

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

Local
Monitoring

Impact on Community Livelihoods in the Textile Product and Textile Industries in Kabupaten Bandung, West Java

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Fact sheet

The negative impact of the 2008/09 global financial crisis (GFC) has been felt by the downstream textile product and textile (TPT) industries in Desa Solokanjeruk, Kabupaten Bandung, especially the export-oriented garment industry. This industry has experienced a downturn in orders and difficulty in obtaining new orders, but has not reduced the number of workers. On the other hand, small- and medium-size industries are surviving due to an increase in domestic demand during this year's general and presidential elections as well as during the preparations for the Idul Fitri festivity. For that reason, the lives of industrial workers and other communities dependent on the TPT industries in this village are still relatively stable. The village community and workers are not yet aware of the impact of the crisis on big businesses players. Nevertheless, if the difficulties being experienced by large-scale garment entrepreneurs are prolonged, there are concerns that the negative impact will extend to the community. These developments will be the subject of the follow up visit around October/November 2009.

Why Look at the Community Livelihoods in the Textile Industries in Desa Solokanjeruk?

The Indonesian TPT industries are vulnerable to the 2008/09 GFC because lots of Indonesia's textile products are exported to the United States and European Union. The weakening purchasing power of these countries will cause a fall in TPT exports which will ultimately flow through to reduced production capacity and shrinkage in the size of the industrial workforce. The TPT industry has quite a large and important role in the Indonesian economy, contributing approximately 3.5% to the total value of Indonesia's non-oil and gas exports in 2008–09.¹ It is also a labor-intensive industry that is employing more than one million workers.²

Kabupaten Bandung was selected as the sample area because approximately 75% of the industries in this *kabupaten* (district) are TPT industries³ and the scale of the businesses is quite varied. This industry is also distributed evenly across all *kecamatan* (subdistricts) in Kabupaten Bandung and the development of these businesses is very dynamic. In 2009, 11 textile and garment companies closed their businesses and 2,393 workers were retrenched,⁴ as the result of the crisis, internal company factors, or business competition. On the other hand, it has been reported that this year (2009) several new, large textile companies have commenced operations and several existing companies have increased their production capacity. Small- and medium-scale industries in certain TPT industrial sectors have also continued expanding with sales turnover continuing to rise.

To obtain a complete picture of the impact of the 2008/09 GFC on the lives of the community that is reliant on the TPT industries, this observation is focused on Desa Solokanjeruk, Kecamatan Solokanjeruk. This village is part of the region of Majalaya which is known as the largest center of TPT industries in Indonesia. It is also the location of a large industrial complex that covers dozens of export-oriented TPT⁵ industries—from spinning through to garments—owned by foreign investors (South Korea and Taiwan). In this village, there are also various small- and medium-scale textile industries owned by the community for local market.

What is the Condition of the Area and Community of Desa Solokanjeruk?

The area of Desa Solokanjeruk is serviced by a provincial road that connects Rancaekek and Majalaya, and the village is located approximately 40 km from the center of Kota Bandung (City of Bandung) via the Padaleunyi toll road. The village is semi-urban in nature and is the capital of Kecamatan Solokanjeruk. Several educational institutions from early childhood to higher education, as well as various health services such as a *puskesmas* (community health center), doctors' practices, midwives' services, and pharmacies are available in the village. It is estimated that there are more than 2,000 businesses in the form of shops, kiosks, and small stalls (*warung*) serving the various needs of the community.



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The village area is more than 423 ha, mostly (51%) in the form of wet-rice farmlands that are generally cropped twice a year. More than 70 ha (almost 20%) is devoted to an industrial area. In addition, there are several other large industrial establishments located outside the industrial area. The remaining area is used for housing, including yards, parks, and other public infrastructure.

The population of the village is 14,034 people (4,129 households) with 50.4% men and 49.6% women, the majority of whom are Sundanese. Most migrants in this village come from other parts of West Java, namely from other *kecamatan* in Kabupaten Bandung as well as other *kabupaten* that border Kabupaten Bandung, including Sumedang, Garut, and Ciamis. Most migrants from outside West Java are Javanese (from Cilacap, Solo, Gresik) and Batak. In addition, there are also migrants from the Malay, Acehese, Madurese, and Chinese ethnicities, although these groups are small in number.

The people of Desa Solokanjeruk are reliant on the TPT industries. Approximately 60% of the village population is industrial workers, 70% of whom work in the large industry that employs many female workers.⁶ Other main livelihoods of the villagers include traders, civil servants (PNS), farm laborers, and *ojek* (motorcycle taxis) drivers. Although the area under wet-rice cultivation is still quite extensive, there are very few people working as farmers because most of the rice fields have been sold to outsiders, especially people from Kota Bandung. It is increasingly difficult to find farm labor because most of the workforce has been absorbed by the industrial sector. In addition, many people located near the industry have built boarding houses (*indekos*) to be rented to migrant workers.

