

# Informal Risk Management/Safety Net Practices: Experiences of Poor and Vulnerable Workers and Households\*

## 1. Introduction

Poverty reduction can occur in part through preventing the non-poor from falling into poverty, as well as through lifting those in poverty out of it. Growth is important for lifting people out of poverty, but it needs to be complemented by policies to ensure that, first, the benefits of growth are broadly shared (and in particular that they reach the poor) and second, the non-poor do not slip below the poverty line. Safety nets can help with both of these concerns. They also help enable poor and near-poor households to participate in growth so that they can catch up with their better off neighbours. Society benefits too, because the poor with access to safety nets are better able to contribute to social and economic development, both through higher and more diversified productivity and through consumption and demand.

Risks are a part of everyday life in Cambodia. In many cases, people dip in and out of poverty over the course of their lives as a result of shocks and life cycle events (marriage and setting up home, arrival of children, old age and death in the family). Recent economic growth, development assistance and interventions have improved livelihoods, but the capacity of the poor to cope with unexpected livelihood crises still needs improvement.

A number of formal social protection programmes exist to help the poor, women, the elderly and vulnerable people in rural areas. These include equity funds, school feeding programmes, child or mother vaccination and/or nutrition programmes, social pensions for retired government officials and self-help groups formed by non-governmental

organisations (NGOs) (rice banks and saving schemes). These seem as yet not strong enough to serve as a safety net for the poor. Schemes are applied in a somewhat “patchwork quilt” fashion: they cover certain risk groups or geographical areas, sometimes overlapping and sometimes missing vulnerable groups; some are more efficient than others; they entail multiple and often contradictory targeting systems.

There is a growing debate in Cambodia on development outcomes for the poor and new thinking in policy circles on how to build up a new safety net policy and programme for the country. This assessment is timely, in that it can provide food for thought for policy makers and provide them and development practitioners with useful insights about how the poor currently deal with risks, largely in the absence of a formal government safety net. Hopefully, better understanding of existing informal social safety nets will be able to inform the design of more effective government safety nets, ones that complement rather than contradict informal practices while filling the gaps (types of risk or groups without access to social support) that informal arrangements cannot provide for.

## 2. Methodology

This assessment by the Cambodia Development Resource Institute (CDRI) was designed as part of a larger rapid assessment of the impacts of the economic crisis on Cambodian households, commissioned by the World Bank in May 2009. It specifically reviews existing informal arrangements for risk management and assistance that are relevant to poor and vulnerable workers and households in Cambodia. The assessment explores a number of questions:

- What are the current informal safety nets? To whom do people turn when they suffer income or consumption shocks? Do different types of household draw on different sources of support?
- Have these practices changed in the past 18 months? If so, how?

\* So Sovannarith is a research fellow at Cambodia Development Resource Institute. The article provides a summary of key findings from a rapid assessment of informal safety nets conducted in May 2009. A full version of the article, titled “Impact of Economic Crisis on Cambodian Households and Safety Net Practices for the Poor”, will be available on the CDRI’s web site soon. It would not have been possible to produce this article without inputs from Dr Theng Vuthy, Mr Kem Sothorn, Mr Chhim Chhun, Ms Net Sreya and Ms Peang Phancy.

- How strong is social solidarity now? What forms of support are people drawing on?
- How pervasive are private charitable efforts?
- Have donor-driven NGO charitable efforts undermined or strengthened traditional informal safety nets?
- What interactions exist between informal safety nets and village or commune/sangkat authorities?
- What coping methods are people using in the face of the economic crisis?

Semi-structured interviews were held with 47 individual rural poor and vulnerable workers and with nine village chiefs, in order to explore in depth the experiences they had faced in the 12 and six months prior to the time of data collection in May 2009. Two interviewees were purposively selected from households interviewed by CDRI as part of the Poverty Dynamics Study in 2008 (a follow-up on household surveys conducted in nine villages in 2004-05)<sup>1</sup> and from sites accessed in the vulnerable worker survey conducted in early 2009.<sup>2</sup> Findings reflect the experiences of these sample groups only: caution should be exercised when extrapolating the data to wider groups.

