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Measuring and Monitoring Inclusive Growth:
Multiple Definitions, Open Questions,
and Some Constructive Proposals

Stephan Klasen

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Asian Development Bank

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Abstract

Inclusive growth has become a strategic pillar for guiding the activities of the Asian Development Bank (ADB) in its operational strategy. However, there exists no clear definition or indicator to monitor the progress of inclusive growth at the country, project, or program level. This paper reviews existing definitions of inclusive growth and proposes an approach to defining and measuring inclusive growth as nondiscriminatory and disadvantage-reducing growth. It proposes a monitoring approach at the country and project level and suggests that this might be a way forward to operationalize inclusive growth.

This consultant report is part of ADB's work on "Operationalizing Inclusive Growth" developed by a consulting team in close cooperation with staff in the Poverty Reduction, Gender, and Social Development Division of ADB's Regional and Sustainable Development Department. Other studies include (i) ADB's Contribution to Inclusive Growth in the Transport and Energy Sectors (Stein Hansen), (ii) Operationalizing Inclusive Growth in Agriculture and Small and Medium Enterprise Development Projects (Adrianus Rijk), (iii) Operationalizing Inclusive Growth in Projects with Environment as Strategic Development Objective (Benoit Laplante), and (iv) Operationalizing Inclusive Growth at Country Level (Terry McKinley). All papers recommend the same methodology for ADB to monitor its contributions to inclusive growth at the country and project levels. Inclusive growth is one of the three pillars of ADB's new Strategy 2020.

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Acronyms

ADB	Asian Development Bank
DAC	development assistance committee
GDP	gross domestic product
MDG	Millennium Development Goal
OECD	Organisation for Economic Co-operation and Development
UNDP	United Nations Development Programme

1. Introduction

1. Despite high overall economic growth rates in many Asian countries in the past 2 decades, many policy makers in Asia and in international organizations have become increasingly concerned that this growth has been too uneven and often accompanied by rising income inequality. In addition, it appeared that disadvantaged groups, including members of ethnic minorities, people in remote rural locations, and women, have not benefited proportionately from this rapid economic growth. The possibility that growth might leave poor and disadvantaged people behind was highly relevant in political debates in India during the 2004 national election. The new government targeted inclusive growth as a strategy to overcome these inequalities and disadvantages. Indeed, India's Eleventh Five-Year Plan, 2007–2012 was entitled "Inclusive Growth" and included concrete strategies to promote the well-being and participation of disadvantaged groups (Government of India 2006).

2. The Asian Development Bank (ADB) instructed The Eminent Persons Group to develop a strategy for inclusive growth, and the group recommended shifting the focus from poverty reduction to inclusive growth. "In many countries, rising incomes, while reducing overall poverty, have been associated with rising disparities. These disparities, left unchecked, could threaten the fragile political consensus for economic reforms, or even political stability. ...The solution lies in the continuation of pro-growth economic strategies—*but* with a much sharper focus on ensuring that the economic opportunities created by growth are available to all—particularly the poor—to the maximum extent possible." (ADB 2007: 13–14)

3. Consequently, ADB committed its corporate strategy (Strategy 2020) to promoting inclusive economic growth as one of its three development agendas, along with environmentally sustainable growth and regional integration. ADB has produced a range of policy and discussion documents on inclusive growth. Furthermore, ADB directed its Regional and Sustainable Development Department to develop indicators for monitoring country and project level progress toward attaining inclusive growth.

4. A careful review of various ADB documents revealed many conflicting definitions of inclusive growth. Some of these concepts are vague and do not lend themselves to easy quantitative operationalization, while others are quite specific but may not capture the essence of the concept. Further complicating matters, the World Bank defines inclusive growth in ways that are at odds with the ADB concept. Moreover, the World Bank, the Organisation for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP), and academia have all produced a range of policy documents on closely related concepts (e.g., pro-poor growth and equal opportunity).

5. This paper provides a brief discussion of the different concepts of inclusive growth, highlights the most important content and differences in definitions, and proposes a working definition as well as indicators to monitor progress that can also be used to track the performance of the ADB portfolio in its relation to inclusive growth. We begin with some conceptual questions, examine definitions that already exist in policy documents and policy research documents of ADB and other organizations, and then propose some working definitions of inclusive growth, including some approaches that would measure progress at the country and project/program levels. The work presented here complements that of the consulting team on measuring ADB's contribution to inclusive growth at the country level (McKinley 2010), in agriculture and small and medium enterprise promotion projects (Rijk 2010), in transport and energy (Hansen 2010), and a conceptual note on measuring ADB's contribution to inclusive growth in projects that address environmental concerns (Laplante 2010).

