



Supporting Inclusive Growth

Program Prospectus for 2011-2016

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List of Acronyms

CIDA	Canadian International Development Agency
DCED	Donor Committee for Enterprise Development
DFID	UK Department for International Development
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GGP	Globalization, Growth and Poverty
ICT	Information and Communication Technologies
ICT4D	Information and Communication Technologies for Development
ILO	International Labour Organization
IILS	International Institute for Labour Studies
IZA	Institute for the Study of Labour
LAC	Latin America and the Caribbean
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MSMEs	Micro, small and medium-sized enterprises
PEP	Poverty and Economic Policy Network
R2P	Research to policy
SEP	Social and Economic Policy
SMEs	Small and medium-sized enterprises
SSA	Sub-Saharan Africa
SIG	Supporting Inclusive Growth
TTI	Think Tank Initiative
UNDP	United Nations Development Programme
WRC	Women's Rights and Citizenship

1. Executive Summary

Despite economic growth and the reduction of overall levels of global poverty in the past two decades, poverty and persistent inequality remain key challenges faced by developing countries. Empirical evidence suggests that growth has not always led to more and better jobs or to increased income opportunities for the vast majority of the poor, particularly women and youth. Despite economic growth, informal enterprises and informal employment continue to define developing country economies. Clearly, economic growth alone does not guarantee that the poor and the marginalized will participate in and benefit from growth.

The goal of the *Supporting Inclusive Growth* (SIG) program is to support rigorous and policy-oriented research that generates new insights and options for promoting policies that facilitate inclusive growth. The key hypothesis underlying SIG's work is that despite tensions between growth and inclusion, growth can lead to increased economic opportunities for the poor and a reduction in inequality. The program will focus on key national institutions— both formal and informal— that mediate growth and inclusion outcomes. In particular, it would build on IDRC's established work on competition policy, the role of ICTs in improving competitiveness and market access for small and medium-sized enterprises (SMEs), labour markets and social protection, with a more explicit focus on the institutional frameworks that structure economic and social interaction, and thereby shape the prospects for broadly based development.

SIG's work will be organized around two thematic foci— (i) enhancing the framework for enterprise development, entrepreneurship and innovation; and (ii) facilitating growth with decent jobs. Gender will be a cross-cutting theme, with an emphasis on women's economic empowerment. Youth and ICTs will be specific dimensions of interest explored in the SIG portfolio. Exploring synergies with IDRC's Environmental Economics program and other lead players outside the centre, the program will gradually build its portfolio and expertise on issues related to environmental sustainability, and in particular "green growth", over the life of the prospectus cycle.

Using the IDRC "grants plus" model, the program will support applied and policy oriented research through a combination of modalities including networks, competitive grants, and other requests for grants.

Building on IDRC's past achievements, and enhancing the capacity of southern researchers and research organizations to better interrogate the growth-inclusion dynamic and the role of institutions therein, the program is well placed to advance the knowledge base, and offer insights to policy actors in developing countries on the design of social and economic policies that can address the challenge of supporting inclusive growth.

2. Context and Background

a. Development Challenge and Situational Analysis

Globalization and regional integration have facilitated impressive economic growth and reduction of overall levels of global poverty over the past two decades, particularly in the emerging economies. Country level experiences, however, have been mixed, and for many in low income countries, participating in and partaking from the benefits of growth has been an elusive pursuit. A quarter of the world's population— the majority of whom are women— still struggle for daily survival with incomes of less than \$1.25 per day. And in countries where poverty has been substantially reduced— such as Brazil, China and Vietnam— there continue to exist significant regional and ethnic variations and inequities (geographically as well as across income groups). Despite rapid economic growth for example, Brazil remains one of the most unequal countries in the world, where the income of the richest 10% of the population is over 40 times that of the poorest 10%. Similarly, India's GDP growth rate has been exceptionally high, but 42% of the population continues to live in poverty, mostly in rural areas away from the high growth cities. Empirical evidence suggests that economic growth has not always led to more and better jobs for the poor.

The emergence of the knowledge economy in the past two decades and the resulting structural transformation of economies around the world has added a new dimension to the challenge at hand. As new skills and competencies are required to successfully enter and thrive in labour markets, and as economies become increasingly knowledge intensive and technology based, new socio-economic gaps between those that have the right skill sets or have access to the latest knowledge and information and those that do not are emerging. Most developing countries are lagging behind in identifying and nurturing these competencies and skills. The lack of awareness and understanding of the policy reforms required to respond to the demands generated by the global knowledge economy poses a key constraint to the ability of the developing world to adjust to this global transformation.

