

Evaluation Approach

Thematic Evaluation Study on ADB's Support for Inclusive Growth

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A. Overview

1. This approach paper presents the objectives, scope, methodology, and timeline for an evaluation of the Asian Development Bank's (ADB) support for inclusive growth by the Independent Evaluation Department (IED). The evaluation seeks to (i) present an understanding of and international evidence on inclusive growth, (ii) assess ADB's inclusive growth agenda as one of the three main pillars of Strategy 2020¹ and in the context of the Bank's earlier strategies,² (iii) identify lessons from ADB's support in promoting inclusive growth among its developing member countries (DMCs), and (iv) provide recommendations for ADB's future operations in inclusive growth.

2. Because ADB adopted its inclusive growth agenda only in 2008, its definition and operationalization of inclusive growth are still evolving and may need to be strengthened. As such, the study will assess progress on "doing things right" against ADB's inclusive growth framework adopted in Strategy 2020. The evaluation will also consider the issue of "doing the right things", with a look at the understanding and international evidence on inclusive growth that have emerged since the adoption of Strategy 2020. The evaluation draws on background papers exploring the concept, measurement, indicators, and other dimensions of inclusive growth. Covering 2000–2012, it will also carry out a portfolio review of closed and ongoing projects related to inclusive growth, review sector work, and conduct six country studies.

B. Rationale and Issues in Inclusive Growth

3. In developing Asia, per capita gross domestic product grew an average of 5.1% annually in the 1990s and 7.3% in the 2000s, much higher than rates of 1.1% and 3.2% of developing countries outside the region in the same periods. However, persistent poverty, rising inequality, rising food and oil prices, financial crises, and natural disasters risk eroding the achievements of those two decades. These challenges call for an examination of growth and development policies to explore the links among growth, equity,³ and poverty alongside measures supporting sustained growth.

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

² ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank, 2001–2015*. Manila.

³ Equity refers to normative concerns about fairness and social justice. It generally implies equality of opportunities among social and economic groups despite differences in status, power, and influence. However, it may not imply equality in outcomes such as income or consumption, as differences in needs, effort, or talent may lead to disparities in such outcomes (World Development Report 2006).

4. Despite recent high growth, developing Asia is still home to a majority of the world's poor. While the proportion of people living below \$1.25 a day fell from 53% in the early 1990s to 34% in the late 2000s—and from 77% to 62% living below \$2 a day—about 70%–80% of the world's poor people still lived in developing countries in South Asia or East Asia and the Pacific in the late 2000s. Policy measures that can ensure sustainable and pro-poor growth and accelerate poverty reduction are therefore necessary.

5. Policymakers in developing Asia have shown rising concern for inequality. The Gini index,⁴ the most widely used measure of inequality, increased from 32.1 in the early 1990s to 35.1 in the late 2000s. This expanding inequality is in part attributed to disparities in opportunity in the region. Uneven access to the resources crucial to raising living standards—including physical assets (such as land and capital), human capital (such as education and health care), and market access (such as labor and finance)—is widespread. In some Asian countries, for instance, school-age children from households in the poorest income quintile were three to five times more likely to be out of primary and secondary school than their counterparts in the richest quintile.⁵

6. The emerging consensus is that, to sustain growth, it must be rapid and equitable—with its benefits accessible to all segments of society.⁶ This consensus has given rise to the need for inclusive growth. This thematic evaluation aims to shed light on the challenges and opportunities in promoting inclusive growth by examining ADB's support to DMCs in this area. It explores the relevance and responsiveness of ADB's efforts to encourage inclusive growth and draws lessons for policymaking. The study also needs to look at the issues underpinning inclusive growth, and methods of monitoring and measuring its progress. In addition, it will address issues associated with operationalizing the concept of inclusive growth in ADB's support to DMCs.

7. Appendix 1 provides an early assessment of the various definitions of inclusive growth, including ADB's. Some define inclusive growth in terms of falling inequality, while others deem growth inclusive when it creates opportunities accessible to all through employment.⁷ Policymakers and practitioners have yet to agree on a common definition. ADB's current inclusive growth framework also has limitations that are highlighted in the next section. Given these, this study explores a framework that would incorporate social objectives aimed at enhancing the well-being of all sections of society. Along with ADB's inclusive growth framework, this framework, still evolving, would also be tested to assess its robustness in analyzing the extent to which ADB has supported inclusive growth processes in DMCs. Six country cases conducted as part of the study would shed light on ADB's current operations aimed at achieving inclusive growth, and the identified constraints in these six could help sharpen ADB's inclusive growth efforts.

⁴ The Gini index averaged across countries in the region was used as the inequality measure.

⁵ ADB. 2012. *Asian Development Outlook*. Manila.

⁶ Stuart, E. 2011. *Making Growth Inclusive: Some Lessons from Countries and the Literature*, Oxfam Research Report, April 2011; and World Bank. 2009. "What is Inclusive Growth", Washington DC: World Bank.

