

WP 2010-01  
January 2010



# Working Paper

Department of Applied Economics and Management  
Cornell University, Ithaca, New York 14853-7801 USA

**INCLUSIVE DEVELOPMENT: Two Papers  
on Conceptualization, Application, and the  
ADB Perspective**

**Ganesh Rauniyar and Ravi Kanbur**

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**Inclusive Development:  
Two Papers on Conceptualization, Application, and the ADB Perspective**

**Ganesh Rauniyar**

Senior Evaluation Specialist  
Independent Evaluation Department  
Asian Development Bank, Manila

**Ravi Kanbur**

T.H. Lee Professor of World Affairs  
Cornell University  
[www.kanbur.aem.cornell.edu](http://www.kanbur.aem.cornell.edu)

**This version: January 2010**

**Abstract**

This compendium brings together two companion papers on inclusive development. The first paper uses the global literature to formulate a conceptualisation of inclusive development and inclusive growth, and to put the conceptualisation through its paces by applying it to the specific case of donor assistance to rural infrastructure. The second paper conducts a detailed review and a synthesis of Asian Development Bank literature on inclusive growth and inclusive development, to see how one particular international organization has addressed, and attempted to resolve, the analytical and operational issues associated with inclusive development.

Views expressed in the paper are of authors and do not necessarily reflect views of Asian Development Bank.

**Conceptualising Inclusive Development:  
With Applications to Rural Infrastructure and Development Assistance**

**Ravi Kanbur**

T.H. Lee Professor of World Affairs  
Cornell University  
[www.kanbur.aem.cornell.edu](http://www.kanbur.aem.cornell.edu)

**Ganesh Rauniyar**

Senior Evaluation Specialist  
Independent Evaluation Department  
Asian Development Bank, Manila

**This version: June, 2009**

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**Abstract**

This paper undertakes three tasks. The first and major task is the definition of inclusive development, in particular distinguishing it from growth, pro-poor growth and inclusive growth, and differentiating these from each other. The paper then proceeds to apply this definition to specific issues focusing on rural infrastructure. The second task is to discuss the relationship between rural infrastructure and inclusive development. The third and final task is to draw out the implications of the recent literature on development assistance and its effectiveness, for donor support of rural infrastructure with the objective of inclusive development.

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## **1. Introduction and Summary**

This paper attempts to set out a framework for discussing the role of development assistance for rural infrastructure to advance inclusive development. This requires a discussion and a clarification of a number of issues.

The first task is the definition of inclusive development, in particular distinguishing it from growth, pro-poor growth and inclusive growth, and differentiating these from each other. This is taken up in the first section. Starting with growth, which has a tight and well accepted definition as an increase in real per capita income, pro-poor growth is identified as that which also reduces income poverty. Inclusive growth is that which is accompanied by lower income inequality, so that the increment of income accrues disproportionately to those with lower incomes. With these definitions, growth can be pro-poor without being inclusive, since (as happened in many countries over the past two decades), growth can be accompanied by falling poverty but rising inequality. The concept of development differs from growth in expanding the focus from income alone to other dimensions of well being, in particular education and health. Inclusive development thus refers to the improvement of the distribution of well being along these dimensions at the same time as the average achievement improves. The MDGs identify a number of these dimensions, and provide a good framework for measuring and identifying inclusive development.

The second task is to discuss the relationship between rural infrastructure and inclusive development. The literature shows some evidence, nuanced, on the causal connection between investment in infrastructure (for example national road or electricity grids servicing the main production centers) and growth. This linkage also serves to underpin the role of infrastructure in inclusive growth, since the literature identifies not only a rising spatial inequality accompanying growth in the past two decades, but also locates part of the causality in an uneven distribution of infrastructure, in particular across rural and urban areas. Infrastructure for inclusive growth must therefore address its adequacy in rural areas, for example rural roads connecting villages to each other and to small market towns, and these small market towns to district capital. A recent literature on education and health also provides ample evidence for the role of rural roads in determining achievements along these dimensions. Thus rural infrastructure is also causally determinant of inclusive development, providing that utilization of infrastructure is given attention at the same time as its supply.

The third and final task is to draw out the implications of the recent literature on development assistance and its effectiveness, for donor support of rural infrastructure with the objective of inclusive development. The paper reviews this literature and identifies its macro and micro strands. The former discusses fungibility, budget support versus project support, conditionality and outcomes based aid allocation. The latter discusses rigorous project evaluation, especially in the framework of randomized controlled trials. The implications for donors to rural infrastructure include greater emphasis on support for sector-wide infrastructure programs with allocation conditioned on actual MDG outcomes, targeting support to projects in areas with lowest

MDG achievements, assessing whether the achievements are supply constrained or demand constrained, and building rigorous evaluation with baselines and controls integrally into project design.

## **2. What is Inclusive Development?**

In addressing the question of what is meant by inclusive development, two issues arise. First, the distinction between growth and development, and second, the import of the term “inclusive.” “Development” brings into play dimensions of well being beyond simply income, while “inclusive” focuses attention on the distribution of wellbeing in society. Further intricacies arise, as will be seen, because the answers to these two questions are in fact interrelated.

In principle the distinction between growth and development should be clear at a general, abstract level. Growth refers to economic growth, in other words, increase in per capita income. This is a narrowly defined technical concept that is measurable and is indeed measured by statistical agencies the world over. Development, on the other hand, is not at all well defined, at least not as precisely defined, as growth. At different times the term has been used to refer to (i) just economic growth, (ii) changes in economic structure of production (rising share of industry and then services from an agricultural base), (iii) spatial distribution of population (increasing urbanization), (iv) improvements in “social indicators” of education and health, etc. The “modernization” debate in the social sciences has partly been about the normative significance of the trajectory of a country which might go through the above changes—is it a good thing and should countries aim to go through this trajectory?

Perhaps the best known exemplar of the distinction between growth and development, certainly the best known in terms of indicators that are on par quantitatively with economic growth as an indicator, is the Human Development Index (HDI). As is well known, this index combines per capita income of a country with two other indicators to arrive at a single index of “development”. The two other indicators relate to education (measured by literacy rate) and health (measured by life expectancy). The objectives of those who formulated and developed the HDI included the explicit broadening of the evaluation of country performance from sole reliance on per capita income to other dimensions of human well being.

I will return to the distinction between solely income based versus more broadly constructed measures of well being. Let us now turn, however, to a discussion of what is meant by “inclusive.” Fairly clearly, it refers in some sense to the distribution of well being, however measured. A given average for a population can be distributed in an infinite number of ways, ranging from perfect equality to extreme inequality. And we can evaluate this distribution in a number of different ways, depending on what specific social welfare function is used in evaluating individual well being and then aggregating the evaluation to a social level.

One specific form of a social welfare function defined on income, for example, would lead to the well known Foster-Greer-Thorbecke (FGT) class of poverty indices, which have now become the workhorse of empirical income poverty analysis among researchers and in international agencies.<sup>1</sup> This class of indices includes the standard “head count ratio measure” (the fraction of population below the poverty line), “the income gap measure” (the shortfall of poor incomes from the poverty line normalized by the poverty line and total population) and “the squared income gap measure” (using the square of the shortfall, to emphasize the wellbeing of the poorest of the poor).<sup>2</sup> Thus this class of indices can capture values judgments by varying the degree of “poverty aversion”. Another member of this family, as the “poverty aversion” becomes infinitely large, coincides with the Rawlsian maxi-min measure—evaluation is determined solely by the lowest level of well being, in this case the lowest level of income.

Let us then pursue the notion of inclusiveness as being captured in some sense by poverty. For a given level of average income, inclusiveness can be measured simply by the degree of poverty. As for changes in average income, growth, its inclusiveness can thus be measured by the change in poverty. Specifically, we can calculate poverty change per unit of increase in per capita income, convert this into an elasticity, and use this as a measure of the inclusiveness of growth. Such exercises are now common, and yield useful insights into the nature of growth. Fairly clearly, a given increase in per capita income—a given growth rate—is consistent with a range of changes to poverty (including, even, an increase in poverty). This leads then to the idea of “pro-poor growth” which at this level is indistinguishable from “inclusive growth.” Both could be measured by the “growth elasticity” of poverty reduction.”<sup>3</sup>

But consider now the behavior of the income distribution above the poverty line, and more generally the inequality in the overall distribution, as growth takes place. For example, if inequality in the overall distribution falls with growth, this would have some claim to be labeled “inclusive growth”. If there is growth, and a fall in overall inequality, poverty will fall so on this case growth will be “pro-poor” as well. But if there is growth and an increase in inequality, then we could have the case that poverty falls because the growth effect dominates the inequality effect. In this case growth is “pro-poor”, in the sense that poverty has fallen; but it is not “inclusive”, in the sense that inequality has risen.<sup>4</sup> These are not just definitional games. The recent experience

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<sup>1</sup> See Foster, Greer and Thorbecke (1984); for an early use of this family of indices see Kanbur (1987); for an example of recent usage, see Ravallion and Chen (2007)

<sup>2</sup> Although not the focus of this paper, the poverty line is a key ingredient of poverty measurement. For a review of the poverty lines literature, see Ravallion (1998).

