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MONITORING THE SOCIOECONOMIC IMPACT OF THE 2008/2009 GLOBAL FINANCIAL CRISIS IN INDONESIA

MONITORING UPDATE

July–October 2009

This first monitoring update highlights findings from SMERU's qualitative studies in seven communities and media monitoring up to mid-October 2009. The studies reveal that the current global financial crisis (GFC) in Indonesia has had a variety of different impacts. In general, the negative impacts became apparent in October–November 2008 and peaked in January–February 2009. Recently, they have leveled off with signs of mild recovery in some sectors. The level of severity, however, varies across livelihood types and exposure to the developed countries hit hard by the crisis. The sectors that experienced export booms due to the depreciation of the Rupiah during the 1997/98 Asian Financial Crisis have tended to be more severely affected by the current GFC. Despite signs of mild recovery, there is an indication of a declining trend in wage levels among industrial laborers. In the community, the poorest have been the most severely impacted. Nevertheless, the experiences of the community illustrate the benefits of some of the existing social protection programs, particularly those focused on the education and health sectors, in mitigating the impact of the crisis.

1 Introduction

The global financial crisis has affected countries all over the world, and Indonesia is no exception. However, the macro data suggests that the impact of the crisis on Indonesia has not been too severe. The Indonesian economy recorded a slower growth of 5.2% (year on year) during the fourth quarter of 2008—compared to 6.4% in the third quarter of 2008. Positive growth of 4.4% was still recorded in the first quarter of 2009 and 4% in the second quarter of 2009. Disaggregation by sector indicates that the major slow down was in the manufacturing industry—particularly textile, leather, footwear, and wood products. Another sector experiencing slower growth is the trade, hotel, and restaurant sector—particularly in terms of retail and wholesale trade. From the usage side, exports and imports experienced negative growth, while capital formation declined significantly during the last two quarters.

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As economic observers experience mixed feelings of optimism and cautiousness, there has been concern about what is happening at the community level and in the real sectors, beyond the macro data. In an effort to obtain a better understanding about the social and economic impacts of the crisis, starting in July 2009 The SMERU Research Institute is conducting a series of studies through media monitoring, analysis of secondary data, and qualitative monitoring at the local level.[i]

This paper provides a summary of the findings and analysis from the studies conducted from July to mid-October 2009. These studies included media monitoring of various national and local newspapers and magazines, analysis of secondary data available from Statistics Indonesia and the Central Bank of Indonesia (Bank Indonesia–BI), and qualitative monitoring in seven potentially affected communities. The seven communities covered in the studies are communities which contain: textile and garment industries in Bandung, West Java; an industrial park that mostly consists of automotive and electronic industries in Bekasi, West Java; a palm oil industry and plantation in Kampar, Riau; exported pottery home industries in Lombok Barat, West Nusa Tenggara; wooden furniture industries in Jepara, Central Java; fisheries industry and fishing communities in Bitung, North Sulawesi; and migrant workers in Malang, East Java.[ii] In addition, the analysis also incorporates findings from an earlier qualitative study conducted in February 2009 on a rubber plantation and an industrial park for automotive and electronic industries.[iii] While the analysis in this update does not provide nationally representative data, the qualitative analysis is focused on identifying who has been affected by the GFC and understanding why some industries or communities are less affected than others.

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2 Impacts of the Global Financial Crisis on Various Sectors

The results of the media monitoring and qualitative studies reveal the impact of the GFC on various sectors and the differences in scope and severity of the impact. Some of the sectors which have been impacted by the global financial crisis are described below.

A. Exported Agriculture Commodities

Many newspaper articles have reported that some exported plantation commodities, particularly rubber and oil palm, were the most negatively affected because of the sudden fall in product prices. The international price of rubber decreased from US 329.75 cents per kg in June 2008 to US 280.5 cents per kg in September 2008, and by December 2008 had fallen even further to US 120 cents per kg. This caused the farm-gate price of rubber lump in many producing areas in Sumatra, Kalimantan, and West Java to decline significantly from around Rp10,000–Rp12,000 per kg to as low as Rp2,000–Rp3,000 per kg in December 2008. As a result, many farmers were no longer willing to tap their rubber trees or carry out appropriate land clearing and fertilize trees. There is a report that some farmers in Banyuasin, South Sumatra sold their land cheaply due to the fall in the rubber price. The drop in lump supply has caused some rubber processing firms to reduce working days or even temporarily halt their operations. It has been reported that six rubber processing firms in West Sumatra stopped their operations, which led to the dismissal of around 3,000 workers. However, more recently it has been reported that the farm-gate price of lump in various producing areas in Sumatra and Kalimantan has steadily increased to around Rp5,000–Rp6,000 per kg in June and in some areas has reached Rp7,000 per kg in October 2009.

