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Monitoring the Socioeconomic Impact of the 2008/2009 Global Financial Crisis in Indonesia

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The Impact on Indonesian Agriculture, up to August 2009

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Fact Sheet

Information collected from various local and national media sources shows that the 2008/09 global financial crisis has had an impact on several agricultural subsectors in Indonesia, especially on export commodities. The Agricultural produces that have been negatively impacted include some plantation produce, such as oil palm, rubber, coffee, cocoa, and copra, in Sumatra, West Java, Central Java, East Java, Bali, South Sulawesi, North Sulawesi and Kalimantan; some food crops, such as corn and cassava, in Lampung; and some commodities of the fisheries product in North Sulawesi, East Java, and DKI Jakarta. Indirectly, the crisis has reduced the demand for chicken outside Java, parallel with the decline in the purchasing power of oil palm and rubber plantation communities.

Overview of the Impact on the Agricultural Sector

Most of the world's economies have been hit by the 2008/09 global financial crisis (GFC) through the trade and financial sectors. The slump in export performance resulting from the fall in the price of various export commodities had quite a severe impact, especially on resource-based exporting countries. In addition, the impact of the 2008/09 GFC on the whole world, including the Asian region, is also evident from the fall in the share market index to a level beyond expectations.

The impact of the crisis started to be felt in Indonesia towards the end of 2008. This was reflected in the significant slowdown in economic growth, especially because of the slump in export performance in line with the declining price of various prime export commodities, such as oil palm and rubber. This decline had a direct impact on some Indonesian farmers. Farmers also lost some of their agricultural markets in the United States and other partner countries of the United States such as Singapore, Japan, China, India, and European countries.

The impact of the crisis on farmers is evident from, *inter alia*, a change in the farmers' terms of trade (NTP).[1] Nationally, since April 2008, the NTP has continued to rise and reached its highest point (101.69) in September 2008. In October 2008, the NTP fell to 99.2 and continued to fall; it reached the lowest point at 98.99 in January 2009. Although since January 2009 the NTP has crept up, June data shows that the NTP has not yet reached the level of 100. Data by commodity (Figure 2) shows that the fall in the NTP has been quite sharp for crops from community plantations and horticulture.

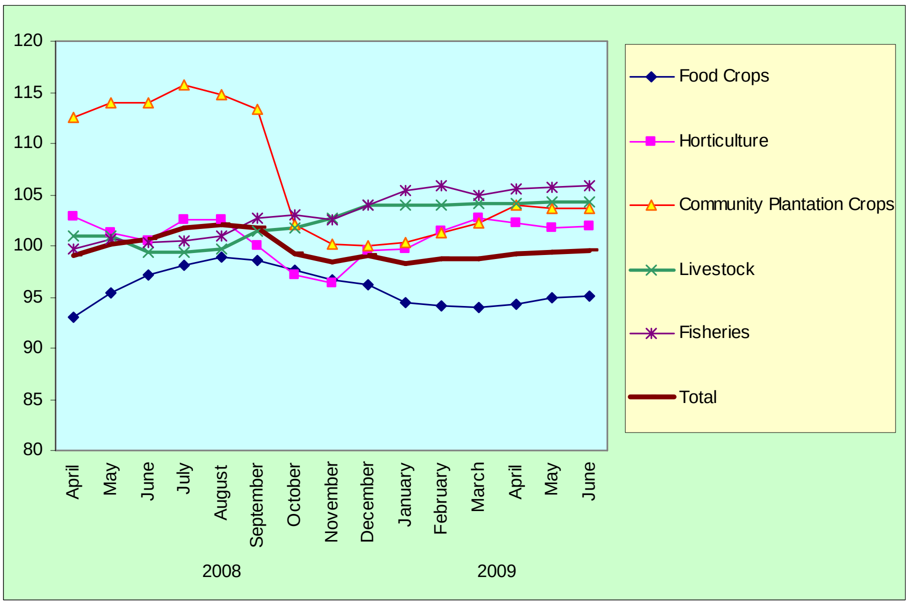

Figure 1. Farmers' terms of trade by commodity (2007=100)

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Impact on the Plantation Subsector

Oil Palm

Oil palm is the prime export commodity in the plantation subsector. Most of the area under oil palm plantation is located in all provinces in Sumatra and Kalimantan, with some in Papua. The total area under plantation in Indonesia is 7.1 million hectares (ha). Approximately 60% of this area is in Sumatra (4.8 million ha), with the rest in Kalimantan and Papua.

