

# Poverty Dynamics Study: A Tool for Monitoring Poverty Reduction

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## Introduction

CDRI is engaged in a two-year Poverty Dynamics Study (PDS) in 2008 and 2009.<sup>1</sup> The PDS is a follow-up to the Moving Out of Poverty Study (MOPS) conducted as part of a World Bank study in 18 countries between 2004 and 2005. Cambodia is the only country in the study that continues to build up its longitudinal and panel data for national policy analysis and monitoring.

The PDS is an important tool for poverty monitoring, including the implementation of the National Strategic Development Plan, and the formulation of the next national poverty reduction strategy in 2010. It is specifically designed to provide a local and longitudinal perspective on national poverty trends. These trends are illustrated in the national socio-economic surveys (the 1993/94, 1997 and 2004 CSES), the national poverty profiles produced by the National Institute of Statistics (1993, 1997 and 2004), and the two Cambodia Demographic and Health Surveys conducted in 2000 and 2005 (NIPH et al. 2006; NIS et al. 2001). Further analysis of poverty and inequality trends has been done by World Bank (2006) and World Bank (2007). Other studies include Ballard (2007), CDRI (2007a & 2007b) and IRL (2007).

The PDS is designed to use both quantitative and qualitative longitudinal data to investigate how to promote inclusive growth for poverty reduction and reduced inequality. It will test and explain local experience, validate or question national trends based on people's experience of moving in and out of poverty.

The 2004/05 study was able to track causes of and movement into and out of poverty with two surveys conducted in 2001 and 2004/05. However, it was not possible to assess whether movements were transient, whether some households that had become better off would fall back into poverty, or those that had become poor would remain in poverty or move upward again. In addition, it was not possible to assess whether poverty dynamics observed during 2001–2004/05, when Cambodia experienced successive years of flooding and drought, were atypical or consistent with longer trends.

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The PDS will seek answers to these questions.

Tentative key research questions to be addressed in this two-year project therefore include the following:

- To what extent is movement out of poverty transient? How much movement is attributable to “churning” (households moving up and down again) as opposed to more sustainable movement?
- Are community trends (growth versus decline) the result of short-term factors such as floods and droughts, or are they longer term?
- Are the key household and village factors identified in the 2004/05 study still the most salient? Are new factors emerging which were not identified in 2004/05?
- How are macroeconomic trends and policies impacting communities and households? To what extent are different villages and mobility groups able to access economic opportunities and benefit from growth? Is rural inequality rising or falling?
- What village and household strategies for income diversification are proving to be most effective in supporting upward mobility (e.g. improving productivity, multiplying income sources, migration)? What is the impact of common property resource decline and forests and fisheries policies on livelihoods and poverty trends?
- To what extent do women's and men's experiences of poverty, economic growth and mobility differ? What are the different contributions that women and men make to household income and productivity? How do their relative contributions measure up against the benefits they receive?

Discussion and analysis of the data generated by this follow-up to MOPS can offer useful insights into poverty dynamics. The results of the research will help Cambodian policy makers to understand, target and intervene better.

## 1. Conceptual Framework

The following are the research hypotheses to which we will seek answers. Enhancing growth to reduce inequality and poverty is the research framework to explore key research and policy questions. This framework is designed to provide a basis for empirically testing propositions put forward in the government's Rectangular Strategy and the National Strategic Development Plan 2006–2010 and to generate theoretical literature on the topic. Efforts to increase involvement in international trade and globalisation should have direct and indirect impacts on poverty by increasing economic activity, job creation and well-being. The demand for productive factors including land, labour and financial capital is likely to rise with increased economic activity. Hence, this is likely to benefit the poor directly. In addition, the poor are also more likely to benefit directly and indirectly from investment in physical and social

infrastructure. Contemporary national and international literature, however, points out that growth is not enough for poverty reduction if there is no improvement in governance and creation of appropriate institutions, particularly to ensure property rights and enhance the rule of law. Economic, political and social stability is viewed as critical in order to create an environment that encourages investment and risk taking, which are necessary for sustained high growth.

