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**The Impact of the Global Financial and Economic Crisis on the Poor and Vulnerable in Cambodia\***

The impact of the global financial and economic crisis is still unfolding. Although the initial apocalyptic scenarios did not materialise and are unlikely to do so in the foreseeable future, it nevertheless has had a serious impact on the livelihoods of the poor and vulnerable everywhere, including in Cambodia. In Cambodia the main transmission channels for this have been the adverse effects on core economic activities, including garments, construction and tourism. Agriculture to a large extent seems not to have been affected much, recording healthy growth over the period.



*One effect of the economic crisis on livelihoods: fewer customers for cyclos and moto taxis in Phnom Penh*

The root causes of the crisis lie in the financial crisis that started in US; there are debates as to when this began. A lax regulatory framework in the US and elsewhere, combined with the complex web of interdependence between large international financial institutions, made this a global financial crisis, which became a serious economic crisis shortly afterwards. The spread of the financial crisis was limited by the extent of countries' participation in international financial markets; those with limited or no links were not much affected. However, after a short spell, the financial crisis generated several economic crises, resulting in a slowdown in international trade and the flow of international resources, including FDI and ODA. Given the extent of exposure and dependence of many developed and developing countries to international trade, FDI and ODA, the impacts on their economies have been severe. For a country such as Cambodia, where over 80 percent of export earnings come from garments, any reduction in trade in garments is likely to have a severe impact on economic activities in general

and particularly on production and employment in this sector. This slowdown in turn directly and indirectly affects the livelihoods of those who are employed or supported by those employed in the industry. Add to this the reduction in tourist arrivals and slowing of construction partly due to a reduction in FDI, and the adverse effects of slower economic activity in major trade partners on the well-being and livelihoods of the vulnerable and poor in Cambodia have been considerable.

The global financial crisis and the Asian financial crisis of 1997 highlight the importance of control

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\* Hossein Jalilian, CDRI director of research, introduces this special issue of CDR on impact of the global financial and economic crisis on the poor and vulnerable in Cambodia.

# Vulnerable Workers Survey in Phnom Penh, Kandal, Kompong Speu, Siem Reap and Battambang\*

## 1. Introduction

This paper attempts to assess the economic impact of the global financial crisis on vulnerable workers in Cambodia. The study focuses mainly on the effects of the crisis on real daily income, real daily consumption and the perspective for these in the coming year. The data are based on a survey conducted since 2003 in Phnom Penh, Kandal and Kompong Speu and in May 2009 in two additional locations (Siem Reap and Battambang) as well as four focus group discussions.

A few studies have attempted to assess the impacts of the global financial crisis on the Cambodian economy at macro, sectoral (agriculture, garments, tourism and construction), labour market and household levels. Rapid assessment studies (Kang *et al.* 2009; Jalilian *et al.* 2009) released earlier show that the macroeconomic impact will be severe due to the contraction in garments, tourism and construction. The most severe impact is in the garment industry, 14 percent of the total of 350,000 workers having been laid off between September 2008 and mid-March 2009 because of a considerable fall in exports. The number of tourist arrivals slowed, recording a negative annual growth rate for six consecutive months from October 2008. In Siem Reap, Cambodia's tourist hub, many hotels have a low occupancy rate, and some luxury hotels have temporarily shut down. Staff are taking unpaid leave or being temporarily laid off.

The IMF has projected a 5 percent fall in the sector, citing less world demand for travel. Construction is also set to decrease severely as foreign investors in real estate are either scaling back or suspending large projects due to a credit crunch at home. Agriculture is expected to grow significantly in volume, offsetting declines in the rest of the economy. Kang (2009) reported a fall in

household income as migrant workers' remittances decline.

The previous studies have attempted to assess the impact of the global financial crisis on the Cambodian economy by using descriptive analysis and focus group discussions. It is unlikely that these approaches can provide a clear picture given events such as food price increases, a serious border dispute between Cambodia and Thailand and idiosyncratic shocks that occurred in 2008. We will apply a simple quantitative technique that can be used broadly because it relies on common surveys to estimate the impact on individual incomes and consumption.

