

## Helpdesk Research Report: Literature Review on Inclusive Growth

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**Query:** What is the latest thinking on inclusive growth? In particular on  
1) the barriers to poor people's participation in growth, and  
2) the policy responses required to promote more inclusive growth.

**Enquirer:** Growth Team, DFID

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## 1. Overview

Although inclusive growth is now well accepted as the key economic goal for developing countries, there are variations in its definition and characterisation (Birdsall, 2007). These are some of the **approaches to inclusive growth** adopted in the literature:

- Inclusive growth involves a long term perspective. It focuses on the generation of productive employment, instead of direct income redistribution, in order to increase the incomes of excluded groups. Some redistribution schemes may however be necessary in the short term (Ianchovichina and Lundstrom, 2009).
- Inclusive growth is 'growth that not only creates new economic opportunities, but also one that ensures equal access to the opportunities created for all segments of society, particularly for the poor' (Ali and Hwa Son, 2007 p. 12).
- Inclusive growth includes but extends pro-poor growth; it involves 'increasing the size and economic command of the middle class'. The assumption is that growth which is beneficial for the large majority of people in developing countries is more likely to be economically and politically sustainable (Birdsall, 2007).

Various **barriers and constraints to poor people's participation in growth** are identified in the literature. These include:

- **Geography:** many of the poor live in remote (often rural) areas that tend to be less catered to by public policies, infrastructure and services. As such, they have less access to growth opportunities (McKay, 2008; Mendoza and Thelen, 2008; Ianchovichina and Lundstrom, 2009). In the case of financial services, for example, banks often bypass operations in remote areas due to high operating costs (Chakrabarty 2009).
- **Human capital:** limited investment in human capital (including skills and entrepreneurship training) constrain the scope of participation by the poor in labour, credit and product markets (Mendoza and Thelen, 2008; McKay, 2008). In Zambia, for example, the need for education beyond the primary level is a major constraint to

successful self-employment and formal employment of the poor (Ianchovichina and Lundstrom, 2009). Lack of education can also make it difficult to fill out loan applications, which can constrain access to credit markets (Beck, Demirgüç-Kunt, and Honohan, 2009; Chakrabarty 2009).

- Health: poor health can limit the availability of labour and its productivity. This can be particularly problematic in countries with a high prevalence of HIV/AIDS (Ianchovichina and Lundstrom, 2009).
- Assets and access to credit: there are demand and supply constraints to access to credit. As noted, geographic obstacles are a key constraint on both the demand and supply side. Further on the demand side, insufficient collateral hinders the ability of the poor to access credit services; and minimum account size requirements or high fees hinder their ability to open and/or maintain accounts. They may also lack the documentation necessary to open a bank account (Beck, Demirgüç-Kunt and Honohan, 2009). On the supply side, loan officers may consider it costly and not worthwhile to work with poor clients due to high transaction costs and inadequate financial infrastructure (Beck, Demirgüç-Kunt and Honohan, 2009; Ianchovichina and Lundstrom, 2009). More generally, many businesses are unfamiliar with low-income environments and of potential opportunities (Mendoza and Thelen, 2008).
- Economic insecurity: high levels of vulnerability mean that the poor are less likely to engage in risk-taking activities, which have the potential to be more profitable (McKay, 2008).

Some of the literature argues that facilitating access of the poor to growth is insufficient to obtain inclusive growth; attention must also be paid to the quality of their participation. While the poor could in some situations gain access to markets, they may be vulnerable to the effects of market failures. For example, imperfect information could render them vulnerable to price manipulation (Mendoza and Thelen, 2008). In the case of trade as a means of promoting growth, export expansion in many countries has resulted in a higher number of jobs for women. The downside is that such jobs often entail low wages and poor working conditions (Higgins and Prowse, 2010).

