



# COUNTRY REPORT OF THE ASEAN ASSESSMENT ON THE SOCIAL IMPACT OF THE GLOBAL FINANCIAL CRISIS: CAMBODIA

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## **I. THE IMPACT OF THE CRISIS AND THE GOVERNMENT'S RESPONSE**

**Cambodia's economy achieved a remarkable decade of rapid growth but is expected to have contracted considerably in 2009.** Between 1998 and 2007, yearly GDP growth averaged 10 percent. This good performance was fuelled by four sources of growth: rapid garment export growth, high tourism receipts, a continuing construction boom, and volatile but increasing yields in agriculture. This growth was underpinned by an open trade regime (exports have increased by 23 percent per annum since 1998) and a favorable investment regime for foreign direct investment (FDI has been higher than 6 percent of GDP in recent years). However, Cambodia's economy is expected to contract by 1 percent in 2009 after a slow-down in growth to 5.5 percent in 2008. The fiscal deficit is projected to rise to 4.8 percent of GDP in 2009 compared with 2.2 percent in 2008. As in the past, the deficit is expected to be fully financed by external sources. In the light of the current global economic developments, any forecasts for 2010 can only be highly uncertain at best. However, it is fair to say that overall growth in Cambodia crucially depends on the speed of recovery in the US and Europe. Prolonged contractions in the developed world are likely to have a heavy negative impact on economic development and on poverty reduction efforts in Cambodia.

**The impact of the global financial crisis is increasingly been felt in Cambodia in dramatic declines in key sectors that are causing significant reductions in employment.** Cambodia is particularly vulnerable to spill overs from the global financial crisis given its narrow production base, concentration of exports by product and destination, and dependence on external inflows. Three out of the four engines of Cambodia's growth are substantially vulnerable to spill overs from the global financial crisis. Due to the slump in global demand, particularly in the US, Cambodian garment exports to the US and overall shrank by 20.6 and 7.8 percent respectively in the first quarter of 2009 compared with the previous year. The number of tourists travelling to Cambodia has also gone down in the first two months in 2009 (minus 7 percent in February 2009 compared the same period in 2008), and many hotels are running at only 20 to 30 percent capacity), although it is still well above the figure for 2007. The third major driver of growth – construction and real estate – has also suffered. Imports of construction materials were 7 percent lower in the fourth quarter of 2008 than in the same quarter in 2007. Property prices in and around Phnom Penh are reportedly down by as much as 25 percent from their historic highs in mid-2008 after rising 50 to 100 percent in the preceding year, and the number of construction projects approved in Phnom Penh in February 2009 declined by 14 percent compared with the same period in 2008. On the other hand, the agricultural sector remained relatively healthy, particularly due to increased rice yields in 2008. Although agriculture is vulnerable to climatic and commodity price uncertainty, it may be able to serve as a much-needed safety net for the poor by providing them with food security and employment opportunities. Overall, estimates of the impact that the crisis is having on GDP in different sectors vary considerably (see Table 1), thus leads to uncertainty about the real picture.

**Table 1: GDP Forecasts**

Structure	Sector	WB	2009 IMF	ADB
26.5	Agriculture, fisheries, and forestry	3.7%	1.5%	5.0%
14.4%	Crops	4.1%	3.0%	6.0%
4.0%	Livestock	3.0%		5.0%
6.3%	Fisheries	4.0%		2.5%
1.8%	Forestry	1.0%		1.0%
27.9%	Industry	-6.3%	-2.8%	0.0%
20.3%	Manufacturing	-7.0%	-4.0%	0.0%
15.8%	Of which: Textiles	-9.0%	-5.0%	-5.0%
6.6%	Construction	-6.0	-2.0%	-1.5%
1.0%	Other	4.7%		10.3%
36.9%	Services	-0.2%	-2.1%	3.0%
8.3%	Trade	0.0%	-5.0%	-1.0%
4.5%	Hotels and restaurants	0.0%	-6.0%	-2.0%
26.1	Other	-0.3%	-0.5%	7.3%
8.0%	Taxes less subsidies	-1.0%		0.0%
100.0%	Total GDP	-1.0%	-0.5%	2.5%

Sources: World Bank Country Office, Cambodia and the Cambodian Economic Monitor.

**The number of jobs at risk is highest in urban areas where there is a greater concentration of jobs in the sectors most affected by the crisis.** Households from all income deciles are being affected, but the negative impact on income seems to be greatest for the poor. Understanding the employment structure within the most affected sectors can help to identify emerging vulnerabilities. Knowles (2009a) has used data from the Cambodian Socioeconomic Survey (CSES) of 2007<sup>1</sup> to shed some light on the structure of employment and income generation in sectors affected by the crisis (in other words, the garment, construction, and tourism industries). These data suggest that the number of vulnerable jobs as a percentage of all household jobs is highest in urban areas because rural areas rely more on agriculture.<sup>2</sup> Roughly 21 percent of all Cambodian households have at least one member who works in a sector considered vulnerable. Jobs in tourism are concentrated in households in richer deciles, whereas members of households in poorer deciles tend to be employed in the construction sector. The garment sector appears to attract household members from all income deciles. Data also suggest that poorer households are more diversified in terms of their sources of income than households in the upper deciles (Annex Tables 1, 2, and 3). Compared with those in the richest deciles, they generate their incomes from different activities (in the agricultural, business, and industry sectors), and the number of households with more than 50 percent of all members' jobs being in vulnerable sectors is smaller for the lowest decile than for the highest. However in terms of total income, the picture is reversed. The poorest decile generates more income from jobs in vulnerable sectors, and an increased risk of losing a job in a vulnerable sector has a greater impact on the income of poorer households.

