



Poverty and Covid-19 in Cambodia: Lessons and Future Preparedness

1. Introduction

The Covid-19 global health crisis has caused ongoing economic concerns. It exacerbated pre-existing issues and diminished Cambodia's poverty reduction efforts with evidence of both impoverishment and destitution. In multiple ways, poverty and the pandemic put more strain on people's livelihoods and on the relationships between agriculture, migration, debt, education and other tightly interwoven sectors.

This policy brief aims to provide a synthesis of selected key research findings and emerging themes from two studies under the Poverty Monitoring Initiative Project (PMI): 1) *Cambodia Poverty Dynamics and Covid-19* (Bird et al. 2022), and 2) *Poverty and Well-Being Before and During Covid-19 in Cambodia: An Assessment of Trends and Correlates* (Diwakar, Roth, and Kamninga 2022), while also drawing on the *Cambodia Poverty Assessment: Toward A More Inclusive and Resilient Cambodia* (World Bank 2022).

In addition, feedback and policy discussions from the March 2023 consultation workshop, 'Poverty and Covid-19: Lessons and Future Preparedness,' informed this brief. Invited key speakers and participants, representing the national and subnational government, selected international organisations and civil society organisations, shared research evidence and practical experiences from their respective fields of work. A key theme of the workshop focused on future preparedness for the next crisis.

2. Key policy messages

Pre-Covid-19 Poverty

Cambodia's national poverty rate declined by almost half from 2009 to 2019.

Cambodian's national poverty nearly halved in one decade, dropping from 33.8 percent in 2009

to 17.8 percent in 2019/20 (World Bank 2022).¹ The depth and severity of poverty also declined. Poverty nevertheless remained geographically varied and a rural phenomenon in 2019/20, with an overall poverty rate of 22.8 percent in rural areas as compared to 4.2 percent in Phnom Penh and 12.6 percent in other urban areas. Additionally, there was a predominant concentration of poor people in the more densely populated northwest and southeast provinces. Staying poor was linked with high dependency ratios, rural landlessness and dependence on casual labour (Bird et al. 2022). The association between female headship and poverty more generally remains inconclusive.

One of the drivers of poverty reduction is structural change toward higher-productivity and better-paying sectors, with workers moving spatially from rural areas to towns and cities. Non-farm labour earnings growth, such as that from services and industry, contributed most directly to poverty reduction. Empirical studies point to positive and significant effects on poverty reduction from access to basic services for rural households, such as electricity, drinking water and infrastructure. Education of the household head and that of other household members has further been found to be associated with poverty escapes, particularly where the household head has completed secondary education or higher.

Many Cambodians nevertheless remained near-poor and vulnerable in 2019/20

The 15 percent of Cambodians who are considered near-poor are non-poor with marginal incomes above the poverty line in 2019/20 (World Bank 2022).² The near-poor remain in a precarious position and thus vulnerable to falling under the poverty line when there are global challenges, such as the pandemic or

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1 The Royal Government of Cambodia (RGC) re-defined national poverty lines using data from the Cambodia Socio-Economic Survey (CSES) 2019/20. The new national poverty line for Cambodia is KHR 10,951 per person per day. Considering cost-of-living differences between locations, this translates to KHR 10,951 in Phnom Penh, KHR 9,571 in other urban areas and KHR 8,908 in rural areas.

other negative shocks. Careful attention and policy actions also directed to the near-poor are thus critical.

Covid-19 Poverty

The poor are experiencing income losses and facing downward mobility

The pandemic and related public health measures have undercut the very sources of poverty reduction (Bird et al. 2022). Income loss during the pandemic was widespread, with many seeing substantial declines. Falls were proportionally greater amongst households in the bottom two quintiles. At least 83 percent of poor households reported an income decline in May 2020, declining to 44 percent in March 2021, suggesting that the income situation of poor households was improving, but that there was not a full recovery from the loss. Income losses remained severe even by March 2021, pointing to decline of income for those who were already poor (Diwakar, Roth, and Kamninga 2022). Diverse livelihoods supported resilience during the pandemic, and households with diversified livelihoods were less vulnerable to downward mobility and destitution (Bird et al. 2022).

The pandemic has caused significant issues in agricultural livelihoods

Agricultural livelihoods have historically been closely connected with migration, with farm households relying on remittances for financing farming operations. The disruption of migration during the pandemic deepened indebtedness as farm households strived to keep their operations going. Rising agricultural input prices (e.g., pesticides, oil and fertiliser during the agricultural value chain pandemic disruptions) push more debts and prompt more households' decisions to abandon their farmland (Bird et al. 2022). Even better-off households live on fine margins and the multiple shocks brought about by the pandemic have set back hard-won gains.

