

# The Impact of the Economic Downturn on Households and Communities in Cambodia<sup>1</sup>

*“Only 30% of the total surveyed households received assistance from the Royal Government, Development Partners and NGOs in the first semester of 2009 while 89% reported to have faced difficulties during the same period. This indicates that intervention of social programmes isn't wide enough”*

The economic downturn that originated in the USA in late 2008 impacted economies around the world as it unfolded. Cambodia, whose major economic bases were shaken due to their heavy reliance on external demand, markets and capital, was no exception. Major sectors affected by the economic downturn in Cambodia included the garment, construction and property markets, tourism, and agriculture for selected commodities such as rubber and cassava. Between September 2008 and May 2009, the decline of garment exports was witnessed by the laying-off of 63,000 workers while the impact on real estate and construction has resulted in the disappearance of about 100,000 jobs (or three out of ten jobs). The decline of tourist arrivals and their spending caused many to be underemployed and limited economic activities in tourism-related businesses such as restaurants, handicrafts and souvenirs.

In light of these adverse impacts on the macro-economic situation, and to add the most value, the study focuses on the impacts of the economic downturn on people and households at the community level. The study surveyed 1,070 households and conducted focus group interviews with women and key informants in 15 villages across Cambodia (14-31 July 2009), 14 of which were also surveyed a year earlier to assess the impact of high food prices (June 2008). A new fifteenth village in Siem Reap, was added to examine the impact on tourism dependent villages. Thus, the study primarily used the 2008 survey as a baseline, in order to observe the changes made over time. Changes were observed in household assets, incomes, income sources, the difficulties that households encountered and the responses or coping strategies that households undertook to maintain their livelihoods.

The evidence from the household survey in July 2009 reveals that the economic downturn has had a significant impact on households and people at the community level, especially in poor urban, tourism dependent and cash crop villages. The impacts were confirmed by job losses, reduced remittances, decreased income and the lower price of agricultural commodities such as wet season rice, maize and cassava.

## Difficulties faced by Community Households during the Downturn

Overall, 89% of the surveyed households faced difficulties in the previous six months, which remains high compared to 2008 when inflation was high. However, the type of difficulties that the households encountered changed and more households in poor urban and cash crop villages experienced hardship. In 2008, high food prices were the major difficulty for households; almost none of the surveyed households experienced job loss or decreased income. When sickness/ health expenses had been the major difficulty facing by households in 2008, this issue continued to affect households in 2009, however job loss/ decreased income and the inability to repay debts were the two foremost difficulties created by the economic downturn. The percentage of households with reduced income was highest in poor urban (61%) and tourism dependent (50%) villages, while the percentage of households reporting difficulties to repay debts was highest in cash crop villages (21%).

The survey found that households were affected through their members losing jobs or their jobs being affected as a result of the economic downturn. Of the surveyed households, 33% reported that household members' jobs had been affected and 3.7% found their members' jobs had been lost in the previous nine months. Jobs of households in poor urban (77%) and tourism dependent (69%) villages were affected the most, while 9% of households in the poorest rural and poor urban villages experienced the greatest job losses.

Farmers of maize and cassava production were hard hit because of falling profits. Although these farmers could still make profit from their crop production, the profits were relatively less compared to the year before. The profit in maize production per hectare in 2009 was \$344 (56%) less than it had been in 2008, while the profit of cassava production declined by \$106 (36%) per hectare. Profits for farmers of wet season rice also fell, by \$68 (32%) per hectare. Only farmers of dry season rice were able to increase their profits compared to 2008.

<sup>1</sup> This summary is wholly extracted from the report on 'The impact of the Economic Downturn on Households and Communities in Cambodia' which was conducted by the Cambodian Economic Association in July 2009 in partnership with Oxfam and the NGO Forum on Cambodia.

The majority of households reported that the income they received from various sources decreased compared to a year earlier, especially income from garment work, construction work, self-employed business and selling handicrafts/souvenirs, which was specific to the tourism dependent village. There were relatively fewer households receiving less income from selling paddy, vegetables and livestock, which implies that the impact on household income from these sources was less severe, for instance in wet season rice, dry season rice, and land abundant villages. For the fishing village, 74% of households reported their income from fishing had decreased compared to the previous year. However, the decreased income is mainly explained by the decline of fish catch per household.

The households were able to maintain their income from wages and foreign remittances. Income from labour work and foreign remittances remained unchanged, but households received less income from domestic remittances. When inflation was high (22.3%<sup>2</sup>) in July 2008, the poor earned more money from their labour work as wages increased by about 50% compared to 2007. From 2008 to 2009, daily wages remained more or less unchanged. Daily workers continued to be paid similar wages to those they earned the previous year, except for

weeding jobs. The wage for weeding tended to be about 17% less compared to 2008.