⁷ IMF. 2011. *Regional Economic Outlook: Asia and Pacific*. Washington, DC; T. McKinley. 2010. *Revisiting the Dynamics of Growth, Inequality and Poverty Reduction*. *Discussion Paper 25/09*. Center for Development Policy Research, School for Oriental and African Studies at the University of London; G. Rauniyar and R. Kanbur. 2010. *Inclusive Development: Two Papers on Conceptualization, Application, and the ADB Perspective*. Manila: ADB; World Bank. 2009. *What Is Inclusive Growth? PRMED Knowledge Brief*. February 10. Washington, DC: Economic Policy and Debt Department. Washington, DC.

C. ADB Policies and Strategies Pertaining to Inclusive Growth

8. Under Strategy 2020, ADB in 2008 introduced inclusive growth as a key strategic agenda, along with environmentally sustainable growth and regional integration, within the overarching goal of achieving the vision of an Asia and Pacific region free of poverty. The strategy identifies three pillars of inclusive growth:

- (i) high sustainable growth to create and expand economic opportunities;
- (ii) broader access to these opportunities (by expanding human capabilities through investment in education, health, and social protection) to ensure that members of society can participate in and benefit from growth;
- (iii) safety nets to prevent extreme deprivation.

9. ADB's definition⁸ tends to focus on sustainable growth that creates and expands economic opportunities. Among the three pillars, this is a well-defined social objective. But high, sustainable growth would seem a necessary, but not sufficient condition to create equitable economic opportunity. The second and third pillars are policies aimed at achieving certain (undefined) social objectives. Poverty reduction is not explicitly stated as one of the three pillars, presumably because it is the stated overarching goal of ADB's operations—implying that inclusive growth is seen as a means to achieving poverty reduction. However, if poverty reduction is the main goal, then it might be more efficient to achieve this more directly by means of pro-poor growth or pro-poor policies. Strategy 2020 shares this overarching goal with the 1999 Poverty Reduction Strategy (PRS) and Long Term Strategic Framework of 2001 (LTSF1).

10. The 1999 PRS identified inclusive social development as one of its pillars. Its modified version, the 2004 Enhanced Poverty Reduction Strategy,⁹ included pro-poor, sustainable economic growth as one of its pillars. The PRS focused on human capital development, social capital development, gender and development, and social protection. Human capital refers to education, health, and access to essential services, while social capital development refers to increased opportunity for the poor to take part in decision making and self-managed community services, including establishing community-based groups in microfinance, health, and natural resources management. Gender and development, meanwhile, necessitates improvement in the status of women through their participation in society, as well as health and welfare schemes. Social protection deals with the vulnerabilities and risks of age, illness, disability, natural disasters, economic crises, and/or civil conflict.

11. The LTSF1, meanwhile, encompassed social development as one of the core strategic areas of interventions, along with sustainable economic growth and governance for effective policies and institutions. In promoting inclusive social development, the LTSF1 pushed for the equitable access of all to assets and opportunities, particularly the poor, women, and children, minority groups, the extremely poor in rural areas, and those pushed below the poverty line due to natural and human-made catastrophes. It also pushed for capacity building to promote the participation of stakeholders in the preparation and implementation of projects to ensure the

⁸ The Economics and Research Department (ERD) has produced studies on defining inclusive growth. Some of ERD's earlier contributions include: I. Ali and H. Son. 2007. *Defining and Measuring Inclusive Growth: Application to the Philippines*. ERD Working Paper Series No. 98. Manila: ADB; J. Zhuang and I. Ali. 2010. *Poverty, Inequality and Inclusive Growth in Asia*. Manila: ADB; and I. Ali. 2007. *Pro-poor to Inclusive Growth: Asian Prescriptions*. Manila: ADB. While ERD's contributions are important, this evaluation will explore a more comprehensive framework of inclusive growth with clearly defined social objectives.

⁹ ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

relevance of interventions, which primarily cover human capital development, basic social services such as education and health targeted at the poor, eradication of gender inequality, and civil society participation in social development programs.

12. Given these earlier strategies and their analogous objectives, it may be questioned whether there has been any real variation in ADB's operations given the adoption of inclusive growth as a main strategic agenda in 2008. Beginning in 2000, ADB had already implicitly taken on inclusive growth policies in its operations, although they were encompassed under different pillars. One of the objectives of this study would be to establish if ADB's operations underwent significant changes¹⁰ in the post-2008 period after the adoption of Strategy 2020.

