

Inclusive Growth Panel

RDMA REGIONAL EVALUATION SUMMIT, SESSION 3

SEPTEMBER 2013



Presenters

Randy Flay, Program Office Director, USAID/Vietnam

William McCleary, Former Professor, Thammasat University, former lead Economist,
World Bank

Saowarai Boonyamanond, Director for Centre for Development Policy Studies,
Chulalongkorn University

<https://ac.usaid.gov/p5555253>

Inclusive Growth Panel

Randy Flay, Program Office Director, USAID/Vietnam

William McCleary, Former Professor, Thammasat University, former lead Economist, World Bank

Saowarai Boonyamanond, Director for Centre for Development Policy Studies,

Chulalongkorn University

Randy Flay: I have the easy part of going first. Good morning, my name is Randy Flay, I'm from the USAID mission in Vietnam. I really want to thank the presenters for, if nothing else, containing some of the complexity that a lot of us face in our daily work, and helping us to understand that better. I just had three sort of brief observations that I'm taking away in terms of how I look at it.

I think the first is really just a focus and a value of measurement and really making a good case for taking the time to do measurement in our work. We spend a lot of time designing interventions and working with the government on interventions and I think you both share on some national level the value of understanding the phenomena that are driving inequality, which is really important.

Poverty is very unique, the situations are unique and our interventions, I think, must be tailored to those populations especially when we talk about policy change, the drivers of their education or health care, or access to opportunity are quite -- can be quite different, and you don't want to be spending your time on one thing if it's really something else.

At the same time I think the focus on the sub-national is quite unique because I think in a lot of our cases we might miss things if we're looking, trying to compare countries; I think there's really a lot, you know, in the

case of Vietnam -- you described a lot of the complexity that we deal with at the subnational level that is really very specific to that country context. I think we have to make sure we've got that data and not only maybe national data, which is generally more available but when we design interventions.

I think the second key point, I think, is the definition of inclusion. I've noticed a lot of people are using inclusion and the talk here was about inclusive growth, but it's being used in terms of inclusive development and other areas of inclusion. I think it's really great that we spend some time defining it; the Asian Development Bank has an annual sort of paper that talks about indicators for inclusive growth, which I think not only talks about the sort of basics, access to opportunity and social inclusion and social safety nets. It also looks I think at what are more the drivers of inequality, things like governance. I think there can be a trap of fitting into -- you know, measuring the symptom, if you will, with inequality. And there's a lot of correlations I think with education and other phenomena but I think a lot of times the driver might be governance I think it's great that at least the ADB model actually looks at governance indicators as well when we talk about inequality because I think the regulatory institutions that affect the environment, whether that's looking at corruption or voice and accountability, I think those are very useful things to measure when we talk about inequality. They could be in many cases -- be the driver of the phenomenon that we're trying to change and without that information we might spend our time working on interventions that really aren't going to change the solution. So I think that's a useful -- I'll make a plug for that paper, the Framework for Inclusive Growth indicators I think is a useful piece. But there is that question of how broad, or being inclusive development I think has talked a lot about engaging people with disabilities in some cases, or

looking at women and gender, I think how we tie those phenomenon into inclusive growth is very keen and critical. And I also think governance is key for sustainability.

The last point I just wanted to make was I think it's useful for us to look at the excluded groups if we consider that we're trying to focus on the excluded groups. I think the more we can describe them as a resource and not maybe as kind of a problem I think it's a useful strategy in our development work for those of us who do that. It's really often I think an untapped labor market; it's something that the private sector should see as a resource. A couple examples from Vietnam: looking at inclusion of disabled people, for example, has encouraged the private sector actually to set up a blue ribbon commission to help basically recognize the private sector for including disabled groups which are often the most -- one of the most poor groups in Vietnam. In the private sector, providing opportunities, jobs, and it's been a non-regulatory intervention. I think it's difficult sometimes; we just focus on the regulatory side.

