Impact of the Global Financial Crisis on Cambodian Rural Households

Try Sothearith

Editor’s Note:
The recent global financial and economic crisis that started in the United States and expanded to other developed countries has, to some extent, affected developing countries as well. Given the vulnerability of most developing countries, it is important to monitor the impact of this global crisis on poverty. In response, the CBMS Network started the initiative titled “Monitoring and Mitigating the Impact on Poverty of the Global Financial Crisis,” which aims to monitor the impact of the global financial crisis on poverty in selected developing countries in Asia, Africa, and South America. The results of this initiative would serve as inputs for policymakers in prioritizing mitigation measures that would address the impact of the crisis.

The project involves an analysis of the impact of the global financial crisis on poverty. Selected countries in Asia and Africa serve as poverty observatories or sentinels in monitoring the impact. The CBMS Teams involved in the project conducted studies in their respective countries using the standard CBMS core indicators as well as additional indicators that were identified based on the relevant key transmission channels for each of the participating countries. These include outcome and impact indicators. Indicators of coping mechanisms are also being monitored to determine the coping mechanisms used by households in response to the crisis.

The results from the sentinel sites in Cambodia are presented in the succeeding sections.

Introduction

The global financial crisis (GFC) that started in the United States (US) in 2007 caused a wide spillover effect on the economies of developing countries resulting in economic downturns that significantly impacted (i) trade and trade prices, (ii) remittances, (iii) foreign direct investments (FDI) and equity investments, (iv) commercial lending, (v) aid, and (vi) other official development inflows.

In East Asia, Cambodia was found to have suffered the steepest contractions in output. Its real gross domestic product (GDP) sharply declined from 1998 to 2007—
its average growth of 9.3 percent during that period went down to 2 percent in 2009 (Table 1).

The decline in the demand for export commodities in the US and in European communities has greatly affected the trade and export sectors of Cambodia, particularly textile and garments, construction, and tourism. These subsectors are among the three of four key sectors that contribute a major share to non-agriculture-based labor with agriculture being the fourth. The decline in garments exports to the US and decrease in value added by 4.3 percent has caused the merchandise exports to fall by 17 percent in 2009. Private consumption as a proportion of GDP also fell by 8 percent due to the dwindling agricultural commodity prices that depressed farmers’ income. A decline in the rate of tourist arrival was also notable—from 5.5 percent in 2008 to 1.7 percent in 2009, which are significantly low based on historical trends.

Although there is a resilience in the agriculture sector that constitutes 60 percent of the working population, 40 percent of the labor force is found in the industrial and services sectors. The financial crisis has resulted in an estimated 108,000 job losses in the industrial and services sectors; of these losses, 70,000 were from the garments sector alone. This exacerbated the recurring problem of vulnerable employment (the sum of account workers and unpaid family workers), which was already high at 82.5 percent in 2008.

Methodology of the Study

The study is based on the CBMS panel data collected in 2006, 2008, and 2011. The 2006 data collection was conducted in three communes in the provinces of Kratie and Battambang and six communes in Kompong Thom Province. Five villages under CBMS Phases I and II (Samraong Outrea, Bak Amraek, Svy Chrum, Reach Dounkoe, and Sdei Leu) in Prek Norint, Samrong Khnong, Prek Luong, and Ek Phnom districts of Battambang Province were chosen for this survey. The same households were interviewed in 2008 and 2011 for panel data information. A total of 1,132 households were involved in the conduct of a survey that assessed the impact of the GFC on poor households.

Impact of Income Shocks on Employment

The impact of the GFC is evident in Cambodia’s condition of employment, showing a decrease in remittances as reported by the Cambodia Development Resource Institute (CDRI) in 2010.

Households affected by the layoff of workers in the urban formal sector (garments and construction) experienced a decrease in income and expenditure. Most of those affected by layoffs in 2009 were migrant workers composed of youth and adults from rural areas who worked in the garments export sector.