13. The increasing inequality in Asia and the Pacific may have necessitated the shift in ADB's strategy from pro-poor to inclusive growth, although this justification is not provided in Strategy 2020. Yet, the reduction of inequality in income is not explicitly included as a social objective in the current framework—and is perhaps viewed more as a means to achieving poverty reduction. Logically, inclusive growth should benefit the entire society. To ensure that the benefits of growth are more equitably distributed in a population, inequality in income should decline over time. Thus, inclusive growth in this study would be deemed as implying that inequality declines with economic growth. As a multidimensional concept, it should also go beyond poverty reduction. Poverty reduction can clearly be seen as a primary benefit of inclusive growth, but it would also be important to include the reduction of inequality as a social objective in a framework for inclusive growth. This issue will be further explored in the course of the evaluation.

14. Prior to Strategy 2020, ADB's PRS¹¹ and the LTSF¹² had espoused a more direct pro-poor growth concept in which poverty reduction was the main social objective. These two strategies focused on large investments in social sectors and social infrastructure, and directed resources to where the impact on poverty was deemed greatest, such as rural development and agriculture interventions, since most of the poor reside in rural communities. Both the PRS and LTSF1 acknowledged that economic growth can effectively reduce poverty only when it is complemented by equitable access to assets and opportunity for all, especially the vulnerable.

15. Inclusive growth should be viewed as concerned with the improvement (or change) in living standards. Level indicators only provide a snapshot of prevailing conditions and need to be observed over time to allow for assessing improvements. Hence, the indicators of inclusive growth need to be growth rates (or change) and not just living standard levels.¹³ For instance, a poverty indicator should reflect at what rate it is being reduced. To better understand inclusiveness, both level and growth indicators will be considered in the study. Similarly, the basic service indicators presented in ADB's results framework for inclusive growth would also need to go beyond averages and capture some measure of the distribution of services. The social objective is not only to expand opportunities, but also to make them more equitable—that is, the poor are also able to enjoy them.

¹⁰ The study will provide a critical review of ADB's inclusive growth efforts before and after the adoption of Strategy 2020.

¹¹ ADB. 1999. *Fighting Poverty in Asia and the Pacific: Poverty Reduction Strategy of the Asian Development Bank*. Manila.

¹² ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank, 2001-2015*. Manila.

¹³ ADB's results framework is a performance management tool introduced in 2008 to help ADB monitor and improve its business to achieve the long-term goals of Strategy 2020. While the results framework includes growth indicators, most are level indicators.

D. Evaluation Questions, Scope, and Methodology

16. This Thematic Evaluation Study aims to assess:
- (i) how ADB defines inclusive growth, how relevant its definition to Asia and the Pacific is, and how relevance can be improved;
 - (ii) how inclusive growth is reflected and put into effect in ADB's operations as outlined in Strategy 2020 (and other strategy papers issued in the 2000s prior to the Strategy), and how compliant country partnership strategies (CPSs) and operations are with ADB's framework of inclusive growth (CPSs prepared in 2011–2012 to take into account the time lag of implementing Strategy 2020);
 - (iii) what results have been observed so far as part of ADB's inclusive growth efforts;
 - (iv) whether there are any changes in the design and implementation of ADB interventions that pertain to inclusive growth between pre- and post-Strategy 2020 periods; and
 - (v) what framework of inclusive growth is most suited to the evolving needs of Asia and the Pacific and hence ADB.

1. Operationalizing the Inclusive Growth Framework

17. CPSs provide the road map for ADB's support for inclusive growth at the country level. These CPSs then help to define a combination of Bank programs and projects across sectors within a country. This study will examine how the CPSs are relevant to ADB's inclusive growth agenda based on the Bank's current inclusive growth framework. Since Strategy 2020 was adopted only in 2008, the evaluation will focus on CPSs and other activities during 2011–2012 to shed some light on the time lag of implementing the Strategy. However, it will also refer to CPSs and other activities prior to Strategy 2020 to determine any changes in the design and implementation of interventions that pertain to inclusive growth.

18. Inclusive growth is a multidimensional concept containing more than one social objective. Using a multidimensional approach the study will help identify the binding constraints that hamper economies from achieving inclusive growth. It will focus on identifying sectors, subsectors, and key activity areas that will feed into ADB's development of CPS road maps. The study will assess ADB's support for inclusive growth mainly through these road maps agreed with DMC governments and any adjustments ADB makes during CPS implementation. These could articulate a coherent approach to supporting inclusive growth and help to clarify selected areas of effective ADB intervention.

19. In operationalizing inclusive growth, conflicts may arise in simultaneously achieving different social objectives. For instance, rapid economic growth may be accompanied by an increase in inequality. In such cases, how does one decide whether growth is inclusive? This evaluation will explore indicators that can address such trade-offs to a certain extent. For instance, one of the framework indicators assesses whether growth may still be regarded as inclusive, even though there is an increase in inequality, if the loss of growth incurred due to this increase is relatively smaller than the actual growth rate. This logic could be used in assessing ADB operations at the country level. It should also be noted that these trade-offs among social objectives will need to be weighed based on a country's situation. As such, there is no one-size-fits-all approach to realizing inclusive growth.

