

## Evaluating Rice Government Purchase Price (HPP) In Effectiveness of Rice Procurement

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**Abstract.** Rice Government Purchase Price or Harga Pembelian Pemerintah (HPP) is the price that used by Bulog for rice procurement to build national stock especially rice. Bulog is one of the government institution that requesting to protect national food security. The characters of paddy which seasonable harvest and different plant distribution productive area of paddy are homeworks because of Bulog has to purchase rice as much as possible. The price level seems like generated by a simple assumption that is how much production costs are incurred and little added margin profit for farmers. However, rice price determined has to compete in the marketplace. In otherside, purchase price set by the government for Bulog, should be able to provide margin profit for farmers' crops. Often government's purchase price that is determined no more enough competitive among other private business in general marketplace. Moreover if unexpected things happened such as harvest failure. However it has to be solved as soon as possible so that national stock building must go on. Because of it, for the past few years through The Ministry of Trade decide to using flexible price up to 20% basic price determined. However, this strategy seems to be less responsive because of it doesn't reach the optimal goals. In this journal the author tries to provide an explanation of its phenomenon that makes a reason showed that we need a responsive model that can be used to solve it. Expose phenomenon descriptively food security based on amount of rice procurement from Bulog. We will know that need adaptive model based on rice volume of entered responses under determined optimum price rate to reach procurement effectively. So if its something unpredictable moment happened, we can going through procurement process to satisfying rice procurement. Maybe it is pragmatism, but for the short time it can be one of good ways to chase food security work-chain. Thus, without ignoring losses risk, whether producers, consumers, and government can run in mutual benefits.

**Keywords:** 1 Food security · 2 HPP · 3 Paddy productivity

### 1. INTRODUCTION

Bulog as a buffer stock food regulatory agency, especially rice, is obliged to guarantee price stability at the producer and consumer levels. Its function is to accommodate the oversupply of production flows during the harvest and to distribute them during the dry season. Therefore, during the harvest season, Bulog is expected to be able to absorb the minimum stock that must be mastered to control prices at the consumer level in the future. Domestic farmers is expected to give sufficient yields as an effort to achieve food sovereignty. But if it is not fulfilled, the easiest solution is import, although imports are only relevant for controlling prices in the short term and are very risky in the long run (Sugema, 2005). In its implementation, Bulog is authorized to buy domestic rice with reference to the Government Purchase Price (HPP) according to the current presidential instruction.

The dynamic price of grain at the farm level forces the government to always evaluate the HPP that is determined so that the prices used can protect farmers if during the harvest season there is a drop in the price of grain. The implication is that rice HPP used by Bulog must also be in accordance with the field conditions that occurred at that time. In rice commodities, until 2014 Bulog used HPP of Rp.

6,600 / kg to buy rice harvested domestically. Then the value was revised using Presidential Instruction No. 5 of 2015 by increasing the HPP value by Rp. 7,300 / kg because the price of 6,600 was considered irrelevant to the farmers' production costs as well as increasing the absorption of domestic rice. It has been discussed by Hermanto why HPP needs to be revised. The Government Purchase Price used by Bulog in order to absorb the crop yields which were originally one price was then modified to be a multicultural policy by breaking the purchase price into three quality categories, namely medium, premium II, and premium I (Hermanto, 2017). Then in 2018 the government through the Ministry of Trade issued a regulation on price flexibility of 10% of the base price. This shows that the use of one price is less elastic to the existing supply. Therefore, the determination of optimum HPP is needed to support food security and stimulate farmers to increase productivity and quality of their produce (Iqbal, 2013).

The importance of determining the optimum multi-quality HPP is also very necessary besides because of the role of Bulog as a price stabilizer at the producer level at the consumer level. At the level of agro industry, HPP policy can also improve the quality of production because with that they can get incentives by producing even premium quality rice (Maulana, 2012). By obtaining the optimum price, it is expected to reduce the risk of loss of the company caused because the base price used must be added to operational costs such as maintenance and distribution to the distribution point

## **2. PROBLEM**

Unpredictable harvest failed are not accommodated by the applied HPP. So if we used flat HPP, we can not solve fluctuative price market upper HPP line. Uneven rice producing regions in Indonesia encourage the central harvest region to be able to absorb rice optimally so that it is able to meet domestic needs. Therefore a real time evaluation is needed to maintain domestic rice uptake in order to maintain national food security. The flexible use of the price of 10% of the base price which refers to the trade ministry is not necessarily used with the highest price to maintain market stability as well as reducing the risk of loss of the State Logistics Agency when conducting the price stabilizing in the dry season. However, from the constraints faced, it is not yet known how sensitive HPP is in influencing national rice stocks. Therefore, it is necessary to present supporting data to find out that appropriate modeling of HPP is needed. In this journal, it is expected to be able to explain that HPP is running less optimally in supporting the process of achieving food security.

