

THE GLOBAL FINANCIAL CRISIS:

WHAT IT IS AND HOW IT AFFECTS SMALL-SCALE
MEN AND WOMEN FARMERS IN THE ASEAN REGION



ISSUE PAPER
ANALYZE. ADVOCATE. ACT!



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This issue paper is about what is known as the “global financial crisis,” which is said to have affected the economies in Europe and North America and caused massive loss of jobs and bankruptcy in these countries. For some of us here in the developing world, the global financial crisis may seem very far from us and therefore, has no effect on us. We may even think that it is something that only concerns economists and the business sector. But we will learn in this paper that the global financial crisis actually affected and even worsened the situation of people and communities in developing countries, including small-scale women and men farmers.

This issue paper explains what “global financial crisis” means, what it is all about and how it started. It will then discuss the effects of the financial crisis on farmers and what civil society organizations can do to support farmers. It also points out what government can do to lessen the impact of the financial crisis on small-scale men and women farmers. Finally, it presents civil society's recommendations to effectively address the impact of the global financial crisis on the vulnerable sectors in the ASEAN region

INTRODUCTION: WHAT IS THE FINANCIAL MARKET?

Nowadays, money is not only used to pay for something. It has become like a product or a commodity that you can buy or sell and earn profit from. People can especially earn profit by changing money into other currencies (for example, changing US dollars into Philippine peso or Thai baht). Even loan agreements can be sold to other loan sharks. These exchanges take place in what is called the financial market.

We can understand the financial market by looking at the situation of the farmer. Many farmers borrow money to buy fertilizers and seeds, and to pay for the people who work on the land. They borrow from loan sharks, who do not ask for a guarantee but add a very high interest on the loan. The rules are set by the loan sharks. If the harvest fails, the farmers lose money and sometimes their

land; or they have to work for free for many years to pay for the loan. The loan sharks are not regulated by the village head or by rules. They can apply all the conditions and interests they want to.

The situation of many countries is similar to this. Countries also borrow money in US dollars, with interest over many years. They have to comply with regulations. The loan sharks also set the conditions.

HOW DID THE FINANCIAL CRISIS START?

The financial crisis started in the United States. It came about because there was very little control or regulation in the financial market. People can get “easy” loans with very low interest rates to buy a house through the mortgage system.

In the past, banks and other lending institutions will not give loans until they are very sure that the person applying for the loan can actually pay for the loan. Thus, if you have an income of USD 10,000, you can only get a loan of USD 25,000 to buy a house. The house belongs to the bank or the financial institution that gives you the loan, until you pay back the loan with interest.

But recently, people who already have a house were encouraged by “the market” to own another house by lowering the interest and allowing people to get a loan even if they are not earning enough or are not qualified. So, even people with low incomes are encouraged to “borrow” money. Or they mortgage their first house. This is similar to farmers who have given their land as loan guarantee and are then told to borrow more by mortgaging their house, or even without any loan collateral.

Banks are allowed to add on the interest for a house loan. Banks are also allowed to work with other financial institutions that are not controlled by government or anybody else. They can take loans, give out loans, buy companies, buy shares, become guarantors, sell and buy houses, buy and sell “mortgages” and other loan contracts, without any form of control.

People are given loans even if they do not qualify. After many years, people cannot pay back. Houses are returned to the banks. Because of this, there are many houses for sale, and as a result, the price of houses falls. Banks also acquired loans using the house mortgage as guarantee. Now the banks have to pay for the loans, but the houses that they now own are priced much lower than the amount of the loans. The price of the houses and the amount of the loans do not match.

There are no data on how much the mortgages are or which institutions hold which mortgages. No one knows which part of the chain is having trouble with payments. So if one collapses, others simply follow. When banks collapse, it also affects other sectors, such as the productive sectors that need loans for production.

Governments are forced to rescue these banks, but often without imposing sanctions on them. The loan sharks do not have any responsibility at all and are able to get away with it.

In other words, the financial crisis happened because the big financial businesses behaved without any sense of responsibility or concern for their customers and because there is no regulation or control over financial products.

WHAT ARE THE EFFECTS OF THE FINANCIAL CRISIS ON FARMERS?