2. Country Case Studies

20. Constraints to inclusive growth may vary from one country to another. As such, how the inclusive growth agenda is defined and put into effect may differ among countries. It is thus useful to examine country-specific constraints and opportunities, and then assess ADB's response to addressing them through its CPSs, programs and projects. The Thematic Evaluation Study (TES) therefore proposes to conduct country case studies in Bangladesh, Tajikistan, Mongolia, the Philippines, Viet Nam, and a Pacific country.¹⁴ These countries were selected based on their geographical representation and experiences in promoting growth, reducing poverty, and achieving equity. The case studies will provide concrete analysis of the extent to which the strategies and programs are consistent with the identified country-specific constraints and with ADB's inclusive growth framework. They will also assess the achievement of the social objectives presented in the inclusive growth framework evolved by this study.

21. As noted, because Strategy 2020 was adopted only in 2008, the evaluation will focus only on ADB's CPSs and pipeline projects and programs during 2011–2012. It will also examine how relevant and responsive the CPSs are and can be to the strategies of governments and other development partners in attaining inclusive growth. The six country studies will shed light on (i) how ADB has operationalized inclusive growth in the selected countries, (ii) whether ADB interventions have been appropriate in identifying sectors, subsectors, or activities to address binding constraints to inclusive growth, (iii) how ADB operations have performed in supporting inclusive growth, (iv) whether conclusions emerging from using the ADB and TES frameworks in evaluating the Bank's support for inclusive growth are different, and (v) what lessons can be drawn from the experiences of the six individual countries for ADB's future operations in supporting inclusive growth in DMCs. As part of the country case studies, fieldwork focusing on specific sectors will be conducted to help gauge the views of concerned government ministries, development partners and other stakeholders regarding the inclusiveness of growth. The sectors will be identified based on preliminary data analysis and other documents available within and outside ADB for the study countries.

22. This evaluation will also look at individual projects and programs¹⁵ implemented in the six countries to assess the extent to which these have supported inclusive growth. But we are not in position to assess the magnitude of their contribution. While ADB's projects and programs may have played a role in promoting inclusive growth, there are many factors that affect development progress, making it extremely difficult to determine the magnitude of ADB's contribution. The country case studies may focus on assessing how the direction and extent of ADB's operations in some sectors have changed over the years to achieve greater inclusive growth—whether the Bank's operations are relevant, responsive, and effective in supporting inclusive growth in these sectors.

3. Cross Country Analysis

23. It is also important for ADB to monitor its overall operations at the corporate level. The study may lead to an indicators framework that could be used to set up a monitoring framework for inclusive growth in Asia and the Pacific.¹⁶ To monitor development at the regional level, the inclusive growth indicators developed at the country level need to be aggregated at the regional

¹⁴ The list of countries is still tentative and may change in view of regional representation and data availability.

¹⁵ The SES will examine all the projects implemented in the six countries before (2000–2007) and after (2008–2012) Strategy 2020 was adopted.

¹⁶ See Appendix 2.

level. To this end, the TES may develop the necessary aggregation method to provide information about the region's progress towards inclusive growth. In addition, it will also be important to assess how well other developing countries, in sub-Saharan Africa and Latin America, are fostering inclusive growth. The TES will compare the progress of 90 developing countries in achieving inclusive growth, that is, 26 DMCs and 64 countries outside the region.

4. Key-informant Interviews

24. The evaluation will conduct key-informant interviews with (i) government and non-government representatives from DMCs and representatives of other development organizations during field visits, and (ii) ADB Management and project teams. It will aim to elicit information on (i) ADB's corporate thinking on inclusive growth; (ii) the development effectiveness of Bank support; (iii) collaboration with governments, private sector, and other partners in DMCs; (iv) challenges encountered during implementation and how they have been addressed; (v) and the use of a prospective approach to identify measures to support the effectiveness of ongoing policies in different country contexts. Interviews with ADB representatives will also provide a qualitative interpretation of the quantitative findings from the portfolio analysis.

5. Inclusive Growth Framework

25. The study will primarily use the inclusive growth framework under Strategy 2020 for the evaluation. Based on an early assessment of this framework and pending its findings, this evaluation will also consider an enhanced framework for inclusive growth. ADB's current inclusive growth framework would be the point of departure to assess the extent to which ADB has been and can promote inclusive growth in DMCs. In considering the framework for inclusive growth itself, four social objectives would seem to merit attention: (i) sustained economic growth, (ii) poverty reduction, (iii) inequality reduction, and (iv) broadening of economic opportunity.

26. A main feature of such an examination is the inclusion of inequality reduction as a social objective—apart from poverty reduction and broadened access to opportunities including social safety nets, which are both specified in ADB's existing inclusive growth framework. It also stresses that the type or nature of economic growth is vital for improvements in the average standard of living. Moreover, the four social objectives represent means to inclusive growth, while having intrinsic value in themselves. This framework would also identify specific sample policies geared toward making growth inclusive (see Appendix 2).