The pattern in many developing countries of high growth with persistent income inequality and poverty is not sustainable either in economic or political terms. The inequality of opportunity that persists in such situations is "toxic"— both for socio-political cohesion and for long term growth (Commission on Growth and Development 2008). High levels of economic and political inequality tend to lead to economic institutions and social arrangements that are biased in favour of those with more influence, in turn generating economic costs (World Bank 2006). The slow progress towards attaining the various targets set by the Millennium Development Goals (MDGs) has also contributed to the general recognition among national governments, donor agencies and non-governmental organizations alike that the pursuit of "inclusive growth"¹ is a desirable policy objective, and that complementary policies are needed to

¹ Inclusive growth is defined in the SIG context to refer to growth that improves the access of the poor to expanding economic opportunities and reduces inequality.

facilitate sustained and inclusive growth outcomes (OECD 2006). Yet, the dynamic between growth and inclusion is not well understood.

The global economic crisis has highlighted the growing vulnerabilities arising from the increasing inter-connectedness of economies. Despite its origins in Western developed nations, the crisis has significant negative ramifications for developing countries, and is anticipated to stall the pace of poverty reduction. The World Bank estimates that 53 million more people will remain in extreme poverty by 2015 than otherwise would have. Women are expected to be hit the hardest by the crisis given their more precarious forms of employment and multiple roles, although a more contextualized assessment is needed to capture potential differences across countries and sectors. The crisis has also been particularly hard on youth. A recent ILO report indicates that youth unemployment rose sharply in 2008-2009, now comprising 40% of the world's unemployed and reversing the pre-crisis trend of declining youth unemployment in developed and developing countries alike (ILO 2010).

The economic reforms undertaken by developing countries has left them better positioned to weather the crisis, with greater fiscal space to address needs. However, the ability to undertake necessary short-term actions will not automatically translate into changes in the underlying economic model that had generated high – but unequal – growth. Moreover, while many countries have put in place institutions intended to underpin stronger market economies, the capacity to enforce their mandates is often low.

Substantial research and policy attention has been paid to the regulatory and business environment. For example, the World Bank's "Doing Business" indicators track the regulatory environment for enterprise development in developing countries, with the premise that getting the business rules and regulations right is an essential ingredient for facilitating enterprise formation and development. Such efforts are guiding reforms in a number of developing countries, mostly aimed at enhancing economic competitiveness (World Bank 2009). Knowledge about the links between these regulatory systems, the incentives they create, and their impact on firm behavior as it relates to formal enterprises is beginning to emerge, although still at infancy.

At the enterprise level, research has shown that small and medium sized enterprises (SMEs) in developing countries (which are key drivers of local employment) often struggle to survive in markets that are increasingly open and integrated to the global economy. Low productivity and competitiveness due to scarce levels of technological and management innovation are important factors contributing to the vulnerability of SMEs. States and large private sector companies through their purchasing power can become important drivers of innovation and competitiveness of SMEs in developing countries.

While the regulatory framework is critical, a large part of the economic activity in the developing world happens outside this formal environment, with its own informal rules and incentive structures. By some estimates, more than 30 percent of the developing world's GDP and 70 percent of its workers are outside the official economy. The estimates are even higher if one includes employment in the agricultural sector, and can

reach up to 90 percent, which is the case in most countries in Sub-Saharan Africa (Jütting & Laiglesia 2009; Chen et al. 2005). This is not simply a result of growing self-employment in micro-enterprises. Many informal jobs are generated by “formal” firms, hence the working poor may be found in either the formal or informal economy². Moreover, while the informal economy generally acts as a buffer when people lose their formal sector jobs during economic downturns, this does not come without a cost. Informality is closely linked with increased vulnerability, poor quality jobs, and insufficient social protection. The question that remains unanswered is the costs and benefits of the growing informality of enterprises and labour. What are the implications for growth and for inclusiveness, and how best can economic and social policies deal with this?

Neither the formal nor the informal economy can be understood without examining the different roles, relations and outcomes for women and men. As revealed by the *Women’s Economic Opportunity Index*— a pilot effort by the Economist Intelligence Unit (2010) that uses 26 indicators to assess the laws, regulations, practices and attitudes that affect women workers and entrepreneurs— despite women entering the labour market in an unprecedented fashion during the last two decades, their participation in the formal labour force remains well below that of men. Women are not only disproportionately engaged in the informal economy, they are also overrepresented in the most vulnerable forms of informal employment and earn substantially less (Jütting & Laiglesia 2009). A strong empirical base on women’s economic participation has been developed over the past decade, particularly through the efforts of the WIEGO network (Women in Informal Employment: Globalizing and Organizing), which IDRC has supported. However, there continue to be gaps in understanding the gendered impacts of economic and social policy, particularly on the quality and quantity of women’s paid and unpaid labour.