When the 2008/09 GFC hit the world, the export demand for palm oil fell drastically and the price of crude palm oil (CPO) and of a fresh bunch of fruit (*tandan buah segar*—TBS) fell sharply. Prior to the crisis, the price of CPO reached as high as US$1,400 per metric ton; however, at the time of the crisis, the price of CPO was only in the range of US$400–US$500 per metric ton. It was the same with the price of TBS. Before the crisis, the price at the farmer level ranged between Rp1,500–Rp2,000 per kg, but during the crisis, the price was only Rp350–Rp500 per kg. At a price of Rp500 per kg, the profit for to the farmer, after deducting production costs, was only Rp150 per kg.

Non-*plasma*[2] oil palm farmers felt the severe affect of the crisis because their fruit was less valued than that of *plasma* farmers and there was no guarantee that factories would buy from them. However, *plasma* farmers and palm oil producers were also disadvantaged. There were reports that the cancellation of CPO contracts by 21 companies in India caused CPO exports in South Sumatra to fall 30% and 95 palm oil companies to lay off 30,000 out of the total 100,000 day laborers. In Kotawaringin, Central Kalimantan, one company also temporarily laid off 900 workers. In West Kalimantan, 2 of the 14 foreign investors that held the licence to open plantations postponed their plans. As many as 22 palm oil factories in West Kalimantan also reduced their CPO production by 10%–12% from an average monthly production level of 58,300 tons to 46,670–52,500 tons. Exports of processed palm oil products, such as oleochemical oil, also fell by 50%.

As a consequence of the 2008/09 GFC, oil palm farmers and intermediary traders in Riau were unable to repay their investment loans and working capital, as well as credit repayments for motorcycles. According to data from the Riau Branch of Indonesia Central Bank, as many as 11,304 oil palm farmers with total loans of Rp335 billion had problems in repayments. In addition, 543 of 4,500 encumbered motorcycles were repossessed due to overdue payments (86% of borrowers are oil palm farmers). Bank Indonesia in Riau also noted that 104,000 *plasma* farming households and 174,978 non-*plasma* farming households had difficulty in paying their debts to the bank that had reached Rp1.2 trillion. In North Sumatra, the fall in the price of oil palm and the increased price of fertilizer (up to 500%) meant farmers were unable to purchase fertilizer and tend their crops causing the that production to slump.

To survive during the crisis, many oil palm farmers worked as laborers in others' plantations. They tried to repay their loans with incomes from other plantation products such as rice, rubber, cacao, or coffee; or by mutual assistance with relatives or neighbors. Some entrepreneurs delayed their expansion and rehabilitation plans, cut their production costs by 50%, and temporarily laid off day laborers. Banks rescheduled loans of oil palm-related customers, reduced interest rates for loans, and proposed additional investments. The government attempted to assist by reducing the tax on CPO exports in November 2008 to zero percent; applying an import duty of zero percent on raw materials used in downstream production partly containing CPO; mandated the use of up to 5% CPO in the transport, industry, and power production sectors; and required the rehabilitation of aging plantations.

In the first semester of 2009, the price of TBS and palm oil started to rise, among other reasons, due to a rise in the world price of oil, the failure of the soybean crop–one of the raw materials in biofuel–in the United States, increased procurement of China's CPO reserves, and a policy of compulsorily adding up to 5% biofuel with other fuels in Indonesia and Malaysia. In June 2009, the price of TBS in South Sumatra rose to Rp1,484.58 per kg. In the second quarter of 2009, the world price of CPO had risen to US$750 per metric ton.

Rubber

Rubber is the second most important plantation commodity in Indonesia after oil palm. A fall in motor vehicle sales in the United States had a significant impact on world demand for rubber because most rubber is used in the automotive supporting industry. In June 2008, the world price of rubber was still 329.75 US cents per kg. The price subsequently fell to 280.5 US cents per kg in September 2008 and 152 US cents in October, and touched 120 US cents per kg in December 2008.

