

Implications of the Global Recession on Poverty and Social Development in Cambodia¹

Background

The global financial crisis became visible in September 2008 with the failure of several large financial firms based in the United States. It has spread into many countries across the globe, including developing countries such as Cambodia.

With financial and technical support from the Overseas Development Institute and the World Bank, CDRI has conducted an assessment of the impact of the global financial crisis at macro (Jalilian *et al.* 2009), sectoral (agriculture, garments, tourism and construction) (Jalilian *et al.* 2009), household (Tong *et al.* forthcoming) and individual levels (Tong *et al.* 2009). This paper highlights the key findings and examines the public sector response to date.

It has been widely acknowledged that the impact of the global economic downturn on Cambodia's economy is severe, mainly due to the contraction in garments, tourism and construction. The most severe impact is in the garment industry, 18 percent of its total of 352,000 workers (many of them women) having been laid off between September 2008 and May 2009 because of a considerable fall in exports. According to the National Institute of Statistics, this sector employs 4 percent of the total workforce and accounted for 38 percent of total employment in manufacturing in 2007.

The number of tourist arrivals in the first half of 2009 amounted to 1,086,518—roughly the same as in the first six months of 2008, and an increase of 12 percent from January–June 2007. However, tourism experienced a contraction at an average of 3.9 percent per month for six consecutive months from October 2008 to March 2009. As a result, many hotels had low occupancy rates, and some luxury hotels temporarily closed. Hotel staff are taking unpaid leave or are being temporarily laid off.

Construction activity is also set to decrease severely as foreign investors in real estate either scale back or suspend large projects due to credit crunches at home.

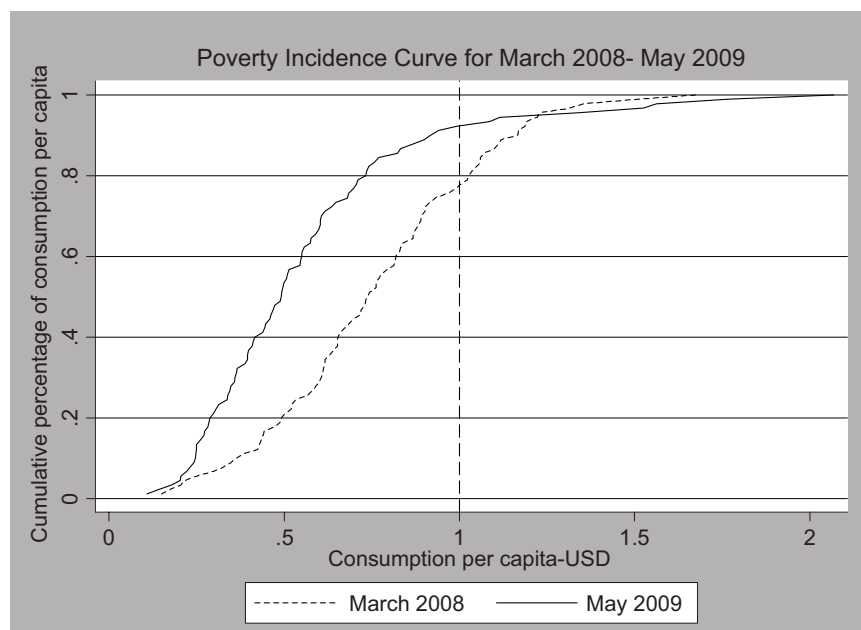
The Impacts of the Crisis on Poverty

The poverty headcount was estimated in 2007 to be 35 percent in rural areas, compared with 0.8 percent in Phnom Penh and 22 percent in other urban areas (World Bank 2009). The country's overall rural poverty line was equivalent to USD0.58 in 2007 (World Bank 2009). Based on the international poverty line with purchasing power parity, about 40.2 percent of the Cambodian population of 13.8 million lived below USD1.25 and 68.2 percent below USD2 per day in 2004 (Bauer *et al.* 2008). Since poverty in Cambodia is heavily rural based and most rural activities are agricultural, it is important to consider the effects of the global financial crisis on the rural economy and agriculture.

