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Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature

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ABSTRACT

The Asian Development Bank (ADB) has relatively few but well-founded and relevant studies, reports, and publications on inclusive growth, inclusive development, or inclusive social development. This paper seeks to summarize the knowledge products obtained from existing ADB studies, statements, and initiatives. It draws from the research and analytic work undertaken in recent years by ADB's Economics and Research Department (ERD), the East Asia Department (EARD), and the Independent Evaluation Department (IED); and other sources. Among the findings is that, while there is no agreed-upon and common definition of inclusive growth or inclusive development, the term is understood to refer to "growth coupled with equal opportunities," and has economic, social, and institutional dimensions. Among the major recommendations of the ADB literature are that efforts to achieve inclusive growth and inclusive development should involve a combination of mutually reinforcing measures including (i) promoting efficient and sustainable economic growth, (ii) ensuring a level political playing field, (iii) strengthening capacities, and (iv) providing for social safety nets.

I. INTRODUCTION

1. The Asian Development Bank (ADB) has relatively few but well-founded and relevant studies, reports, and publications on inclusive growth, inclusive development, or inclusive social development. This paper seeks to summarize the knowledge products obtained from existing ADB studies, statements, and initiatives. It draws from the research and analytic work undertaken in recent years by ADB's Economics and Research Department (ERD), East Asia Department (EARD), and Independent Evaluation Department (IED);¹ and other sources.²

II. INCLUSIVE DEVELOPMENT IN THE CONTEXT OF ADB'S CORPORATE POLICIES AND STRATEGIES

2. Its Charter (ADB 1965) mandates ADB to contribute to the "harmonious growth of the region." Although not explicit in the Charter, ADB has consistently recognized inclusive development as part of its corporate policies and strategies. This section highlights inclusive growth and inclusiveness under ADB's Poverty Reduction Strategy (1999 and 2004), the Long-Term Strategic Framework 2001–2015 (LTSF 2001–2005) and the successor Strategy 2020, and medium-term strategy I and II.

A. Poverty Reduction Strategy (PRS)

3. The poverty reduction strategy (PRS) of 1999 reflected ADB's vision of "an Asian and Pacific region free from poverty." Inclusive social development was the second pillar in the PRS and in the 2004 Enhanced Poverty Reduction Strategy (EPRS, ADB 2004), along with pro-poor sustainable economic growth (first pillar) and good governance (third pillar). The PRS recognized that economic growth can effectively reduce poverty only when accompanied by a comprehensive program for social development. It focused on human capital development, social capital development, gender and development, and social protection. Human capital development refers to access to education, primary health care, and other essential services. Social capital development means increasing the opportunity of the poor to participate in decision making and self-managed community services such as in creating community-based groups in microfinance, health, and natural resources management. Gender and development involve improving the status of women through health and welfare programs and promoting their participation in the development of society. Social protection addresses the vulnerabilities and risks of age, illness, disability, natural disasters, economic crises, and/or civil conflict.

B. Long-Term Strategic Framework

4. In consonance with the PRS, LTSF 2001–2015³ included social development as one of the core strategic areas of interventions, together with sustainable economic growth and governance for effective policies and institutions. Like the PRS, the LTSF believed that growth must be accompanied by a comprehensive program for social development that puts people first and empowers the weaker groups in society to gain access to assets and opportunities.

¹ Operations Evaluation Department was renamed Independent Evaluation Department, effective 1 January 2009.

² These may include papers presented in ADB for, or requested by, ADB, but which do not necessarily reflect the views and policies of ADB or its Board of Directors.

³ 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.

Equitable access by all to assets and opportunities was considered important in sustaining economic growth and addressing poverty in the region. Inclusive development means that the benefits reached all those that made up the poor in the region, particularly women and children, minority groups, the extremely poor in the rural areas, and those pushed below the poverty line by natural and human-made disasters. Another area of inclusive development in LTSF 2001–2015 involved strengthening the participation of people directly and indirectly affected by ADB's interventions, from the preparation to the implementation stage to ensure the relevance of programs and projects. Capacity building was considered important to encourage the participation of stakeholders. On the whole, ADB's investments on inclusive social development was expected to emphasize social support programs and a policy and reform agenda that promoted equity and empowerment, especially for women and disadvantaged groups. Specific focus areas included capitalizing on human development, targeting basic social services such as education and health to the poor, eliminating gender inequalities and encouraging civil society to participate in social development programs.

C. Medium-Term Strategy I and II

5. Medium-term strategy I (MTS I, 2001–2005) (ADB 2001) and medium-term strategy II (MTS II, 2006–2008) (ADB 2006a) translated the broad directions of the LTSF into specific medium-term strategies lasting for 5-year periods. MTS I followed the underlying principle of the LTSF as regards inclusive social development. Special attention was given to increasing the opportunities for women to benefit equally from growth resulting from investments in economic and social infrastructure. Support to social protection was also covered under inclusive social development. MTS II considered strengthening inclusiveness as a strategic priority and focused on interventions in the form of (i) support to rural development (e.g., irrigation, rural infrastructure, and rural finance); and (ii) key social development programs for education, health, and gender equality. Specifically, rural roads were cited as one of the most effective forms of investments for reducing rural poverty and were recognized as an area where ADB should focus.