2. Inclusive Growth: A Conceptual Discussion¹

6. Inclusive growth is more than broad-based growth. While economic growth (i.e., increased economic output or income) is a well-defined but narrow concept, inclusive growth, by implication, focuses on a *subset* of such growth episodes. Since not all growth episodes are inclusive, it is necessary to separate those that are from those that are not. Growth is a *necessary* condition for inclusive growth; there is, by implication, no such thing as an “inclusive contraction.”² Therefore, it is necessary to determine what characterizes growth episodes that qualify as inclusive. Two options are possible. One focuses on *process*, in the sense that the actual growth included many people who participated in that growth (i.e., inclusive growth is based on inputs from a large number of people). In this context, inclusive growth is somewhat related to broad-based or labor-intensive growth. However, “inclusive” carries with it the notion of nondiscrimination, a feature that is less clear with the other terms. Thus inclusive growth can be characterized as broad-based growth that includes *nondiscriminatory participation*.

7. The second option focuses on *outcomes* of the growth process (i.e., inclusive growth benefits many people). This option is closely related to the much-discussed concept of pro-poor growth (see, e.g., Klasen 2008 for a summary of these discussions). According to its weak but absolute definition, pro-poor growth refers to increased income for the poor, while its relative definition refers to growth that leads to disproportionate increases in incomes among the poor (i.e., it is accompanied by declining inequality).

8. While inclusive growth extends beyond people below the poverty line, this makes the concept very broad. Interpreted in terms of outcome, inclusive growth is not quite the same as pro-poor growth. First, there is the question of whether inclusive growth is related to the absolute or relative definition of pro-poor growth. If it was related to the absolute definition of pro-poor growth, inclusive growth would merely reduce poverty; logically, this cannot be the case. The call for inclusive growth in Asia by both India and ADB emphasizes that recent growth episodes in Asia were accompanied by falling poverty (but rising disparities) but were not inclusive. Therefore, the call for inclusive growth must be more than pro-poor growth in its absolute definition. Inclusive growth should relate to the relative definition of pro-poor growth (see below). Importantly, pro-poor growth focuses on people below the poverty line, while inclusive growth is arguably more general: it wants growth to benefit all stripes of society, including the poor, the near-poor, middle income groups, and even the rich. In the extreme, one could argue that inclusive growth must benefit everyone. Interpreted in this broad sense, its link to ADB’s vision of an Asia free of poverty is tenuous and it is not a useful way forward. Of course, one might want to redefine “inclusive” as not meaning “all.” For example, one could limit inclusiveness to the poor according to the respective national or international poverty line (\$1.25 or \$2.50), but that returns us to pro-poor growth. On the other hand, inclusive growth could be defined as mainly benefiting groups that are otherwise disadvantaged; such growth is more appropriately defined as “disadvantage-reducing” growth. In this regard, one could think particularly about growth that reduces regional, ethnic, or gender disadvantages, and this might be one useful way to differentiate an outcome-focus of inclusive growth from pro-poor growth. Thus, in terms of outcome, inclusive growth could be termed “disadvantage-reducing” growth. The quote from the Eminent Persons Group (see above) suggests an emphasis in this direction.

¹ For a closely related conceptual discussion, see also Rauniyar and Kanbur (2010).

² There is a related debate about whether pro-poor contractions are a form of pro-poor growth. See Kakwani and Son (2008).

9. An approach that considers both process and outcome aspects is particularly useful for defining inclusive growth. Including the process aspect of inclusive growth has considerably more bite and novelty and moves the debate forward, particularly regarding debates on poverty reduction and pro-poor growth. If one considers outcomes, inclusive growth should not focus solely on (income) poverty reduction because interpreting it in terms of disadvantage-reducing growth is potentially more interesting. Thus, a conceptual approach to inclusive growth could be nondiscriminatory growth that grants equal *nondiscriminatory access to growth, plus disadvantage-reducing growth* (i.e., reducing disparities of disadvantaged groups).