The field study in Kabupaten Banjar, South Kalimantan in February revealed that the farmers that grow rubber trees enjoyed a windfall income during the 1997/98 Asian Financial Crisis (AFC) because the farm-gate price of rubber lump increased significantly from around Rp7,000 per kg to Rp12,000 per kg. This had brought significant increases in the welfare level of the communities. Following the GFC, on the other hand, the price of the rubber lump fell from Rp11,200 per kg in September 2008 to the lowest price of Rp2,500 per kg in October 2008. Then it increased slightly to Rp3,750 per kg in January 2009. The sudden fall in lump price has led to a significant drop in income for both the land owners and the farm laborers. Most farmers could not afford to buy fertilizer for their rubber trees. Many land owners reduced the number of farm laborers or no longer employ farm laborers at all. The reduction in income and job opportunities has forced them to look for other odd jobs or move to other regions to look for job opportunities. The effects of this were felt in the local economy as retail trade; transport businesses transporting people, rubber, and coal; and rubber sap trading slowed down. Many farmers that had bought motorcycles on credit returned the motorcycle to the dealer because they were no longer able to pay the installments. Currently, the economy is slightly better off as the farm-gate lump price has steadily increased and reached a level of around Rp5,500-Rp6,500 per kg in October 2009; although this is still lower than the pre-GFC price.

Similarly, the fall in international demand for crude palm oil (CPO) has led to a significant decline in CPO price from US$1,400 per metric ton before the crisis to around US$400–US$500 per metric ton. Consequently, the farm-gate price of oil palm fresh fruit bunch (FFB) also declined from Rp1,500–Rp2,000 per kg in July 2008 to around Rp300 by the end of 2008. The significant drops in the prices of CPO and FFB have caused big losses for both farmers and palm oil processing industries. Many farmers failed to pay back their loans for working capital or motorcycles. The Riau branch of the Central Bank of Indonesia, for example, reported that more than 280,000 farmers failed to pay their debts, totaling Rp1.2 trillion. The cancelation of orders caused significant decline in CPO exports, and the collapse of many processing firms, including those located in South Sumatra, Riau, Central Kalimantan, and West Kalimantan. It has been reported that in the second quarter of 2009 the CPO price increased to US$750 per metric ton, but the FFB price is still fluctuating—in South Sumatra, for example, it reached Rp1,400 per kg in September 2009 but dropped to around Rp1,000 per kg in October 2009.

The field study in Kampar in July 2009 confirms the severe impacts of the decline of the CPO and FFB prices. In the study village, the farm-gate FFB price decreased from Rp1,100 in June 2008, to Rp600 in October 2008, and dropped as low as Rp200–Rp350 in January 2009. The price then increased to Rp1,000 in April 2009 but then declined slightly to Rp750 in June 2009. During the period when the price of FFB was at its lowest, many farmers did not harvest the palm fruit, or if they did harvest it to keep the tree productive, they did not sell it to a processing factory because the transport cost was higher than the price of the palm fruit. Almost all farmers failed to pay back their working capital and consumer loans (mostly to buy motorcycles) to the village loan and saving unit capitalized by local government; so the unit rescheduled farmers' loans. As the price of fertilizer (urea) escalated from Rp1,800 per kg in July 2008 to Rp8,000 per kg from September 2008 to April 2009, farmers could not afford to buy it.

The palm oil processing industry was also badly affected as the CPO production fell significantly and CPO that could not be exported is now being stockpiled in large quantities at the Dumai port. Although the company has not laid off their workers, it reduced working hours from 12 to 10 hours a day. This means that workers' monthly income has declined from around Rp1.9 million to Rp1.4 million. This also took place in oil palm plantations, both the state- and private-owned plantations did not lay off their farm laborers; instead they abolished over-time so that a laborer's monthly income dropped from Rp2.5 million to Rp1.08 million. The

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fall in farmers', factory workers', and plantation workers' incomes has caused the circulation of money in the local weekly market to drop from around Rp400 million before the crisis to Rp100 million when the crisis was at its peak. By July 2009, the condition had recovered slightly and the turnover in the local market increased to Rp200 million.

