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ASSESSING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON RURAL HOUSEHOLDS: CONSEQUENCES AND POLICY PRIORITIES*

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INTRODUCTION

It is well documented that the Global Financial Crisis (GFC) caused major contractions in Cambodia's core growth sectors: garments, construction and tourism. This brief assesses how these macroeconomic contractions manifest in microeconomic realities for rural households. It reports the results of a socioeconomic analysis of five villages using Community-based Monitoring System (CBMS) panel data from 2006, 2008 and after the GFC in 2011.

The goals of this brief are three-fold: to analyse the impact of the GFC at household level on different dimensions of poverty; to identify the different coping mechanisms that have been adopted by households and their long-term welfare effects; and to assess the effectiveness of government policies in mitigating the effects of the crisis and suggest new approaches.

IMPACT OF THE CRISIS ON RURAL HOUSEHOLDS

Labour market contraction in Cambodia's core sectors resultant of the GFC adversely affected migrant workers and remittance beneficiaries. A significant proportion of job losses during the GFC can be attributed to the effects of the downturn. For example, 11 percent of the jobs lost during this period were due to companies closing down because of falling consumer demand. The decline of the construction industry with the burst of the real estate bubble had the most significant impact, accounting for 26 percent of all job losses.

Poor households suffered disproportionately: in total around 6 percent of poor household members lost their job during the GFC, compared to 4 percent in non-poor households.

Labour market contractions were compounded by reduced working hours, further deteriorating household income generating potential. Consequently, 37 percent of households suffered the loss of annual income from remittances of about USD500 or more, estimated to be equivalent to the annual net profit from 1 to 3 hectares of rice cultivation in the study villages. This constituted a significant income shock for rural households, especially for the poor.

HOW HAVE RURAL HOUSEHOLDS COPED WITH THE IMPACT OF THE GLOBAL FINANCIAL CRISIS?

During the GFC, households prioritised food security by consuming more of their own produce, substituting meat and vegetables with staple foods (e.g. rice), buying cheaper foods and reducing overall household food expenditure. Male-headed households (MHH) showed a capacity to offset reduced expenditure by producing more, whereas female-headed households (FHH) instead relied more on purchasing lower quality foods. For

* Responsibility for ideas, facts and opinions presented in this policy brief rests solely with the authors. Their opinions and interpretations do not necessarily reflect the view of the Cambodia Development Resource Institute.

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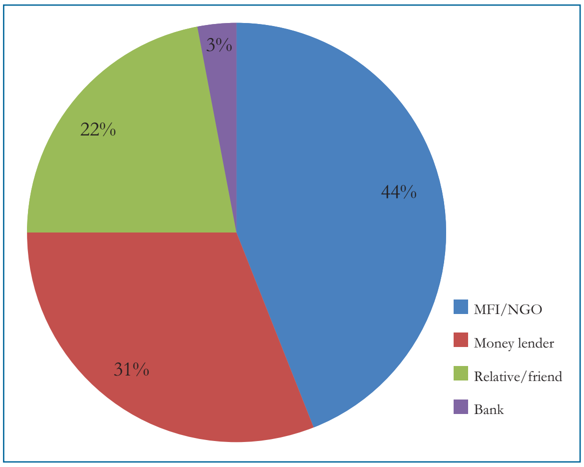
example, 65 percent of poor FHHs purchased lower quality food during the GFC, compared to 56 percent of poor MHHs. This pattern suggests a general degrading of the nutritional quality of rural people's diets, which could have a negative effect on household productivity, particularly in FHHs.

The GFC caused child labour to increase as households struggled to cope with reduced income, especially poor households. In order to save money, many households encouraged their children to forgo schooling in order to earn income. About 5 percent of non-poor households and 12 percent of poor households either withdrew or often encouraged their children to take time off school. If this trend continues, the future economic potential of rural households may be constrained, with the poor suffering the greatest.

Many CBMS households (67 percent) obtained loans to plug shortfalls in expenditure (Figure 1). Often, households, particularly poor FHHs, resorted to high interest loans from informal moneylenders. For example, 39 percent of loans to poor FHHs were from moneylenders, compared to an average of 31 percent across all households. In a positive development, MFI/NGO credit providers are playing an increasing role in rural credit markets and offer an alternative to informal moneylenders. However, it seems that vulnerable households, particularly those headed by women, are finding it difficult to access these services: only 33 percent of loans to poor FHHs were from NGO/MFI providers compared to an average of 45 percent across all households.

Figure 1. Loan Sources in CBMS Households



GOVERNMENT RESPONSES: PRESENT AND FUTURE

The government launched a number of policy initiatives to mitigate the negative impacts of the GFC, for example, providing subsidised rice and a healthcare fund for poor households. However, responses have tended to be on an ad hoc basis. Future policy should be holistic and work to systematically strengthen the foundations of rural livelihoods, building household resilience to shocks, particularly among poor and FHHs.

The priority should be the development of a comprehensive social protection scheme that builds community capacity to effectively respond to crises. Government is currently establishing a social safety net system. This scheme should be sustainably funded; it should be multifaceted, incorporating interventions that specifically target the poor and FHHs, public work programmes and cash transfers; it should have a unified and streamlined administrative structure.

It is important to recognise that the GFC's main route of effect in rural areas was through limiting off-farm income, specifically remittances. Similarly, off-farm income derived from petty trade was an important coping strategy for households affected by the GFC, notably in poor FHHs. Therefore, it is crucial that policy focuses on rural livelihood strategies outside of agriculture. In this regard, improving access to markets through infrastructure development, and increasing information through training schemes are key policy priorities.

Policies that increase the productivity of smallholder farmers are also important in increasing household resilience to shocks. For example, by securing access to land and water resources, improving irrigation systems and infrastructure, promoting modern farming practices, and extending reliable agricultural loans and services to small holder farmers.