

# **Impacts of the Economic Crisis in East Asia:**

## **Findings from qualitative monitoring in five countries**

*discussion draft*

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# **Impacts of the Economic Crisis in East Asia: Findings from qualitative monitoring in five countries**

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## **I. Introduction**

Effective quantitative monitoring of the poverty and social impacts of the economic crisis calls for frequent labor force and living standards surveys that generate cleaned datasets with minimal time lags. Administrative data can sometimes provide an alternative option for survey-based monitoring where quality is high, collection is frequent and data are shared. But, statistical systems in the low income and lower-middle income countries in East Asia, generally do not supply data with the frequency and speed that are necessary for comprehensive monitoring change during times of economic and social turbulence. The most recent poverty data that are available are from 2007 (or earlier), while only one or two countries have labor force data available from 2009. In some cases, such as Philippines, summary statistics from the Labor Force Survey become available relatively quickly, but unit record data that are necessary for analysis are available only after some delay. As a result, monitoring crisis impacts using quantitative data alone in East Asia is likely to provide only a partial understanding of the poverty and social consequences of economic stress as events unfold.

To improve its understanding of the social impacts of the crisis in real time, the World Bank has supplemented efforts to gather and analyze quantitative data with a series of rapid qualitative assessments. Between March and June 2009, the World Bank supported rapid qualitative assessments of the impacts of the crisis in five countries in East Asia (Vietnam, Thailand, Cambodia, Lao PDR and Mongolia). In both Cambodia and Mongolia, a second round of research was implemented in August 2009, with two more rounds planned in each country before the end of June 2010. Further rounds of research are planned in both Thailand and Lao PDR and a series of four research rounds are expected in the Philippines<sup>1</sup>. This work provided an early assessment of the social impacts of the crisis and is now generating a flow of information on the evolution of vulnerability and resilience to economic stress.

Reflecting the diversity in country circumstances, budgets and economic realities, these assessments have varied in size, scope and emphasis. Collectively these assessments have engaged with approximately 950 people in the five countries so far. These have involved discussions with a broad range of people, including farmers, herders, traders and owners of microbusinesses, informal sector workers, workers in

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<sup>1</sup> In Vietnam, Oxfam GB and Actionaid are working with a local institute to implement repetitive rounds of research.

export-oriented formal sector enterprises, artisanal miners, youth, women, enterprise and industrial park managers, social workers, village and community leaders and NGO personnel. This note summarizes the main lessons and findings from the five first-round assessments and two second-round assessments.

## II. Scope and methodology

Assessments in each of these countries were designed in-country, in consultation with local stakeholders. The design phase involved the identification of likely mechanisms through which crisis impacts would be transmitted and possible groups that might be affected. Research sites, samples and questions were chosen to explore these country-level hypotheses about who might be affected through various mechanisms. Transmission mechanisms and vulnerable groups differed across countries and consequently no two assessments have the exactly same design, though many of the research areas overlap across countries. Table 1 lists the focus of the assessments in the five countries, highlighting the transmission mechanisms explored and the groups that were covered in the research.

Table 1. Focus of rapid assessments in five countries.

	<b>Transmission mechanism explored</b>	<b>Groups covered by research</b>
<b>Vietnam</b>	Labor market shocks resulting from falling demand for exports. Falling domestic demand for goods and services. Falling domestic remittances.	Formal sector workers in export-oriented industries (mostly women) Household enterprises dependent on export markets (men and women) Migrant workers in the informal sector in urban areas (men and women) Remittance-receiving households in rural areas (men and women). Entrepreneurs, industrial zone managers, commune and village leaders.
<b>Thailand</b>	Labor market shocks resulting from falling demand for exports. Falling domestic demand for goods and services. Falling remittances from domestic and overseas sources.	Formal sector workers in export-oriented industries (mostly women) Migrant workers in the informal sector in urban areas (men and women) Remittance-receiving households in rural areas (men and women). Representatives of the business community and NGO communities.
<b>Mongolia (2 rounds complete)</b>	Fall in incomes resulting from adverse movements in commodity prices. Reduced access to basic services resulting from fiscal crisis. Fall in real wages resulting from inflation associated with currency depreciation.	Migrants in urban areas in unstable, low-income occupations. Herding communities dependent on cashmere farming. Artisanal “ninja” miners. Formal sector miners. Commune and village leaders and social workers.
<b>Cambodia (2 rounds complete)</b>	Labor market shocks resulting from falling demand for exports. Falling domestic demand for goods and services. Falling remittances from domestic and overseas sources.	Formal sector workers in export-oriented industries (mostly women) Migrant workers in the informal sector in urban areas (men and women) Remittance-dependent households in rural areas (men and women). Village leaders.
<b>Lao PDR</b>	Labor market shocks resulting from falling demand for exports. Falling domestic demand for goods and services due to contraction of tourism sector. Falling remittances from overseas sources.	Formal sector workers in export-oriented industries (mostly women) Migrant workers in the informal sector in urban areas (men and women) Households whose livelihoods are connected to the tourism industry. Households in rural areas dependent on remittances from Thailand and returned migrants (men and women). Commune and village leaders.

In all countries, the work was carried out in partnership with local research institutes and sometimes with multiple organizations (e.g., Vietnam). The assessments made use of a range of participatory research techniques that are now commonly used in participatory poverty assessments. These include both group-based exercises (such as ranking techniques, time-trend/change analyses or card-based exercises) and individual interviews. In all countries, there were separate meetings with women and in several countries there were separate meetings with young people. These techniques facilitate an analysis of differences in experiences by various people and groups, and all of the assessments have findings that suggest different impacts by sex and/or age. These techniques are also useful to gather information about social relations at the community level.