In addition to rubber and palm oil, other exported commodities that have been reported in many newspaper articles as being affected by the crisis are coffee, cocoa, copra, corn, and cassava. The GFC has led to the decline in international demand for coffee and a slight fall in the international price from US$3,800 to US$3,200 per metric ton. Among the reported consequences are: in East Java, the export of coffee fell by 25%–30% and the price declined from Rp18,000 to Rp16,000 per kg; in Bandar Lampung, the price dropped from Rp25,000 to Rp16,000 per kg; in South Sumatra, the price fell from Rp15,000 to Rp11,000 per kg; and in North Sumatra, many exporters to the US went bankrupt because they already purchased from the farmers well in advance before the coffee price dropped. The price of coffee, however, has recently increased due to the limited production before the harvest season.

In the case of cocoa, in Bali the price dropped from Rp31,000 to Rp17,000 per kg; while in North Sumatra it dropped from Rp20,000 to Rp16,000. Cocoa exports from South Sulawesi decreased from 47,240 tons during January–May 2008 to 37,204 tons during the same period in 2009. In addition, out of 14 cocoa processing factories in Indonesia, 12 have halted their production due to significant declines in demand for cocoa from the US and European markets, as well as because of the long delay in payment that caused cash flow restrain. The cocoa price has gone back to normal recently. In Lampung, for example, the price of premium-quality dried cocoa in September and October 2009 increased steadily from Rp23,000–Rp24,000 to Rp25,000–Rp27,000 per kg.

Another commodity reported in various newspaper articles was the fall by almost 50% of the price of copra in West Sumatra and Jambi. The price of corn in Lampung was also reported to have declined by 50%, but the corn price in Gorontalo has been relatively stable. The price of cassava was also reported to have fallen by 50% in Lampung. In North Sumatra, the export of fruit and vegetables to Singapore fell temporarily.

Fisheries products for export were also reported to be experiencing a decline. Newspaper articles revealed that exports of canned and processed fish from North Sulawesi decreased by 40% in 2008, compared to 2007. This is because the demand from the main export destinations—Japan, South Korea, Hong Kong, the US, and several European countries—declined during the period of October–December 2008. In East Java, the demand for exported shrimp fell by 10%–15% during October 2008, but then increased by 7% during March 2009. In Bandar Lampung, the price of shrimp dropped from Rp42,000–Rp47,000 per kg in mid-2008 to around Rp38,000 by the end of 2008. In Jakarta, the price of exported tuna declined from Rp12,500–Rp14,000 per kg to Rp8,000 during the crisis. However, generally the GFC was not the only factor contributing to the fall in fish exports since there were also problems with production.

The field study in the fisheries industry area in Bitung in early October 2009 shows no significant impact from the GFC, both to the fisheries industry and the community. This occurred due to the ability of most industries to shift their market destination from the declining market in the US and Japan to other countries including those in the Middle East; European Union; and Asia, including China and South Korea. The prices of exported tuna and canned fish are relatively stable. Only one product, *ikan kayu* (dried tuna), which used to be exported to Japan, experienced a fall in price from US$6.8 per kg in November 2008 to US$4.8 per kg in December 2008, stabilizing at around US$4.5 per kg in the following months. But this decline did not cause much disruption to the industry, because exports to Japan could be shifted to other Asian countries.

For the industry, the main problem is the decline in the supply of fish because the central government recently released a new policy. This policy allows fishing vessels to moor and unload the fish at any port near the fishing ground; there is no longer any requirement to return to the port where the vessel departed from. Because of this policy, most big fishing boats that used to moor in Bitung are now mooring in Maluku; causing the supply of fish in Bitung to decrease significantly. Small-scale fishers have experienced worse conditions and difficulties in their lives due to the increase in fuel price, particularly kerosene, and the more extensive operations of large fishing vessels. Lots of small-scale fishers are abandoning fishing and instead working as daily workers in fish processing industries that have been flourishing in the region recently, or they are becoming informal workers doing odd jobs, including *ojek* (motorcycle taxi) drivers and construction workers.

