Empowered lives.
Resilient nations.

UNDP'S STRATEGY FOR

INCLUSIVE AND SUSTAINABLE GROWTH

The United Nations Development Programme (UNDP) partners with people at all levels of society to help build nations that can withstand crisis, and drive and sustain the kind of growth that improves the quality of life for everyone. On the ground in nearly 170 countries and territories, UNDP offers global perspective and local insight to help empower lives and build resilient nations. UNDP helps countries to develop policies, partnerships, and institutional capabilities in order to effect lasting change.

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Acronyms and Abbreviations

CIS	Commonwealth of Independent States
ESR	Ecosystem Service Review
FDI	Foreign direct investment
GDP	Gross domestic product
IFI	International financial institutions
ILO	International Labour Organization
IMF	International Monetary Fund
LDCs	Least-developed countries
MDGs	Millennium Development Goals
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
PESE	Brazilian Business and Ecosystem Services Partnership
SDGs	Sustainable Development Goals
SHD	Sustainable human development
SPIAC-B	Social Protection Interagency Co-operation Board
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNDS	United Nations Development System
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research

Executive Summary

"We are resolved to free the human race from the tyranny of poverty and want to heal and secure our planet. We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path. As we embark on this collective journey, we pledge that no one will be left behind."
(Preamble: The 2030 Agenda for Sustainable Development, 2016)

In 2015, the world embarked on an ambitious and collective journey. For the first time in history, an expanded vision of development – sustainable development – took hold of citizenry and political leaders alike. It is a vision of unprecedented scope, significance and balance with respect to the three dimensions of sustainable development: economic, social and environmental.

Transforming this vision into reality is the challenge that we now face. Balancing the triple objectives of sustainable development is a complex task. It will require political will and capacity, resources and partnerships, policies and strategies, if the Sustainable Development Goals (SDGs) that the world has set for itself, are to be achieved. In many countries, it will require fundamental changes in the pattern of economic growth itself because such growth has not had desirable environmental or social outcomes. Billions of citizens continue to live in poverty and are denied a life of dignity. Over 2.1 billion people in the developing world lived on less than US$3.10 a day in 2012 (World Bank, 2015). Rising inequalities and enormous disparities in wealth, power and opportunities impede the full realization of human potential. Natural resource depletion and adverse impacts of environmental degradation, including desertification, drought, land degradation, freshwater scarcity and loss of biodiversity add to and exacerbate the list of challenges that humanity faces.

For these reasons, Goal 8 of the 2030 Agenda for Sustainable Development seeks to promote sustained, inclusive and sustainable growth, full and productive employment, and decent work for all. Underpinning the achievement of the SDGs are the means of implementation: the how of development. At the country level, these will include identifying and implementing specific policies and programmes in order to transition to more sustained, inclusive and sustainable growth pathways so that economic growth does not take place at the expense of the poor and vulnerable groups within societies, or at the expense of environmental degradation.

This UNDP strategy on inclusive and sustainable growth presents the organization's offer of services to support programme countries as they formulate and implement national plans for achieving inclusive and sustainable growth and full and productive employment. Based on evidence from empirical investigations by notable authors such as Anand and Kanbur (1993), Deininger and Squire (1996), Ravallion and Chen (1997), Easterly (1999), Alessina and Rodrik (1994), Perotti (1996), Barro (2000), Lopez (2004) and Akanbi (2016), three broad priorities have been identified as critical for enabling countries to achieve this goal:

- Integrated planning for inclusive and sustainable growth
- Supporting employment creation, decent work and redistributive programmes to address poverty, inequality and exclusion
- Mobilizing and scaling up financing for enabling transition to inclusive and sustainable growth

In each of these three areas and based on UNDP's own mandate and areas of comparative advantage, specific policy and programmatic options have been identified to assist countries.

Taking into account different national realities, capacities and levels of development and respecting national policy and priorities mean that there is no one-size-fits-all solution. Each country faces specific challenges in its pursuit of sustainable development. Yet all nations seek to build strong economic foundations. By committing ourselves to achieving inclusive and sustainable growth, we express also a commitment to world of shared prosperity, to changing unsustainable patterns of production and consumption and to ensuring the sustainable management of our planet's natural resources.

