ELIMINATING INDONESIA'S FUEL SUBSIDY

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Abstrak
Kenaikan harga BBM merupakan pil pahit yang baru ditelan oleh seluruh lapisan masyarakat, namun lapisan masyarakat yang paling bawahlah yang merasakan kerutnya dampak kenaikan harga BBM. Dana Kompensasi BBM sebagai pengurang beban kenaikan harga BBM ternyata menimbulkan banyak permasalahan. Dari sisi administrasi publik, kebijakan ini menimbulkan permasalahan yang dipisahkan oleh lama rekan statistik di Indonesia. Satu titik kelembahan yang nampaknya sepele ini nyatanya dalam praktek implementasinya program dana kompensasi BBM merupakan sumbuh mal praktek administrasi dan ambiguitas dalam proses seleksi keluarga-keluarga yang berhak mendapatkan dana kompensasi BBM. Dari sisi ekonomi terutama dalam hal kurs mata uang rupiah dan anggaran negara, dibelangkannya subsidi BBM yang terwujud dalam kenaikan harga BBM diarahkan membawa perbaikan positif. Seiring dengan keberlanjutan program dana kompensasi BBM pada saatnya nanti akan terbukti apakah program Kompensasi BBM akan bisa mengurangi efek negatif bilangnya subsidi BBM di Indonesia.

Kata kunci : BBM compensation fund, subsidy, qualification, rational economics

Indonesia entered a new era of political and social development as a result of the transition that occurred in May of 1998. Since the resignation of long-standing President Suharto in 1998, successive Indonesian regimes have considered lifting costly subsidies on essential products such as petrol and kerosene, though these plans have always been shelved as a result of massive popular protest. Such is the nature of transition politics; regimes often struggle to cope with the extent of the demands placed upon them by the general public, and they usually opt for short-term policies as a kind of ‘damage control’ rather than long-term policies that will surely prove unpopular. There comes a time, however, when a transition begins to consolidate and a regime feels as though it has enough leverage to pursue policies based on their long-term merits.

1 PhD Candidates at Leeds University

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Seven years on and the transition in Indonesia is starting to mature, meaning that some policies are beginning to be considered not only for their immediate impact but also for the long-term consequences they may have. Such is the case with the current government’s decision to raise the price of refined petroleum products, commonly referred to as *Babak Bakar Minyak* — *BBM* in Indonesia. *BBM* covers most of the essential products that the Indonesian people (*rakyat*) need in their daily lives. Just to be clear, these are not consumer goods that people might want, they are products that are needed for most essential activities. The *BBM* price change came into effect at midnight on the first of October 2005, not long after it was announced by Indonesian ministers. The table below shows the contrast between the different prices of *BBM* both before and after the change:

<table>
<thead>
<tr>
<th>BBM</th>
<th>Old Price (In Rupiah/liter)</th>
<th>New Price (In Rupiah/liter)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kerosene</td>
<td>700</td>
<td>2,000</td>
<td>185.7%</td>
</tr>
<tr>
<td>Premium Gasoline</td>
<td>2,400</td>
<td>4,500</td>
<td>87.5%</td>
</tr>
<tr>
<td>Auto Diesel</td>
<td>2,100</td>
<td>4,300</td>
<td>104.8%</td>
</tr>
</tbody>
</table>

Source: Bloomberg

As the table shows, the price of kerosene, upon which millions depend for their basic cooking needs, has risen dramatically, while basic means of transportation have been disrupted by the rise in fuel prices. Prices are set to rise again sometime around January 2006. Reactions to this difficult reform have been fairly predictable across the board. Indonesian civil society has expressed outrage towards the relatively new government of Susilo Bambang Yudhoyono, while International Financial Institutions (IFIs) have praised the government’s reforms as brave and long overdue. Public demonstrations against the new policy have taken many forms, though some of the more visible involve flamboyant student protesters rolling around on the ground in spasms, depicting a kind of apocalyptic ending for the Indonesian *rakyat*.

Meanwhile, from their comfortably air-conditioned offices the economic gurus of organizations such as the International Monetary Fund (IMF) hail the new *BBM* policy as “wise and courageous,” and certainly long overdue (AFP 2005: 1). For those observers trying to balance the arguments, a quiet ambivalence towards the policy will surely creep into their thoughts.

