

# A Rapid Assessment of the Impacts of the Economic Crisis on Cambodian Households and Vulnerable Workers<sup>1</sup>

## Introduction and Methodology

Since the global financial crisis became apparent in September 2008, it has hit Cambodia's main growth sectors—garments, tourism and services, construction—the hardest. Contraction in these sectors resulted in the loss of thousands of jobs, dwindling savings and remittances and systemic risks among poor and vulnerable people. Pressure on the rural economy, mainly on agriculture, which was already stretched by a lack of investment, underdevelopment and a yield largely determined by natural conditions, has inevitably increased. Furthermore, Cambodia's narrowly based and less than vibrant rural economy leaves a large proportion of rural people with few livelihood options or means to survive the income and consumption shocks from the global recession. Although the government employed sound macroeconomic policies, Cambodia did not escape the global downturn. Ex-ante and ex-post coping strategies of poor and vulnerable people are relatively minor in comparison to the impacts. Particular policy responses to the impacts of the global financial crisis on Cambodia are likely to be slow, and uncertain development of its growth sectors will continue to affect people's livelihoods in the foreseeable future.

This assessment seeks to review: (1) the nature, causes and scale of changes in individual and household circumstances as the Cambodian

economy began to recover from the crisis, (2) the changes in coping strategies among different vulnerable groups and (3) the effectiveness and coverage of social safety nets.

This assessment is the fourth and final round of a study commissioned by the World Bank and conducted by CDRI in February 2010. The first three rounds were undertaken in May, August and November 2009 for a three monthly panel study, also in the provinces of Siem Reap, Battambang, Prey Veng, Kampot, Kandal, Kompong Speu, and Phnom Penh. It is a qualitative study that involved 17 focus group discussions (FGDs) with rural households in six different villages and 11 vulnerable worker groups in the three growth sectors: garments, tourism and services and construction. Due to the small sample size, the findings and interpretations cannot be extrapolated to all poor and vulnerable workers in Cambodia. However, they offer glimpses and insights into how recent economic shocks have impacted on vulnerable workers and poor households.

## Key Findings

### *Major Changes in Livelihoods and Implications*

Both positive and negative changes were reported within the past three months by the FGDs. These changes appear to derive from three main sources: (1) recent economic developments and the high cost of living, (2) natural conditions and (3) seasonal livelihood changes.

The recovery of garments, tourism and construction is emerging in parallel with the global economy. The FGDs reported positive change in work availability for garment workers in three of the visited factories, except for those working in the Mithona factory,<sup>2</sup> who said overtime work was not available.<sup>3</sup> The increased number of tourist arrivals in Siem Reap province suggests rising job availability and income for those in services (except for restaurant workers in Phnom Penh), tuk-tuk drivers and small traders.<sup>4</sup> There was a slight improvement in jobs for skilled construction workers due to an increase

1 This article was prepared by Kem Sothorn is a research associate, Theng Vuthy is programme coordinator and Chhim Chhun is a research assistant in CDRI's Poverty, Agricultural and Rural Development programme. The authors would like to thank Ms Khiev Pirom, Ms Phann Dalis and Mr Khieng Sothy for their contributions.

2 Located in sangkat Tuek Thla, Sen Sok district, Phnom Penh.

3 Garment exports in November 2009 totaled almost USD250 million, compared to around USD60 million in September 2009 (Economic & Monetary Statistics, NBC). The ongoing recession in the USA has huge implications for this industry (CDRI 2009 Nov).

4 The number of tourist arrivals in Cambodia by December 2009 was around 200,000 (CDRI 2009 Dec).

in small building projects and in activity on some major construction sites. However, no improvement was reported for unskilled construction workers, and some were even worse off. And, although all respondent groups and their families continued to endure a high cost of living and increased food prices, the food prices impacted more severely on cyclo drivers and unskilled construction workers.

High rice yields due to good rainfall were found in Kompong Tnaot, Ba Baong and Krasang.<sup>5</sup> Good harvests lead to increased agricultural income such that farmers are able to repay some outstanding loans and improve their consumption. It was consistently found in these three villages that the capital built up from agricultural income helped villagers to diversify their livelihood activities. But not all villages shared the same fortune. Unfavourable natural conditions, i.e. heavy rainfall during the harvest season and pest infestation, caused devastating rice losses. In Trapeang Prei<sup>6</sup> alone, the loss of rice to rats was around 30 percent compared to the yield in 2008. Inevitably, low rice yield and low agricultural income draw households into deeper hardship and make them susceptible to heavy debt. Off-farm paid work and remittances from family members working in garments or construction or in Thailand are another source of family income.