B. Timber and Wooden Products

The GFC has led to a decline in the demand for timber as well as wooden furniture in the US, Europe, and Japan. Some regions in Indonesia that export timber and plywood, including West Kalimantan, East Kalimantan, Central Kalimantan, North Sumatra, and Papua, have reported a decrease in exports. The consequences of this were the halt of many sawmill operations and the laying off of more than 10,000 workers. Some articles also revealed that in East and Central Java there was a decline in wooden furniture exports.

Jepara in Central Java is a major producer of crafted teak wood furniture. The field study in this area shows that the producers and exporters of garden furniture for the US and European markets are the most affected by the crisis, and the few that have survived shifted their market destination to Eastern Europe. On the other hand, the producers of indoor furniture for domestic and Asian markets have not been affected by the current crisis. The exporters of wooden furniture to the US and Europe enjoyed big profits during the AFC. This led to the rise in the number of both domestic and foreign companies in this district, and massive illegal logging of teak wood, as well as a decline of product quality. For the past five years, exports have been decreasing because of low quality and illegal logging. The industry has also been declining due to difficulties in obtaining raw materials, and the high price of teak wood due to its scarcity. The Bali bombing also caused a decline in the volume of exports through Bali, however some foreign companies overcame this by opening factories in the producing region.

The GFC has made life more difficult because some foreign furniture factories went bankrupt and many local laborers were laid off. The lay offs included both men and women as men generally worked in the assembly sector and women in the finishing sector. Most of the laid off workers moved into the agriculture or fisheries sectors, or carried out other odd jobs. The workers generally used to work in these areas before the furniture sector boomed during the AFC. Although the GFC caused the local economy to shrink, the impact to local livelihoods has not been too severe as alternative jobs are still available.

C. Mining Industries

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Another group of primary products reported to be affected by the crisis are those related to mining, including coal, nickel, bauxite, iron, steel, copper, aluminum, and marble. In South Kalimantan, the price of good quality coal (containing 6,000 kilo calories per kg) dropped from US$90 per ton to around US$50–$60 per ton. Up to August 2009, coal production from this province had declined by 40%–50% compared to the same period last year. Also, the frequency of ships transporting coal along the Mahakam River was down from 18–20 trips a day to only 10–12 trips each day. The fall in the demand and price of coal has caused many mining, stock piling, and transport businesses to halt. Lately, the demand for and price of coal have been recovering. However, the down turn effects from the crisis have been prolonged by the implementation of the provincial government's new policy (through Provincial Government Regulation No. 3/2008) that bans trucks transporting coal and oil palm from using public roads. In Banjar, in particular, where the ban has been put into effect, lots of small and medium sized mining related activities have been brought to a standstill because the road for transporting coal and oil palm is not ready.

In other regions it was reported that two big mining companies, PT Freeport Indonesia (FI) in Papua and PT Inco in South Sulawesi, were hit by the crisis. To increase efficiency, PT FI did not lay off its workers but instead refrained from recruiting new ones. However, hundreds of laborers who worked in PT FI subcontracting companies were laid off. In the case of PT Inco, there was great concern over the possibility that some workers may be laid off. However, the company assured that this would be the last option, after other efficiency efforts including shifting to lower costing energy and being more selective with assistance given to the local government and communities. The indicative impact of the GFC in these two provinces can be seen from the decline in export figures. In Papua, the export of copper during 2008 was 25% lower than that for 2007; while in South Sulawesi, total export of mining products during the first semester of 2009 dropped by 18.5% in terms of volume and by 68% in terms of value.

D. Manufacturing Industries

Based on media monitoring results, it was found that manufacturing industries have been hit hard by the crisis, although the level of severity varies across industries. Textile, garment, and footwear, as well as electronic and automotive industries, have been the most affected. Food, beverage, and cigarette industries have been the least affected—although some of the companies that export their products to the US and Japan have also been affected by the crisis. In the case of the textile and garment industries, many media articles and official reports illustrate the potential adverse impacts of the crisis. It was estimated that the crisis would reduce production by 10%. Given that some 1.2 million people work in this industry, the potential lay offs could involve more than 100,000 workers.