### Coping Strategies by Households

The hard times caused by income losses undermined the ability of households to repay debts, forced households to limit spending on healthcare and other non-food items, and reduced food consumption (either by eating less food or buying less preferred/ less expensive food), which further threatened their already weak nutritional status caused by high food prices during the past year. Women consumed disproportionately less food since they want to leave more food for their husbands and children. In addition to seeking additional/ alternative jobs and having increased numbers of household members to migrate for work, the households coped with their difficult livelihood situations by selling off assets and taking out loans. Taking children out of school was not found to be significant, which suggests the impact on education has yet to come, although this could be explained by the fact that household costs for informal school fees are not common in surveyed villages, or that the finding is insignificant due to the limitation of the survey being conducted during the second half of July 2009, which was the end of the school year.

**Table: Percentage of households undertaking livelihood coping strategies in 2008 and 2009**

No	Livelihood coping strategies undertaken by households in the last three months	June 2008	July 2009	Change 2009/08
<b>Food Consumption related</b>				
1	Rely on less preferred / less expensive food	62.8	75.6	12.8
2	Reduce daily food consumption	44.1	51.8	7.7
3	Restrict food consumption for adults to leave more for young children	37.4	32.0	(5.5)
4	Mothers / older sisters eat less to leave food for other family members	32.1	38.6	6.5
<b>Debt-related</b>				
5	Borrow food, or rely on help from friends or relatives	39.7	42.7	3.1
6	Purchase food on credit	57.5	66.2	8.7
7	Take out loan	0	68.0	0
<b>Income-generating activities</b>				
8	Seek alternative or additional jobs	30.1	37.0	6.9
9	More family members migrate for work	7.1	14.2	7.1
10	Increase fishing activities	17.3	19.7	2.5
11	Increase forest clearing activities		6.2	6.2
<b>Household assets</b>				
12	Sell domestic assets (furniture...)	0.8	3.8	3.0
13	Sell productive assets (farm implements, sewing machines, motorbikes...)	0.6	3.2	2.6
14	Sell land	1.3	1.8	0.5
15	Sell jewellery	3.3	11.2	7.9
<b>Others</b>				
16	Consume seed stocks held for next season	4.1	9.1	4.9
17	Decrease expenditure on fertilizers, pesticides, animal feed, etc.	5.0	6.5	1.5
18	Reduce expenditure on healthcare	18.9	34.6	15.7

Source: Survey of 1070 households by CEA in 15 target villages (July, 2009) and Survey of 991 households by CDRI in 14 target villages (June, 2008)

<sup>2</sup> National Institute of Statistics (NIS), Ministry of Planning

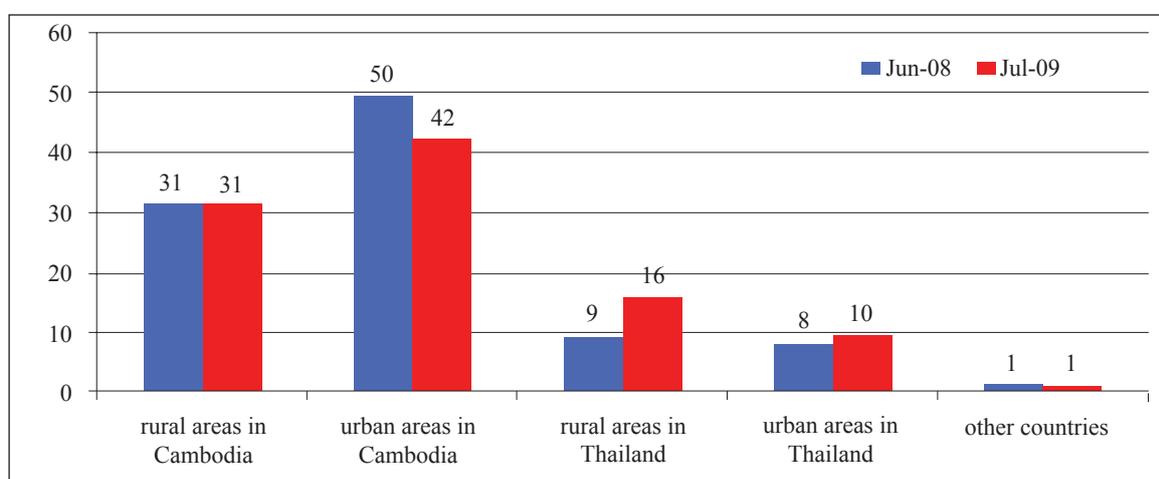
“71% of the surveyed households reported having outstanding loans while 70% of the loans were taken out during the first half of 2009”

A greater number of households had members participating in migration – 24% of the surveyed households engaged in migration, which was an increase from 15% in 2008. With the exception of dry season rice villages, migration increased in all other villages; however, increased migration in land abundant villages is on one hand due to prolonged drought and on the other hand explained by employment opportunities available from economic land concessions in nearby provinces. Nevertheless, 62% of migration was reported as a coping mechanism to deal with households’ decreased income,

increase from 2008), followed by poor urban villages (15% higher than in 2008), and the highest percentage of households reported the alarming fact that the first challenge was to repay debts in cash crop villages (21%), followed by the fishing village (19%) and land abundant villages (15%).

