

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

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## The Impact on the Livelihoods of Families Dependent on Migrant Workers in Kabupaten Malang

November 2009

Fact sheet

*The community group in Desa Arjowilangun most affected by the impact of the 2008/09 global financial crisis (GFC) is the families of male migrant workers (TKI) employed in the export-oriented manufacturing industry in South Korea. Although none of these workers has returned home because of the crisis, the money that they send has gone down by 25%–50% due to the reduction in their official working hours, and the reduction or even removal of overtime. Even so, this situation has had no impact on fulfillment of the basic needs of their families because the amount of money that the families receive is still sufficient for them to meet daily needs and because the TKI families generally have other sources of income from agriculture, livestock raising, or other businesses. During the past year, the socioeconomic situation of the Arjowilangun community has been relatively stable and economic activities have continued to expand. The drop in turnover in such trading activities as the sale of mobile phones and pre-paid voucher, and the currency exchange business has been caused more by increased competition in the sale of phone and the presence of services fast money transfer from abroad.*

### Why Monitor the Lives of Migrant Workers from Desa Arjowilangun?

The slow-down in the economic growth of many countries as a consequence of the 2008/09 GFC has the potential to influence employment security for international migrant workers, including those from Indonesia (TKI). Industries hit by the effects of the 2008/09 crisis will strive for greater efficiency by, among others, reducing the number of workers and/or the length of working hours. There is concern that this will have a spillover effect on the lives of people who depend on income from overseas workers.

The Province of East Java has been known to be a region that sends great numbers of migrant workers abroad over the past few years. During the 2005–2008 period, this province supplied approximately 10% of official TKI placements. Kabupaten Malang is the biggest sender of migrant workers in the province of East Java, with an annual average of around 5,000 migrant workers (6%–8% of all TKI from East Java). South Malang, which was originally considered to be an underdeveloped part of the province, has undergone

rapid development that cannot be separated from the contribution of its migrant workers. Desa Arjowilangun in Kecamatan Kalipare, Kabupaten Malang, is a village that has developed rapidly, thanks to the contribution made by its TKI. It has been estimated that almost half of all families in this village have a family member who was once or who is currently a migrant worker.

### What is the Situation of Desa Arjowilangun and Its People?

Desa Arjowilangun lies in a mountainous area that borders directly on Kabupaten Blitar; it is located in the territory of the Sutami (Karang Kates) Reservoir about seven kilometers from the site of the dam. The village is approximately 28 kilometers from Kepanjen, which is the capital of Kabupaten Malang, and can be reached by the provincial road that links Kota Malang with Kabupaten Blitar. To get to the village, anyone has to pass through a teak forest, where trees were felled illegally on a large scale during the time of the Asian financial crisis in 1997/98. The land has now become a young teak forest again. Conditions in Arjowilangun are very different from those generally found in villages in the middle of teak forests. At the entrance to Arjowilangun, there is a well-asphalted village road and to the left and right of the road, the houses of the local people can be seen; most are permanent buildings, like houses in urban areas.<sup>1</sup> The roads connecting hamlets and even the small paths have also been paved with asphalt.



**Figure 1. At the time of the study, there were people in every hamlet, especially the migrant workers' families, who were building new houses.**



BAPPENAS



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The economy of the Arjowilangun community has grown steadily and the number of shops, food stalls, and even minimarkets which supply various food and clothing as well as building materials has also risen. At the same time, improvement has taken place in various businesses such as furniture-making, printing, and vehicle repair workshop. In this village, modern facilities such as money changer, internet businesses, and cafes are also available. In fact, Arjowilangun even appears to be more advanced than Desa Kalipare, which is the capital of the *kecamatan* (subdistrict). Even so, rice cultivation and dry land farming, as well as livestock raising are still the mainstay of most villagers. Of the village's 1,356 hectares of land, 58% is dry land fields and 28% is irrigated rice fields, while the remainder constitutes settlements, which are divided into five hamlets. The main agricultural commodities produced in the village are corn, sugar cane, and rice, while the livestock that are raised consist of poultry, goats, pigs, and cattle. In addition, other agribusiness that are expanding includes mushroom cultivation and cassava crisps production, which are marketed outside East Java and even as far as Jakarta.

In 2008 the population of Desa Arjowilangun consisted of 2,930 families or 13,650 persons, of whom 47.5% were male and 52.5% female. At the time of the study, records showed that 1,018 people (618 women and 400 men) were employed in other countries, while 853 persons (481 women and 372 men) had at some time worked overseas. Most of the TKI workers from this village had jobs in Hong Kong, Taiwan, South Korea and Malaysia, while much smaller numbers were employed in Singapore, Kuwait, Brunei Darussalam, Saudi Arabia and even Japan, the United States, Algeria and Macao.<sup>2</sup> Women workers were generally employed as domestic helpers, while men usually had jobs as industrial workers, such as welders, injection operators<sup>3</sup>, and dynamo measurers in the automotive industry or in other industries, specifically in South Korea. Apart from those who were working abroad, many members of the Arjowilangun community had also migrated to other parts of Indonesia. They obtained employment as construction workers and operators of heavy mining equipment in Kalimantan and Papua.