The centers of the industry in West and Central Java, as well as in Banten, have reportedly been hit by the crisis. In Bandung and Cimahi, for example, the official data recorded that tens of thousands of workers in around 40 garment and textile industries have been temporarily laid off due to the combined effects of the drop in demand and the increase in input prices. In Purwakarta, more than 6,000 workers have potentially lost their jobs because a company in the US has canceled its contract, worth US$2 million. Similarly, 400,000 workers in the textile and garment industries in Central Java (Solo, Kendal, Semarang, and Boyolali) may be laid off because of the cancelation of orders from the US, West Europe, South Korea, and Turkey.

The study in one village in Kabupaten Bandung shows that the impact of the GFC is potentially more severe for large-scale industries that export their products to the US and Europe. Although these industries are still producing for the 2008 contract orders, this year most big firms have not received new orders for 2010. They have also expressed concerns over tighter competition with China and India in the shrinking global garment and textile markets following the GFC. Thus, although the firms have not laid off workers, some have not extended the contracts of contract

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workers, and there is the potential for further adverse impacts if the crisis is prolonged. Contract laborers who did not have their contracts extended mostly got jobs in the medium and small scale garment and textile industries, located in the study village or neighboring villages. These smaller scale industries survived due to the increased domestic demand during the legislative and presidential elections early this year, and ahead of the post-Ramadan Idul Fitri celebrations. The consequence of such a shift, however, is lower income, because smaller firms provide fewer benefits than big firms. At the time the study was being conducted in July 2009, the garment and textile workers in this village, who are mostly women, had not yet realized the negative impact of the crisis.

In contrast, an industrial park in Bekasi, which is mostly occupied by electronic and automotive industries, has experienced a slow down in production activities since October 2008. Although only one company was reported to have gone bankrupt, some temporarily halted production and reduced working hours. Many contract workers, mostly from outsourcing companies, did not have their contracts extended, or in some cases even had their contracts terminated before the end of the contract period, and permanent workers received no over time or had their working days reduced. These events have had a significant impact on the local economy since many businesses that support the activities in the industrial park, such as transport, waste processing, dormitory, and catering businesses, as well as, food stalls, mobile phone kiosks, leasing companies (mostly for cars and motorcycles), outsourcing companies, and shops collapsed. The economic down turn was very much felt in February 2009. The condition in August 2009 was slightly better as some laborers were being recruited again. But the recovery has not been spread evenly across areas and industries. There is also the tendency for laborers to receive a lower income, because most companies prefer to recruit single and fresh graduate workers to avoid the obligation to provide family assistance. Companies also introduced a different way of calculating overtime costs. The recovery of the local economy is also lagging behind, because after the difficulties and great uncertainties during the peak of the crisis, workers are being more careful with their money.

E. Handicrafts

Various types of exported handicrafts also suffer greatly from the fall in demand from the US, European, and Japanese markets. From Bali, it was reported that the production of silver craft products and wooden masks have fallen by around 50% because they are currently completing last year's contract, and no new contracts have been obtained. Since October 2008, in South Sumatra most buyers from Singapore and the US have stopped purchasing songket woven sarongs, so that some weavers have ceased their weaving activities. In East Java, the production of brass ornaments has declined by around 50% because orders from the US, Japan, Europe, and Australia reduced. Various types of handicrafts from Central Java and Yogyakarta also experienced a reduction in demand from foreign countries.

Field monitoring in Lombok Barat, where pottery used to be one of the primary exported commodities, showed that for pottery makers the GFC had a very different impact compared to that of the AFC. During the AFC, pottery makers enjoyed the benefits

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from booms in exports due to the rupiah depreciation. This boosted local economic development, supported by the upstream and downstream industries of the pottery business. The GFC on the contrary, has worsened the already declining trend in ceramic exports after the Bali bombings in 2002 and 2005. As the demand for exports fell, almost no new orders were received from January to March 2009. This has caused a drastic decline in the industry. Many female pottery makers have no other jobs or income, and some shifted production to traditional terra cotta household appliances that are much cheaper but can be sold locally. The male pottery makers generally moved to jobs as peddlers selling various products, selling terracotta household appliances, or migrate to other regions. Many villagers have worked overseas, but lately the number is increasing significantly. The impacts spread not only to the upstream and downstream industries of the pottery production, but also to the local economy. It is now harder for the youth to get jobs, because the pottery making used to absorb lots of youth and even children (to work after school) to help in the finishing stages.