Based on several local criteria, such as house condition, type of employment, asset ownership, education and health status, and income level, the population of Desa Solokanjeruk can be divided into four categories, most of whom are in the category of *better-off*. This means that they have an income of approximately Rp2.5–Rp5 million per month from working in factories, cultivating their own wet-rice farms, or renting boarding houses. The people classified as *poor* work as laborers, farm hands, *becak* (pedicab) drivers, or *ojek* drivers. Those classified as *destitute* cover the families of farm laborers or construction workers. During the last 10 years, the welfare of the village community has tended to improve as a result of the availability of employment opportunities that have made it possible for them to improve the welfare of their family from *poor* to *better-off*.

Table 1. Classification and Level of Community Welfare of Desa Solokanjeruk and Change Over Time⁷

Year	Welfare Level			
	Rich	Better-off	Poor	Destitute
2009	2.5%	81.9%	14.9%	0.7%
1998/99	2.5%	70.0%	26.8%	0.7%

How Has the Crisis Affected the TPT Industries in Desa Solokanjeruk?

The first large TPT industry hit by the financial crisis was the garment industry. The majority of the garment industry in Desa Solokanjeruk operates as a “service

provider (putting-out system)” and produces based on orders from the brand holder in the United States (70%), Europe (27%) and African countries (approximately 3%). The direct impact of the crisis was first felt in early 2009 with a drop in orders averaging 30%. During the year, however, no companies have closed as all companies continue with production to complete 2008 orders. However, they are experiencing difficulties in obtaining orders for 2010. The impact of the crisis on these businesses has flowed on to the management of the industrial complex, in the form of the businesses’ arrears of space rented, electricity, and telephones. This situation has not, however, been openly divulged to the community, especially to workers. Upstream industrial production such as spinning is still stable and, in fact, is still taking on new workers.

Owners of small- and medium-scale industries, especially manufacturers of sarongs, sports clothes, and towels, stated that during the last year their business is still relatively stable. Orders received by sarong manufacturers have risen; in fact, they have experienced shortages of raw materials. Demand for sarongs is closely related to the month of Ramadan and the Idul Fitri festivity. The situation is the same with businesses that produce *paris* and *asahi* fabrics. Orders continued to increase and reached the peak during the legislative and presidential elections of 2009. However, some solid waste businesses have complained of a fall in sales prices and turnover.

This condition is in line with an explanation from the Indonesian Textile Association (API—Asosiasi Pertekstilan Indonesia) of West Java on the development of the TPT industries in Kabupaten Bandung—that a fall in industrial production capacity was apparent from the 20% decline in electricity use from the end of 2008 to March 2009. From April to July 2009, however, there has been an overall increase in production capacity because local demand in April 2009 was associated with the legislative elections. During May and June 2009, the garment industry was also still stable because of preparations for Idul Fitri. Starting around July 2009, however, the production of upstream industries, especially those producing thread, tended to decline. This condition will spread to production of associated/downstream industries such as the garment industry that is a labor-intensive industry.

In facing the impact of this crisis, large businesses continue to make efforts to obtain new orders from and open new markets in other countries, including Asian countries. Small- and medium-size industries generally have an optimistic outlook; they continue to expand the marketing of their product albeit with a lower profit margin per unit of production. They have been doing this to ensure the selling price remains affordable.

What Support Have the TPT Industries in Desa Solokanjeruk Received in Facing the Crisis?

During the past year, no business in Desa Solokanjeruk has received any kind of assistance in the effort to maintain and expand their business. No clear information has been received, from large businesses in particular, regarding assistance or facilities provided by the government. Meanwhile, based on information from the head of the Industrial Regional Technical Implementation Unit (UPTD—Unit Pelaksana Teknis Daerah) for

Majalaya and API, the Ministry of Industry has rolled out a national program of assistance to restructure the TPT industries by adding or replacing machinery. Assistance that has been provided to individual industries is in the form of a cash reimbursement of 10% of the purchase price of the machine with a maximum investment value of Rp5 billion. The procurement of the machines can be made via bank credit, self-financed, cooperation with a supplier, or a leasing service, depending on the choice of each industrial business. However, the program implementation is still impeded by the small- and medium-scale businesses' limited access to and amount of capital.

The main problem faced by large businesses is mostly related to the condition of infrastructure and the prevailing business climate that do not fully support the efficiency of the TPT industries. For example, transportation problems, complex permit systems and nontransparent cost, as well as frequent power blackouts. These conditions cause the higher selling price of Indonesian products that make it difficult for them to compete with the products of other countries, especially China. For small- and medium-size enterprises the main problem faced is the limited availability of business capital and the lack of legalities for their business.