E. Peer Reviewers

27. Three reviewers from within and outside ADB are currently being considered to peer review the report. These reviewers, who have yet to be confirmed, will have extensive experience on evaluation and research in this field.

F. Team

28. This evaluation will be a team effort with crucial inputs from many experts within and outside IED. The evaluation team will be led by Hyun H. Son and include Joanne Asquith, Linda Arthur, Raikhan Sabirova, Maya Vijayaraghavan, Imelda Marquez, and Mary Grace Agapito. Joanne Asquith, Linda Arthur, Raikhan Sabirova, and Maya Vijayaraghavan will be involved in carrying out country case studies. Short-term consultants will be recruited as staff consultants to

help conduct case studies and portfolio analysis, write background papers, and contribute selectively to the evaluation study. The terms of reference for the consultants are in Appendix 3.

G. Dissemination and Timeline

29. The final report will be published and disseminated within ADB and externally during seminars and conferences. Findings will also be presented in articles and published in the media and external publications, as appropriate.

30. The evaluation will be undertaken during 2013, and will be submitted to the Development Effectiveness Committee by January 2014. The following schedule is proposed for the preparation of the evaluation report.

Activity	Approximate Schedule
Evaluation approach paper approval	January 2013
Recruitment of consultants	January–February 2013
Implementation phase:	January–June 2013
- Literature review	
- Portfolio analysis	
- Background papers	
- Case studies (desk-based and fieldwork)	
- Seminar to discuss preliminary findings	
IED internal and external review (peer review)	August 2013
Interdepartmental circulation	September 2013
Submission to IED Management	December 2013
Final report to DEC	January 2014

Appendixes:

1. What is Inclusive Growth?
2. A Framework for Inclusive Growth
3. Terms of Reference for Consultants

What Is Inclusive Growth?

1. Inclusive growth is a relatively new construct in the field of growth and development. In recent years, several definitions of inclusive growth have been proposed, but research and policy experts have yet to agree on a single, unified definition. Despite the lack of clear understanding of this concept, inclusive growth has been widely discussed among governments, international organizations, and other stakeholders in the last few years. At this juncture, several countries in Asia are shifting their development goals from poverty reduction toward other broader social objectives such as equality in income or opportunity. For instance, India has focused on inclusive growth, while the People's Republic of China has talked about creating a harmonious society. Similarly, Thailand has emphasized growth with equity. While it is unclear precisely how these concepts differ from one another, there is a growing consensus that they are related to "inclusive growth."

2. Various organizations have adopted their own definition of inclusive growth. Despite being able to distinguish between inclusive and pro-poor growth at the conceptual level, there has been little or no explanation at all as to what inclusive growth seeks to achieve. Does inclusive growth aim to reduce poverty, ease social and/or economic inequalities, or promote sustained economic growth? The lack of an objective function has led to different definitions and approaches to inclusive growth.

3. Of the various definitions of inclusive growth, the Indian Planning Commission's definition is the most comprehensive. It defines inclusive growth as:

".....growth that reduces poverty and creates employment opportunities, access to essential services in health and education especially for the poor, equality of opportunity, empowerment through education and skill development, environmental sustainability, recognition of women's agency and good governance."

4. While the main social objective is poverty reduction, this definition expects inclusive growth to achieve many goals. Inequality reduction as a social objective does not enter in this definition, but there is a concern for inequality of opportunities. Thus, this definition is a mixture of social objectives and policies that would achieve such objectives. The focus is on creating employment opportunities and empowerment through education and skill development. Under this definition, rapid economic growth is not seen as the key driver of poverty reduction.

5. Meanwhile, the World Bank defines inclusive growth as *"economic growth, which is a necessary and crucial for poverty reduction. Further growth should be sustained in the long run and should be broad-based across sectors. The main emphasis of the World Bank's concept of inclusive growth is on creating productive employment rather than income redistribution."*

6. Like the Indian Planning Commission's definition, the World Bank's characterization of inclusive growth involves poverty reduction as the main social objective. Growth is deemed inclusive if it follows certain policies particularly those geared toward creating productive employment to achieve poverty reduction. However, there are many policies that can be implemented to reduce poverty. Thus, it may not be beneficial to restrict the policy space to only the generation of productive employment. There could be many poor who are not in the labor force, such as the elderly or disabled, for whom the employment nexus is of little relevance. Furthermore, the focus on productive employment may result in a high level of unemployment among the poor, which may in turn increase poverty.

