



Forum on

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### **Creating Enabling Conditions for an Inclusive Growth in the Asia Pacific Region: A Nexus between Achieving MDGs, Economic Growth and Macro Policies**

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#### **Introduction**

As a follow up to the Millennium summit held in the year 2000 the member countries of the United Nations, in 2001, agreed to adopt eight development goals better known as the Millennium Development Goals (MDGs). Six broad areas viz poverty and hunger, education, gender, health and sanitation, environment and international cooperation were considered and goals were set. Developing countries agreed to work towards achieving the goals, especially in the first five areas, by 2015.

Economic growth which enhances per capita income was recognized as the major essential means, though not sufficient, through which the goals could be met.

The developing countries of the Asia Pacific region, the most dynamic region of the world, have taken the task of achieving the goals as a major focus in their growth and development strategies. UNESCAP as the regional arm of the UN has been assisting the countries in this endeavor especially by undertaking analytical and normative research in the area. A recent paper reports the findings and thoughts on generating a pro MDG growth process which is very similar to the concept of inclusive growth.<sup>1</sup> The purpose of this note is to briefly (1) discuss the essential elements of pro MDG growth and its linkages with economic policies and (2) describe the contours of a regional strategy based on the above findings for assisting the countries in achieving MDGs through a pro MDG and inclusive growth process. The current research in these areas is undertaken under a tripartite partnership arrangement between UNESCAP, ADB and UNDP.

#### **The Concept of Pro-MDG Growth<sup>2</sup>**

In the literature, the concept of a pro poor growth has been discussed widely. A growth is pro-poor if the poorer households increase their incomes (or consumption) proportionally more than the non-poor; i.e., households above the poverty line.

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<sup>1</sup> Sarkar H. (2007), "Nexus between achieving MDGs and economic growth: Role of Policies", Asia Pacific Development Journal (Vol. 14, No.1, June 2007,ST/ESCAP/2459).

<sup>2</sup> *ibid*

A pro-poor growth is a process where growth occurs **for** the poor, **by** the poor and **at** the poor localities. Following the above definition, labor intensive sectors using relatively low level of technologies can be identified as pro-poor sectors. Two major examples of such sectors are agriculture and construction. From a structural point of view, if economic growth is either generated by expansion in outputs of these sectors or induces, through strong linkage effects, expansion in these sectors, the growth is pro-poor.

In the context of achieving the MDGs, reduction in income poverty is one target of Goal 1. Economic growth has a very major and direct impact in achieving the income poverty target of goal-1.<sup>3</sup> If an individual's income exceeds the poverty line, he is not poor. This is true for all poverty lines (\$0.6, \$1, or \$2) corresponding to chronically poor, poor or vulnerable to poverty groups. However, this is not the situation with other goals (goals 2 to 7 which represent 'health poverty', 'social poverty' and 'environmental poverty' and will not go away on their own even if income poverty is eradicated) on which the impact of growth is lesser and indirect. For achieving other goals, a person has to consume a minimum quantity of goods and services. For example, for reducing hunger, a person is required to consume some minimum amount of food. For reducing maternal mortality, a pregnant woman is required to visit medical clinic for check up on a regular basis or in other words consume a minimum (required) quantity of health services. Similar examples of consumption for achieving other goals are: education for goal 2 and 3, health for 4 and 6, water and sanitation for goal 7.

Consumption of goods and services is determined by income level, non income factors and price. For consumption of "MDG goods and services",<sup>4</sup> the common non income factors refer to social barriers and customs which prevent people from accessing basic services. For example, in many Asia Pacific countries, pregnant women even from relatively rich families do not regularly visit medical clinics due to lack of awareness or existence of social customs under which women are not allowed to be examined by male doctors. Both health and education services are scant in remote areas. Discrimination against gender, caste, ethnicity and people having infected with HIV also deny access to basic services in some sections of the society.

Price of goods and services is determined by demand and supply conditions. Very often, severe supply constraints are responsible for high price of the MDG goods and services. There can be both direct and indirect supply constraints. For example, with reference to health services, absence of health clinics/hospitals in the neighborhood (village, locality, town) will compel a person to walk or hire a transport to go to the next nearest facility. This will increase the implicit price of health services and inhibit consumption. Over and above, absence of proper road infrastructure will further add to the extent of the price increase. Similar examples can be provided for other MDG goods and services such as education and safe drinking water, among other variables.

In background to the above discussion, in addition to the "pro-poor" sectors e.g. agriculture and construction, certain key sectors of the economy assume especial importance in achieving the MDGs. These are transport, energy, water, health and

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<sup>3</sup> According to estimations undertaken by UNESCAP, "poverty reduction elasticity" of per-capita income for Asia Pacific countries turns out to be 0.858 whereas those with respect to other indicators are much less; reduction in percentage of population undernourished (0.493), net primary enrolment ratio (0.054), primary completion rate (0.049), gender parity index in secondary level enrolment (0.056), gender parity index in tertiary enrolment (0.109), reduction in children under five mortality ratio (0.46) and reduction in maternal mortality ratio (0.304).