Agriculture accounted for an estimated 27 percent of GDP in 2007, and about 59 percent of the population is estimated to rely on this sector for their livelihood. Over the past decade, agriculture has been growing at an annual rate of 4.6 percent compared to 13.1 percent for hotels and restaurants (a proxy indicator for tourism), 25.4 percent for textiles, clothing and footwear (a proxy indicator for garments), 13.9 percent for construction and 9.1 percent for the total economy. Offsetting the declines in the rest of the economy, agriculture is expected to grow significantly in volume this year and is unlikely to be much affected by the global financial crisis (Jalilian *et al.* 2009).

To assess the impact of the global financial crisis on Cambodian households, CDRI in collaboration with the World Bank conducted a panel 90-household survey in Poverty Dynamics Study research sites in May 2009. The data, collected in nine rural villages in seven provinces in March 2008 and May 2009, revealed that both per capita income and per capita consumption shrank significantly during the period, by around 30 percent and 23 percent, respectively.

¹ This article is a policy brief prepared by Tong Kimsun, programme coordinator in the Economic, Trade and Regional Cooperation Programme of CDRI, for the Asia Regional Conference held 28–29 September 2009 in Hanoi, Vietnam.

Figure 1: Poverty Incidence Curve for March 2008 and May 2009

Source: CDRI survey of 90 households in nine villages in March 2008 and May 2009

While there was no significant change in residential or agricultural landholding size, the value of non-land assets fell by 38 percent over the same period, durable assets declining by 30 percent and livestock by 45 percent. As a result, the poverty incidence increased in 2009, using the poverty line of USD1² (Figure 1).³

For urban areas, a survey of daily earnings of vulnerable workers in Phnom Penh and two other provinces conducted by CDRI over several years reveals that the crisis hit garment workers the hardest, because the garment sector relies heavily on US and European Union demand.⁴ More precisely, the real daily earnings of garment workers fell 17 percent between February–May 2007 and February–May 2009. This largely reflects a fixed wage rate, a decline of working hours and

a high inflation rate. Despite this fall in earnings, real daily consumption increased by 14 percent during the same period, possibly due to sampling and measurement error. Meanwhile, real daily savings declined by 21 percent. Obviously, garment workers' daily consumption cannot be sustained if both real daily earnings and savings continue to decline.

The survey also reveals that average monthly nominal remittances from garment workers amounted to USD18.40 in May 2009, down from USD24.40 in February 2009, a decrease of 32 percent. This significant decline put great downward pressure on their relatives' livelihoods.

The crisis impacted on the other nine groups less substantially. It should be noted that the survey purposively selected currently employed or self-employed workers, so the results are unable to capture an overall view of the groups.

Focus group discussions held in May 2009 in Siem Reap province, Cambodia's tourist hub, confirmed that tourism workers, particularly hotel and restaurant workers, have been affected by the decline in tourist arrivals. Some staff have been encouraged to take unpaid leave or have been temporarily laid off, which means that they have to engage in informal jobs such as driving taxis or part-time English teaching. This kind of labour mobility

2 The 2007 rural poverty line was about 2006 riels, equivalent to USD0.49 using the exchange rate of 4063 riels per USD (World Bank 2009).

3 However, the sample size is small and cannot be taken to be representative.

4 Since 2000, CDRI has conducted a quarterly survey of 10 selected vulnerable worker groups: cyclo drivers, porters, small vegetable traders, scavengers, motorcycle taxi drivers, unskilled construction workers, skilled construction workers, waiters/waitresses, garment workers and rice-field workers.

Table 1: Strategies of Affected Households

	Percentage of households	
	March 2008	May 2009
Adaptive strategies ^a	3.13	5.56
Active strategies	81.25	94.4
Social network strategies ^b	2.5	13.8

a. Changing consumption pattern.

b. Assistance from friends, family and non-government and government organisations.

Source: CDRI survey of 90 households in nine rural villages in March 2008 and May 2009

has led taxi drivers and small traders to work even harder amid low demand.

Coping Mechanisms of the Poor and Vulnerable

The panel data show that in 2008 about 35 percent and in 2009 40 percent of survey households were hit by shocks, particularly idiosyncratic shocks. The affected households reported that they had spent an average of USD158 each to cope with these shocks. More than 80 percent of the affected households adapted to shocks by adopting active household strategies making use of physical, financial and human assets, including putting further household members into the labour force, working longer hours, selling assets, using savings, borrowing and migration (Table 1). However, there was no clear evidence that such strategies—particularly selling non-land assets, land, and livestock—were used in response to the crisis.