The poor and other vulnerable sectors, like workers, farmers and small businesses, were among the most badly affected by the financial crisis. Because of the financial crisis, people from the developed world are spending less. As a result, fewer people are buying exported agricultural products from the developing countries. This means less income for farmers. Farmers who use chemical inputs face even more uncertainty because of the ups and downs in price of oil in the world market which affects the price of commodities. Governments in developed countries will protect their agricultural products more and more against exported agricultural goods, making it very difficult for

farmers in Asia and other developing countries to export their products.

Before the financial crisis happened, there was already a food crisis. The prices of basic commodities suddenly went up. Some economic experts say that this happens because of a sudden increase in the number of people who are interested in buying certain products and at the same time, there are fewer products available in the market. This may be caused by climate change, high price of inputs or other things. But some experts also say that the prices of food may have increased because people speculated or “gambled” on the different goods.

For example, when profit from the housing and credit business fell, some people placed their investments in the commodity or food market. Farmers do not sell directly in this international market. They sell their products to middle persons, who are the ones buying and selling. They do not produce, but they get profit. They have fewer risks. Usually, they are the ones who deal directly with export businesses.

There are also people who serve as speculators. Similar to gamblers, these speculators bet on certain products they think many people would want to buy in the future. They try to guess when the price of a product, like rice, will go up or down, then they buy and sell based on their guesses. So when prices are down, they buy. When prices begin to drop, they start selling before the prices go down any further. This speculation was one of the causes of the sudden rise in food price.

Because of speculation, farmers cannot base their prices on the world price because it goes up and down. Some farmers produce more, thinking that they can sell more; but in the end, prices drop or their goods do not get sold, so they do not get any profit.

Even if the price of food increased, small-scale farmers still did not benefit much. They had to sell their products. They cannot store their products and sell when the price goes up. As a result, it is the traders who get the profit. So when prices went down, farmers still earned less than before.

The financial crisis worsened the food crisis. With the high price of food and the high price of inputs, income of farmers became even lesser. But even without financial crisis, it is very possible that the food crisis will happen again and again. Food production in Asia has become weak because of government neglect and because of policies imposed by the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO). Farmers no longer have control over what to produce and where to sell. These are all dictated by the international market. For example, right now, resources are being diverted to the production of bio-fuel crops. The solutions being proposed by multilateral institutions are not new ideas, and have been tried years before. But the farmers' situation has not improved, and has even worsened.

Civil society organizations have been calling on Southeast Asian countries to start adopting a framework of food sovereignty. Food sovereignty means that local farmers gain control over the things that they need to produce food -- such as land, water and seeds, what type and variety of food and how much they will produce, how they will produce food, and to whom they will sell their products. Food sovereignty means that farmers are able to use technology that is organic and safe for the environment, so that they do not use imported chemicals that not only harm the environment but also keep farmers forever dependent on the international market.

WHAT CAN FARMER'S GROUPS AND OTHER CIVIL SOCIETY ORGANIZATIONS DO TO SUPPORT FARMERS DURING THE FINANCIAL CRISIS?

Farmers' organizations and other civil society organizations/NGOs need to understand the causes of the financial crisis. They have to monitor the effects of the financial crisis and understand its impact on society, such as on employment and livelihoods, on farmers, and on government spending on education, health and other public services. They should urge national governments to protect farmers from the impact of the financial crisis and put in place controls on the financial market so that the financial crisis will not

continue or happen again.

WHAT MUST GOVERNMENT DO TO LESSEN THE IMPACT OF THE FINANCIAL CRISIS ON SMALL-SCALE WOMEN AND MEN FARMERS?

The government has a lot to do with the financial crisis. It has failed to put in place the controls that are needed so that the financial market will not be manipulated by speculators. Many governments tried to respond to the problem caused by the crisis by implementing temporary actions. These include "stimulus package," which cuts people's income taxes so that they can earn more and buy more; and "bail-out," or rescuing companies who are losing money and are in danger of closing down by giving them funds or capital.

To help lessen the impact of the financial crisis on farmers, governments need to come up with policies and programs that will help lessen farmers' vulnerability and help them protect themselves better against poverty and loss of income. This can be done by protecting the rights of men and women farmers to the use and control of land, water, seeds and other resources. Governments should also implement programs to create more investments for the production and marketing of sustainable agricultural crops that are owned, controlled and managed by small-scale farmers. Governments should also make sure that there is enough budget to implement these policies and programs. They should also build and support partnership between farmers, NGOs and government organizations.