The study includes the broader objective of building the analytical knowledge and skills of CDRI researchers engaged in the project. Unlike in the 2004/05 study, the speciality of each researcher will be used in and strengthened by monitoring the effectiveness of government policy of accelerated growth for poverty reduction.

The findings of MOPS, which provided substantial inputs to the World Bank's *Poverty Assessment and Equity Report*, will be adjusted and verified with empirical evidence from PDS's longitudinal records and analysis. This research, combined with the panel data generated in 2001 and 2004/05, should enable a better understanding of the in-depth relationship between growth, inequality and poverty reduction. CDRI researchers should be able to determine more fully whether the driving forces for growth are present in our case studies. The important factors for growth include investment in physical and human capital; investment in physical and social infrastructure; financial market development; governance and institutional set-up; and economic, political and social stability. The PDS will focus not only on identification of the poor and determinants of poverty dynamics but also on policy insights into how to make growth inclusive. The findings will also throw light on recent government policy reforms and the role of the private sector in rural development and poverty reduction, so as to indicate policy directions to reach the goal of halving poverty by 2015. Cambodia has not yet experienced strong linkage between macroeconomic achievement and poverty reduction (Fitzgerald & So 2007; Ballard 2007; CDRI 2007b).

## 2. Research Objective

The objective of the PDS is to inform policy makers by deepening understanding of poverty dynamics, causes and trends through analysis of panel data from the nine study villages. The study will continue using both quantitative and qualitative methods. In order to preserve the panel data set, the same households will be re-surveyed in 2008, and many of the household questions that were not captured in the 2004/05 MOPS will be included in this round to provide comparable data. The MOPS used descriptive statistics to analyse community trends and factors that influence household mobility. For this study, more advanced statistical measures will be employed to analyse the experience of poverty and to explore

community and household trends and poverty dynamics. The focus of this round is to break down the key factors in mobility into a number of concise policy briefs and topics for dissemination.

Qualitative methods will include focus groups and semi-structured interviews, in order to triangulate quantitative data gathered in the household survey and to explore dimensions and issues that cannot be addressed effectively using quantitative methods, such as governance, trust in public institutions and safety and security. In addition, the 2008 round will provide the opportunity to deepen the analysis of emerging issues by comparing the 2004/05 and other CDRI poverty and livelihood studies. This includes further exploration of inequalities between rural villages and households, the role of credit and migration in movement out of poverty and equity issues such as the contribution women and young people make to household incomes and the benefits they receive.

In addition to synthesising the findings into a final report, researchers will break down the findings to produce a number of policy papers, in response to the need for timely information of policy and decision makers. Five important topics have been identified for in-depth investigation to produce policy briefs:

1. Impacts of rising food prices on food security, agricultural production and poverty reduction
2. Land ownership, tenure security and productive use of land
3. Micro-financial development, growth and poverty reduction
4. Infrastructure investment: improved road access, agricultural production, marketing and income diversification
5. Labour market: migration, growth and poverty reduction

These topics were selected based on the priorities identified when visiting the nine study villages between 22 January and 6 February 2008 to identify community issues and trends and verify sampling procedures, data collection, measurement and the analytical framework. The topics were approved in an internal consultative meeting on 16 May 2008. The detailed discussions on theoretical grounds and empirical experiences elsewhere that form hypotheses and research questions related to Cambodia can be found at <http://www.cdri.org.kh/> under "Major Research Projects". Drawing on the experience of the MOPS, there is a need to conduct a good literature review before further investigation of the five main topics.

On the first topic, for example, rising food prices are likely to increase the extent and severity of poverty. In the long term, however, for a country with a potentially large surplus of agricultural products, the impact is likely to be positive, provided that steps are taken to ensure that resources, particularly land, are utilised efficiently.