<sup>4</sup> Broadly "MDG goods and services" refer to food, clean water and sanitation, health and education.

education. If outputs of these sectors do not expand MDGs cannot be achieved. A growth can be termed as pro- MDG if it is generated by or generates (through strong linkage effects) expansion of outputs of pro- poor sectors, physical infrastructure sectors and social infrastructure sectors. Hence, if economic growth entails income generation for the poor as well as improvement in both physical and social infrastructure which will allow adequate availability of “MDG goods and services” so that a large section of the population (including the poor) is able to consume these in appropriate quantities there is a very good chance that MDGs will be achieved. On the other hand, expansions in the MDG goods and services sector can also act as engines of growth, thus promoting “pro-growth MDGs” through which better opportunities for wider participation of various sections of the population will be created. However, all such sectors will have segmented markets. Some projects will be commercially viable, some will not be viable. For the latter types, social benefits surpass private benefits (profits) leaving a “viability gap” which are needed to be filled if ‘pro-growth MDG sectors’ are to be encouraged.<sup>5</sup>

### **Tracking the progress in the achievement of MDGs in Asia Pacific: where are the gaps?**

Research carried out under the tripartite partnership of ESCAP, ADB and UNDP highlights the region’s progress towards achieving MDGs in the Asian and the Pacific region.<sup>6</sup> In the background of the vastness and diversity of the region the “progress story” is mixed; many indicators are “on track”, a number of other indicators are “off track”<sup>7</sup>. The ESCAP, ADB, UNDP publication documents and discusses behavior of a large number of indicators for which data is available. An attempt is made here to take the analysis further and to extract some conclusions which have relevance to the policy and programme formulation of regional development agencies such as UNESCAP and ADB especially with regard to making some of the “off track” indicators “on track”.

The following table (Table 1) shows some of the salient feature of the status of MDG indicators and the achievement of the goals for the Asia Pacific region.

Assessing the current progress by individual goals, from the point of view of “off trackness”, CO2 emission ranks highest (63 per cent) followed by maternal mortality (59 per cent) and sanitation rural (53 per cent). Infant mortality and malnourishment also score high (51 percent and 48 per cent respectively) in the list of off track indicators.

When assessing the progress of the indicators as a group, some of the highest off track ranking indicators fall under the area of ‘women and children health’ as shown in Table 2. This includes maternal mortality, underweight children, malnourishment, infant mortality and under 5 mortality<sup>8</sup>. Water and sanitation also yield a relatively high average figure where 40 per cent of the countries in Asia and the Pacific are off track. Other indicators in the areas of environment, education and poverty also indicate a high percentage of countries being off track with average figures of 38%, 34% and 32% respectively. Based on the above analysis the priority gap areas which need attention

<sup>5</sup> Regional Co-operation for Infrastructure Development in Asia: Towards a Regional Special Purpose Vehicle of Public-Private Partnership (RIS, Hew-Delhi, paper presented at the High-level Policy Dialogue for Infrastructure Development, New-Delhi; 21-22 March 2007.

<sup>6</sup> The Millennium Development Goals: Progress in Asia and the Pacific 2007 (Draft Report)

<sup>7</sup> “On track” countries with respect to a particular indicator are those which, with trend performance (or under a business as usual scenario) will achieve the target value (as stipulated in the MDGs) of the indicator by or before 2015. Off track countries are those which under similar situation will miss the target in 2015.

<sup>8</sup> Group percentage is the simple average of the individual percentages

can be ranked in the order of women and children health, water and sanitation, environment, education, income poverty, gender in education, forest resources and TB / HIV

**Table 1. Current status of the achievement of MDGs in the Asia and the Pacific region**

<i>Indicator</i>	<i>Indicator</i>	<i>Goal</i>	<i>Number of countries for which data is available</i>	<i>Number of off track countries as percentage of total number of countries for which data is available (percentage)</i>
CO2 emissions	28	7	48	63
*Maternal mortality	16	5	44	59
Sanitation rural	31b	7	32	53
Infant mortality	14	4	47	51
*Malnourishment	5	1	31	48
Water rural	30b	7	38	47
Underweight children	4	1	17	47
Forest cover	25	7	51	45
Reaching grade 5	7	2	25	40
Gender tertiary	9c	3	26	38
Under-5 mortality	13	4	47	36
\$1 poverty	1	1	22	32
Primary enrolment	9	2	32	31
Sanitation urban	31a	7	37	30
Primary completion rate	8	2	34	29
Water urban	30b	7	41	29
HIV prevalence	18	6	31	23
TBC death rate	23	6	55	20
TBC prevalence	24	6	55	18
Gender primary	9a	3	45	16
Gender secondary	9b	3	44	14
ODP CFC consumption	28	7	47	13
Protected area	26	7	44	0

*Source:* The Millennium Development Goals: Progress in Asia and the Pacific 2007 (Draft Report)

*\*Note:* Maternal Mortality (per 100,000 live births) and Malnourishment (number of people) figures are derived from UN statistics for which latest available data year is 2000 (<http://mdgs.un.org/unsd/mdg>).