<sup>1</sup> This was the latest CSES dataset available while this report was being written.

<sup>2</sup> Knowles (2009a) uses the term "vulnerable jobs" to refer to jobs in the sectors expected to be most heavily hit by the financial crisis, in other words, the tourism, garment, and construction sectors. In this context, the term "vulnerable jobs" does not imply anything in particular about the wage or earnings structure in the sector.

**The most severe impact of the crisis is expected to be on the garment sector, which accounts for about 16 percent of Cambodia's GDP.** A recent study by Chandararot et al (2009) has estimated that, by the end of 2009, more than 45,000 workers may have been made redundant in the garment sector.<sup>3</sup> In addition to cutting jobs, many firms have been reported to adjust to economic strains by reducing the number of hours worked by their workers in the short term. Participants in focus group discussions (FGD) conducted for Chandararot et al (2009) stated that, in recent months, their number of hours worked has been reduced by two to four hours a day. Firms are also reducing the length of contracts from six to three months in order to tide themselves over the slump. There is also some evidence that wages in the garment sector have gone down, so undoubtedly garment workers have suffered from severe drops in household income. The capacity of these workers to find new employment opportunities also seems limited. In the FGD, participants mentioned that they hardly have any skills and knowledge of other sectors and that they have little social capital and limited private funds to finance any job-seeking activities. Some indicated that their savings will only be sufficient to finance job-seeking activities for an additional month, meaning that there is considerable potential for many of these workers to move back to their home villages.

**Due to the reduction in FDI, many projects in the construction sector have been scaled down or abandoned altogether, resulting in significant job losses.** The FGD discussions made it clear that more than 30 percent of jobs for both skilled and unskilled workers have evaporated. Furthermore, Chandararot et al (2009) have estimated that more than 60,000 jobs in the construction sector will be cut by the end of 2009, with no improvement in sight. Turk (2009) has also reported on FGD with unskilled construction workers, who also reported a dramatic reduction in available work, estimating that they had been working for only 10 to 20 days a month over the previous few months. Daily wages rates had not changed, but the reduction in these workers' earnings had led them to have to cut back their consumption and remittances.<sup>4</sup> Construction workers are predominantly men who have migrated into urban areas from their home villages. A majority of the workers who participated in the FGD reported that they would immediately go home to help their families in rural areas to harvest rice if and when they were laid off and might come back to the city only after the employment situation improves.

**The employment situation in the tourism sector is expected to remain stable throughout 2009 although there are some signs that the number of international tourists is decreasing.** Because employees in this sector are usually informal workers, firms in this sector have initially reacted to their reduced revenues mainly by reducing the number of hours worked by their staff instead of laying them off. Turk (2009) has reported that, in some regions in Cambodia (such as Siem Reap, Phnom Penh, and Sihanouk Ville), tuk-tuk and cyclo drivers have seen a significant drop in their earnings per day. There are essentially two reasons for this. On the one hand, the number of tourists may have gone down. On the other hand, it has also been documented that the number of cyclo drivers has gone up drastically in recent months. Although standard rates in Phnom Penh, for example, have gone up, cyclo drivers' overall income has been reduced.<sup>5</sup>

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3 The Garment Manufacturer Association of Cambodia (GMAC) reports that 25,000 jobs were already cut in 2008 as a consequence of the economic and financial crisis.

4 Although this has not been reported by participants in FGD, official figures suggest that prices actually declined in March 2009, thus increasing real wages. However, there was no indication that declining prices had had an effect on the interviewed workers.

5 In Turk (2009), cyclo drivers in Phnom Penh reported a significant increase in competition due to the existence of more taxi, cyclo, and tuk-tuk drivers.

