LEARNING LESSONS

Supporting Inclusive Growth

Governments in Asia and the Pacific are increasingly recognizing the urgency for adopting strategies that promote more inclusive economic growth. Poverty has plunged in some countries in the past two decades, but its elimination in the region is unfinished business, with hundreds of millions still living in abject conditions. At the same time, income inequality has risen more than 20% in the last 20 years. This could hinder further poverty reduction and threaten sustained growth.

Yet there is now an understanding that economic growth alone is not enough to improve welfare—its pattern also matters. Governments and institutions are therefore adopting inclusive growth as a focal point of development strategies.

The Asian Development Bank (ADB) introduced inclusive growth in 2008 as one of its complementary strategic agendas under Strategy 2020, along with environmentally sustainable growth and regional integration. The strategy identifies three pillars of inclusive growth: (i) high sustainable growth to create and expand economic opportunities (pillar 1), (ii) broader access to these opportunities to ensure that members of society can participate in and benefit from growth (pillar 2); and (iii) safety nets to prevent extreme deprivation (pillar 3).

The institutional challenge is to ensure ADB's inclusive growth strategy becomes an operational reality.

HOW INCLUSIVE IS GROWTH IN ASIA AND THE PACIFIC?

The evaluation study, *ADB's Support for Inclusive Growth*, defines inclusive growth as growth with social equity—that is, in which all segments of the population can participate and benefit, particularly lower-income groups.

To determine whether growth is inclusive, three factors—growth, poverty, and inequality—need to be examined together. The main question is whether the region's rapid and sustained growth since 1990 has been translated into better living standards as measured by household consumption.

On the first factor, gross domestic product (GDP) in Asia and the Pacific was $5.5 trillion in the 1990s (at 2005 purchasing power parity) and grew 9.0% annually. It reached $12.7 trillion by the 2000s, but average growth slowed slightly to 8.2%, although some economies grew faster.

The region's per capita GDP rose an average 7.8% a year in the 1990s and stood at around $1,900, helped by declining population growth. It doubled to around $3,800 in the 2000s, although the average annual growth rate declined to 7.2%. Decelerating population growth—from an annual rate of 1.2% in the 1990s to 1.0% in the 2000s—played a part in the per capita advances.

But this overall growth performance did not translate into similar improvement in average living standards. The study found that Asia's household consumption increased at a slower pace than GDP. In the 1990s, it grew 5.7% annually and comprised 35.6% of the region's GDP. In the 2000s, it grew 5.5% annually and made up only 29.8% of GDP.

