

Rapid Assessment of Impacts of Global Economic Crisis on Cambodian Households: Effects and Coping Strategies*

1. Introduction

Cambodia had been growing quite robustly, with GDP growth averaging around 11 percent over the three years before the global financial crisis hit the country in late 2008. The growth was largely driven by the garment industry, tourism, construction and agriculture. However, economic growth had been reduced by a series of shocks over the previous year, including high energy and food prices, followed by border conflict with Thailand. The soaring energy and food prices from late 2007 to mid-2008 had a severe impact on investment profitability and the well-being of households across Cambodia. The border conflict with Thailand has to some extent reduced tourist arrivals and agricultural exports. The global economic crisis impacted severely on Cambodia's economy, which has been heavily dependent on exports to the world market. Economic growth for 2009 is projected to decrease markedly (to around 2 percent by the Ministry of Economy and Finance and ADB, and -0.5 percent by the IMF) owing to the global economic downturn.

A few studies have attempted to assess the impact of the global crisis on the Cambodian economy and to provide appropriate policy options to mitigate its effects. Kang *et al.* (2009) attempted to assess the macro-economic and sectoral levels (garments, construction, tourism and agriculture), and explored deeper the labour market and household economy; Jalilian *et al.* (2009) focused on macro-economic sectors only. The two studies revealed that the crisis severely hit garments (51,000 workers laid off), followed by construction (15,000 workers laid off)

and tourism (growth to be -5 percent for 2009). Agriculture was unlikely to be severely damaged by the global economic downturn alone, but by a combination of all crises—energy and food prices, border conflict and global economic downturn (Theng 2009 a, b; Jalilian *et al.* 2009).

Although the previous studies intended to explore labour markets and household economy in depth, much of their work focused on macro-economic sectors, not looking at how people were experiencing the impact of crises other than the global crisis, or how vulnerable people were seeking to cope through individual, household and collective arrangements. The specific objectives of the current rapid assessment, commissioned by the World Bank and coordinated by CDRI research teams, are to capture different impacts of the global economic downturn on individuals and households in both formal and informal sectors of the Cambodian economy. It also intends to provide policy makers and planners in government, civil society and development partners with useful insights into how the poor and vulnerable currently deal with crises in the absence of government social safety nets.

2. Methodology

To investigate the impacts of the global economic downturn on individuals and households, we used the qualitative methods of key informant or semi-structured interviews (SSIs) and focus group discussions (FGDs). A time-line tool was used to explore in depth the experiences informants had faced in the 12 and six months prior to the assessment in May 2009. SSIs were held with two individuals purposively selected from vulnerable workers¹ (plus

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1 Vulnerable workers: cyclo drivers, moto taxi drivers, porters, unskilled and skilled construction workers, waters/waitresses, garment workers, scavengers and small vegetable traders (in Phnom Penh); rice field workers (Pael Hael, Kompong Speu and Daun Vongs, Kandal); tuk-tuk drivers, restaurant and hotel employees (Siem Reap) and migrant workers (Andoung Trach and Krasang villages, Battambang).

five garment workers) and rural poor households in Poverty Dynamics Study² villages and nine village chiefs, giving a total of 56 SSIs; FGDs were held with 13 different groups of vulnerable workers: cyclo drivers, tuk-tuk drivers and small traders, unskilled and skilled construction workers, garment workers, rice workers in Daun Vongs, and rural poor households in Andoung Trach, Krasang, Trapeang Prey, Kompong Tnaot and Ba Baong. Findings reflect the experiences of these sample groups only; caution should be taken when extrapolating the data to wider groups.

3. Empirical Findings

3.1. Effect of Crises on Individuals and Households

Employment, incomes and remittances

Over the last several years, formal economic growth sectors—garments, construction and tourism—provided employment for several hundred thousand workers who migrated from various rural areas of the country to improve their livelihoods. However, the well-being of vulnerable workers and their families is not resilient in response to unexpected shocks. Informal workers are as vulnerable as those in formal sectors to uncertainty of employment and income.