The social life of the Arjowilangun community is harmonious in nature, the custom of mutual assistance (*gotong royong*) is well maintained, and religious life is peaceful. The community's direct contributions, both material and nonmaterial, are very large. For example, in 2008 the community was able to collect voluntary funds amounting to more than Rp2.8 billion. In addition, the mutual-assistance tradition of constructing houses, especially for poor members of the community, and of building and improving places of worship is still maintained. For these reasons, Arjowilangun was chosen as the second best village in the whole of Kabupaten Malang in 2009. Although the majority of its people (87%) adhere to Islam, religious harmony in this village is firmly established.<sup>4</sup> At the same time, the average level of education of the village people is quite high. Almost 70% of the village work force (3,701 persons) have a junior high school education or higher.

Educational facilities in the village consist of 6 kindergartens, 11 primary schools, 2 junior high schools, and 1 vocational high school. Many people have gained access to senior high schools outside the village, mainly in Kecamatan Sumber Pucung. Meanwhile, the health

facilities available in the village consist of a secondary *puskesmas* (community health center) and the services of midwives, a *mantri kesehatan* (health assistant in a *puskesmas*), and a doctor<sup>5</sup>. The relatively very well off members of the community prefer to seek medical treatment at the *puskesmas* in Kalipare or at the hospital in Sumber Pucung, where equipment is more complete. Since almost all families in the village have a motorcycle and almost 10% own a car, the demand for public transport services, particularly between villages and hamlets, is relatively small.

The results of a focus group discussion (FGD) with the village elite indicated that five levels of welfare can be distinguished among the people of Desa Arjowilangun (Table 1). The families in the *sugih pol* (very rich) category are generally the owners of businesses that have the status of a legal entity. There are, however, also owners of businesses in the *sugih* (rich) and *sederhana* (simple) categories, the distinction depending on the scale of the business that they own. The families of migrant workers usually belong to the *sugih* and *cukup* (sufficient) categories. Farming families that own agricultural land are in the *sederhana* category, while farm hands belong to the *kurang* (insufficient) category. By comparison with the situation ten years ago, the number of families in the *sugih pol*, *sugih*, and *cukup* categories has risen. This increase can be traced, among other things, to the number of village people who have become TKI and to the increase in the salaries of civil servants (PNS).

**Table 1. Classification of the Community of Desa Arjowilangun by Welfare Level and Change Over Time<sup>6</sup>**

Year	Welfare Level				
	Very Rich	Rich	Sufficient	Simple	Insufficient
2009	3%	11%	50%	28%	8%
1998/99	2%	8%	39%	41%	10%

### What is the Impact of the 2008/09 GFC on TKI and Domestic Migrant Workers from Arjowilangun?

The conclusion drawn from interviews with a number of respondents indicated that TKI working in Asia-Pacific countries have experienced worse effects from the 2008/09 GFC than those employed in the countries of the Middle East. Workers in the construction and manufacturing (automotive and electronics) industries in Malaysia and in small and home industries (automotive, electronics, and food processing) in Taiwan and South Korea have felt the direct impact of the crisis. This impact has taken the form of lower income because of a reduction in official working hours and a reduction in or abolition of overtime. The amount of money that they have been sending home to their families has therefore been far less than previously. One respondent from a TKI family said that at the present time (September 2009), her husband receives only his basic salary of Rp4 million, whereas in the past, if he worked overtime, he could earn Rp10 million per month. Another respondent stated that the amount of money that he used to receive was usually between Rp18 million and Rp22 million every three months, but now the same amount was received every four months.

On the whole, the families of female TKI working in Hong Kong and Taiwan said that they had no news at all from these family members in connection with the effect of the 2008/09 GFC on their employment and that the amount of money they received was relatively stable; usually, any change in the amount was due merely to fluctuations in the exchange rate. Apart from that, information was obtained about cases of female TKI returning home. It turned out that their return was a consequence not of the 2008/09 GFC but of the fact that their contracts had finished and, in one case, that the TKI in question did not get along with her employer.