<sup>3</sup> For a recent overview and extension of the “growth-elasticity of poverty reduction” literature, see Klasen and Misselhorn (2007).

<sup>4</sup> There is a large and by now somewhat confusing, literature on these matters. Thus Ravallion (2004) identifies two definitions in the literature of pro-poor growth: “One finds two quite different definitions of “pro-poor growth” in recent literature and policy-oriented discussions. By definition 1, “pro-poor growth” means that poverty falls more than it would have if all incomes had grown at the same rate (Baulch and McCulloch, 2000; Kakwani and Pernia, 2000). By definition 2, “pro-poor growth” is growth that reduces poverty (Ravallion and Chen, 2003).” It should be clear that the first definition comes closer to our notion of inclusive growth.

of most fast growing economies, in Asia and elsewhere, precisely matches this stylized pattern.<sup>5</sup>

Using these definitions, we might say that inclusive growth is necessarily pro-poor, but non-inclusive growth (in the sense of inequality increasing with growth) is not necessarily anti-poor, provided it is not “too” non-inclusive (i.e. the inequality rising effect does not dominate the growth effect on poverty). However, making the same rate of growth more inclusive (inequality falling more or not rising so much) must make that growth more pro-poor. And, since there is a range of possibilities for distributional change associated with any given growth rate, inclusiveness itself can be more or less pro-poor—certain types of inequality decrease (for example those that increase middle level incomes) reduce poverty by less than other types of inequality decrease (for example, those that increase the lowest incomes). To summarize on income, therefore, the focus of policy for poverty reduction must be growth with as much inclusiveness as possible, and with as much inclusiveness of the poorest as possible.

Clearly, the same framework above that is now widely applied to income could in principle be applied to non-income dimensions of well-being.<sup>6</sup> For example, if literacy were conceptualized as a continuous variable, then the literacy rate used in the HDI would be seen as the analog of the “head count ratio”, where the “poverty line” is a minimum level of reading and writing ability. The same issues would arise along this dimension of inclusiveness. There could be an improvement in the average level of literacy, with little or no improvement in literacy below the minimum cut off. On health, average life expectancy across all individuals could improve, but with little or no improvement below some acceptable minimum. Inequalities in health outcomes have become a matter of growing interest in developing and developed countries alike, and some conceptual energy has been devoted to measuring health inequality.<sup>7</sup> Then if development, beyond growth, is to do with improvements in average levels of attainment along dimensions other than income, inclusive development is to do with the distribution of these improvements. Inclusive development occurs when average achievements improve and inequalities in these achievements fall. By analogy with the income case, we can define pro-poor development as occurring when improvements in average attainments are accompanied by improvements of achievements below a critical threshold. Thus when development is inclusive it is also pro-poor. But development can be pro-poor even though it is not inclusive, inequality in this non-income dimension increases, provided that this increase in inequality is not large enough to offset the impact on “non-income poverty” of the average improvement along this dimension.

Thus a move from just growth to inclusive development involves two steps— a move to evaluate the distribution as well as the average level of well being along any dimension considered, and a move to include dimensions other than income in the assessment of performance. The move from, growth to inclusive growth takes only the

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<sup>5</sup> This pattern, and its implications for the development discourse, are discussed further in Kanbur (2007).

<sup>6</sup> For a recent application to India, see Sahn (2005).

<sup>7</sup> For a recent example, see Foster and Allison (2004).



first step, staying focused on the income dimension. The move from growth to development takes only the second step, by bringing in non-income dimensions but staying focused on average achievements. Inclusive development as a concept invites and requires both steps to be taken.

Is the Human Development Index (HDI) a measure of inclusive development? It certainly satisfies the second requirement, because it brings in education and health alongside income in constructing an overall measure of well being or performance for a country. However, it shows a concern for distribution only along one of these dimensions. This dimension is education because, as argued earlier, literacy, measured as the achievement of minimum levels of reading and writing, can be seen as being analogous to income poverty—it focuses attention on the lowest levels of educational achievement. But along the income dimension the HDI uses only per capita income, not its distribution and not income poverty measures. Similarly, along the health dimension the measure is average life expectancy, which can in principle improve while its distribution worsens. Thus the HDI is not a measure of inclusive development. It should be noted, however, that there have been several attempts to modify the HDI to make it distributionally sensitive, for example by introducing income poverty rather than average income, or gender sensitive, but taking into account the distribution of education and health across the genders.<sup>8</sup> But the core HDI, the “headline” HDI, does not have these features.

What of the Millennium Development Goals (MDGs)? How close do they come to capturing inclusive development? The answer is that in their totality they do represent a decisive shift away from the pure economic growth assessment of country performance, both because they bring in more dimensions than income, and because they bring in distributional considerations along the dimensions. Thus the two key indicators of the first goal (end poverty and hunger), to halve between 1990 and 2015 the proportion of people whose income is less than \$1 per day and to halve the proportion of people who suffer from hunger, focus on distribution as well as going beyond just income (to bring in nutrition). The second goal, to achieve universal primary education, obviously goes beyond income but focuses attention on the lowest rung of educational achievement. The third, fourth and fifth goals (on gender equality, child health and maternal health) also emphasize distributional improvements of non-income dimensions.

The sixth goal, combating HIV/AIDS, malaria and other diseases, has as a target, for example, the achievement of universal access to treatment for HIV/AIDS to all those who need it. This is certainly a non-income goal, but what of its distributional characteristic? If we conceptualize HIV/AIDS on a continuum from worst to less bad, then universal access to treatment is like equalizing the shortfall of “good health” from the critical minimum. In this sense it can be viewed as analogous to an income poverty target. But suppose HIV/AIDS afflicts primarily those who have higher incomes. Then in addressing distribution along one dimension we might give additional resources to those who are better off along another dimension. This raises the question of aggregation along different dimensions, which I will take up presently.

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<sup>8</sup> See, for example, Anand and Sen (1994), Hicks (1997) and Foster, Lopez-Calva and Szekely (2005).

The seventh MDG goal, of environmental sustainability, has several components, some of which are distributionally sensitive, but others of which are not. Thus the sub-goal of halving the proportion of population without sustainable access to safe drinking water and basic sanitation is analogous to halving income poverty. But the distributional aspects of another sub-goal, that of reducing biodiversity loss, are not self-evident since biodiversity cannot be ranked across individuals in the same way that income, or education, can. It is not clear who will benefit from reducing biodiversity loss at the national or global level. Once again, it leads us into following through the impact of acting on one dimension on the distributional characteristics of other dimensions—for example, will reducing biodiversity loss benefit the income poor or the income rich?

Growth is a unidimensional measure of performance. As discussed above, pro-poor growth or inclusive growth, while still focused on income, face issues of aggregation across individuals—poverty indices are one way of effecting this aggregation, and more general social welfare functions are essentially methods of aggregating the myriad changes in income across individuals into a single national level index for evaluation. The concept of development introduces dimensions of well being beyond income, but this raises the question of aggregating across these dimensions to arrive at a single measure of performance. What if income rises but health or education worsens? Even if all dimensions move in the same direction, if changes are at different rates in different countries for different dimensions, the evaluation question remains. The HDI resolves this in a particular way—it takes an equal weighted average of the indicators along the three dimensions of income, education and health. But it is not clear on what basis these weights, or indeed any other set of weights can be chosen. The extensive debate on the question has not resolved the issue.<sup>9</sup>

Given the state of the literature, and accepting that growth by itself is not an adequate indicator of performance, I would argue that we should consider four things in assessment and evaluation: (i) economic growth, (ii) measures of income distribution, including income poverty, (iii) measures of average performance along dimensions other than income, in particular education and health, (iv) measures of distribution along non-income dimensions of wellbeing, including distribution not only across individuals but across salient groups such as gender or ethnicity. In many ways, the MDG approach does this. There is an inevitable untidiness about the MDG approach since it has many dimensions and many indicators, but this is inevitable if we want to move from growth to inclusive development as the objective of policy.