7. Under Strategy 2020, ADB in 2008 introduced inclusive growth as one of three complementary development agendas of Asia and the Pacific. However, the objectives of inclusive growth are not precisely defined in the Strategy. Instead, the Strategy only identifies inclusive growth as having three requirements:

- (i) high sustainable growth to create and expand economic opportunities;
- (ii) broader access to these opportunities (by expanding human capabilities through investment in education, health, and social protection) to ensure that members of society can participate in and benefit from growth;
- (iii) safety nets to prevent extreme deprivation.

8. ADB's definition tends to focus on economic growth, which is the only well-defined social objective. The second and third components are policies aimed at achieving certain undefined social objectives. Poverty reduction is the overarching objective of Strategy 2020, thus inclusive growth is viewed as means to achieving this objective. However, inclusive growth, as a multidimensional concept, should go beyond just poverty reduction. It is not just an instrument, but has intrinsic value of its own. In addition, inequality of income is not incorporated into this definition, albeit the second component pertains to equity of opportunities.

9. The African Development Bank (AfDB) adopted a definition of inclusive growth that is similar to ADB's definition. AfDB (2012)¹⁷ defines inclusive growth as economic growth that enables a broader portion of the population to have greater access to sustainable socioeconomic opportunities, at the same time as the vulnerable are protected—all achieved in an environment of fairness, equal justice, and political plurality. This definition of inclusive growth also covers productive employment, and promotes the protection of the disadvantaged and marginalized groups from adverse shocks. Identifying disadvantaged groups may be based on the parameters of age, gender, regional or geographical gaps, and sectoral differences. AfDB notes that policies for inclusive growth should address productive employment rather than direct income redistribution. Its focus on productive employment implies that the poor who are not in the work force are excluded from any support. This definition also expects inclusive growth to achieve many things. Under this approach, there are no precisely defined social objectives. Protecting disadvantaged groups may be viewed as a social objective of poverty reduction, but this is not explicitly mentioned.

10. Some studies define inclusive growth from the perspective of inequality reduction in income (or consumption). For instance, Rauniyar and Kanbur (2010) consider economic growth as inclusive if it is accompanied by falling inequality. Similarly, Dollar and Kraay (2002)¹⁸ define growth as inclusive when the income of the bottom quintile does not decrease. Most recently, the International Monetary Fund in 2011 argued that inclusive growth occurs when growth is not linked with a decrease in the share of the bottom quintile of the income distribution.

11. The review of the definitions discussed above shows that there is no single, cohesive definition of inclusive growth. The proposed definitions by various institutions and experts in recent years lack a well-defined framework of inclusive growth that clearly defines its social objectives. This Thematic Evaluation Study provides a comprehensive framework of inclusive growth that can be operationalized.

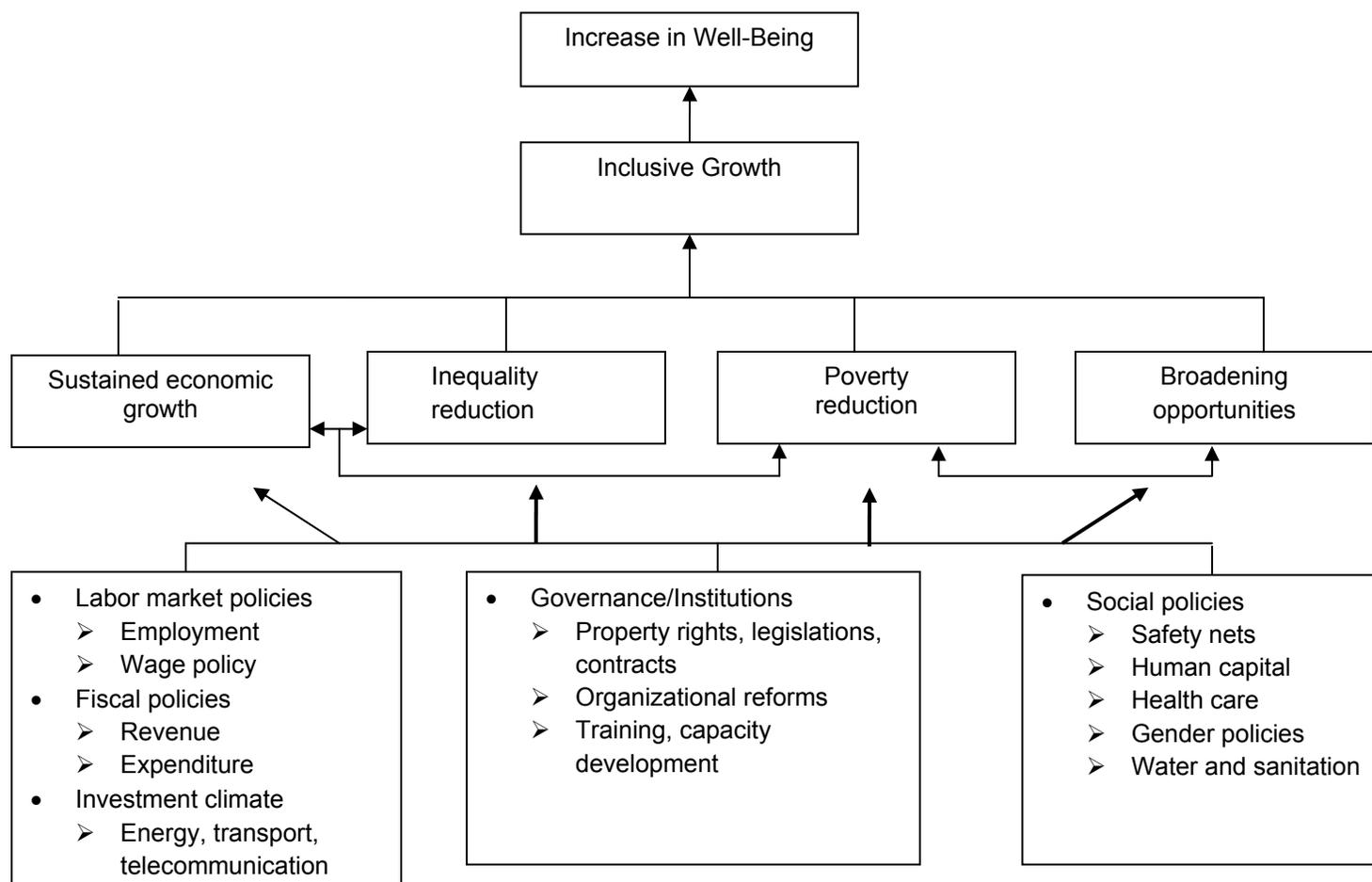
¹⁷ AfDB. 2012. Briefing Note 6: Inclusive Growth Agenda. *Briefing Notes for AfDB's Long-Term Strategy*. 10 April. Tunis: African Development Bank.