The fall in the world price of rubber resulted in the demand for and the price of Indonesian rubber falling sharply. In West Sumatra, North Sumatra, West Kalimantan, Central Kalimantan, and South Kalimantan, the price of rubber lump fell from Rp9,000–Rp13,000 per kg to Rp2,000–Rp4,000 per kg. In Sukabumi, West Java, the price fell from Rp7,000 per kg prior to the crisis to Rp3,000 per kg. The price of a ribbed smoked sheet (RSS) in Sukabumi that prior to the crisis reached Rp24,000 per kg fell to Rp19,000 per kg during the crisis. As a result of the falling price, many farmers were has willing to tap for rubber or maintain their trees and supplies to the factories fell sharply. In Jambi, rubber production fell 30% from 60,000 tons per month to 42,000–45,000 tons. For that reason, rubber factories reduced their production and reduced the work days for laborers from two weeks to three days. In West Sumatra, 3,000 laborers in six factories were laid off because these factories ceased operating due to a lack of raw materials.

Rubber farmers were also unable to purchase fertilizer and their incomes fell by 50%. Rubber farmers in Banyuasin, South Sumatra, for example, said that since October 2008, their income from four hectares of rubber plantations was just Rp2 million–Rp3 million per month, where previously it had been as much as Rp 5 million–Rp6 million per month. In fact, some rubber farmers in Banyuasin sold their rubber plantations cheaply for as little as Rp30 million per section of land or per hectare, where the normal price ranges between Rp 45 million–Rp60 million. In addition, many rubber farmers accrued debts with cooperatives and fell into arrears with repayments on their motorcycles, as occured with 90 rubber farmers in Muaro Jambi.

After they stopped tapping rubber during the crisis, rubber farmers diversified into managing other crops that were more profitable or worked as laborers for other people. Rubber intermediary traders reduced their purchases of rubber or sold clean rubber whose price was higher than rubber lumps. During the crisis, the rehabilitation of rubber crops was postponed and the central government issued a regulation that no new plantations were to be opened. The government also coordinated the marketing of rubber with other rubber producing countries such as Malaysia and Thailand.

In parallel with the istabilization of the world oil price from early up to mid-2009, the price of rubber changed several times. In January 2009, the price rose from Rp3,500 per kg to Rp4,000 per kg and rose again to Rp5,000 per kg after that, and by June 2009, the price had risen to a level of Rp5,500–Rp6,000 per kg.

Figure 2. The price of rubber fell sharply, farmers did not want to tap for rubber

Coffee

Indonesia is one of the chief producers of coffee in the world besides Brazil, Vietnam, and Colombia. Part of Indonesia's coffee production is exported to the United States, Japan, Europe and China. As a consequence of the 2008/09 GFC, the world demand for and price of coffee fell so that demand for and price of coffee in Indonesia declined as well. The price of coffee on the international market fell from US$3,800 per metric ton prior to the crisis to US$3,200 per metric ton.

During the crisis, export demand for coffee from East Java fell 25%–30% and the price fell from Rp18,000 per kg to Rp16,000 per kg. The same thing occurred in Bandar Lampung. Commencing in September 2008, the price of *kopi asalan*[3] at the farm gate fell drastically from Rp25,000 per kg to Rp16,000 per kg. In South Sumatra, the price fell from Rp15,000 per kg to Rp11,000 per kg. As much as 90% of coffee in South Sumatra is exported via Lampung. Due to sluggish exports, warehouses in Lampung were full with coffee from South Sumatra. Most of the approximately 400 coffee exporters in North Sumatra registered with the Indonesian Coffee Exporters Association (AEKI) went out of business. As a result, by mid-2009, only 60 exporters were still active. Coffee exporters' losses in North Sumatra were particularly triggered by the purchases during which prices at the farm gate were still high many days before the 2008/09 GFC. The exporters of Arabica coffee in North Sumatra were the most affected group due to the fall in export demand to the United States.