Participants in the assessments were not selected randomly. Both the small size and the sampling process mean that findings are illustrative rather than statistically representative or generalizable. In Cambodia, the qualitative assessments have been designed to coincide with quantitative data collection exercises. Others have been designed to build on earlier or ongoing research exercises in the same sites (Cambodia, Mongolia and Vietnam).

Although the heterogeneity in country circumstances means every assessment was working to a different research outline, overlapping areas were treated with some consistency across countries. Written guidance given to teams was customized for the country context, but discussions on specific themes were guided by the same core questions. Research teams exploring labor market shocks in export-oriented formal sectors in Vietnam structured their work around the same set of questions as research teams exploring labor market shocks in export-oriented formal sectors in Thailand, Lao and Cambodia. Research teams investigating the impacts of falling remittances were all using the same basic set of questions. In all countries, research teams investigated the same set of questions about access to formal and non-formal safety nets and the costs and benefits of seeking different forms of support.

The intention of the series of assessments was to provide findings quickly, primarily for country and regional level use. The emphasis has not been on the production of edited, finished reports that would suit widespread circulation, and several of the reports are not presented as publishable material. The preference to prioritize rapid results rather than publishable results was prompted by the understanding that the crisis is still evolving, that impacts are changing and that findings may become quickly outdated. The findings have been used quite extensively, including in a variety of briefings and presentations, both in and outside the Bank, but these outputs have generally been prepared after reverting to raw data from focus group transcripts. Country reports will become available on research partners' websites, but readers should approach these reports understanding the tight time limits that were imposed on research teams and the specific instructions to document findings as quickly as possible. The following section provides a summary of some of the findings from the assessments, organized by theme rather than by country. One-page country summaries are planned<sup>2</sup> and readers will find the results for Vietnam, Cambodia, Mongolia

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<sup>2</sup> Contact [cturk@worldbank.org](mailto:cturk@worldbank.org) for more information.

and Lao PDR incorporated in forthcoming notes on the social and poverty impacts of the global crisis produced by the Bank's East Asia region<sup>3</sup>.

### **III. Findings from the assessments**

This section summarizes some of the main findings and messages from the assessments in five countries. There are some caveats to this summary that are important to bear in mind. First, these findings are drawn from research with groups that have been pre-identified as likely to be affected by the crisis. This approach to sampling may have two pitfalls. It may leave out groups that are affected, but were somehow overlooked as the assessment was being designed. Secondly, by excluding groups that are not affected by the crisis, the findings may seem to overstate the importance of the crisis relative to other development challenges. Many of the participants in the research were non-poor, and so mainstream problems of chronic poverty are not captured systematically in this work, despite their importance in determining a medium-term inclusive development trajectory. And because the findings are not nationally representative, it is not possible to give a clear sense of proportion to the findings as national-level phenomena.<sup>4</sup>

Secondly, most of these findings were gathered between March-June 2009 and subsequent work in Cambodia and Mongolia suggests that circumstances may change over time, even over short periods of time. This could be for a number of reasons. Economic fundamentals may still be shifting and impacts may change as a result. Some governments may have intervened with crisis responses that may have influenced impacts. In other instances, and more commonly observed over time in Cambodia and Mongolia, first round responses that people adopted to cope with the crisis may themselves have initiated a second round of impacts. It is possible that findings may have become outdated fairly quickly as a result.

Thirdly, direct attribution of findings to the economic crisis is problematic in the absence of a counterfactual. This summary links findings to the economic crisis based on respondents' descriptions of the timing with which they have experienced changes and on descriptions of causes and effects that were reported by respondents. It seems relatively safe to attribute some changes to the economic crisis (for example, a reduction in working hours in garment factories). Other changes, however, may be driven by a more complex range of factors (for example, unfavorable movements in the terms of trade for vulnerable households).

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<sup>3</sup> Contact [amazon@worldbank.org](mailto:amazon@worldbank.org) for more information.

<sup>4</sup> The World Bank team plans to use some of the findings from this work as the basis of hypotheses to be tested on nationally representative survey data, once appropriate data become available.

Many of the impacts and responses discussed were highly context-specific and defy easy generalization into broad trends. The impact of reduced working hours, for example, was observed to vary according to a number of factors including: access to savings and remittances; transferability of occupational skills and ability to find supplementary work in the informal sector; available informal support structures; living costs (especially work-related transport costs) and ability to survive on reduced income and, sometimes, whether extended families in rural areas had access to agricultural land. Across the five countries research teams noted a range of vulnerabilities, but also, depending on community and household circumstances, significant resilience and ability to cope.

The findings presented below are organized around main impacts and responses to impacts that were discussed in the five countries.

### **a. Labor Market Shocks**

The assessments involved discussions about recent changes in patterns of paid labor in formal and informal sectors. Labor market shocks, primarily in the form of reduced hours of work and earnings, were extremely noteworthy in all countries except Lao PDR. These shocks generally appeared less in the form of open unemployment and more in the form of underemployment in East Asian economies. Teams noted some resilience among both formal and informal sector workers, often related to access to savings, support from rural areas, strength of social networks and level of occupational mobility.