10. Inclusive growth can easily be extended to non-income dimensions of well-being. Thus far, this discussion has limited growth to its income dimension, but one could easily expand the focus to improvements in non-income dimensions of well-being (e.g., health and education). Following others, let us call this inclusive development (McKinley 2010, Rauniyar and Kanbur 2010). One could also have a process and an outcome orientation. For example, was growth in education based on nondiscriminatory participation of all versus did the growth of education benefit all? An outcome focus is just as interesting and novel as a process focus, possibly even more so. Interpreted narrowly in the sense of the production of non-income dimensions of well-being, process focus asks some narrow and unusual questions (e.g., did the growth of education make nondiscriminatory use of educators from all stripes of society). In contrast, an outcome focus on non-income dimensions makes a lot of sense. Did improved education and health benefit all, particularly the most disadvantaged? Thus, inclusive development as disadvantage-reducing improvements in non-income dimensions of well-being appears to be a particularly promising concept. If we are to consider inclusive growth in non-income dimensions (i.e., inclusive development), an outcome orientation has much to recommend itself. Although conceptually interesting, it is quite far from ADB's basic approach to inclusive growth, which focuses on characterizing *income* growth episodes. Future studies should examine process, outcomes, and improvements in non-income episodes.

3. Inclusive Growth and Strategy 2020

11. Inclusive growth is one of ADB's strategic pillars. Strategy 2020 identifies inclusive growth as one of ADB's three strategic pillars, along with environmental sustainability and regional integration. Although Strategy 2020 does not precisely define inclusive growth, it leads to two "strategic focuses: first, high sustainable (income) growth will create and expand economic opportunities. Second, broader access to these opportunities to these opportunities will ensure that members of society can participate in and benefit from growth." (ADB 2008: 11). A few items are noteworthy about this approach to inclusive growth:

- It is entirely forward-looking, focusing on what future growth can achieve in terms of being more inclusive, not on how inclusive (or not) current growth is or has been.³
- It strongly emphasizes the *process* aspect of growth. This is particularly true of the first strategic focus, which emphasizes broadening opportunities for participation.
- The second strategic focus (broadening access) is very close to the twin ideas of nondiscriminatory participation and disadvantage-reducing growth, combining both

³ This would also imply that any analysis determining ADB's contribution to inclusive growth must consider ex ante impact assessment tools (in addition to reviewing the ex post impact on inclusive growth).

process and outcome. In this sense, it goes a bit further than the proposal by the Eminent Persons Group, which focused largely on disadvantage-reducing growth.

12. ADB largely emphasizes the process aspect of inclusive growth. The first four chapters of Strategy 2020 establish a conceptual foundation for inclusive growth. However, closer inspection of ADB's priority interventions and core areas of operations reveals that the operational part of Strategy 2020 focuses mainly on the process aspect of inclusive growth and strongly emphasizes improvements in infrastructure, market access, education, and financial intermediation. Safety nets, redistribution, and disadvantage reduction are limited to some basic social protection—safety nets to prevent extreme deprivation, measures to promote gender equity, and initiatives that promote human capacities (and thus their potential to participate in growth). Also, the strong primacy of economic growth as the foundation of all efforts to promote inclusive growth is not questioned.⁴

13. This discussion suggests that ADB's overall strategy basically proposes a largely process-oriented approach to inclusive growth, emphasizing growth that enhances opportunities and equalizes access to these opportunities.⁵ Notably, Strategy 2020 lacks any clear indicators to monitor its performance in terms of inclusive growth. This is somewhat surprising because a set of indicators developed by ADB for its so-called Results Framework are intended to monitor its progress toward Strategy 2020. Inclusive growth does not figure in the Results Framework, while regional cooperation, environmental sustainability, and private sector development have target indicators (albeit at the output, and not the outcome, level). The highest level (level 1) uses the Millennium Development Goals (MDGs), gross domestic product, and outcomes to monitor outcomes, business environment, governance, regional integration, and trade.⁶ Level 2 measures ADB's contribution to country outcomes by listing outputs in five operational areas (transport, water, energy, finance, and education), which incidentally are not identical to its five core operational areas (infrastructure, finance, education, environment, and regional integration). Strategy 2020 commits to having only 80% of ADB projects in these five core operational areas by 2012 and makes no commitment regarding ADB's contribution to inclusive growth. No institutional process based on the 2020 Strategy or the Results Framework systematically tracks the progress of inclusive growth and ADB's contribution to it. As a result, the ADB development effectiveness reports (ADB 2009, ADB 2010) only discuss the contribution of ADB operations to inclusive growth at a very general level.

14. Considering inclusive growth as more than an overarching concept that guides some of its work requires ADB to develop clear indicators that will allow monitoring of inclusive growth at the country level, including its contribution through its lending, policy, and knowledge work. The Results Framework would clearly be a useful place to incorporate such indicators.