We should also look at other opportunities. Some other business like Intel have also looked at their -- the job market in Vietnam, recognizing that they need a certain cadre of professionals to work in their business in Vietnam and they've actually set the time to invest in higher education and vocational training to develop that resource in Vietnam. And there again I think there's some partnerships between government or things donors can do to really help the private sector see these populations that aren't growing as fast and face inequality as a key resource. I think those are a bunch of points so I'll stop there.

Bill McCleary:

Hi, I'm Bill McCleary. I'm at Thammasat University, I was in the economics faculty there for 16 years, before which I was at the World Bank as a lead economist for 23 years. And before that I was at Thammasat University as an economic in the faculty of economics. What you may conclude from all of this is that I am very, very old.

One thing that's been left out of the announcement and things like that is that I am at the Australia Studies Center and I think they may have left it out because it's rather strange: how do you explain an American living in Thailand, working at Thailand's Australia Studies Center? And so that's -- but there I am. And I suppose my explanation is that the Australia Studies Center actually includes several other centers and so I do a lot of other work as well.

I want to make my remarks in terms of comments on the two papers, both of which I liked a lot. My criteria for liking a paper on this is I learn something from it: do I know something now that I didn't know before? I think that's true in both of the cases that I've learned something. So let me focus my comments on things that I would like to have seen or things that I may disagree with a bit.

Turning to Dr. Son's paper, I would like to see a little bit more emphasis on agricultural growth. It's been proven quite clearly that poverty reduction, inequality reduction comes very, very clearly from agricultural growth; it's very, very strongly related. And for this you can take an example of China.

When China first opened up 30 or 40 years ago it opened up the agricultural sector. It changed prices, it allowed farmers to produce more on their own and stuff like that. China's initial growth was very inclusive in the sense that it reduced poverty, it reduced disparities in income.

It was when China switched to a more industrialized urban policy that China's growth has become more inequality producing. So I would have like to have seen some emphasis because I think in Asia it's very true that agriculture is a key driver of poverty reduction and inequality reduction. That's one point.

Second point is that you point out in your paper that the cost of moving everybody to the poverty line, poverty gap so to speak and so forth is now very small. It started out in the Nineties at 3 percent of GDP and now it's under 1 percent. That's telling us something. It's telling us something very important, that for 1 percent of our total national output you could move everybody out of poverty -- just give them a cash transfer. Now I'm not recommending giving cash transfers to do that, but it's a very doable exercise. When the poverty gap is at 10 percent of GDP or 20 percent of GDP you realize that reducing poverty is hard; that's going to take a major part of resources and a major part of the government budget. But 1 percent of GDP or something under 1 percent of GDP is a doable exercise for all these countries. It can be done. So I think that's very important to realize that we are in a position now where we can think about ending poverty; it's within our resource capability so to speak.

Third point is that I very much like the emphasis on China and -- or analysis of performance with and without China; I think that's very, very important. And without China growth seems to be rather neutral, that is it is not necessarily -- it's making everybody kind of in a way richer but there's not inequality producing and so forth. So I think that's a very important result, that it's China that's driving Asia's inequality performance and so forth.

But I want to emphasize one very, very important thing: watch out for questions of kind of average performance and average inequality and this kind of problem because

the statement is essentially that growth is neutral; it is not making inequality worse; it's not making equality better. It's neutral. But when you think about that you think, "This is consisting across another 24 countries," and the average of neutrality is produced by some countries becoming more unequal and other countries becoming more equal. And those two things tend to balance out.

So inequality is still being produced in some of these countries. Think of Vietnam, a little bit; think of Thailand, inequality is rising in Thailand and probably some other countries. And then there are probably some other Asian countries that are offsetting. So watch out for statements that growth is neutral with respect to income distribution. Yes, that's true on average over a whole bunch of countries but it is not neutral when you look at individual countries. Some countries are becoming more equal; some countries are becoming more unequal. And so I think the focus on inequality and inclusiveness is very, very important, that is, for the countries where inequality is rising you really want to focus on this subject. For countries where equality is rising you want to ask what are they doing? What is happening that's right? What are they emphasizing that brings this about?