F. Migrant Workers

The economic contraction in countries affected by the GFC is potentially impacting on international migrant workers. To understand the dynamic of migrant worker conditions during this crisis, a qualitative study was conducted in a village in Malang, where more than 40% of the households have member/s that have worked as migrant workers. According to the interviews and discussions with the migrant families and ex-migrant workers, the most affected migrant workers are those who work in the electronic, automotive, and construction industries in South Korea, and Malaysia. Those who work as domestic workers and who work in the Middle East have not been affected. The affected migrants are mostly not returning home because most of them are still working, but with shorter working hours or without the opportunity to work over time. Consequently, their income has dropped and so the remittance has also dropped by around 25%–50%. Some of them have not had their contracts extended, but they are still waiting for the industry to recover because the companies where they worked have requested that they do not return home.

Another reason why these workers do not return home is because most of them are illegal, so if they return home it will be difficult for them to leave again. A more pressing problem is that it is becoming increasingly difficult to migrate, because of tighter competition. For example, the implementation of new government-to-government

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recruitment policy and non-transparency in the queuing for the recruitment process has made it very difficult to go to South Korea, although the cost is cheaper. As for the family at home, the lower remittance they receive from relatives working overseas is not affecting their lives dramatically, because they have other sources of income—some of which have been developed from previous remittances. Other sources of income for the villagers, including rice, cassava, and sugar cane plantations also provide good income. Thus, the impact of the GFC on the local economy of the village has been rather limited.

G. Tourism

Another potentially affected sector that has been widely covered in the media is the tourism sector. The UN-WTO predicted that the GFC would cause tourist arrivals in the Asia-Pacific to decline by 6%. However, the impact of the GFC on the tourism industry in Indonesia seems to be limited. The statistics on foreign tourist arrivals in Bali, as the main foreign tourist destination in Indonesia, shows a strong increasing trend. The number of foreign tourist arrivals in Bali and in Indonesia has reached a level higher than before the first Bali bombing. The increase could be attributed to security problems in other competitor tourist destinations, such as Thailand; as well as the increase in the number of low spending tourists. The change is marked by the decrease in the number of tourists from Japan, Taiwan, and South Korea; and the increase of those from Australia, China, and Malaysia. The increase in the number of tourists from Malaysia and China, however, has had a limited impact on the tourism supporting industries and local economy in general because these tourists tend to be low spenders. Consequently, in spite of the increase in the number of foreign tourist visits, the sale of handicrafts in Bali is declining.

The other tourist destinations of Yogyakarta, East Java, North Sumatra, and South Sulawesi have reported slight decreases in the number of foreign tourist visits. This is in line with the increasing trend of the low budget tourists, who tend to spend limited time in Bali and not extend their stays to go to other tourist destinations in Indonesia. But the impact of the decrease on hotel room occupancy rates was not significant because the decline was compensated for by the increase in the number of domestic tourists.

3 Impacts on the Communities and Coping Strategies

The communities being affected by the GFC are not homogenous, and the severity of effects felt is not uniform. In general, the GFC has caused decreases in business profits, incomes, and job opportunities. In turn, this could change the general welfare of the affected people as the financial shocks could impede their ability to fulfill basic needs, as well as alter human security and social relations. Although the wealthy groups of society, such as business operators, farm owners, and traders, are losing a lot due to the crisis, they mostly still have other resources or excess capital to cope with a downturn of income. For the poorest members of the community, such as farm laborers, informal laborers doing odd jobs, and *ojek* drivers, the impact of the crisis is more severe as they have limited assets to cope with the crisis. The impacts of the crisis felt by the affected communities and their coping strategies based on the qualitative monitoring study is presented below.

A. Impact on Labor Market

The study in Bekasi shows that in the formal sector, the affected industries adopt various coping strategies involving their labor policy. Usually, the first effort is to reduce working hours and cut back on overtime. For permanent staff, temporary lay offs are applied when production is stagnant. The first laborers to be dismissed are those recruited on a contract basis, mostly through an outsourcing company. Some of them did not have their contracts extended, while others had their contracts terminated before the contracted term was complete and did not receive any compensation. Contract workers are usually unemployed between jobs for approximately 1–2 months, but the current crisis has meant that this time period between jobs is longer. If these contract workers are lucky, they get another job in 3–4 months.

