

HOUSEHOLDS' VULNERABILITY TO THE GLOBAL FINANCIAL CRISIS AND THEIR COPING STRATEGIES: EVIDENCE FROM NINE RURAL VILLAGES IN CAMBODIA

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INTRODUCTION

Rural households in Cambodia, as in other developing countries in the region, are vulnerable to both idiosyncratic shocks, such as death or severe illness, and covariate shocks, e.g. flood and drought (World Bank 2006a: 53,16-18). Lack of savings and property assets and limited access to basic infrastructure, education and health care services, social protection and safety nets are critical in undermining their ability to cope with shocks (World Bank 2006b: 53,13-15). This explains why poverty remains highly concentrated in the rural and more remote areas of the country: in 2007 the rural poverty rate was 34.7 percent, higher than in Phnom Penh (0.8 percent) and other urban areas (21.9 percent) (World Bank 2009: 27). As the global financial crisis (GFC) unfolded in 2009, there was rising concern over its impacts on rural households. This policy brief sheds some light on the extent of rural households' vulnerability to the GFC and the effectiveness of household coping strategies.

DATA AND METHODOLOGY

The study used two cross-sectional panel data from a household survey conducted in March 2008 and March 2011, which involved a sample of 956 households from nine rural villages in three agro-ecological zones: the river plains of the Mekong (Ba Baong in Prey Veng and Prek Kmeng in Kandal) and the Tonle Sap (Tuol Krasang and Andoung Trach in Battambang and Khsach Chi

Ros in Kompong Thom); upland plateaus (Dang Kdar in Kompong Thom, Kanhchor in Kratie and Trapeang Prey in Kompong Speu); and the coastal zone (Kompong Thnaot in Kampot). Descriptive analysis of the survey findings looks at changes in real daily per capita consumption expenditure before and after the crisis across villages and consumption deciles. Empirical analysis estimates the extent of household vulnerability and the effectiveness of coping strategies using empirical econometric models.

FINDINGS

Analytical Description

Data on the changes in real daily per capita consumption across the nine sample villages before and after the GFC indicate that, with the exception of Andoung Trach, households experienced a sharp consumption shortfall. Trapeang Prey, a rice deficit village, bore the brunt of the crisis as consumption fell by 48.8 percent, while the other villages experienced a drop of 20-30 percent. Located close to the border with Thailand, Andoung Trach is a unique case in that its ability to tap labour migration to Thailand insulated it from the crisis to some extent. Further examination of changes in consumption across deciles, however, shows that almost all household groups were hit by the crisis, with an average consumption fall of 24.6 percent (Table 1).

Empirical Analysis

This study finds that large households tended to be more vulnerable to the GFC than smaller ones, indicating the absence of economies of scale in

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Table 1: Daily Per Capita Consumption in Riels,
2008-2011 at 2005 Prices

| Deciles | 2008 | 2011 | % change |
|--------------|--------|---------|----------|
| 1 (lowest) | 1264.5 | 959.1 | -24.1 |
| 2 | 1735.1 | 1345.8 | -22.4 |
| 3 | 2046.8 | 1616.9 | -21.0 |
| 4 | 2330.0 | 1821.4 | -21.8 |
| 5 | 2617.2 | 2017.0 | -22.9 |
| 6 | 2914.7 | 2245.2 | -23.0 |
| 7 | 3257.0 | 2549.6 | -21.7 |
| 8 | 3756.7 | 2938.3 | -21.8 |
| 9 | 4704.7 | 3654.3 | -22.3 |
| 10 (highest) | 8370.7 | 5741.4 | -31.4 |
| All villages | 3296.0 | 2486.43 | -24.6 |

Source: CDRI household survey in 2008 and 2011

consumption. Older headed households were less protected from crisis, while households with better educated heads were more insulated because they tended to have stable employment. Surprisingly, female-headed and married households were more likely to be protected from the GFC. Having a larger number of older members increased household vulnerability, but households with more children under 14 were better insulated from the GFC because around 5 percent of children are active labourers, a third of whom both study and work. Sending children out to work tends to buffer family livelihood in times of crisis, but prevents children from reaching their physical and cognitive potential.

There is no evidence that the GFC rendered households employed in agriculture and service sectors vulnerable, but the results suggest that the vulnerability of households engaged in retail sales worsened. Households with better living conditions (concrete or wooden walls, home appliances and livestock) were less vulnerable. Interestingly, households with access to common property resources appeared to be more vulnerable.

Among coping strategies analysed in this study, only sale of idle land confirmed its effectiveness. None of the coefficients of transport assets, home appliances, agricultural equipment, livestock, loan size, transfer network (assistance from relatives or

friends) or sale of agricultural land were statistically significant, indicating that all of the coping mechanisms, apart from the sale of idle land, were ineffective in smoothing household income.

CONCLUSION

Our study finds a severe burden on households across nine rural villages and all wealth statuses. Larger households and households with older members were more vulnerable to the GFC. Households with more children under 14 were insulated from the GFC, but this implies depriving children of school, which is a long-term coping mechanism. It finds no effective coping mechanism used by households, which obviously indicates households' urgent need of assistance and protection by the government and local and international NGOs.

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