A large range of **policies to promote inclusive growth** are discussed in the literature. They include:

- Enabling environment: government should develop and maintain an enabling environment for business and investment in technology and innovation. Competitive exchange rates can also contribute to inclusive growth through a rise in manufactured exports. Such exports are often associated with investment in new enterprises and creation of jobs for the semi-skilled (Birdsall, 2007). Governments also need to promote an environment for equal participation. Effective legal institutions and rule of law are essential in guaranteeing the rights of people to participate in economic growth (Rauniar and Kanbur, 2009).
- Redistributive public expenditures and social protection: inclusive growth can be promoted through progressive tax systems and expenditures – including short-term transfer policies and greater broad-based spending on health, education and public infrastructure (Birdsall, 2007; McKay, 2008; Higgins and Prowse, 2010). Improvements in access to education and health could facilitate the access and participation of the poor in employment and growth opportunities (Ianchovichina and Lundstrom, 2009). Targeted social protection schemes may also provide poor and vulnerable groups with more economic security, which may allow for greater risk-taking (Rauniar and Kanbur, 2009).
- Human capital and job creation: support for human capital and the strengthening of capabilities is important for inclusive growth (Rauniar and Kanbur, 2009). Further, increasing the rate of job creation from growth is necessary to provide opportunities for people to benefit from higher education levels and move out of agriculture (McKay, 2008).
- Broad-based sectoral growth: since job creation may still not benefit the poorest directly, it is important to adopt a pattern of growth which is broad-based in terms of its coverage of sectors, regions or population. This includes the agricultural sector if that is the sector in which the poor are disproportionately represented (McKay, 2008).

In many countries in Asia, for example, large percentages of the population are rural-based and depend on agriculture for a living. Rural infrastructure and agricultural technologies are essential to developing the rural economy and providing rural populations with access to markets, basic services and employment and income opportunities (Rauniyar and Kanbur, 2009).

- Infrastructure development: quality of infrastructure is an enabling factor that drives inclusive growth (Rauniyar and Kanbur, 2009). Directly targeting business and trade-related infrastructure (e.g. transport, energy and telecommunications) to vulnerable and poor groups can improve their access to and participation in growth. Rural women in many countries, for example, spend significantly more time and income on transport, which reduces their ability to invest in higher value-added activities (Higgins and Prowse, 2010).
- Partnerships between government and the private sector: there is an increasing number of profit and not-for profit business actors that are drawing on opportunities to serve more of the low-income population and those who live in more remote areas. It is important for government to work with such actors and to provide support for businesses to expand services to the poor the vulnerable (Mendoza and Thelen, 2008; Rauniyar and Kanbur, 2009; Chakrabarty 2009).
- Assessment and monitoring: it is essential to assess the constraints to sustained high growth for all groups in society and to determine how different segments of society are affected. Support must be given to governments such that they can collect disaggregated data and adopt an inclusive approach (Higgins and Prowse, 2010; Ianchovichina and Lundstrom, 2009). It is also essential to design ways in which to measure inclusive growth and the extent and degree to which inclusiveness is attained (Ali, 2007; Higgins and Prowse, 2010).

## 2. General Literature on Inclusive Growth

**Birdsall, N., 2007, ' Reflections on the Macro Foundations of the Middle Class in the Developing World', Working Paper, no. 130, Centre for Global Development, Washington, D.C. <http://www.cgdev.org/content/publications/detail/14696>**

Although inclusive growth is now well accepted as the key economic goal for developing countries, there are variations in its definition and characterisation. Inclusive growth generally includes but extends pro-poor growth. The assumption is that growth which is beneficial for the large majority of people in developing countries is more likely to be economically and politically sustainable. The specific definition relied upon in this paper is 'growth conducive to increasing the size and economic command of the middle class'. The paper explores whether there are tensions or trade-offs between growth policies that are strictly pro-poor and those that are more inclusive, 'middle class' oriented. It states that sound fiscal and monetary policies that are pro-poor are likely to also benefit the middle class as a whole. There may, however, be tradeoffs in some contexts in terms of specific tax, expenditure and transfer policies. The paper outlines macroeconomic policies that are generally important for inclusive growth:

- Fiscal discipline: this would help to limit volatility (in commodity prices, foreign capital inflows etc.) that can undermine inclusive growth. The poor and middle class tend to gain less during economic booms (when those who already have real and financial assets gain most) and are the first to lose jobs during downturns. Fiscal discipline includes a record of public savings during periods of growth to allow for temporary countercyclical deficit spending to protect poor and middle-income people during downturns.
- A 'fair tax' and redistribution system: inclusive growth can be promoted through progressive tax systems and expenditures – including greater spending on health, education and public infrastructure.
- A business-friendly exchange rate: the increase in manufactured exports from competitive exchange rates contributes to inclusive growth as such exports are associated with investment in new enterprises and creation of jobs for the semi-skilled.