⁴ In this sense, the overall approach to inclusive growth can be seen as quite similar to the World Bank's 1990 World Development Report on poverty, which viewed the three pillars of poverty reduction as promotion of labor-intensive growth. However, ADB does not emphasize labor-intensive growth but rather growth per se, investments in human capacities (ADB focuses only on education), safety nets, and targeted transfers to assist those not able to benefit from growth. Similar to the conceptual discussion (above), it replaces the poverty focus of *World Development Report 1990* with a focus on nondiscrimination.

⁵ Note, however, that ADB emphasizes the MDGs (outcome indicators) in its Results Framework to Strategy 2020. However, Strategy 2020 not only fails to describe any mechanism for measuring ADB's contribution to those country outcomes, it also does not establish outcome targets on inclusive growth.

⁶ Since regional integration is covered in the Results Framework and environment is partly covered in the MDGs, the other two strategic pillars arguably have clearer indicators in the Results Framework.

15. At the same time, several research and policy research documents produced by, or on behalf of, ADB have examined the concept of inclusive growth in considerably more depth (see below). While these documents are useful contributions to the debate on inclusive growth, the fact that none of them have led to a clear approach for monitoring inclusive growth in the ADB Results Framework suggests that the debate on this subject is incomplete.⁷

4. Research and Policy Research Documents

4.1 Inclusive Growth is Growth with Declining Inequality (Rauniyar and Kanbur 2010)

16. Rauniyar and Kanbur (2010) provide a literature survey of the uses of inclusive growth within ADB, discuss conceptual issues surrounding inclusive growth, and propose a precise definition (i.e., growth that is accompanied by declining income inequality.) This definition is nearly identical to the concept of relative pro-poor growth, which is growth accompanied by declining income inequality between the poor and the non-poor. The only (slight) difference is that relative pro-poor growth focuses on the relative growth and inequality of the poor versus the non-poor, while inclusive growth considers changes in inequality more generally. One can construct cases where growth is relatively pro-poor in the sense that income growth of the poor was faster compared to the non-poor, thus reducing inequality between the two groups. Such growth might still be non-inclusive if the income growth of the poorer non-poor was smaller than the income growth of the rich so that overall inequality still increases. In practice, this occurs only rarely, and relative pro-poor growth and inclusive growth defined in this way will yield the same results in virtually all cases. Therefore, this definition of inclusive growth adds little to the concept.

17. The extension to non-income dimensions is more interesting because it is considered less frequently, but inclusive development (i.e., improvements in non-income dimensions of well-being accompanied by declining inequality in these dimensions) is mostly identical to declining relative pro-poor growth in non-income dimensions (Klasen 2008, Grosse et al. 2008).

18. In short, defining inclusive growth as growth with declining inequality in income and non-income dimensions does not, in my view, add much beyond the existing pro-poor growth concepts.

4.2 Inclusive Growth as Pro-Poor Improvements in Social Opportunities (Ali and Son 2007)

19. Ali and Son (2007) defines inclusive growth as pro-poor improvements in social opportunities and examines to what extent social opportunities (e.g., access to health or education) are distributed according to income and how this distribution changes over time.

⁷ Or perhaps one consciously wants to treat the concept of inclusive growth as a rather vague guiding principle rather than a firm commitment. India's approach to discussing inclusive growth in its policy documents seems to go in that direction (e.g., Government of India 2009).

Inclusive growth occurs when improvements are tilted toward the income-poor.⁸ Therefore, this paper is entirely concerned with levels and trends in non-income dimensions of well-being, how they are distributed along the income distribution, and whether the improvements were pro-poor or not. Ali and Son's (2007) concept of inclusive growth aligns closely to the non-income growth incidence curves proposed by Klasen (2008) and Grosse et al. (2008), where growth incidence curves are drawn for improvements of non-income dimensions of well-being such as education or health.

20. While the Ali and Son paper emanates from ADB, it seems at odds with most other ADB documents on inclusive growth, all of which focus on the pattern of *income* growth in one way or another. This issue does not arise in the Ali and Son (2007) framework. Thus this paper fits into an approach that examines the patterns of non-income levels of well-being, which is not the starting point of ADB's approach to inclusive growth but could be a valuable extension and addition. Clearly, pro-poor improvements in health or education can occur with little or no income growth (e.g., Sri Lanka, Kerala, and some Latin American countries in the 1970s and 1980s). Such improvements depend on public policies that may occur with or without economic growth. Ali and Son (2007) did not investigate a precise link between income growth and this form of inclusive growth.

21. Linking Ali and Son's (2007) concept to the growth process might provide a way forward. One could examine the relationship between income growth and the opportunity curves in two ways to bring it closer to the inclusive growth debate:

- To what extent do social opportunity curves affect income growth (e.g., does equal distribution of social opportunities ensure greater growth and greater participation of the poor in growth)?
- To what extent does income growth promote more pro-poor expansions of social opportunities?