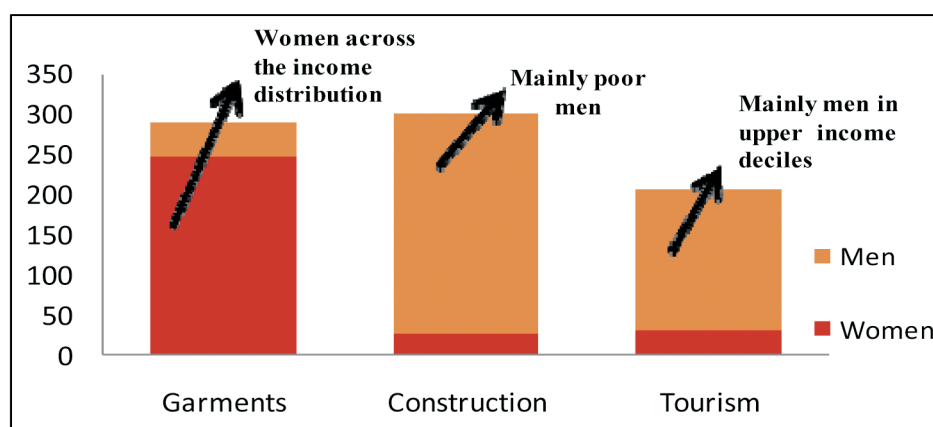
**The crisis is increasing pressure on the agriculture sector to absorb the spillover effects from urban areas while reducing rural households' sources of income because of the decline in remittances.** Employment in agriculture is expected to have increased by as many as 800,000 jobs between 2008 and 2009 due to the increase in subsistence farming by retrenched workers from other sectors. Reverse migration will help to ease the negative effects of the economic crisis, and the relatively healthy agricultural sector could therefore play an important role as an informal safety net. This will increase pressure on those rural families who are already losing remittances, a critical source of cash income for purchasing farm inputs and for managing the two to three months of the pre-harvest season when many households face rice shortages. The impact is likely to be particularly severe for those who have sold their land over the last few years and invested the money in small, off-farm businesses, as their livelihoods are based on a combination of local work and remittances.<sup>6</sup>

**Observed household crisis-response mechanisms and the gender division of labor in the labor market both suggest that the crisis is affecting men and women differently.** The three sectors most affected by the crisis in Cambodia are the garment sector, construction, and tourism. In the garment sector, workers are mostly female (86 percent) and are fairly evenly distributed across the income distribution. Thus, any adverse effect of the global slowdown on this sector is likely to disproportionately affect women, though probably not only poor workers. These women are living on reduced incomes and in FGD have expressed high levels of anxiety about their job security and their ability to support both their nuclear and extended families. In contrast, construction sector and tourism workers are mostly male (91 and 85 percent respectively), with construction workers relatively concentrated among the poor and tourism workers clustered in the upper income deciles. Hence, a slowdown in these two sectors would largely affect poor households through the impact of the crisis on the construction sector. Women in both urban and rural areas have reported increased tension within their households. In rural areas, there have been reports of increased domestic violence, and participants in the FGDs have also reported that many laid-off female garment workers have been forced to take jobs in the entertainment sector or on other jobs that entail a high risk of sexual harassment.

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<sup>6</sup> However, Knowles (2009a), using CSES data from 2007, showed that the share of remittances in total income for rural households remains low.

**Figure 1: Jobs in Vulnerable Sectors by Gender**



Source: 2007 Cambodia Socioeconomic Survey

**The overall impact of the crisis on poverty in Cambodian households is expected to be significant, with expectations that poverty will increase in both absolute and relative terms.** In per capita terms, the latest GDP growth projection is negative 2.5 percent compared with the 5.5 percent forecast in April 2008. Knowles (2009b) has calculated that the poverty headcount will increase from 30.1 percent in 2007 to 31.9 percent in 2009 (at the peak of the crisis) before decreasing to 29.4 percent in 2010. Recent projections suggest that the number of poor people in Cambodia as measured by the US\$1.25 per day poverty line will increase by roughly 200,000 individuals in 2009 (World Bank, 2009c). It should be noted that projections in general are highly volatile and sensitive to the model's underlying assumptions. However, they should be regarded as providing a range of possible outcomes.

### Monitoring

**No *ad hoc* monitoring system has been put in place to track the effects of the economic crisis in the country.** The main sources of data for crisis monitoring are the existing data collection systems administered by the National Statistical Department and by a few line ministries. Most of the results in this report are collected from ad hoc surveys conducted by donor organizations and research institutes. The Royal Government of Cambodia uses four major surveys to monitor social developments – the Cambodia Socioeconomic Survey (CSES), the Labor Force Survey (LFS), the Census and Cambodian Inter-Censal Population Survey (CIPS), and the Cambodia Demographic and Health Survey (CDHS). The Cambodian Labor Force Survey is conducted irregularly and with very low frequency, as are the CIPS and the CDHS. The CIPS is an update to the regular census that is conducted every 10 years. It includes topics such as migration, education, and labor force participation. The CDHS is a general health survey covering topics such as child nutrition, maternal health, and HIV. It is conducted every four years, although UNICEF



recently conducted an anthropometric survey very much in line with the methodology used for the CDHS. The most promising system for obtaining regular high-frequency estimates and indicators on the labor market is probably the CSES, which is conducted continuously throughout the year and, for 2009, is nationally representative on a semi-annual basis. The CSES collects data on household expenditure, income, health, education, and housing.