#### **i. Lay-offs and unemployment**

**Some enterprises in industrial zones are responding to a reduction in orders by cutting staff.** This often occurs through non-renewal of short-term contracts, non-confirmation of staff on probation or offering bonuses for voluntary resignations. Formal lay-offs that may be supported by severance pay arrangements in some countries were observed not common in East Asia. Across the five countries, nobody interviewed had received severance payments or unemployment benefits. This may have been an issue of sampling and there were second-hand reports of workers receiving severances payments in Thailand.

**Though there were some reports of people returning to home villages in rural areas after being laid off, this was by no means the only response.** Some had returned, but mostly this constituted a temporary return to contribute brief inputs of labor for agricultural work and frequently the stated intention of returnees to home villages was to return to the urban areas and seek work (see below). Even for those who returned, respondents suggested that this would not be an immediate response to job loss; migrants would be likely to spend several months (some estimated 3-4 months) in the urban areas seeking other work before returning to the rural area.

**In many instances, laid-off workers were remaining in urban areas.** Particularly in East Asia, those who are laid-off reported are switching employment to the informal sector and, consequently, underemployment and reduced earnings were more commonly observed impacts of lay-offs than open unemployment. In a number of instances, work in some informal occupations was facing greater competition as a result of the influx of workers previously employed in the formal sector. Some remained unemployed to seek other formal sector work, but these were generally workers able to draw on either

savings or remittances or a combination of both. There were also occasions where some workers were using the termination of employment as an opportunity to return to studies.

**Not all sectors were equally hit by falling orders and some enterprises that had seen a slowdown in the first months of 2009 were reporting an upturn in orders.** Generally these assessments focused on workers in sectors that had been identified as vulnerable to a slowdown in the global economy and this is reflected in the findings. However, interviews with enterprises and representatives of the business sector indicate a more complicated picture of trends in orders and production, with some sectors enjoying an increase in orders. There was some optimism in both Lao PDR (printing) and in Vietnam (for example, pharmaceuticals and motorbike part manufacturers). Within one industrial complex, some enterprises might be laying off staff (for example, car manufacturing), while others might be hiring (motorbike part manufacturing). Laid-off staff workers were not necessarily able to secure work in recruiting firms, however, because their skills are not mobile across occupations. In these instances, actions that increase occupational mobility may reduce periods of unemployment for formal sector workers.

## **ii. Working reduced hours**

**Firms are struggling to retain staff and many formal sector workers remain employed on reduced hours.** While there have been some lay-offs, there are also other enterprise responses to the imperative to reduce labor costs. This is particularly the case where costs of recruitment and re-training will be high, and many enterprises were particularly keen to retain skilled staff. These measures involve the reduction in working hours, including the cancelation of overtime, enforcing rotational days off and reallocating labor to tasks off the production line, such as counting stock, cleaning the factory or training. Those still employed in these enterprises are often working reduced hours, usually reported around 70 percent of regular hours, but sometimes as low as 50 percent. Workers employed on reduced hours were adopting a range of strategies to cope with the fall in earnings that results from the shortened hours. These strategies observed in countries where hours were being reduced included:

- **Supplementing shorter hours in formal sector employment with additional work in the informal sector.** For example, a worker in a garment factory might work 70 percent of her time in the factory and supplement this with work in a restaurant. Because the work in supplementary occupations may be less well-paid, maintenance of former earnings often requires longer total working hours than previously. Total hours worked in paid employment may rise as hours worked in the primary job falls. The second round of research in Cambodia indicated that some garment factory workers who had been living on reduced wages for several months were supplementing incomes with commercial sex work.
- **Supplementing shorter hours in formal sector employment with training or higher education.** In Vietnam, training centers around some industrial parks had adapted both curricula and hours to accommodate a new market of part-time workers.
- **Supplementing reduced earnings with drawing down savings or with remittances from rural households.** Several of the countries where the assessments have taken place have been growing quite fast for several years and some workers have had the opportunity to build up cash or gold savings or to buy assets such as jewelry that they can

now sell. Rural families were an important source of support in several countries, sending either money or food to support urban livelihoods.

- **Reducing expenditures, including changing consumption patterns and remittances to rural areas.** Many workers reported buying cheaper food (either less-preferred or lower-quality) and either reducing or completely stopping the remittances that they were sending to rural areas. Garment sector workers in Cambodia, for instance, reported that they had previously sent \$20-30 a month to families in rural areas but had now either stopped these remittances or reduced them dramatically. This was corroborated by interviews in rural areas. Workers interviewed were concerned that rural families would be unable to buy adequate agricultural inputs for the next crop and that a second round of impacts would include reduced agricultural production.

### **iii. Insecurity in the urban informal sector**

**Workers in the urban informal sector are facing particularly high levels of income insecurity.** All of the assessments included discussions with participants in the urban informal sector. The five-country sample includes:

- home-based seamstresses, porters and construction workers in Bangkok;
- market traders and tradesmen in Ulaanbaatar, and small businesses in provincial towns in Mongolia;
- transport service providers, market traders and skilled and unskilled construction workers in Cambodia;
- market traders, transport service providers, restaurant workers and providers of tourism-related services in Lao PDR;
- Construction workers, porters and domestic workers in Vietnam.