4.3 Inclusive Growth Promotes Equal Opportunities and Equal Access (Ali and Zhuang 2007, Zhuang and Ali 2009)

22. Ali and Zhuang (2007) and Zhuang and Ali (2009) define inclusive growth as growth that promotes equal opportunities and also increases access to these opportunities (i.e., growth that allows all members of society to participate in and contribute equally to economic growth, regardless of individual circumstances). Given the role these papers played in Strategy 2020, they are closely related to the inclusive growth concept discussed there, but they go beyond that. Their definition of inclusive growth is very close to two concepts: the pro-poor growth advocated by the OECD-Development Assistance Committee (DAC), which seeks a pace and pattern of growth that will rapidly reduce poverty; and a pro-poor growth process that will allow poor women and men to participate actively in, and benefit from, economic growth. The differences are threefold:

- Ali and Zhuang (2007) focus on the overall pattern of the growth process, while OECD-DAC focuses on how growth affects the poor (as agents and beneficiaries).
- Contrary to Ali and Zhuang, the OECD-DAC concept allows for growth to be pro-poor if the poor are important beneficiaries of growth (e.g., through the tax-transfer system) even if they are not active participants. Thus the OECD-DAC concept focuses more on income, and Ali and Zhuang focus more on process.

⁸ There is an interesting link to an older measure called the Bonferroni index (Silber and Son 2010).

- The OECD-DAC approach explicitly considers poverty a multidimensional phenomenon. Therefore, the impact of growth on non-income dimensions of poverty is important, not only to the extent they affect growth but also to the extent they affect the well-being of the poor.

23. The Ali and Zhuang (2007) definition is closely related to John Roemer's concept of equal opportunities (1998), which was taken up by the World Bank's *2006 World Development Report*, *Equity in Development*, and a range of research papers (e.g., Bourguignon et al. 2007, Ferreira and Gignoux 2008, etc.). Equal opportunity exists if a person's well-being (usually measured in terms of personal income) relates only to effort, not individual circumstance. In that definition, growth that promotes equal opportunity is inclusive growth.

24. Serious consideration of this approach would require some worthwhile conceptual and empirical work. First, one would need to examine to what extent inequality of opportunities exists in Asia, a demanding but worthwhile research program involving rather complex micro data analysis (see Ferreira and Gignoux [2008] for such an analysis for selected Latin American countries). In practice, one would have to consider to what extent individual achievements in the income and non-income dimensions of well-being relate to circumstances beyond the control of individuals versus individual choices and efforts. It would also be necessary to examine the extent to which growth process reduced this inequality of opportunities. This process would involve examining whether the impact of circumstances on individual incomes has shrunk over time. ADB would probably want to know to what extent reduced inequality of opportunities relates to policies and programs of governments and donors (such as ADB). Clearly, serious consideration of the idea of growth with equal opportunities in this context would go far beyond the scope of this current policy research program, but examining levels and trends in the inequality of opportunities in the Asian context would be a very interesting, worthwhile, and policy-relevant research program. Inequality of opportunities likely exists in many Asian countries, often affecting ethnic minorities, remotely located people, women, and migrants, among others.

25. The concept of inclusive growth is very interesting and relevant. Since ADB's Strategy 2020 is closely related to this approach, a logical next step would be for ADB to start a work program that examines the extent of inequality of opportunities and to what extent different types of growth processes can overcome such inequality. How else could one conclude that growth was based on equal opportunities or expanded them?

4.4 ADB Brief on Implementing Strategy 2020: Inclusive Growth

26. Partly in response to this work program, which attempts to define indicators for monitoring inclusive growth at the country and program/project level, the Strategy and Policy Department of ADB produced a short, draft brief on inclusive growth (May 2010). The brief largely restates the Strategy 2020 approach to inclusive growth and argues to what extent the operational activities of ADB in the fields of infrastructure and human capital might further inclusive growth, as they either are part of an overall country strategy promoting inclusive growth, or directly or indirectly promote participation of disadvantaged groups in growth. While it is likely that many projects may be viewed as inclusive in the sense advocated here (nondiscriminatory and disadvantage-reducing growth), the brief entirely sidesteps defining inclusive growth, identifying non-inclusive income growth episodes, and determining to what extent precise measurement of contributions to inclusive growth is possible. The brief also fails to clarify the role of inclusive growth targets (if any) in the Results Framework of Strategy 2020.