**ABIT TER PILL**

President Yudhoyono has acknowledged the distress that the *BBM* policy has caused so many of his ‘brothers’ across the archipelago. He was quoted recently as

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2 Observations based on personal viewings of the main news station in Indonesia, *Metro TV*, during the first week of October 2005.
follows: “I know this is a bitter pill, an unpopular decision, but I have to take it to save our economy and our future” (Bloomberg 2005: 1). Unfortunately words alone will not stem the tide of protest that is sweeping across Indonesia. The public is proving capable of tenacious and rather dramatic displays of protest, often bending their collective wills in opposition to particularly damaging policies that promise to make life in the immediate future markedly more difficult. The suffering that will certainly result from the new policy will be immediate, although the forecast for the long-term may not be so dire (see section on ‘rational economics’ for an analysis of the arguments behind the new policy).

Long-term economic forecasting, however, is not a matter of great interest for the general public. What matters right now is the price of common fried foods (gorengan), the cost of a short journey in a public mini-bus (angkot), or the pressure to provide for ones family during high holidays such as Idul Fitri or Hari Natal. Here one can touch upon a matter of great sensitivity. Indonesia’s largely Muslim population expressed dismay at the decision to raise prices just prior to the start of Ramadan, the bulan puasa. This month of fasting culminates in the highest holiday, Idul Fitri, during which families across the archipelago are reunited for one week of celebrations. After completing the arduous journey (mu'mak) back to ones village (kampung), people expect to enjoy the fruits of their year-long labour, indulging in fine foods and giving generously to their families and neighbours. Such is the nature of the high holidays... they are expensive. Thus, many people shall bear the heavy burden of the price rises during this holiday season, increasing the pressure two-fold on the heads of families to cope with the changes in BBM while also preparing for Idul Fitri.

As reports of the daily struggles faced by less affluent Indonesians begin to pile up, one may begin to see a gloomy picture emerging. Everything from working to eating to travelling has been disrupted by the BBM policy. Employees in the industrial sector, for example, are facing times of formidable insecurity as the prospect of large-scale layoffs seems more and more imminent. Rising fuel prices “have made production costs unprofitable and to cut costs industrialists [are] now seriously considering massive layoffs” (Fidrus 2005: 1). Small-scale business seems to be going through hard times as well. Observations from Jl. Otista in Bandung’s city centre, for example, reveal that sales in many budget food

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shops (warungs or kaki lima) have been slumping, and not only because it was the fasting month. People’s wallets seem to be thinning out somewhat and the willingness amongst poor Indonesian families to spend their hard earned Rupiahs may be declining.

Another consequence of the new BBM policy is that traders from Indonesia’s traditional markets (pasar) are adjusting their prices in accordance with the general inflation of most goods and services in Indonesia. Reports from Jakarta suggest that the price of rice, Indonesia’s staple food, has increased from Rp. 3,000 per kilogram to Rp. 3,400 or Rp. 3,600 per kilogram (Harsanto 2005a: 1). Such seems to be the trend with most produce, dairy and meat. Another example can be taken with regards to public transportation in Indonesia’s capital, the Jakarta Transport Council has drawn up proposals for fare increases across the board, and large companies such as the Blue Bird Group are now considering adjusting their meters accordingly (Harsanto 2005b: 1).

Surely the public has learned that it does not pay dividends to accept ones fate blindly, without any attempt to shape events of national importance as they unfold. While ordinary citizens have always proved extremely resilient when faced with hardship, their disappointment at the government’s BBM policy is palpable. In Bandung, many people have marched in protest to Gedung Sate, the headquarters of the West Java government. Angkots and taxis have been seen lining the streets, sometimes refusing to run their usual routes and disrupting daily transportation. However, despite all of the demonstrations, violence in Bandung, the capital of West Java, was minimal. This was in marked contrast to scenes reported from Jakarta, the nation’s capital.