Finally, I want to clarify that the focus of discussion here has been on assessment and evaluation of the outcomes of policy and the development process. These outcomes are multidimensional, and assessment is correspondingly complex. But this does not say anything about how these outcomes arise, or how they can be improved. That is a separate question, and will be taken up in the next section, focusing in particular on infrastructure interventions. But it is as well to address a tendency in some parts of the literature, that one set of outcomes are essentially all that we need to focus on, because

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<sup>9</sup> For an early critique of the weighting issues, see Kanbur (1990). Recent efforts to address the issue include Despotis (2004) and Foster, Lopez-Calva and Szekeley (2005).

the other dimensions track these outcomes very closely, statistically, and causally. This argument is indeed made for income—traditionally for economic growth, but more recently for income poverty. Thus, it used to be argued, and is still argued, that education and health, for example, track income fairly closely, so we might as well focus policy on the income dimension. There are two problems with this argument. First, there is the straightforward statistical argument that education and health do not in fact track income perfectly. Even when there is a significant statistical relationship on average, there is considerable variation around the average, and countries at the same level of per capita income can have widely different achievements in non-income dimensions. This holds also at the relationship across individuals. Second, and more importantly, even the significant statistical relationship does not establish causality, at least not uni-directional causality from income to the other dimensions. There is significant evidence that education and health feedback positively on income.<sup>10</sup> There is thus no substitute for careful analysis of each intervention and its impact on multidimensional outcomes taking into account feedback effects from each dimension on to the others. And, as a practical matter, the MDGs provide a useful way of structuring the outcomes to focus on.

### **3. Rural Infrastructure and Inclusive Development**

Investing in infrastructure, rural infrastructure in particular, is a policy instrument available to governments to advance their objectives. What light does the objective of inclusive development, as characterized in the previous section, throw on the instrument, and what guidance does it provide for the deployment of the instrument? We focus on the differences with the objective of growth, which means paying attention to two issues—outcomes beyond income, and distribution of these outcomes. As argued above, the MDGs provide a good way of implementing these concerns.

Infrastructure is a broad term. The standard usage is of course in terms of roads. But electricity, telephone connections, water supply, buildings to house markets, all fall into this category. In what follows I will use roads as the leading example, and will mostly have roads in mind when I use the term infrastructure, with qualifications noted as they arise.

The relationship between infrastructure and the levels and growth of income at the country level is much discussed in the literature. There could in principle be excessive investment in infrastructure with the growth objective, in the sense that the economic rate of return from the investment is below the opportunity cost of funds, but a significant body of literature argues that the issue in most developing countries is too

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<sup>10</sup> I would argue that these propositions are widely accepted by now, and there is a big literature supporting them. Here is a series of papers over the years that argues the case: Sen (1988), UNDP (1996), Ramirez, Ranis and Stewart (1998), Sen (2001), Sahn (2005), Joshi (2007), Commission on Growth and Development (2008).

little infrastructure to support rapid growth.<sup>11</sup> The most obvious case is road connections between production centers (whether manufacturing or natural resource extraction) and points of export. Thus, for example, it is argued that one of the reasons why “structural adjustment” did not have as much success as expected in Africa was because of the poor state of infrastructure. “Getting the prices right” to incentivize agricultural production for export was not of much use if the produce could not be got to the port in time and in good condition. But cuts in public expenditure, and especially in public investment, worsened an already bad situation and negated the pricing reforms. Coming right up to date, recent discussions on infrastructure constraints to India’s growth prospects have led to an agreement on the need for massive investment if Indian growth is to be sustained.<sup>12</sup> However, while it is the assessment of this author that infrastructure does play a central role in economic growth, it should be made clear that the literature is not united in ascribing causality from infrastructure to economic growth. At least, cross-country regression analysis that tries to establish this link has been questioned by some authors.<sup>13</sup> The relationship between infrastructure and economic growth is perhaps best seen as being positive but nuanced.

Equally, there is a lively debate on how exactly infrastructure can play this role, and whether such a role should even be envisaged for it, or whether the government should simply stick to deploying infrastructure in supporting a growth strategy. The issue is important, because different types of infrastructure investment have different outcomes, and real choices have to be made.

Let us start then with roads and their role in inclusive growth. Spatial disparities in income and income growth have long been remarked upon in developing countries. It is well documented that these disparities have been growing in the last two decades, accompanying globalization and high national level growth rates. Internal divergence between rural and urban areas, between coastal and inland areas, and between sub-national regions more generally, which tracks unequal development of infrastructure across these divides has become a worrying aspect of recent growth experience.<sup>14</sup> What should be the policy response to this? The consensus view is that a reversal of the opening up of economies to global integration, which has created opportunities but also

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<sup>11</sup> There is a large literature on infrastructure and growth. Here is a selection: World Bank (1994), Canning (1998), Reinikka and Svensson (1999), Haughwout (2002), Wang (2002), Canning and Pedroni (2004)

<sup>12</sup> For a recent assessment see World Bank (2006)

<sup>13</sup> In a recent paper, Estache and Fay (2008) take a particularly skeptical line: “There is still considerable disagreement as to whether infrastructure accumulation can explain countries’ differing growth paths. Even if infrastructure is necessary for modern economies to function, it may not be the case that more infrastructure causes more growth at all stages of development or at any for that matter.” In similar vein Straub, Vellutini and Wariters (2008) do not find a significant relationship between infrastructure and growth for East Asia. Part of the problem in macro level assessments is that infrastructure variable may be too aggregated. Duflo and Pande (2007) find that while large dam construction in India was marginally cost-effective, it contributed significantly to increased poverty.

<sup>14</sup> The most recent compilation of evidence comes from a major UNU-WIDER project. The overview, summarizing evidence from 58 countries, of which 26 countries there was information at two or more points in time on spatial disparities over the past two decades, is presented in Kanbur and Venables (2007). A selection of papers on spatial inequality in Asia is available in Kanbur, Wan and Zhang (2007). The World Bank’s views and evidence on spatial disparities are summarized in World Bank (2008).

inequalities, is not really an option. No country has attained sustained growth without access to global markets, global investment and global know how. Rather, the question is how the growing inequalities can be managed.

Since the evidence and analysis identifies some of the cause of regional divergence, in the face of growth opportunities, as lying in divergence in the level and quality of infrastructure, the policy response is seen to lie in addressing infrastructure deficits in lagging regions.<sup>15</sup> This applies both to infrastructure within these regions, as well as infrastructure that links lagging regions to advancing regions and to the global economy.

Thus the perspective of inclusive growth leads to a natural focus on rural roads. Rural areas contain the bulk of national poor, globally in aggregate but particularly in Asia, and it is these areas that have been lagging in terms of income growth. This is apparent both in terms of direct comparison of income growth in rural and urban areas, but also in the observations that lagging regions are more rural in their composition than advancing regions in nearly all countries. Putting together the evidence on the causal connection between road connections and income growth, and the evidence on relatively low levels and growth of incomes in rural areas, it follows that policy should focus on (i) improving road connections within rural areas and (ii) improving road connections between rural and urban areas. Within the framework of a national road grid, between villages and small market towns in rural areas, and between small towns and district capitals which have larger markets and other facilities such as hospitals, has priority.

A question may be asked about higher level connections in the national level road grid. Surely, it can be argued, without road connections between district capitals and state capitals and other industrial centers, including ports, lower level connections will be wasted? This is, however, a question of complementarity and priority. The higher level connections are important, but given these, the value to the poor in rural areas depends on the density of the lower level network. As the density of lower level connectivity increases, the marginal return to the poor will decrease and the argument for enhancing the higher level connectivity will strengthen. At some point the case for the higher level connectivity dominates. But until then, the case for lower level rural roads remains strong. This is of course if the objective is inclusive growth—growth that brings along those at lower income levels. If the objective were just growth, then investment in higher level connectivity—from the industrial areas to ports, or even from natural resource rich areas directly to the ports, would be the top priority. This is one of the ways in which an inclusiveness perspective changes the priorities of policy.