Out of the 1,698 households with one or two working members, 137 (8%) households have members who are working away from the village while 51 (3%) households have members who are cross-border migrant workers or workers abroad, of whom 39 percent lost their jobs and returned home while some remained searching for alternative employment. Laid-off workers looked for off-farm employment in neighboring villages while some women garment workers joined entertainment-related jobs. About 11 percent of households with members who are migrant workers reported that the job loss was due to the closing down of companies.

The main reasons for job loss include sickness (42%), decline in real estate business or uncompleted construction of commercial buildings (26%), and end of contract (20%).

About 50 percent of affected households lost an average income of less than US$200 per year; 37 percent lost an annual income from remittance of US$500 or more; and 13 percent lost US$200–US$499 per year.

Coping Mechanisms Adopted

Poor and nonpoor households have adopted various strategies to cope up with income shocks. As shown in Figure 1, some 58 percent of the poor and 50 percent of the nonpoor purchased cheaper food while 57 percent of the poor and 54 percent of the nonpoor consumed more staple food. Only 26 percent of the poor and 27 percent of the nonpoor reduced their expenditure on food while 20 percent of the poor and 22 percent of the nonpoor consumed their own produce.

Due to insufficient income, children under age 15 in affected households were forced to drop out of school and work in order to sustain the increasing household consumption. Children became valuable assets as they helped augment household earnings. In farming, children and elders were employed to save money from expensive farm inputs and high wage labor. A disadvantage, however, is that child labor limits the educational opportunities of children, resulting in lesser opportunities for decent employment in the future. Also, children who were being pushed to work instead of attending school were unable to benefit from school programs implemented by the government that are meant for the poor. In the long run, it creates a negative effect in labor productivity as unskilled young adults will increase in number.

Another mechanism employed by households is borrowing money. A total of 761 (67%) interviewed households acquired their loans either through microfinance institutions (MFIs) (45%), money lenders

### Table 1. Real GDP Growth Estimate (in %)

<table>
<thead>
<tr>
<th></th>
<th>1998-2007 average</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>7</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>IMF</td>
<td>9.3</td>
<td>5.5</td>
<td>-2.7</td>
</tr>
<tr>
<td>WB</td>
<td>6</td>
<td>5.5</td>
<td>-1</td>
</tr>
<tr>
<td>ADB</td>
<td>6.5</td>
<td>5</td>
<td>-1.5</td>
</tr>
<tr>
<td>EIU</td>
<td>5</td>
<td></td>
<td>-1.5</td>
</tr>
</tbody>
</table>

(e) estimate; (p) private sector average forecast

Note: Actual 2008 growth is estimated at 6.8 percent per official data.

Sources: Staff calculations based on data from NIS; MoEF Cambodia; IMF 2009e/f; WB 2009b; ADB 2009b; CEW 2009a/b; Nathan & Ith 2009.
Of these households, 85 percent still have outstanding loans by the time the survey was conducted in 2011 (see Figure 2a).

Figure 2b shows that the poor female household heads (FHH) relied more on private moneylenders than on MFIs that are nongovernment organizations (NGOs) due to limited collateral available compared to the poor male household heads (MHH). However, private moneylenders charged an interest rate of 10–20 percent, which is a lot higher compared to the 3 percent monthly interest rate charged by MFIs/NGOs. There are at least four MFI service providers operating in villages where the survey was conducted; these are the ACLEDA, AMK, AMRET, and PRASAC. MFIs/NGOs are less flexible in terms of access because collateral is required in order for households to avail of a lower monthly interest.

Loans were obtained to (i) sustain business operations or to finance the migration of household members in search of alternative employment (52%), (ii) finance consumption (24%), (iii) use for health care (14%), (iv) finance production (5%), (v) repay a loan (3%), and (vi) use for education (2%).

As shown in Table 2, 46 percent of the poor and 55 percent of the nonpoor used a larger portion of their loans to sustain their business or to support members who were laid-off migrant workers in search of alternative employment. Results show that fewer MHHs for both the poor and nonpoor households used their loans for buying food compared to FHHs. Some 49 percent of the poor FHHs and 27 percent of the nonpoor FHHs used their loans to buy food because they have less male earners while more female earners have lower income.