An important factor influencing decision making by individuals as well as firms is the regime of social protection. While the range of social protection measures, and correspondingly their impacts on behaviours and outcomes, is broad, the focus here is on those most directly relevant to employment for the working poor. In developing countries, a critical challenge to facilitating inclusive growth is the existence of a large population of working poor engaged in low income and poorly regulated jobs with little or no social protection. The social protection regime in most developing countries is characterized by a dual system with some form of contributory benefits availed to those in the formal sector on the one hand and targeted programs and interventions for the very poor on the other. Those working informally often fall through the cracks of this dual system, and therefore rely on informal social security systems and kinship networks, which are increasingly being stretched. The policy challenge, then, is to find ways of facilitating public social protection schemes that are effective and allow the working poor to manage risk, enhance productivity, and improve their livelihoods.

The discussion above points to the importance of institutions— be it those linked to business and employment, or those related to social norms and rules— in mediating

² Informality/informal economy in the context of SIG refers to characteristics of economic activity that fall outside of the legal and regulatory reach and protection of the state.

economic growth and inclusion. Institutions refer to formal and informal rules, regulations and norms that govern individual behaviour and structure social interactions, and that provide “the framework within which human interaction takes place” (Hall, et al. 1996). Economic actors operate within the parameters set by the institutions of the day (at the levels of the state, market, or household) which in turn define the boundaries of economic activity and shape growth and inclusion outcomes. Institutional change can realign rules, norms, and behaviours, making them effective catalysts for facilitating growth and inclusion. The discussion also underscores that policy-oriented and rigorous research that can unravel the interconnections and potential tensions between growth and inclusion—and the institutions and policies that underlie them—can play a vital role in supporting inclusive growth outcomes.

b. About the Program

The *Supporting Inclusive Growth* (SIG) program will focus on key national institutions that mediate growth and inclusion, including those institutions shaped by or linked to governance at the regional, supra-regional or global level. The key hypothesis underlying SIG's work is that *despite tensions between growth and inclusion, growth can lead to increased economic opportunities for the poor and a reduction in inequality*. By explicitly addressing these tensions, SIG is well positioned to interrogate the models, institutions and policies underpinning economic growth, to advance the knowledge base on how institutions shape behaviour and influence individual and enterprise options, and to offer valuable insights to key policy actors in developing countries.

SIG will build on three programs: Globalization, Growth and Poverty (GGP), Women's Rights and Citizenship (WRC) and Information and Communication Technologies for Development (ICT4D). A core recommendation in both the GGP and WRC external reviews—in light of both programs' wide coverage of topics—was to reduce thematic spread and to make choices in what would be wound down, as a means to enhancing effectiveness. In taking this on board, the SIG program has focused on areas in which we believe IDRC can add value. Research that deals with trade negotiations or regional integration, while being a hallmark of past IDRC work, will be phased out in this program, given that this is now a mature and more crowded field than when IDRC pioneered some of the work. Similarly, research that focuses primarily on poverty dimensions and measurement is not envisaged to be supported under SIG as there is now a sufficient knowledge base, in part thanks to IDRC's past efforts.

The core of SIG's work will coalesce around the enterprise development and labour markets thematic foci. Gender will be a cross-cutting theme, and SIG will pay particular attention to issues related to women's economic empowerment. Youth, ICTs, and "green growth" will be specific dimensions of interest explored in the SIG portfolio. Shifting demographics, particularly youth (un)employment, is emerging as an important development challenge in a number of low income countries, with potentially huge economic and social implications. Another important emerging issue that will likely shape SIG's work in the medium and long run is environmental sustainability, and in particular "green growth". SIG does not have the technical competency among its team

nor a clear comparative advantage to fully engage with this issue at the onset of its program cycle. The program will nonetheless create space for being responsive to emerging interests in this area expressed by its grantees, and will gradually build up its portfolio over the life of the prospectus cycle while exploring synergies with IDRC's Environmental Economics program.

The program will build on established relationships as well as explore new partnership opportunities with others working in its domain.

Thematic focus: Enhancing the framework for enterprise development, entrepreneurship and innovation

Micro and small enterprises—the significant portion of the economy in most developing countries—tend to be low productivity survival activities by the poor. The development of vibrant medium sized enterprises is seriously lagging, giving rise to what has come to be known as "the missing middle" phenomenon. In India, for example, IDRC research has shown that a decade of steady economic growth has not led to the development of mid-sized enterprises that could provide jobs for the country's less-skilled workers.