The discussion above, and throughout the paper, focuses primarily on the benefit side of infrastructure spending. But there is the cost side also to take into account, as is the case for any public intervention. The poor are more likely to be found in sparsely populated and/or remote areas, which means that the cost of providing a certain type of

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<sup>15</sup> The evidence is overviewed in Kanbur and Venables (2007). Here are some examples of papers that argue along these lines: Ravallion (2005), Lall and Chakravorty (2005), and Christiaensen, Demery and Paternostro (2005).

infrastructure (e.g. roads) is more expensive per beneficiary. The appropriate valuation measure is the social value of infrastructure in such areas relative to the social marginal cost of providing this infrastructure, the latter being a product of the marginal financial cost and the social marginal cost of public funds. It may well be the case, therefore, the costs of infrastructure provision in some areas is so high that even with high social benefits such provision is not socially optimal. These issues are discussed further in Kanbur and Venables (2007)

The objective of inclusive development, improving wellbeing of the worst off along non-income dimensions such as education and health, strengthens the case for rural roads even more. As noted earlier, while income growth is one determinant of improvements in education and health, it is not the only one, and there is considerable variation in these achievements at any level of income. Direct intervention along these dimensions, to improve the lowest achievements, is what we are led to if we accept the objective of inclusive development. And rural roads are central to improving these achievements.<sup>16</sup>

There is now considerable evidence that transportation is strongly complementary to health and education achievements. Take the case of maternal mortality, reduction of which is one of the MDGs. Clearly, having good ante-natal care, good facilities for delivery and good immediate post-natal care, are central to lowering maternal mortality. But in many cases maternal mortality turns out to be a transportation problem. When complications set in during home delivery, there is a relatively short time window during which the woman needs to be taken to appropriate hospital facilities. There are then two issues –whether there is a facility nearby (say in the small market town nearest to the village, or in the district capital), and how quickly the woman can be got to the facility. The quality of roads, and the quality of transportation facilities, turns out to be critical. At the very least, therefore, when cost-benefit analysis is being conducted of rural roads, the potential beneficial impact on maternal (and child) mortality of the investment needs to be factored into the income growth benefits.<sup>17</sup>

A similar argument can be made for education. Distance to school is well established as a determinant of school enrollment, particularly in underserved rural areas.<sup>18</sup> Further, it can also affect enrollment and participation of girls in certain cultural settings. Clearly, building schools closer to villages and rural settlements is one strategy. Improving

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<sup>16</sup> There is a large and growing literature on the importance of rural roads for poverty in its many dimensions—income, education, health, etc. There is useful website, <http://www.ruralroads.org/>, which gives a sense of the range of issues that arise. The following papers provide a flavor of the literature: Bryceson, Bradbury and Bradbury (2008), Khandker, Bakht and Koolwal (2006), Asian Development Bank (2006), van de Walle (2000), Fan and Chan-Kang (2005), Balisacan and Pernia (2002).

<sup>17</sup> Among websites which address the relationship between transportation, mobility and maternal mobility, and provide an overview of the extensive literature, are Grieco (2009),

<http://people.cornell.edu/pages/mg294/maternalmortality.html>, and IFRTD (2009), [http://ifird.gn.apc.org/mobilityandhealth/about/lit\\_review.php](http://ifird.gn.apc.org/mobilityandhealth/about/lit_review.php), Some papers in the literature are:

Wettansinghe and Panilla (2002), Ensor (2004), Grieco and Turner (1996), Matin, Mukib and Khanam (2002)

<sup>18</sup> Some recent papers are: Chimombo (2005), Jacoby, Cuetto and Pollitt (2002), Holmes (1999), Khanam (2004)

transportation to schools, especially by ensuring road connections in all seasons, is another. As with maternal mortality, the beneficial educational impact of rural roads would be added to more standard income based cost benefit analysis, when comparing them with other types of intervention which have more direct income benefits to the economy, but not necessarily to the poorest. When complemented in this way, the argument for rural roads is strengthened compared to standard assessments which, because they take a pure growth perspective, tend to favor higher level connectivity, say between industrial areas and ports.

There is, however, a major caveat to drawing direct causal connections between rural roads and inclusive development. This relates to a broader issue of the balance between supply side and demand side interventions in achieving inclusive development. The argument can be illustrated for schools and education. As noted above, many families do not send their children to school simply because there is not a school sufficiently nearby to tilt the family cost-benefit in favor of school. And in such situations, if only one child can be sent to school because of transportation costs, it will be the girl child who misses out. In this scenario, the lack of an appropriate school/roads combination means that the family's demand for education cannot be satisfied. The supply side constraint is binding and school enrolments are low. In this situation, relieving the supply constraint will meet the policy objective of increasing school enrollments. However, as supply increases the point will eventually come when the demand for education becomes the binding constraint. Parents are not sending their children to school not because there isn't a school nearby or well connected by a rural road, but because they do not put sufficient value on an education for their child. This may be particularly the case for girl children. In such a situation, building more schools, or more rural roads to improve transportation not schools, has no value for inclusive development. Or rather, in this situation infrastructure investment only has value when complemented by other interventions to enhance utilization.<sup>19</sup>

The general point concerns access to infrastructure (rural roads here) versus its utilization. It is often assumed that public policy to provide access will automatically lead to utilization. This is not self evident, particularly with respect to disadvantaged groups - e.g. poor households, ethnic minorities, female headed households, disabled members in the households, and other similar groups. The simplest case is where the financial costs of utilization are simply too high.<sup>20</sup> For example, there may be rural roads but the costs of transportation are high because of a monopoly or oligopoly in private trucking and bussing. In addition, if there is discrimination against women, or disadvantaged minorities, this can also reduce their usage.<sup>21</sup> In such a situation, the demand for transportation is constrained despite the building of rural roads. Other policies are needed to complement the building of rural roads—for example a policy to

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<sup>19</sup> This argument is developed for the social sectors in general, and illustrated by South Asian examples, in Devarajan and Kanbur (2007). A framework for assessing whether supply or demand constraints are binding is provided in Kanbur (2008).

<sup>20</sup> There is a significant literature on the costs of transport in rural areas, and in developing countries generally. See for example, Carruthers, Dick and Saurkar (2005), Raballand and Macchi (2008)

<sup>21</sup> See for example, Merilainen and Helaakoski (2001), Riverson et. al. (2005).

improve competition and reduce imperfections in the market for private transport and trucking. Unusual as it may seem, in this setting competition policy is an essential feature of a package whose objective is to advance inclusive development through improving infrastructure.

To summarize the argument in this section: (i) There is consensus that investment in infrastructure is an essential ingredient for growth. (ii) If infrastructure is to contribute to inclusive growth, policy will have to focus on certain types of infrastructure, exemplified by rural roads. (iii) This argument is strengthened further if the objective is inclusive development. (iv) But this focus on investing in infrastructure targeted towards inclusive development will have to be complemented by policies which improve utilization of the infrastructure by disadvantaged groups. What is the role of development assistance in infrastructure investment for inclusive development? The next section takes up this question.

#### **4. Development Assistance to Rural Infrastructure for Inclusive Development**

The literature and the debate on development assistance have several strands, many of which are unresolved. These strands encompass the macroeconomic “aid regressions” literature on the determinants on aid effectiveness, measured in terms of the impact of aid on growth and development, and the more microeconomic perspectives on the evaluation of project success, including the most recent discussion, and controversies, on “randomized controlled trials.”

Among the most contentious issues surrounding development assistance are those concerning “conditionality.” The debate on conditionality intersects with another one, on budget (or program) assistance versus project assistance. Project assistance can be seen as the most highly conditional form of assistance, since, in principle, the donor agency can ask to approve any and all aspects of the project, its implementation, monitoring and evaluation. However, fungibility of public resources raises the question of the effectiveness of such conditionality—with perfect fungibility the donor funds effectively finance the government’s marginal project, not the one that the funds are nominally designated for. Hence the argument that development assistance might as well be budget assistance, and the conditionalities, if any, be such as to influence the overall pattern of the government budget, rather than this or that component. Hence the emphasis on macroeconomic policy conditions.