A decline of more than 80 percent in income remittances for both the poor and the nonpoor households has resulted in an increase in the remaining outstanding loans that need to be repaid during the survey in late 2011.
**Research Results**

**Table 2. Uses of Loans by the Poor and Nonpoor Households (% of 761 households with outstanding loans)**

<table>
<thead>
<tr>
<th></th>
<th>Poor MHH</th>
<th>Poor FHH</th>
<th>Poor HH</th>
<th>Nonpoor MHH</th>
<th>Nonpoor FHH</th>
<th>Nonpoor HH</th>
<th>All HH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing migration or business operation</td>
<td>48</td>
<td>37</td>
<td>46</td>
<td>57</td>
<td>45</td>
<td>55</td>
<td>52</td>
</tr>
<tr>
<td>Buy food</td>
<td>29</td>
<td>49</td>
<td>33</td>
<td>18</td>
<td>27</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Treatment</td>
<td>10</td>
<td>17</td>
<td>15</td>
<td>13</td>
<td>17</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Production</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Repaying an outstanding loan</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Education</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>All</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

FHH = female household head, MHH = male household head
Source: Based on 2011 survey of households

**Table 3. Real Daily Per Capita Consumption by Sexes of MHH and FHH of the Poor and Nonpoor**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor MHH</td>
<td>2,723</td>
<td>3,393</td>
<td>2,270</td>
<td>-33</td>
</tr>
<tr>
<td>Poor FHH</td>
<td>2,680</td>
<td>3,715</td>
<td>2,266</td>
<td>-39</td>
</tr>
<tr>
<td>Poor</td>
<td>2,714</td>
<td>3,466</td>
<td>2,269</td>
<td>-35</td>
</tr>
<tr>
<td>Nonpoor MHH</td>
<td>2,889</td>
<td>3,408</td>
<td>4,874</td>
<td>43</td>
</tr>
<tr>
<td>Nonpoor FHH</td>
<td>3,465</td>
<td>3,431</td>
<td>5,268</td>
<td>54</td>
</tr>
<tr>
<td>Nonpoor</td>
<td>3,026</td>
<td>3,414</td>
<td>4,971</td>
<td>46</td>
</tr>
<tr>
<td>All HH</td>
<td>2,938</td>
<td>3,428</td>
<td>4,221</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Based on 2011 survey of households

**Table 4. Real Daily Per Capita Income and % Change between 2008 and 2011 (in Riels)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2011</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor MHH</td>
<td>2,709</td>
<td>14,323</td>
<td>429</td>
</tr>
<tr>
<td>Poor FHH</td>
<td>3,129</td>
<td>5,368</td>
<td>72</td>
</tr>
<tr>
<td>Poor</td>
<td>2,804</td>
<td>12,298</td>
<td>339</td>
</tr>
<tr>
<td>Non-Poor MHH</td>
<td>3,016</td>
<td>17,786</td>
<td>490</td>
</tr>
<tr>
<td>Non Poor FHH</td>
<td>3,047</td>
<td>6,343</td>
<td>108</td>
</tr>
<tr>
<td>Non Poor</td>
<td>3,024</td>
<td>14,974</td>
<td>395</td>
</tr>
<tr>
<td>MHH</td>
<td>2,929</td>
<td>16,807</td>
<td>474</td>
</tr>
<tr>
<td>FHH</td>
<td>3,068</td>
<td>6,069</td>
<td>98</td>
</tr>
<tr>
<td>All households</td>
<td>2,963</td>
<td>14,232</td>
<td>380</td>
</tr>
</tbody>
</table>

Source: Based on 2011 survey of households

**Recovery Stage**

In mid-2010 to 2011, the economy of Cambodia started to recover from the spillover effect of the GFC. Improvements in the well-being of households were assessed by comparing poverty headcount, real daily per capita consumption, and real daily per capita income of households in 2006, 2008, and 2011.

**Decline in Poverty Headcount**

Results of the survey showed a significant decline in the number of poor households based on changes in the poverty headcount in 2006, 2008, and 2011. Four out of five villages showed a sharp decrease in the percentage of poor households except in the village of Sdei Leu where the main source of livelihood involves cash crop and wet season rice farming. Poverty headcount in the village of Sdei Leu remained fixed at 38 percent from 2008 to 2011. The reduction in poverty headcount is due to recent developments in infrastructure, improved connections (road access) to market centers, and to growth in agricultural production.