**McKay, A., 2008, 'Economic Growth, Inequality and Poverty Reduction: Does Pro-Poor Growth Matter?', IDS in Focus, no. 3**

<http://www.ids.ac.uk/download.cfm?objectid=F987995C-5056-8171-7B5A66F9299CF48E>

This paper stresses the importance of promoting broad-based growth, which it argues is more likely to result in sustained growth. It outlines some of the barriers that the poor face in participating in growth opportunities:

- Economic insecurity and high levels of vulnerability mean that the poor are less likely to engage in risk-taking activities, which have the potential to be more profitable;
- Many of the poor live in more remote areas or are members of long-term disadvantaged groups – and thus tend to be less well served by public policies and have less access to growth opportunities;
- A lower level of assets, including human capital, limits the scope of participation by the poor in growth.

The paper recommends three ways in which policymakers can redistribute the benefits of growth:

- Redistributive public expenditures to break the intergenerational transmission of poverty: policies can redistribute the benefits of growth through pro-poor public expenditure, for example through broad-based expenditure on education and health.
- Increasing the rate of job creation from growth: this can provide opportunities to people to benefit from higher education levels and move out of agriculture.
- Broad-based sectoral growth, particularly supporting food crop agriculture: since job creation may not benefit the poorest directly, it is important to adopt a pattern of growth which is broad-based in terms of its coverage of sectors, regions or population, including the agricultural sector if that is the sector in which the poor are disproportionately represented.

**Rauniyar, G. and Kanbur, R., 2009, 'Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature', Asian Development Bank (ADB), Manila, Philippines**

<http://www.adb.org/Documents/OED/Occasional-Papers/OP8-inclusive-growth-development.asp>

This review of ADB literature highlights the following factors as essential for inclusive growth and development:

- Broad-based growth: Sustainable and equitable growth that is broad-based across sectors and regions (e.g. creating employment for poor and vulnerable groups) is essential to inclusive growth.
- Infrastructure: Quality of infrastructure is an enabling factor that drives inclusive growth. Government needs to invest in physical infrastructure.
- Agriculture: Agriculture and the rural economy is at the core of inclusive growth in many Asian countries, where large percentages of the population are rural-based and depend on agriculture for a living. Rural infrastructure and agricultural technologies are essential to developing the rural economy and providing rural populations with access to markets, basic services and employment and income opportunities.
- Social protection: Targeted social protection schemes are necessary to address the extreme deprivation of disadvantaged groups. They may also provide such groups with more economic security, which may allow for greater risk-taking.
- Legal identity: Legal identity is an important dimension of inclusive development. It is necessary for accessing benefits and opportunities from public resources, particularly for the most vulnerable communities.
- Capacity building: Support for human capital and the strengthening of capabilities is important for inclusive growth and development.

- Rule of law and enabling environment: Government should also develop and maintain an enabling environment for business and investment in technology and innovation; and for equal participation. Effective legal institutions and rule of law are essential in guaranteeing the rights of people to participate in economic growth.
- Partnerships between government and the private sector: Government should work with civil society actors that contribute to equity and inclusiveness, including NGOs that operate in rural areas to promote inclusive rural development.

**Ali, I., 2007, 'Inequality and the Imperative for Inclusive Growth in Asia', Asian Development Review, vol. 24, no. 2, pp.1–16**

<http://www.adb.org/documents/periodicals/ADR/pdf/ADR-Vol24-2-Ali.pdf>

This paper highlights the problem of rising income and non-income inequalities in Asia and the need for inclusive growth in order to mitigate the rise in inequality. Income inequality stems in part from higher demand and thus higher wages for skilled workers, due to the rising importance of new technologies and foreign direct investment. In addition, non-income inequalities have risen with the decline in effective delivery of public services. The paper outlines that promoting inclusive growth requires:

- Creating opportunities, including addressing economic, social and political constraints in generating opportunities;
- Equalizing access to opportunities generated by growth by addressing the disadvantages of circumstances (e.g. strengthening human capabilities to enable individuals to qualify for productive and decent employment); and
- Providing social protection schemes in order to reach the chronically poor who may still be unable to access such opportunities and participate in growth.