Analytical results which claim to have shown that the impact of aid on growth is greater the “better” is the policy environment have been influential in the debate, although these results were questioned no sooner than they had been disseminated. There are two issues. First, whether it is indeed the case that a parsimonious set of policies can be causally associated with economic growth, let alone with inclusive growth, or inclusive development. It can be argued that the evidence is not as strong as originally presented. The growing consensus is that countries have followed a broad range of specific policy combinations to achieve outcomes from growth to inclusive development. Secondly,



however, it is not clear that external aid associated conditionality can actually “wag the tail” of domestic political economy to get sustained changes in policy—even if from the outside we knew what these changes should be.<sup>22</sup>

In view of the above, there has been a growing movement in favor of “outcomes based” conditionality. The argument here is that from the outside donors cannot know the specific details of how good development outcomes can be achieved, and there are in fact many different, context specific, ways of arriving at the same outcomes. Thus, might it not be better to “condition” aid on outcomes themselves—“ex post” conditionality is a term that is sometimes used. Thus, rather than making aid conditional on certain prescribed changes to intermediate variables and interventions, this approach suggests tying aid to improvements in development outcomes—for example along the dimensions set out in the MDGs. This approach has been suggested at the macro level, for example for making IDA allocations across countries more outcomes oriented, or in the provisions of the Millennium Challenge Account. It has also been suggested at the micro level, for example, in recent innovative experiments on “payments for results.”<sup>23</sup>

There are of course a number of objections to the outcomes based approach. Does not the approach favor countries already doing better? Is it not liable to be influenced by short term national or global shocks, in the positive or the negative direction? Since outcomes, particularly in the social sphere, appear with a lag, is there not an incentive problem for a government to bear the costs of intervention but with the reward going to a possible future government? What of new governments, say in post conflict situations, who will have no performance to show? Are not data on outcomes, in particular social outcomes, notoriously unreliable and of poor quality, making the basing of aid disbursements on measured outcomes problematic? These, and others, are all valid questions. But (i) rather than just the starting level of outcomes, the rate of improvement in outcomes can also be used in assessment, (ii) short term fluctuations in outcomes can be smoothed out using time series smoothing techniques, (iii) outsiders cannot in any case influence policy and interventions sustainably; it has to be the domestic political economy that does so, (iv) “start up” funds can be set aside for special circumstances, as is done now, and (v) there should be an immediate program for improving information and data on the outcomes of development. Thus the questions need to be addressed, but they do not undermine the fundamental argument in favor of outcome based approaches.<sup>24</sup>

The second major strand in the development assistance discourse has a more microeconomic perspective and relates directly to evaluating whether a project has had the impact claimed for it. Ex post evaluation of projects, with no base line set of facts at the start of the project, has been criticized for the obvious reason that it cannot ascertain

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<sup>22</sup> I am summarizing a large literature here. Among the papers that give a flavor of the debate: Burnside and Dollar (2000), Guillaumont and Chauvet (2001), Easterly and Levine (2004), Kanbur (2006)

<sup>23</sup> The outcomes based approach has been argued for in a number of recent papers: Collier et. al. (1997), Kanbur (2005), Barder and Birdsall (2006)

<sup>24</sup> This argument is developed more fully in Kanbur (2005b).

improvement in the outcomes of interest during the period of the project. Many projects now do in fact conduct such baseline surveys to establish the state of affairs before the project. However, the “before and after” comparison is itself open to the charge of unclear attribution—was the improvement because of the project, or would it have happened in any event? One answer to this is to compare before and after in another location where the project does not exist. But this is itself open to the criticism if the project allocation between its current location and the control location was not random, but influenced by some factor (for example an enlightened and influential local government) which could itself have influenced the performance in the outcome of interest, over and above the project itself. Hence we come to what some have claimed is the “gold standard” for evaluation—randomized controlled trials (RCTs). RCTs are themselves controversial, and critics are agreed that too much is claimed for them, that the sort of power attributed to them in establishing causality cannot be fulfilled in practice. But there is no question that the RCT discourse had thrown into sharp relief standard methods of evaluation of development assistance projects, and these methods are being held to higher standards as a result.<sup>25</sup>

To summarize, while the literature on development assistance and its evaluation has not by any means resolved its many debates, some directions of emerging consensus can be discerned, relative to twenty years ago: (i) a greater willingness to entertain budget support, at the sector wide and the national level (ii) a greater emphasis on measuring development outcomes and on making budget assistance, and the overall assistance envelope (budget plus project) conditional on actual performance on development outcomes, (iii) a greater emphasis on measuring development outcomes from projects and greater focus on establishing causality from the project to those outcomes.

Let us turn now to a discussion of how this general debate on development assistance applies to assistance for rural infrastructure.

A first implication is quite independent of rural infrastructure and applies generally. There must be a greater effort in measuring development outcomes, nationally but in particular in rural areas, which tend to be neglected in national statistical systems. Since the claim is that rural infrastructure supports inclusive development, and inclusive development is measured along a number of dimensions, including those identified in the MDGs, for the claim to be tested we must have reliable and timely information on development outcomes that go beyond average income but cover income poverty, nutrition, school enrollment (gender disaggregated), child and maternal mortality, prevalence of diseases such as HIV/AIDS and malaria, at a minimum. This information has improved considerably in developing countries over the past twenty years, but it is still sporadic and incomplete for most countries. Even where there are regular living standards and demographic and health surveys, sample sizes may not be large enough to focus on the achievements and patterns in particular rural areas. Recently developed econometric techniques can help in poverty mapping down to the local level, but they

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<sup>25</sup> Some of the key recent papers in the debate on RCTs are: Deaton (2009), Duflo, Glennerster and Kremer (2008), Banerjee and He (2007), and the papers in Kanbur (2005a).

are only as good as the detail of the information underlying them.<sup>26</sup> Perhaps somewhat indirectly, therefore, those interested in effective assistance for rural infrastructure to advance inclusive development must also push for improvement in national statistical systems to better produce information and data on different dimensions of inclusive development. More directly, they need to support the collection of such information in their project area, to better evaluate the impact of their rural infrastructure interventions.

Given the state of information, those supporting development assistance for rural infrastructure must also support rigorous evaluation of rural infrastructure projects. To the extent possible, the “gold standard” of RCTs should be applied, it being understood that the standard itself may not be attainable in practice. Funds spent on rural infrastructure have real opportunity costs, in terms of other uses to advance inclusive development, and it is appropriate that the question—what impact did these funds have on inclusive development?—be asked, and answered to the best of our abilities. Among other implications of this perspective are the importance of making sure that there are base level surveys conducted to establish the state of development outcomes before the project (if the national statistical system does not already provide this), and that appropriate controls have been identified which will allow, to the extent possible, attribution of improvement in outcomes to the intervention in question.

Thus while some general principles can be adduced, the main lesson from the literature on development assistance, and on development in general, is that context specificity matters, and the detail can be very different from country to country and from location to location. Outsiders giving advice need to have humility about their recommendations, for sure. But taking this to its logical conclusion, if the donors’ recommendations are not followed by the country, then what? Would aid not be given? More to the point, suppose the recommendations are not followed but the outcomes are as good or even better—then what? It would then seem to be somewhat nonsensical to have withheld aid because the donor’s model was not followed, even when it was shown, *ex post*, that an alternative model was better. The point, however, is that this model, which worked in one country, may not work in another.

This line of argument leads to a move away from a highly project specific approach on the one hand, and a highly “*ex ante*” approach on the other. Taking a broader approach, to the sector as a whole, and taking an outcomes based approach, is the logical outcome. Thus sector-wide budget support, modulated in amount by actual measured outcomes on inclusive development, is an approach that should be considered by those who support rural infrastructure for advancing inclusive development.

Of course, I recognize that the above makes sense only as recommendations for incremental adjustment, not as all or nothing upheavals to the current development assistance framework. In any event, there is sufficient debate on alternative approaches to development assistance for it to warrant a diversified strategy where alternative

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<sup>26</sup> The best source for techniques and applications is the Poverty Mapping website: <http://www.povertymap.net/>. A useful overview is found in Henninger and Snel (2002).

approaches work together. Let us turn, therefore, to the design of conventional rural infrastructure projects. What are the lessons for the design of such donor supported projects?

Over and above building in rigorous evaluation into the fabric of project design, the discussion of the previous section suggests that donor supported projects for rural infrastructure to advance inclusive development should have the following design features. First, they should target areas with weakest achievements along the MDG dimensions. Second, they should establish whether improvement in these achievements is supply constrained or demand constrained as discussed earlier. If the latter, increasing rural infrastructure may not be the best project. Third, in such situations, projects to increase utilization of existing infrastructure, such as lowering transportation costs by encouraging competition, or interventions to eliminate discrimination against minorities in transport, should move up the priority list. Fourth, if lack of achievement is indeed supply constrained, then the project should identify the complementarities between different elements of supply—location of schools and roads to schools for education, or location of hospitals and roads to hospitals for different dimensions of health. Fifth and finally, the expenditure of the project, when it is building rural roads, for example, is itself a resource over the life of the project. The project design should, within a framework of cost-efficiency, privilege the employment of the poorest of the poor and of disadvantaged minorities.<sup>27</sup> Without implying a micro-management that would go against the spirit of context specific design, these five considerations can be turned into a check list, or a list of questions, that can be used to frame discussion, design and evaluation of a project submitted for donor funding.