**Workers in the informal sector explained that the combination of the 2008 price rises and erratic opportunities for work had made their livelihoods extremely fragile.** In all countries with the exception of Lao PDR (where crisis impacts were generally limited), work had become harder to find for all of the informal sector groups interviewed. As examples, construction workers everywhere (except Lao) reported reductions in days worked of between 50-70 percent, depending on country and skill level. Port workers in Bangkok were working fewer hours per day as porters and having to supplement earnings from port work by collecting rubbish for recycling. Home-based seamstresses in Bangkok reported both a reduction in orders and a reduction in rate per piece. Market traders in Mongolia explained how rising prices for imported products had reduced demand for their merchandise and trading volumes.

**Reduced demand for informal sector services and the reallocation of labor from formal to informal sector that results from job losses is increasing competition for informal sector work.** In some cases this was depressing prices for services. For example, in Thailand respondents explained that so many people were now supplementing incomes by gather plastic water bottles for recycling, that the price

offered for water bottles had dropped. And cyclo drivers in Cambodia complained that the number of cyclos had increased, attracted by the low start-up costs.

**Consequences described by respondents often included reduced adult food consumption patterns and lower remittances.** Cyclo drivers and unskilled construction workers in Cambodia reported feeling weak from lack of food, following many months of limited earnings. Urban informal sector workers frequently reported having several dependents in rural areas and indicated that income insecurity is transmitted directly to home villages in several countries. Concerns about the impacts of reduced remittances on receiving families were common, particularly with regard to financing post-primary education and agricultural inputs (see below).

#### **iv. Pressures on nominal and real wages**

**The food and fuel price increases of early 2008 were referred to repeatedly across countries as a cause of growing hardship.** Both formal and informal sector workers described an erosion of real wages during 2008 prior to the onset of the global economic crisis as food and fuel prices climbed. In most countries, wages had risen somewhat during the period of rapid inflation, though reportedly by less than the prevailing inflation rate given these groups' consumption patterns. With some exceptions, wages for paid work had largely been stable since last September. This was generally as true for the informal sector (both urban and rural) as for the formal sector. Prices of food and fuel had eased in recent months in most countries, but in Mongolia there was considerable and universal concern among all interviewed groups about the welfare implications of continued price increases.

**Less commonly, there were also some reports of wage cuts.** In Mongolia, several respondents working in the formal sector referred to recent downward pressure on wages. There were complaints that employers were paying below the agreed, contracted amount; contracts were usually agreed at the minimum wage (180,000 tugrug a month) but low income groups interviewed said that often they would only receive 80 percent of the agreed amount. Several low income workers said that wages actually paid were barely adequate to cover transport costs. Many of the respondents who lived on the furthest city outskirts, some distance from their work, had retreated from paid work to engage in horticulture or other home-based activities because the margin between transport costs and wages was too small to be worthwhile. Agricultural workers in Cambodia noted a reduction in daily rates over the last three months. Home-based workers in Thailand described a reduction in piece rates for sewing and for manufacture of artifacts.

**In several countries there were reports of wages not being paid.** This was commonly reported by construction workers in several countries, who would carry out work only to find that the contractor had disappeared. But similar situations also applied to home-based workers in Thailand and formal sector workers in Mongolia. In Lao, migrants who had returned from working in Thailand reported several stories of being "cheated". There were many instances of wages being paid late.

## b. Migration and remittances

Discussions about international migration patterns took place in Vietnam, Thailand and Lao PDR and discussions about domestic migration patterns took place in Mongolia, Thailand, Cambodia and Vietnam. Research teams found a variety of changes in migration and remittance patterns that took place as a result of the crisis. Findings suggest a range of context-specific behaviors rather than broad trends. In particular, there was no sense that there was a widespread, long-term return of rural-urban migrants to rural areas and, in some places such as Cambodia, many commented that the reverse was possibly true.

**In some instances, workers in urban areas who originated from rural areas were returning home.** In Thailand, Vietnam and Cambodia there were second hand reports of laid-off or discouraged workers returning to rural areas and visual evidence in the form of “room to let” signs on advertisement boards. Tentative estimates from provincial administrative sources in Vietnam suggested that about 25 percent of those leaving certain rural sites for work had returned in the first quarter of 2009. Researchers in the industrial zones of southern Vietnam noted that occupancy of rental accommodation was as low as 40 percent in some areas. One side-effect of this was increased costs for migrants remaining in urban areas as opportunities for room-sharing and cost-pooling were reducing. Respondents indicated that it was generally the least skilled, least educated, least attached to a social network and older (over 40 years) migrants who tended to have most difficulty coping with the tightening labor market and who were more inclined to return home. The return of migrants was described as having multiple impacts, including:

- **A drop in income that could be dramatic as a proportion of household income (up to 75 percent) for highly remittance-dependent households.** For these households, consumption had become highly constrained, sometimes impacting the capacity to pay for education-related costs. This is particularly notable in Cambodia. Importantly, their ability to cope with unforeseen shocks (such as healthcare) had diminished since wage-earning migrant family members would typically shoulder these sudden, large costs. For many households, however, remittances were paying for “extras”, such as house construction or durable goods. In Thailand, for example, many households said that they were able to get by for a while without remittances. Resilience was often connected to household ownership of agricultural land.
- **The possibility of long term impacts of the drop in income.** A reduction in the quality of nutritional intake, an increase in child absenteeism (or dropouts) from school, indebtedness, sale of productive assets, and an inability to invest sufficiently in inputs for the next agricultural crop were all noted as consequences of the cessation of remittance income. These effects may all generate longer-term impacts on livelihoods and wellbeing.
- **Increased competition for local, day-laboring jobs in rural areas.** Returned workers were adding to the local pool of available day-laborers in rural areas and ability to find work was consequently constrained. Freelance workers such as carpenters in a rural province in Vietnam reported that they could previously find 20 days work per month during the agricultural low season. They could now only find work for 10-15 days per month. In Cambodia, respondents in rural areas noted the competition for agricultural

work was tough and that daily rates for agricultural work had reduced. In Mongolia, informal, artisanal miners reported that there was increased competition for work as poorer herding households, unable to cope with the low prices, were transferring to mining. Providers of camel rides noted that more and more camel owners were competing for fewer tourists in rural Mongolia.