Information from SSIs and FGDs showed a general trend towards a reduction in job availability in both urban and rural areas of approximately 30–40 percent over the previous six months, or approximately 70 percent in the construction sector. The economic downturn has clearly impacted on the garment, construction and tourism sectors and to some extent on agriculture. For example, garment workers who are still employed reported no more overtime work or reductions of the working day. The reduction of overtime or working days is of major concern since this significantly affects monthly earnings. In the previous six months, they had not been able to remit any money to their homes because their income was barely enough to meet their living expenses.

The amount of work available for construction workers (unskilled and skilled) in Phnom Penh and Battambang had declined substantially within the

previous six months. For unskilled construction workers in Phnom Penh, daily earnings were uncertain; some days they could make money and other days they had no work. As a result, despite the wage rate remaining constant, their earnings were barely enough for their living expenses in the city, and they had not been able to save any money to help their families. The monthly income of skilled construction workers had also declined because of reduced job availability. However, skilled workers are less vulnerable than unskilled workers (general workers employed at active construction sites), because they are still in demand. Their wages are also higher; this group can save more than general workers (KHR100,000–150,000 per month).

Work days for hotel and restaurant employees in Siem Reap have contracted by 30–40 percent due to a 20–30 percent reduction in customers. They work harder than before because many casual staff were laid off. Although there was more work to do than in the previous six months, their monthly earnings remained unchanged, on average USD65–100 including tips. They had no or smaller savings to send their parents or family at home, and not as regularly as in the past.

Migrant workers hired for cassava, corn, peanuts, fruit trees and rubber plantations have experienced declining demand for labour in both Thailand and Cambodia, due to the border conflict and reduced agricultural prices and exports. Their incomes had declined substantially over the previous six months, because of less work being available, wages dropping from 300 baht/day (35,650 riels/day) to 120 baht (14,260 riels) and household remittances being reduced by half.

Job availability for informal workers and small traders also declined substantially. The income of tuk-tuk drivers in Siem Reap was now 10,000–30,000 riels per day, compared with up to 60,000 riels per day previously, because of a dramatic reduction in the number of local and foreign tourists and increased number of tuk-tuk drivers. Earnings per day of cyclo drivers had also decreased, by just under 30 percent, from 7000 riels per day to about 5000 over the previous six months, as a result of fewer customers. Most tuk-tuk or cyclo drivers migrated from rural villages; the reduction of daily income had greatly affected remittances to their homes. Small traders in Siem Reap reported a great reduction of income, more than 50 percent, from 100,000 riels per day to

2 PDS Targeted villages: Andoung Trach and Krasang (Battambang), Khsach Chi Ros and Dang Kdar (Kompong Thom), Kanhchor (Kratie), Prek Kmeng (Kandal), Ba Baong (Prey Veng), Trapeang Prey (Kompong Speu) and Kompong Tnaot (Kampot).

40,000–50,000 riels, due to the decline of tourists and increase of traders because laid-off formal workers were seeking to do the same business. Small-scale vegetable sellers in Phnom Penh also reported a substantial income drop, with fewer customers than before, looking for cheaper items or bargaining harder. Porters in the market had suffered a 20–40 percent drop in income, due to lower demand for their services. Changes in spending behaviour of urban and rural population were leading to changes in scavengers' incomes at the Stung Meanchey dump and elsewhere. The income of these groups barely covers their daily expenses, with no or smaller savings for their rural households.

Rural employment and household incomes

Sale of land across Cambodia during the land boom up to 2007 was a major factor in the reduction of jobs in agriculture, but the crisis also played a part. Since it began in late 2008, the demand for hired agricultural labour (mainly rice workers) in the villages had declined by 30–40 percent, and the daily wage for rice workers had dropped by 30–50 percent. Rice farmers were working on their own land because they had no money to pay labourers due to reduced remittances from household members working in garments and construction who return home temporarily for cultivation during the rice season. Villagers who sold their farming land during the economic boom in 2007–08 changed from rice farming to working as migrants in the city or within their villages. These are mostly landless and land-poor households heavily dependent on family members working in construction and garments; household remittances have declined by 50 percent, and their earnings in the village have also declined greatly due to low job availability and high competition among villagers. They are the most vulnerable group hit by the global economic downturn, for example poor rural households in Trapeang Prey and Pael Hael villages in Kompong Speu and Daun Vongs village in Kandal.