Evidence from other countries points to similar patterns. Despite the growing body of research on enterprise performance and entrepreneurship, including that supported by IDRC, further understanding is needed on the policy and institutional environment, and the nature of the role it plays, in influencing innovation, job creation, productivity increases, and market performance. Building research capacity to examine these from a perspective of inclusive growth is an important contribution that SIG can make in this emerging field. SIG also can add value to the field of entrepreneurship research by building on the Global Entrepreneurship Monitor (see Box 1) and other similar initiatives to advance understanding of the processes and determinants of enterprise performance, focusing on the sources of productivity growth.

Box 1. Global Entrepreneurship Monitor

IDRC has supported the Global Entrepreneurship Monitor (GEM)-MENA project, part of the global GEM initiative that collects country-level data on micro and small enterprises and entrepreneurial activity. The GEM-MENA dataset consists of survey interviews with nearly 14,000 working-age individuals in seven MENA countries, providing baseline data on the profiles of entrepreneurs and their motivations and attitudes towards entrepreneurship. This is the first multi-country report on entrepreneurship in the region. The GEM data is internationally comparative and enables cross-country analysis of the patterns of enterprise creation and sources of innovation. This research has proven to have valuable policy implications.

IDRC's work on competition has demonstrated the significance of institutions for enterprise performance, productivity increases and growth in developing countries. Another project on Global Administrative Law is highlighting the diverse experiences and regulatory spaces in developing countries and the implications of the emergence of the regulatory state. Building on these experiences and IDRC's past accomplishments, SIG would further innovate by bringing together research on competition policy and the study of the general environment for business and investment to provide a better understanding of how competition and other regulatory reforms can promote innovation and enterprise development. An area where SIG research would add further value is on

strengthening the understanding of the growth and inclusion impact of initiatives targeted at small firms, in the context of specific regulatory environments affecting the degree of competition and business development.

ICTs play an increasing role in supporting innovation and entrepreneurial activities. IDRC is currently supporting pioneer work on strengthening procurement systems in Latin America and the Caribbean through the use of ICTs to reduce market access barriers for micro, small and medium size enterprises (MSMEs). Competition analysis also plays a key role in this regard. SIG would build on this to examine the impact of such programs targeted at MSMEs, with the view to drawing out implications for policy and for inclusive growth. A promising area for new research for SIG is women as entrepreneurs, the obstacles they face and the enabling legal environment required, the role of ICTs in facilitating entrepreneurial activities, and the impact of women's entrepreneurship on economic growth.

Overall, SIG supported research under the enterprise thematic pillar will aim to respond to the following key issues:

1. Regulatory and policy frameworks. Have regulatory reforms (e.g. competition policy and business environment measures) really led to gains in productivity of enterprises, formal or informal, and improved growth performance? What are the implications of legal frameworks on women's economic opportunities? SIG would focus on the evaluation of reform outcomes and institutional effectiveness in countries with active reform agendas.
2. SME development. How could competition policy and other regulations facilitate market entry, particularly for new, high growth small firms, and potentially mitigate the 'missing middle'? What is the impact of social protection policies on market entry, as well as on the supply of jobs offered by enterprises? What role are ICTs playing in the emergence and survival of micro and small enterprises? SIG would focus on countries and sectors where growth has been rapid and SMEs have an opportunity to emerge. This would include program evaluations of SME-oriented initiatives (including special training, e-procurement, and others) to shed light on the emergence of SMEs and to assess whether interventions are making a difference in, for example, removing key constraints for enterprises.
3. Entrepreneurship and productivity. What are the linkages between entrepreneurship, technology supported innovations and inclusive growth, and what does policy do to spur entrepreneurship? Does the policy framework for social protection have enabling implications for entrepreneurship? SIG would focus on cross-country studies on what facilitates innovation and productivity among enterprises (e.g. factors explaining successful women entrepreneurs).

Thematic focus: Facilitating growth with decent jobs

The GGP program has supported a portfolio of policy-relevant research examining labour market outcomes in a range of countries. A project in Bolivia for example explored the impact of the recent economic growth, led by a boom in mineral commodities, and showed that it has not generated more or better job opportunities. A portfolio of work on the impact of labour legislation, such as minimum wage legislation in Central America, showed how well-intended legislation can have unintended negative consequences for the poor, through a reduction of secure jobs (see Box 2). In Ghana, research investigated the emergence of informal apprenticeship and its impact on earnings in the informal economy. Conservative estimates, using a 2006 urban survey dataset, showed that among those currently employed with no formal education, apprenticeship increased their earnings by 50%. Recent research has also shown that youth in most developing countries enter the labour market without the required competencies and skills required to function properly in an increasingly integrated global economy where the creation of wealth and job opportunities is highly dependent on the production, distribution and consumption of information and knowledge.