Reduced demand for casual labour, together with reduced casual labour wages, has left the pre-pandemic rural poor and landless households particularly vulnerable. During the outbreak, medium-sized farming households developed mutual aid strategies amongst their peers which meant they no longer hired the poor to help on their farms.

The pandemic's impact on income loss affected mobile street vendors the most compared with migrant workers in the garment and construction sectors. This is because vendors relied on workers for business, but many began to buy food on credit without being able to pay.

Disruption in learning and increased school drop-outs

An important consequence of the pandemic was lost education. This is particularly worrying as having secondary or more education protected households from poverty pre-pandemic.

During the pandemic, widespread education disruptions affected children from rural and poor households the most. Many children were unable to access learning during school closures, as their parents did not have smartphones or could not afford access to data. Many children struggled to concentrate on lessons accessed via mobile phone and parents were often unable to support home schooling, as they needed to work. Even after schools reopened, the intensity of engagement amongst poorer households has remained low, with many young people deciding to drop out and migrate in search of work (Bird et al. 2022). Most recent data points to an increase in the number of children working in July 2021 compared to March 2021 (Diwakar, Roth, and Kamninga 2022).

Cost and benefit analysis, or trade-off decisions, between health measures, school closures and other socioeconomic effects are crucial to inform future risk-related decisions.

Borrowing emerged as an adverse coping strategy

Households were forced to rely on a range of coping strategies, especially reducing their daily food consumption and the costs of social activities, such as wedding ceremonies, switching their children's school to lower tuition fees, and to migrate from one place to another place to find more income and a job. By gender, women-headed households were more likely than men-headed households to rely on support, such as food, from friends at the onset of the pandemic (Diwakar, Roth, and Kamninga 2022).

Additional borrowing emerged as a key strategy amongst poor and vulnerable households to cope with the pandemic and sudden income loss. Increasing borrowing by poor households is a short-term solution that could leave a prolonged negative impact. Increased debts further undermine households' food consumption and nutrition intake, drive migration and tend to push more children from poor households to drop out of education. The worst impacts can be difficult to observe and may take time to be revealed. These would include land sales, which have been substantial, according to findings (Bird et al. 2022).

Expanded social protection to mitigate losses in income, with some drawbacks

Cambodia was fairly exceptional among low- or middle-income countries (LMICs) in the extent

to which it mitigated public health measures, such that people's livelihoods were less destroyed. These were through furloughs provided in the garment and tourism sectors, additional social protection measures and an effective vaccination campaign (Bird et al. 2022).

Systematic assistance to poor households was introduced in 2006 through a program called IDPoor program/ health equity fund program, and it continues to provide services and assistance to the poorest and most vulnerable households from the government and other organizations. Recipients receive free public health care services, social protection from the government (e.g., cash transfer program), scholarships, meals at primary schools, education, vocational skills training, electricity, installation of a clean water system and agricultural equipment.

Cash transfers were provided for the most vulnerable households affected by varied and overlapping crises, such as lockdowns, pandemic impacts, flooding and inflation. The roll-out of cash transfers eventually reached many ID Poor households. This improved well-being but disbursements may have been inadequate, meaning that food insecurity remained.

There were regional variations in social protection coverage, with the Tonle Sap area being disadvantaged. There were also reported problems with targeting and weak objectivity in the identification of ID Poor households by local political leaders in some communities.

3. Policy issues

As drawn from the findings and workshop discussions, there are a few areas that need re-analysing to build local resilience and prepare for future crises. First, the implementation of the IDPoor programme caused some barriers for near-poor households, which were considered as non-poor households. They wished to gain the same benefits as those who hold the IDPoor card. Despite remaining in vulnerable positions, they did not receive training or other support, as they were not targeted for the programme.

Second, Microfinance institutions (MFIs) and banks need to carefully reassess the repayment capacity of local borrowers and avoid providing loans too easily, which can cause more problems than benefits for borrowers. The National Bank of Cambodia (NBC) has adopted some financial regulations, including the establishment of interest rate cap, a consumer complaint hotline and most notably a new directive on loan restructurings to reduce financial burdens on borrowers during Covid-19. Meanwhile, MFIs and banks have also adopted self-regulatory codes

of conduct, particularly on a consumer protection framework and lending guidelines. However, these self-regulatory measures usually failed to protect Cambodia's borrowers (Bliss 2022).

