Learning Lessons

October 2011

Independent Evaluation ADB

Sharpening the Operational Focus on Inclusive Growth

Reducing poverty is a universal goal. But countries are also finding that it is not enough to reduce poverty, and that growing inequality—of opportunities and in outcomes—can make growth socially and politically unsustainable. In the face of increasingly tight resource constraints, it is becoming harder to maintain high growth rates unless it is environmentally and socially sustainable, and it originates broadly, from across the human resource base.

In Asia, there is heightened interest in the inclusiveness of the growth process. But that interest needs to be matched by a sharper operational focus—in countries and at the Asian Development Bank—on how better results can be promoted.

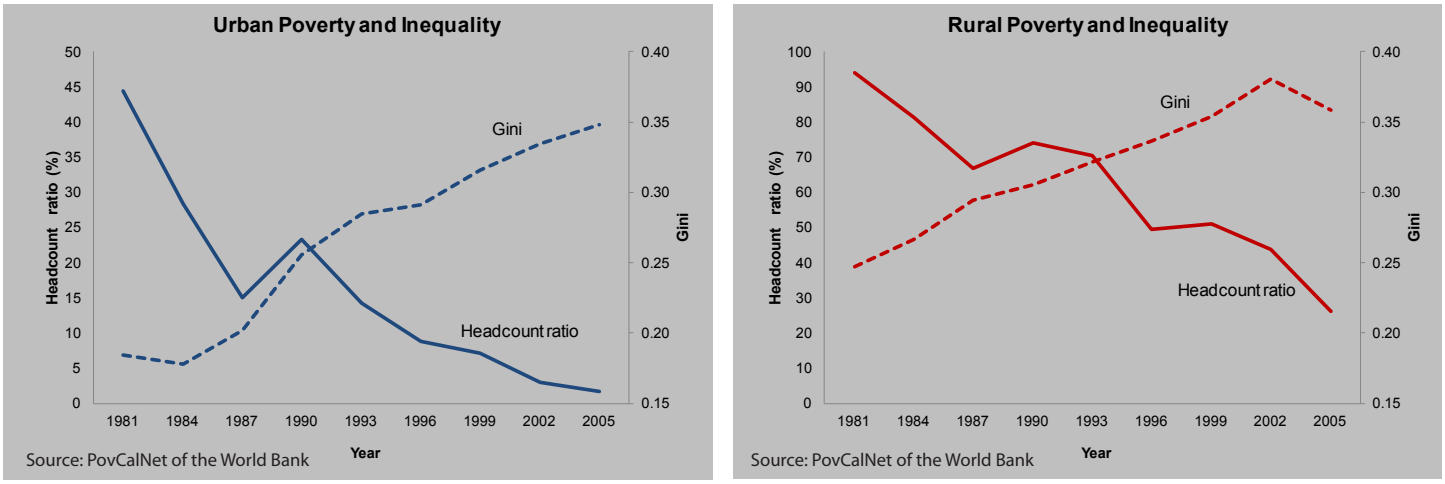
Main distinctions

Inclusive growth—or economic growth that is widely shared—would generally also be pro-poor. That said, if growth is very slow, inclusiveness would not be sufficient for it to be pro-poor. When poverty reduction is significant, economic growth is considered pro-poor. But even when growth is pro-poor, inequality may worsen, for example, as measured by the rising Gini coefficients of Asia's recent experience, as illustrated by one example of the People's Republic of China (Figure 1).

The quality of life also hinges on non-income attributes, in which a lack of inclusiveness in factors such as education, health, and equitable access to work and markets detract from growth's pro-poor qualities. The goal would therefore be to make growth and development (i.e., including the non-income dimensions) as inclusive as possible.

Sustained growth helps expand economic opportunities to work and add value. Asia has had success with policies and investments for growth, for example, in improvements in market conditions or infrastructure investments. In parallel, investments in capabilities and assets—including improvements in labor markets—

Figure 1. People's Republic of China: Poverty and Inequality (1981–2005)



broaden access to opportunities. This is where countries in the region have lagged. Furthermore, social safety nets are needed to mitigate risks and vulnerabilities, especially for the disadvantaged and poor.

Key levers of growth

Policy direction should therefore increasingly aim to generate and sustain growth through the participation of all people, especially the lower income levels of society. Experience suggests several avenues within differing country contexts to expand opportunity, broaden access, and ensure social protection. Because these avenues are interlinked, the findings below are not segmented by their primary attributes.

First, *capitalizing on complementarities* matters for inclusion.

For example, a 2006 evaluation of rural roads showed that the poor face basic deficiencies in their assets, making it difficult to take advantage of these roads (Hettige, 2006). Another study found that transport and energy investments were less likely to benefit the very poor without complementary investments (ADB, DFID, JBIC, and WB, 2005).

In a number of Asian countries, meanwhile, rural electrification has had little impact on agricultural productivity due to high connection costs, unclear land use rights, and restricted access to credit (Songco, 2002). And in Bhutan, the use of electricity for income-generation has been limited by an absence of investments in access roads, market development, irrigation systems, and skills (IED, 2010).