D. Long-Term Strategic Framework 2008–2020 (Strategy 2020)

6. The Long Term Strategic Framework (LTSF) 2008–2020 (ADB 2008) (or Strategy 2020) that superseded LTSF 2001–2015 provides a development strategy anchored on inclusive growth. This is expected to be achieved by (i) creating and expanding economic opportunities, and (ii) broadening access to those opportunities. Steps should be taken to reach the impoverished who are excluded by circumstance, poor governance, and other market-resistant factors. Promoting greater access to opportunities would require expanding human capacities, especially for the disadvantaged sectors of society, by providing social services such as education, health, and social protection and by improving policies and institutions. Strategy 2020 reiterates ADB's support for inclusive growth through investments in infrastructure that connect the poor to the markets and increase their access to basic productive assets such as education, water and sanitation, and economic resources such as credit. Special attention is given to gender equality and the empowerment of women as fundamental elements in achieving inclusive growth.

III. POLICY BRIEFS AND SPECIAL STUDIES

A. Conceptual Definition

7. According to ADB literature (Ali and Zhuang 2007, Ali and Son 2007), there is no agreed-upon and common definition of inclusive development. The concept, however, is understood to refer to “growth coupled with equal opportunities.” It focuses on creating opportunities and making them accessible to all, not just to the poor. There is inclusive growth when all members of a society participate in and contribute to the growth process equally, regardless of their individual circumstances. In the same way, inclusive growth is one that emphasizes that economic opportunities created by growth are available to all, particularly the poor, to the maximum extent possible.

B. Growth, Inequalities, and Poverty

8. Findings from ADB studies (Ali 2007b, Ali and Soon 2007, Ali 2007a, Ali and Yao 2004) show that the growth process creates new economic opportunities that are uneven. Ali (2007b), for example, explained that the current pace of poverty reduction depends not only on the rate of economic growth, but also on how the benefits of growth are shared. To illustrate, while data seems to show that the income poverty target of the Millennium Development Goals had been met by 2005, the decline in the number of poor from 945 million in 1990 to 604 million in 2005 can be largely attributed to the rapid growth in a few countries such as the People’s Republic of China (PRC) and Viet Nam. In contrast, the incidence of poverty and its magnitude in 2005 were still very high in South Asia except in Pakistan and Sri Lanka. Some of the factors which constrained the poor include circumstances or market failures that prevent them from availing of opportunities. The result is that the poor benefit less from growth than the non-poor.

9. Ali (2007a) pointed out that rising income inequalities pose a danger to social and political stability and the sustainability of the growth process itself. The pursuit of equal opportunities stems from the belief that it is a basic human right to be treated equally in terms of access to opportunities. He argues that equal access to opportunities increases growth potential; conversely, inequality in opportunities diminishes growth and makes it unsustainable. He further observed that the last scenario could lead to inefficient use of human and physical resources, lower the quality of institutions and policies, erode social cohesion, and foster social conflict. These inequalities are often reflected in social exclusion, which public policy interventions should address.

10. In another study, Ali and Yao (2004) elaborated on the imperative of inclusive growth in the context of globalization, structural transformation, and the need for balanced regional growth within a country. Globalization creates opportunities for larger markets, new technologies, and foreign direct investments. However, countries have different abilities to seize and capitalize on these opportunities. Generally, experience has shown that the reasons depend on whether the countries have supportive domestic policies (e.g., right mix of incentives), institutions, and adequate infrastructure.

11. In general, evidence supports that while the attainment of high per capita growth and lower inequality would almost ensure the accomplishment of the mission to eradicate extreme poverty, growth alone does not guarantee that everyone will benefit equally. Some level of growth is a necessary condition for poverty reduction. However, growth by itself is not a

sufficient condition. In other words, growth may overlook the poor or marginalized groups, resulting in inequality.

C. Dimensions of Opportunities

12. **Economic.** Most of the studies reviewed point to the economic dimension, particularly sustainable and equitable growth, as significant to achieve inclusive growth. Ali and Son (2007) described sustainable and equitable growth as one that is broad-based across sectors and regions, e.g., employing the labor force in the poor and vulnerable groups of the population. Fernando (2008) noted that the economic dimension encompasses providing the poor and low-income rural households with both the capacity and opportunities to benefit from economic growth.