The reduction in the amount of money received by the families of TKI did not cause any difficulties for family members in meeting their main daily needs such as basic consumption, education, and health. The amount that they received was still greater than the cost of meeting these needs, which meant that on the whole they did not have to change their lifestyle and consumption pattern. They made adjustments only in meeting secondary and tertiary needs by such measures as ceasing house construction temporarily or postponing the purchase of household furniture or a vehicle. Since none of the TKI working in South Korea lost their jobs or were sent home, the level of optimism among the families of TKI regarding employment continuation and opportunities in that country remains very strong.

Discussions with the village elite and former migrant workers revealed that it is becoming increasingly difficult to go to South Korea as a TKI. They felt that the introduction in 2006 of regulations concerning the placement and protection of TKI—handling the departure of TKI to South Korea and Japan through a government-to-government system—by the National Board for the Placement and Protection of Indonesian Migrant Workers (BNP2TKI) imposed more difficult requirements and caused the queue for TKI placements to become nontransparent.

The impact of the 2008/09 GFC on workers from Arjowilangun employed in other parts of Indonesia was also insignificant. According to one respondent who work in a coalmine in Kalimantan, the company that employs him reduced overtime work for only one month during November–December 2008. Nevertheless, the same respondent also said that there was a similar company that has temporarily laid off its workers. Another respondent said that her husband, who is also employed in a large mining company in Kalimantan as a supervisor, is still working as usual and earns a large income. Thus, the impact of the 2008/09 GFC on domestic migrant workers in the mining sector differs from case to case. No definite indications were obtained about the impact of the 2008/09 GFC on domestic migrant workers outside the mining sector.

## What Changes Were Felt by the Arjowilangun Community?

By comparison with the situation ten years ago, the socioeconomic conditions of the community of Desa Arjowilangun have improved significantly. Besides a higher level of welfare among the population, various public facilities have become increasingly complete and infrastructure has become steadily better. During the past year, that is, in the midst of the 2008/09 GFC, the Arjowilangun community actually became more cohesive in carrying out improvements in their village and finally achieved an award as the second best village in Kabupaten Malang.

Besides the progress that has already been made, the people of Arjowilangun face a number of problems such as the damage done to forests, which has caused a decrease in the availability of water for both household use and agriculture. In addition, farmers increasingly complain about difficulty in obtaining fertilizer and about its higher price. The community is also worried about the rise in cases of juvenile delinquency as a consequence of modern life styles. It was also said that cases of broken homes and divorce are more common in families where the husband/wife/parents have gone overseas as TKI than in other families. The main problem faced by former male TKI is the growing difficulty of obtaining formal work and of becoming a TKI in South Korea, while women who once worked as TKI complain about the high cost of educating their children to senior high and tertiary education levels. Costs include school fees, transport, food, and accommodation. Nevertheless the cost of basic education has been reduced by the introduction of School Operational Assistance (*Bantuan Operasional Sekolah*—BOS), which greatly helps to lighten their burden. One reason why many married women work as TKI is that they need money to pay for the education of their children. These problems have no direct connection with the 2008/09 GFC.

In connection with the problem in employment opportunity, the community believes that ten years ago, it was still relatively easy to find work domestically because there were many projects involving the construction of infrastructure. The same applied to obtaining work as a TKI, which was also easy. About five years ago, the process was still relatively easy, although it was necessary to spend a far greater amount of money on departure costs.<sup>7</sup> The degree of competition and the requirements were not as tight as those at the present time.

### (1) Business Activities and Price Developments

In general, people involved in business activities stated that they have not experienced any significant disruptions recently. They believe that the fluctuations in business that they encounter from time to time are normal. Some of the migrant workers, especially the TKI, have also saved money for use as business capital. The findings of a survey conducted by village officials of 549 former TKI workers show that 149 of them have opened a shop or food stall (38%), including a minimarket; have set up a mobile phone counter (41%); have become motorcycle dealers (1%); have gone in for livestock raising (10%); have undertaken trade in agricultural and fishery products like mushrooms, fish, and shrimp (5%); and are in the furniture industry (5%).

Most of the business activities carried out by the people in this village have expanded very satisfactorily and only a few have undergone a decline. The ups and downs of these business activities, however, are not entirely related to the 2008/09 GFC. The businesses that have experienced a rise include shops selling building materials, gold shops, vehicle repair workshops, furniture-making, and agricultural and livestock businesses. The owner of a building materials store stated that although during the past year there has been a rise in the prices of building materials, house construction by local people, including the families of TKI workers, has never stopped.

Gold traders have also experienced a rise in profits over the past year. Fluctuations in sales were caused by changes in the price of gold and in the exchange rate for the rupiah to the American dollar, and also by the preparation of the Lebaran festivity. The same was said

by a businesswoman who runs a vehicle workshop, the turnover of which reaches Rp26 million–Rp30 million per month. In view of the fact that almost all families in the village own a motorcycle, together with the high demand for modifications to the appearance of motorcycles among the youth, she is very optimistic that her business will keep going. Optimism also appeared among people in the furniture business because they already have regular customers and orders for furniture, especially for school desks and chairs, usually increase greatly as the new school year approaches.