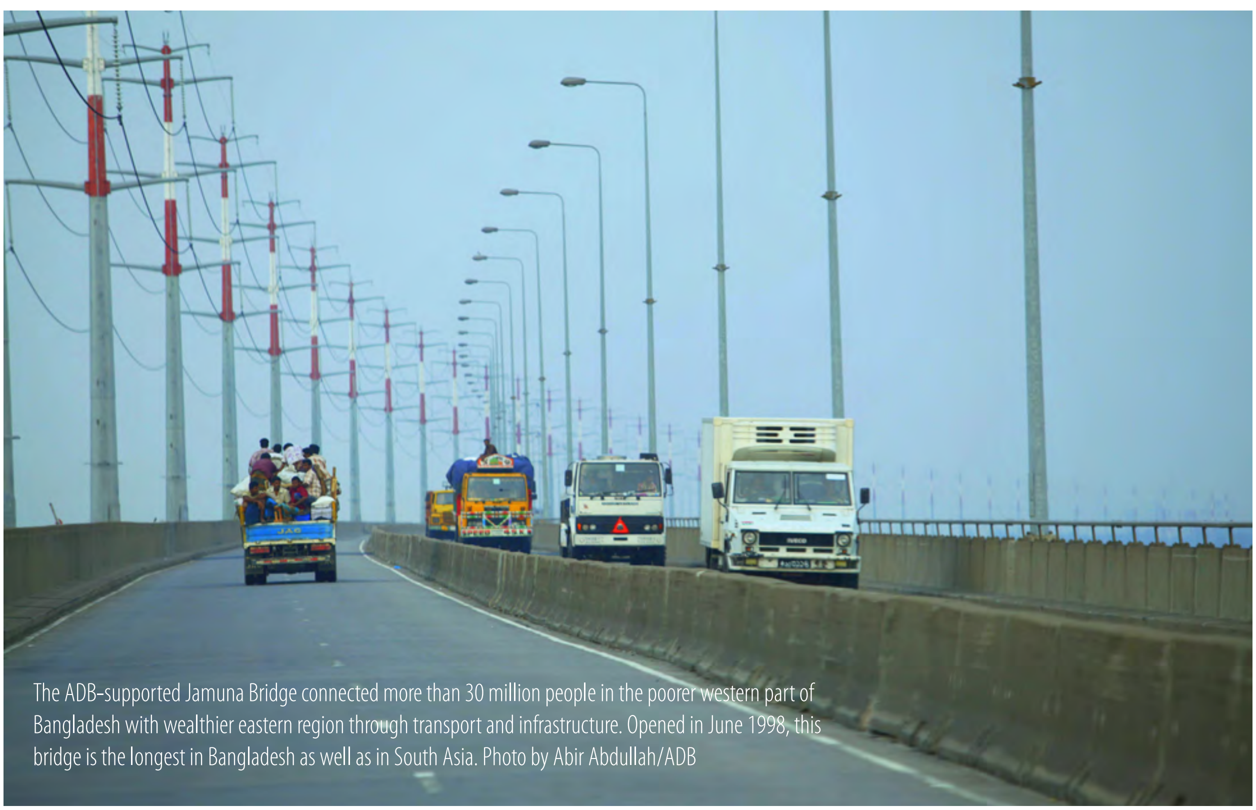
On the second factor, the region's performance has been impressive in combating poverty. The number of absolute poor, or those living on $1.25 or less a day, decreased from 1.23 billion in the 1990s to 790 million in the 2000s. Some countries have contributed significantly: the number of absolute poor in the People's Republic of China (PRC) declined from 520 million people in the 1990s to 230 million in the 2000s. But other countries continued to grapple with high poverty and slower reduction. In Bangladesh, more than two-fifths of people remain in absolute poverty.

Performance on the third factor is more worrisome. The Gini coefficient for the region increased annually during the 1990s and 2000s. Although rates varied and inequality even declined in some countries, such as in the Philippines and Viet Nam, Gini coefficients have risen in the region's most populous countries, including the PRC, India, and Indonesia, particularly in the 2000s.

KEY FINDINGS

Based on ADB's project classification system, the study estimated that 59% of ADB's total financing in 2000–2012, or more than $81 billion, was classified under pillar 1, 30% under pillar 2, and 10% under pillar 3. Excluding crisis support to countries to consider only stand-alone social protection activities, the share of pillar 3 was 1%.

While the pillars indicate various aspects of inclusive growth, classifying projects under one of the three does not automatically guarantee that the outcomes of inclusive growth will be achieved. A portfolio that rests too heavily on a single pillar would be inadequate for achieving inclusive growth. Although country circumstances could determine individual country portfolios, the overall ADB portfolio should strive to adequately support all three and ensure that projects



The ADB-supported Jamuna Bridge connected more than 30 million people in the poorer western part of Bangladesh with wealthier eastern region through transport and infrastructure. Opened in June 1998, this bridge is the longest in Bangladesh as well as in South Asia. Photo by Abir Abdullah/ADB categorized under these pillars promote inclusion.

Growth interventions (pillar 1) can be inclusive if their designs pay special attention to including the lower-income groups. The ADB-supported Jamuna Bridge project in Bangladesh, for example, connected more than 30 million people in the poorer western part of the country with the wealthier eastern region through transport and infrastructure. Growth interventions can also become more inclusive if they are directed at economic sectors that rely a lot on the productive potential of the lower-income groups.

Beyond providing basic services, access-to-opportunity interventions, for their part, must also foster equitable access to those opportunities, particularly for lower-income and other vulnerable groups. The ADB-supported vocational and technical education project in Viet Nam, which provided training to the poor and disadvantaged women and ethnic minorities, offers a case in point.

For social protection interventions, proper targeting of beneficiaries is essential to prevent leakage. They must ensure that more resources are allocated to those most in need of safety nets. The Philippines' conditional cash transfer program, in which the government has been using a proxy means test in selecting household beneficiaries, is a good example.