Box 2. Minimum Wage Legislation in Central America

An IDRC supported study of minimum wage legislation in Central America revealed some important—if unintended—effects of legislation on labour market outcomes. In many countries, minimum wages are designed to reduce poverty by increasing the incomes of workers, yet little country-specific evidence exists to show how effective these policies are for the poor. The research showed that enforcement of legal minimum wages in Central America is limited for a variety of reasons – including large groups of workers excluded from legal coverage even within formal enterprises. As a result, legislation does not affect the wages of the lowest-paid workers. Moreover, another effect was to decrease the number of formal jobs available. The findings from this project have stimulated interest and discussion about the effectiveness and impact of labour legislation in the participating countries and beyond.

While these have been successful in generating deeper understanding of the determinants of labour market outcomes, they also point to the need to further interrogate the predominance and resilience of the informal economy in the developing world, what this means for growth and for inclusion, and how to promote employment-intensive growth that leads to more and decent jobs— formal or informal. SIG will support solid empirical research that addresses this critical gap. While a great deal of descriptive studies have been generated on the informal economy over the past three decades, they have been insufficient to underpin solid policy advice on the complex set of circumstances that maintains the informal economy. With this in mind, research supported under SIG will aim to respond to the following key issues:

1. Informality and labour markets. Labour markets remain a key link between growth and inclusion. What accounts for the level of informality in the labour market, and can we explain different country-level proportions of formal and informal employment for any given rate of growth? What are the policy implications for growth and inclusion?
2. Growth and decent jobs. Getting policies right for the working poor is critical for long-term inclusive growth. In addition to minimum wage legislation, what

policies are important for determining the demand for labour of a formal or informal nature? What is the potential to influence the demand for labour, formal and informal, including through global supply chains? Which policies will enhance the quantity and quality of employment for the growing number of poor, young, or female workers entering the labour force?

3. Social protection. The nature and structure of social protection could have significant implications for labour market outcomes, but also need to be understood alongside the informal transfers, remittances and social connections that are often critical to the poor. What types of formal or informal social protection facilitate decent jobs or job mobility? How do they affect the choices of women and what are the implications for policy?

In sub-Saharan Africa and South Asia, agriculture will continue to remain a significant source of employment in the short and medium term, even as countries experience growing rates of urbanization and mobility of labour out of agriculture. A key challenge facing most agriculture-based economies is to enhance the productivity of the agricultural sector on the one hand and to respond to the structural transformations and the shift in the rural and urban labour market on the other. In some cases, understanding the role of local governments and policies relevant to particular territories/contexts will be important. In examining the research questions articulated above, SIG will also support research on the particularities of agriculture-based economies and rural labour markets. The program will explore synergies with other IDRC programs, such as the Agriculture and Food Security program.

3. Approach to Programming

a. Program Goal

The goal of the SIG program is to support rigorous and policy-oriented research that generates new insights and options for promoting policies that facilitate inclusive growth. Building on IDRC's past achievements, and enhancing the capacity of southern research organizations to better tackle these issues, the program aims to contribute to broadening the conceptual as well as the empirical basis to guide the development of policies and programs in developing countries that promote economic growth with the highest potential for tackling poverty and inequality.

b. Program Outcomes

SIG program-level outcomes are envisaged in three inter-related areas: (i) southern researcher capacity to address SIG research questions; (ii) contribution to knowledge; and (iii) contribution to policy.

Table 1 summarizes the expected program outcomes. These are designed in a graduated manner, ranging from those that we can reasonably expect to achieve during this prospectus period to those that are very difficult and yet would indicate huge

success if realized. Minimum outcomes are what the program would expect to achieve from its basic activities. Medium outcomes are harder to achieve and reflect a greater success of the program. The high outcomes refer to those that generally require a longer time horizon than the current prospectus cycle, but are expected to be realized in a limited number of contexts and projects, for example in areas where the program is building on past experiences in getting buy-in from the policy community, such as work related to competition policy.

Progress towards the achievement of the program outcomes will be monitored on an on-going basis, guided by the following key indicators:

- Notable increase in the capacity of southern researchers to produce credible and policy relevant research on inclusive growth;
- Evidence of conceptual and methodological innovations that take into account gender dimensions;
- Evidence of enhanced southern voice and leadership in national, regional and international conferences, dialogues and policy discussions; and
- Evidence of strengthened research to policy linkages.