A high proportion of loans were incurred for non-productive purposes, while only 34% of loans were reported as helping households better-off. Out of all loans, 52% reported that the first reason was for

**Figure 1: Migration destinations (as % of households whose members migrate)**



Source: Survey of 1070 households by CEA in 15 target villages (July, 2009) and Survey of 991 households by CDRI in 14 target villages (June, 2008)

while in 2008 only 33% had reported using migration as a means to cope with livelihood difficulties. The major destination of migration workers was to urban and rural areas in Cambodia comparing to other locations, which remained unchanged from the 2008 survey. However, the proportion of migration to rural Cambodia remains unchanged and there is decline of migration to urban Cambodia, while migration to rural Thailand almost doubled. Notably, migration is most common among poor households.

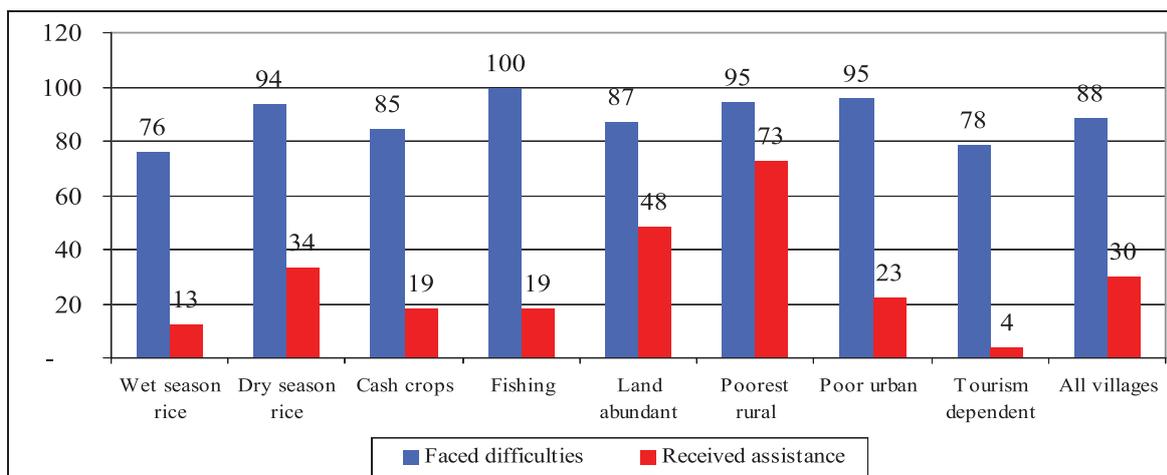
The percentage of households taking out loans has increased and the inability of households to repay debts is deteriorating alarmingly. Households who borrow make up 71% of all surveyed households, an increase from 62% a year earlier. Of loans taken out, 70% were entered into between January and July 2009. The highest proportion was in the fishing village (91%), followed by land abundant villages (79%), and cash crop and poorest rural villages (72%). However, the increase was highest in cash crop villages (a 25%

business expansion and agriculture production, while their agriculture often is largely dependent on natural factors. The highest proportion of households borrowing for agriculture production was in cash crop villages (50%) and for business expansion in the fishing village (79%). The remaining 48% of the loans were largely for food consumption, health expenses, repaying debts and building houses. The borrowings for food and health expenses were highest in poorest rural, poor urban and fishing villages.

### Coverage of External Assistance to Households and Communities

Despite facing challenges, fewer households reported having received aid from external sources, such as the government and NGOs, but that the distribution of aid was better targeted according to the survey. Only 30% of the surveyed households received assistance in the past six months, down from 48% the previous year. The distribution of aid shifted. The decline of aid-recipient

**Figure 2: Percentage of households facing difficulties and receiving assistance in the first semester (Jan-July), 2009**

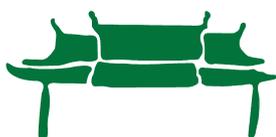


Source: Survey of 1070 households by CEA in 15 target villages (July, 2009)

households in wet season rice and cash crop villages represents an increase of households receiving aid in land abundant villages. Notably, the percentage of aid-recipient households in poorest rural villages remains highest (73%) and is unchanged from the previous year. Also, the proportion of households in poor urban and fishing villages who received assistance in 2009 was similar to that in 2008, but more households in dry season rice villages received assistance, though these villages were least affected by the economic downturn.

Among aid-recipient households, the common forms of assistance that they received in the past six months were free healthcare service (36%), school meals (26%),

micro-credit (14%), and food for work (10%). Aid from the government and NGOs often complement each other. For instance, when NGOs provide school meals and food for work to the poorest rural villages, government aid is provided through a free healthcare service, and when government aid is limited in poor urban villages, the NGOs provide free healthcare services in these communities. Furthermore, despite receiving that aid, the households still largely expressed their preference for assistance, such as free healthcare services, micro-credit with low interest rates, free food distribution, and animal feed/raising. Other preferred forms of aid, for instance, are fertilizers (for wet-season rice villages), agricultural inputs and skills (both wet season rice and dry season rice villages), and fishing gear and land (for the fishing village).



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