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## MITIGATING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE RURAL LABOUR MARKET IN CAMBODIA

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### INTRODUCTION

Among the several blows<sup>2</sup> to Cambodia’s economy triggered by the global financial crisis in 2008, that to the labour market is particularly worrisome. Large job losses, declining wages and worsening working conditions are the most alarming consequences for the labour market. While the effect could spread to the rural economy, no research so far has provided evidence of the impact on the rural labour market. This policy brief serves two objectives: to provide evidence of the impacts on the rural labour market in Cambodia; and to suggest policy responses to mitigate its negative impacts.

### THE CRISIS AND RURAL LABOUR MARKET OUTCOMES

While the urban labour market was adversely affected by the crisis through such aspects as job cuts, abolition of overtime work and declining real wages, the spill-over effects on the rural labour market seem to have been minimal. Except for a decline in real wages and a higher child employment participation rate, other labour market outcomes tended to be neutral.

### EFFECT ON EMPLOYMENT PARTICIPATION RATE

Descriptive statistics estimating the probability

of participating in employment using a logistic regression model indicated that the employment participation rate in the rural labour market increased during the crisis.<sup>3</sup> Both men and women engaged more in employment, though the magnitude of engagement for women was greater than for men. This upward trend can be explained by three factors: a tendency for married women to quit unpaid household work to engage in income earning activities;<sup>4</sup> more children (aged 10–14) joining the labour market;<sup>5</sup> and reverse migration (out-of-work and migrants returning from urban centres to their home villages). The increasing child employment rate is a concern for putting a brake on efforts to reduce child labour and for its effect on child education and health. In terms of impact on employment structure, there was a shift in employment during and after the crisis in favour of agriculture, but the magnitude of change was not significant.

### EFFECT ON EARNINGS

Average daily earnings across all sectors were hit by the crisis; pre-crisis average real daily earnings of USD4.01 decreased 20 percent to USD3.14 in 2009 before recovering to USD3.46 in 2011. Since most of the poor make their living by daily labour, their livelihoods would be most vulnerable. This could have unfavourable effects

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<sup>2</sup> With the onset of the crisis, Cambodia’s rapid growth stalled. Key drivers of growth—garments and footwear, tourism, construction and real estate—took a hard blow; economic growth registered a record low of 0.1 percent in 2009.

<sup>3</sup> The rate increased from 82.5 percent in the pre-crisis period to 85.6 percent, and then fell back slightly below the pre-crisis level, to 81.0 percent, in 2011.

<sup>4</sup> The household share of women’s work fell from 7.8 percent in 2008 to 6.8 percent in 2009 and then to 3.4 percent in 2011.

<sup>5</sup> Children’s participation increased from 45.5 percent in 2008 to 47.3 percent in 2009.

on their consumption and food security.

### EFFECT ON MIGRATION

There was a significant decline in cross-border migration between the pre-crisis and post-crisis periods. Migrant workers were 6.05 percent of the domestic labour force in 2008 and fell to 3.61 percent in 2009 and further to 2.76 percent in 2011. There was also a sharp decline in remittances in both absolute and relative terms. Average remittance per recipient household from international migration in 2008 was USD83.66, dropping to USD14.69 in 2009, an 82.4 percent decrease, before recovering to USD38.41 in 2011. Since remittances are a major source of income for many households, the decline is a big blow for their livelihoods.

### POLICY RESPONSES

This evidence alerts us to a few worrisome possible sources of vulnerability, including reverse migration and declining wages. While the state should refrain from curbing reverse migration or controlling wages, it should make the utmost effort to map the most vulnerable households. For those households, one possible short-term measure could be a “workfare” scheme offering vulnerable individuals jobs in improving, repairing and building local infrastructure. Experience suggests that such a programme could prove to be an effective temporary solution with double positive effects since it provides income to households and at the same time creates public benefits. Another temporary measure is to scale up existing vocational training, targeting returning migrants, out-of-work youth and women and then helping them find work. Although the Ministry of Labour and Vocational Training has already set up a special training fund, the programme’s coverage is largely within major cities, leaving a gap for community-based training.

Another concern is rising child labour. This outcome is clearly not favourable and should be corrected by appropriate policy interventions. The existing Scholarship for the Poor Programme seems to be quite effective in keeping children in

school and should be expanded beyond the poor. A child protection programme could also be an effective response. Although existing safety nets have addressed some sources of vulnerability, many interventions do not reach some population groups, and most existing programmes have limited geographic coverage. Therefore, in the medium to long run, it is imperative to install sound safety nets linked to sources of vulnerability and regions in need of assistance. This would require a comprehensive and coherent strategy that addresses major institutional and financing issues, and better coordination of interventions across ministries and development partners. More active and functional market information and employment agencies, at least at district and provincial levels, would also mitigate labour market shocks and help match labour demand and supply.

### CONCLUSION

The important message from this brief is that the rural labour market serves as a last resort for returning migrants and laid-off urban workers during difficult economic conditions. Despite its favourable effect in the form of more employment participation, rising child labour and declining wages and remittances are major sources of vulnerability. The temporary interventions mentioned above are not an exhaustive list. A comprehensive and coherent social protection and safety net strategy and effective market information mechanisms are medium- to long-term measures that would mitigate shocks to the rural economy and rural livelihoods.

### REFERENCES

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