**The Ministry of Health (MoH) has recognized the need to monitor the impact of the food, fuel, and financial crises on health and is discussing a list of indicators that should be monitored on a regular basis.** This reflects their fear that the food price crisis had a severe negative impact on people's health spending and nutritional standards. The MoH intends to collect data on the following indicators: (i) the MoH's 2009 disbursements; (ii) the financial access or the financial barriers to access that the poor have to the health system; (iii) what funding support donors are giving to the health sector's Annual Operational Plan and to provincial health authorities; (iv) the availability of essential drugs; and (v) levels of service use, especially among women and children.

**Table 2: Surveys Regularly Conducted in Cambodia**

Survey	Characteristics	Latest results	Next round
CIPS	The Cambodia Inter-Censal Population Survey 2004 (CIPS) collects up-to-date information on population characteristics and household facilities and amenities, including topics such as migration, labor force participation, literacy, and education levels	2004	n/a
LFS		2001	n/a
CSES	LSMS-type survey, integrated household survey	2008 (processed: 2007)	yearly
CDHS	Health and demographics	2005	n/a
Census	Fully fledged census	Every 10 years; data for 2008 will be available by 09/2009	n/a

Source: Cambodian National Institute of Statistics

### **The Government's Response**

**In February 2009, the government announced the introduction of a stimulus package as a response to the global financial crisis.** In addition to decreasing the banks' reserves requirements for loans from 16 to 12 percent, the government adopted a counter-cyclical fiscal policy, implemented measures to contain manufacturing costs and increased planned public investments in transportation, irrigation, agriculture, and safety nets. In the agriculture sector, the government has increased the 2009 budget allocations for seed distribution, the registration of farmer associations, and the operation and maintenance of irrigation schemes. It has also provided an increased credit

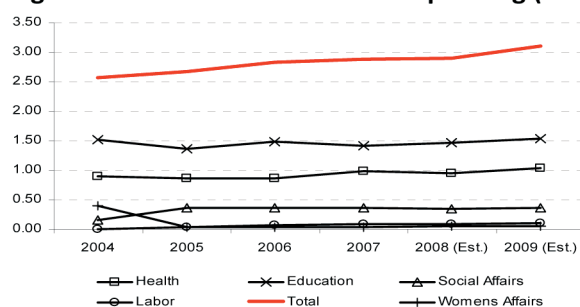


line of US\$18 million through the Rural Development Bank (RDB) to private rice millers, input suppliers, and farmer associations, and it has strengthened its oversight of the quality and price of imported fertilizers.

## II. SOCIAL PROTECTION POLICIES AND PROGRAMMES IN PLACE AT THE ONSET OF THE CRISIS

**Despite improving trends, the budget for the social sector remains low by East Asian standards.** The budget for social ministries increased by one-half of a percentage point between 2004 and 2009 to 3.1 percent of GDP.<sup>7</sup> This proportion remains lower than the East Asian average. In the rest of the region, public spending in education alone was 4.3 percent in 2004 (Figure 1).

**Figure 2: Trends in Overall Social Spending (% of GDP)**



Sources: Ministry of Economy and Finance and World Development Indicators

**Given the current budget structure, it is hard to determine the level of government spending on social protection and safety nets.** The new budget structure, in use since 2007, has two chapters (64 and 65) in which some items labeled as social interventions.<sup>8</sup> Government expenditure on these items amounted to a total of US\$181 million across all government agencies in 2008, which was a 55 percent increase over 2007. Nevertheless, given the level of aggregation in the budget, it is not possible to determine how much of this amount is being spent on social protection and safety net activities and how much on other types of social interventions. Furthermore, nearly all existing government agencies report having some spending on these chapters, though not all actually have a mandate to pursue a social agenda.<sup>9</sup>

<sup>7</sup> The Royal Government of Cambodia includes the Ministry of Information, Culture and Fine Arts, the Ministry of the Environment, and the Ministry of Public Worship and Religion in its classification of social ministries. However, for the purpose of this review, a more conventional definition of social sectors is adopted, limited to the Ministry of Education, Youth, and Sports (MOEYS); the Ministry of Health (MoH); the Ministry of Social Affairs and Veterans and Youth Rehabilitation (MOSVY); the Ministry of Labor and Vocational Training (MOLVT); and the Ministry of Women's Affairs (MOWA).

<sup>8</sup> Chapter 64.5 is called "Allowances and Social Transfers" and includes: (i) family; (ii) health and births; (iii) death; (iv) retirement; (v) demission; (vi) work accidents and invalidity; (vii) orphans of [what?] personnel; (viii) other; and (ix) return attenuation. Chapter 65.7 refers to "Social Assistance", which includes: (i) assistance for hospitalizations; (ii) medication; (iii) food and supplies; (iv) natural disasters; (v) research stipends; (vi) local scholarships and research; (vii) overseas scholarships and research; and (viii) others. Chapter 65.8 refers to "Subsidies for cultural and social entities", including subsidies for: (i) communities; (ii) orphanages; (iii) travel scholarships; (iv) the Red Cross; (v) sport and cultural associations; (vi) rehabilitation centers; and (vii) the King's charities.