The government must support the agriculture sector so it does not have to depend on imported chemicals and inputs for production, and the export market to sell its products. It should support farmers in the use of sustainable agriculture practices so they will stop using chemicals, which cost a lot and which make farmers lose control over the prices of their goods. There is also a need to make sure that although we are producing for export market, the local markets remain active and that food for the household is guaranteed. At the national level, governments must find a more responsive

economic system, and not be restricted by the requirements of multilateral institutions like IMF and WB.

Governments also need to control the financial market through regulations and monitoring, and make individuals and companies who violate these regulations take responsibility. Loan sharks must be controlled or they will damage the economy.

ASEAN and Asian regional cooperation should restore stability from the shocks caused by the US crisis, create regulations for the financial market and avoid future crisis.

WHAT ARE THE RECOMMENDATIONS OF CIVIL SOCIETY TO EFFECTIVELY ADDRESS THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE VULNERABLE SECTORS IN THE ASEAN REGION?

In a “Regional Conference on the Impact of Financial and Economic Crisis on Vulnerable Sectors of the Region: Civil Society Voices and ASEAN”¹ held in Jakarta, Indonesia on 28-29 July 2009, workers, small-scale farmers, fishers, indigenous peoples, agricultural workers, consumers, academe and nongovernment organizations from the ASEAN region presented a Conference Statement, which was delivered to ASEAN Senior Officers and other regional donor agencies and multilateral institutions. Below are important excerpts from the conference statement.

“Realizing that the global financial crisis has seriously affected the poor and vulnerable sectors, we call on ASEAN and its member states to act in a more solid and integrated approach in responding to their concrete concerns. Towards this end, we propose the following recommendations:

1. Uphold and strengthen the rights of women, labor, migrant workers, farmers, fishers, indigenous peoples, and consumers in accordance with UN and ILO standards and help them gain full access to natural and productive

resources (mainly land, water, seas and seeds), as well as financial, credit, physical and technical resources aimed to eventually uplift their socio-economic conditions;

2. Promote social dialogue to develop practical strategy based on true social partnership between employers and trade unions giving full respect and dignity befitting a partner;
3. Implement the economic/fiscal stimulus packages in a coordinated approach that will promote the development agenda of vulnerable sectors, save and create decent jobs, and give a comprehensive social protection program and safety net measures such as cash transfer programs, emergency relief, crop insurance, free basic education and reproductive health care, irrigation, farm-to-market roads, access to affordable food, generic medicines and basic necessities. The stimulus fund should be sufficient, well-timed, well-targeted, and insulated from corruption and partisan politics. In this regard, transparency and accountability mechanisms must be put in place;
4. Strengthen the ASEAN Integrated Framework for Food Security-Strategic Plan of Action (AIFS-SPA), which puts small-scale men and women farmers, fishers and indigenous peoples at the center and focus the investments to supporting sustainable agriculture and fisheries; and,
5. Uphold the voices of the people by democratizing the space for CSO participation both at the regional and national levels by establishing mechanisms for more inclusive and participatory consultative and decision making processes such as the ASEAN Small Rural Producers' Council, among others. We urge ASEAN to support existing mechanisms such as the ASEAN Social Forum and the ASEAN Civil Society Conference to be more effective as platforms for meaningful dialogue and cooperation.

¹ The conference was jointly organized by Asian Farmers' Association (AFA), Asian Partnership for the Development of Human Resources in Rural Areas (AsiaDHRRRA), Association of Southeast Asian Nations (ASEAN) and Union Network International-Asia Pacific Regional Organizations (UNI-APRO), with funding support from GTZ-Thailand, GTZ-Indonesia, and Oxfam Hongkong

Impact of Financial Crisis to Development Work: Voices from Small Men and Women Farmers in ASEAN

Presented By Mudzakkir
Chairperson, Aliansi Petani Indonesia (API) and
Vice Chairperson, Asian Farmers' Association for Sustainable Rural Development (AFA)

Selamat Pagi. A pleasant morning to everyone.

Last February, AFA (Asian Farmers' Association for Sustainable Rural Development) conducted a consultation on the global financial crisis, with about 30 men and women farmers from 8 Asian countries. AFA has 9 member organizations from 8 countries, including Thailand, Cambodia, Vietnam, Indonesia, and Philippines; and Japan, South Korea and Taiwan (ASEAN's Dialogue Partners). My presentation will pick up from the results of this discussion.