**Table 2 Achievement of MDGs as Indicator Categories**

<i>Rank</i>	<i>Indicators</i>	<i>Average number of countries off track (percentage)</i>	<i>Indicator Areas</i>
1	Maternal mortality	59%	(i) Women and children health
2	Underweight children & malnourishment	48%	
3	Infant mortality & under 5 mortality	44%	
4	Water rural, water urban, sanitation rural & sanitation urban	40%	(ii) Water & sanitation
5	CO2 emissions, CFC consumption	38%	(iii) Environment
6	Primary enrolment, primary completion rate & reaching grade 5	34%	(iv) Education
7	Poverty	32%	(v) Income Poverty
8	Gender tertiary, gender secondary & gender primary	23%	(vi) Gender in education
9	Forest cover, protected area	23%	(vii) Forest resources
10	TBC death rate, TBC prevalence & HIV prevalence	20%	(viii) TB / HIV

### **Pro-MDG (Pro-inclusive) growth and Policies for Asia Pacific Countries: Is prioritization possible?**

Economic policies, which will enable a pro-MDG economic growth process to take place, can be classified under four broad groups; structural adjustment policies, macroeconomic stabilization policies, sectoral policies, and re-distributive policies. These policies in the context of pro-poor growth have been discussed widely under research undertaken in this area.

Good or bad performance of pro MDG economic policies are responsible for the quality (good or bad) of the track record in being on schedule for achieving MDGs by 2015 or before by generating a pro MDG growth process. It is possible to identify indicators which can measure the effectiveness of these economic policies in transforming the growth process into a pro-MDG one. Ideally all the identified indicators should be studied and their behavior analysed. However, due to practical reasons it may be required to select a subset of the indicators for actual quantification for selected countries.

Subject to the data availability, a “policy gap” methodology can be used for identifying and prioritizing policy areas which are needed to be strengthened for achieving MDGs.<sup>9</sup> The methodology consists of computing the extents of differences (gaps) in the indicator values of a particular policy between the sample countries and predetermined “benchmark countries” (selected on the basis of their performance on achieving MDGs) and ranking the “gaps”. This exercise can be used to further identify common policy areas of concern which are to be addressed including through a regional strategy, for achieving the MDGs. It is expected that by paying attention to these common areas it will be possible to implicitly endogenise good practices from good performing (MDG wise) countries to other countries which will help them to improve their performance in achieving the MDGs. This exercise has been carried out using data

<sup>9</sup> See Sarkar (2007).

(2001-2004 average) pertaining to 21 policy indicators grouped into six areas (macro, fiscal, financial, trade, business, health and education) for 28 countries of the Asia Pacific region.

Ranking all the 28 countries by the intensity of the gaps, the area of finance (comprising of four indicators viz liquid liabilities, domestic credit to GDP ratio, number of bank branches and deposit accounts) comes out as the first priority area (corresponding to maximum number of countries where the “finance gap” is the largest) followed by Education, Macro, and Trade. It is expected that paying attention to these areas will help achieving MDGs and contribute to inclusive growth.

### **A Regional Strategy:**

Despite several limitations,<sup>10</sup> the above findings can offer guidance for putting into operation a regional strategy for the benefit of the countries. The relevant findings can be summarized as follows.

From the point of view of sectoral priorities women and children’s health, water and sanitation, environment and education are the areas which need attention.

On the macro side for achieving MDGs, policies and programmes for generating and sustaining high economic growth must be followed. However, the growth process is needed to be made “MDG friendly” by improving policies. The countries need to follow MDG based national development strategies with explicit cost of achieving MDGs incorporated in the budgetary process and a pro-MDG stance in implementing appropriate macroeconomic, sectoral and institutional policies. In fact, following the regional road map proposed by ESCAP, UNDP and ADB, the countries are needed to prepare national level road maps for achieving MDGs.<sup>11,12</sup> There is no inherent trade off between achieving MDGs and economic growth. Improvements in policies in the areas of finance, education, fiscal, business, macro, health and trade with finance and education being two most important priority areas, are expected to start a virtuous cycle of economic growth and achieving the MDGs.

The regional organizations and development banks will have to use all the modalities and resources under their command in implementing the regional strategy road map for assisting the countries in achieving MDGs. The five deliverables under the regional road map are knowledge and capacity development, expertise, resources, forums and regional public goods. The role of regional development bank like ADB is crucial especially in the area of resources and regional public goods. This will go a long way in ensuring “inclusivity” of economic growth. Some of the priority areas are identified and discussed in this note. It is expected that similar research pursued in other areas especially in the areas of social policies and institutions, will help in designing a broader need based assistance programme for the benefit of the countries.

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<sup>10</sup> See Sarkar(2007).

<sup>11</sup> The document “ E/ESCAP/63/2 Achieving the Millennium Development Goals in the Asian and Pacific region “ describes a regional strategy consisting of five deliverables and a time line.

<sup>12</sup> Scaling Up For The Millennium Development Goals (MDGs): Strategies and Contributions of KfW Entwicklungsbank and DEG (Draft 10 August 05)