## 2. Method and Limitations

CDRI has been conducting a quarterly survey of four selected vulnerable worker groups—cyclo drivers, porters, small vegetable traders and scavengers—in Phnom Penh since 1998. The survey was enlarged in 2000 to cover six other groups: motorcycle taxi drivers, unskilled construction workers, skilled construction workers, waiters/waitresses, garment workers and rice-field workers (Kandal and Kompong Speu province). The total sample is 480—120 garment workers and 40 in each of the nine other groups. In the May 2009 survey, which was partially funded by the World Bank, CDRI included two additional groups: migrant workers (20 interviews in Battambang) and tourism workers (20 interviews in Siem Reap), increasing the total sample size to 520. In addition to the structured survey, four focus group discussions were conducted with tourism workers and migrant workers to examine the impact of the crisis on households in Siem Reap and Battambang province, respectively. The sample was purposively selected at the location, largely in urban areas, and consisted of currently employed or self-employed workers; hence, the results are not representative of each economic activity and unable to determine which economic sector has absorbed laid-off workers e.g. garment workers.

To capture the impact of the crisis on the 10 selected groups, we assume that the survey data

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Table 1: Average Real Daily Earnings (in riels at November 2000 prices)

		Cylo drivers	Porters	Vegetable traders	Scavengers	Skilled construction workers	Unskilled construction workers	Motor taxi drivers	Waitresses	Rice field workers	Tourist sector workers	Migrant workers	Garment workers
2003	Feb	8932	7378	7039	3762	12,135	5983	11,068	4475	4053	NA	NA	8634
	May	9281	7713	6471	3495	12,929	6920	9583	4233	3599	NA	NA	7825
	Aug	9075	7007	6636	4749	12,332	7369	10,592	4374	4498	NA	NA	8692
2004	Nov	9494	6286	6393	3774	16,345	6020	9671	4290	4304	NA	NA	8634
	Feb	9168	8527	7166	4645	13,297	6998	10,864	4723	4582	NA	NA	8045
	May	8000	7452	7241	4387	11,822	6505	8534	4257	4095	NA	NA	8066
2005	Aug	7632	6625	6650	4770	13,527	6095	8950	4591	4310	NA	NA	7986
	Nov	5670	5094	6755	4024	12,117	5967	8688	4185	3944	NA	NA	8098
	Feb	8529	6965	6386	5382	14,367	5712	11,790	4538	4174	NA	NA	7983
2006	May	7726	7067	8575	5315	12,304	8374	11,411	4295	4269	NA	NA	6365
	Aug	7857	6004	5939	4335	10,274	6069	9407	4647	4291	NA	NA	7613
	Nov	8229	6902	10,058	5636	11,253	6692	9774	3893	4746	NA	NA	7475
2007	Feb	7873	6520	6187	4984	11,750	5974	8885	4670	4790	NA	NA	7990
	May	8546	7375	6492	4512	9834	6407	8791	4243	5577	NA	NA	6814
	Aug	6064	5239	5197	4266	9467	6029	6744	4292	5111	NA	NA	8029
2008	Nov	7394	7046	7682	3903	10,215	5263	8386	4443	5747	NA	NA	7762
	Feb	6535	7996	6514	4530	10,355	5094	9144	4078	5011	NA	NA	8211
	May	9246	9798	8949	5533	11,892	6075	12,887	5151	5236	NA	NA	7205
2009	Aug	7128	7705	9116	6063	11,410	5901	8979	4193	5578	NA	NA	7828
	Nov	9393	8853	8303	5560	10,957	7550	11,525	4508	6239	NA	NA	7029
	Feb	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
2009	May	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	Aug	12,628	9005	9926	4652	12,710	8779	15,691	4327	8697	NA	NA	6554
	Nov	8506	10,442	7589	5153	11,732	6095	11,613	4268	7021	NA	NA	6732
2009	May	7884	9144	8652	5881	12,129	8823	10,765	3851	6315	9868	6009	5929
	Aug												
	Nov												

Source: CDRI Survey Data

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## Impact of...

and regulation of the financial sector. At the same time, they also put into question the approach adopted by many developing countries, with encouragement from major players such as the IMF and World Bank, of trying to copy the development of financial and capital markets of much more developed economies without having the necessary prerequisites. Instead of attempting to develop a simple, locally oriented financial sector, for example, many developing countries have relied on highly leveraged international financial institutions. They have tried to set up sophisticated capital markets, including stock exchanges, without fully considering local development needs and associated costs and benefits. Cambodia badly needs locally driven financial institutions that can mediate between savers and borrowers, particularly in rural areas, without getting involved in more sophisticated and complex financial intermediation. It is not clear whether, at its present stage of development, the country would gain anything by setting up a stock exchange as planned. Obviously, in the long run, this and other capital markets are needed, but it is questionable whether they will be at any time in the near future.