Similarly, research in Viet Nam identified links between education outcomes and returns to irrigation, especially for the poorest (Van de Walle, 2000) while another study concluded that the success of irrigation projects generally depended on employment multiplier effects (Bhattarai et. al., 2002).

These examples make the case for multi-pronged approaches and a cluster of complementary activities. This does not call for projects to have multiple features, but rather, for efforts to link complementary elements. For example, a rural road project needs to be connected with investments in post-harvest infrastructure, education and health facilities, or environmental services.

Second, it pays to *change market constraints* that put the poorer segments of society at a disadvantage.

Many poor people are self-employed, while casual laborers working in segmented labor markets usually operate in conditions offering very little legal and regulatory protection. Their wages grow slower than the wages of the non-poor and also tend to be much lower than in organized sectors.

Properly designed public programs help generate employment for the poor. Successful programs tend to have market-aligned wages and focus on building public assets that improve labor productivity (Subbarao, 1997; del Ninno et al., 2009; Papadimitriou, 2008).

But implementation of such programs is challenging. In India, the use of federal resources for the employment guarantee scheme, for example, was particularly low in poorer states (Chakraborty, 2007).

For the self-employed poor, access to resources—particularly finance—is vital. ADB and donors have supported microfinance, but with limited success in providing access to the poor (ECG, 2010). This could be due to an excessive focus on private initiatives, rather than on incentives and regulation. An evaluation for the Philippines also showed that it is not realistic to reach large numbers of the very poor with microfinance alone. The study suggested that it is useful to include a gender action plan in the design of such projects (ADB, 2006).

Highly uneven growth across regions has also contributed to greater inequality (ADB, 2007). Support to create conducive conditions for the development of poorer regions, including rural areas, as well as for engaging with governments to enhance transfers and public investments in fiscal systems in favor of poorer regions, could help rebalance growth. Confronting tough issues of land reforms and tenancy rights could make growth inclusive in rural areas.

Third, greater effort is needed for *investing in people and assets* that especially enhance the capabilities of the poor.

Both the quantity and quality of these investments are vital. School attendance rates may have risen substantially in recent years, but

they say nothing about the vast differences in quality of education.

Of central importance is improving governance in service delivery. Weak governance in public institutions hurts the poor the most. Yet, simply building social facilities does not guarantee their usefulness, particularly to the poor, due to poor governance and quality standards (Abdul Latif Jameel Poverty Action Lab, 2009). At times, inclusion is hindered by the poor quality of public sector service delivery, particularly to the remote areas.

Social safety nets are also part of inclusive growth approaches. Middle income countries have made some progress in this area, but there is also growing need for well-targeted and sustainable social safety nets in low income countries. These need to be put in place during relatively stable economic times, so that they can operate without the large start-up costs that arise in times of crisis.

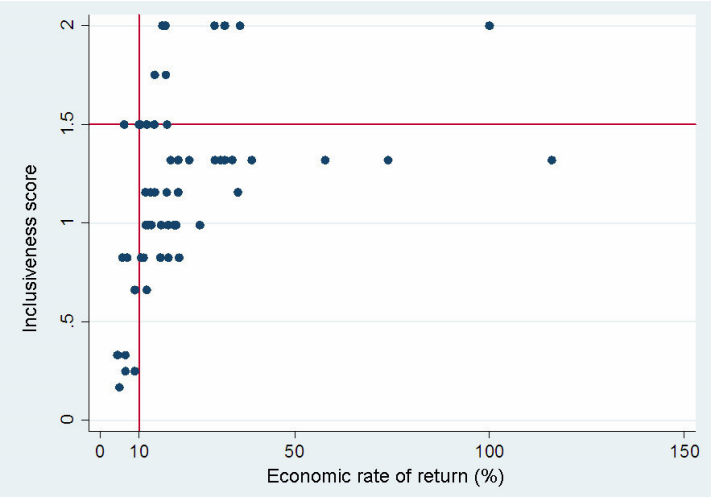
Tracking operations

It would be important to assess how operations feature attributes of inclusive growth. Three relevant dimensions are: Do the projects aim at the lower income levels beyond the average? Do they increase the ability of the poorer segments to access opportunities? Are these results monitored and evaluated?

Income poverty line based analysis needs to be supplemented by measures of inclusion, and the metrics for measurement need to be strengthened (Ali and Son, 2007; Zhuang, 2010; IEG, 2011; Kanbur and Rauniyar, 2010; and Thomas, 2009). Estimates of income poverty are available for most Asian developing countries, but monitoring of capacity for reducing poverty is weak. In addition, Millennium Development Goal (MDG) 2 (access to education) and MDG 3 (gender inclusion) do not provide information on the quality of education. There is also a need to better measure capabilities (participation, social development, transparency, social protection).