<sup>9</sup> To a large extent, the observed increase in social spending between 2007 and 2008 was due to increases in spending by non-social ministries such as Ministry of Water Resources and Meteorology, the Constitutional Council, the Ministry of Industry, Mines, and Energy, and the Ministry of Agriculture, Forestry, and Fisheries. Therefore, it is hard to assess whether the observed increase corresponds with an increase in spending on actual social programmes (in particular safety nets).

**Safety nets in Cambodia comprise scholarships and fee waivers to help the poor to access services, as well as a number of food-related programmes that are mostly financed by donors.** Education and health subsidies of various types help the poor to access basic social services and act as safety nets to protect human capital. Apart from education and health interventions, safety net programmes consist mainly of food distribution, food-for-work programmes, and labor-intensive public works programmes, all of which tend to be funded by donors. Most programmes only exist on a small scale or as pilots, as there is no systematic social protection framework in place in Cambodia. The fact that the majority of funding for safety net programmes is provided by Cambodia's development partners raises the question of whether these programmes can be sustained over the long term.

**The government has implemented a successful scholarship programme to help children from poor families to attend secondary school and is planning to extend it to primary schools.** The Ministry of Education, Youth, and Sports (MoEYS) began implementing the Scholarship for the Poor programme in 2006. As of October 2008, the programme covered 21,459 secondary school children across all provinces with the exception of Phnom Penh. Eligible children are selected in the following way. School management committees distribute a form for students to fill in that collects information on their living standards. The school then collects all of the forms and compiles a database of their responses, which is sent to the MoEYS. The ministry contracts with a private firm to calculate an index based on the collected information, and the MoEYS then awards the scholarships to the 50 percent of students with the highest poverty index. The poorest half of that 50 percent is labeled as "very poor" and the other half as "medium poor." An evaluation of the Scholarship for the Poor programme has shown that it has increased secondary school enrollment by 20 percent (Filmer and Schady, 2009). Building on this success, a pilot project is currently underway exploring the potential for applying this programme to primary school enrollment as well.

**User fee exemptions backed up by Health Equity Funds (HEFs) are used to increase the access of the poor to health care.** HEFs reimburse health providers for caring for patients who are classified as poor. This protects poor patients from having to pay user fees that might otherwise prevent or deter them from obtaining treatment, while ensuring that facilities still receive income (without which an exemption policy might create an incentive for facilities to deny or ration treatment to poor patients). As of March 2009, there were 50 HEFs in place, covering about 3,168,883 people or about 68 percent of the poor population in Cambodia. HEFs are managed cooperatively by the government, its development partners, and local NGOs and are financed by a combination of the regular government budget and additional support from development partners (which added up to a total of US\$1.4 million in 2008). HEFs work closely with the Identification of Poor Households Programme. Poor individuals, whether identified through the Identification of Poor Households process or by medical staff when the individuals arrive at the health facility, are exempted from paying for all of the costs of their hospitalization and other medical services and are reimbursed for any expenses they may have incurred for transportation and food during their stay in the hospital.

**In order to protect individuals who are above the poverty line but are at risk of falling into poverty as a result of having to pay health care costs, community-based health insurance (CBHI) schemes have also been implemented.**

These schemes target the near-poor who can afford to pay the minimal amount that constitutes the premium contribution for this insurance in exchange for a defined health care benefit package. There are currently 12 schemes in operation across the country covering about 73,828 members. As a way to broaden coverage and increase the sustainability, efficiency, and purchasing power of individuals, a pilot project linking health equity funds and CBHI has been implemented. Other countries have addressed the issue of the near-poor by covering health care costs above an annual or episode maximum for the non-poor. This is an option that the Royal Government of Cambodia might wish to explore to increase the risk reduction impact of equity funds.

**Unconditional cash and near-cash transfers are targeted mostly to public employees and formal sector workers rather than the rural poor.**

The Ministry of Social Affairs, Veterans, and Youth Rehabilitation (MoSVY), which is responsible for social security programmes for public sector employees, and the Ministry of Labor and Vocational Training (MoLVT), which is responsible for private sector workers, spent roughly US\$35.7 million on social interventions in 2008, 98 percent of which was spent by the MoSVY (US\$35 million). The majority of these funds are spent on unconditional cash and near-cash transfers for civil servants and veterans, which means that they act more as social protection than safety nets. All retired and disabled civil servants and veterans, as well as their widows and orphans, are entitled to benefits in the form of a pension and compensation. The MoLVT, on the other hand, is responsible for the National Social Safety Fund (NSSF), established in 2008, which aims by 2012 to provide all private sector employees of firms with more than eight employees with: (i) employment injury coverage; (ii) health insurance; and (iii) pension coverage. With the introduction of the NSSF, social spending by the MoLVT has increased by over 300 percent since 2007 to roughly US\$668,000 in 2008. As of February 2009, the NSSF had enrolled roughly 400 firms in the employment injury scheme, about 250 of which are garment factories, covering a total of roughly 300,000 workers.<sup>10</sup>