- **Reduced purchasing power in the local rural community.** Shopkeepers, food-sellers, builders all noted that there was less money around in their village and that they had suffered a drop in income as a result. An egg-seller in rural Vietnam, for example, said that she was now selling half the number of eggs a day relative to a year ago. This was particularly important for households that were more dependent on off-farm activities, for example in Cambodia where landlessness is becoming a problem. (*'You can see this shop behind us is already closed, together with others in the village. The remaining ones will close soon. People in the village just come and get stuff without paying because they did not have money to pay like before, but they still needed it. They said they would pay soon. The owner ran out of money to buy more stuff and closed the shop ... Loss of jobs is not only outside the village but also in the village ... This place will be awful very soon.'*)

**Many returned migrants were intending to stay only for a short period.** Many had returned so they could live more cheaply while waiting for urban or industrial labor markets to pick up. Several were actively engaged in job search from a distance, with social networks keeping them informed of potential opportunities either in urban areas or in industrial parks.

**There were also many low income workers living in urban areas who explained that return to rural areas was simply not an option.** In many instances, low income groups in urban areas have moved permanently away from rural areas. Some no longer have agricultural land (for example, in Cambodia) or other assets necessary to establish livelihoods in rural areas (for example, herds of livestock in Mongolia). In Mongolia, many of the rural-urban migrants are motivated by the need to access either higher level education for their children or better quality medical care than is available in rural areas. Return to rural areas was not seen as a possibility as long as the need to access these services persisted.

**In other instances, rural residents were planning to migrate to urban areas, despite knowledge that competition for work was intense.** This was particularly the case in Cambodia, where many rural residents have sold much or all of their agricultural land in recent years and have been living off a combination of off-farm activities and remittances from families in urban areas. As income from their off-farm activities reduces (a consequence of falling purchasing power in their villages) and as remittances drop, many explained that they were unable to sustain basic consumption. There were many references to the need to encourage more family members to move to urban areas where they could at least provide for their own living expenses. Interviews with key informants in the village noted that the outflow of young people from the village was increasing. There were several reports of female children going to work in Phnom Penh as domestic workers.

**Where overseas workers had lost jobs and returned, the income shock might be aggravated by the debt that was incurred to migrate in the first place.** In Vietnam, Thailand and Lao PDR, research teams explored the possibility that overseas migrants might have returned. In Lao PDR, interviews with families of migrants in Thailand and with migrants who had returned from Thailand suggested that the

crisis had limited impact on migration patterns. Patterns of both legal and illegal migration from Lao PDR generally appear to be dominated by temporary migration – between a few months to a few years – with decisions to return to Lao PDR often motivated by factors other than difficulty in securing employment in Thailand. Families in Lao PDR mentioned minimal hardship as a result of the return of a migrant. In Vietnam and Thailand, organized overseas employment mediated by employment agencies entails high upfront costs. Some families have incurred debts to finance a period of overseas employment in anticipation of high returns. These high returns do not eventuate if workers are required to work reduced hours or lose their jobs. There were some instances in the research where overseas workers were returning ahead of repaying their debts and were facing considerable hardship.

**There were many stories of urban residents or overseas migrants reducing their remittances to rural areas and these were confirmed by rural residents.** In Vietnam, Thailand and Cambodia a clear storyline of reducing remittance flows from urban/industrial workers to rural families emerged. This was validated by interviews both with urban/industrial workers, who described severe reductions in the remittances they were sending and by the rural families, some of whom were facing hardship as a result of the reduction. In Thailand, respondents reported a reduction in remittances from overseas. These remittance-receiving households were not among the poorest groups themselves nor did they appear close to poverty as a result of the fall in remittances. However, the team noted that a reduction in purchasing power among these groups has consequences for lower income groups (such as construction workers) who provide goods and services often financed by remittance flows.

**There were also stories of remittances and support flowing from rural to urban areas to support a prolonged job-search or to supplement reduced incomes.** Although most discussion revolved around a flow of remittances from wage-employed or informal sector workers in urban areas to rural areas, there were a number of instances where remittances might travel in the opposite direction. In both Vietnam and Thailand, some rural families were supporting migrant family members in urban areas who were facing income cuts. The more recent round of research in Cambodia also observed workers in garment factories who were living off reduced wages receiving payments from rural families. In Mongolia, low-income urban households mentioned that they were used to receiving support from rural family members in the form of meat and animal products. This was described as declining in recent months because of hardship in rural areas.

### **c. Price shocks**

Across the five countries, many participants referred back to food and fuel price rises during 2008 as a source of hardship. Though oil prices have eased from earlier highs, there were many references to the constraints to mobility presented by high transport costs. Some urban populations explained that overall consumer prices remained high – especially relative to income - despite some reduction in prices of staples. In rural Mongolia, where the currency has depreciated, the combination of a fall in the price of main products (cashmere, meat) and a rise in the price of basic, often imported, foodstuffs (salt, sugar, flour) has shifted the terms of trade against herders.