13. Ali and Yao (2004) argued that the quality of infrastructure is an enabling factor that drives inclusive growth and sustainable poverty reduction. They noted that inadequate infrastructure raised the cost of doing business and discouraged domestic and foreign private investment. In India, for example, they found how dynamic small and medium-sized enterprises (SMEs) contribute to inclusive growth through direct and indirect linkages of infrastructure. For example, SMEs that acquired their own power generators because of the unreliability of the public power supply grid created opportunities for multinational firms to develop local suppliers of parts. The scenario in turn encouraged foreign direct investment and employed local labor from the poor in the rural and urban areas. Quality infrastructure provided the enabling business and investment climate important for catalyzing domestic and foreign investments, adopting new technologies, and raising productivity. They are crucial in achieving, for example, efforts to modernize agriculture and to scale up the development of rural economies. Agricultural growth may be driven by technological change, technical extension services, and increased demand for agricultural outputs, and rural employment. Ali and Yao (2004) explained that developing rural economies through developments in SME industry and rural markets requires the support of infrastructure such as rural electrification, transport, communications, and water supply.

14. In another study, Bolt (2004) recognized the role of agriculture and the rural economy at the core of inclusive growth, considering that about a third of the population in Asia's developing countries are rural-based and depend on agriculture for a living. The study found compelling evidence that accelerating agriculture and rural development has the potential for regenerating the rural economy and, hence, is a critical component of an inclusive growth strategy. Some of the important factors that could drive agricultural and rural-based opportunities include yield-improving technology, high-value commodities and nonfarm goods, and services that provide value addition. Lessons from past experience highlight the importance of a policy environment that provides for the right incentives; well-functioning markets to increase productivity, employment, incomes, and demand; public and private institutions that ensure product and markets work; and infrastructure connectivity to expand markets. Particular attention should be given to land rights, access to finance, and provision of public goods and services such as irrigation, research, and extension.

15. More specifically, Fernando (2008) suggested that rural infrastructure contributes in (i) providing rural people with access to markets and basic services, and (ii) influencing rural economic growth and employment opportunities and incomes. Feeder roads, for example, allow the supply of perishable foods to high-value urban markets, and the income generated can be invested in health and education to improve the productivity of eventual migrants to the cities. Physical infrastructure deficiencies in the rural areas need to be addressed, not only to create economic opportunities for rural people in general, but also to make economic growth and

development inclusive and ensure that the rural poor have better access to basic services that profoundly impact on their household welfare. Setting priorities for infrastructure investment may be complex and should be guided by several factors such as population density, potential for agricultural and rural nonfarm economic development, potential for market integration, and capacity to have a positive impact on the excluded people.

16. **Social.** The social dimension is an important dimension of inclusive growth cited in ADB studies. Ali and Son (2007) touched on the social dimension in the concept of “security” and elaborated on the social risks arising out of development interventions. They suggested that social risks may be addressed by social protection measures that are targeted to the poor. Fernando (2008) noted that this dimension covers supporting the social development of poor and low-income households and disadvantaged groups, eliminating inequalities in social indicators, empowering women, and providing for social safety nets for the vulnerable groups.

17. Tandon and Zhuang (2007) highlighted health as a key dimension of human welfare and an intrinsic goal of development in line with the Millennium Development Goals. The authors argued that levels and distribution in health outcomes can serve as proxies for analyzing the extent to which a government is pro-poor. Looking at inclusiveness in the PRC from the perspective of health outcomes, the study found that (i) the PRC’s health outcomes have actually slowed down after the country moved away from a public health system to a commercial one; (ii) there has been convergence in health indicators across provinces but divergence between rural and urban areas during the reform period; and (iii) there are glaring disparities in health outcomes and health care coverage between the poor and rich households.

18. **Institutional.** Another dimension of inclusive growth cited in studies is institutional. Ali and Son (2007) referred to this dimension under the concepts of “social inclusion” and “empowerment.” Social inclusion is the removal of institutional and policy barriers that constrain economic growth. Empowerment means access to productive assets, capacities, and resources that will enable every person to participate in the growth process. For Fernando (2008), the political dimension refers to broadening citizen participation in the political processes.

19. An ADB study (2007c) noted that legal identity is an important dimension of inclusive development, as it has implications for accessing benefits and opportunities from public resources, particularly for the most vulnerable communities. Legal identity refers to a human being’s legal personality, which allows the person to enjoy the legal system’s protection to enforce rights or demand redress for violations by accessing the state’s institutions such as the courts and law enforcement agencies. Proofs of legal identity may consist in government-issued and recognized identity documents such as birth certificates or any other documents attesting to a person’s age, status, and/or legal relationships. The study found that birth certificates or legal identity in general is an intermediate and not an ultimate goal if in the process it should become the sole basis for accessing important public services.

D. Policy Prescriptions

20. **Promote Efficient and Sustainable Economic Growth.** Several studies (Ali 2007b, Ali and Son 2007, and Ali and Zhuang 2007) affirm the important role of promoting efficient and sustained environmental growth to achieve inclusive growth. Ali and Son (2007) stated that providing job opportunities and promoting productivity will help achieve inclusive growth. That idea is consistent with another one in Ali (2007a) where the author suggests promoting efficient and sustainable environmental growth. In another study, Ali and Zhuang (2007) argued that high and sustainable growth to create productive and decent employment opportunities

should at least be one of the anchors for an effective inclusive growth strategy. High and sustainable growth focuses on broad-based and market-oriented productive approaches involving the private sector in creating decent employment opportunities. Ali and Zhuang (2007) suggested that governments develop and maintain an enabling environment for business by eliminating market distortions. Fernando (2008) stressed that the government needs to balance interventions to ensure that its actions will not crowd out the private sector. Government interventions should induce and leverage rather than discourage private investments.