**The government relies on its development partners (mainly WHO, UNICEF, the WFP, and the FAO) for food distribution and for additional health, nutrition, and child protection programmes.**

The World Food Programme (WFP) remains the largest implementer of food-related programmes. In 2008, it distributed 28,133 metric tons of rice to 886,929 beneficiaries in Cambodia, for a total value of US\$23.2 million through its Food for Work (FFW) programme. The WFP also implements a nutritional programme called the Mother and Child Health (MCH) programme, which distributes monthly food rations to pregnant and lactating mothers in food-vulnerable communities. The WFP works in partnership with local NGOs, who handle the food distribution, as well as with health centers, which provide basic health education as the food is being distributed. Other joint programmes run jointly by the Royal Government of Cambodia and the WFP include school feeding and food distribution to tuberculosis and HIV/AIDS patients. Since 2006, UNICEF has invested roughly US\$16 million per year on strengthening basic social service provision in Cambodia, and plans to invest an additional US\$13 million in both 2009 and 2010. UNICEF works closely with governments at both the national and sub-national levels, including providing support to provincial, district, and

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<sup>10</sup> This information was gathered in personal interviews that Bank staff held with NSSF representatives

commune structures in six priority provinces (Kampong Speu, Prey Veng, Svay Rieng, Kampong Thom, Stung Treng, and Otdar Meanchey). WHO and UNICEF provide significant technical assistance to the Ministry of Health and, more specifically, to the National Maternal and Child Health Center and the National Nutrition Programme. In addition, UNICEF is supporting the establishment of national community-based systems for delivering nutrition-specific messages, services, and food commodities and for encouraging better nutritional practices at the community, family, and individual levels.

**Some workfare programmes have also been put in place to provide temporary employment to the poor while at the same time improving local infrastructure.** In addition to WFP's Food for Work programme, the government has endorsed labor-based appropriate technologies (LBAT) to generate employment through the improvement and maintenance of essential rural infrastructure. The ILO and the ADB have been the government's main development partners in funding and implementing the Mainstreaming Labor-Based Road Maintenance to the National Road Network programme. Between 2006 and 2008, the ILO channeled nearly US\$4.8m, roughly half from the Royal Government of Cambodia and half from the Japanese Fund for Poverty Reduction, to this project. Between 2007 and 2008, the ADB also provided US\$690,398 to this programme. The government implemented this project through two agencies and coordinated its efforts through technical working groups.

**As part of the social protection effort, the government and its development partners are developing interventions to improve the targeting of assistance to the poor.** The government's officially mandated targeting programme in rural areas is the Identification of Poor Households (IDPoor) Programme of the Ministry of Planning (MoP), which is supported by the German government through German Technical Cooperation (GTZ). The IDPoor identification procedures are consultative and participatory. Village representatives conduct interviews using a standard questionnaire with objective criteria based mainly on the families' assets, and the community is able to consult and validate the conclusions of these questionnaires. The MoP coordinates and monitors the entire process, distributes data on poor households to decision-makers and service providers, and issues Equity Cards to poor households that identify them as qualifying for free or subsidized medical assistance at public health centers. During 2007 and 2008, the IDPoor programme identified poor households in five provinces and a total of around 2,100 villages, and in 2009 it extended its coverage to about 3,000 more villages in seven provinces. All areas covered by the IDPoor system during that period have been areas in which Health Equity Funds (HEFs) operate.

### **III. ADJUSTMENTS MADE TO SP PROGRAMMES IN RESPONSE TO THE CRISIS**

**The government took immediate measures to respond to the effects of the food and fuel crisis of 2008.** Its social protection response to the financial crisis, on the other hand, does not seem to have been as broad though it is hard to draw a clear line between its various responses. In February 2009, the government announced the introduction of a stimulus package that decreased bank reserve requirements and increased planned public investments in transportation, irrigation, and agriculture. The safety net interventions introduced in the stimulus package were more limited than the measures adopted in response to the food crisis, but several food programmes introduced at that time were carried over and expanded to protect household consumption.

**In early 2008, the government took steps to mitigate the impact of the food and fuel crisis on Cambodian households and farmers by introducing cash transfers, salary increases, rice subsidies, and lower duties on imported agricultural inputs.** The government instituted pay and allowance increases for several groups, including increasing the basic salary for civil servants and retirees (by 20 percent), allowances for teachers (by 10 percent), and salaries for garment workers (by 6 percent). The family allowance was also doubled. In an attempt to stabilize prices, the state-owned company Green Trade purchased approximately 300 metric tons of rice that was then sold at subsidized prices for as low as 30 percent below the prevailing market price in urban markets in Phnom Penh and Siem Reap. Although the subsidy was limited in scale, this release of rice was complemented by similar releases by private millers to whom the government extended low-cost credit to buy larger stocks to stabilize flows of rice out of Cambodia. The government also temporarily lifted the ban on pork imports, and, as international fertilizer prices rose rapidly, in May 2008, it exempted imported agricultural inputs from import duty and VAT.