I. The Development Challenge

1. CONTEXT

Over the last two decades, the world has witnessed impressive average gains in multiple dimensions of material prosperity. Gross domestic product (GDP) per capita in low- and middle-income countries has more than doubled in real terms since 1990, life expectancy has risen from 63.2 years to 68.6 years in developing countries and gender parity has been attained in primary education. Still, even as the world is globally richer than ever before, more than 896 million people lived in extreme poverty in 2012 and over 2.1 billion people in the developing world continue to live in extremely precarious, vulnerable conditions.[1]

Moreover, over the last two decades, income inequality has been rising on average within and across countries. In a sample of 118 countries, household income inequality (as measured by the Gini index) rose by 9 percent for the group of high-income countries and by 11 percent for low- and middle-income countries. As a result, a significant majority of people in the world live in societies that are more unequal today than at any other time in history. Remarkably, the sharpest increases in income inequality have occurred in those developing countries that were especially successful at pursuing vigorous economic growth and managed, as a result, to graduate into higher income brackets. Economic progress in these countries did not alleviate disparities, but appears rather to have exacerbated them (UNDP, 2013).

That economic growth is a necessary but insufficient condition for poverty and inequality reduction is axiomatic in development policy circles. Indeed, evidence over time and across countries testifies to a highly variable relation between economic growth, income inequality and poverty. Widening income inequality in different countries is associated with very different growth paths. In some countries, rapid economic growth was accompanied with rising income inequality, whereas, in others, with inequality rose during periods of depression and stagnation (Akanbi, 2016). Recognizing this diversity of country experiences is perhaps the most important lesson to be learnt from the evidence. "It shifts attention away from an unquestioning suspicion of high growth rates as such towards an examination of the particular nature of growth in different countries and the implications of different types of growth for poverty and inequality" (Kanbur, 2011:8).

Put differently, what really matters most for addressing poverty and inequality is the specific pattern of growth. It cannot simply be assumed that any kind of growth will result in favourable human development outcomes.

Nor is any pattern of growth capable of ensuring environmental sustainability. Evidence is incontrovertible that current patterns of growth are not environmentally sustainable, with the poorest, most vulnerable households most often paying and absorbing the costs of such growth – in higher mortality rates and worse health outcomes.

Indeed, environmental degradation has been growing at alarming rates in many developing countries, with significant consequences for those living in poverty. The degradation of agricultural lands, shrinking forests, diminishing supplies of clean water, dwindling fisheries and the threat of growing ecological vulnerability from climate change impact especially poor households and particularly women, who depend directly on a wide range of natural resources and ecosystems for their livelihoods.

Further, estimates indicate that the environmental toll in many developing countries has reached 3 to 10 percent of their GDP. So, if the economy grows less than 3 percent in developing countries, there is no gain, if one takes into account the environment (DESA, 2015).

It is precisely in recognition of the fact that current patterns of economic growth have not been compatible with social and environmental outcomes that the international development community adopted Goal 8 as part of the Sustainable Development Goals (SDGs) – To Promote Sustained, Inclusive, and Sustainable Growth, Full and Productive Employment, and Decent Work for All.

Inclusive Growth

The concept of inclusive growth typically refers to equity with growth or to broadly shared prosperity resulting from economic growth. In development, the concept of inclusive growth has gained widespread currency in recent years, because it has broadened the discourse beyond a concern only with extreme poverty. In some countries such as China and Viet Nam, despite

[1] Extreme poverty is measured by the new metric, that is, people living on less than US$1.90 per day PPP. Using the higher poverty line of US$3.10 a day, 2.1 billion people lived on less than this in 2012 (World Bank, 2015).

PHOTO: DYLAN LOWTHIAN/UNDP

progress on reducing absolute poverty, income inequality has soared – and this has happened even as economic growth rates soared. This is the by-passing of the benefits of growth: the fact that vast numbers of households are not sharing or participating in the growth process or are doing so under conditions of extreme vulnerability and stress, is why the focus of development policy has increasingly shifted to determining how growth can be made more equitable and more inclusive.

Different approaches to inclusive growth differ with respect to how exactly such growth can be measured. Notwithstanding such differences, the chief concern of all of these approaches is with extending disproportionate benefits of growth to a wider share of the population (Birdsall, 2007; McKinley, 2010; Ali and Son, 2007; Rauniyar and Kanbur, 2010). With respect to policy, two issues are especially significant in the discussion on inclusive growth:

1. The interplay between income distribution and growth

2. The interplay between income distribution and extreme poverty

First, by now, it is well established that changes in income distribution are not independent of changes in economic growth and vice versa.[2] Thus, higher growth rates may well exacerbate income inequality. In other words, the pattern of growth could be such that the benefits of growth are not being widely shared across households. The gains from economic growth could accrue disproportionately to households in upper income quintiles.

For policymakers, this is an indication also that specific policy instruments that may be seen to be 'exclusive' to growth – such as trade or financial openness or fiscal policy – have attendant distributional impacts. In other words, it cannot be assumed that 'growth-inducing' policies do not have impacts on income inequality or poverty. An inclusive growth strategy will need to identify policies that will fundamentally alter the distribution bias of growth while maintaining (or raising) long-term growth.