**Smallholder, rural households remain vulnerable to falling commodity prices.** Producers of meat, wool and cashmere in Mongolia were familiar with the fact that commodity prices fluctuate. They suggested that when prices fluctuated within certain parameters they were able to cope, or even profit,

from price movements. In Mongolia, however, producers were experiencing fluctuations that were unexpected and unplanned for. In Mongolia, many herding households had taken loans on the expectation that cashmere prices would rise in the spring as they had done the previous year. When prices dropped and then recovered only slightly, many households were unable to repay loans they had undertaken.

**A number of factors govern how resilient or vulnerable households might be to commodity price movements.** In Mongolia, households with small herds were finding the reduction in price of animal products more difficult to manage than farmers with substantial herds (more than 500 animals). Those who had taken out loans in the expectation of price rises were in a much more vulnerable than households without debts. Households with multiple income sources (for example, from contracts with livestock companies, or from

**High transport costs constrain mobility and job search and restrict marketing options for more remote farmers.** Fuel and transport costs were discussed by participants in a number of contexts. In Mongolia, participants in one focus group debated whether high fuel prices or high prices of basic food prices were more damaging to them and eventually agreed that high fuel costs had caused more problems. Where herders live some considerable distance from towns, high transport costs can restrict their ability to access markets and increase their reliance on middlemen. In Cambodia, workers in the urban informal sector described how they were now less able to visit their rural homes to provide support and labor because the combination of higher travel costs and lower incomes made this unaffordable. In Vietnam, migrant construction workers said they would not be able to return to their home province until they had saved enough money for transport. And in Mongolia, some participants in urban focus groups indicated that transport costs from the outskirts of town (where they lived) to the town centre (where they worked) were so high that they had given up their jobs and were now growing and selling vegetables instead.

#### **d. Sources of support**

In all five assessments, research teams asked respondents about access to sources of support, both formal (such as cash transfers or social security) and informal (providing through non-governmental mechanisms). With the exception of Mongolia, respondents in low income countries had almost no access to formal safety protection mechanisms.

**Nearly all groups in all low income countries, with the exception of Mongolia, were unable to access formal safety net or social protection mechanisms.** Farmers, paid agricultural workers, formal sector employees (both laid-off and working on reduced hours) and informal sector workers described a situation where any assistance they received came from non-governmental sources. This may be in part because formal social assistance mechanisms are targeted at poor groups, while participants in the assessments were often vulnerable to crisis impacts but not poor. In Vietnam, for example, social assistance mechanisms exist but are sharply targeted at the poor and would not have included the groups included in the research. It may also be that some respondents were technically eligible for certain social assistance provisions, but their high levels of mobility meant that they were either unregistered or unaware of processes to claim benefits.

**This raises doubts about the effectiveness of providing crisis-related support through existing safety net programs.** If some of the groups that are most affected by the crisis are not accessing existing safety

nets, it may mean that additional funding channeled through existing safety nets is an imperfect mechanism to support crisis-affected groups unless some modifications are made. In Thailand, for example, although certain provisions had been put in place to support those disadvantaged by the crisis, nobody who was interviewed reported accessing these benefits.

**Mongolia was an exception among low-income countries in that most respondents were accessing benefits from a cash transfer program.** Nearly all households with children that were interviewed were accessing the “child money” program which makes small monthly and larger quarterly payments to households with children. The few households with children that were not accessing this were highly vulnerable groups of unregistered, artisanal miners. Many of the low income households seemed highly dependent on these payments. They described using these funds for basic consumption and for out of pocket education payments. They mentioned that the child money payments acted as a guarantee, allowing them to buy food on credit from local shopkeepers. Several households in Mongolia also mentioned the importance of pension payments where there were older household members.

**In the absence of government support, crisis-affected people in poor countries fall back on a range of informal sources of support.** In all low-income countries, there were many examples of support provided by friends, families, local associations or groups, temples and NGOs. Though none of these mechanisms are sufficient to ensure maintenance of prior income levels, they provide an important and very basic level of support for extremely poor households. Some examples include:

- Job-sharing arrangements among informal sector construction workers in Hanoi, Vietnam.
- Informal savings and credit groups in Lao PDR and Cambodia.
- Provision of food for the food-poor in Cambodia.
- Borrowing small loans and buying food on credit in Mongolia, Cambodia and Vietnam.
- Social networks providing information on jobs among Lao migrants to Thailand and job seekers in Vietnam and Cambodia.
- Food distribution schemes established by the Women’s Union in a rural village in Vietnam.
- Community-provided support to funeral expenses in Cambodia.
- Provision of physical security (“looking out for each other”) among rickshaw drivers and unskilled construction workers in Phnom Penh, Cambodia.
- Mobile phone-sharing among construction workers in Vietnam and food pooling among unskilled construction workers in both Cambodia and Vietnam.
- Mutual labor exchange in rural Cambodia.
- NGOs providing microfinance in Cambodia.

### e. Differences driven by gender and age

Gender differences in both impacts and coping strategies were noted and were generally related either to gender differences in interactions in the labor market or to gender-defined roles within the household. Age was also an important determinant of impact in the labor market.