*“Those who have sons or daughters or other family members working in the city are far luckier than us. At least they have someone sending some money to buy food and pay for other family expenditure, so they are not so afraid of having nothing to eat even when there is not enough rice.”— Women in FGD in Trapeang Prei village.*

People in the study villages are mainly employed in local seasonal off-farm work in or near their village after the harvest. These are largely traditional forms of work in the villages and were not significantly impacted by the recession. For example, people in Kompong Tnaot could have a bigger catch from sea

fishing because there are no strong winds; others could work in salt production during the dry season. In Ba Baong and Trapeang Prei, people sold their labour carrying rice sacks, carrying soil and in palm sugar production. In the dry season there is a mass movement of skilled and unskilled construction workers from the countryside to urban areas; others migrate to work on farms in Thailand.

Two conditions appeared to impact on these migrant groups. First, as more people arrived in the city and sought work, job competition became greater, particularly among cyclo drivers and skilled and unskilled construction workers. This further lowered wages already affected by the economic crisis. Second, migrant workers in Andoung Trach (in Kompong Preah commune, Sangkae district, Battambang) and Krasang said that the increased use of agricultural machinery on Thai farms threatened their jobs. The global recession has also meant lower demand and prices for agricultural produce. This caused Thai farmers to abandon their crops and reduced their need for Cambodian farm labourers. These events affected both migrant workers and their families.

### *Changes in Employment, Income and Savings Job Availability*

In the study period, economic recovery, while modest, has had more direct impact on garments and tourism and some parts of construction. Garment and services workers confirmed that work availability barely changed compared to previous rounds. The resumption of some major construction sites in Phnom Penh benefited skilled construction workers. By contrast, the lower demand for unskilled construction workers in February continued, while the number of workers increased. Most had fewer than 10 days' work per month. There was no change in the number of working days for cyclo drivers and restaurant workers in Phnom Penh, but they reported fewer customers.

### *Wages*

Cyclo drivers and restaurant worker earned the same daily income as in round 3 if they worked an additional two hours every day. Unskilled construction workers received lower wages: 13,000 riels per day, or 10 percent less than in the previous three-month assessment. Similarly, migrant workers from Andoung Trach and Krasang employed on

5 Kompong Tnaot village is located in Koun Satv commune, Kampot district, Kampot province; Ba Baong village is in Ba Baong commune, Peam Ro district, Prey Veng province; Krasang village is in Ta Meun commune, Thma Koul district, Battambang province.

6 Trapeang Prei village is in Khsem Khsan commune, Odongk district, Kompong Speu province.

farms in Thailand received 40 percent less than in round 3. Tuk-tuk drivers and small traders interviewed in Siem Reap province gained income of around USD5 and USD3, respectively, because of increased tourist arrivals. Hotel and restaurant workers in Siem Reap reported a slight increase in salary and tips.

#### *Savings and Remittances*

The recent economic recovery appears to have had a strong effect on the availability of jobs and incomes for garment workers and tourism and services workers. Garment workers managed to send USD30–60 to their families each month. However, savings and remittances continued to shrink for cyclo drivers, unskilled construction workers and migrant workers because of fewer jobs and lower wages. FGDs in six rural villages suggested a general seasonal increase from round 3 in household income due to the availability of off-farm jobs. The change was not significant, however, compared to the same period in the previous year. For example, people in Kompong Tnaot earned around 140,000 riels per month in salt production work and in Ba Baong, around 20,000 - 30,000 riels from making and selling cakes. The high food prices and high living costs were a primary cause of the decline in savings and remittances.

#### *Labour Allocation within Families*

Seasonal job availability and the recent economic recovery seemed to determine labour allocation within families. As in the previous round, adult household members, especially parents, did both farm and non-farm paid work. These rural job opportunities change with the state of the economy and the season. In this round, there was no indication that the economic recession made rural people work harder, but FGDs revealed that the search for work had been intense. Women in the villages continued to do the majority of household chores with some assistance from their young children, including collecting products from common property resources (e.g. food items from the fields).

There was evidence from Kompong Tnaot that children had been taken out of school to assist with housework or to work in salt production (among the worst forms of child labour, according to the Ministry of Labour). Most grown children or youths do some kind of paid work in garment factories,

construction, farms in Thailand or fishing. They are among the key income earners in the family. Their hours depend on available work, which is largely contingent on the state of the economy. Skilled and unskilled construction workers claimed to have searched for jobs intensively, while cyclo drivers did other work such as carrying goods.