¹⁸ D. Dollar and A. Kraay. 2002. Growth is Good for the Poor. *Journal of Economic Growth*, Vol. 7, No. 3, pp. 195–225.

A Framework for Inclusive Growth

1. Several countries in Asia seek equity in income and opportunity. For instance, India has focused on inclusive growth, while the People's Republic of China has talked about creating a harmonious society. Similarly, Thailand has emphasized growth with equity. While it is unclear precisely how these concepts differ from one another, it is widely accepted that they are related to inclusive growth. The lack of a common objective function, however, has led to different definitions and approaches to inclusive growth.

A Framework for Inclusive Growth



Source: IED's Inclusive Growth team.

2. The rate of change in real GDP per capita has become a standard economic indicator used by policymakers, economists, and business analysts. But it is increasingly realized that higher economic growth may not necessarily translate into a higher level of well-being. Higher incomes provide the means to a better life, but it is merely a means to an end. In Sen's (1985) terms,¹⁹ well-being is viewed as individual achievements and not as means that individuals possess. Along these lines, Sen defined well-being as "functionings and capabilities."

¹⁹ A. Sen. 1985. Information Bases of Alternative Welfare Approaches: Aggregation and Income Distribution. *Journal of Public Economics* 4. pp. 387-403.

Functionings are directly related to what kind of life people actually lead, whereas capabilities are concerned with the freedom people have in their choice of life. Given this framework, economic growth provides the means: it is a necessary, but not sufficient condition for enhancing well-being.

3. The evaluation uses ADB's existing inclusive growth framework and will explore a framework for inclusive growth based on the following four social objectives.²⁰

- (i) sustained economic growth;
- (ii) reduction in poverty;
- (iii) reduction in inequality;
- (iv) broadening of economic opportunity.

4. This framework would set out improved well-being through inclusive growth as an overarching goal. In this context, the type or nature of economic growth that matters is one that is vital for improvements in the average standard of living. It is anchored on poverty reduction, a central goal of international financial assistance. It also draws explicitly on improvements in inequality, while building on broadening of opportunities including social safety nets.

5. To foster inclusive growth, first, economic growth needs to be sustained over time to help increase the standard of living through greater income and consumption. Second, how inclusive growth is also depends on whether growth is accompanied by poverty reduction, especially in generating opportunities for the poor to engage in employment, business activities, and other income-generating opportunities. Third, growth that is inclusive needs to be broad-based, reaching as many segments of the population as possible while protecting the poor and vulnerable—in essence reducing inequality. Fourth, inclusive growth encompasses access to health, education and employment opportunities, which help to level the playing field for all segments of the population in enhancing their well-being.