### 3. Key Findings

#### 3.1. Risks and Livelihood Outcomes for the Poor

Risks can be defined as economic and social shocks that often result in welfare losses or livelihood insecurity (Devereux 2001). The concepts of risk and of income shocks or threats to livelihoods are

often referred to interchangeably (World Bank 2006). Risks or shocks are caused by internal and external changes to which people find it difficult to adapt. This often results in undesirable livelihood outcomes, from which the poor may recover only in the long term, if at all (*ibid*).

Risks can be conceptualised on a continuum, from “idiosyncratic”—that is, affecting some individuals or households but not others—to “covariant”—affecting many people at the same time. Common examples of idiosyncratic risk are accidents or non-epidemic illnesses; income shocks in the form of unemployment or falling earnings; death of a household member, entailing reduced labour and funeral expenses; household breakdown; household-level crop damage or business failure. Examples of covariant risk are community or regional natural disasters (e.g. flood or drought); war, civil conflict or gang violence; widespread (endemic or epidemic) disease; regional or national economic crises (inflation, recession, falling earnings, unemployment).

Better off and rapidly growing villages, and better off households in poor villages, tend to have greater capacity to cope with shocks (Fitzgerald & So 2007). The poor and other vulnerable groups, such as elderly and disabled people, are more susceptible to risks because they have lower total income, limited savings, fewer assets and less human capital (Devereux 2001); impacts of risks on the poor and vulnerable are more immediate and serious, and far more damaging to their physical and mental well-being and long-term human development. Women and children are likely to suffer the most when the family faces difficulties. A loss in income for the poor may result in their being forced to sell land, livestock or other productive assets, to send their children to work rather than to school or to eat less (CDRI 2008). Such drastic measures may help families survive from day to day but make it much harder for them to escape poverty in the future (Fitzgerald and So 2007). They may also contribute to poor labour relations and social instability (Ballard *et al.* 2007).

Poor and vulnerable people who have limited assets or savings often seek assistance from relatives, friends or better off neighbours in times of need. Otherwise, they may collect edible or saleable products from forests, lakes and common lands or borrow from others. Such practices can

1 The PDS villages were: 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). The village chief of each village was also interviewed for his observation on changes in economic and safety net practices within the past 12 months.

2 Interviews with vulnerable workers were conducted quarterly: cyclo drivers, moto taxi drivers, small vegetable traders, porters, scavengers, unskilled and skilled construction workers, skilled construction workers, garment workers in Phnom Penh and rice field workers in Daun Vongs village in Kandal province and in Pael Hael village in Kompong Speu province. For this assessment, two workers from restaurant and hotel employees and from tuk-tuk drivers/small vendors in Siem Reap were purposively selected for interviews.

### **Box: Divorce and Separation as Major Causes of Poverty for Women and Children**

Ms Meas Sombou, a 43-year-old rice field worker and head of a household with four children in Pael Hael village, has been divorced for almost six years. She used to be better off but became poor after her husband left her to marry a new wife in another village. Due to a lack of labour and draught animals and with four dependent children (three girls and one boy) to feed and bring up, she decided to sell her one hectare of rice land for about USD3000. She wanted to use this to repay her loans, which resulted from the long conflict with her husband before the divorce and from the limited income from farming, and to buy food for her children. She became landless then, and dependent on selling her labour to transplant and harvest rice, to earn around 8000-10,000 riels per day. Her income in the past six months has decreased by about half due to the decline in local demand for farm labour, which has happened because many farmers' sons and daughters have returned home from Phnom Penh to help their parents in farming after losing their jobs.

In the past seven months, she has received some assistance from neighbours and the Cambodian Red Cross (CRC). A rich neighbour is temporarily allowing her to use a small plot of land free of charge to cultivate vegetables for some extra income and for consumption. She also often receives food and money when she helps her neighbours organise weddings or religious ceremonies. When her house was destroyed by a big storm in January 2009, the village chief allowed her and her children to stay under his house for two months while her house was rebuilt. Several houses were destroyed at that time, and the village chief reported the cases to the TV11 and the CRC. Two of her daughters (8 and 10 years old) and one son (7), were not able to go to school for a few weeks, but returned to school after they received a CRC assistance package (25 kg of milled rice, 50,000 riels, two cotton scarves, two sarongs, one plastic tent, one bottle of dish soap and one packet of powdered soap) in February 2009. Before receiving CRC assistance, she also received 50 kg of milled rice through a village collection. This assistance has helped her and her children at least to survive for a few months. However, her situation remains bad because there is no more work for her to do in Pael Hael or neighbouring villages. Her 13-year-old daughter, who quit school three years ago, joined a construction migrant worker group a month prior to data collection.