21. Lin (2004) claimed that a continuous flow of technology and industrial innovation is the key to the sustained growth of any country. Lin argued that governments of developing countries were unable to achieve dynamic growth and equitable income distribution because of failure to understand the nature of industries and to adopt the appropriate technology structure in the economy. He contended that countries in developing Asia could achieve dynamic, inclusive growth if governments could encourage firms to enter into industries for which the country has comparative advantages, adopt the technology in production that will make these firms viable in the competitive market, and strengthen the required institutions accordingly.

22. **Ensure a Level Political Playing Field.** Support to economic growth calls for creating access to opportunities. ADB studies (Ali 2007b, Ali and Son 2007, Ali and Zhuang 2007, Fernando 2008) suggest the need to focus on this aspect to ensure equal participation and benefits from new opportunities. Fernando (2008) identified increased opportunities for the poor to gainfully employ themselves and improve their quality of life as one of the conditions to achieve inclusive rural development. Ali and Zhuang (2007) recommended that governments address institutional weaknesses and maintain the rule of law. The central government needs to invest in physical infrastructure and human capital, build institutional capacities, maintain macro stability, and adopt market-oriented policies. Institutional and governance issues should be considered, as inclusive growth also has a strong link with law and development. The rule of law and the proper functioning of legal institutions are imperative to guarantee the rights of people to participate and ensure access to justice for the poor and the vulnerable. One ADB study (2007c), which recognized the proofs of legal identity as a dimension of inclusive development, suggests that legal identity should be part of the larger reform agenda for promoting inclusive development. In all, sound policies and institutions need to be institutionalized to uphold social and economic justice and address market, institutional, and policy failures.

23. Fernando (2008) also cited reforms in governance to put in place measures that would improve the ability of poor households to take advantage of development opportunities. In promoting inclusive rural development, he acknowledged the need to strengthen institutions such as those that maintain law and order; provide financial services; and deliver basic services such as water and sanitation, education and health services. To promote rural infrastructure development, Ali and Yao (2004) suggested that governments at the national and local levels organize and refocus development priorities to the agriculture and rural areas. Experience has shown that central governments have failed to provide for adequate resources for massive rural infrastructure essential for agricultural growth. This underscores the need to pursue fiscal devolution to the local governments, and eventually involve multiple players to finance and manage the provision of services.

24. **Strengthen Capacities and Provide for Social Safety Nets.** Ali and Son (2007) noted that strengthening capabilities in the form of human capital supports inclusive growth and development. Ali (2007a) recommended providing effective and efficient social protection systems so as to address the extreme deprivation of the disadvantaged. Ali and Zhuang (2007) explained that social inclusion requires interventions in three areas: education, health, and other

social services such as water and sanitation to expand human capacities especially for the disadvantaged. Social inclusion requires that the government provide social safety nets to mitigate the effects of external and transitory shocks, and meet the minimum basic needs of the poor. Social safety nets may take the form of labor market policies; social insurance programs that cater to employees' health, disability, work-related injuries, or old age; social welfare for the most vulnerable groups such as single parents, victims of natural disasters or civil conflicts; and child protection such as school feeding programs, scholarships, family allowances, and credit. The authors suggested that, to address social inclusion, the central and local governments should carry out their own responsibilities in investing in education, health, and other social services. The government's role is to ensure that the sectors have adequate funding, infrastructure, capacities, and policy frameworks to guide governance. Specifically, the government must provide sound policies for monitoring the quality of such services when supplemented or complemented by the private sector. Fernando (2008) stated that measures that address the social dimension entail enhanced access of low-income households to adequate health services; special well-designed and targeted programs for rural people, including women, to enable them to participate actively in development; and effective social safety net programs to address the issue of the poorest, and the most vulnerable groups in rural areas, particularly, women. According to Tandon and Zhuang (2007), redressing health-related inequalities must be a priority of the government.

25. **Create Partnerships.** Ali (2007b) recognized the need for governments to partner with the private sector and civil society in the pursuit of inclusive growth. Similarly, Fernando (2008) concluded that community-based organizations, civil society organizations, and nongovernment organizations (NGO) significantly contribute to promote equity and inclusiveness, e.g., by participating in the allocation of resources for rural development, through vigilance in the misuse of funds to prevent corruption and promote accountability and transparency, and by providing access to public services in the remote areas. NGOs were observed to operate efficiently in the rural areas to promote inclusive rural development.