Protests are, as always, much more intense in Jakarta than most of the other regions of Indonesia. As demonstrations in Jakarta threatened to reach a boiling point, the events were eagerly watched by the world’s press. For example, the BBC reported that while President Yudhoyono “urged people to stay calm,” there were still wild incidents involving “mobs burning tires and effigies,” and

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3 Observations based on personal communications with families living on Otista Street (Jalan Otista), central Bandung, October 2005.
eventually the police felt it necessary to “fire tear gas at about 200 hundred students in Jakarta who were throwing stones and burning tires” (BBC 2005: 1).

Civil strife was widely anticipated and measures were taken to offset any plans for violent demonstrations. Most foreign embassies notified their citizens living in Indonesia of the potential for unruly protests in major cities, sending out both emails and text messages (SMS) urging people to take precautions.\(^4\) In light of the growing controversy some measures were announced by the Indonesian government alongside the BBM policy, in an attempt to appease public opinion. For instance, in recognition of the hardships that many families will face a redistribution of wealth has been approved, allocating funds to those who are considered to be below the poverty line in Indonesia.

THE COMPENSATION FUND

In light of the anticipated civil unrest the Indonesian government announced a BBM compensation fund (Dana Kompensasi BBM) designed to offset the negative impacts that the rise in BBM prices will have. Among others, the BBC recently reported that at least fifteen million families across Indonesia are to receive Rp. 300,000 in compensation (BBC 2005: 1). Another source reports that the total amount earmarked for government’s policy of compensation is Rp. 4.8 trillion (Bloomberg 2005: 1). Compensation is the goodwill gesture offered by the government to lessen the bitter taste of its BBM policy in the short term. Despite the good intentions of such a fund, however, the very nature of this scheme seems destined to be controversial. Such a policy of cash handouts seems a logistical nightmare as approximately sixty-two million Indonesians spread across thousands of islands in the archipelago will qualify for compensation (Guerin 2005: 1). Such daunting logistical facts are jeopardising the administration of the BBM

\(^4\) The Canadian Embassy, for example, sent out both text messages and emails to Canadian citizens temporarily residing in Indonesia near the end of September 2005. These messages contained warnings of possible violence and provided details of the demonstrations planned by Indonesians in opposition to the BBM policy that were expected in most major Indonesian cities.
compensation fund, which seems to have been planned in haste and without adequate planning beforehand.⁵

Of course, a formula for determining what constitutes the poverty line and who qualifies for compensation exists, and must be sound. It has been deemed, for instance, that families earning less than Rp. 175,000 per month are eligible for compensation (Guerin 2005: 1). However, the realization of such a formula is being hindered by the sheer extent of the operation, the inaccuracy of statistical records, and the possibility for mismanagement of funds. Roughly, the strategy for determining which families are to be compensated is as follows. Local administrative units called Kelurahan are to oversee the surveying of villages and scrutinize the information they receive about all the families claiming compensation. Since there is no way for administrative officials to enter all the kampungs in Indonesia in order to determine which families qualify for compensation, they have been forced to appoint representatives to carry out this arduous task in a timely fashion. Within each village there are appointed leaders called Pak RT (Rukun Tetangga) or Pak RW (Rukun Warga). These local leaders have been entrusted to carry out surveys of their respective areas and represent the poorest of the poor.

Once the local leaders have completed their lists of candidates that qualify for compensation, they submit these lists to the head office of the Kelurahan. Qualifying for compensation, however, does not preclude actually receiving compensation. Each Kelurahan in Indonesia will be swarmed with lists and applicants for the BBM compensation, and when they have these lists in some semblance of order they must forward them on to Jakarta or await approval from above. Officials from Jakarta have the overriding authority in regards to compensation and they dictate how much money is allocated, and to whom. Once a mountain of paperwork has accumulated officials from Jakarta should be sent to each region of Indonesia to verify that the claims being made from poor families

⁵ The Indonesian archipelago is the largest in the world, consisting of some 13,000 inhabited islands and a population of some 220 million people. Approximately one-quarter of the population is thought to be considered below the poverty line or at least to be eligible for compensation funding. Concerns obviously emerge as to the capacity of the government to carry out its compensation plans, especially given the lack of accurate statistics on its poor populations that are scattered throughout the archipelago.
are indeed legitimate. This process seems somewhat dubious, with layers of bureaucracy and what seems like very little regional autonomy to deal with compensation. Officials that are empowered to verify people's claims for compensation seem to have a fair amount of discretion over these funds, raising some alarm bells.