4.5 Pace, Pattern, and Productive Employment (World Bank, 2008)

27. In many ways, the World Bank's approach to inclusive growth is very similar to the OECD-DAC approach to pro-poor growth, sharing a similar concern about the pace and pattern of economic growth. The main new idea in the World Bank approach (which is also rather vague and does not clearly distinguish itself from other approaches) involves focusing on *productive employment* as an important element of inclusive growth. Increasing employment (i.e., number of jobs) and productivity of employment (i.e., earnings from jobs) presumably is important for a sustainable growth strategy that leads to poverty reduction because the poor mostly rely on labor as their most important asset. Thus, the main distinction in this approach to a more general focus on pro-poor growth (and thus, for example, the OECD-DAC approach) involves concentrating on the poor as participants and contributors to economic growth, and explicitly eliminates focusing on the poor as beneficiaries of growth (e.g., through transfer programs or explicit redistribution). In that sense, the inclusive growth approach highlighted here bears some relation to the more process-oriented approach of Ali and Zhuang (2007) and Zhuang and Ali (2009), but does not lend itself easily to monitoring through a simple set of indicators.

4.6 The United Nations Development Programme

28. The UNDP recently changed the name of its International Poverty Center in Brasilia to the International Policy Center on Inclusive Growth. The UNDP website does not formally define inclusive growth, but rather emphasizes inclusive growth as growth with low and declining inequality, economic and political participation of the poor in the growth process, and benefit-sharing from that process. The UNDP's concept of inclusive growth encompasses process and outcome, income and non-income, and participation and decision making. This concept would require a very broad set of indicators and the question would surely arise about how to weight and aggregate the many concepts that are included in this concept of inclusive growth.

4.7 Categorizing the Concepts

29. The following table categorizes the various concepts along different dimensions, identifying their differences, relative merits, and drawbacks. While it does not capture the complexity of the concepts, it might help organize ideas.

Comparing and Contrasting Inclusive Growth Concepts

Concept	Key idea	Process/Outcome	Income/Non-Income?	Income growth necessary?	Ease of measurement	Innovation
Strategy 2020	Growth that creates opportunities and expands access	Largely process	Income	Yes	Unclear	Very close to Ali and Zhuang
Rauniyar and Kanbur	Growth with declining inequality	Outcome	Both possible	Yes (income dimension)	Straight-forward	Nearly identical to relative PPG
Ali and Son	Pro-poor improvements in non-income dimensions	Outcome ⁹	Non-income	No	Straight-forward	Close to non-income growth incidence curves
Ali and Zhuang	Growth that is based on and expands <i>equal</i> opportunities and access	Largely process	Both	Yes	Technically difficult	Close to extension of equality of opportunity concept
The World Bank	Growth that promotes productive employment	Largely process	Both	Yes	Difficult	Some relation to Ali and Zhuang approach
United Nations Development Programme	Growth with equality	Process and outcome	Both	Not necessarily	Difficult	Some relation to many related concepts

5. A Proposed Conceptual Framework for Defining and Measuring Inclusive Growth

30. The new and innovative aspects of the inclusive growth concept involve focusing on both process and outcomes and reducing nondiscrimination and disadvantages. Perhaps the first

⁹ We categorize this approach as outcome-based because it does not consider the process of producing these opportunities. Since these opportunities themselves can be used to generate human development and income outcomes, they could be seen as processes in this sense.

and best approach to defining a concept would be to take Ali and Zhuang (2007) seriously and propose a work program that carefully examines inequality of opportunities, its link to growth processes, and the ability to affect such inequality of opportunities through policy interventions. As discussed earlier, this is a fruitful but demanding approach to inclusive growth. Unfortunately, it does not presently appear that ADB is seriously considering such a work program. Therefore, a somewhat simpler approach to examining inclusive growth is needed.

31. Taking the cue from the above discussion, we propose to define an income growth episode “inclusive” when it

- allows participation and contribution by all members of society, with particular emphasis on the ability of the poor and disadvantaged to participate in growth (the “nondiscriminatory” aspect of growth); and
- associates with declining inequality in non-income dimensions of well-being that are particularly important for promoting economic opportunities, including education, health, nutrition, and social integration (the “disadvantage-reducing” aspect of inclusive growth).