The agricultural and livestock sectors, which are the source of livelihood for a large number of people in Arjowilangun, have given very satisfactory profit during the past year. Those farmers who cultivate sugar cane and those who own land under this crop have enjoyed quite high selling prices. The prices obtained for corn and rice have also risen. Community members have complained, however, about the fact that production inputs, particularly fertilizer, are becoming increasingly expensive and also scarce; at the same time, it is getting difficult to access sources of water for agriculture. Meanwhile, in the case of livestock raising activities that produce milk, skins, eggs, and meat, both production and marketing have been going smoothly so far.

On the other hand, some businesses such as money-changer services and mobile phone shops as well as sales of prepaid vouchers and accessories have suffered a downturn. One respondent who is a money changer service provider admitted that the volume of foreign currency having been exchanged has fallen drastically. Usually foreign currency transactions amount to hundreds of millions of rupiah as the Lebaran approaches, but until two weeks before the Lebaran this year, the volume had reached only Rp25 million. It is suspected that the fall in remittances from TKI in South Korea is one of the reasons for the drop, besides the presence of fast money transfer services such as Western Union and MoneyGram and the direct transfer of money to the bank accounts of TKI families. Meanwhile, the main reason for the drop in sales of mobile phones, prepaid vouchers, and accessories is the increase in business competition as a consequence of the proliferation of shops of the same kind.

The community in general believe that the rise in the prices of basic necessities is still normal and affordable. According to them, the prices of basic necessities do not always go up; on the contrary, prices can sometimes fall as well.

## (2) Assistance Received by the Community

All central government programs in the form of insurance and social assistance, especially for the poor members of the community, have been received by the people of Desa Arjowilangun. In general, people feel that aid programs like BLT (Direct Cash Transfer), Raskin (Rice for the Poor), BOS (School Operational Assistance), PNPB Mandiri (National Program for Community Empowerment), and Askeskin (Health Insurance for the Poor) have been very beneficial. In addition to central government assistance, the people of this village have also received assistances from the regional government through the sectoral approach; however, many of these programs, such as the construction of water storage tanks, assistance with agricultural equipment, Village Unit Cooperative (KUD), and home telephone program, are considered to have been less useful. The program for the construction of water storage tanks was regarded as

useless because the infrastructure in question was not utilised properly, while assistance with home telephones was not effective because many people in the village were already using mobile phones. There was also a new program from the local Manpower Office intended to anticipate the impact of the 2008/09 GFC by providing training for former TKI workers. The coordinator of former TKI workers in this village stated that he had once been contacted by a university in connection with the implementation plan of this training, but up to the time of this research (September 2009), the training has not eventuated yet.■

This fact sheet was prepared by Rachma Indah Nurbani and Nina Toyamah and is based on field research conducted by Nina Toyamah, Rachma Indah Nurbani, Ari Ratna Kurniastuti, and Erfan Agus Munif at the beginning of September 2009. This field research was the first of three visits planned to be conducted every four months 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. Editors: Budhi Adianto. Translator: Joan Hardjono.

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<sup>1</sup>The improvement of most of the houses in the village began when many local people became TKI in the 1990s.

<sup>2</sup>The preferences of people from Kabupaten Malang in their choice of a country of destination for employment are based on the subculture of their place of origin: (i) the subculture of Pedalungan/Maduran, which takes in a number of *kecamatan* in the eastern part of Malang like Bantur, Pagak, Gondanglegi, and Dampit: TKI from these areas tend to choose to work in countries in the Middle East, their reason being the similarity in religion (Islam) and the opportunity to undertake the pilgrimage; and (ii) the subculture of Mataraman, which takes in the western and southern parts of Malang like Kecamatan Donomulyo and Kecamatan Kalipare: TKI from these areas prefer to work in the Asia-Pacific countries, where wages are higher.

<sup>3</sup>"Injection" refers to work that involves inserting components into electronic equipment or motorized vehicles, for example, putting components into mobile phones. This work is done by TKI in South Korea.

<sup>4</sup>In addition to adherents of Islam, there are 930 Catholics, 771 Hindus, and 57 Protestants.

<sup>5</sup>This person is the first resident of Arjowilangun village to become a doctor.

<sup>6</sup>Results of an FGD conducted with the elite of Arjowilangun on Saturday, 5 September 2009.

<sup>7</sup>In the past, the cost of becoming a TKI worker in South Korea was Rp30 million–Rp45 million, but since the introduction of regulations for the placement of TKI by BNP2TKI in 2006, the cost has fallen to around Rp15 million.