For villagers who have farm land, the global crisis seems to be only one of several factors that significantly affect rural household economy, and may be less important than other shocks, such as drought, pest outbreaks, depletion of natural resources, high input costs and reduction of output prices. Household incomes that come mainly from dry-season rice or wet-season rice and migrant work

had been reduced over the previous six months by an outbreak of insect pests and heavy rain during harvesting, and by the low price of paddy rice, in Ba Baong, Andoung Trach and Krasang. Households whose incomes are from fishing, rice farming and migrant work had been hit hard by depletion of natural marine resources, drought and the economic downturn. For example, in Kompong Tnaot village, fish catches declined greatly due to increased illegal fishing, and rice yield was down 50 percent as a result of the 2008 drought. Households that have farm land and depend on remittances from their children had been affected to some extent by the economic downturn because of a reduction in jobs available in the city.

Job security and competition

There was much concern about employment security and competitiveness among vulnerable workers interviewed. Rice workers in rural households are highly dependent on selling their labour, and job security had become a critical factor since both on- and off-farm employment had declined significantly inside and outside the village in the previous six months. Cyclo drivers showed great concern about recent high levels of competition with tuk-tuks or moto taxis, resulting in a reduction of their incomes. Garment workers expressed high concern about their job security and competition in the workplace. Within the previous six months, garment workers had had no ability to complain about cuts in overtime or working days if they wanted to continue working. This had forced them to accept a lower monthly income. Skilled and unskilled construction workers were concerned that it would be hard to find another job when their current job finished. The number of tuk-tuk drivers and small traders in Siem Reap had increased substantially within the previous six months, because of hotel and restaurant employees taking part after working hours or laid-off workers becoming involved in these self-employment activities. This had created great competition among these groups, due to the significant reduction of local and foreign tourists. As a result, their daily incomes and remittances had contracted substantially.

Outstanding debts

Inability to repay a loan is now a grave concern for the poor and vulnerable. All respondents reported

large outstanding debts to various sources, including private moneylenders, relatives and micro-finance institutions (MFIs). Loans were mostly taken more than six months earlier and had accumulated within the previous six months. They had already been used on health care or funeral expenses, building or renovating houses, offsetting food shortages, farming inputs, repaying old loans or financing migration. Given the decline in income, the poor and vulnerable workers interviewed could not repay their loans. This had led to distress sales of assets such as farm land or houses (severely in Daun Vongs, Trapeang Prey and Kompong Tnaot). According to the chief of Trapeang Prey village, for example, the number of borrowers from MFIs had increased by 50 percent over the previous six months. Only a few households had been able to repay their loans. Some people had disappeared from the village. Similar cases were reported in Ba Baong and Krasang villages, where migration had become an alternative source of employment and income to repay loans.

Fear of crime

Fear of crime and concern for safety remained, threatening the ability of rural people and migrant workers in urban areas to make a living. Crimes include theft, motorbike robbery and cheating, i.e. not paying for work, particularly of unskilled and skilled construction workers. The degree of concern varies across villages, workplaces and workers, but such crimes were often alluded to by village leaders, FGDs and vulnerable workers. Theft and robbery experienced by garment workers had become more frequent since late 2008. Unskilled workers, cyclo drivers and porters tend to stay together in large groups, and construction workers feel safer if they are allowed to stay on the construction sites. Moto taxi and tuk-tuk drivers remain vulnerable and susceptible to such threats.

3.2. Coping strategies

When facing livelihood shocks or insecurity, vulnerable workers and rural households adopt many coping strategies. Common ones reported by SSIs and FGDs are discussed below.

