

THE IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON POVERTY

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INTRODUCTION

The global financial and economic crisis, which originated in the United States in 2008, quickly spread to many countries around the globe, including developing countries such as Cambodia. The crisis is predicted to add 53 million people below the international poverty line of USD1.25 a day and 64 million under USD2 a day (Chen and Ravallion 2009). In Cambodia, several studies have attempted to measure the impact of the global financial and economic crisis on poverty (Tong et al. 2009; ADB 2008; World Bank 2009). They all report that the number of poor has increased significantly compared to the pre-crisis period, but their findings are limited by some methodological shortcomings. For example, Tong *et al.* (2009) did not take into account the effect of idiosyncratic shocks that can also lead to a rise in poverty. This study aims to control for idiosyncratic shocks and other unobserved factors that affect poverty, thus providing insights and deepening understanding of the impacts of the economic crisis on poverty.

METHODOLOGY

The study uses four-round panel data of 793 households in nine rural villages collected by CDRI in 2001, 2004–05, 2008 and 2011. Both descriptive and econometric analyses were employed to measure the change of poverty headcount in the selected villages. The descriptive analysis provides an overview of household welfare changes in our sample, but it does not completely fulfil our main objective of understanding the effects of external shocks on consumption and poverty because rural households are frequently hit by individual-specific

shocks that also push them into severe hardship. To complement our descriptive analysis, econometric modelling is used to derive the exact welfare change caused by external shocks.

FINDINGS

On average, the poverty headcount ratio was 43.9 percent in 2001 and remained almost unchanged in 2004 at 43.8 percent before dropping significantly to 27 percent in 2008. The poverty rate in 2011 was 41.2 percent—52.6 percent higher than in 2008 and only 6.2 percent lower than in 2001. This sharp increase in poverty rate between 2008 and 2011 is largely due to economic contraction and idiosyncratic shocks. The combination of covariate and idiosyncratic shocks not only pushed a certain number of the rural population into poverty but also made the poor poorer, though their poverty tends to be less severe than in 2001 and 2004.

We note that the poverty headcount among agricultural households is higher than non-agricultural households in all years. Similarly,

Table 1: Poverty Headcount Ratio 2001–11 (%)

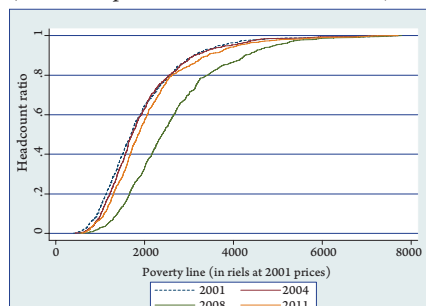
		2001	2004	2008	2011
Gender	HHH female	48.0	52.2	30.2	50.1
	HHH male	43.1	42.0	26.3	39.2
Occupation	HHH non-agriculture	41.2	43.2	25.6	40.4
	HHH agriculture	47.1	44.8	29.4	43.1
Education	HHH no school	52.1	55.2	30.3	41.8
	HHH primary	44.8	45.1	30.8	45.8
	HHH secondary/higher	32.0	24.6	13.8	29.8
All villages		43.9	43.8	27.0	41.2

Source: CDRI household survey data (2001–11)

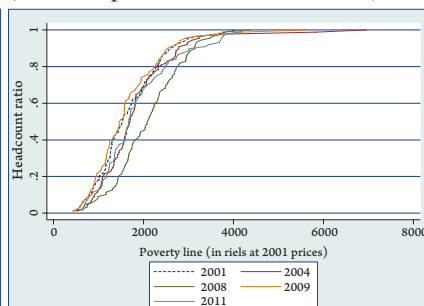
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Figure 1: Poverty Incidence Curve

(A. Full sample of 793 households, 2001–11)



(B. Sub-sample of 90 households, 2001–11)



Source: CDRI household survey data (2001–11)

female-headed households tend to be poorer than male-headed households. As expected, households with a head educated at secondary school or higher are less poor than those with a non-educated head or head educated at primary school only.

To examine the sensitivity of our results to the choice of poverty line, we adopted a stochastic dominance approach, drawing poverty incidence curves for each of the four years. If the poverty incidence curve of one year lies completely above another, the incidence of poverty is higher regardless of the choice of poverty line or poverty measure.

The result confirms that the poverty headcount ratio in the nine selected villages in 2011 had definitely increased compared to 2008 (Figure 1A). Our evidence further reveals that the poverty ratio in 2011 is lower than in 2009² (Figure 1B)—suggesting that food and oil price increases and the global financial crisis hit Cambodia's economy the hardest in 2009, and the economy has since started to recover slowly. The lack of household data in 2009 and 2010 could possibly conceal the effects of the crisis on household welfare in rural Cambodia. Econometric modelling reconfirms that, holding other factors constant, the global financial and economic crisis is likely to have increased the poverty headcount ratio by 37 to 44 percent. Given that the external shocks hit Cambodia's economy hardest in 2009, the increase in poverty rate due

to the crisis could be even higher.

CONCLUSION

Our study highlighted that poverty increased significantly when the global financial and economic crisis hit Cambodia in 2009. This result indicates that the majority of Cambodians have a living standard

slightly above the poverty line and are vulnerable to external shocks such as food and oil price increases or the global financial crisis. All types of household seem to be affected by the crisis. We observe that livestock has become an important factor in preventing households from falling into poverty, though its share in total income has declined over time. Children aged 7-14 are more likely to engage in economic activities than in the pre-crisis period. This evidence suggests that informal coping strategies have played a critical role in preventing households from falling into poverty. At the same time, it indicates that the large majority of Cambodians are in need of effective insurance schemes. It is extremely important to have national representative household panel data in order to monitor poverty and other relevant issues.

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² A mini-survey of 90 households was conducted in May 2009 in the same nine villages in order to investigate the effects of the global financial crisis on rural households in Cambodia (Tong et al. 2009).