The paper also stresses the importance of measuring inclusive growth and the extent and degree to which inclusiveness is attained. This has received less attention than policy formulation. Measurement should focus on average opportunities and distribution of opportunities; and can be carried out for individual components, e.g., employment, access to education, access to health facilities, etc.

**Mendoza, R. U. and Thelen, N., 2008, 'Innovations to Make Markets More Inclusive for the Poor', Development Policy Review, vol. 26, no. 4, pp. 427-458**

<http://www3.interscience.wiley.com/journal/119880732/abstract>

Markets can promote economic growth and can provide a range of benefits to those able to access and participate successfully in them. The ability to engage with markets, however, varies across groups. This article outlines the barriers that poor people face in accessing and participating in markets as producers and consumers; and remedies provided by private sector actors. As producers, poor people can be excluded from access to labour and various product markets due to:

- lack of access to credit;
- limited investment in their human capital (including skills and entrepreneurship training); and
- geographic obstacles, such as their location in rural areas.

As consumers, poor people can also find it challenging to access markets due to:

- similar geographic obstacles; and
- unfamiliarity of many non-poor business actors with the low-income environment and the potential opportunities present in such environments.

The paper stresses that facilitating access of the poor to markets ('market access'), however, does not necessarily result in successful engagement with markets and the attainment of positive development impacts ('inclusive markets'). While the poor could in some situations

gain access to markets, they may be vulnerable to the effects of market failures. For example, imperfect information could render them vulnerable to price manipulation. Thus, it is essential that attention be paid to both access and the quality of participation.

Various private sector actors have emerged to address these shortfalls. The paper identifies two key trends (see p. 453):

- For-profit business actors (notably those providing access to information and communication technologies (ICTs) and financial services) are drawing on opportunities to serve more of the low-income population, and in some cases serving the poor by providing goods and services that enhance human development. A growing number of these actors are Southern companies (e.g. Globe Telecom and Smart Communications in the Philippines and ICICI Bank and ITC in India).
- Not-for-profit actors and NGOs (notably microfinance institutions) are also drawing on a variety of product and process innovations that serve low-income markets in a low-cost and financially viable way.

### 3. Financial Services

**Beck, T., Demirgüç-Kunt, A. and Honohan, P., 2009, 'Access to Financial Services: Measurement, Impact, and Policies' The World Bank Research Observer, vol. 24, no. 1, pp. 119-145 [www.wbro.oxfordjournals.org/cgi/reprint/lkn008v1.pdf](http://www.wbro.oxfordjournals.org/cgi/reprint/lkn008v1.pdf)**

Evidence suggests that financial development is both pro-growth and pro-poor: it tends to increase disproportionately the income growth of those falling in the lowest income quintile. This paper discusses the importance of financial services in promoting inclusive growth; the various barriers to financial services faced by small firms and poor households in development countries; and initiatives that have sought to address these barriers. Some of the key constraints to access for small firms and poor households in many developing countries are:

- Physical and social distance: mainstream financial institutions are more likely to locate their retail outlets in more prosperous neighbourhoods. In addition, the poor may not have anybody in their social network who understands the various services available to them.
- Inadequate documentation: lack of education may make it difficult for the poor to fill out loan applications. Further, they may lack the accompanying documents necessary to open a bank account (e.g. passport, driver's license, pay slips, proof of residence);
- Insufficient resources and transactions: insufficient collateral hinders the ability of the poor to access credit services; and minimum account size requirements or high fees hinder their ability to open and/or maintain accounts. In addition, given that such clients are unlikely to engage in many transactions, and to engage in only small transactions, loan officers may consider it costly and not worthwhile to help them.

There are various innovative services that have recently emerged, largely provided by new specialised microfinance institutions serving the poor, which seek to address problems with access. These include:

- Loans and savings officers going to the poor instead of waiting for the poor to approach them. This includes collecting deposits directly from customers in order to promote savings;
- Group lending schemes, which can improve repayment incentives and build support networks, alongside tailored individual schemes;
- Increasing loan sizes as customers continue to borrow and repay in order to reduce default rates.