So this question of growth neutrality overall is kind of in a way nice. It's nice to know that on average Asia is not becoming more unequal, but watch out for it.

There're some very important differences in -- when you bring out China and you see that performances in Asia are quite a bit different from China. I would have liked to have seen greater disaggregation, across countries, generally, but I would have also liked to have seen something on social indicators because I think there there's some very important differences within Asia, for example, between East Asia and South Asia on human

resources, on progress toward the Millennium Development goals you'll find out that some countries are doing very well and some countries in South Asia are doing very badly.

So when you think of things like maternal health, you think of things like malnutrition, you think of things like child mortality the differences here are huge. And this allows me to kind of get to my one important point that I really wanted to emphasize here, and it's what I've told my students at Tamosa: after 40 years of working in development economics there's some lessons that I learned. And one very, very important lesson is invest in health, and invest in women. These are two sectors where the underinvestment is huge across the world, and the differences in investment in these two sectors between countries is huge.

Why would I say this? I'm saying invest in health and invest in women because I think it's a moral responsibility. Yes, we should do this; we should make sure everybody has access to important assets. But I also think that this will be very important for economic growth. I think the payoff here is huge, that is that because there's been so much underinvestment in women and in children and things like that the returns here are higher than a lot of other things, things in the private sector or other investments the public sector can make. And so I think that's a very important lesson.

Moderator: Could I ask you to pass on the mic and then we can come back?

Saowarai Boonyamanond: I thought I would just start by sort of lauding the people that organized this summit and their kind of good sense in identifying this issue of inclusive growth to start off on because I think it's not only

important to issues relating to evaluation but much more fundamentally to extremely important, central to the sort of development challenges that the Asia region is facing. I mean probably most of you know that in the Sixties and Seventies and up until the mid-Eighties this notion of kind of growth with equity was applied to Asia. I mean people were sort of surprised; it's almost like an outlier.

If you look back at classical economics there was a feeling that growth almost naturally had to proceed with rising inequality. I think with the notion that if you start the lowest level, at subsistence, everybody has to have a minimum same level of subsistence. So if you start to grow some people start to move away above subsistence so you get rising inequality.

Really there was I think a great deal of interest and surprised when Asia as a region several decades ago was able to consistently grow and not experience rising inequality. That was a very notable fact. Of course that's now changed and I also just want to laud ADB has done just some excellent analytical work and overview. Just recently I saw some themes from that in your talk. But just pointing out that in the last 10, 15, 20 years if you look at the developing countries in Asia I think it's over 80 percent of the people in developing Asia are living in countries where inequality has actually risen. So we see sort of a distinct change.

I think the both interesting and challenging aspect of that is when you look at -- and again, I'm really sort of just paraphrasing from ADB here -- when you look at what's driving rising inequality the perplexing thing about it are the challenges that it's basically the same factors that are driving growth in Asia. It's globalization, it's

technological change and it's economic reform towards a more market-based economy.

All of those reforms, what do they do? They favor skilled labor versus unskilled labor, they favor capital versus labor income, and they favor -- kind of they favor people who are living in urban areas or at the coast versus in rural areas and so on.

So the real challenge -- and maybe I should say it's not unique to Asia; I think in most parts of the world, maybe with the exception of Latin America, they're sort of facing the same challenge: you have the same global patterns going on. A year ago Americans were kind of immersed in following the presidential race with discussion of the 1 percent and so on. I mean it's been widely acknowledged that the fruits of growth in many countries are not being widely shared. If you're very highly skilled it's also partly a reflection of the service sector growing. Service sector, you move from agricultural to manufacturing to services, but services have a very unequal distribution of income. You can flip hamburgers, or you can flip houses, or flip derivatives, or whatever. So there's a very skewed distribution of income within services. So when that sector grows of course the overall distribution grows.