6. The four social objectives are not independent of each other. They interact with each other. For instance, rapid economic growth may increase inequality if pro-poor policies are not put in place. Similarly, some policies aiming at inequality reduction may hamper economic growth. It is also widely accepted that high growth reduces poverty if it is not accompanied by an increase in inequality. To achieve a rapid reduction in poverty, pro-poor policies would be needed to reduce inequality. Furthermore, the social objective of broadening opportunities should not only focus on expanding opportunities but also improve the equity of opportunities so that all sections of the society have access to jobs, education, health, clean water, and sanitation, among other things. Achieving this social objective may reduce income poverty, but more importantly it helps reduce non-income poverty. At the same time, the causation may run the other way around—that is, reducing income poverty provides the poor greater access to basic services that contribute to their well-being.

7. The bottom three boxes in the framework provide examples of policies that can help to advance inclusive growth. Labor market policies advance inclusive growth by bolstering both the incomes and resources of households through the generation of employment opportunities. Fiscal policies targeted at revenue and expenditure levels also influence the provision of public

²⁰ The social objectives reflect what inclusive growth aims to achieve. Together, these four social objectives may be called social development. It should also be noted that the four social objectives are not entirely independent. There is always some interdependence among them, as reflected by the two-way arrows between them. The study will explore the links between the different social objectives.

and social services that are instrumental in achieving the four social objectives. Meanwhile, policies geared toward improving the economic climate, particularly those focused on economic infrastructure, primarily help to accelerate economic growth and reduce poverty and inequality.

8. Governance and institutions are, of course, crucial to public decision-making, transparency, and accountability. Strengthening the rule of law, enforcement of contracts and property rights, and accountability of institutions such as audit agencies, anticorruption commissions, and the judiciary are important in encouraging private sector investments that can help to accelerate growth and poverty reduction. Moreover, reforms at the individual level through training and capacity building help to improve access to economic opportunities.

9. Social policies that cover investments in safety nets, human capital formation, health policies, and basic infrastructure such as water and sanitation are also key to promoting inclusive growth. Investments in safety nets prevent people from slipping into poverty and provide relief in the event of transitory shocks such as unemployment or disasters. Meanwhile, support for education and health care, among others, help to make economic opportunities equitably accessible, particularly for groups disadvantaged by circumstances (such as gender, ethnicity, or geographical location) or market failures. Health policies, and investments in water, sanitation, and other basic infrastructure, in turn, help to foster a productive and healthy workforce, thereby encouraging growth and poverty reduction. Gender equality is also a critical element in promoting equality and inclusive growth, and evaluation will explore the trends in gender disparity. Achieving the operational gender targets²¹ could be helpful in assessing ADB's inclusivity, at least in terms of gender.

10. This evaluation will explore a set of indicators that indicate the extent to which each social objective is achieved. The data requirements for this framework rely on multi-purpose household surveys (such as the living standard measurement survey), which are readily available in a large number of countries.

11. Since the overall objective of inclusive growth is to improve well-being, the indicators for each of the four social objectives are based on growth rates, which denote improvements in realizing these social objectives. The TES does not attempt to construct a single indicator of inclusive growth that combines different indicators of these four social objectives. Given that inclusive growth is a multidimensional concept, collapsing all dimensions into a single indicator will thrust aside the very multidimensional nature of the concept.

²¹ The targets are 40% and 50% for ADB and ADF resources, respectively.

Terms of Reference for Consultants

1. Given the wide ranging issues with inclusive growth, it is proposed that the evaluation team comprise of the following IED staff and consultants.

- (i) Principal Evaluation Specialist (team leader), who will conduct cross-country analysis;
- (ii) Three Evaluation Specialists, who will be mainly responsible for country case studies tentatively for Tajikistan, a Pacific country, and Mongolia;
- (iii) Evaluation Officer;
- (iv) Associate Evaluation Analyst;
- (v) International Development Economists, who will be responsible for data and country analysis (5 person-months, intermittent) tentatively for Bangladesh, Philippines, and Viet Nam;
- (vi) International Peer Reviewers (2 weeks in total);
- (vii) Research Assistants (3), (5 person-months each, partly at home and intermittent at HQ);
- (viii) Economic Editor (20 working days); and
- (ix) Local consultants to help logistics, meeting arrangements, and survey/data collection in the countries selected for the study (1 person-month each in the selected countries).

2. The **International Development Economists** will have a strong background in issues pertaining to inclusive growth. In particular, the consultants must have a good knowledge of the study countries relating to policies, programs, and projects implemented by both ADB and the government in the respective country for supporting inclusive growth. The international consultants will assist the team leader and team members in analyzing the necessary data and information related to the inclusive growth study, and preparing the final report. They will also provide the study team technical advice when required.

3. The **International Peer Reviewers** will provide timely suggestions and advice at various stages of the study – including approach paper, draft reports before and after inter-departmental review, and technical advice when required.

4. The **Research Associates/Assistants** will have strong statistical background and proven skills in survey data analysis using STATA for statistical analysis. They will provide a full range of assistance to the study team in gathering information and conducting data analyses. They will also assist the study team in conducting the literature review and lending portfolio analysis of on-going and completed projects supporting inclusive growth.