**Some sectors hit hard by the crisis are those that are dominated by female employment.** Most of the garment workers interviewed in East Asia were women. These women had seen a reduction in income at best and unemployment at worst. Young, single women appeared more resilient to these impacts than those that were married with children. In Cambodia, where most of the interviewed garment workers were married with 2-3 children, women expressed high levels of anxiety about providing for basic consumption. Married women were less likely to live in on-site dormitories and explained that transport costs were punitive in the context of reduced earnings.

**Many women were working very long hours in order to maintain income levels.** In both Thailand and Vietnam, the reduction in hours of available work in their main job meant that women were often seeking supplementary work. This additional work was generally poorly remunerated and so long hours were needed in order to earn a reasonable amount. Many women expressed anxiety that children were being left unattended for long hours while mothers worked late into the evening. Sometimes unpaid work of childcare was taken over either by elderly household members or by the older children. Women in rural areas that were confronting an income shortfall (resulting from reduced remittances) described the need to intensify farm-based and off-farm work.

**Economic stress was understood to be generating tensions and sometimes, shifting roles in the households.** Both men and women made many references to increases in the number of arguments between husbands and wives, sometimes including violence. Much of this was driven by stress over money; tuktuk drivers in Lao PDR mentioned that arguments would be worse if they returned with insufficient earnings or had spent earnings socializing and Cambodian garment sector workers made a direct link between reduced income and high levels of tension (*'many families seem to have very frequent arguments and most of the cases relate to income ... Some wives cannot stay in their house because they are afraid of their husbands.'*) Exceptionally, in Mongolia, women reported an improvement in domestic relations because men were working such long hours there was no time for fighting.

**There were a number of references to discrimination in the labor market.** Women in Mongolia explained that they were unable to find work because women had to be young (described as being under 30) and attractive in order to find work. A 43-year-old widow in Mongolia explains, *"when I apply for a job, companies say I am already old and offer me a cleaning job. The cleaning job pays 100,000 tugrug a month. With 100,000 tugrug a month, it is impossible to survive. I have to pay 1000 tugrug a day for transportation. Besides, I have to eat at work. Therefore, I do not work. I grow vegetables in the spring and summer times"*. Interviews suggested that advertisements often specified both ages and physical characteristics as criteria for the job.

**As a general rule, respondents were trying to protect the nutrition and education of children.**

Normally respondents suggested that food consumption for adults would be cut in order to protect the nutritional intake of children, although many suggested they were making economies in terms of food quality. Similarly, parents were clearly making efforts to keep children in school, despite economic hardship. Only in rural Cambodia was there references to either switching schools (from private to public) or to increased absenteeism or drop-outs from school. In several low income countries, there were reports of children combining labor with education. Though not preventing education, paid work may interfere with the quality of learning outcomes if paid work crowds out necessary homework.

**Recent, steep increases to the out-of-pocket costs of education were recorded in Mongolia.** Mothers explained that requests by teachers for additional payments and supplies had increased dramatically since the start of the school year. Although Mongolia is experiencing a fiscal crisis, expenditures in basic services have been protected. No teachers were interviewed, but it may be that teachers and education service providers may be experiencing an erosion of real wages (due to depreciation of the currency) that is severe enough to interfere with service provision. The strongly seasonal nature of education expenses in Mongolia was also noted with concern; large payments (particularly for tertiary education) were needed in August when meat prices were low.

**Extending education is a plausible response to labor market conditions for better-off young people.**

In Mongolia, students in tertiary education expressed relief at not being unemployed and had aspirations of finding work when their studies were completed. But university students also explained that several classmates had dropped out recently, unable to cover basic living costs while not working.

## **f. Community level impacts**

Teams noted both positive and negative impacts at the community level. In many instances there were indications of social tension, particularly in situations where competition for work is intense. Many mentioned increased crime levels, particularly petty theft. There were also many examples of mutual support, however. These were particularly notable where access to formal social safety nets was extremely limited among groups interviewed.

**Tensions associated with competition for scarce work were mentioned in some instances.** In

Bangkok, port workers pointed to competition from illegal migrants from neighboring countries as posing unfair competition. Lao migrants returning from Thailand said there was little discrimination against them, but stated that migrants from some other countries in the region were treated less well by the local population. As yet, any hostilities had stopped short of physical fights.

**An increase in crime was more often reported than a decrease in crime.** Some groups or communities reported a reduction in crime. Unskilled construction workers attributed this directly to the crisis; the reduction in work and earnings had meant a reduction in alcohol consumption and alcohol-related crime. In many places, however, the threat of theft was both commonplace and increasing, as indicated by these quotes from rural Cambodia.

‘We think that theft is increasing because of hardship in the area ... but we are not afraid of it anymore because we are living in empty houses ... we have nothing for them to steal.’

‘I have no idea what to do for a living ... maybe I am going to be a thief myself!’

Animal theft was extremely common in some parts of rural Mongolia. In one focus group discussion, everyone present had lost animals to theft, some of them significant numbers (for example, twelve horses in one go). Participants hypothesized that both growing hardship had fuelled the increase, but that it had been further facilitated by expanded outreach of mobile phone networks, which allowed thieves to communicate with each other. While rural residents worried about theft of animals and burglaries, urban residents in a low-income area of Bangkok noted the increase in theft of motorbikes and electricity. There were concerns about increasing drug abuse in a number of research sites, and an observation that becoming a drug dealer was one way of making money as legal employment became less available.