be termed informal systems for risk sharing and management: they serve as informal safety nets for the poor and have prevailed in Cambodia for generations.<sup>3</sup> They have changed over time but are still commonly practised among extended families and among friends and social networks. These informal safety nets are being damaged by the cash economy, by increasing inequality and by the failure of some development interventions (Devereux 2001).

### **3.2. Risks and Impacts on Poor and Vulnerable People**

Most shocks among respondents were not new or caused by recent adverse economic trends. Shocks were mainly idiosyncratic: ill-health/death of a family member, crop failure or animal death, divorce or separation. However, shocks were exacerbated by the economic crisis, as earning opportunities

declined and vulnerability increased. The case of Ms Meas Sombou (box) shows a common experience of widows, being left in trouble after the loss of the main breadwinner. Widows had found it difficult to earn enough to buy food in the previous six and 12 months. Their hopes rested heavily on their children, and widows with no grown-up children were in an even more vulnerable position.

In the absence of formal social safety nets, most poor people, especially single female-headed households, the elderly, disabled, women and children, had fallen deeper into poverty as a result of the recent impacts of covariant risks, such as the decline in employment opportunities and income produced by high food prices between January and October 2008, followed by the global economic crisis. Those with no close family were particularly at risk, because they have no way to access support in the community in times of wide-scale difficulty. When those with extra issues, such as female household heads, also have no grown-up children or

<sup>3</sup> Information about mutual assistance in Cambodia can be found in Murshid (1998) and McAndrew (1998).

close family members, they are put into even more risk of falling (deeper) into poverty.

The impact of shocks on children is immediate and serious. In order to have enough for daily consumption and to repay debts, many poor households had taken their children away from school to enter the labour market at an early age. Several poor children in our assessment (mostly girls) had been forced to stop schooling to help their parents earn money. This drastic measure may help the poor to survive but has adverse long-term consequences for a household's human capital and ability to earn a better income. The household also

remains fragile with regard to its ability to cope with any future shock. This issue is not new but remains a serious concern, one that requires appropriate interventions.

The majority of the poor, affected by one or another social or economic shock, had been pushed further into more severe indebtedness. Signs of this include distress sales of productive assets and increased landlessness and homelessness for those who are not able to repay their loans. This trend is likely to continue if job prospects continue to be uncertain for another six or 12 months.

**Table: Coping Strategies and Assistance Received by Households in Difficulty in Three CDRI Surveys<sup>4</sup>**

	% of 699 MOPS households, 2004-05*	% of 450 poor and very poor households, 2007 to October 2008**	% of 481 households in difficulty receiving assistance in 6 months prior to survey in June 2008***
<b>Household coping strategies</b>			
Use savings	68	18.4	
Take loan	31	78.9	53
Members migrate to find work	15	1.8	
Sell animals	11	2.2	
Reduce consumption	14	3.3	
Child labour	8	1.6	
Sell agricultural outputs	3	1.1	
Sell agricultural land		0.9	
Work harder		1	
Sell physical assets		1	
Rent out land		1	
<b>Help and support received</b>			
Support from friends/relatives	15	12.2	36
Assistance from NGOs	1	2.4	36
Micro credit			14
Free food ration for households			12
Food for children			9
Food for work			6
Seeds, fertiliser			5
Veterinary services			5
Fodder and animal feed			4
Agricultural tools			3
Food for young/malnourished children or pregnant/lactating women			
Cash transfer from social assistance programme			23
Other	12		

Sources: \* Fitzgerald & So (2007); \*\* Koy & Em (2009); \*\*\* CDRI (2008).

4 Although these three surveys were conducted with different purposes and at different times, the same questions were asked about what interviewees did to cope with particular difficulties and shocks they had faced.