With ADB's growing focus on the private sector, private investments can play a special role. Recent work at the International Finance Corp. (IFC) has tried to improve tracking of private sector operations. Figure 2 shows that nearly 60% of projects were in the quadrant of "high growth and low evidence of inclusiveness", and 25% in "high growth and strong evidence of inclusiveness". From this sample, there was limited evidence of how benefits from private sector-led growth created employment for or delivered services to the poor.

Figure 2. Estimated Results of 58 IFC Projects on Measures of Inclusiveness



Source: Independent Evaluation Group, 2011

In response, IFC is (i) developing an action plan with indicators and target date for implementation as part of IFC's reporting to its board of directors, (ii) adopting a framework for characterizing its project portfolio for fiscal years 2012–14, (iii) broadening the definition of the frontier region to enhance targeting of the poor, (iv) more clearly articulating projects' direct and indirect poverty outcomes, and (v) requesting that staff apply poverty concepts in IFC strategies.

Important gaps also remain to be addressed, including: (i) refining the definition and measurement of inclusive growth, (ii) assessing the quality of economic rate of return used as a proxy of growth, and (iii) improving the measurement and tracking of poverty and inclusion. These challenges would also seem to reflect some of the unmet agenda for ADB's private sector efforts in Asia.

Emphasizing the objectives of investments, shaping the policy mixes supporting them, and injecting monitoring and evaluation into the process would seem to be key operational directions. Improvements in these areas would help ADB's interventions in the private and public sectors contribute to greater inclusive growth.

References

Abdul Latif Jameel Poverty Action Lab. 2009. *Fighting Poverty: What Works?* Boston: Massachussets Institute of Technology.

Ali, Ifzal and Son, Hyun H. 2007. Defining and Measuring Inclusive Growth: Application to the Philippines. *ERD Working Paper Series.* No. 98. Economics and Research Department. Manila: Asian Development Bank.

ADB, DFID, JBIC, and WB. 2005. *Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction.* Manila: Asian Development Bank.

Asian Development Bank. 2006. *Effects of Microfinance Operations on Poor Rural Households and the Status of Women*. Operations Evaluation Department. Manila.

_____. 2007. *Key Indicators for Asia and the Pacific 2007*. Manila: Asian Development Bank. pp. 10.

_____. 2010. *Key Indicators for Asia and the Pacific 2010. 41st Edition*. Manila: Asian Development Bank.

Chakraborty, Pinaki. 2007. Implementation of Employment Guarantee: A Preliminary Appraisal. *Economic and Political Weekly*. 17 February 2007. pp. 551.

del Ninno, Carlo, K. Subbarao, and A. Milazzo. 2009. How to Make Public Works Work: A Review of the Experiences. *SP Discussion Paper.* No. 0905. Washington, DC: The World Bank.

Evaluation Cooperation Group. 2010. *Making Microfinance Work: Evidence from Evaluations.* Manila.

Hettige, Hemamala. 2006. *When do Rural Roads Benefit the Poor and How?* Manila: Asian Development Bank.

Independent Evaluation Department. 2006. *Special Evaluation Study: Pathways out of Rural Poverty and the Effectiveness of Poverty Targeting.* Manila: Asian Development Bank.

_____. 2009. *Special Evaluation Study: ADB's Contribution to Inclusive Development through Assistance for Rural Roads.* Manila: Asian Development Bank.

Independent Evaluation Group. 2011. *Assessing IFC's Poverty Focus and Results.* Washington, DC: World Bank.

Kanbur, Ravi and Ganesh Rauniyar. 2010. Introduction. *Journal of the Asia Pacific Economy*, 15:4, 436-436. Routledge: Taylor and Francis Group.

Papadimitriou, Dimitri B. 2008. Promoting Equality through an Employment of Last Resort Policy. *Working Paper.* No. 545. New York. The Levy Economics Institute of Bard College.

Songco, Jocelyn. 2002. Do Rural Infrastructure Investments Benefit the Poor? *Policy Research Working Paper*. No. 2796. Washington, DC: World Bank.

Subbarao, K. 1997. Public Works as an Anti-Poverty Program: An Overview of Cross-Country Experience. *American Journal of Agricultural Economics.* Vol. 79, No. 2 (May, 1997), pp. 678–683.

Thomas, Vinod. 2009. Income Disparity and Growth. *Global Journal of Emerging Market Economies* 1: 63.

Van de Walle, Dominique. 2000. Are Returns to Investment Lower for the Poor? *Policy Research Working Paper.* No. 2425. Washington, DC: World Bank

Zhuang, Juzhong. ed. 2010. *Poverty, Inequality and Inclusive Growth in Asia and the Pacific: Policy Issues, Measurement, and Country Studies.* Co-published by Asian Development Bank and Anthem Press.

About the Asian Development Bank
ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Learning Lessons is a synthesis of key lessons drawn from evaluations of ADB-supported projects and programs. This synthesis may include contexts derived from literature review. Lessons presented in this brief are not prescriptive, and users are advised to carefully review these lessons in the context of country, sector, and thematic conditions.

Contact Us

Independent Evaluation Department
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4100
Fax +63 2 636 2161
www.adb.org/evaluation
evaluation@adb.org