Third, the unintended consequences of dual cash transfers for those affected by inflation and flooding need to be considered in the future. Those who were not targeted for cash support perceived they were the most impacted but felt less supported by the Cambodian government.

The pandemic signals a significant need to have a people centred-approach. Hence, different views and involvement from different actors in making and implementing decisions are vital. The same goes for the voice and opinions of the poor and the most vulnerable groups. This suggests that local governments who are usually better-informed about local people's needs and concerns have a significant role to play in strengthening local participation and engagement.

Key concerns and requests expressed during the consultation workshop:

Poor people's enhanced vulnerability: Pre-existing vulnerabilities such as debt, chronic illness and low income remain challenges amongst the poor. Intensified further by the pandemic, these problems have even become worse for their livelihood. As they have hardly recovered from these challenges, they are genuinely concerned about the end of the cash transfer programme reported by commune chiefs and councillors in the workshop. This concern is consistent with the World Bank's emphasis on the risks of poverty in the long run despite economic recovery.

Garment workers need long-term support: There is a demand for long-term support in the garment sector since the sector is already vulnerable to disruptions in the global supply chain. One qualitative interview conducted in December 2022 in Phnom Penh raised a concern over factories being shut down.

Key sector challenges: Commune chiefs and councillors demand more technical skills and irrigation project training for rural farmers. Current training with limited technical agriculture staff hardly reaches people's needs and demands. Secondly, conflict over loans between borrowers and MFIs, as well as easy-access loans need to be well-regulated based on strict assessments of borrower's repayment capacity. Thirdly, there is a concern over school drop-outs partly resulting from their family's economic pressure on them to generate income during the pandemic.

Need for more preventive approaches: The Ministry of Planning highlighted that research should focus on what more needs to be done in the future since the Cambodian government has already taken positive interventions to mitigate the effects of the restrictions

imposed during the pandemic. A representative of The National Committee for Disaster Management emphasised the current approach tends to focus more on a responsive approach. A preventive approach would have put measures in place to avoid the hardships experienced by ordinary Cambodians and expand disaster insurance coverage amongst the poor as stipulated in National Action Disaster Risk Reduction 2019-2023 (RGC 2019).

Risks of persistent poverty despite the economic recovery: The World Bank and CDRI researchers raised concerns about the risks of persistent poverty despite the economic recovery, partly because of the spatial disparities in development. The current cash transfer programme is necessary but not sufficient for the poor. The poor have developed autonomous coping strategies that have long-term negative impacts on their livelihoods, such as taking more high-interest loans from both the informal and formal sectors.

4. Policy recommendations

The pandemic impact exacerbated other crises with multiple adverse effects on sectors such as health, education, financial services, especially microfinance, agriculture, economics and garment-production. The specific policy recommendations draw from the Poverty Monitoring Initiative with an overarching aim to prevent poverty incidence and tackle chronic poverty that can be considered for future preparedness:

- Developing climate-smart agriculture and relying less on agrochemicals and more effective management of natural resources. This includes expanded irrigation and investing in and promoting local agro-processing.
- Developing comprehensive and adequate social protection coverage and building resilience, especially for the poor, who usually engage in the informal sector as an instrument to minimise economic and health risks. For instance, social assistance from the government, although it is not sufficient, shall be continued for the time being until the assets and skill transfer programme are well-implemented.
- Putting forward more financial regulations, especially the current practice of easy-access loans, is needed to protect people from indebtedness. This could be reforming and regulating the quality of financial services.
- Capacity-building to provide the right technical skill, knowledge and management of disaster-

related risks and climate resilience should be available to both local governments and people.

- Cost and benefit analysis or trade-off decisions between Cambodia school closures against education and learning loss and other socioeconomic impacts is crucial to inform risk-related decisions for future pandemics. Switching to online and remote learning impacts rural poor children the most due to the lack of family resources and internet disparity between urban and rural areas, especially in remote areas.
- Continue improving human capital by investing more in health and education. The healthcare system needs to improve in both quality of service and the capacity of service providers, as well as more health financing. Specifically, expanding cost coverages of health equity funds would improve healthcare access for the poor.
- Crisis management through dual cash transfer programmes for victims of Covid-19, flooding and inflation need to be well-designed based on risk and benefit sharing for those households and individuals at risk but not covered under the programme.

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