### 3.3. Risk Management and Informal Safety Practices

This assessment supports the assumption that traditional mutual help and support in the form of food and interest-free loans within kinship systems, extended families and informal networks of occupational groups still exist in times of need, and this is also confirmed by other studies summarised in the table. However, these practices are changing and are being reshaped by the cash economy into credit or contractual business arrangements. Where they still exist, they occur mainly between close family members and relatives only, because nobody has enough to share with other families in times of hardship. People had become more individualistic or cautious with regard to offering assistance over the previous 12 months, because of uncertainty of employment and income. Better off relatives may also not be able to save as they have before as a result of recent crises (high prices followed by economic downturn). At particular risk are the elderly and poor people with no relatives, who are not part of existing social networks and relations. They may be excluded from informal assistance and left alone to become more vulnerable.

Some informal forms of risk sharing and management or mutual assistance are still strong within the community, regardless of social grouping, such as helping with the organisation of funerals and weddings or providing assistance to people affected by fires, storms and lightning strikes. These too are becoming less common, however.

Labour exchange and animal exchange are still practised among extended families and informal social networks, using trust and cooperation for mutual benefit. But labour exchange for farming, for example, is being replaced by a hired labour system. This creates jobs for the landless poor but also causes problems for single female household heads who lack draught animals and male labour, and who now receive no help in preparing their land and often end up selling it.

Self-help groups, such as savings groups, rice banks and cow banks, do exist, promoted to build community cooperation and trust by NGO development programmes for the poor. However, members of these groups are not necessarily the poor or very poor, since these groups are not able to pay the membership fees. Single female household heads, the disabled and the elderly (except in

Krasang village, where HelpAge International targets the latter two groups in particular) and very poor respondents have not yet benefited from these initiatives. Self-help activities are also at high risk of collapse at the current time, because many members are unable to repay their loans. Cow banks are still in operation but are slow to reach the poor.

The elderly or very poor are sometimes able to access services at the pagoda or in Christian churches, but availability of such services is limited to a few (those who live close to a pagoda or Christians, for example).

Forms of humanitarian support in recent times include emergency assistance from the CRC and political parties to households affected by natural or other disasters, and gifts in cash or kind from political parties. This assistance is needs-based, and poor and vulnerable workers captured by this assessment had experienced it. However, such assistance is available only as emergency support, is unreliable as a source of security, may come with political strings attached and/or is insufficient to ensure full recovery. Moreover, such assistance had been much rarer in the previous six months (it was more common before the election of July 2008).

### 4. Conclusion

In summary, all poor groups are at increased risk of falling further into poverty as a result of the current economic crisis. Those without family or close relatives, single female household heads, the elderly, the disabled, those living far from a pagoda and children are particularly vulnerable. Without appropriate pro-poor interventions, the ability of poor people to cope with income shocks and move out of poverty remains very low.

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afterwards. The survey in February and May 2009 found that 47 percent of garment workers had not worked overtime in the past week, while only 11 percent reported that in the same period in 2007. In other words, activity in the garment sector had contracted due to the global economic downturn.

Quantitative analysis indicates that the real daily income of garment workers dropped by 24 percent after the crisis period. During the same period, the real daily savings of garment workers fell 27 percent, while their real daily consumption increased by 7 percent (both figures are statistically significant at the 1 percent level). Both real daily income and savings will continue to decline if the crisis persists. Of 120 garment workers in the May 2009 survey, only 21 percent expected that their income in 2010 would be more than in 2008, while 42 percent reported that their income would be the same or less.

#### 4. Conclusion

This paper aims to assess the economic impact of the global financial crisis on vulnerable workers in Cambodia. Since earlier this year, a few rapid assessment studies [Kang *et al.* 2009; Jalilian *et al.* 2009] on the macroeconomic impact of the crisis

showed that the impact would be severe due to a contraction in garments, tourism and construction. However, we have found that the crisis hit garment workers hardest, because the garment sector relies heavily on US and EU demand, and the other nine groups less substantially. For tourism and migrant workers, qualitative analysis indicated that the two groups' livelihoods had dramatically worsened. In response to the global economic downturn, the government of Cambodia has implemented a number of policies for the garment sector including the suspension of the monthly turnover tax of 1 percent on factory expenditures, the reduction of 10 percent in export management fees and other costs and short-term vocational training for laid-off and unemployed workers (see Jalilian *et al.* 2009 for details). The outlook for daily earnings in 2010 is gloomy.

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