



## Research paper

# Pro-poor growth development and income inequality: Poverty-related Millennium Development Goal (MDG 1) on banks of the Lower Mekong Basin in Cambodia

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## ABSTRACT

In this paper, I analyze the degree to which the Millennium Development Goal 1 (MDG1) has alleviated poverty; pro-poor growth development-associated constraints; inequality of growth and income distribution in the LMB, Cambodia. The findings of the study reveal: that pro-poor growth development has proven ineffective; that growth and income distribution are unequal; and, that poverty is caused by unproductive agriculture with insufficiency of infrastructure, skills and markets. I argue that MDG 1 may not be achieved without future effort being made towards realizing even contribution between the agricultural and other sectors; enhancing economic development; and, increased investment in infrastructure and skill building.

## 1. Introduction

Many people in developing countries live in extreme poverty, despite the fact that the world economy has grown well in the 1990s (Pan-Long & Chao-Hsi, 2007). The publication of the First World Development Report in 1990 drew international attention to the issue of poverty (World Bank, 1990). In 1995, at the World Summit on Social Development convened in Copenhagen, 117 countries adopted a declaration to launch an action program aiming to reduce poverty (UN, 1995). The eight MDGs, which put emphasis on world action, are fully committed to promoting development imbued with three principles: human dignity, equality and equity (UN, 2000). Supported by MDG 1, and using \$1 per capita per day as the international poverty base line, poverty reduction based on pro-poor growth development planned to halve the country's poverty rates between 1990 and 2015 (Klasen, 2008).

Pro-poor growth development, an important element in poverty reduction, increases the income share of the poor, so that their income level grows faster than that of the non-poor (Kakwani, 2001). Ravallion and Chen (2007) maintain that pro-poor growth programmes help to reduce poverty, while Grosse, Harttgen, and Klasen (2008) emphasise its role in reaching MDG 1. Pro-poor growth development can be categorized into three types according to growth rates: strong absolute pro-poor, relative pro-poor, and weak absolute pro-poor growth (Klasen, 2008). Strong absolute pro-poor growth development requires the growth rate of the poor's incomes to be larger than the average gain. Relative pro-poor growth development is seen as a growth practice

during which the incomes of the poor increase faster than those of the non-poor, and, as a result, income inequality between the poor and the non-poor decreases. Weak absolute growth refers to the growth experience during which the absolute income earned by the poor is greater than zero.

There has been an emerging consensus on the relationship between growth, inequality and poverty reduction (Hanmer & Booth, 2001; Kakwani & Penia, 2000; Klasen, 2003; Lewis, 1954; McCulloch & Baulch, 2000; Son, 2004, 2007; White & Anderson, 2000). Kuznets (1955) hypothesizes that growth and inequality are related in an inverted U-shaped curve representing two stages of economic development. In the early stage, inequality increases due to the shift of the poor from the agricultural sector to the industrial sector. In the latter stage, a bulk of the population shifts to the urban sector; thus, there is an increase in the relative wages of the poorer workers in both the urban and rural sectors. This may see overall income inequality decrease in the latter stages of development. The relationship between growth and poverty is complex and depends, to a large extent, upon the relationship between growth and inequality (Datt & Ravallion, 1992).

In many countries, developing agriculture is the most important pro-poor growth strategy given that the incidence of poverty tends to be much higher among households involving in farming than among other groups (Dorward, Kydd, Morrison, & Urey, 2004). In the developing countries, the income disparity between the urban and rural sectors is a central dimension of overall inequality (Bourguignon & Morrison, 1998). In China and India, for example, inequality can increase or decrease economic growth. To this end, a consensus was sought as to why

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and how high inequality can impede growth (Aghion, Caroli, & Garcia-Penalosa, 1999). The impact of economic growth on poverty reduction would be lower than it otherwise would be if some of the gains from the growth of the poor were lost due to a rise in inequality (Son, 2007).

Although the Cambodian economy has grown rapidly and strongly since the 1990s, the country has failed to improve human development levels significantly (Rosser, 2006). As of 2010, 25.8% of the Cambodian population was recorded as living under the national poverty line (NCDD M & E Unit, 2010), with 15.1% living in food insecurity (MoP, 2010). More than 91% of the poor, who in the main are concentrated in the rural areas, derive their incomes from the agricultural sector (McKenney & Tola, 2002). In accordance with the National Strategic Development Plan (NSDP) 2009–2013, rural poverty reduction remains the highest priority of the Royal Government of Cambodia (RGC). The plan aims to decrease the national poverty rate by 1% per year between 1993 and 2015 (IMF, 2006) and to reduce the rate for half of the population – whose incomes are less than the national poverty line – from 42.0% in 1992 to 19.5% in 2015 (MoP, 2007).

The rapid economic growth witnessed between 2004 and 2007 was associated not only with the fall of the national poverty rate, but also with rising levels of income inequality (World Bank, 2009a). In 2011, the government raised the poverty line for US\$0.61 to US\$0.97 per day per person for national level; and, from US\$0.58 to US\$0.88 per day per person for rural areas to respond to the current economic growth and high cost of consumption (MoP, 2013). The government policy is to reduce poverty inclusive process, and to strengthen skill building. Moreover, the overall development strategy and growth process are addressed with inclusive and pro-poor providing opportunities for decent employment, benefits and entitlements to Cambodians (MoP, 2014a). In this paper, I analyze: (a) the achievements of MDG 1 in the three study provinces along the LMB in Cambodia; (b) trends in poverty rates between 2004 and 2010 and the corresponding constraints that are impacting upon support for pro-poor growth development-based poverty alleviation; (c) main causes of poverty; and (d) inequality of economic growth and income distribution.