Table 1. Summary of expected program outcomes

	Baseline	Minimum	Medium	High
Southern researcher capacity to address SIG research questions	Analytical rigour to address growth-inclusion dynamic needs to be strengthened. The capacity to undertake SIG research is unevenly distributed across and within regions. Limited capacity among our current grantees for gender analysis and for research methods needed to address SIG's research questions (eg. policy impact evaluation).	<i>Capacity of researchers</i> SIG supported researchers demonstrate strengthened capabilities to address the tensions between growth and inclusion. They acquire new skills for analyzing the gender dimension and/or the role of ICTs.	<i>Influence of researchers</i> Improved ability of SIG supported researchers to apply gender analysis and to use research methods required to address SIG's research questions. SIG supported researchers increase their profiles through publications and presentations. Policy and academic literature is enriched by contributions from SIG supported researchers.	<i>Contribution to global research community</i> SIG supported researchers are nationally and internationally recognized and take a lead in national, regional or international conferences/dialogues/policy discussions on inclusive growth and the role of institutions. They become mentors for the research community in developing countries.
Contribution to knowledge	Labour market and enterprise research in developing countries does not sufficiently address the broader debates on the growth-inclusion dynamic. The role of national institutions and policies in facilitating inclusive growth is not well understood by key actors.	<i>Research quality</i> SIG supported research outputs demonstrate a more nuanced and rigorous analysis of the relationship between growth and inclusion, and the role of institutions thereof.	<i>Contribution to literature</i> SIG supported research contributes to literature and to the knowledge base on the role of institutions in shaping growth outcomes. The research advances knowledge on how these are mediated within labour markets and enterprises.	<i>Advancing knowledge</i> SIG supported research contributes to conceptual and methodological advances in examining the growth-inclusion dynamic. SIG supported researchers use their knowledge base to articulate future research agenda.

Contribution to policy	National social and economic policies in developing countries are often designed without full acknowledgement of growth-inclusion linkages and tensions. In particular, labour market and enterprise policies do not sufficiently take into account the need to balance growth and inclusion, nor the gender dimensions. Researchers lack research-to-policy skills and are not always effective in translating their findings into accessible forms.	<i>Expanding policy capacities</i> SIG supported research provides timely, relevant and viable options to combine growth and inclusion goals in national labour market and enterprise policies. Researchers identify and communicate with appropriate non-academic audiences (policy makers, civil society, or general public) to present and refine policy options.	<i>Broadening policy horizons</i> Policy options put forth by SIG supported research are discussed within the policy community. Public policy debate is enhanced and made more evidence based by this research and dialogue with researchers.	<i>Affecting policy regimes</i> In a limited number of cases, national policies become more conducive to promoting inclusive growth, and include policy options put forth by SIG supported research. SIG supported researchers are sought out by policy makers for their knowledge and expertise.

c. Program Strategy and Approach

Support for research

SIG supported projects are expected to interrogate the growth-inclusion dynamic as it relates to the program’s thematic foci. This will be the first criterion for screening proposals, and will allow greater coherence between the various activities supported by the program. SIG supported projects are also expected to address at least one of the thematic research questions. As noted earlier, the program will give priority to research that goes beyond descriptive assessment and offers viable policy options. In some cases, this may involve policy analysis, and in others it may involve evaluation of specific policies or programs. All projects are also expected to examine the gender dimensions of the research issue they are focusing on. The portfolio will also include research aimed at exploring the role that ICTs can play in transforming institutions with the aim of achieving more inclusive growth. Our experience to date suggests that capacity gaps exist among current and prospective southern researchers for relevant methodologies such as policy evaluation or impact assessment, and gender analysis. The program thus envisages that capacity building will be an important part of its implementation strategy, particularly in the first two years (detailed more in the next section).

SIG's focus on growth-inclusion dynamics, and its emphasis on domestic policies, implies an emphasis on case studies, which may be at the country level or relevant lower levels of administration. Cross-country studies would also be encouraged. For example, a cross-country study could explore if there is a pattern emerging in terms of the role of institutions (regulatory policies, competition, etc.) in reducing informality, or the link between levels of informality and growth impact. These are not meant to draw out “one size fits all” type of lessons from best practices, but rather to shed light on how national/local institutional contexts matter for shaping patterns of growth and inclusion.

Using the IDRC “grants plus” model, the program will support research through a combination of modalities including networks, competitive grants, and other requests for grants.

Capacity building

Research capacity building within this program will focus on three aspects: (i) analytical rigour of southern researchers to address the growth-inclusion dynamic; (ii) policy analysis and evaluation; and (iii) gender analysis. This is envisaged at three levels. The first is through the IDRC “grants plus” model where SIG team members will provide mentorship and technical support during the conceptual stage and throughout the project life cycle to improve the research quality as well as its impact. The second level is to embed technical assistance within SIG supported projects related to areas that the grantees would require assistance. Where needed, this could include the use of subject experts in a mentorship and advisory role, and in training on specific methodologies. The program will nurture opportunities for South-South mentorship and coaching. The program will also encourage grantees to develop a strategy for providing mentorship and training opportunities for junior researchers. The third level is to develop specific capacity building activities in areas where there is a general lack of capacity across SIG grantees. Training on impact evaluation will be organized towards the end of year 1 for existing and prospective grantees working on policy impact assessment, and will be informed by the impact assessment training in which some TTI-supported organizations are participating. A training workshop will be organized early in year 2 to address the limited capacity for gender analysis, with particular emphasis on research on labour markets and enterprises. The program will also take advantage of IDRC’s corporate experience as well as the methodological expertise developed within IDRC supported networks to bolster its technical capacity building efforts.