26. **Consider Interrelated and Reinforcing Dimensions.** In general, studies (Ali 2007b, Ali and Son 2007, and Fernando 2008) pointed out that the interrelated economic, institutional (or political), and social dimensions of inclusive growth mutually reinforce each other to achieve inclusive growth. Ali (2007a) noted that the reform agenda required to effect inclusive growth is complex and ambitious and needs to be addressed simultaneously. Fernando (2008) in fact suggested that problems affecting rural development must be addressed in a coherent and mutually reinforcing manner. Ali and Son (2007) identified three measures to achieve inclusive growth—(i) providing job opportunities and promoting productivity, (ii) strengthening capabilities in the form of human capital, and (iii) providing social safety nets. Ali (2007b) recommended three anchors to inclusive growth—(i) promoting efficient, sustainable, and environmental growth; (ii) ensuring level economic and political playing fields to ensure participation in and benefit from new opportunities; and (iii) providing effective and efficient social protection systems to mitigate the extreme deprivation of the disadvantaged. In addressing the dimensions of inclusive rural development, Fernando (2008) enumerated six conditions: (i) increased opportunities for the poor to gainfully employ themselves, and improve their quality of life; (ii) improved ability of poor households to take advantage of the opportunities; (iii) enhanced access of low-income households to adequate health services; (iv) special well-designed and targeted programs for rural people, including women, to enable them to participate actively in development; (v) improved governance; and (vi) effective social safety net programs to address the issue of the poorest, and the most vulnerable groups in rural areas, particularly, women.

IV. SPEECHES AND EVENTS

27. **Challenges.** In March 2006, ADB President Kuroda delivered before the Federation of India Chambers of Commerce and Industry a speech where he enumerated the challenges to achieve inclusive growth. They include the harsh realities of declining rate of employment despite strong economic performance, decelerating agricultural growth, and the increasing inequality among states. He noted that while some states were able to benefit from India's economic reforms and increase their growth rates, some poor and populous states have failed to advance. These could be blamed to poor physical and social infrastructure, and lack of adequate resources for funding the required infrastructure facilities. In addressing these concerns, he emphasized that the Indian Government has been carrying out policy reforms and focusing on infrastructure development. For instance, ambitious programs to enhance the quality and reach of rural infrastructure such as rural roads, power generation, and irrigation infrastructure were under way to help create productive farm and nonfarm employment opportunities. A national rural health mission was also launched to improve access of the rural poor to basic health services.

28. In a speech⁴ delivered in February 2008, ADB's Vice President for Knowledge Management and Sustainable Development Schaefer-Preuss expounded on the bases for inclusive growth based on a study commissioned by ADB and undertaken by the Eminent Persons Group (EPG). Schaefer-Preuss presented the "two faces of Asia"—one portraying unprecedented economic success and the other one persisting in poverty and deprivation. She cited the growing inequality across the region manifested in widespread discrimination as to gender, ethnicity, and socioeconomic status. Other factors such as conflicts, rising food prices, degradation of natural resources, and global change exacerbate the condition in fragile states and further contribute to poverty, exclusion, and vulnerability of the region's poor.

29. **Interrelated Dimensions.** In 2007, ADB's Managing Director General Rajat Nag⁵ reiterated in his speech three interrelated dimensions of inclusive development—economic, social, and political—to make the development process more inclusive. The economic dimension ensures that the poor and low-income households have the ability and opportunity to participate in and benefit from the growth process. The social dimension refers to investments in health, education, human resource development and social safety nets to eliminate social inequalities, promote gender equality and women's empowerment, and bring more people into the process of growth. The political dimension covers improving the ability and opportunity of the poor and low-income people, including women and ethnic minorities, to effectively participate in the political processes.

30. **Role of Partnerships.** Nag (2007) emphasized the role of partnerships to address the issue of inclusive development. The government needs to foster an enabling environment for all people, including the poor, to contribute to and benefit from the growth process. He cited the role of development institutions like ADB in working with government, e.g., to restructure and strengthen the rural cooperative system in five states in India. The role of civil society is also important to reach the poorest people and those isolated from the mainstream of society. In the same way, NGOs have been found to be in the best position to facilitate the delivery of services to the poor and excluded because they can break through the cultural challenges. The private

⁴ Available: <http://www.adb.org>.

⁵ Available: <http://www.adb.org/speeches/2007>

sector can tremendously help as an alternative source of financing and expertise and can provide targeted and quality information.

31. **Forum on Inclusive Growth and Poverty Reduction.** A regional conference, *Inclusive Growth and Poverty Reduction in New Asia and Pacific*, was held on 8–9 October 2007 in Manila. The forum, which was attended by policymakers, experts from governments, academe, civil society, and international and bilateral organizations, enriched the discussion on inclusive growth and poverty reduction and permitted an exchange of good practices and lessons learned in the Asia and Pacific region. In his keynote speech during the forum, Walton (2007) highlighted the following insights into inclusive growth: (i) explicit attention to inclusion in the many fields of economic and social policy in light of the complementary relationship between equity and growth-related economic processes; (ii) substantial implications for policies to promote economic empowerment, provide the means to acquire human capacities for broad-based risk management and administration of justice; and (iii) a broader context in which economic decision making is undertaken in the context of existing political processes, group-based interactions, access to information, and accountability mechanisms.