32. More formally, an inclusive growth episode requires

- positive per capita income growth rates;
- primary income (pre-tax earnings and self-employment income) growth rates for pre-defined, disadvantaged groups (e.g., ethnic minorities, backward regions, the income poor, rural areas, women) at least as high as growth rates for per capita incomes, indicating that such groups have been able to participate in the growth process at least proportionately;¹⁰ and
- expansions of non-income dimensions of well-being that exceed that average rate for pre-defined disadvantaged groups.¹¹ Non-income dimensions include schooling achievements; improvements in survival rates (e.g., inverse mortality rates for children under the ages of 1 and 5 years); improvements in nutritional status; and access to transport, communications, and household services (e.g., clean water, electricity, refuse removal); this would ensure that an income growth episode was disadvantage-reducing.¹²

¹⁰ There is a complication here. High earnings growth for a disadvantaged group may have come about either by higher earnings per worker (or per hour) or more people working (or more hours worked). If this high earnings growth results from more workers and/or more hours worked, it may be seen as the result of distress among a disadvantaged group that compensates by expanding work effort. This may not be seen as desirable. On the other hand, an expansion of employment and hours can be seen as a true expansion of opportunities to participate in the growth process, and thus be a key ingredient of inclusive growth. Empirically it is likely that high earnings growth is rarely generated by expansion of distress employment (which usually expands when earnings are falling) so that this complication may not be relevant in many cases. If that is so, the proposed indicator of disproportionate earnings growth would be appropriate.

¹¹ Please note that the specific focus on disadvantaged groups goes beyond MDG targets for social and environmental dimensions of poverty (MDG 2–7) because they are often interpreted as not targeting the lower income groups.

¹² Please note that here, we suggest monitoring absolute expansions in these non-income dimensions (rather than proportionate expansions or growth rates). This is due to the fact that in non-income dimensions, growth rates are rather misleading concepts. For example, a growth rate of 100% in education for a disadvantaged group might just mean an expansion of education from 1 to 2 years, while a growth rate of 20% for the richest might mean an expansion from 10 to 12 years. In proportionate terms, this would generate the misleading impression that

33. Notably, an income growth episode can be inclusive in some ways but not in others. Given the three conditions listed above, an income growth episode could be inclusive in terms of leading to higher primary incomes for rural areas and women and promoting faster expansion of education and access to household services for the poor, rural areas and backward regions. That same episode could be non-inclusive due to lower-than-average growth of primary incomes of ethnic minorities who expanded their non-income dimensions of well-being at lower-than-average rates. This apparent conflict would emphasize to what extent a country's growth process has been inclusive and in which ways it has not.

34. This approach would make it possible to determine whether a particular growth episode was inclusive in the nondiscriminatory and disadvantage-reducing senses for particular disadvantaged groups. In accord with the discussion on pro-poor growth, it might be useful to consider not only the state of inclusive growth, but also its rate (i.e., we want to know whether growth was inclusive or not, and also how high the rate of inclusive growth has been).¹³ Here, we would simply suggest adapting the toolbox from pro-poor growth research to measurement of inclusive growth. In particular, adapting the proposals of Kakwani and Son (2008) on the "poverty-equivalent growth rate" could define an "inclusive growth rate" for a disadvantaged group as:

$$IG_{ij} = \frac{G_{ij}}{G_j} * \overline{G_j}$$

where i refers to a particular disadvantaged group and j refers to the indicator in question (e.g., income growth or expansion in education).¹⁴

6. Tracking Inclusive Growth

35. ADB should be interested in monitoring inclusive growth and its contribution to it. Given the centrality of inclusive growth in its corporate strategy (Strategy 2020), it would seem logical that ADB should have an interest in monitoring the progress of inclusive growth in its developing member countries. In this sense it appears problematic that such monitoring is not part of the existing Results Framework; including it would clearly be helpful. The definition of inclusive growth suggested in Section 5 provides a starting point for such analysis and offers a basis for indicators at the country level (see below).

36. In addition, monitoring to what extent ADB country programs and assistance projects actually promote an inclusive growth agenda would be useful. Donors and international financial institutions commonly rate the performance of countries and projects against corporate targets.¹⁵ This practice helps management identify progress in its corporate strategy.

improvements were much larger for the poor, while in absolute terms this problem does not appear. For a discussion, see Klasen (2008) and Grosse, Harttgen, and Klasen (2008).

¹³ See Klasen (2008) for a discussion in the context of pro-poor growth.

¹⁴ An alternative (which is closer to the idea of Kakwani and Son) would be to take the elasticity of the indicator j for the disadvantaged group i and multiply that with the growth rate of indicator j . For example, one would take the elasticity of rural growth with respect to overall growth and multiply that by the growth rate.

¹⁵ E.g., recent processes in several donor organizations monitored the relevance of their portfolios to the MDGs.