Reduction in consumption

Vulnerable workers who need their strength to work, such as cyclo drivers, migrant workers and unskilled

and skilled construction workers, had not reduced their quantity of food consumption but had reduced the quality, because of high food prices.³ Skilled construction workers did not show a clear reduction in non-food consumption, but had increased their travelling costs: they go home more often when there is little work in the city because they have a bit more money for transport. Unskilled construction workers, migrant workers and cyclo drivers, on the other hand, had reduced their travel costs to save money, not being able to afford transport because of the great reduction in their incomes. These groups had also substantially reduced their consumption of non-food items such as clothes, alcohol and cigarettes. Other vulnerable workers consistently reported reductions in consumption of both food and non-food items as their first income shock mitigation.

Poor rural village households had also reduced their food and non-food consumption because of a significant reduction in household income over the previous six months. Changes in food consumption were evident not only in the amount of money spent but also in the quality or type of food purchased—e.g. changing from pork to small fish or from big fish to small fish. The family members most affected by a reduction in consumption among all vulnerable workers and rural households were parents; the least affected were young children.

Increase of workload

The global economic downturn had severely impacted vulnerable workers and rural households, through a reduction in employment, incomes, remittances and job security. Many respondents reported that they had done informal extra work after formal working hours to earn extra income, or they worked harder to avoid retrenchment. In addition, their household members had to increase their workload and sometimes the number of household members engaged in income generation increased. Every family member increased their workload, through home gardening, searching for food through common property resources or other work, as available.

Migration, child labour and school attendance

The assumption that workers who lose their jobs in the

³ Agricultural commodities and energy prices dropped significantly in Q4 2008 and Q1 and Q2 2009, but daily food prices did not decline in either rural areas or cities.

city are returning in droves to work in agriculture in rural areas seems not yet to have been substantiated. In fact, FGDs and SSIs with rural households showed that increasing numbers of migrants were in fact going to the city to find jobs, even though they understood that the prospects of employment were uncertain. This indicates that job availability is seen to be even worse in the countryside than in the cities. In Kompong Tnaot in particular, migration had increased by 30–40 percent during the previous six months, and was expected to increase again in the next several months. In this case, respondents mainly went to Kompong Som or Koh Kong to earn income and help their families.

In order to survive during this hardship, vulnerable rural households increased the number of school-aged children earning money within the village or even withdrew children from school so that they could find employment outside the village. In the previous six months, an increased number of children 13–18 years old had dropped out of school to find jobs in cities (Phnom Penh, Kompong Som, Koh Kong or Kompong Cham) as domestic workers, food processing workers, agricultural plantation workers or waiters/waitresses. One noteworthy example was that many young girls from Ba Baong, Daun Vongs and Pael Hael were domestic workers, mainly in Phnom Penh, and were sending remittances.

Borrowing

The CDRI research teams found that there had been an increase in borrowing to buy food, due to greatly reduced household incomes and remittances from children. Many households fell heavily into debt as a result of borrowing from moneylenders or in-kind rice lenders at very high interest rates of 5 to 6 percent per month. In addition, loans were more difficult to access in all villages, because moneylenders and MFIs were worried that people would not be able to repay their debts.

4. Conclusion

The samples used for this assessment were relatively small, which makes it very difficult to generate conclusions about the impact of the global economic crisis on Cambodian households in general. However, with regard to these sample groups, we found that the global economic downturn had severe impacts on vulnerable workers, whether in formal or informal sectors of the economy; employment had

declined by 30–40 percent and household incomes and remittances by more than 50 percent over the previous 12 to six months.

The global economic crisis was one of several factors that caused rural households to deteriorate, including the border conflict with Thailand and the plummeting price of agricultural outputs (Hossein, 2009). This rapid assessment complements previous studies by Theng (2009 a, b) that plummeting agricultural prices were a major factor forcing rural households into more indebtedness and deeper into poverty over the previous six to 12 months.

Many coping strategies had been adopted, but of grave concern are school-aged children earning money within their village; they quite often leave school when it is necessary to earn, which will badly affect their education. Worse still, over the previous six months, many young children had been taken from school to look for employment outside the village. More often girls are taken out of school and sent as domestic workers with better off households, mainly in Phnom Penh. This will have a long-term effect on their future livelihoods. They have low education and no skills for better paid employment, which will force them into a poverty trap passed from one generation to the next. Helping them to move out of poverty will be a very substantial challenge.

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