32. In view of these concerns, Walton (2007) suggested that ADB's role and positioning should be in activities where both markets and governments fail. He purposely called for a more heightened focus on inclusion in the development process. Some areas where ADB could contribute are in infrastructural investments and associated governance structures; development and extension of financial productions and institutions that efficiently provide credit, savings, and insurance products; basic education systems; development of risk management systems for health, weather, old age and employment risks; support for the design and implementation of institutional structures; and integrated actions to integrate poor areas and excluded groups into national processes, social development, and the environment. The contribution can be in terms of financial support, knowledge, or development of capacities that help shape the development and design of policies and economic institutions, both at the supranational and subnational levels.

33. **Report of the Eminent Persons Group.** Much of the above discussions were supported by a report of the EPG (ADB 2007f), an external panel⁶ constituted to advise ADB on its priority operational challenges and opportunities within the regional environment and serve to initiate discussions in the recent review of the LTSF. The report highlighted ADB's mandate "to effectively carry out its new role in a rapidly changing Asia," and, consequently, "to radically change itself and adopt a new paradigm of developing banking that allows it to be responsive to the region's evolving needs now and 2020." Three strategic directions were presented: (i) moving from fighting extensive poverty to supporting higher and more inclusive growth; (ii) moving from economic growth to environmentally sustainable growth; and (iii) moving from a primarily national focus to a regional and global focus. The report suggested that ADB focus its work on the following core activities: infrastructure development, financial development, energy and environment, regional integration, technological development, and knowledge management. The report particularly noted that infrastructure development, together with public-private partnerships and more conducive policy frameworks, is a primary instrument to promote higher and more inclusive growth. Other observations in achieving inclusive growth are (i) that economic strategies should be more consistent with individual countries' comparative advantages; (ii) that the basic concerns and priorities of policymakers should have moved from

⁶ The panel consisted of six persons of internationally recognized eminence and stature, all of whom were invited to serve in their individual capacities.

principally eradicating absolute poverty to generating and sustaining rapid and more inclusive growth, creating well-paying job opportunities in adequate numbers, and improving living standards in sophisticated and complex economies while at the same time confronting the challenges of economic success; and (iii) that while markets are central in generating growth, an inclusive growth strategy should incorporate economic policies and government programs that address “market failures” and permit all segments of the society to participate more fully in the new economic opportunities.

V. EVALUATION STUDIES

34. **Review of the PRS.** The IED study (ADB 2004b) confirmed the significance of the three pillars in ADB’s PRS—pro-poor sustainable economic growth, social development, and good governance in line with the Millennium Development Goals (MDGs). The study found that the three pillars are closely linked and intertwined. This means that countries need to adopt a policy framework that simultaneously strengthens the pillars. A country, however, must give relative importance to each pillar depending on its needs and circumstances.

35. Specifically, the study underscored that poverty reduction is more effectively accomplished if a comprehensive program for social development complements policies for accelerating broad-based economic growth. The inclusive social development pillar is indeed closely linked to the growth pillar in poverty reduction. Improving education and health indicators of the poor is necessary for sustaining pro-poor economic growth. On the basis of empirical evidence, the study suggested that countries with weak health and education indicators tend to experience sluggish economic growth. Economic growth, which is the other pillar of the PRS, is essential to provide and sustain the resources needed for education and health improvements. Further, evidence indicates that achieving inclusive growth requires the capacity for formulating and implementing appropriate macroeconomic and social protection policies, accountability in fiscal administration, and efficient delivery of public services. From experience with transition economies, the study observed that adequate institutional capacity can be obtained where there are established market-supportive regulatory frameworks and improved governance.

36. Comparing ADB’s lending operations before and after the PRS was issued, the study found that a large share of the operations supporting the growth pillar concerned infrastructure investments, which increased from \$2.81 billion in 1997–1999 to \$4.37 billion in 2000–2003. However, ADB support to social development remained low at \$1.54 billion in 1997–1999 and \$1.49 in 2000–2003. The study presumed that perhaps developing member countries showed a strong preference for ADB support for infrastructure. Allocation of different funding sources to the three pillars showed that ordinary capital resources (OCR) operations almost doubled for economic growth and declined for social development. This, however, was compensated in that Asian Development Fund (ADF) operations increased for social development. OCR and ADF support both increased for governance.

37. **LTSF Implementation (2001–2006).** The study (ADB 2007d) generally assessed the relevance of the LTSF as high, but ADB’s response and initial results in the area of inclusive social development as low. While the inclusive social development strategic area discussed in the LTSF was found relevant, the staff and resources allocated were insufficient to cover the wide scope of issues. The study explained that although there were considerable improvements in policy, staff resources, and the conduct of assessments at the country level, those were not

reflected in many of the country strategy and programs.⁷ The major issues identified in achieving inclusive social development include its broad scope and definition straddling the sectors of education, health, and gender; inherently complex and difficult implementation of projects; gaps in establishing DMC baseline information; financial resource limitations; and lack of expertise. The study suggested that ADB focus on selected areas or emphasize focused interventions, e.g., education, health, or gender, and consider greater coordination with other development partners.