Second, changes in income inequality also have a bearing on (extreme) poverty outcomes. For instance, certain types of decreases in income inequality (such as those that raise middle-level incomes) can reduce poverty by less than other kinds of reductions in income inequality (such as those that raise the incomes of poorest households). In other words, inclusiveness itself can be more or less pro-poor. So, in countries where extreme poverty is a persistent and chronic condition, the focus of policy must be on "growth with as much inclusiveness of the poorest as possible" (Rauniyar and Kanbur, 2010:8).

From a policy perspective then, enabling transitions to more-inclusive growth patterns will require countries to first and foremost assess why current patterns of growth have side-stepped such large segments of their populations and to identify what measures can be taken to alter the distributional bias of such growth. Indeed, more-inclusive growth patterns can expand opportunities and access to economic, social and political resources, strengthening democratic life and social cohesion. And perhaps most important, by ensuring that economic progress alleviates extreme inequalities, it embraces that most fundamental principal of social justice that 'all human beings are born free and equal in dignity and rights'.

[2] Cross-country empirical investigations suggest that growth has neither a positive nor a negative effect on inequality (Anand and Kanbur, 1993; Deininger and Squire, 1996; Ravallion and Chen, 1997; Easterly, 1999). With respect to the impact of inequality on growth, some have suggested that rising income inequality can dampen growth (Alessina and Rodrik, 1994; Perotti, 1996). Other studies have found no link (Barro, 2000; Lopez, 2004). Notable results from a developing country study (Akanbi, 2016) also suggests a growth-inequality disconnect, meaning that growth does not necessarily promote an equal distribution of income in society. However, as income distribution begins to equalize, economic growth rises. Over time, though, more analysts have moved to the view that an initial condition of greater inequality does indeed dampen growth and reduces the impact of growth on extreme poverty reduction.

Explanations for rising income inequality in developing countries have pointed to several factors: technical change and the globalization of trade and finance that may have had positive growth impacts but with adverse consequences for income distribution; domestic policies ranging from macroeconomic policies[3] that have prioritized growth consolidation over human welfare concerns to labour market policies that have weakened the bargaining power of labour; and urbanization that has exacerbated the urban-rural divide and demographics that have increased the dependency ratio.

Indeed, the worsening of income inequality is related in large measure to the decline in the share of labour in total GDP. Since 1993, the share of labour in national income fell on average by 0.3 percent per year (Harrison, 2002). Jobless growth, the growing informality of labour, and stagnant, fluctuating and precarious incomes all reflect these trends.

Moreover, specific groups within the population have been especially affected. Two thirds of working age youth in some developing countries are either unemployed or trapped in low-quality jobs and, in some countries such as Liberia, Malawi and Togo, the figure exceeds 70 percent (ILO, 2013). Ethnic and racial minorities face persistent discrimination in trying to access labour market opportunities and women are occupationally concentrated at the lower end of the employment and income spectrum, regardless of sector.

It is noteworthy that a major feature of globalization has been the enormous increase in women's participation in wage work. While women's integration in the labour force has varied by country, region, race/ethnicity and class, for most women, it has involved either first-time entry into wage labour or transition from intermittent to continuous participation in paid work.

Independent States (CIS) and the Arab States, with the most rapid growth occurring in the least-developed countries (LDCs) where exports as a share of GDP more than doubled between 1995 and 2008. Out of 141 developing countries, 95 depend on primary commodities for at least 50 percent of their export earnings (Brown, 2010). In fact, by 2009, the share of primary commodities in total exports was 81 percent in Africa, the CIS and the Pacific Islands. For LDCs, in 2009, the share of primary commodity exports in total exports had reached 92 percent and the vast majority depended on just one or two primary commodities (UNDP, 2011).

Further, since the late 1990s, private capital flows have become a significant source of investment in developing countries. For instance, in many countries in Africa (including Uganda, Cameroon, the Gambia and the United Republic of Tanzania), foreign private capital stocks reached 30 percent of GDP (Bhinda and Martin, 2009). Moreover, there is a growing trend in some developing countries to rely more on foreign capital relative to domestic capital for investment. This trend appears to be more prevalent in those countries that have attracted growing inflows of foreign investments, such as the CIS countries. But the LDCs, too, mainly in Africa, have been impacted by this trend. For instance, FDI as a share of total investment is over 66 percent in the Congo and 60 percent in the Central African Republic.

As countries have pivoted towards export-based growth and towards an increased dependence on foreign private capital flows, they have increased their exposure to global economic and financial crises. International commodity prices, international trade and financial markets are prone to sharp fluctuations that cause volatility in export revenues, terms of trade and financial flows.[4] Such volatility in the sources of income and investment makes economic growth itself volatile, unstable and unsustainable. Especially vulnerable are the smaller, lower-income countries