Cocoa

Indonesia is one of the world's main producers of cocoa after the Ivory Coast and Ghana. According to data from the Directorate General of Plantations (*Ditjenbun*), the area under cocoa plantation in Indonesia in 2008 had reached 1,592,932 ha, with production of 849,875 tons of cocoa beans. The average price of cocoa beans recorded by *Ditjenbun* in 2008 was Rp15,136 per kg and in 2009 it rose to Rp24,819 per kg. During the crisis, it was reported that the price of cocoa in Bali fell from Rp31,000 per kg to Rp17,000 per kg, while in Deli Serdang, North Sumatra, the price fell from Rp20,000 per kg to Rp16,000 per kg. In South Sulawesi, cocoa exports that had reached 47,240.395 tons in the period of January–May 2008 before the crisis fell, to a recorded level of 37,204.429 tons in the same period of 2009.

During 2009, 12 of the 14 millers of cocoa in Indonesia ceased production; in fact four of these closed down. Only two millers, which produce cocoa powder and cocoa butter, are still operating; one factory located in Tangerang and one in Bandung with an overall production capacity of 100,000 tons per annum. The decline in factory activity was caused by a continuing fall in demand for cocoa products in the United States and Europe, the fall in export price of cocoa, and the factories' impeded cash flow as a result of a longer payment time than usual (from 10 days to 1–1.5 months).

Copra

The fall in the world price of oil in the fourth quarter of 2008 also had an impact on the price of copra. In Padang Pariaman, West Sumatra, the price of copra fell from Rp8,000 per kg to Rp4,200 per kg. Because the price of coconuts, which are the raw material for copra, remained stable, copra businesses did not benefit. In Jambi, it was reported that the copra price started to fall at the end of 2008. The price that had previously been Rp7,000 per kg fell to Rp3,600 per kg. Unlike the case in Padang Pariaman, the price of coconuts in Jambi fell from Rp1,500 per coconut to Rp700 per coconut. To raise their incomes, copra farmers used the coconut shells to produce charcoal that could then be sold to traders at a price of Rp1,200 per kg. This charcoal was in demand from Malaysian companies. In addition, some copra farmers diversified into harvesting areca nuts that are commonly planted in Jambi. The price of areca nuts at the farm gate is quite good and stable at a level of Rp4,000 per kg, although the price had fallen to Rp2,000 per kg in 2006.

Impact on the Food Crops Subsector

Corn

News on the price of corn shows that there were varying impacts of the 2008/09 GFC in the provinces of Lampung and Gorontalo. Since early November 2008, corn farmers in Lampung have been complaining about the fall in the price of wet corn from Rp1,800–Rp2,000 per kg to Rp1,000–Rp1,100 per kg. Farmers in Lampung do not usually dry their corn; they sell it directly after harvesting to intermediary traders who will dry it and remove the kernels from the cob before selling it to a livestock feed factory. On the other hand, in the middle of the export slump in various agricultural commodities, the export of corn from Gorontalo rose. In January 2009, as much as 3,600 tons of threshed corn with a transaction value of Rp4.4 billion was shipped to the Philippines. In 2008, of total production of approximately 500,000 tons of corn in Gorontalo, some 177,182 tons was sold outside Gorontalo: 79,385 tons were exported to

Malaysia, the Philippines, and South Korea, while the remainder was sold in Surabaya, Jakarta, and Medan.

Figure 3. Declining demand for cocoa from the United States and Europe impacted on the cocoa subsector in Indonesia

Cassava

The only observed report on the impact of the crisis on cassava comes from the Province of Lampung. During the crisis, the price of cassava at the farm gate fell as much as 50% from approximately Rp580 per kg to approximately Rp280–Rp300 per kg. This resulted in losses for farmers because their income from the harvest was unable to cover production costs, including fertilizer and transportation costs. As a result, many farmers were not able to repay the capital they had obtained in the form of loans. There is no information on the reasons for such a significant fall in the price of cassava; however, it is known that cassava is the raw material for the production of tapioca flour that is one of the main export commodities from Lampung.