A different dataset collected in March and September 2008 covered 1003 households in the same nine villages and shed more light on households' coping mechanisms during food price increases.

As shown in Table 2, the consumption of non-food items dropped by 20 percent between March and September 2008,⁵ while food items declined by only 11 percent. Although food consumption fell in absolute terms, its proportion in total household expenditure remained unchanged, suggesting that households were restricting consumption of non-food items to preserve food consumption.

Despite the fact that different case studies yield different conclusions, they share a common message: rural households in Cambodia are likely to cope with the impact of shocks by themselves, adapting their activities and consumption and utilising informal community safety nets that are likely to diminish during hard times.

Government Policy Responses

To respond to the global economic downturn, the government introduced a stimulus package that included:

- increasing budget expenditure to offset the

⁵ Inflation reached 26 percent in May 2008, the highest level in three decades.

Table 2: Per Capita Real Consumption by Quintile (USD)

Quintile	Total Consumption		Food		Non-food		Total Consumption	Food	Non-food
	Mar 08	Sep 08	Mar 08	Sep 08	Mar 08	Sep 08	% change Mar-Sep 2008	% change Mar-Sep 2008	% change Mar-Sep 2008
1 (lowest)	0.53	0.48	0.42	0.38	0.11	0.10	-9.04	-8.99	-9.26
2	0.71	0.64	0.55	0.49	0.16	0.14	-10.45	-10.09	-11.64
3	0.85	0.76	0.65	0.58	0.20	0.18	-10.41	-10.88	-8.86
4	1.07	0.92	0.76	0.68	0.31	0.24	-13.68	-10.79	-20.86
5 (highest)	1.86	1.51	0.98	0.85	0.88	0.66	-18.94	-13.21	-25.29
All	0.97	0.86	0.67	0.60	0.33	0.26	-11.38	-11.16	-20.06

Source: CDRI survey data in nine rural villages, March and September 2008.

decline in private investment (to promote economic activity);

- suspending the monthly turnover tax of 1 percent on garment factory expenditures;
- a 10 percent reduction in export management fees and other costs;
- setting up the Agriculture Support and Development Fund for the private sector, especially small and medium enterprises, providing low-interest, short-term credit to farmers in order to increase agricultural productivity and food security;
- establishing the Prime Minister's Special Fund to provide short-term vocational training to workers who lose their jobs. Up to July 2009, 40,140 laid-off and unemployed workers had attended short-term vocational training by the Ministry of Works and Vocational Training, of whom 30,720 (76.5 percent) had been trained in agriculture and 9420 (23.5 percent) in industry and mechanics;
- negotiating with the World Bank to finance approximately USD13 million for various programmes associated with the social safety net.

However, it is widely recognised that the effect of these measures is unlikely to pass onto the poor and vulnerable groups in either rural or urban areas.

Recommendations for the Short and Medium Term

The role that policy makers, donors and NGOs take may well determine the final impact of the crisis on growth and poverty in Cambodia. The impact is likely to be severe for poor and vulnerable groups: because of their economic and social status, they are likely to be the first to suffer from any sort of shock, either loss of job and income or diminished purchasing power due to price increases (Jalilian *et al.* 2009). Given the prevalence of these groups in Cambodia, it is particularly important to emphasise policies to assist them. In some countries, when faced with increased hardship, the poor are assisted (directly or indirectly) by their governments, donors and NGOs. This support may come in kind or in the form of price subsidies, food rations, food coupons, work for food, school meals etc.

The crisis not only results in high variability in living standards, but the lack of means to cope

with risk is a cause of persistent poverty. Therefore, both ex-ante and ex-post coping strategies, such as promoting credit and savings as insurance, as well as a credible social safety net, could play a very important role in protecting the poor and vulnerable. On the other hand, informal social insurance should be strengthened because poor and vulnerable groups could also use their local social capital to protect consumption from income fluctuations to some extent.

Conclusion

The impact of the global economic downturn on poverty and vulnerable groups is severe in both rural and urban areas. The immediate impacts appear to hit the poor through employment and remittances, and the impact is likely to worsen over the medium term due to weak formal ex-ante and ex-post coping strategies, informal social insurance and the lack of public response.

The government should be able to promote insurance to the poor by setting up a regulatory framework for micro-finance institutions and providing credibility to the social safety net system.

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