What Has Been Felt by the Community of Desa Solokanjeruk?

Economic Conditions

The impact of the financial crisis that is being felt by some large-scale TPT businesses has not yet touched the community. Economic problems that increasingly press on workers, for example, are not regarded to be directly connected with the crisis, but rather are the impact of the introduction of an outsourcing system by large companies in 2003, at the same time as the enactment of Law No. 13/2003 on Labor. This system weakened the position of wage laborers because it limited several labor rights, increased working hours⁸, reduced or eliminated overtime and various allowances (health, Idul Fitri bonuses), and gave rise to inconsistencies with the *kabupaten* minimum wage level (UMK—*upah minimum kabupaten*). Nevertheless, workers, especially female workers, still feel free and relatively able to leave one industry and take on a new job in a different industry.

According to observations by village officials and community leaders in Desa Solokanjeruk, various business sectors such as shops, stalls, and kiosks, as well as transportation services, have flourished. New businesses continue to grow and very few have closed. Based on a statement by the manager of one minimarket, his business turnover is trending upwards although there are other competitors in the market. Small- and medium-scale businesses in both the TPT and non-TPT sectors, such as the traditional food industry, also continue to grow. For the confectionery industry, in particular, the business performance is very dependent on orders; if there are no orders, production activity will temporarily cease. In addition, boarding houses are always full. If a house becomes vacant, it is always rented out again in a relatively short time. Business competition between *ojek* drivers and food stall operators, however, is increasingly tight because of the entry of new players in the same sector. For that reason, their income is tending to fall.

In general, the community is optimistic that there will be a large-scale take-up of labor and that new business ventures, especially in the trade and services sectors, will continue to grow. This optimism is based on indications of the expansion of several big companies in this village. According to the community, there are at least four large companies (two located in the industrial complex and two others outside the complex) that will expand their businesses. The community associates this with the land in the vicinity of these four companies being hardened. However, according to clarifying information from the management of the industrial complex, the expansion of the area of the industry was the realization of an investment made three years ago and this activity has ended this year.

The price of various basic needs, especially rice, cooking oil, eggs, sugar, and side dishes, during the past year has tended to rise although this increase has not been drastic and these goods are still in adequate supply and affordable. The consumption pattern of the community is relatively unchanged. What the community has found most burdensome is the soaring price of kerosene (from Rp6,500 to Rp9,000 per liter) and difficulty in obtaining it. Although they have received a gas stove,⁹ most of the villagers are reluctant to use it because they are scared that the stove will explode. For that reason, they still depend on kerosene. The price of the agricultural production inputs have also increased, while the selling price of *gabah* (unhusked rice) is relatively stable at around Rp3,250 per kilogram for dried unhusked rice (GKG—*gabah kering giling*). In addition, the cost of transport between *kabupaten/kota* has not declined despite the drop of the price of premium gasoline and diesel fuel.

Social Conditions

Since the rapid growth in the TPT industry in Desa Solokanjeruk in 1994, the local community has been motivated to educate their children to a higher level, especially to junior high school level because of the requirement that local workers have to have a minimum educational standard of junior high school to work in the industry. At the present time, there is a high level of interest in continuing children's education on to senior high school and even further to tertiary level. Educational facilities are adequate and the Nine Year Compulsory Basic Education program which is supported by the School Operational Assistance (BOS - Bantuan Operasional Sekolah) program has been very helpful in facilitating this community interest.

Several alternative health service providers are also available in this village, so the community has no difficulty in accessing these services. For the poor, there are the Jamkesmas (Jaminan Kesehatan Masyarakat—a government health insurance program for the poor) and Gakinda (Keluarga Miskin Daerah—a regional government health insurance program for poor households) programs or a statement of inadequate means (SKTM—*surat keterangan tidak mampu*) which enable the poor to obtain treatment at the nearest *puskesmas* and hospital free of charge. The poor complain, however, that the hospital service is slower for Jamkesmas and Gakinda card holders. In addition, during the past year, the *puskesmas* has reported the emergence of several illnesses that are closely related to poor environmental conditions, such as cases of filariasis, tuberculosis (TB), and dengue fever.

Many migrants feel that they have limited involvement in various village and community activities. They are only involved when the village authorities need a contribution for Independence Day celebrations. Other social activities, however, have not changed by much over recent years. There have been no major crimes such as robberies in the village; however, there have been cases of motorcycles and household goods being stolen. The village community continues to organize *kamtibmas* (*keamanan dan ketertiban masyarakat*—peace and order in society) activities to minimize teenage delinquency such as drinking that often disturbs the village.