Across sectors, ADB has focused its operations on the core areas, particularly infrastructure. This may have led to a large concentration of operations aimed mainly at growth without special attention to involving lower-income groups.

The study found that the impact of ADB's infrastructure investment on inclusive growth could be scaled up. Some 14.1% of ADB's infrastructure interventions in 2000–2012 targeted rural areas, where a majority of the poor population often reside. Increasing this proportion would be a first step. But it should be borne in mind that ensuring the impact of rural infrastructure on inclusive growth depends on whether these interventions are linked to schools, healthcare centers, markets, and other services and opportunities.

In its country operations, meanwhile, ADB's emphasis on pillar 1 projects is evident. In six country case studies conducted under this evaluation study, ADB extensively analyzed the prospects for rapid growth, but there was limited discussion of its inclusive nature, including access to opportunities and the provision of safety nets.[1] The share of ADB resources accruing to pillar 1 projects in these countries in 2000–2012 ranged from 51% in Bangladesh to 73% in Tajikistan; while the share under pillar 2 projects ranged from 18% in the Philippines to 39% in Papua New Guinea. For pillar 3, the share ranged as low as 2% in Papua New Guinea and as high as 26% in the Philippines.

In the six country case studies, investments outside infrastructure provision were found to directly impact inclusive growth. In Viet Nam, there is a good case to support, rather than withdraw from, pillar 3 projects, especially, given the emerging problem of poverty among the ethnic minorities.

Similarly, ADB's more direct support for a sectoral approach that stresses job creation—both in agriculture and industry—is called for in Mongolia, Papua New Guinea, the Philippines, and Tajikistan, where there is inadequate employment generation due to a narrow economic base. However, industry and trade investments were missing in Mongolia, and comprised just over 1% of total resources in 2000–2012 in the rest of the countries.

Promoting inclusive growth requires an approach that uses complementary interventions. Human development and social protection gaps left by ADB's current operation patterns need to be filled through greater synergies between the programs and projects of ADB, governments, and other development partners.

LESSONS AND RECOMMENDATIONS

ADB can undertake several measures to increase inclusion.

Inequality. A simultaneous focus on poverty and inequality in ADB's inclusive growth framework is becoming increasingly important given the region's changing socioeconomic challenges. Income inequality is rising in many countries and disparities in access to economic opportunities such as education, health care, basic infrastructure and employment have also been observed.

Benefits to lower-income groups. Each pillar needs to promote inclusive growth by paying attention to benefiting lower-income groups relatively more. This can be achieved by systematically incorporating inclusion objectives in project designs. Pillar 1 projects can contribute to inclusive growth

[1] The six countries are Bangladesh, Mongolia, Papua New Guinea, Philippines, Tajikistan, and Viet Nam.

if lower-income groups are directly included in the growth process. This does not imply that every project has to focus on these groups, but taken together the portfolio should have an inclusive slant. Pillar 2 projects ought to foster access to and distribution of opportunities by including an analysis of the equity of opportunity and specifically supporting the poor if the analysis points to the need for this. Pillar 3 projects should employ targeting mechanisms to optimize the resources allocated for the provision of safety nets to those who need it most.

Country diagnostics. The relative emphasis on the three pillars and selection of priority sectors in a country needs to be contingent on a proper assessment of inclusive growth needs at the country level. Country partnership strategies ought to include adequate analysis of inequality, poverty, and productive employment issues, as well as properly reflect the findings of risk, vulnerability, and gender profiles.

Partnership. Inclusive growth requires a holistic approach to development support. Complementary interventions undertaken by development partners help ensure that the objective of inclusive growth is achieved, even if ADB is itself selective in areas it supports. Country teams can pay more attention to coordinating ADB's country programs with government programs and the programs of development partners, with this ultimate objective in mind.

Tracking country program progress. Country teams must be encouraged to adopt inclusive growth as one central objective. The constraints to and opportunities for inclusive growth vary from one country to another. Country portfolio reviews should show the progress on inclusive growth indicators in the form of a scorecard.

Considerable scope exists for improving project design and strategy formulation in both public and private sectors in Asia and the Pacific. By helping to bring this about, ADB will be making a unique contribution, even if modest, to making the region's development trajectory more inclusive. ■

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