Diagnostic Facility for Shared Growth: Inclusive Growth Toolkit

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Inclusive Growth Diagnostic Tools
Overview

• IG course introduces users to a toolkit which helps them go through the steps of IG analysis:
  – Development dynamics
  – Sources of growth
  – Search for binding constraints

• Three major types of tools are for:
  – Macroeconomic analysis
  – Microeconomic analysis
  – Linking Macro and Micro analyses (New)
Inclusive Growth Toolkit
Macro analysis

• Income benchmarking tool
  – Helps identify comparators (benchmarks) to assess a country’s inclusive growth performance

• Growth decomposition tool
  – Helps calculate growth contribution of economic sectors; estimates the effect of factor reallocation between sectors in driving productivity growth

• TFP and / Rate of return to capital
  – Helps produce estimates of rates of return to physical capital to facilitate further analysis, e.g., by linking with financial market or ICA data to identify binding constraints
A country’s productivity has been declining and returns to capital slowing...
Macro Tool at Work (cont.)

Slowdown in returns to capital mainly reflect trends in Agriculture and Industry...

- **Agriculture RORK**: Decreasing trend from 2001 to 2009.
- **Industry RORK**: Increasing trend from 2001 to 2009.
- **Construction RORK**: Steady increase from 2001 to 2009.
- **Trade RORK**: Gradual increase from 2001 to 2009.
Macro Tool at Work (cont.)

Distorted credit flows appear to prevent efficient allocation of financial resources

Agriculture - RORK and Credit Flow to the Sector

Construction - RORK and Credit Flows to the sector

Industry - RORK and Credit Flow to the Sector

Trade - RORK and Credit Flows to the sector
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Micro analysis

• Tools to measure distribution impacts of growth
  – Helps wider use of existing tools for analyzing empirical links between growth, poverty, and inequality

• Human capital as constraints to growth
  – Helps produce estimates of rates of return to education across different subgroups using quantile regressions (e.g., income, occupation, geography)

• Export diversification tool (Hausmann et al’s PRODY)
  – Helps evaluate a country’s export sophistication using “income potential” of a product (based on GDP per capita of all other exporters of same products);

• Modified export diversification tool (UNCTAD’s RFII)
  – Helps evaluate a country’s export sophistication using UNCTAD’s “revealed factor intensity” of a product (based on factor endowments of all other exporters of a same product)
Inclusive Growth Toolkit Examples
Micro Tool at work

EXPY = income measure of export sophistication
RFI = Factor-mix measure of export sophistication
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New Tools

• Making easier to combine Macro and Micro analyses

• ADePT (Automated DEC Poverty Tables)
  – Helps produce rapid diagnostics of incidence and distribution of poverty based on household surveys; creates standardized “publication-ready” tables and charts based on STATA routines

• BuDDy (Business Diagnostics and Dynamics)
  – Helps produce standard indicators of firm productivity and financial-performance based on business surveys; creates standardized tables and charts using Excel

• Boost (Government Spending and Performance Data)
  – Helps map government spending data with key sectoral and regional outcome indicators
BuDDy at Work

Highly bimodal distribution of firms...

Rapid diagnostic of micro data from firm survey

Facilitate international comparison
BuDDy at Work

Large left tail of unproductive firms...

Facilitates distributional analyses and hypothesis building
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Next Steps

• Continue to enhance existing toolkit
  – Increase IG focus
  – Demonstrate how to apply these tools for country specific IG analyses

• Expand toolkit to include:
  – Role of service sector
  – Natural resource based economy
  – Spatial inequality of growth and poverty reduction

• Strengthen dissemination strategy
  – Courses
  – Website
  – BBL seminars
  – Workshops with country offices and governments
  – Advisory service/ cross supports
  – Publications
Thank you