So I can just close by saying that it's a tremendous challenge that Asia needs to figure out how to sort of not throw the baby out with the bathwater in the sense that it has to kind of stay true to the trends and the pattern that has led to its growth. But somehow at the same time adjust or strengthen its safety nets where it doesn't really have a traditional strong safety net in such a way that you can sort of offset some of these trends that are pushing towards greater equality and sort of compensate and try to move back towards pattern of growth where the fruits are more widely shared, rather

than less widely shared that we're seeing now. Thank you.

Moderator: We have some time to open it up to everybody. So I'm curious to a couple of things. One is if people have comments about what did you see this morning in terms of the trends that were either surprising to you, that you didn't know that you felt that you would also like to make a comment or of course general reactions to our three speakers now, they pose some interesting observations about the presentations and both their own 40 years of experience, etc. Do people have some comments about what did you see that you didn't know that you felt was interesting, things that you wish you could have seen?

Dennis Bowles: Yes, thank you for both the two presentations and the panel here. I took some notes and one of the things I just noticed -- oh, I'm Dennis Bowles of Seachange Community of Practice based in Cambodia, folks from the region. It's an M&E community of practice. What I noticed is that economic poverty figures are different from real poverty -- that's one thing. If you live off 70 baht a day here in Bangkok you just don't get yourself to work and feed yourself properly, and you are above the poverty figures. So in that sense economically you are doing pretty well. But if you get 70 baht on here in the center of Bangkok it's just very hard to make a living and to stay alive. So in that sense there's a difference between what we say is economically above being poor and actually living in poverty because it's just not possible to have a life for that amount of money.

The second point is that I noticed that those countries that have huge poverty often have a very big informal economy that's not taken into account in any of these higher level aggregated figures. It's very hard because there's no incentive for these people to get out of this informal economy. If I travel very early through Phnom

Penh then I see the street sellers being dropped off and the beggars being dropped off at all the corners, and they actually make quite an amount of money; it's more than people make that are on \$2 a day.

These are all not captured. And my question is how do we get the informal economy, how do we have incentives to make it formal, and how could we get economic poverty data a little bit more honest?

Moderator: Response from either of the two speakers this morning? For the question? Anybody else have some comments you'd like to make, things that you were surprised about, anything that you learned that you didn't know coming in?

Female Speaker: Hi, I'm from USAID Bangladesh. Thank you to both the speakers and the panelists. I wanted to tie in a pilot survey that we have done in Bangladesh and a lot of you have may have heard about it, it's the Women's Empowerment Ag Index. I want to reiterate what Bill has just mentioned in terms of connecting agriculture with poverty.

Through that index, through that result, we've seen that when you include women in agriculture, when you increase their participation that leads to higher decision-making within the families of the women, and that also leads to better health and better education of the children. So that's a really interesting and a very strong linkage of including ag with poverty and also women and health.

Moderator: Thank you. Anybody else?

Male Speaker: My name's _____ from the Philippines. I just wanted to ask our panelists here, I was touched by one statement from a poor family in the Philippines where I was, and asked them, "You know you are poor?" "Yes, we are poor but we are happy and we are contented with our

life." So do we have the right to pull them up from, the place they said where they are happy and they're contented? We see, us people here in town, we look at them as poor ones, they are deprived of you know. For us -- they don't have a good food, but for them, the food that they have is already enough. And if you look at them they seem to be immune to -- they don't have the illness, the sickness, and you can see this in many of the rural areas.

Female Speaker 2: Hello, I'm _____. I'm M&E Specialist from _____ Project in Vietnam. And I liked your comment about investing in women and health. I also liked your idea about women agriculture index. I've heard about that and I read about that.