The impact of these initiatives is still unclear; and it is thus uncertain whether finance for the very poor should be subsidized, and if so whether microfinance is the best way to provide

such subsidies. In order to measure and ascertain impact, it is necessary to compare costs and benefits of subsidies in the financial sector with those in other areas, such as education and infrastructure.

The paper also stresses the importance of broadening access to financial services beyond the poor to the vast percentage of non-poor households and micro and small enterprises that are also excluded from all but the most basic financial services. Providing access to non-poor entrepreneurs is likely not only to benefit growth, but also to have a positive indirect effect on the poor. In addition, defining the problem of financial services more broadly is likely to mobilise the efforts of more powerful political constituencies, increasing the possibility of success. In developing countries, the key aspects of broadening access include information infrastructures, the encouragement of openness and competition, the provision of incentives to the private sector, and effective regulations.

**Chakrabarty, K. C., 2009, 'Banking: Key Driver for Inclusive Growth', Address delivered by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at Clarity Through Debate' series organised by the Mint on August 10th, 2009 at Chennai, RBI Monthly Bulletin, September 2009, pp. 1479-1486**

<http://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/4BDIGKCC0909.pdf>

Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remain excluded from health and education facilities. In order for growth to be inclusive, there needs to be not only the creation of economic opportunities, but also equal access to them. Inclusive growth can thus also contribute to poverty reduction by creating productive economic opportunities for poor and vulnerable groups. This address given by the Deputy Governor of the Reserve Bank of India discusses the important contribution of financial inclusion as a driver of inclusive growth. The definition of financial inclusion relied upon is the: 'process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost' (p. 1482). The speaker notes that there is evidence which indicates that countries with a high degree of financial exclusion also show higher poverty ratios and higher inequality.

The speaker outlines supply side and demand side factors driving inclusive growth. On the supply side, poor individuals and small and micro enterprises often have difficulties in accessing formal sources of credit. They thus have to rely on personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities. Banks are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. On the demand side, lower income and /or asset holdings also impact significantly on financial inclusion. Agriculture plays a central role here as the majority of India's population derives employment from this sector. Agriculture thus is important not only for high growth but also inclusive growth.

The speaker outlines more specifically the constraints in achieving financial inclusion, and thus in achieving inclusive growth. These include: 'lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customised and of low quality' (p. 1482). In particular, banks face high operating costs in extending financial services to remote areas and in developing relevant methods of communication to illiterate people or those who can work only with regional languages. There needs to be greater support for banks to expand credit delivery, including the development of collaborative and inclusive banking technologies that can reduce transaction costs and extend the reach of banking services.

**Natu, A. J. et al, 2008, 'Linking Financial Inclusion with Social Security Schemes', Working Paper Series, no. 22, 'Institute for Financial Management and Research, Centre for Micro Finance**

<http://www.microfinancegateway.org/gm/document-1.9.26145/09.pdf>

This paper advocates for combining financial inclusion with social security schemes in order to promote not just access of the poor to financial services but also their usage. The assumption is that the promotion of access to financial services, such as bank accounts, will not be effective in the absence of reliable income streams to the poor. Such income streams are often - as in the case of India - provided through targeted social security schemes. A combined programme could encourage the poor to save surplus cash from social security schemes in no-frills bank accounts.

#### **4. Trade**

**Higgins, K. and Prowse, S., 2010, 'Trade, Growth and Poverty: Making Aid for Trade Work for Inclusive Growth and Poverty Reduction', Working Paper, no. 313, Overseas Development Institute, London** <http://www.odi.org.uk/resources/download/4714.pdf>

This paper discusses 'Aid for Trade' (support for trade integration and adjustment), which stems from the recognition that while market access is important, it is ineffective unless accompanied with supply capacity to respond and relevant in-country policies and investment. In particular, it looks at how Aid for Trade can maximise the inclusive growth and poverty reduction impacts of trade in developing countries. Although there is evidence which indicates that greater trade openness promotes growth, there is uncertainty about how trade liberalisation, reform and expansion, growth and poverty interact. Further, while trade liberalisation promotes growth, this growth is not inclusive. This can limit the poverty reduction impact of trade and entrench existing inequalities. The distribution of constraints and opportunities often varies across different social, cultural and economic groups. In the case of women for example, export expansion in many countries has resulted in a higher number of jobs for women, which in turn can increase autonomy and negotiating power for women in households. The downside is that women are then generally more vulnerable to the negative effects of trade liberalisation, such as lower wages (in order to achieve a comparative advantage in cost) and poor working conditions.