A large portion of the income that a poor family generates each month comes from some kind of informal activity or a small-scale enterprise that is impossible to account for. It is hard to recall ever receiving a receipt from a kaki lima, an angkot or a warung, and surely such daily activities bypass the balance sheets of accounting firms, taxation bureaus and audit agencies. Indeed, statistics are lacking in Indonesia's vast number of villages. This has been confirmed by a letter sent from the Kelurahan Sarjadi in Bandung to all of the local RT and RW (see appendix two). This letter, dated 5 October 2005, states that the Central Organization for Statistics (Badan Pusat Statistik - BPS) needs to update their statistical records because there is missing data about the poorest families in Kelurahan Sarjadi. The inaccuracy of data used to determine who is eligible for compensation has led to some unfortunate incidents across Indonesia. For instance, it has been reported that in Central Kalimantan "two dead people were issued fuel compensation cards, while in Malang, East Java, a number of wealthy people were mistakenly included on the list of the poor eligible for the assistance" (Boediwardhana 2005: 1).

In the absence of accurate statistical records the government has produced a list of other factors that may help determine which families qualify for compensation. This is called the 'variabel keluarga miskin' which is used to quantify factors other than cash or income. The variables, having been translated from Bahasa Indonesia into English, are listed as follows:
1) The width of the family's house is less than 10M²
2) The floor of the house is made from bamboo, soil or wood
3) The walls of the house are made from bamboo or wood of low quality
4) The toilet (used by the family) is in a public place
5) Their water is from an uncovered source, such as a river or rainwater
6) The family does not have electricity
7) They cook with wood or coal

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8] They have not bought meat, poultry or milk for one week
9] The family eats only once per day
10] They have not bought new clothes within one year
11] They never go (or can't go) to subsidized health clinics when they are sick
12] They are not formally employed
13] The highest level of education they have is elementary school
14] They don't own anything worth more than Rp. 500,000
15] They have not received any loans in the last year.
*Note: See Appendix One for the list of variables in Bahasa Indonesia

Families that qualify for compensation are given a card (Kartu Kompensasi BBM) and are instructed to bring this card to the local post office (kantor pos). After a long queue the family is required to produce the card to officials for verification, and then one section of the card is torn, indicating that the first quarterly allocation has been delivered. Each quarter Rp. 300,000 is given out and the card allows compensation for a total of one year (divided into four quarters). For some families this has worked, easing their burden. For others, maladministration, misappropriation and ambiguity have tainted the qualification process, leaving many families hanging in the balance without compensation.

Discrepancies in the allocation of compensation were revealed during a visit to one area in Sarijadi, Bandung. Two families living side-by-side and in similar circumstances had two very different experiences when visited by Kelurahan officials. One family consisting of a single (widowed) mother and four children was approved for compensation and has already received the first instalment of Rp. 300,000 (see appendix three). In contrast, their neighbours were not approved for compensation despite living in practically identical circumstances. It can only be assumed that discrepancies in the allocation of compensation funds are occurring in many locales throughout Indonesia, owing in part to the difficulties of such a vast policy and in part to malpractice. Malpractice can occur despite attempts to increase transparency by allocating funds from post offices. The family that was compensated in Sarijadi, for instance, received their first instalment directly from the visiting officials, who had the cash in-hand.

Assuming that most local leaders (RT & RW) are honest people, they will conduct survey of their local jurisdiction with integrity and not abuse their

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position. However any well-intention person graced with such responsibility may, of course, be inclined to look out for their friends, relatives, and peers, thus 'stacking the deck' slightly according to their own marginal interests. Though this seems a petty act, it may well deprive some desperate families of the compensation they have been promised. Despite such concerns most local leaders are so firmly integrated into their community that they would not (or could not) betray the trust of their neighbours or acquaintances. Everyone knows them, they live side-by-side with the people that entrust them to do an honest job, and the gossip of the village or locale would ensure that any dubious behaviour would be exposed.

