



CDRI – Cambodia's leading independent development policy research institute



Royal University of Phnom Penh



Ministry of Planning

Policy brief



Office of the Council of Ministers



Supreme National Economic Council

2012, No. 04

IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON EMPLOYMENT IN SMES IN CAMBODIA

NGIN Chanrith¹

INTRODUCTION

The global financial and economic crisis was slated to affect employment in the key drivers of the Cambodian economy (garments, tourism, construction and agriculture). Lay-offs, decreasing wages and deteriorating working conditions were the chief impacts. Small and medium-sized enterprises (SMEs) are integral to the Cambodian economy, employing 85 percent of the labour force (Kang *et al.* 2009). It is therefore critical to examine the impact of the crisis on employment in SMEs. This policy brief is based on a survey of 120 SMEs in Phnom Penh and Siem Reap province, conducted in July-August 2011, to explore how the global economic and financial meltdown has affected employment in construction and tourism sector SMEs. Discussion focuses on SMEs' business performance, fixed assets value and employment, and the support they received to cope with the crisis. Policy implications concerning how to support SMEs after the crisis are also drawn.

WHAT AREAS OF SMES WERE AFFECTED BY THE GLOBAL ECONOMIC CRISIS?

The global crisis affected Cambodian construction and tourism sector SMEs in the areas of business performance and fixed assets value. Most of the enterprises (94.2 percent) have encountered difficulties since 2008, with 90.8 percent reporting "decline in revenues" and 30 percent reporting "increase in expenses". Overall, the average value of enterprises' fixed assets (i.e., land, buildings and structures, machinery and equipment, transport equipment, furniture and others) has declined, from USD304,727 in 2008 to USD277,525 in 2011 (albeit not significantly). Of note, the average value of construction sector SMEs'

fixed assets significantly decreased from USD235,853 in 2008 to USD140,633 in 2011, mirroring the bust of the property sector in the wake of the crisis. As for the tourism sector, the average value of fixed assets has slightly increased, from USD339,164 in 2008 to USD345,971 in 2011 (though not significantly).

HOW DID THE GLOBAL ECONOMIC CRISIS AFFECT EMPLOYMENT IN SMES?

The effects of the GFC on business performance had consequences for the enterprises in terms of the numbers of paid and unpaid employees, the educational levels of paid employees, and the amount of employees' compensation. The number of unpaid family workers in the tourism SMEs went down from 134 in 2008 to 114 in 2011. The number of paid employees dwindled across the two industries. The respective numbers of male and female employees in both industries have also significantly declined. The average number of paid employees per enterprise was 17.5 (9.4 males; 8.0 females) in 2008 and 15.1 (7.8 males; 7.3 females) in 2011.

A common pattern emerging from both industries was that the number of paid employees with high education decreased after the slump, and the number of female paid employees with high education was less than that of male paid employees with equivalent education regardless of the upheaval. In the construction sector, the number of paid employees with "primary school" education declined from 648 persons in 2008 to 453 persons in 2011. There were more male than female paid employees with "primary school" education in 2008 and 2011. At "lower-secondary school" level, there were more male than female paid employees in 2008 and 2011. As to the number of paid employees with "high school" education, male employees also outnumbered female employees in 2008 and 2011.

¹ Ngin Chanrith is director and lecturer, Graduate Programme in Development Studies, Royal University of Phnom Penh.

In the tourism sector, the number of staff with “lower-secondary school” education declined, and there were more female employees with this level of schooling in 2008 than in 2011. There were more staff with “high school” education in 2008 than in 2011, and there were fewer females than males with “high school” education in 2008. The number of male staff with “university and higher” level education was greater than the number of female staff with the same level of education in 2008 and in 2011.

With regard to employees’ compensation, there was no significant change in either sector. However, the wages and salaries of female workers were less than those of male workers before and after the crisis. This suggests a compensation gap between male and female employees in the two industries regardless of the downturn. The crisis also rendered a minimal increase in employers’ contribution to social security/pension fund in the tourism sector.

WHAT SUPPORT DID SMES RECEIVE TO COPE WITH THE CRISIS?

To deal with the difficulties, many enterprises reduced staff (28.3 percent), saved costs (13.3 percent), and reduced expenses on utilities (11.7 percent). Only 3.3 percent reduced staff’s working hours, 6.7 percent reduced staff’s overtime, and 5.0 percent reduced staff’s salary. Merely 6.7 percent got loans for their business to cope with the difficulties. Notably, 18.3 percent of the enterprises took no solution. This finding reflects the cost-saving strategies ushered in by SMEs across Asia (Economist Intelligence Unit 2010).

Only 11.7 percent (5.0 percent in the construction sector and 6.7 percent in the tourism sector) of the enterprises received assistance to revitalise their business. All of the aid-obtaining enterprises got support from their relatives (78.6 percent) and friends (21.4 percent). The assistance received was money from relatives (85.7 percent) and friends (14.3 percent). The money was used to buy products (35.7 percent), pay staff’s salary/wage (64.3 percent), repay debt (21.4 percent), and develop new products (28.6 percent). However, only 14.3 percent of the enterprises said the assistance helped them a lot. These findings corroborate the primary constraints – insufficient support activities and limited access to finance – encountered by Cambodian SMEs (SMES 2005).

Furthermore, quite a limited number of enterprises sought business support services, and they mostly

approached “specialised private firms”. These findings are typical of pivotal drawbacks (limited access to finance and inadequate support system) of Cambodian SMEs. The enterprises identified that they needed to boost functional capacities (management and finance), competitiveness (product and price hindrances), and access to market information so as to refine their business performance.

CONCLUSION

The global economic and financial crisis affected Cambodian SMEs in the construction and tourism sectors in the areas of business performance and fixed assets value. The enterprises encountered “decline in revenues” and “increase in expenses”. Subsequently, the number of unpaid family workers in the tourism SMEs went down, and the number of paid employees dwindled across the two industries. A common pattern of male and female employment emerging from both industries in the aftermath of the crisis was that the number of paid employees with high education decreased after the slump, the number of male paid employees with high education outstripped the number of female paid employees with equivalent education before and after the crisis, and women’s wages continued to be lower than men’s. The SMEs applied cost-saving strategies to cope with the difficulties. Very few enterprises received assistance to revitalise their business, and this aid was informal and nominal. Furthermore, quite a limited number of enterprises sought business support services.

Policy interventions should therefore be directed to increasing the availability of technical and financial scaffolding to SMEs, particularly to help bridge shortcomings in functional capacity, competitiveness and information that disadvantage these SMEs.

REFERENCES

- Economist Intelligence Unit (2010), “Towards the Recovery: Challenges and Opportunities Facing Asia’s SMEs”, http://www.fedex.com/downloads/shared/about/local/newsflash/eiu_report.pdf (accessed 10 June 2011)
- Kang C., S. Sok, C. Kim & D. Liv (2009), “Rapid Assessment on the Impact of the Financial Crisis in Cambodia”, prepared for the ILO by CIDS
- SME Secretariat (2005), Small and Medium Enterprise Development Framework (Phnom Penh: Royal Government of Cambodia Sub-committee on Small and Medium Enterprises)