In February 2009, most companies did not recruit new workers and most labor outsourcing companies reported that they did not receive orders, particularly from automotive and electronics companies. In August 2009, some companies started to put orders in for new laborers. During the crisis period, competition for jobs has been very tight and this has led to an increase in fraud cases in labor placements, as well as lower incomes because workers are forced to accept any salary being offered. Some companies, for example, changed the calculation of overtime compensation from being based on gross salary to being based on basic salary. Other companies have only accepted workers who are single in order to avoid providing family benefits; so that some who are married apply for the job by claiming that they are single and not entitled to family benefits. In times of desperation, some workers are willing to work in other companies or small companies offering wages lower than they used to. This means that workers have a lower income and also an increased feeling of job insecurity. As a result, although the demand for labor has started to increase, meaning those who were laid off could get jobs, the workers are still very thrifty.

In plantation farming businesses, farm laborers who do not own land have been the most severely affected by the crisis because the land owners cut labor costs by firing laborers. The farm laborers are forced to look for other jobs; some seek their fortune by entering illegal businesses such as illegal mining; some migrate to other regions, gather forest products from nearby forests because they are no longer available in the oil palm plantation areas that used to be forests, or do odd jobs with an unstable income.

For women, the crisis has caused sources of income to decline or disappear. In the case of handicraft and furniture industries in Lombok Barat and Jepara, many women are losing job opportunities. This could potentially occur if the garment industry collapses, because most workers in this industry are women. In the case of plantation farming of rubber and oil palm, women from farm laborer families are forced to take up odd jobs with a low wage.

For youth, the crisis has led to tighter competition in the labor market. In Lombok Barat, the cessation of pottery production caused many young people to lose their jobs. Previously they had worked decorating and finishing the pottery. The youth in the furniture production region of Jepara are facing a similar situation due to the crisis. The decline of job opportunities for youth who used to work as daily workers in the oil palm plantation in Kampar has led to an increase in criminal activity. During the peak of the crisis many of these youth were becoming "ninjas" (a local term used to refer to masked thieves that stole oil palm or rubber lump from government owned oil palm or rubber plantations).

B. Impact on Food Consumption

The GFC has not caused food prices to increase significantly; however, the price level is already high due to the fuel crisis. Thus, the lower income due to the crisis has worsened an already difficult economic situation. To cope with the difficult situation, most households in the villages studied maintain the consumption level of staple food. Families tend to eat less protein or shift to cheaper sources of protein, and also buy less prepared food. If available, they also collect more vegetables, fruits, and roots from surrounding areas, but these foods are becoming difficult to find in industrial areas and oil palm plantations. They also purchase goods in smaller quantities or buy on credit; and this has been supported by fresh food hawkers and local shops that allow people to buy on credit.

A government assistance program that is regarded as being beneficial in cushioning food consumption is Raskin (rice for the poor), but the benefits of this program are reduced because of the irregular and unpredictable distribution schedule. Because people do not know when the rice will be delivered, they do not always have money available to buy the subsidized rice. In most villages, the village officials allow all villagers to buy the rice. Meanwhile, although migrant workers are affected by the crisis, they are not entitled to purchase the subsidized rice because it is only allocated to local people.

C. Impact on Education

With regard to education, the qualitative studies revealed no drop out cases in primary schools. Although the crisis has meant that children get less pocket money from their parents, it has not caused them to be absent from school. The BOS (School Operational Assistance) program and local government assistance to schools (particularly in Banjar) have significantly reduced or even eliminated school fees so that schooling is more affordable even in times of crisis.

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The case in junior high schools is similar, but some drop out cases have been reported in Kampar because the junior high school is located far from the village, and some poor families could not afford to cover transport and living costs during the peak of the crisis. Furthermore, as the price of oil palm increased again, the school was asking parents to pay an entry fee to go back to school, which the families could not afford.

Senior high school students are more vulnerable to dropping out. In Banjar, there are cases of students moving to cheaper schools, while in Kampar some senior high school students have been reported as having dropped out. In the case of the village in Bekasi, apart from the government, the private sector and community also provide educational assistance by providing stationery to primary school students and computers to schools. The local community-based organization provides scholarship for orphans, but the crisis meant that the income of the contributors, who are mostly workers in industrial parks, declined and put the continuity of the initiative at risk.