Reach Dounkeo is the village with the highest percentage of poor households in 2006 at 72 percent. With rice production as its main source of livelihood; it achieved a 19 percent reduction in poor households in 2011. The village made bigger net gains from the rice export policy and government support for agricultural growth that started since 2010. Improved road access and irrigation also became major influences in poverty reduction. Svay Chrum also gained a remarkable decline in poor households from 44 percent in 2008 to 26 percent in 2011.

A farming household in the Province of Kompong Thom, Cambodia. (Photo courtesy of Riccardo Dell’acqua)
Research Results

Real Daily Per Capita Consumption Expenditure

The poor households experienced a decline in real daily per capita consumption from 2008 to 2011 at 35 percent. In monetary value, the per capita consumption of the poor households is equivalent to KR2,938 per person a day, which is 20 percent below poverty.

Real Daily per Capita Income

Both the poor and nonpoor households reported a significant increase in their real daily per capita income. From an average of KR2,963 per person a day in 2008, it became KR14,232 per person a day in 2011 as shown in Table 4.

Rural households have made a living from multiple sources of income. These include agriculture (crops and livestock), labor (wage labor), petty trade and collecting common property resource (CPR), and rental of productive assets. The largest share of percentage in total income came from wage labor (50%), followed by agriculture (26%), and petty trade (17%). Results showed that the poor households who were affected by the GFC were able to find off-farm jobs that helped increase their income.

An increase in the income of households does not necessarily translate to overall improvement in the well-being of the poor households because a portion of their income was intended for the repayment of outstanding loans.

Policy Implications

Various government initiatives were implemented in response to the GFC, such as providing rice subsidies, health care equity fund for the poor, food assistance programs from donors, and government and private sector partnership in the creation of business and employment opportunities. These, however, were mostly ad hoc and were insufficient to cover the adverse effects of the GFC on affected households as only half of the affected households were able to recover while the other half still needs assistance, based on the study analysis.

The government should create sustainable and long-term business partnerships with the private sector to enhance employment opportunities and implement strategies that will speed up infrastructure developments to help build a strong economic foundation.

In establishing a comprehensive social safety net system, the government should consider funding a sustainable program design (e.g., projects engaged in the improvement of public works and cash transfers) and unified administration.

The government should create a pro-poor agricultural development policy that will address development constraints such as lack of know-how, ineffective agricultural extension services, and inadequate savings and irrigation systems. The policy should provide reliable loans that will enhance the capacity and productivity of farmers with small landholdings. It should also promote agricultural intensification and diversification that will improve land productivity and stimulate investments.
A total of 592 stakeholders of the Community-Based Monitoring System (CBMS) in the Philippines converged at the SMX Convention Center in Manila on March 19-21, 2012 on the occasion of the 8th CBMS Philippines National Conference where participants shared best practices and recent developments as well as tackled emerging issues in line with the implementation and use of the CBMS in the country.

Under the theme “Enhancing Local Governance and Providing a Better Quality of Life for Filipinos through CBMS,” the conference featured keynote presentations and sessions covering urgent issues facing development practitioners in the country today including the following: Disaster Risk and Vulnerability Mapping and Assessment; Climate Change Adaptation; Impact Monitoring and Evaluation of Poverty Reduction Strategies and Programs; Meeting the Millennium Development Goals (MDGs); Evidence-Based Planning and Budgeting; Improving Governance; Using Information and Communication Technology Innovations for Implementing CBMS; Women Empowerment; and Promoting Children’s Rights.

In her keynote address during the first day of the conference, Assistant Director General Marcelina E. Bacani of the National Economic and Development Authority (NEDA) underscored the importance of mainstreaming disaster risk reduction and climate change adaptation in local planning and decisionmaking processes. Efforts toward this end, she said, will benefit greatly from CBMS, not only as a source of baseline information, but also as basis for coming up with appropriate development interventions that will help reduce losses from natural disasters and climate change.