The paper provides recommendations to promote inclusive growth in support for trade policy and regulations; trade-related infrastructure; and trade-related adjustment. These include:

- Incorporating human development impact assessments (as was done in Cambodia) in order to understand how trade policy changes will create 'winners' and losers' and ways in which to enhance opportunities and minimise constraints across different segments of society. Support should be given for collecting disaggregated data and for adopting an inclusive approach that involves the participation of diverse groups.
- Incorporating participatory monitoring mechanisms (as in the case of India) in order to ensure that trade policies are reflecting the priorities of vulnerable and poor people (e.g. women, smallholders, informal traders, micro-entrepreneurs).
- Directly targeting trade-related infrastructure (e.g. transport, energy and telecommunications) to vulnerable and poorer groups. Rural women in many countries, for example, spend significantly more time and income on transport, which reduces their ability to invest in higher value-added activities. While vulnerable groups may benefit indirectly from increased national revenues from trade expansion, efforts should be made to extend trade-related infrastructure directly to such groups so that they can engage more effectively with domestic and global markets.
- Facilitating adaptation of poor households and 'losers' from trade changes in order to ensure a fairer distribution of the gains from trade. Interventions can take place at the national, sectoral and household level; and can entail short-term transfer policies or structural reform policies to support changes in the structure of the economy and tax system to mitigate the longer-term impacts of trade changes.

## 5. Assessment and Monitoring

Ianchovichina, E. and Lundstrom, S., 2009, 'Inclusive Growth Analytics: Framework and Application', Economic Policy and Debt Department, The World Bank, Washington, D.C. [http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/03/03/000158349\\_20090303083943/Rendered/PDF/WPS4851.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/03/03/000158349_20090303083943/Rendered/PDF/WPS4851.pdf)

This paper discusses the concept of inclusive growth and inclusive growth analytics; and applies the analysis to the case of Zambia. It stresses that in order for growth to be sustainable, it should be broad-based across sectors and inclusive of the vast majority of the country's labour force. This inclusive growth approach adopts a long term perspective and focuses on the generation of productive employment as a means of increasing incomes of excluded groups, rather than on direct income redistribution (although such schemes may be necessary in the short term). Inclusive growth analytics focuses on ex-ante analysis of sources of, and constraints to sustained high growth for all groups in society; and on policies that should be implemented in the short run.

The paper applies inclusive growth analytics to the case of Zambia and presents the following findings:

- Poor education and health are a constraint to productive employment. Although worker skills are not seen as a big obstacle to private sector growth, the need for education beyond the primary level is a major constraint to successful self-employment and formal employment of the poor. The high prevalence of HIV/AIDS undermines the stock of available labour and its productivity. In addition it limits incentives for investment. Improving the quality and access to secondary and tertiary education and continuing the fight against HIV/AIDS are essential if the poor are to benefit from future growth of the non-farm economy.
- Access to capital/credit may be a constraint for some groups of poor, but is not necessarily an obstacle to inclusive growth. Although the high cost of capital is seen as a constraint to business operations, investment activity in Zambia is on par with regional averages. Lack of capital/credit to extend or start a business was seen by some as the main reason for poverty. This poor access is attributed to weak financial intermediation due to the small size of the banking sector and inadequate financial infrastructure.
- Within social returns, infrastructure and services are constraints on inclusive growth. The country's land-locked status results in high domestic transport costs, which act as a constraint on growth.
- Government failures are a constraint upon inclusive growth. Macroeconomic instability, a tax system subject to frequent changes, and other regulatory uncertainty are seen as business constraints. Weak governance is also reflected in distortionary policies, especially within agriculture. Problems with governance also indicate that it would be challenging to effectively address constraints to inclusive growth.
- Market failures are also a constraint upon inclusive growth. There is little incentive for individual entrepreneurs to invest in infrastructure, marketing and other services necessary to market their particular products. These infrastructure and services are especially lacking in rural areas. Such investments require coordination and the intervention of government. Poor government effectiveness in Zambia is a factor behind the market coordination failures and is thus a key obstacle to inclusive growth.