D. Impact on Health

In general, the health condition of the communities in the villages affected by the crisis has not changed, although the qualitative monitoring revealed some changes in health service seeking behavior. The study found a decline in the number of visits to private clinics and midwives, even though these private health service providers have lowered their charges. More people are self medicating and buying medicine from a drugstore. The visits to *puskesmas* (community health centers), on the other hand, have increased. In three of the study villages, the district governments have provided free outpatient care at the *puskesmas*, while in other villages the fees are affordable. To assist the poor in accessing health services, the central government has provided Jamkesmas (community health insurance), but some poor families do not have the card needed to get access to this program.

The crisis affected communities are not necessarily only the poor, who are eligible for the program. For workers in the formal sector, health insurance should be covered by the company or covered through Jamsostek (labor social security scheme); but some companies no longer take responsibility for the claims if the workers have been laid off. Furthermore, some Jamsostek members did not know how to make a claim for health services.

E. Impact on Security and Social Lives

When the crisis was at its peak, some affected villages experienced increases in the rate of crime. For example, in Bekasi the cases of motorcycle and cell phone theft were more frequent, while in Kampar many youth and unemployed were stealing oil palm and rubber lump from the plantation. The increase in crime cases was temporary and it was brought under control through tighter security and policing. In Lombok Barat, the tighter competition among art shops triggered unfair competition, with tourist guides directing customers to art shops which paid them high commissions, and increased tension between the owners. At the household level, in all affected villages, tension has increased due to economic hardship, but there have been no reports of increases in domestic violence cases.

The economic downturn during the crisis has led to a decline in social activities. The frequency of and contribution to *arisan* (rotary saving and credit group) has dropped in Banjar and Lombok Barat. In Banjar, the participation of the poor in Qur'an recital groups has also decreased because these members are embarrassed that they cannot pay the *arisan* contribution. In Lombok Barat, the contributions toward building two mosques in the village also decreased to the point that construction has been delayed. In Bekasi, the contributions to a local charity organization that provides assistance to orphans also declined.

In at least two of the study villages, the crisis has led to changes in asset ownership. In Bekasi, some small shops which used to be owned by local people have been sold to businesspeople from other districts. In Kampar, some oil palm plantation owners sold part of their land. But the most common phenomenon during the crisis has been that many cars and motorcycles bought on credit have had to be returned to the dealers or leasing companies.

Conclusion

In conclusion, the global financial crisis has affected various communities in Indonesia, mainly through exports industries. The most severely affected sectors have been rubber and oil palm plantations; timber and wooden furniture industries; the mining industry; manufacturing, particularly textile and garment industries; as well as automotive and electronic industries; and handicraft industries. Recently, signs of mild recovery have been observed in the rubber and oil palm plantations, the mining industry, and electronic and automotive industries. However, this has not been observed in the timber and wooden furniture, handicraft and textile and garment industries. The GFC has had a limited effect on migrant workers' families at home, on tourism, and on fisheries industries.

The severity of the effects felt is not uniform, and the poorest in the affected communities have been the most severely impacted by the crisis. In the crisis affected regions, the crisis has also caused tighter competition in the labor market, which is leading to lower wage levels and increasing fraud cases in job placements. The decline in income has not been affecting the consumption of staple foods, but has lowered the level of consumption of protein. The economic hardship has not affected school participation in primary schools and most junior high schools, but has threatened the continuation of schooling at the senior high school level. The health condition of people in study communities has not been significantly affected, although there have been changes in health service seeking behavior. At the community level, the crisis has induced crime and tension among business operators and within households. Participation in social activities is also declining and there have been some changes in asset ownership. ■


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[i] The qualitative monitoring at the local level involves a series of focus group discussions and in-depth interviews with village elites, business operators, and community members (female and male) potentially affected by the global financial crisis.

[ii] Of the seven communities, three were visited at the end of July 2009 (Bandung, Kampar, and Lombok Barat), one was visited at the end of August 2009 (Bekasi – which was also visited during IDS pilot qualitative monitoring study in February 2009), and the three other communities were visited in early-September 2009 (Jepara, Malang, and Bitung). In early August 2009, the study team also made a short visit to Bali to collect secondary data related to the tourism industry.

[iii] The pilot qualitative monitoring study is part of a five country study supported by IDS. It was conducted in an industrial park area in Kabupaten Bekasi, West Java, and a rubber plantation area in Kabupaten Banjar, South Kalimantan.

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