## 5. Conclusion

The framework developed in this paper recognizes the somewhat untidy nature of the literature, and the importance of context specificity. Nevertheless, some conclusions can be, and are, drawn on rural infrastructure, development assistance and inclusive development. Despite some powerful views to the contrary, growth has been supplemented by inclusive development as the objective of policy and of development assistance. Growth is precise as a concept. Inclusive development is not. But the MDGs provide a useful framework for specific discussions, with the added bonus that there is greater international consensus on these as objectives than on growth alone. Given that rural areas lag in their MDG achievements, and that infrastructure is causally linked to improvements in these achievements, investment in rural infrastructure emerges as a key intervention in support of inclusive development. But these interventions need to be targeted to poor areas, pay attention to their utilization by the poor and the disadvantaged, and to have built in designs of rigorous evaluation so that lessons can be learnt for future interventions.

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<sup>27</sup> A key issue highlighted in the literature on public works schemes as employment generating and poverty alleviation devices is the role of the wage. Too high a wage can lead to rationing of employment, with attendant discrimination on who is given jobs on the site. See Ravallion (1999).

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

**Ganesh Rauniyar**

Senior Evaluation Specialist  
Independent Evaluation Department  
Asian Development Bank, Manila

**Ravi Kanbur**

T.H. Lee Professor of World Affairs  
Cornell University  
[www.kanbur.aem.cornell.edu](http://www.kanbur.aem.cornell.edu)

**This version: June 29, 2009**

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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 the recent years by ADB's Economics and Research Department (ERD), the East Asia Research Department (EARD), and the Operations Evaluation Department (OED); and other sources. Among the findings is that while there is no agreed and common definition of inclusive growth or inclusive development, the term is understood to refer to "growth coupled with equal opportunities," and consisting of 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: (a) promoting efficient and sustainable economic growth; (b) ensuring a level political playing field; (c) strengthening capacities and providing for social safety nets.

Views expressed in the paper are of authors and do not necessarily reflect views of Asian Development Bank.

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 the recent years by ADB's Economics and Research Department (ERD), the East Asia Research Department (EARD), and the Operations Evaluation Department (OED); and other sources.<sup>28</sup>

### **A. Inclusive Development in the context of ADB's corporate policies and strategies**

Under its Charter,<sup>29</sup> ADB is mandated to contribute to the “harmonious growth of the region.” Although not explicit in its Charter, ADB has consistently recognized inclusive development as part of its corporate policies and strategies. The following highlights inclusive growth and inclusiveness under ADB's Poverty Reduction Strategy (1999 and 2004), the Long-term strategic framework 2001-2015 and in the successor Strategy 2020, and the medium-term strategy I and II.

**Poverty Reduction Strategy (PRS).** 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<sup>30</sup> (EPRS), 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 for participation in decision-making and self-managed community services such as in the creation of community-based groups in microfinance, health, and natural resources management. Gender and development involves 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.

**Long-term Strategic Framework (LTSF).** In consonance with the poverty reduction strategy, the LTSF 2001-2015<sup>31</sup> identifies include 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 regards 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

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<sup>28</sup> These may include papers presented in ADB for a or requested by ADB but which do not necessarily reflect the views and policies of ADB or its Board of Governors.

<sup>29</sup> Agreement Establishing the Asian Development Bank. 1965.

<sup>30</sup> ADB. 2004. Enhancing the Fight against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank. Manila.

<sup>31</sup> 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

opportunities. Equitable access by all to assets and opportunities are important factors in sustaining economic growth and addressing poverty in the region. Inclusive development means that the benefits reach all those that make 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 man-made disasters. Another area of inclusive development in the LTSF 2001-2015 involves 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 is important to encourage the participation from stakeholders. On the whole, ADB's investments on inclusive social development should emphasize on social support programs and a policy and reform agenda that promote equity and empowerment, especially for women and disadvantaged groups. Specific areas focus on capitalizing on human development, targeting basic social services to the poor such as education and health, eliminating gender and development, and encouraging civil society to participate in social development programs.

Further, the LTSF 2008-2020<sup>32</sup> (or Strategy 2020) that superseded LTSF 2001-2015 provides a development strategy anchored on inclusive growth. This could be achieved by (i) creating and expanding economic opportunities; and (ii) broadening access to these opportunities. Proper attention should be provided to reach the impoverished who are otherwise 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, through provision of social services such as education, health, and social protection; and improvement in 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 other economic resources such as credit. Special attention is given to gender equality and the empowerment of women as fundamental elements in achieving inclusive growth.

**Medium-Term Strategy I and II.** The medium-term strategy I<sup>33</sup> (MTS I, 2001-2005) and medium-term strategy II<sup>34</sup> (MTS II, 2006-2008) 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. In MTS II, strengthening inclusiveness was a strategic priority and focused on the following interventions: support to rural development (e.g. irrigation, rural infrastructure, and rural finance) and key social development programs such as education, health, and gender equality. Specifically, rural roads have been cited as one of the most effective forms of investments for reducing rural poverty and an area where ADB should focus.

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<sup>32</sup> ADB. 2008. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020. Manila.

<sup>33</sup> ADB. 2001. Medium-Term Strategy (2001-2005). Manila.

<sup>34</sup> ADB. 2006. Medium-Term Strategy II (2006-2008). Manila.

## B. Policy Briefs and Special Studies

### 1. Conceptual definition

According to ADB literature,<sup>35</sup> there is no agreed and common definition of inclusive growth within the international community. The concept, however, is understood to refer to “growth coupled with equal opportunities.” It focuses on creating opportunities and making these accessible to all, not just for 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 which emphasizes that economic opportunities created by growth are available to all, particularly the poor to the maximum possible extent.

### 2. Bases

**Uneven economic growth.** Findings from ADB studies<sup>36</sup> showed that the growth process creates new economic opportunities that are uneven. Ali,<sup>37</sup> for example, explained that the current pace of poverty reduction depends not only on the rate of economic growth, but also how the benefits of growth are shared. To illustrate, while data seemed to show that 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 attributable to the rapid growth in 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 disable them to avail of opportunities. The result is that the poor benefit less from growth than the non-poor.

**Rising inequalities.** Moreover, Ali (2007) pointed out that rising income inequalities pose a danger to social and political stability, and the sustainability of the growth process itself. The pursuit for equal opportunities stems from the belief that it is a basic human right to be treated equally in terms of access to opportunities. Equal access to opportunities increases growth potential and conversely, inequality in opportunities diminishes growth and makes it unsustainable. Ali (2007) observed that such a scenario could lead to inefficient utilization of human and physical resources, lower the quality of

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<sup>35</sup> See Ali, Ifzal and Zhuang, Juzhong. “Inclusive Growth Toward a Prosperous Asia: Policy Implications.” ERD Working Paper No. 97. Asian Development Bank. July 2007. Ali, Ifzal and Son, Hyun. “Defining and Measuring Inclusive Growth: Application to the Philippines.” ERD Working Paper Series No. 98. Asian Development Bank. May 2007.

<sup>36</sup> Ali, Ifzal. “Po-poor to Inclusive Growth: Asian Prescriptions.” Asian Development Bank. ERD Policy Brief Series No. 48. May 2007; Ali, Ifzal and Son, Hyun. “Defining and Measuring Inclusive Growth: Application to the Philippines.” ERD Working Paper Series No. 98. Asian Development Bank. May 2007; Ali, Ifzal. “Inequality and Imperative for Inclusive Growth in Asia.” Asian Development Review. Vol. 24, no. 2, pp. 1-16. 2007; Ali, Ifzal and Yao Xianbin. “Pro-poor Inclusive Growth for Sustainable Poverty Reduction in Developing Asia: The Enabling Role of Infrastructure Development.” ERD Policy Brief Series No. 27. Asian Development Bank. May 2004.