38. ADF Operations. A special evaluation study (SES) undertaken by IED affirmed the relevance of the ADF in accordance with the Fund's goal to support poverty reduction in the Asia and Pacific Region (ADB 2007e). However, ADF seemed to be becoming less relevant to the absolute poor, a large proportion who lives in countries that are not or are no longer eligible for ADF support. Further, it was presumed that the ADF would not be able to support the achievement of the MDGs in these countries by 2015. For ADF VIII (2001–2004), the greater alignment of projects to the PRS and focus on pro-poor elements led to more goal congestion and more complex operations, considering that poverty requires complex solutions as well. Consequently, this has some implications on ADB's limited staff and sometimes lack of skills and ownership that inclusive operations need. In particular, the SES found that about half of the special components targeting the poor and governance in the sampled operations were unlikely to be successful. Nevertheless, some good results were observed; they could partly be the result of satisfactory staff intensity and continuity. For ADF IX, efforts to target the poor through special components in regular operations were somewhat deemphasized and therefore demands on the inclusiveness of project designs were also reduced. In all, an important lesson was that poverty reduction remains an appropriate goal for ADF, but it requires more than direct targeting of the poor in each country. The study pointed out that poverty reduction is generally driven by an appropriate mix of operations addressing inclusive growth and social development.

39. Impacts of Rural Roads. An SES (ADB 2006b) that examined the impacts of rural road improvement showed varying results, depending on the local context. In remote and poorly endowed mountainous areas in northern Viet Nam and Yunnan, upgrading isolated rural roads that did not connect to major road networks was neither a necessary condition nor an effective measure for reducing poverty. The reasons included insufficient farmland per capita and adverse farming conditions, lack of private firms that would invest even after the upgrading of rural roads, and migration as the main strategy of households for escaping poverty. The SES observed that upgraded rural roads did not always attract private investors in mountainous areas where opportunities for high commercial agricultural growth were limited. A great majority of those living in such regions rose out of poverty by migrating to more prosperous regions and working outside of agriculture, usually in manufacturing, construction, and services. In contrast, upgrading rural roads contributed significantly to poverty reduction in areas with high potential for commercial agriculture, i.e., where farmland was relatively abundant, the climate ideal, the water supplies sufficient, and the only key constraint was the lack of all-season roads. In the cases examined, the SES confirmed the hypothesis that farmers would be willing and able to pay for infrastructure investment that brings them more benefits than costs if, for instance, long-term loans were available at low interest. The SES, however, noted that investments in small-scale rural infrastructure may be limited by readily available funds such as long-term loans.

⁷ The IED study noted that various policy and strategic changes were made to accommodate a focus on inclusive social development (e.g., social protection strategy, gender action plan, education policy, strategic response to HIV/AIDS). However, the ADB operational procedures that followed did not emphasize specific areas of social development for ADB. There was also an apparent lack of direction in the country strategy and program to emphasize inclusive social development.

40. **Country Assessment Performance Evaluation (CAPE) Studies.** The Sri Lanka CAPE report (ADB 2007b) noted that ADB generally responded to the principal challenge of poverty reduction, but was not very successful in implementation. For instance, the Study assessed that while ADB's positioning covering the recent decade was rated satisfactory, the overall performance of ADB's sector and thematic assistance was rated partly successful, and ADB's overall contribution to development impact/ results (in the areas of pro-poor growth, inclusive social development, and good governance) only modest. The reasons could be developments such as the change of government in 2004, reversal in economic policy, and resurgence of civil conflict, which resulted in ADB's Country Strategy and Program for 2004–2008 to be partly satisfactory. IED found some gains in the better performing sectors such as education, transport (mainly roads), and water supply and sanitation (which the CAPE rated successful). Sector assistance to agriculture and natural resources, power, and ADB's policy-based lending operations were rated partly successful. IED recommended that ADB review the focus of its development assistance, particularly in sectors that have fallen short of achieving significant results (e.g., agriculture, power, policy-based programs) but are extremely important for poverty reduction and economic growth.

41. The CAPE for India (ADB 2007a) assessed ADB's contribution to development results as modest⁸ mainly because ADB did not fully exploit its potential for achieving development impact and providing value addition, particularly through proactive risk mitigation and high-quality knowledge products and services. The CAPE for India observed some evidence that ADB's projects contributed to poverty reduction, particularly through assistance to infrastructure development and policy reforms, which have had an impact on economic growth. The recent focus on rural development activities and the provision of basic urban services was noted to also have a likely positive impact on the reduction of non-income and income poverty, provided that sustainability concerns were addressed. ADB assistance has not been very effective, however, in mainstreaming environmental and gender objectives in its sector operations. In all, the report tended to put pressure on ADB to increase support for inclusive development alongside infrastructure networks, energy efficiency, clean environment, regional cooperation, capacity development, and policy advice, among others.