Research to policy linkages

SIG is committed to ensuring that not only is the research it supports policy-relevant, but that its findings are shared with non-academic audiences including policy makers, civil society, or the general public. The program will draw from lessons from past IDRC work in developing effective strategies for enhancing research to policy (R2P) linkages, and in particular GGP’s special R2P pilot initiative that drew on external experts to assist its grantees with R2P related issues. A key lesson was that R2P thinking must be embedded at all stages of the project cycle, which implies identifying and engaging with the relevant policy community at the outset of the research to refine the research questions, and throughout the project.

While support for R2P will be tailored and embedded in each project, SIG will also organize a general training workshop on research communication skills in year 3, to build researchers’ skills in translation of research findings and effective communication. The program will collaborate with TTI on this and other on-going R2P related capacity building, given TTI’s substantive investment and experience in this respect.

In order to ensure that each research project contributes to policy, the program will:

1. Assess proposals based on policy relevance of the topic, level of engagement with the intended audience, and the research dissemination/communication strategy. Where these elements are not present, the program will work with the researchers to build these elements into the proposal.
2. Support researchers' efforts to communicate with the intended non-academic users. This will necessarily involve case-by-case planning and support, as each project's context, partner, and policy stakeholders are different. Where appropriate, project budgets should include support for the training of researchers in the necessary skills (for example, identifying policy messages, communications, media relations), or support research organizations to procure this expertise locally.

The program will encourage grantees to carefully think through and plan their policy engagement strategy, while leaving room to take advantage of opportunities as they arise.

Program implementation and learning

SIG will ensure that program learning and evaluation is an on-going process. It is important that the program renew itself continually by evaluating what has and has not worked and taking stock of its successes and challenges as well as revisiting some of its strategies where needed. The program will dedicate time for this during its annual program meetings, with the view of documenting lessons and writing the "meta narrative" as the program evolves. This will provide a solid foundation for undertaking the external review in year 4.

d. Regional and Thematic Priorities

While the overall SIG research agenda corresponds to some of the key challenges to attaining broad based development across regions, the program will be responsive to regional contexts and priorities as noted below.

Sub-Saharan Africa (SSA)

SIG programming in SSA will take into account the following key characteristics underpinning the region's economic structure: (i) agriculture is still the back-bone of most African economies and employs a high percentage of the working population;(ii) up to 90% of population in the region work in the informal economy, including within the agricultural sector, and for the vast majority, working in the informal economy is the only option for survival; (iii) large sized informal businesses abound, particularly in West Africa, suggesting the prominent role of informal institutions that create and sustain them. There is emerging evidence that the productivity level of these large informal businesses is not very far from those of the formal ones (Benjamin and Mbaye 2010).

Most of the countries in the region have developed poverty reduction strategy papers and poverty eradication action plans which articulate key areas that need specific attention. Two common features of these strategies and plans include the importance of creating employment and supporting small and medium-sized enterprises, which are also areas of thematic focus for SIG. The region is likely to be most impacted by climate change, which will have economic repercussions, including challenges in the agriculture sector. Questions around the factors that shape the trajectories for inclusive growth are being raised in light of the new discovery of natural resources in some countries and the expansion of South-South investment in the region more broadly (particularly with respect to Chinese investment in the region). Questions regarding the pattern of growth in terms of whether SSA firms are becoming more labour intensive and more export oriented to support structural transformation and ensure the economy absorbs the fast growing labour force are also becoming increasingly prominent. It is precisely these and other related issues that SIG aims to provide empirical evidence for stimulating informed discussions and debates in the region.

SIG support to research institutions in SSA will emphasize the 'responsive' modality due to the varying capacities of institutions in the continent. The 'grants plus' approach will be of particular importance here. In order to address the weak capacity for economic research in Sub-Saharan Africa, the program will continue to support initiatives with a proven track record for strengthening economic research capacity in the region – mainly through graduate-level training. The program will pay particular attention to the integration of gender analysis in these training programs, an element which has been generally lacking.