**In March 2008, the government followed other Asian exporters in imposing an export ban on rice, but it was the first exporter to lift the ban, with a positive impact on global rice markets.** The original decision was taken with the aim of ensuring adequate domestic supply and of stabilizing rice prices following export curbs imposed by India, China, and Vietnam. The export ban had the immediate effect of reducing the domestic price of rice by about 10 percent. By the end of May 2008, the government lifted the ban as soon as it anticipated that the following harvest would yield a surplus that would exceed domestic requirements. Reflecting the psychological dimensions of the sharp climb in rice prices, the lifting of the ban by Cambodia was immediately followed by rice futures tumbling by 50 cents per 100 pounds to below US\$20, which helped to calm international markets.<sup>11</sup>

**The government also expanded its own programmes of targeted food distribution and agricultural input support and mobilized additional donor resources for these pro-poor interventions.** In September 2008, the government established the multi-ministerial Food Emergency Working Group to coordinate direct assistance to vulnerable households and smallholder farmers with WFP and ADB Emergency Food Assistance. Superior rice seed was also purchased and distributed, and other donors supported the distribution of agricultural inputs as well as emergency assistance.

**In order to address the problem of laid-off urban workers, starting in May 2009 the Ministry of Works and Vocational Training implemented a “cash for training” programme that provides short-term vocational training for 40,140 laid off workers.** Of these, 76.5 percent have been trained in agricultural practices, while the rest have been trained in industry and mechanical skills. The total spending on this programme was 17.3 billion Riels, which is equivalent to US\$4.2 million. The training expenditure includes the payment to each participant of 4,000 Riels (US\$1) per day for food and 40,000 Riels (US\$10) per month for accommodation.

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11 International Food Policy Research Institute (2008).

#### IV. REMAINING SP POLICY ISSUES TO BE ADDRESSED OR FURTHER ANALYZED

**The recent succession of crises has highlighted how existing systems can shape SP responses.** The recent global economic crisis has emphasized a number of existing limitations in the social protection policy frameworks and response capacities. Waiting until the onset of a crisis to introduce programmes, develop delivery systems, or strengthen targeting systems is likely to result in delays in mitigating the hardship being suffered by those negatively affected by the crisis. There are a number of implementation, institutional, and financing issues facing existing safety net programmes in Cambodia. Moreover, given the many sources of vulnerability faced by the poor, safety nets ought to be a key component of social protection development, which is not currently the case. In order to make SP programmes more effective in managing social risks, several challenges need to be addressed.

##### **Challenges in the Implementation of Existing Interventions**

**Existing safety net interventions exclude some important vulnerable groups. Urban areas are often left out of current safety net interventions.** While there are significantly fewer poor people in urban areas than in rural ones, pockets of extreme poverty do exist in urban areas. Existing interventions also often fail to assist those who have only recently fallen into poverty or are poor for only a transient period, such as farmers during the lean season or victims of natural disasters. In order to tide the short-term poor over during these periods, the government might consider expanding and improving existing workfare programmes in selected areas. Malnutrition also remains one of the most severe challenges in Cambodia, but no instruments have yet been developed that can meet the full extent of this challenge.

**Existing interventions are largely food-based, and there is scope for piloting other types of safety net programmes that have proved successful in other countries, such as cash transfers.** These other types of safety nets have the advantage that they directly counteract shortages and provide households with a stable flow of food. However, in building a more comprehensive safety net system, there may be a need to complement this in-kind assistance with cash-based interventions to help poor households cope with the whole range of vulnerabilities that they face (in other words, the inability to satisfy all of their non-food needs). The Scholarship for the Poor programme has achieved positive outcomes, albeit on a small scale. It might be worth drawing lessons from this model to address the widespread stunting and wasting problem among Cambodia's children by piloting incentive-based cash transfer schemes that offer compensation that is conditional on beneficiaries bringing their infants and children to health clinics for checkups and attending training on good nutritional practices.

**Targeting has not yet been mainstreamed, and programmes should draw from common targeting mechanisms when possible.** Even when programmes make use of targeting, many still rely on ad hoc procedures whose accuracy has not been proven. This is unsatisfactory given the relatively high cost of targeting, and policymakers should investigate which methods are the most effective and cost-effective. A strong candidate for further development is the government's Identification of Poor Households targeting system. Also, the experience of other countries has shown that poverty/vulnerability maps can be developed at low cost and used to target certain forms of safety net support and self-targeted workfare where IDPoor has not yet identified poor households or in circumstances

of rapid change when a significant number of people may have fallen below the poverty line in a short period of time.

**Finally, there is a need for better monitoring and more rigorous evaluations of existing interventions to increase their effectiveness.** Having a constant and reliable evaluation process in place makes it possible to make any necessary changes when problems arise in the implementation of any given programme. Few existing interventions or institutions in Cambodia are currently collecting critical monitoring information, which makes it difficult to assess the effectiveness of ongoing programmes. Moreover, there are few rigorous and thorough evaluations of existing safety net interventions, making it difficult to assess how well they perform by international standards and whether there may be areas that need improving.