This research is expected to illustrate that the HPP used has a correlation to the volume of procurement achieved is also able to solve problems surrounding the determination of HPP in order to obtain optimum value so that mutual solutions can be obtained between the actors involved in this business chain. Farmers as producers still get guarantees, consumers still get a reasonable price even though it is not harvest season, and Bulog as the executor of market price control activities can minimize the risk of future losses.

## **3. METHODOLOGY**

This research was carried out in descriptive statistics, namely the presentation of sample data interpretation available with graphical visualization (Sugiyono, 2012). This research uses secondary data from the Central Bureau of Statistics and Public Corporation, specifically the Regional Logistics Agency of Indramayu Subdivre. The population in this study is the procurement volume in Bulog Corporation, especially in the Bulog Subdivre of Indramayu Subdistrict and then explained in the history of domestic procurement volume from 2014 to 2018.

#### 4. LITERATURE REVIEW

The discussion of government purchase prices has been described (Hermanto, 2017). His research on determining rice prices is viewed from the price determinant dimensions. The conclusion is that refining a single HPP to be multi-quality is enough to protect farmers and consumers. In his suggestion, it was explained that the formulation of a price policy that is segmented requires various regulations so that harmonization between farmers, processing industries, traders, and consumers will occur. Then it has also been studied about the factors that influence the price of government purchases of rice in Sumatra (Iqbal, 2013). The study discusses any factors that affect HPP which include production, imports, government rice reserves, and consumption. Iqbal also suggested that the HPP used to provide incentives to farmers was stimulated to increase productivity. The Ministry of Trade in its study concluded that the current HPP policy had protected the interests of producers and consumers even though it had not followed the increase in productivity (Ministry of Trade, 2014). Furthermore, regarding the important role of HPP, it was also elaborated (Edy, 2018) that the rice policy could affect the condition of the Indonesian rice market and it was also stated that the increase in HPP could improve the welfare of farmers

#### 5. RESULTS AND DISCUSSION

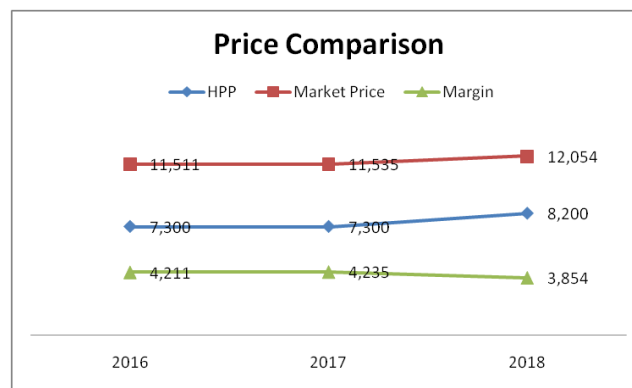


Figure 1 : Price comparison

Based on the graphs shown, we can conclude that the difference in the price of HPP with market prices is actually inversely proportional. This logic is reversed, when the difference in market prices and far HPP, which means that HPP is lower than the market price, at that time Bulog absorbs domestic rice with satisfactory numbers. And when the HPP difference is thinning in the hope of being able to compete with market prices, it is precisely that Bulog is not able to absorb optimally. This is a logical anomaly in the law of buying and selling.

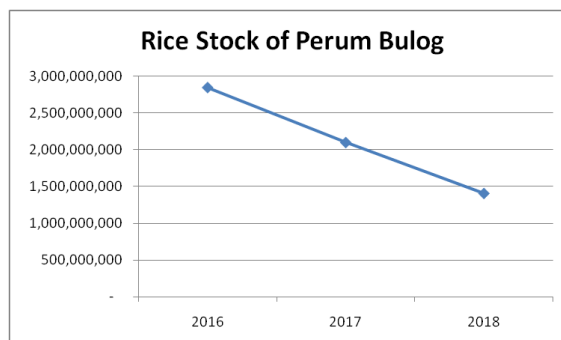


Figure 2 : Domestic Rice Procurement of Perum Bulog

In 2016 after it was decided the HPP procurement of Bulog in accordance with the 2015 Presidential Instruction at a price of 7,300 had an impact on the results of good rice procurement. In 2016 it still had an impact on procurement of 2.5 million tons. However, it turns out that the trend continues to decline until 2018, with the procurement of commercial schemes by Bulog only reaching 1.4 million tons.