Agriculture remains a significant segment in the economies of many ASEAN countries. It has a vital role in meeting the countries' fundamental socio-economic objectives such as food security, livelihood security and poverty alleviation, among others. First, the contribution of agriculture to the Gross Domestic Product ranges from 10.1% for Thailand to 32.9% for Cambodia. Second, the agriculture sector remains the most important source of food for the region's population. The region's five major agricultural crops – paddy rice, maize, cassava, soybean and sugarcane – are all vital components of the ASEAN people's diet. Third, the bulk of the population in many ASEAN countries is in the rural areas, especially among CMLV countries. Fourth, the main income of the people in the rural areas is agriculture; and most of the rural families are small scale men and women farmers and agricultural workers. However, even if smallholder agriculture remains to be a vital sector, we, small scale men and women farmers, form the majority of the poor in many ASEAN countries.

We cannot fully understand the causes of the global financial crisis. It is too complicated for us. We are not participants in the financial market. What we have understood from our consultation was that the crisis originated in USA, because of unregulated financial markets. What we know of markets is the market where we buy and sell our agricultural products. We are overwhelmed to know that in a financial market, you can sell the loans of other people and still get lots of profit from the sales. But what we can understand is that the market can encourage a person to take more and more loans, and many times, the person cannot pay the loans anymore and so he or she becomes too much indebted.

The peak of the global financial crisis came at a time when there was also food price volatility and we were feeling the effects of climate change. Prices of rice, spices, fruits, and vegetables went up dramatically, and so did prices of gasoline and oil. We now understand that the food price hike was significantly caused by excessive speculation in the commodities markets by the very hedge funds and investment banks that helped create the current economic meltdown. The surging prices were impacted by increasing demand for agrofuels and a lack of grain reserves. And the current global economic crisis has brought down overall demand leading to falling prices.

While we don't fully understand the nature of the financial crisis, we fully feel its effects and impact. Demand for farmers' traditional export commodities like cacao, coffee, palm oil, and coconut dropped, and their prices went up and down suddenly, so we experienced lower, unstable incomes. It also has a huge impact on farmers who have gone into contract farming, where the prices of their products are not guaranteed. In Central Java, dairy farmers have a contract with Nestle company. Nestle refused to buy the milk from farmers because it can import it at a cheaper price; so the farmers had to throw the milk into the river. For Indonesian farmers, the financial crisis means more farmers selling their jewelries and other properties for their families to survive, getting deeper into debt, and throwing

themselves at the mercy of loan sharks.

People were saying that we should be happy with the high food prices, like rice. But our happiness was really short-lived for, half of the time, we are also consumers. Our harvests are not enough for our family's consumption and money needs, so we have to buy rice also. Prices of inputs have gone up dramatically as well. In fact, the high rice prices the past years benefited the rice traders rather than the small farmers, as they were able to keep stocks while we could not. While the banks have billions of stimulus packages given by governments, we have yet to see that assistance given to our sector in the form of social protection and capacity building.

We have coped with our poverty because our wives, husbands, sons and daughters have become migrant workers. But with the economic recession, they are also out of jobs too, thus lessening our family incomes.

How do we cope?

In Thailand, Cambodia and Indonesia, we have been educating farmers about economic household management. We make efforts to ensure that men and women farmers have secured tenurial rights over their land, water and seeds. We are also increasing efforts to practice diversified, sustainable agriculture, where a family will plant several crops for food security and for some cash. In Thailand, we are seriously trying to operationalize the “self-sufficiency economy” of the King. In all our membership, we are increasing efforts to organize commodity-based clusters for cooperative production and marketing of safe, organic products, so we can have more bargaining power in the market.

To reduce our vulnerabilities to the financial crisis, we think the government, CSO and other sectors should work together on these main areas:

- a. identify key social protection measures for farmers and put adequate resources to implement them;
- b. increased public and private investments for the production and marketing of sustainable, organic, ecological-friendly agriculture crops and products which are owned, controlled and managed by small men and women farmers, and which is less prone to corruption; and,
- c. increased partnership between organized farmers' groups, non-government and government organizations for pro-small farmer policies and programs.

Thank you for your attention. Have a good day!

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Writer: Minerva Cabungcal-Cabiles
Editors: Ma. Estrella Penunia, Marciano Virola, Jr.
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Asian Farmers' Association for Sustainable Rural Development (AFA)
Rm 206, Partnership Center, 59 C. Salvador St., Loyola Heights, Quezon City, Philippines
TeleFax: (+632)436-4640
E-mail: afa@asianfarmers.org
Website: www.asianfarmers.org
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