42. A recently completed CAPE for Nepal (ADB 2009) found that ADB took a socially inclusive approach to dampen the conflict, particularly in the areas of deep poverty and exclusion, and extended assistance to rural infrastructure, universal education, rural finance, agriculture, and marketing. Initial indications are that ADB assistance has led to the improvement of irrigation and other services to agricultural communities, higher quality and availability of education for the poor and excluded, improved rural roads to bring excluded regions and communities into the economic mainstream, and provision of basic water supply and sanitation in smaller towns and cities. Sustaining benefits from rural infrastructure such as rural roads and irrigation, however, remains questionable in the absence of a clear maintenance regime. The Education for All Program, however, has been successful, but efforts are required to further improve access and quality. The report also emphasized the need to focus on continued delivery of social services to ensure inclusive growth.

⁸ The rating was on the high side as there were gains observed in terms of ADB's project support, advisory services, and policy dialogue at the state level.

VI. CONCLUSIONS

43. The distinction between inclusive growth and inclusive development is not sufficiently clear. Inclusive growth is understood to refer to "growth coupled with equal opportunities." It is imperative in the context of globalization, structural transformation, and the need for a regionally balanced growth within a country. Rising inequalities pose a danger to social and political stability and the growth process. Inclusive growth is more often understood as consisting of the economic, social, environmental, and institutional dimensions. Poverty reduction is generally driven by an appropriate mix of operations addressing inclusive growth and social development. Targeting the poor may be more appropriate in some weakly performing countries or conflict-affected countries, and strengthening the institutional framework to develop a market economy may be more important in most transition economies. However, the current pace of poverty reduction depends not only on the rate of economic growth, but also on how the benefits of growth are shared. While attaining growth would almost ensure the eradication of poverty, growth alone does not guarantee that everyone will benefit equally. Poverty reduction is more effectively accomplished if a comprehensive program for social development complements policies for accelerating broad-based economic growth. The scope of inclusive social development is broad and straddles the sectors of education, health, and gender, thus making implementation of projects inherently complex and difficult.

44. It has been recognized that quality infrastructure facilitates business and provides the enabling climate important for attracting domestic and foreign investments, adopting new technologies, and raising productivity. Inadequate infrastructure raises the cost of doing business and discourages domestic and foreign private investment. ADB's experience shows that rural infrastructure contributes in (i) providing rural people with access to markets and basic services, and (ii) influencing rural economic growth and employment opportunities and incomes. Moreover, accelerating agriculture and rural development has the potential for regenerating the rural economy and, hence, is a critical component of an inclusive growth strategy. Improving rural roads contributes significantly to poverty reduction in areas with high potential for commercial agriculture, i.e., where farmland is relatively abundant, the climate ideal, the water supplies sufficient, and the only key constraint is the lack of all-season roads. Improving isolated rural roads, not connected to the larger road network, in remote and poorly endowed areas temporarily improved living conditions for some rural residents, but did not lift them out of poverty.

45. ADB studies have put forward a number of recommendations and actions covering a wide spectrum of fields. Efforts to achieve inclusive growth should involve a combination of mutually reinforcing measures. These include (i) promoting efficient and sustainable economic growth, (ii) ensuring a level political playing field, and (iii) strengthening capacities and providing for social safety nets. Governments (i) must develop and maintain an enabling environment for business by eliminating market distortions and institutional weaknesses, and maintaining the rule of law; (ii) should promote the comparative advantages of industries, and adopt a continuous flow of technology and industrial innovation to achieve dynamic, inclusive growth; (iii) at the national and local levels should organize and refocus development priorities to the agriculture and rural areas; and (iv) need to foster an enabling environment so that all people, including the poor, can contribute to and benefit from the growth process.

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About the Paper

The Asian Development Bank (ADB) has relatively few but well-founded and relevant studies, reports, and publications on inclusive growth, inclusive development, or inclusive social development. This paper seeks to summarize the knowledge products obtained from existing ADB studies, statements, and initiatives. It draws from the research and analytic work undertaken in recent years by ADB's Economics and Research Department (ERD), the East Asia Department (EARD), and the Independent Evaluation Department (IED); and other sources. Among the findings is that, while there is no agreed upon and common definition of inclusive growth or inclusive development, the term is understood to refer to "growth coupled with equal opportunities," with economic, social, and institutional dimensions. Among the major recommendations of the ADB literature are that efforts to achieve inclusive growth and inclusive development should involve a combination of mutually reinforcing measures including (i) promoting efficient and sustainable economic growth, (ii) ensuring a level political playing field, (iii) strengthening capacities, and (iv) providing for social safety nets.

About the Independent Evaluation Department

The mission of the Independent Evaluation Department is to help the Asian Development Bank become a learning organization that continuously improves its development effectiveness and is accountable to its stakeholders. The Department conducts and disseminates strategic evaluations in consultation with its stakeholders, harmonizes performance indicators and evaluation methodologies, and develops capacity in evaluation and evaluative thinking.

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 substantially 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, 48 of whom are from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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