If we seen from the HPP figures stipulated through the Presidential Instruction, it is very logical if the calculation is only limited to the average land productivity and reduction in production costs incurred by farmers. In 2016 the President set HPP which was originally 6600 to 7300 per kg. The impact at that time of national procurement increased dramatically. West Java itself managed to break the record for the most procurement from the period that once existed. As time goes on, market prices follow. Until finally, through the Ministry of Trade, price flexibility was applied at 10% of the basic price in order to absorb the procurement of domestic rice because the prices previously used were considered to be unable to offset market prices. However, the scheme which is expected to be able to increase the absorption rate is not significantly affected. The procurement figure in 2018 is far from the previous year.

The rice from the procurement in 2018 also leaves potential problems. For example, in Bulog sub-district of Indramayu, it was noted that with a shelf-life of more than one year, rice in 2018 would still have 18 thousand tons, moreover if it was accumulated nationally, there would certainly be potential damage because the shelf life was too long.

Here we can see that the determination of the HPP that is too high will benefit the farmers and be able to push the national rice stock, but the company Bulog has the potential to lose because it cannot sell back at a favorable price because of the high initial capital plus maintenance costs to be incurred.

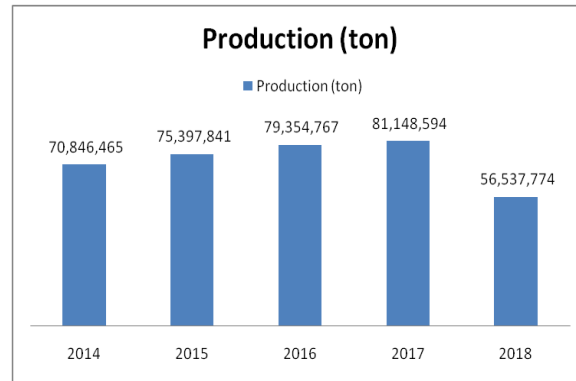


Figure 3 : Paddy Production

Based on graphic above, there is an anomaly in 2018 where many crop failures occur. Even though based on the forecast figures of the Ministry of Agriculture, the production for that year is estimated to be around 83 million tons. This has an impact on the achievement of procurement by the State Logistics Agency (Bulung), which also declined dramatically compared to the previous year. Procurement achievements this year decreased to almost 50% compared to the previous year.

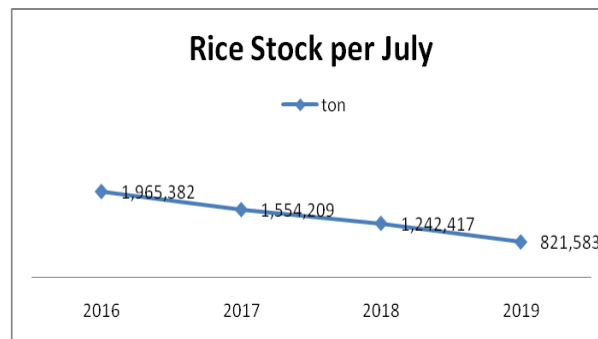


Figure 4 : Number of Rice Procurement on July for each year

The graph above is the achievement of procurement of domestic rice per first semester each year, starting in 2016 Bulung was able to approach 2 million tons in the first semester. This is in line with the record of rice production in 2016 which is said to have exceeded the highest number in the last 10 years. But this number seems to be an anti-climax. The number of first-year procurement movements for 2019 follows a downward trend from the previous year. Even though with the current harvest potential, it is expected that Bulung will be able to absorb more for the needs of domestic stocks from the previous year. With the current achievements, it is projected that the procurement figures have little hope of being able to be achieved meeting one third of the national rice consumption needs.

## 6. CONCLUSION & RECOMMENDATION

Based on the achievement of procurement figures which continued to decline from the initial determination of HPP inpres in 2015 it turned out to continue to decline. This is not only due to land productivity, because in a trend if there is no crop failure, rice production will increase every year.

Evaluation of government purchase prices also needs to be evaluated again because crop failure does not occur every year. The increase in HPP is expected to stimulate farmer productivity so as to be able to meet national rice consumption needs.

The increase in HPP must also be balanced with the role of all stakeholders involved. Guidance by the Ministry of Agriculture, providing targeted agricultural assistance also supports the success of national food sovereignty.

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