Asia

Over the past two decades, rapid growth throughout much of Asia has significantly improved the welfare of vast numbers of people. And despite the recent global economic and financial crisis, the region has rebounded well and is expected to exceed 7% growth over the coming years. However, despite strong aggregate growth, the region is still home to two-thirds of the world's poor with just over 900 million people subsisting on less than \$1.25 / day. Furthermore, many live just over the poverty line and are vulnerable to external shocks. Also of concern is rising inequality, both in terms of income growth as well as access to basic social services and protection. Widening gaps between the rich and poor within countries (and visible changes in consumption patterns), as well as between countries, is presenting policy dilemmas and complicating social reforms.

The biggest policy challenge facing Asia is how to sustain rapid growth that is socially inclusive. Increasingly, countries in the region are making inclusive growth their policy priority. Public policy pronouncements in nearly all of the countries in the region, as well as through regional associations, emphasize the importance of bridging the gap within and between countries. Concerns about access to social services, protection, and economic opportunities, and with the institutional mechanisms to support inclusiveness, are articulated at the highest policy levels. However, empirical knowledge about (i) uneven growth at sectoral and regional levels; (ii) social service access and elite capture; (iii) labour market dynamics and improving productivity gains at the bottom

income spectrum and in low value-added sectors; and (iv) SME (especially small enterprises) development and growth linkages, is sketchy and not well linked to policy discourse. Furthermore, institutional weaknesses, poor regulatory instruments and poor governance undermine the incentive structures for promoting more equitable development strategies and policies.

Building on research already initiated under the GGP program on these issues (extending from work on informal employment in India and China, competition policy and small SMEs in ASEAN, among others) work under the SIG initiative will deepen on critical dimensions around the creation of productive and inclusive work with social protection.

Latin America and the Caribbean (LAC)

Low growth and persistent levels of high inequality are amongst the most pressing development challenges for LAC. Despite some recent improvements in terms of income inequality, the region is still the home to some of the most unequal societies in the world. Inequality is highly correlated with labour market dynamics, which have failed to provide quality jobs and opportunities for a large share of the region's population. Extending social protection continues to remain a key challenge, and institutional innovations are needed for labour markets and social protection to be more inclusive. The low economic growth in the region is associated with extremely low productivity levels; productivity growth is believed to be slower than elsewhere (Daude 2010). While recent studies have noted that most of the region's labour force is employed in low wage, low productivity sectors, the relationship between productivity and informality remains unclear. Monopoly power and lack of competition have been identified as key drivers behind low levels of productivity in the region (Cole et al. 2005). LAC has been considered by some as an overregulated region, but the relationship between regulatory reforms, productivity, and inequality are not sufficiently explored. The region is home to a multiplicity of programs on SMEs support. However, we know very little about what programs work. Policy impact evaluations on SMEs support programs are needed to understand their impact in terms of productivity and their capacity to generate more and better jobs. Unemployment rates (in particular youth unemployment) are high in the Caribbean and thus it is critically important to understand how jobs are created and allocated and the role of entrepreneurship and firm dynamics for job creation. By strategically building on previous investments, SIG's work on labour markets, productivity and enterprise growth will help the region be better prepared to tackle its structural development challenges. Research capacity is very unevenly distributed within the region. While research capacity on SIG themes is stronger in countries in the southern cone, researchers even from this region generally lack the international recognition to be able to bring their voices to global debates. The Caribbean requires specific, dedicated research and capacity building support efforts.

Middle East and North Africa (MENA)

In many ways, MENA countries can be conceptualized as transition economies. For example, low productivity is mostly due to relatively poor mastery by the state for setting up and regulating the institutions of the modern market economy. Stronger competition

regimes could moderate favoritism and predatory behaviours by politically well connected firms (Sekkat et al 2008), the business environment remains very restrictive (especially for services activities), and innovation and enterprise support policies are weak (Stevenson 2010). Non-mineral production structures are non-adaptive, displaying high levels of concentration in a few industrial sectors, and exemplifying the “missing middle” syndrome in terms of the size distribution of enterprises.

IDRC has taken pioneering steps in building a knowledge base and niche in entrepreneurship, SME and competition policy research in the region, providing a strong platform for further consolidation of this work and taking it up to regional scale under the SIG program. Research is needed to recommend both proactive (within the market) and contextual (market framing) policies to support entrepreneurship, innovation, and the emergence of fast growing small enterprises. Women’s economic empowerment will be an important dimension of SIG’s work in the region, given that the region exhibits the lowest levels of women’s empowerment. Work on labour markets will focus on job quality and security.

Market analysis and policy assessments are exceptionally difficult in MENA because of the pervasive lack of reliable data in the public domain and a related challenge of weak local research capacity. SIG will seek ways of improving data availability, skills for policy relevant research, and the receptivity of the policy process to independent research.

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