<sup>37</sup> Ali, Ifzal. “Inequality and Imperative for Inclusive Growth in Asia.” Asian Development Review. Vol. 24, no. 2, pp. 1-16. 2007

institutions and policies, erode social cohesion, and foster social conflict. These inequalities are often reflected in social exclusion, which public policy interventions should address.

**Globalization and the need for balanced growth.** 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 regionally balanced 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 showed that the reasons depend on whether the countries have supportive domestic policies (e.g., right mix of incentives), institutions, and adequate infrastructure.

**Poverty reduction.** In general, evidence showed 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, it is clear that growth by itself is not a sufficient condition. In other words, growth may overlook the poor or marginalized groups resulting in inequality.

### 3. Dimensions

**Economic.** Most of the studies<sup>38</sup> reviewed point to the economic dimension, particularly, sustainable and equitable growth, as significant to achieving inclusive growth. Ali and Son (2007) described sustainable and equitable growth as one which 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 both capacity and opportunities for the poor and low income rural households to benefit from economic growth.

In Ali and Yao (2004), an enabling factor which drives inclusive growth and sustainable poverty reduction is the **quality of infrastructure**. They found that inadequate infrastructure raises the cost of doing business and discourages domestic and foreign private investment. In India, Ali and Yao found how dynamic small- and medium- size 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 create opportunities for multinational firms to develop local parts suppliers. The scenario in turn encourages foreign direct investment and employs local labor from poor in the rural and urban areas. Quality infrastructure provides the enabling business and investment climate important for catalyzing domestic and foreign investments, adopting new technologies, and raising productivity. These 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

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<sup>38</sup> Ali, Ifzal and Son, Hyun. "Defining and Measuring Inclusive Growth: Application to the Philippines." ERD Working Paper Series No. 98. Asian Development Bank. May 2007; Fernando, Nimal. "Rural Development Outcomes and Drivers: An Overview and Some Lessons." EARD Special Studies. Asian Development Bank. 2008.



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 require the support of infrastructure such as rural electrification, transport, communications, and water supply.

In another study, Bolt<sup>39</sup> recognized the **role of agriculture** and rural economy at the core of inclusive growth considering that about a third of the population in Asia's developing countries was rural-based and depended 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, 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 non-farm goods, and services that provide value-addition. Lessons from past experience highlighted 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.

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

**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 this as which addresses the social risks arising out of development interventions. 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.

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<sup>39</sup> Bolt, Richard. “Accelerating Agriculture and Rural Development for Inclusive Growth: Policy Implementations.” ERD Policy Brief Series No. 29. ADB. Manila. July 2004.

Tandon and Zhuang<sup>40</sup> 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 People's Republic China (PRC) from the perspective of health outcomes, the study found the following: (i) that PRC's health outcomes has actually slowed 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.

**Institutional.** Another dimension to 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 constrained 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.

A 2007 ADB study<sup>41</sup> provided that **legal identity** is an important dimension of inclusive development as it has implications to 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, are an intermediate and not an ultimate goal if in the process it should become the sole basis for accessing important public services.

#### 4. Policy prescriptions

**Promoting efficient and sustainable economic growth.** Following from the cited dimensions of inclusive growth, several studies (Ali 2007; Ali and Son 2007; and Ali and Zhuang 2007) affirmed the important role of promoting efficient and sustained environmental growth to achieve inclusive growth. For example, Ali and Son (2007) identified providing job opportunities and promoting productivity to achieve inclusive growth, which was also consistent in Ali (2007) where he suggested promoting efficient and sustainable environmental growth. In another study, Ali and Zhuang (2007) provided 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

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<sup>40</sup> Tandon, Ajay and Zhuang Juzhong. "Inclusiveness of Economic Growth in the People's Republic of China: What Do Population Health Outcomes Tell Us?" ERD Policy Brief No. 47. January 2007.

<sup>41</sup> ADB. 2007. Legal Identity for Inclusive Development. Manila.

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 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.

According to Lin,<sup>42</sup> a **continuous flow of technology and industrial innovation** is the key to a sustained growth of any country. Lin (2004) 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 adopt the appropriate technology structure in the economy. He contended that countries in developing Asia could achieve a 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.

**Ensuring level political playing field.** Support to economic growth calls for creating access to opportunities. Many ADB studies (Ali 2007; Ali and Son 2007; Ali and Zhuang 2007; Fernando 2008) suggest the need of focusing 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 participation of the people and ensure access to justice for the poor and the vulnerable. In one ADB study (2007) which recognized the proofs of legal identity as a dimension of inclusive development, the study 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.

Fernando (2008) also mentioned reforms in governance to put in place measures that would improve the ability of poor households to take advantage of development opportunities. Fernando acknowledged the need to strengthen institutions to promote inclusive rural development such as those that maintain law and order; provide financial services; and deliver basic services such as water and sanitation, education and health services.

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<sup>42</sup> Yifu Lin, Justin. "Development Strategies for Inclusive Growth in Developing Asia." Paper prepared for Asian Development Bank's Distinguished Speakers Program delivered at Manila, Philippines on 11 October 2004.

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 showed 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 decentralization toward the local governments, and eventually involve the multiple players to finance and manage the provision of services.

**Strengthening capacities and providing for social safety nets.** Ali and Son (2007) noted that strengthening capabilities in the form of human capital supports inclusive growth and development. Ali (2007) recommended that providing effective and efficient social protection systems would 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 which 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. Ali and Zhuang (2007) suggested that, to address social inclusion, the central and local governments carry out their own responsibilities in investing in education, health, and other social services. The role of the government is to ensure that the sectors have adequate funding, infrastructure, capacities, and policy frameworks to guide governance. Specifically, the government must provide for sound policies to monitor the quality of such services when supplemented or complemented by the private sector. In Fernando (2008), 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. In Tandon and Zhuang (2007), redressing health-related inequalities must be a priority for the government.

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

**Inter-related and reinforcing dimensions.** In general, studies (Ali 2007; Ali and Son 2007, and Fernando 2008) pointed that the inter-related economic, institutional (or

political), and social dimensions of inclusive growth mutually reinforce each other to achieve inclusive growth. Ali (2007) noted that the reform agenda required to effect inclusive growth is complex and ambitious and need 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 (2007) recommended three anchors to inclusive growth—(i) promoting efficient, sustainable, and environmental growth; (ii) ensuring level economic and political playing fields to ensure participation and benefit from new opportunities; and (iii) providing effective and efficient social protection systems to ensure 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.

### C. Evaluation Studies

**Review of the PRS.** The OED study<sup>43</sup> confirmed the significance of the three pillars in ADB's Poverty Reduction Strategy—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 these pillars. A country, however, must provide relative importance to each pillar depending on its needs and circumstances.

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. The study suggested based on empirical evidence 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, there was evidence indicating 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. Following from the experience of transition economies, the study observed that adequate institutional capacity can be obtained where there are established market-supportive regulatory frameworks and improved governance.

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<sup>43</sup> ADB. 2004. Review of the Asian Development Bank's Poverty Reduction Strategy. Manila.

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 there was strong DMC 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.

**LTSF Implementation (2001-2006).** The study<sup>44</sup> 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 have been 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, these did not inform many of the country strategy and programs.<sup>45</sup> 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 focused interventions, e.g., education, health, or gender, and consider greater coordination with other development partners.

**ADF Operations.** A special evaluation study (SES)<sup>46</sup> undertaken by OED affirmed the relevance of the ADF in accordance to the Fund's goal to support poverty reduction in the Asia and Pacific Region. However, the Fund seemed to be becoming less relevant to the absolute poor, a large proportion of whom live in countries that are not or are no longer eligible for ADF support. Further, there was presumption that the ADF will 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 also. Consequently, this has some implications on the ADB's limited staff and sometimes lack of skills and ownership that inclusive operations need. Particularly, 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, there

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<sup>44</sup> ADB. 2007. "Long-Term Strategic Framework: Lessons from Implementation (2001-2006)." Evaluation Study. Manila.

<sup>45</sup> The OED 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 CSPs to emphasize inclusive social development.

<sup>46</sup> ADB. 2007. Special Evaluation Study. "Asian Development Fund VIII and IX Operations." Manila

were some good results observed which 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 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.

**Impacts of rural roads.** An SES<sup>47</sup> which 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 poverty reduction. The reasons included insufficient farmland per capita and adverse farming conditions, lack of private firms which 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 there were limited opportunities for high commercial agricultural growth. A great majority of those living in these 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 to support 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.