Ali, I. and Hwa Son, H., 2007, 'Measuring Inclusive Growth', *Asian Development Review*, vol. 24, no. 1, pp.11-31  
<http://www.adb.org/documents/periodicals/adr/pdf/ADR-Vol24-1-Ali-Hwa-Son.pdf>

This study proposes an approach to measuring inclusive growth, which it applies to the case of the Philippines. It defines inclusive growth as 'growth that not only creates new economic opportunities, but also one that ensures equal access to the opportunities created for all segments of society, particularly for the poor' (p. 12). The approach relies on a 'social

opportunity' function, similar to the idea of a social welfare function. Growth is considered inclusive if it increases the social opportunity function, which depends on two factors: (i) average opportunities available to the population and (ii) how opportunities are distributed across different socioeconomic and income groups. The study also stresses the importance of measuring changes in opportunities across time.

## 6. Additional resources: Growth Reports and Case Studies

### Growth Reports

**Commission on Growth and Development, 2008, 'Strategies For Sustained Growth And Inclusive Development', The International Bank for Reconstruction and Development / The World Bank, Washington, D.C.**

[http://www.growthcommission.org/index.php?Itemid=169&id=96&option=com\\_content&task=view](http://www.growthcommission.org/index.php?Itemid=169&id=96&option=com_content&task=view)

**Commission on Growth and Development, 2010, 'Post-Crisis Growth in Developing Countries: A Special Report of the Commission on Growth and Development on the Implications of the 2008 Financial Crisis', The International Bank for Reconstruction and Development / TheWorld Bank, Washington, D.C.**

<http://www.growthcommission.org/storage/cgdev/documents/specialreport/specialreportfullversion.pdf>

### Case Studies

**Hatlebakk M., 2008, 'Inclusive Growth in Nepal', Chr. Michelsen Institute, Bergen**

[http://www.norway.org.np/NR/rdonlyres/DDB2DEB80914438EBF70A5B43813260B/96009/http\\_wwwcmi.pdf](http://www.norway.org.np/NR/rdonlyres/DDB2DEB80914438EBF70A5B43813260B/96009/http_wwwcmi.pdf)

**Zhuang, J., 2008, 'Inclusive Growth toward a Harmonious Society in the People's Republic of China: Policy Implications', Asian Development Review, vol. 25, nos. 1 and 2, pp. 22-33** <http://www.adb.org/Documents/Periodicals/ADR/ADR-Vol25-1-2-Zhuang.pdf>

**Ianchovichina, E. and Lundstrom, S., 2008, 'What Are the Constraints to Inclusive Growth in Zambia?' The World Bank, Washington, D.C.**

[http://siteresources.worldbank.org/INTPGI/Resources/Zambia\\_SharedGrowthAnalytics.pdf](http://siteresources.worldbank.org/INTPGI/Resources/Zambia_SharedGrowthAnalytics.pdf)

**Kumar, P. et al. 2008, 'Accelerating and Sustaining Inclusive Growth', Report No. 42844-KE, The World Bank, Washington, D.C.**

[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/08/13/000333037\\_20080813012252/Rendered/PDF/428440ESW0gray10Box327426B01PUBLIC1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/08/13/000333037_20080813012252/Rendered/PDF/428440ESW0gray10Box327426B01PUBLIC1.pdf)

**Abhishek, P., 2009, 'Inclusive Growth in India: Major Dimensions', Economic Affairs, vol. 54, nos. 3 and 4**

<http://www.indianjournals.com/ijor.aspx?target=ijor:eaj&volume=54&issue=3and4&article=007>

## 7. Additional Information

This query response was prepared by Huma Haider: [huma@gsdrc.org](mailto:huma@gsdrc.org)

### **Selected websites visited**

Asian Development Bank, Centre for Global Development, Commission on Growth and Development, Eldis, FriEnt, Google, Google Scholar, GSDRC, Ingenta journals, Institute of Development Studies, International Development Research Centre, International Poverty Centre on Inclusive Growth, OECD, Overseas Development Institute, Sida, SOAS, Strategies

**About Helpdesk research reports:** Helpdesk reports are usually based on 2 days of desk-based research. They are designed to provide a brief overview of the key issues; and a summary of some of the best literature available. Experts are contacted during the course of the research, and those able to provide input within the short time-frame are acknowledged.

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