Recently CDRI conducted on behalf of the World Bank a rapid assessment of the impact of the crisis on the livelihoods of the vulnerable and poor in Cambodia. The articles that appear in this issue of CDR are based on a number of the research themes of the study, which has been conducted since May 2009. As is to be expected, some of the findings based on quantitative analysis do not confirm those found using qualitative analysis and particularly those derived from focus group discussions. This may highlight some of the limitations of the rapid assessment, given the limitations of time and other resources, and the consequent need for further detailed investigation.

collected in February and May 2007 are reflective of the before-crisis period, and February and May 2009 the after-crisis period. This is mainly due to the unavailability of survey data from February, May and August 2008. We used a simple regression technique (ordinary least squares) to estimate the impact of the crisis on real daily income, consumption and debt. Because this study is interested in knowing the effect of the global financial crisis on the livelihood of vulnerable workers, other factors—such as age, sex, education, household size and working experience—are held fixed. Otherwise, we cannot know the effect of the economic downturn on the living standard of vulnerable workers. For this reason, our method should be able to produce more accurate results than descriptive analysis. Given the various recent events mentioned above, however, our approach could not decompose covariate and idiosyncratic shocks' effect.

To convert daily income or consumption into real terms, we divided nominal daily income or consumption by the consumer price index published by the National Institute of Statistics for February 2003–November 2008 and estimated by CDRI for February and May 2009.<sup>1</sup> We assume that the annual inflation rate was 6.5 percent in February and 6.4 percent in May 2009.

### 3. Empirical Analysis

The survey for May 2009 found that the real daily income of all nine non-garment worker groups was around 8155 riels, a decline of 1.8 percent from May 2007. However, scavengers, skilled construction workers, unskilled construction workers and rice field workers experienced an increase in real daily earnings.

Quantitative analysis suggests that the real daily income of the nine non-garment groups had increased by 12 percent compared to the pre-crisis period. Of the nine groups, only porters, scavengers, unskilled construction workers and rice field workers had statistically increased their daily income, while other groups' remained unchanged.

During the same period, the real daily consumption of the nine non-garment workers also increased by 26 percent—14 percentage points more than real daily income. The increase was reasonable because the share of consumption in income rose only from 46 percent to 51 percent—leaving room for welfare improvement. Due to both real daily income and consumption increasing, the proportion of vulnerable workers in debt after the crisis was relatively small,<sup>2</sup> suggesting that the impact of the crisis on the nine groups is not yet substantial.

To obtain the views of vulnerable workers on their daily earnings, the survey asked respondents to state whether their daily earnings in 2010 will be different from what they were in 2008. Twenty-one percent of workers said that their daily income in 2010 would be more than in 2008, while 35 percent said that it would be the same or less; 43 percent did not know.

The real daily income of the two additional groups (tourism workers and migrant workers) amounted to 9868 riels and 6009 riels respectively. Tourism workers spent an average of 5735 riels on daily expenses, while migrant workers spent only 1507 riels—the lowest amount among the 11 groups. Ten out of 20 tourism workers reported that they were in debt, while only four migrant workers reported this. Seven out of 15 returned external migrant workers said that there were no jobs available for them in Thailand. Our FGD in Andoung Trach noted that some villagers have to let their children miss school or drop out completely so that they can look for frogs, snails, crabs and fish in nearby ponds and paddy fields. Forty-two percent of tourism workers and migrant workers expected to have a lower income in the next three months; 37 percent said that their daily income in 2010 would be more than in 2008. As noted, the study sample is relatively small, so generalising from this finding would be misleading.

The real daily earnings of garment workers fell 18 percent to 5929 riels in May 2009—their lowest level since February 2003—down from 7205 riels in May 2007. This largely reflected a decline from 60 working hours per week before the crisis to 52

<sup>1</sup> According to the NIS, CPI in Phnom Penh for December 2008 backward is based upon a December 2000 base of 100 and for January 2009 onward is based upon October–December 2006 base of 100. Due to the inconsistent base year, we have estimated CPI for February and May 2009. All vulnerable workers' nominal value—including rice field worker was deflated by NIS's CPI and estimated CPI.

<sup>2</sup> A simple t-test confirms that the number of vulnerable workers in debt increased by 8 percent and was statistically significant at the 1 percent level.

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