Rising food prices had become a critical concern among local leaders during the preliminary visit in February 2008 and among policy and decision makers. It is important to study the factors that contribute to increased food prices and, if food prices remain high, the possible impacts on growth, inequality and poverty reduction. According to the national and international mass media, the main causes of soaring food prices are (1) an increase in consumption by growing middle classes in China and India, (2) human-made and natural disasters and (3) the rising price of oil and devaluation of the US dollar. The critical question is whether Cambodia can take advantage of such global phenomena to increase agricultural productivity and diversification.

There are both positive and negative views about these global phenomena, which can be explored and explained using the CDRI data generated in 2001, 2004/05 and 2008. First, if food prices stay high, it may provide Cambodia two golden opportunities: (1) to manage and use land more effectively to increase agricultural production and diversification and (2) to gain high profits from sustainable demand for agricultural commodities. If this holds true, it may also attract investments in agricultural innovation and technology that can generate employment for the rural poor, leading to a better distribution of income. The gains from increased agricultural production and marketing may help Cambodia to achieve faster growth, better income distribution and reduced poverty.

On the negative side, in the short and medium terms, high oil and food prices can slow poverty reduction and possibly increase the extent and depth of poverty. The benefits for agricultural production may be minimal, with less favourable conditions for agricultural businesses. In particular, the situation may not favour improving agricultural technology in an environment of poor infrastructure, weak institutional support and high transaction costs for agricultural trade. This hypothesis tends to apply for Cambodia, where farm inputs such as fertilisers and high-yield seeds are mostly imported. While infrastructure is being developed, it is still far behind that in other countries with potential for agriculture-led growth. High oil prices may lift the price of agricultural inputs and reduce the profit margin on commodities if the latter's price rise is slower. A high price of oil can also increase the prices of consumption goods and hence raise the cost of living in rural areas in ways that cannot be offset by small marginal gains from production and the returns from agricultural wage labour. The combination of these effects may worsen food security and the incidence of poverty and accelerate the increase of landlessness. The landless poor, who must buy food, may face food insecurity. Increased spending on food would mean that they have less money to invest in their children's education, so that they cannot benefit from opportunities to move out of poverty. How can Cambodia overcome

these hypothetical challenges and take advantage of the driving forces behind rising food prices?

These questions can be explored and explained using data from the earlier household surveys and price surveys. The household surveys contain data on (i) land ownership, land use patterns and productivity and sales; (ii) net buyers and sellers of rice; (iii) the price of agricultural produce in village markets; (iv) income and expenditure; (v) choices of employment; and (vi) development interventions and access to information. The price surveys capture the prices of 106 commonly consumed food and non-food items in village, district and provincial markets.

### 3. Monitoring Impacts and Assessment Methods

Along with panel data from households interviewed in 1996, 2001, 2004/05 and 2008, the five research topics will be thoroughly explored in semi-structured and focus group discussions with various groups in September–October 2008. The MOPS suggests that rural populations have different capacities to seize benefits from the opportunities generated by development and growth. Single policy interventions will by no means help all poor, non-poor, men and women if the interventions do not address their constraints and build their strengths to allow them to participate in growth and development.

There are hot debates on the appropriate monitoring and evaluation methods to measure the impacts of interventions. Impact evaluation often focusses on final well-being outcomes, rather than only on project outputs, or on the conceptual framework and implementation. Taking such arguments into account, the PDS will take advantage of its existing quantitative cross-sectoral and panel household data surveyed at different times to identify the beneficiaries and non-beneficiaries of interventions (or the five main research topics) and the changes in well-being and poverty reduction in the study villages. The key measurable variables for this are the changes in consumption, income, productive and non-productive assets, land productivity and access to other social services. In addition, consumption variables will be used to identify the poor and non-poor and household mobility in relation to community trends.

Combined with the longitudinal data, the focus group discussions and semi-structured interviews should be able to provide in-depth analysis of how and why the poor, non-poor, different mobility groups, men and women benefit from current interventions or community trends. The major challenge of the impact evaluation is to identify what actually happened and what would not have happened in the absence of interventions. This will also be a limitation of the PDS due to its inherited original design, objective and sampling structure.<sup>2</sup>

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