**Findings from country assessment performance evaluation (CAPE).** There was observation from recent CAPE reports that ADB generally responded to the principal challenge of poverty reduction but was not very successful in implementation. For instance, the CAPE for Sri Lanka<sup>48</sup> assessed that while ADB's positioning covering the recent decade was "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." These could be attributed to the developments that occurred such as the change of government in 2004, reversal in economic policy, and resurgence of civil conflict which resulted in ADB's CSP for 2004-2008 "partly satisfactory." OED 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

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<sup>47</sup> ADB. 2006. Special Evaluation Study. "Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting." Manila.

<sup>48</sup> ADB. 2007. Country Assistance Performance Evaluation for Sri Lanka. Manila.

operations was rated partly successful. The CAPE for Sri Lanka recommended that ADB should 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.

The CAPE for India<sup>49</sup> assessed ADB's contribution to development results as "modest"<sup>50</sup> 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 has 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 along side infrastructure networks, energy efficiency, clean environment, regional cooperation, capacity development, and policy advice, among others.

**Report of the Eminent Persons Group.** Much of these discussions were supported by a 2007 report of the Eminent Persons Group (EPG),<sup>51</sup> an external panel<sup>52</sup> constituted to advise the 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 principally eradicating absolute poverty to generating and sustaining rapid and more inclusive growth, creating well paying job

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<sup>49</sup> ADB. 2007. Country Assessment Program Evaluation for India. Manila.

<sup>50</sup> 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.

<sup>51</sup> \_\_\_\_\_. "Toward a New Asian Development Bank in a New Asia." Report of the Eminent Persons Growth to the President of the Asian Development Bank. March 2007. Manila.

<sup>52</sup> The panel consisted of six persons of internationally recognized eminence and stature, all of whom were invited to serve in their individual capacities.



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.

#### **D. Speeches and Events**

**Challenges.** In March 2006, former ADB President Kuroda in his speech delivered to the Federation of India Chambers of Commerce and Industry enumerated the challenges to achieve inclusive growth. These 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 highlighted 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 underway to help create productive farm- and non-farm employment opportunities. A national rural health mission was also launched to improve access of the rural poor to basic health services.

In line with this, ADB’s Vice President for Knowledge Management and Sustainable Development Schaefer-Preuss in a speech<sup>53</sup> delivered in February 2008 expounded on the bases for inclusive growth based on a study undertaken by the EPG commissioned by the ADB. 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.

**Inter-related dimensions.** In 2007, ADB’s Managing Director General Rajat Nag<sup>54</sup> reiterated in his speech three inter-related 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

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<sup>53</sup> Available: <http://www.adb.org>.

<sup>54</sup> Available: <http://www.adb.org/speeches/2007>

improving the ability and opportunity of the poor and low-income people, including women and ethnic minorities to effectively participate in the processes.

**Role of partnerships.** Nag (2007) also 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 isolated from the mainstream of society. In the same way, NGOs were 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 sector can tremendously help as an alternative source of financing and expertise and can provide targeted and quality information.

**Forum on inclusive growth and poverty reduction.** A regional conference on *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 provided an exchange of good practices and lessons learned in the Asia and Pacific region. Walton<sup>55</sup> in his keynote speech during the forum highlighted the following insights on 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 on policies for the promotion of economic empowerment, provision of the means to acquire human capacities, broad-based risk management, and administration of justice; and (iii) 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.

In view of these concerns, Walton (2007) suggested that ADB's role and positioning should be in activities where both markets and governments fail and purposively 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 products 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 on incorporating 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.

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<sup>55</sup> Walton, Michael. "Poverty Reduction in the New Asia and the Pacific: Key Challenges of Inclusive Growth for the Asian Development Bank." Technical Note. ADB. November 2007.

## E. Summary

1. Key findings and lessons
  - (i) There is no agreed and common definition of inclusive growth. However, the term is understood to refer to “growth coupled with equal opportunities.” (Ali and Zhuang 2007; Ali and Son 2007)
  - (ii) The current pace of poverty reduction depends not only on the rate of economic growth, but also how the benefits of growth are shared. While the attainment of growth would almost ensure the accomplishment of eradicating poverty, growth alone does not guarantee that everyone will benefit equally. (Ali 2007)
  - (iii) Rising inequalities pose a danger to social and political stability and the growth process itself. (Ali 2007)
  - (iv) Inclusive growth is imperative in the context of globalization, structural transformation, and the need for a regionally balanced growth within a country. (Ali and Yao 2004)
  - (v) Inclusive growth is more often understood as consisting of the economic, social, and institutional dimensions. (Ali 2007; Ali and Son 2007; Fernando 2008)
  - (vi) Quality infrastructure provides the enabling business and investment climate important for catalyzing domestic and foreign investments, adopting new technologies, and raising productivity. (Ali 2007)
  - (vii) Accelerating agriculture and rural development has the potential for regenerating the rural economy and hence, a critical component of an inclusive growth strategy. (Bolt 2004)
  - (viii) Rural infrastructure contributes in (a) providing rural people with access to markets and basic services and (b) influencing rural economic growth and employment opportunities and incomes. (Fernando 2008)
  - (ix) Inadequate infrastructure raises the cost of doing business and discourages domestic and foreign private investment. (Ali and Yao 2007)
  - (x) Governments of developing countries were unable to achieve dynamic growth and equitable income distribution because of failure to understand the nature of industries and adopt the appropriate technology structure in the economy. (Lin 2004)
  - (xi) Birth certificates or legal identity in general are an intermediate and not an ultimate goal if in the process it should become the sole basis for accessing important public services. (ADB 2007)
  - (xii) Poverty reduction is more effectively accomplished if a comprehensive program for social development complements policies for accelerating broad-based economic growth. (SES on the Review of ADB’s PRS).
  - (xiii) The scope of inclusive social development is broad and straddles the sectors of education, health, and gender; making implementation of projects inherently complex and difficult. (SES on Lessons from LTSF Implementation 2001-2006)
  - (xiv) 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. (SES on the ADF VIII and IX Operations 2007)

- (xv) Improvement of rural roads contribute 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. Improvement of 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. (SES on the Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting 2006.)

## 2. Recommendations

- (i) Efforts to achieve inclusive growth should involve a combination of mutually reinforcing measures. These include: (a) promoting efficient and sustainable economic growth; (b) ensuring a level political playing field; (c) strengthening capacities and providing for social safety nets. (Ali and Son 2007; Ali and Zhuang 2007; Fernando 2008)
- (ii) Government must develop and maintain an enabling environment for business by eliminating market distortions and institutional weaknesses and maintaining the rule of law. (Ali and Zhuang 2007)
- (iii) Governments of developing countries should promote the comparative advantages of industries and adopt a continuous flow of technology and industrial innovation to achieve a dynamic, inclusive growth. (Lin 2004)
- (iv) Legal identity should be part of the larger reform agenda for promoting inclusive development. (ADB 2007)
- (v) There is need to pursue fiscal decentralization toward the local governments, and eventually involve the multiple players to finance and manage the provision of services. (Ali and Yao 2004)
- (vi) Governments at the national and local levels should organize and refocus development priorities to the agriculture and rural areas. (Ali and Yao 2004)
- (vii) Strengthen institutions to promote inclusive rural development. These include those that maintain law and order; provide financial services; and deliver basic services such as water and sanitation, education and health services. (Fernando 2008)
- (viii) Engage in 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. (Nag 2007)
- (ix) Strengthen capacities in formulating and implementing appropriate macroeconomic and social protection policies, accountability in fiscal administration, efficient delivery of public services, and improved governance. (SES on the Review of ADB's PRS 2004).
- (x) ADB should focus on promoting inclusive growth. These should entail making economic strategies more consistent with individual countries' comparative advantages; creating well paying job opportunities in adequate numbers; improving living standards in sophisticated and complex economies while at the

same time confronting the challenges of economic success; incorporating 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. (Report of Eminent Persons Group)

- (xi) ADB should focus in activities where both markets and governments fail and purposively calls for a more heightened focus on inclusion in the development process. (Walton 2007)
- (xii) ADB should focus on selected areas or focused interventions, e.g., education, health, or gender, and consider greater coordination with other development partners. (SES on Lessons from LTSF Implementation 2001-2006)
- (xiii) Focus on infrastructure projects in regions that have potential for developing resources, connecting to transportation networks, and expanding markets even if they are not poor. (SES. Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting.)

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