Those officials that have a wider jurisdiction, for example the leaders of the Kelurahan (sometimes called Pak Lurah), have a wider scope for deviance and may be inclined to abuse the discretionary powers they have been given. Though it is too early to make any definitive statements, it is worth mentioning one of the possibilities for petty corruption that results from the difficulty of organizing compensation on such a large scale and in such difficult terrain. Starting from the pot of money that has been approved in Jakarta for compensation (some Rp. 4.8 trillion), the funds will have to pass through many hands before reaching the eligible families at the local level. As the money flows down the chain from Jakarta to kampungs throughout the archipelago there are fears that some of it will be siphoned off, depriving the needy of the funds that have been designated for them. District targets for allocation of funds will be followed closely, though any such target is likely to struggle to reflect reality and thus will be open to abuses. Other opportunities for graft such as fraudulent claims exist, and officials may seek to abuse their discretionary powers over fund allocation. Therefore local observers of the process, from academics to activists to journalists, should be weary of the potential for maladministration of the compensation fund and do their best to act as a 'watchdog'.

RATIONAL ECONOMICS

As was illustrated in the previous two sections, the BBM policy has indeed been a bitter pill for many Indonesian families, but what about the prospects for the future? One might begin by considering what President Yudhoyono meant when
he proclaimed that the BBM policy was designed to ‘save the nation and the economy.’ A glance at the economy of Indonesia reveals that the nation is suffering from a declining currency, low investor confidence, budgetary imbalances, high debts, corruption and maladministration, to name some of the more obvious problems. Therefore, it is predicted that the elimination of the fuel subsidy will help offset some of these negative aspects and contribute to the long-term recovery of Southeast Asia’s largest economy.

Economic forecasts in Indonesia have been gloomy for quite some time, inviting major financial institutions to offer their own mainstream policy recommendations to the Indonesian government. Government subsidies are often frowned upon by IFIs and economic observers, and a series of arguments have been used against the specific subsidy applied by the Indonesian government upon refined petroleum products – BBM. For our purposes it is useful to link some of the more pertinent economic indicators with the politics behind the policies. During the months leading up to the controversial BBM policy, several undesirable economic conditions had emerged in Indonesia. Specifically, problems linked to BBM have been identified as problems of currency, fuel subsidies, budgetary constraints, investor confidence, corruption, and environmental degradation, all of which are interconnected.

In terms of currency, the value of the Indonesian Rupiah has steadily declined since 2002, losing more than five percent of its value against the US dollar this year (Lingle 2005: 1). More specifically, on August 30 of this year, Indonesia’s currency plunged 8.9 percent to its lowest level in more than four years (Bloomberg 2005: 1). It is held, therefore, that “perhaps the single most important cause of the [currency] weakness is the Indonesian government’s subsidies on petrol prices” (Lingle 2005: 1). In order to pay for oil imports, the government has been forced to sell Rupiahs for Dollars, “depressing the local currency as world oil prices soared” (Guerin 2005: 1). Obviously the government was not prepared to allow this trend to continue. Therefore, eliminating BBM subsidies should help stabilize Indonesia’s currency.

Regarding budgets, imbalances have long been an issue in Indonesia. It is reported that fuel subsidies contributed significantly to such problems, as they “account for about a third of all central government spending, more than the
budget for health or education” (BBC 2005: 1). Specifically, observers have warned that fuel subsidies could account for over Rp. 70 trillion this year, which would “cut into the budget for poverty alleviation and other social safety net programs, and threaten fiscal sustainability” (Lingga 2005: 1). It is held, therefore, that the elimination of the BBM subsidy will be important in “allowing the central government to gain control of its budget by reducing a major source of deficits and mounting debt” (Lingle 2005: 1).

It seems that the BBM subsidy has also contributed to inefficiency, meaning that Indonesia has become less competitive and is now a net oil importer, despite having vast untapped reserves. Inefficiency also means that environmental standards and not being met, and opportunities for corruption are increasing. In other words: “subsidies encourage gross inefficiency in fuel use [...] hinder the development of alternative energy and make export smuggling a highly lucrative business” (Lingga 2005: 1). Environmentally speaking, it is reported that “much of the air pollution that plagues Jakarta and other large cities arises from low prices that encourage waste and encourage private vehicle use instead of encouraging use of public transit systems” (Lingle 2005: 1).