**The community is often the only source of support for some of the most vulnerable groups.** The local community was a provider of cash and food loans and sometimes of food handouts. In Vietnam, women were leaving an extra cup of rice at the point of milling. This was being pooled and used to feed very poor households. The temples provided some support in Cambodia. In urban areas, social capital and social networks are fundamental for both informal and formal workers in times of crisis. Informal arrangements such as job-sharing among construction day laborers have emerged as important in sharing the costs of the shrinking labor market. Social networks are reducing the costs of job search and recruitment through information-sharing (often effectively cutting out expensive middlemen) and help in containing the cost of living through joint cooking arrangements that permit economies of scale. They are also an important source of small loans that are extremely important in smoothing consumption in periods of volatile income.

## **g. Changes in impacts over time**

In Mongolia and Cambodia, two rounds of research have been conducted with the same, or similar, groups over a four-month period. In both countries, poorer groups affected by the crisis are experiencing considerable stress. There are repeated references to the accumulation of unserviceable debt and to the sale of productive assets. Less poor groups may be resilient enough to remain above the poverty line, but there is evidence that livelihoods have been weakened and damaged, leaving non-poor households fairly vulnerable. When the crisis recedes, it is possible that many households will be left with diminished savings, eroded asset bases and more debt, even if they are not below the poverty line. The turnaround for these families will not be immediate.

**Short term coping strategies of poorer households have longer term implications, suggesting that removal of the shock will not be enough to restore livelihoods.** In Mongolia, poorer herding households sold cashmere at the time when goats are combed, when cashmere prices were low. Some wealthier herders were able to wait for a recovery in prices because they had other income sources or savings, but this option was not available to poorer herders. Poorer herders had a lower income than

usual, because of the low cashmere price, and were able to buy less with this income because the rise in consumer prices eroded its purchasing power. As a result, the income from cashmere sales ran out earlier than usual this year, prompting poorer farmers without other options to sell meat to finance basic consumption. The price of meat has also fallen, partly a seasonal pattern and partly, perhaps, because of over-supply. It is now necessary to sell more animals than usual to finance basic consumption and lumpy education costs. These households will face the next winter with a smaller herd. Even if the cashmere price rises, it will be hard to restore the losses that have been incurred.

“I have a child who is a student. The tuition is now between 750,000 – 1 million tugrug. I used to sell 30 sheep at the price of 50,000 tugrug to pay his tuition and living costs in Ulaanbaatar. Now tuition costs have gone up and living costs are more expensive in Ulaanbaatar. Probably, I need to sell 100 sheep at the price of 25000 tugrug for my son”.

“We used to buy a 50-kilogram bag of flour by selling one sheep. But now it is impossible. We have to sell two sheep. The traders must be doing very well.”

**Cycles of indebtedness appear to be common in rural Cambodia, where several consecutive months of reduced remittances undermine incomes.** The loss of remittance income has had a significant impact on rural households, particularly those with smaller landholdings or limited assets. These households explained that they would normally receive around \$20 a month from family members in factories. Interviews suggested that they had received very little in remittances for several months. With less money circulating, other sources of income - local small businesses and off-farm activities are failing. A focus group discussion in one village describes the situation as follows:

“We all still have small plots of land to grow rice for our own consumption. The harvest from this (about 0.5 hectares or less) often provides enough rice for about four to six months’ consumption at most. The rest of our rice needs are met through remittances from our children who work as garment workers, or income from selling labor or small businesses such as cake selling, motor taxi driving, weaving palm thatches or making brooms for sale. Unfortunately, demand for our products and services is now lower compared with three months ago. It has dropped by about 70 percent compared with this time last year. We now have no more rice in our house. We started to purchase rice in April 2009. With this substantial decline in our earning ability, we have not enough food to eat and have to forage in our rice fields. Hardship has doubled compared with what we faced during the wet season last year.”

The researchers report that three households who had sold their land to set up businesses had now sold either their land or homestead land to pay off their debts. At least two households were reported to have run away from the village because they could not repay their debts. Similar cycles of debt were observed in Mongolia.

**For poorer households, investments in human capital may be threatened.** Poorer households commonly reported reducing their food intake, though most said that they were seeking to protect the nutritional intake of children. Stories of removing children from school, of child labor and of foregone health expenditures were more commonplace among poorer groups than in the earlier round of research. It is possible that the incidence of child labor was higher because the research took place during school holidays. But there were several references (in Cambodia) to girls working away from the village as domestic workers. There were also references to women supplementing reduced incomes in the garment

industry with work in massage parlors and karaoke bars, work which brings a range of vulnerabilities and longer term risks.

**Reduced incomes associated with the economic crisis have diminished poorer households' abilities to manage other, more routine shocks.** Seasonal fluctuations in prices, drought, pest infestations, annual payments for education, health expenditures represent a range of risks that rural households in poor countries commonly encounter. Research teams noted that one affect of the crisis was to leave poorer households more exposed and less able to manage these other risks than they might normally be because they had less income to draw on, fewer assets to sell and high existing debt that prevented any more borrowing. The interaction between crisis-related shocks and other shocks had the potential to seriously undermine livelihoods.

**Less dramatic stories of scaled-back consumption and use of savings are common among more resilient households.** Even wealthier households reported cutting out non-essentials and switching to lower quality foods. Use of savings was commonplace. While allowing households to avoid a cycle of indebtedness, the erosion of savings may leave these near-poor households less able to take risks and to invest in the future when the economy picks up.

## IV.

## V. Country Studies

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