Impact on Fisheries Subsector

Indonesia's fisheries exports fell immediately when demand from the United States fell 30%–40% during the 2008/09 GFC. The United States is the main market for Indonesia's fisheries exports and takes, on average, 40% of total national exports. The slowdown in fisheries exports started when several shrimp importers in the United States asked to re-open contract negotiations to reduce the price and volume of exports from Indonesia. In addition, payments from importers were delayed by up to two weeks after consignments were received.

Usually, export demand for fisheries products reaches its peak in the October–December period, but up to the end of 2008, there has been no observable increase in demand. In North Sulawesi, it was reported that fish exports to the United States, Japan, South Korea, Hong Kong, and a number of European countries fell drastically by up to 40% during the crisis in 2008. In October 2008, export orders for shrimp in East Java fell 10%–15% and the value of exports fell as a consequence of the fall in export volume. In March 2009, demand rose by 7%; however, it then fell by 10.91% in July 2009.

In Bandar Lampung, during the shrimp-seeding season in October 2008, shrimp farmers reduced the density of shrimp fry from 150 seeds per square meter to 80–90 seeds per square meter because the price of shrimp fell from Rp42,000–Rp47,000 per kg (50 shrimp per kg) to Rp38,000 per kg, while the production cost of one kilogram of shrimp is usually Rp35,000. Although reducing the number of shrimp fry will reduce production costs, the production of shrimp will also fall. It is estimated that shrimp production in Lampung will fall by 40% from a total production of 8,000 metric tons per year before the crisis. The cost of production also continues to rise because the cost of shrimp feed has risen from Rp8,500–Rp9,000 per kg to Rp10,000 per kg. In addition, shrimp farmers are also burdened with the high cost of purchasing diesel and delays in payment from the cold store owners due to the fact that the cold store owners have also not received payments from their clients.

In DKI Jakarta, export tuna that is usually sold for Rp12,500–Rp14,000 per kg fell to Rp8,000 per kg during the crisis. As a consequence, fishers have reduced their purchases of diesel from 15–20 metric tons for a one-month use to 10–15 metric tons for only a 20-day use. Total fisheries exports which were targeted to reach US$2.8 billion during 2009 will probably not reach this level due to a shortage of supply.

Impact on Poultry Subsector

Indirectly, the impact of the 2008/09 GFC had also touched the poultry subsector because a fall in consumers' purchasing power, especially as a consequence of a fall in the price of various agricultural commodities outside Java, resulted in a fall in demand for poultry products. During the crisis, daily demand for broiler chickens fell by 10%–15%. In South Sumatra, the difficult situation that the farmers were facing worsened because the price of day-old layer chickens (DOC—day-old chicks) that is usually only Rp4,000–Rp4,500 per head rose to Rp10,000 per head. The decline in consumer purchasing power also resulted in the substitution of meat and fish as a protein source with eggs. In 2009, it is estimated that egg production will increase by 5% over the production level of 2008 and reach 860,000 tons.■

This fact sheet was prepared by Hariyanti Sadali based on media monitoring conducted by Ratna Dewi and Nur Aini (national media); and Ara Wiraswara (Bogor), Ari Ratna Kurniastuti (Malang), Faisal Fuad Seiff (Banjarmasin), Firdaus Komar (Palembang), Gunadi (Medan), Johan Subarkah (Yogyakarta), Suardi Bakri (Makassar), and Syahbudin Hadid (Mataram) under the umbrella of the "Monitoring the Socioeconomic Impact of the 2008/2009 Global Financial Crisis in Indonesia" research being undertaken by The SMERU Research Institute. Original documents such as computer files and news clippings are stored at the SMERU office. Editor: Budhi Adrianto. Translator: Christopher Stewart.

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[1]The NTP rate is calculated by comparing the price index received by farmers with the price index paid by farmers. The higher the NTP index, the stronger the relative purchasing power of farmers.

[2]*Plasma* is the smallholder section of a PIR or nucleus estate; sometimes it is used to refer to the people who are working their small blocks under the guidance of a larger company.

[3]Coffee beans produced by farmers using simple processing, the result of which still contains relatively high level of water (> 16%) and are mixed with other noncoffee materials. These coffee beans are usually sold to exporters who then process them further to produce coffee beans, the quality of which conforms to the trade standard.