## 2. Study areas and methods

This paper is based upon field work carried out at several administrative levels (Provincial to commune levels) in three provinces along the LMB, Cambodia, from June to August 2011. Our study focused upon three communes: Ousvay in Stung Treng Province (the Upper), Ro'ang in Kompong Cham Province (the Middle), and Kaoh Roka in Prey Veng Province (the Lower), all three of which are immediately adjacent to the Mekong River and were chosen due to their different geographic and economic characteristics. My research sample consisted of 548 households (Fig. 2.1, Table 2.1).

Ousvay, which borders the Lao PDR, was designated a Ramsar Site in 1999: it comprises a unique seasonally-flooded riverine, a forest habitat, and is home to the Irrawady Dolphin (*Orcaella brevirostris*) and the Mekong Giant Catfish (*Pangasianodon gigas*) (IUCN, 2007). The commune has a total population of 634 households: the study covered all of its five villages with a sample of 173 households. Ro'ang has a total population of 2375 households. The study captured only four out of eight villages immediately adjacent to the Mekong River with a sample of 190 households. Kaoh Roka is located in the Mekong Delta and borders Vietnam. All four villages of the commune, which together constitute a total population of 1311 households, were covered in the study with a sample size of 185 households.

Both qualitative and quantitative data were gathered through a field survey, observation, community meetings and mapping exercises with the villagers and other key stakeholders (i.e., CoCs, national and international NGOs). For the purposes of our quantitative analysis, we used a Weighted Average to calculate the overall poverty rates of the three study provinces from 2004 to 2010. Calculation using Weighted Average for poverty rates in the three study provinces between 2004

and 2010 helped ensure the relative importance of each quantity on average between the numbers of population and the number living below the poverty line. I also used Mean, Standard Deviation, Gini coefficient and Lorenz curve<sup>1</sup> to measure any inequality in daily incomes; and, ArcView software was applied to draw poverty maps of each commune along the three stretches of the Mekong River between 2004 and 2009. ANOVA and T-test were also employed to explore the differences/similarities among the three stretches and to test the villagers' daily incomes against the national and rural poverty line. For the purposes of qualitative analysis, academic journals and other related published documents constituted the main sources of secondary information.

## 3. Results

### 3.1. Trends and main causes of poverty in the LMB

Recently, Cambodia has experienced unexpectedly strong economic growth, positive development and a rapid decline in poverty rates from 39.0% in 1993/94 (World Bank, 2009b) to 25.8% in 2010 (NCDD M & E Unit, 2010). The poverty rate has been annually reduced at a rate of more than one percentage point since early last decade and poverty rate stood at 19.8%. The target of halving the proportion of people below the national poverty line between the early 1990s and 2015 was over accomplished (Fig. 3.1). The achievements were driven by double-digit growth of Gross Domestic Product (GDP) between 2004 and 2007, urbanization and labour-absorption in non-farm sectors (MoP, 2014b). In addition, political stability and effective macroeconomic management, together with a liberal trade and investment regime, have proven the key to sustaining high growth performance and poverty alleviation in Cambodia (MoP, 2010).

Yet, the current economic growth in Cambodia has proven of very little benefit to the majority of the national population<sup>2</sup> who are engaged in agriculture in the rural areas; for example, the residents along the Mekong River. Economic growth has largely been concentrated in the garment industry, and in the tourism and construction sectors (UNCDF, 2010). But, while employment in those sectors has increased the incomes of the rural people who migrated to the capital city of Phnom Penh and other urban areas in search of work, the increase has been limited to these areas only. Overall, the trend in poverty rates between 2004 and 2012 in the study provinces was slightly higher than that of the national poverty line and the rate in the Upper area which was extremely high. Comparatively speaking, the poverty prevalence in the Middle area was lower than that in the Lower area and considerably lower than the rates in the Upper section.

### 3.2. Main causes of poverty in the LMB

Fig. 3.2 compares the poverty rates in the communes of the three study provinces between 2004 and 2009. Within a period of six years, the poverty rates declined markedly in the Middle and Lower sections; but, reduction was slow in the Upper section. In reality, the poverty situation in the three areas was similar in trend and pattern. The most prosperous communes were those surrounding the provincial towns where commercial centers and services were located. The infrastructure development in the provincial towns created commercial activities that largely benefited the urban areas only. In the Upper section, the poverty rates remained generalized: the prevalence in many communes was as high as 40% to 50% in 2009. The reduction of the poverty rates was more successful in the Middle and Lower sections than in the Upper

<sup>1</sup> Gini coefficient is the ratio of the area between the line of perfect equality and the observed Lorenz curve to the area between the line of perfect equality and the line of perfect inequality.

<sup>2</sup> According to the General Population Census of Cambodia (2008), Cambodia had a total population of 13,395,682, 80.5% of whom were rural dwellers.

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