### **Institutional Challenges**

**Safety nets are often implemented to meet a government's immediate priorities (such as the need to respond to the food crisis) rather than as part of a shared longer-term vision for safety net development.** The frequent changes in priorities dictated by unexpected events such as the food and financial crises tend to hinder the establishment of a longer-term strategy for safety net development. The government needs to devise a longer-term strategy that would not only eventually ensure the long-term protection of the poor and vulnerable but would also enable more effective rapid responses to short-term crises.

**The government and its development partners should try to ensure that SP interventions are more coordinated.** In the absence of a coherent social protection strategy, safety net spending tends to reflect priorities that are dictated by the different interests and earmarked funding sources of the government's development partners. This results in large sums of money being made available for safety net interventions in some sectors (such as workfare), while other equally if not more important areas (such as malnutrition) remain largely uncovered.

**A major constraint in addressing these institutional challenges is the lack of a government body with a clear mandate to coordinate interventions across ministries and development partners and to facilitate and monitor the implementation of cross-sectoral interventions.** As in many countries, safety net interventions are overseen by several different ministries. The MoSVY, MOLVT, and the Ministry of Women's Affairs (MOWA) are all responsible for managing state social services for the wider population and for protecting specific vulnerable groups against risks. However, no government body has the responsibility for coordinating safety net interventions across ministries and development partners or for implementing cross-sectoral interventions. The lack of a clearly designated agency with responsibility for defining an overall strategy significantly impedes the development of a comprehensive social protection and safety net system and of large-scale cross-sectoral interventions.

**The capacity of both the central government and sub-national authorities must be sufficient for the successful implementation of safety net policies and programmes.** Sub-national authorities already play important roles in managing the targeting process in the Identification of Poor Households programme. The ongoing process of



decentralization and deconcentration (D&D) is expected gradually to transfer various functions to the province, district, and commune levels. Policymakers need to take this D&D process into consideration when allocating responsibilities and powers for different aspects of safety net implementation between national ministries and sub-national authorities. During the second half of 2009, research undertaken as part of a broader review of the progress being made in Cambodia's public financial management reform is assessing the current capacity of sub-national authorities to manage, monitor, and account for safety net programmes.

**The most fundamental challenge is that the budget for implementing safety nets remains low.** The majority of funding is provided by Cambodia's development partners and earmarked for interventions that are often implemented in parallel with the government system. The predominance of donor funding also means that these safety net programmes may not be sustainable in the longer term. Therefore, policymaker should explore ways to incorporate programmes currently run by donors into the government's system as part of the process of developing a comprehensive safety net strategy.

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## APPENDIX

**Table A1: Earnings by main sector and by per capita consumption decile, 2007**

Decile	Agriculture (%)	Industry (%)	Services (%)	Total (%)
1	25.9	53.2	20.9	100.0
2	22.2	59.8	18.0	100.0
3	32.8	47.0	20.2	100.0
4	17.3	62.0	20.7	100.0
5	14.9	46.0	39.1	100.0
6	11.8	50.2	38.0	100.0
7	10.2	43.6	46.2	100.0
8	8.3	41.2	50.4	100.0
9	2.9	19.5	77.6	100.0
10	0.3	8.4	91.3	100.0
Total	10.4	33.8	55.8	100.0

Source: Knowles (2009b).

**Table A2: Household exposure to vulnerable jobs by per capita consumption decile, 2007**

Decile	All jobs	Vulnerable jobs	Vulnerable jobs as % of all jobs	% of Households with more than 50% vulnerable jobs
1	4.26	1.36	40.2	32.8
2	4.47	1.38	40.4	40.8
3	4.11	1.43	46.6	44.5
4	3.88	1.32	45.2	47.0
5	3.65	1.39	47.3	44.0
6	3.80	1.27	43.1	36.9
7	3.49	1.30	49.7	53.0
8	3.45	1.34	51.2	53.1
9	3.16	1.26	53.4	56.6
10	2.87	1.42	63.4	78.8
Total	3.71	1.34	47.9	48.4

Source: Knowles (2009b).

**Table A3. Household exposure to income from vulnerable jobs by per capita consumption quintile, 2007**

Decile	Total household income (in Riel)	Income from vulnerable jobs (in Riel)	Income from vulnerable jobs as % of total household income	Percentage of households with 50% or more of their total income from vulnerable jobs
1	509,505	333,784	65.9	75.5
2	559,823	330,384	62.0	67.4
3	483,210	286,679	63.1	65.0
4	514,198	268,762	56.5	64.6
5	549,672	357,125	60.8	70.3
6	529,855	316,599	65.3	77.1
7	528,710	299,133	55.8	56.0
8	781,247	419,498	56.5	54.1
9	855,834	446,719	55.8	54.9
10	1,024,506	469,580	46.4	52.5
Total	635,940	354,550	58.9	63.6

Source: Knowles (2009b).





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