN, and other major state-owned enterprises. BULOG's conversion into a public corporation was an institutional reform under-

taken to meet the challenge of globalization, but it was also a transformation of BULOG itself as an actor. As in other countries, the Indonesian government also drew up an anti-monopoly law as part of policy to promote competition through deregulation, which signifies that policymakers now see that the production and marketing of rice and other foodstuffs have to follow the principles of the free market. BULOG also had to be reformed to keep it in compliance with policies and legal statutes being implemented.

Thirdly, the most important areas of reform under the IMF were reducing the financial burden being imposed on the government, making opaque accounting practices transparent and fair, and reforming governance. The way of achieving these was by changing national agencies into public corporations. The problem of off-budget activities that was never probed under the Soeharto regime has now been probed through accounting measures more deeply than ever before. The prime targets of this probing have been BULOG, PERTAMINA, the PLN, and the Reforestation Fund. Improving accountability and transparency will be very significant for putting a stop to the rampancy of graft and corruption among politicians and their business cronies, and for preventing the distorted use of BULOG as a rent-generating machine. However, an important question for the future is whether or not BULOG's institutional reforms will achieve their aim of increasing the rationality and efficiency of the economy.

Fourth and last is the essence of institutional reforms. The regimen of IMF-World Bank directed reforms that BULOG went through, as seen in the reforms of the legal and accounting systems, the reduction of financial burden on the state, and the changes in agricultural policy measures, shows that the reform techniques themselves have been modularized and globalized, and are being applied to all developing countries. Many of these are institutional reforms that are brought in from outside and transplanted. They have to be adjusted to a greater or less extent when they are applied, and only the passage of time and observation of the reform process will tell whether or not the transplanted institutional reforms take root. However, the responsibility for the success or failure of reforms will not lie with the side that brought them in. The Letters of Intent that the Indonesian government concluded with the IMF are in reality an acknowledgment of consent that responsibility has shifted from the bringer to the receiver of modularized institutions.

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