37. At the same time, interpreting the results of such an exercise requires a great deal of explanation. In particular, one cannot expect that ADB will promote a balanced inclusive growth agenda in each of its projects and country programs for several reasons:

- An international finance institution such as ADB has comparative advantages in particular fields due to experience, structure, scale, and mode of operation.
- Programs are worked out with its developing member countries, and inclusive growth may be just one of several strategic priorities for the country.
- A division of labor often exists among donors or between donors and a country's own efforts.
- Fostering inclusive growth is only one of three strategic pillars for ADB. Consequently, a finding that a project does not fulfill an inclusive growth agenda does not necessarily imply that it should not be pursued. This would depend on the reasons for the finding.

38. ADB could take the following logical steps to interpret findings of the inclusive growth contribution of individual country projects or programs:

- To what extent is a project consistent with an inclusive growth agenda?
- If the extent is low, does it promote one of the two other strategic pillars?
- If not, is it part of a coherent overall ADB country program that fosters inclusive growth or the other two strategic pillars?
- If not, is it part of a multi-donor strategy or country-led strategy that fosters inclusive growth overall or the two other strategic pillars?

39. If the answer to all four questions is negative, one should worry that the project or program is not consistent with an inclusive growth agenda. Even if the answers to the first two questions are negative but positive to question 3 or 4, it might be worth exploring further whether it is indeed best to pursue a project/program that is not consistent with the three strategic pillars as part of a country program that is overall promoting such an agenda.

7. Proposed Indicators for Monitoring Inclusive Growth at the Country and Project/Program Levels

40. Based on the above discussion, the question arises whether indicators can be derived to monitor inclusive growth at the country and project/program level.

41. At the country level, ideally one should try to directly track inclusive growth using the approach discussed in Section 5.¹⁶ To do so, the first task would be to define the disadvantaged groups. A starting point could be a poverty profile that identifies those disproportionately affected by income and non-income poverty. The next step would involve comparing their income growth and expansions of non-income dimensions of well-being over

¹⁶ See also McKinley (2010) for a related proposal.

time. While this is clearly possible, it is not easily done and answering these questions would usually require micro data.¹⁷

42. At the sector level, projects and programs seek to affect inclusive growth at the country level but usually focus on either particular groups or particular aspects of an inclusive growth agenda. Therefore, country-level indicators would be too crude to assess how projects or programs impact inclusive growth. At the same time, it would be hard to generate and analyze specific micro data for each project or program. Instead, one should focus more on measuring ADB's contribution to inclusive growth at the project level by assessing the project's goals in terms of beneficiaries and then comparing this data with an inclusive growth agenda. Possible indicators could be the following:¹⁸

- Does the project/program aim to reduce absolute income poverty (using the \$2.50/day indicator) by targeting people below \$2.50/day as predominant direct or indirect beneficiaries?
- Does the project/program aim to and likely will lead to increasing employment of poor people (using the \$2.50/day indicator)?
- Does the project/program aim to reduce economic and social disparities in income or non-income dimensions of well-being by specifically focusing on removing structural barriers and establishing pro-active policies of inclusion of regions/groups that are disadvantaged (e.g., poorer regions, members from disadvantaged ethnic minorities, disadvantaged females, people with disabilities, etc.)?
- Does the project/program promote the human capacities of poor people, especially in terms of health and education so that they are better able to contribute to/benefit from economic growth? Indicators would include projected improvements in health or education of poor people (those below \$2.50/day) of a program/project.
- Is the project/program likely to deliver benefits in non-income dimensions of well-being of poor and disadvantaged groups above and beyond improvements in human capacities (e.g., reductions in infant and child mortality, improved nutritional outcomes, improved social security, better social integration, improved housing, improved household infrastructure, etc.)?

¹⁷ See, for example, UNESCO's Global Monitoring Reports, which examine educational expansion for disadvantaged groups (e.g., UNESCO 2009).

¹⁸ The consultant team has further detailed those criteria by setting indicators for the energy, transport, agriculture, and the small and medium enterprise development sectors and for the environmental theme. They have then proposed a weighted rating system to score in a transparent manner ADB's contribution to inclusive growth—at the project goal level—against those criteria. See Rijk (2010), Hansen (2010), and Laplante (2010).

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Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals

Inclusive growth has become a strategic pillar for guiding the activities of the Asian Development Bank in its operational strategy. At the same time, there exists no clear definition or indicator to monitor progress in inclusive growth at the country, project, or program level. This paper reviews existing definitions of inclusive growth and proposes an approach to defining and measuring inclusive growth as non-discriminatory and disadvantage-reducing growth. It proposes a monitoring approach at the country and project level and suggests that this might be a way forward to operationalize inclusive growth.

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