#### *Coping Strategies*

Actions to cope with shocks from unfavourable natural conditions or economic recession were almost the same as before, but there was a slight change in the patterns.

#### *Changes in Consumption Patterns*

Minimising non-food consumption was still the major strategy to cope with the price increases, the high cost of living and other possible shocks. Changes in non-food consumption were found such as emergency health expenditure and spending on children's education, compared to round 3 at the beginning of the new academic year.

Reducing food consumption was not a common coping strategy in this round due to the recent harvest and economic upturn. Thus workers and rural households maintained adequate food intake even if the food was of lower quality. There was a slight increase in food expenditure among all groups. This does not necessarily signify better quality food but rather reflects the increase in prices. Cyclo drivers in particular noted a 500–1000 riels increase in food expenditure per meal compared to round 3. However, in this round, the quality and quantity of food consumed by unskilled construction workers remained unchanged. Other coping strategies raised by garment workers to manage the increase in food prices included sharing food—buying food and cooking and eating meals in a group—and asking their parents to send rice from home.

*“Eating low quality food is not always good for us because our work takes physical strength ... before, we would usually have other snacks as well as our meals, but now we feel more exhausted after work.”—FGD with skilled construction workers*

### *Coping with Labour Market Shocks and Low Demand*

Different strategies in response to labour market shocks and low demand were adopted by unskilled and skilled construction workers, garment workers, cyclo and tuk-tuk drivers, small traders, restaurant workers and migrant workers. In addition to accepting lower wages because of increasingly tight competition, unskilled construction workers frequently had to follow up and maintain good relations with foremen to get work. Many skilled construction workers admitted seeking jobs at other construction sites where pay was better. Garment workers were more likely to move from a small factory to a bigger one for better job opportunity. Besides accepting lower fares, cyclo drivers rode around to find customers and worked an additional two hours a day compared to the previous year. Small traders and tuk-tuk drivers competed for customers by reducing prices and fares to a minimum. Small traders diversified their products to attract customers.

Restaurant workers in Phnom Penh said that, with fewer customers, their restaurant had run promotions, e.g. giving an extra amount of food for free, reduced prices, been meticulous about hygiene and strictly regulated workers' punctuality, meal breaks and leave. Migrant workers appeared to have no clear mechanisms to cope with the decline in demand for farm labour in Thailand. Some stayed idle in the village awaiting a job; others found work in other areas. Anecdotal evidence indicated that in Andoung Trach, people's livelihoods were increasingly less dependent on resources from the Tonle Sap.

### *Borrowing Money and Selling Assets*

Borrowing money was still an important coping strategy for livelihood-related difficulties. The reduced number of jobs forced migrant workers to take more loans from micro-finance institutions (MFIs) for living costs or for migrating to seek work. Unskilled construction workers and restaurant workers approached friends, relatives, moneylenders or even foremen to borrow for their daily expenses. Some cyclo drivers took loans from a moneylender or MFI, using their land as collateral, to buy a motorcycle and upgrade to moto-taxi. Several rural

households accrued debts due to family events such as children's weddings. Buying agricultural inputs on credit at high interest caused farmers to lose money to the traders who gave them loans. Low rice yields also bring almost certain prospects of increased indebtedness for households in villages that will be struck by drought, heavy rain and/or pests in the coming year. Families unable to repay their loans to an MFI or bank sought other sources of loans, e.g., a local moneylender, even at a high interest rate, in order to repay their loan for fear of losing their house or land. Shoring up one loan with yet another caused additional difficulties.

Asset selling was rarely reported in the FGDs, suggesting two possibilities. First, households may not have had any further assets to sell, as in the case of Donvong, located in Kandal Stung district, Kandal province, and Andoung Trach. Second, the rebound in job availability in the garment sector may have benefited rural households through remittances, and this added to the seasonal off-farm income they earn at this time of the year. Selling livestock when the household needs money is a normal practice according to many rural villagers.

### *Social Assistance and Social Relations*

As in the previous rounds, no new formal social assistance had emerged from government or development agencies to help people cope with the crisis during the study period (December 2009–February 2010). Existing social services include vaccinations and distribution of nutritional supplements for children and pregnant women. In Trapeang Prei, villagers benefited from a World Vision International integrated rural development programme that includes provision of livestock and community sanitation. For garment workers, membership in a labour union offers them support in negotiations with factory owners. This reflects the limited social protection programmes for the poor and vulnerable. Informal social safety nets substituted for or complemented formal nets. All FGDs revealed that mutual help, kinship and group solidarity are a dependable social safety net in difficult times or when they need immediate assistance.

*Continued on page 21*