Corruption is often cited as a major cause of the aforementioned economic problems. Some noteworthy figures have emerged from a recent audit report conducted internally in Indonesia. It was revealed that “at least one-eighth of last years Rp 80.42 trillion in subsidized fuel, or Rp 9.7 trillion, was lost due to smuggling and that the total subsidy itself may have been overestimated by Rp 3.64 trillion” (Hudiono 2005: 1). Smuggling has indeed become a major problem, given that the “presence of large price differentials in neighbouring countries presents a lucrative temptation for smugglers to buy at low, subsidized prices in Indonesia and then sell offshore for considerable profits” (Lingle 2005: 1). Ports in East Kalimantan and Riau provinces are notorious for smuggling, illicitly supplying Singapore and Malaysia where the prices of gasoline, diesel and kerosene are approximately sixty percent higher than the prices in Indonesia (Guerin 2005: 1).

Who has been implicated in such practices? According to one source, the culprits who actually smuggle the fuel must have to operate within a network in order to run a successful operation. Therefore, for the fuel to be sold abroad, the smugglers must have to factor in the “bribes that are paid to corrupt officials with

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Pertamina, the fiscal authorities, customs officials or naval personnel,” and all those other actors that constitute an organized network of illicit trafficking (Lingle 2005: 1). The findings of the Supreme Audit Agency of Indonesia (BPK) lend credence to the claims regarding collusion and corruption. BPK chief Anwar Naustian reportedly made the following statement: there has been a “prolonged failure on the part of the government to determine precisely the exact demand and supply of fuel in the country, as well as to protect the subsidized fuel from rampant distribution irregularities and misuse” (Hudiono 2005: 1). Such claims have been reinforced by a recent study conducted by the University of Indonesia’s Institute of Economic and Social Research – LPEM-UI (Hudiono 2005: 1).

President Yudhoyono and his handlers have been attempting to ‘socialize’ the BBM policy by introducing the compensation fund and by undertaking a campaign to crack down on smuggling and corruption. For instance, it has been reported that a concerted effort is being made to arrest the perpetrators of smuggling, with fifty-eight suspects being held in September of this year alone (Guerin 2005: 1). Moreover, some “17 ships laden with 6,000 metric tons of diesel and kerosene have also been seized” (Guerin 2005: 1). Therefore, greater emphasis on policing and the lifting of fuel subsidies may in fact move the Indonesian government one step closer to the professionalism that it so often pays lip service to.

Improving the foundations for revenue generation in the ways previously mentioned will seemingly enhance the government’s ability to administer policies as it sees fit for wider goals such as development and modernization. What remains to be seen, however, is whether the government will use its new sources of revenue in sound ways and for investment in the fundamentals of the economy and social welfare systems that need improving, or whether mismanagement of the new revenue base will undermine difficult policies such as the rise in BBM.

**CONCLUSION**

With a plethora of economic problems, including a declining currency, stagnant revenue generation, and mounting debts, the government has been forced to consider some of the ‘therapeutic’ recommendations offered by IFIs. Just recently,
IMF chief economist Raghuram Rajan was quoted as saying that Indonesia’s controversial BBM policy “has been an extremely good step in the right direction,” adding that the “subsidies were weighing on the government’s fiscal account and there were concerns being expressed by both international and domestic investors” (AFP 2005: 1). Most observers seem to concur with this position, taking care to acknowledge the difficulties of reducing BBM subsidies, while also praising these reductions as necessary and progressive. The following statement sums up the pro-reform position: “[subsidizing] BBM has the perverse effect of rewarding the wealthy, damaging the environment, reducing costs for rich enterprises, and providing benefits to foreigners at the expense of locals” (Lingle 2005: 1).

There is obviously a huge gap between the concerns of those at the bottom, the poor who are queuing everyday for their compensation, and those in the middle and upper classes, whose focus might be more towards the nation’s long-term economic recovery. Nevertheless, the BBM policy is a pill that has to be swallowed by all Indonesians, whether it is bitter or sweet. As the implementation of this policy continues, it will be the task of local observers to monitor the effects of the policy at both the micro and macro level. This ranges from the substantive impact upon peoples daily lives to the global competitiveness of Indonesia as a whole. Time will tell whether the long-term medicinal aspects of the BBM policy will outweigh its short-term detrimental effects.

REFERENCES