Currently, the CBMS is considered as one of the country’s widely used and locally based tools in acquiring a richer body of information on the welfare of the poor. It has enabled the poor communities to assert their needs to local and national policymakers and program implementers as well as to influence budgetary allocations. As such, it has become a direct instrument for empowerment and actual poverty reduction.

Other highlights of the three-day conference include the launching of “The Many Faces of Poverty: Volume 4,” which featured the CBMS results and poverty maps of Batanes, Batangas, Northern Samar, Occidental Mindoro, Surigao del Sur, Tarlac and Zamboanga del Sur; the CBMS-Dr. Angelo King Award; and the CBMS Special Awards.

The conference was organized by the PEP-CBMS Network Office of the Angelo King Institute for Economic and Business Studies of the De La Salle University-Manila in collaboration with the Department of the Interior and Local Government (DILG), National Anti-Poverty Commission (NAPC), National Economic and Development Authority (NEDA), and the League of Municipalities of the Philippines (LMP).
CBMS Philippines conducts TOT on CBMS Data Processing System

At least 31 accredited trainers from the Bureau of Local Government Development (BLGD), the regional offices of the Department of the Interior and Local Government (DILG), National Anti-Poverty Commission (NAPC), National Economic and Development Authority (NEDA), Batangas State University (BSU), and the Provincial Government of Batangas participated in the 4-day Training of Trainers on the updated and enhanced Community-Based Monitoring System (CBMS) Data Processing System held on February 14-17, 2012 at the Angelo King International Center in Manila.

The training was conducted for those who will provide the capacity building to local government units that are using the 2011 version of the CBMS Household and Barangay Profile Questionnaires and Digitizing of Spot Maps) and Module 3 (Processing of Encoded Data, Poverty Mapping, and Building the CBMS Database) as well as the Powerpoint presentation files needed for all the sessions in each module.

An updated version of the CBMS Statistics Simulator (StatSim) software was also used during the training, which was customized for the latest version of the CBMS core census instruments. Updates in the data processing software include additional automatically generated reports on indicators related to climate change, comprehensive development plan (CDP), Millennium Development Goals (MDGs), etc. The updated software also provides a more seamless interface and links to the CSPro-based CBMS Encoding System, CBMS NRDB Pro, Notepad, and Crosstabs application.

As of February 29, 2012, a total of 20,807 villages in 782 municipalities and 55 cities in the Philippines have already implemented the CBMS methodology in acquiring a richer body of information on the welfare of their poor. Technical assistance to these LGUs are now directly provided by CBMS Network-trained staff of national government agencies, most notably the DILG, NAPC, NEDA, Statistical Research and Training Center (SRTC) as well as nongovernment organizations.

CBMS-DR. ANGELO KING AWARD. The municipalities of Alfonso Lista, Ifugao; Palapag, Northern Samar; and Malimono, Surigao del Norte became the first three recipients of a grant support for school building projects under the CBMS-Dr. Angelo King Award. These LGUs were selected from among 49 LGUs that submitted their grant applications after a call for proposals was issued by the CBMS Network Office in February 2012.

The awarding ceremonies were held during the 8th CBMS Philippines National Conference.

The CBMS-AKFI development program initiative aims to reduce poverty and enhance economic and social development in the country by facilitating support for the construction of multipurpose livelihood centers or classrooms to help improve access to basic education.
News Updates

Tabaco City wins 2 out of 4 CBMS Special Awards

The City of Tabaco cornered 2 out of the 4 special awards given by the CBMS Network Office during the 8th CBMS Philippines National Conference held at the SMX Convention Center on March 19-21, 2012. It bested entries of other local government units in the CBMS Photo and CBMS Advocacy Video categories.

Meanwhile, Carmona, Cavite and Lupi, Camarines Sur garnered first place in the CBMS Household ID Sticker and CBMS Enumerator’s Uniform categories, respectively. All entries for the four contest categories were displayed at the CBMS Exhibit Booth during the three-day conference.

The winners were selected based on the number of Facebook likes they received. To view all the entries, please visit the Facebook fanpage of CBMS Philippines: https://www.facebook.com/CBMSPhilippines.

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