My question is we talk about women's empowerment, women inequality, decision-making, but you only focus on women agriculture base. So that is only for the segment of women working in rural areas. Do we have any other index for women, not in agriculture but in other like urban things? Should we work together to develop that? Thank you.

Moderator: Well the good news is that the next section after the break we're going to be focusing specifically on that.

Female Speaker 3: I am Dr. _____ deputy for research from _____ University, Thailand. So I agree with the presenters this morning about inequality and opportunities in relation to inclusive growth. But one thing that I would like to add is that to overcome poverty, not only consideration only for economic growth opportunity and capacity building for the health impact of people it's really important to be considered. We have a _____ of public health policy from the Ministry of Public Health. We now recognize that the happiness of people - satisfaction and also the health service of people will enhance the ability and productivity

of people to achieve the vision of the country in terms of economics. And so the process of _____ economy is also important to make the people happy.

So I would like to ask people _____ and competency will be the most important factor to overcome the poverty, not only the economic growth or GDP. Thank you.

Moderator: Thank you. Any last comments, question you'd like to pose to the group?

Carrie Thompson: Thanks. Good morning everybody I'm Carrie Thompson, I'm the Deputy Mission Director here at RDMA. And this is a question I guess for Dr. McCleary, relating both to your cautioning to us to be where an average is. And also my colleague, Bob Burkeness, this question about advice on how ASEAN and other regional fora might address issues like this. What can a regional development mission like RDMA, perhaps working with ASEAN, how do we work regionally, effectively, on the issue of inclusive growth? And certainly each circumstance for each country is quite different. We will have extremes and we will have inequality and equality. So I just don't know if you have any thoughts for us after your four decades of work with the World Bank on how this can be addressed. Thanks.

Dr. McCleary: My feeling on this is that yes, it's all right to talk about things regionally and stuff like that, but I think you're right: every country is different. And so I think the efforts that come here have to come from the country level, they have to be country specific. And even further down I think that you discover that the things we think really ought to work -- take things like microfinance, something like that, it seems to me, people here have an opportunity to have something like microfinance, where you can borrow money at a very low rate of interest

compared to what you're getting from the moneylenders, something like that.

You think, "Gee, women and poor people should be really very excited to get microfinance". And yet it turns out the world experience is that they don't. And why is that? And so my point here is not so much on microfinance, it is that poor people do not react the way we think they should react. The question is why, and sometimes they do, sometimes they don't. Very often they're very specific reasons why that's true. For that you really need a country approach and you need -- more than a country approach, you need a very decentralized country approach.

Randy Flay: I do think -- of course regional organizations do a lot of things but first and foremost they do work on regional integration which does play out at the national level but nevertheless I think you can argue that you will expect economies to grow faster, there are more opportunities, bigger markets. If you have particular skills you can move more easily among countries and so on. So I think one could argue that by promoting regional integration, regional economic integration, as well as other things -- better regional education and so on -- that one could make the link that it's one of the more effective ways to address issues of growth and inequality that largely play out at the national level but do have some regional applications.

Moderator: Okay last comment and then we're going to move right into break.

Hyun H. Son: I wanted just to add to what the panelist is saying. I think it's very important to look at country-specific circumstances. As I said during my presentation AED is working on an evaluation study of inclusive growth. For that we have selected six country case studies to do in-depth analysis. So if we look at country-specific cases,

and in findings, constraints to achieving inclusive roles are vastly different from one country to another. For instance, in Bangladesh I found that inequality is mainly driven by rising inequality in rural areas because of the ___ things like that.

And so by doing country-specific analysis rural studies you get to know what are the causes of poverty or inequality and all that. So regional analysis, I presented it because it shows a snapshot of so many countries in Asia. To me that's the answer to understand our inclusive role. If you want to nail down what are the causes, or what are the constraints to achieving an inclusive role then you need to do country-specific studies to find out [ends abruptly] --

[End of Audio]