Relationships between villagers are very harmonious, despite differences in social status, ethnicity, and religion. Relationships between the local residents and migrants, both industry owners and workers, are very good and they can socialize without discriminating for status. However, conflict did occur when there was a distribution of direct cash transfer (BLT—Bantuan Langsung Tunai) funds. At that time, many BLT recipients were considered better-off households, while many poor households did not receive the funds. This conflict was eventually resolved by sharing the BLT funds equally.

Because the industry is more dependent on female workers, there is a tendency for growing numbers of men to have a role in managing the household. The community considers this a concern because it encourages uncomfortable feelings and job uncertainty.

Assistance Received by the Community

In addition to BLT, Jamkesmas, Gakinda, and BOS, the community of Desa Solokanjeruk also receives other assistance such as Raskin (Rice for the Poor), PKH (Program Keluarga Harapan—Household Conditional Cash Transfer), and PNPM (Program Nasional Pemberdayaan Masyarakat—National Program for Community Empowerment) Mandiri Infrastructure from the central government. In implementing targeted programs, the targeting process is often inaccurate. The Jamkesmas program is not as good as Gakinda in its targeting accuracy because it appears that there are more Jamkesmas recipients than the number of poor people. In addition, PKH is not provided to villagers who have received BLT benefits, while among the BLT recipients themselves there are a number of households that are actually well-off. The Raskin program is considered to be the best program in helping to lighten the burden on the community although poor villagers often do not receive benefits because they do not have the money to purchase the Raskin rice.

Besides receiving assistance from the central government, Desa Solokanjeruk has also received assistance from the *kabupaten* administration in the form of the Raksadesa revolving fund, village development funding allocation (ADPD—Alokasi Dana Pembangunan Desa), UED-SP (Usaha Ekonomi Desa-Simpan Pinjam—a nonbank microfinance institution established by the regional government) services, and HIPAM (Himpunan Masyarakat Pemakai Air Minum—Association of Community Water Users) services. Raksadesa funds were used for physical constructions such as concreting water channels, and revolving loans for small businesses. As with the case of Raksadesa, some ADPD funds were also used for physical works such as road repairs, construction of residential housing, and the construction of water channels and laneways, besides being used for administration funds and wages for village officials. In addition, HIPAM provides clean

water infrastructure that is managed by the village community. It uses a local spring water source.

Some community members in Desa Solokanjeruk also receive assistance from industrial businesses in the form of compensation for those who live within a certain radius of the industrial location. Assistance is provided in the form of clean water, electricity, road improvement, and Lebaran (end of Ramadan) gifts for the villagers and village officials. In particular, the industries also provide incentives to village officials through cooperation in the handling and selling of solid waste.■

This fact sheet was prepared by Nina Toyamah and Nur Aini and is based on field research conducted by Nina Toyamah, Nur Aini, Ruhmaniyati, and Pitriati Solihah at the end of July 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 Adrianto and Kate Stevens. Translator: Christopher Stewart.

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¹Bank Indonesia (2009) *Nilai Ekspor Nonmigas menurut Kode SITC 2 Digit* [Non-oil and Gas Export Values based on the 2-Digit SITC Code] [online] <<http://www.bi.go.id/biweb/Html/SekiTxt/T611.pdf>> [21 July 2009].

²Outcome of interview with the secretary of API for West Java on 17 July 2009; and Exa (2009) *Role of Textile Industry to The Economic Growth* [online] <http://www.indotextiles.com/index2.php?option=com_content&do_pdf=1&id=823> [12 August 2009].

³Outcome of interview with staff of the Kabupaten Bandung Industry, Trade, and Cooperatives Agency in July 2009.

⁴Based on Labor Potential data from the Kabupaten Bandung Labor Agency, January–April 2009.

⁵Village authorities and the village community estimate that there are more than 30 companies within the industrial complex; however, according to the management of the industrial complex, there are only 14 companies.

⁶The garment industry employs more female workers. Male workers usually work as management staff and handle the heavy work (lifting and carrying goods). Consequently, increasing numbers of men in Desa Solokanjeruk are engaged in household work.

⁷Result of the focus group discussion with the elite group in Desa Solokanjeruk on Saturday, 18 July 2009.

⁸There is a difference between the working hours of contract workers and day laborers. Day laborers work from 8:00 a.m. until 4:00 p.m., while contract workers work for seven hours per day in three work shifts: the first shift from 6:00 a.m. until 2:00 p.m., the second from 2:00 p.m. until 10:00 p.m., and the third from 10:00 p.m. until 6:00 a.m.

⁹The community have exchanged their kerosene stoves for gas stoves from the government at no cost. This is part of the government's effort to convert the community from using kerosene to using LPG.