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**PROMOTING SHARED PROSPERITY IN AN UNEQUAL WORLD:
KEY CHALLENGES AND THE ROLE OF THE WORLD BANK GROUP**

Attached is a document entitled “Promoting Shared Prosperity in an Unequal World: The Role of the World Bank Group” prepared by staff of the World Bank Group in consultation with staff of the International Monetary Fund for the October 11, 2014 Development Committee meeting.

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Abbreviations and Acronyms

BRT	Bus Rapid Transit
CCSA	Cross-Cutting Solution Area
CCTs	Conditional Cash Transfers
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DEC	Development Economics Vice Presidency
DFID	Department for International Development
DPL	Development Policy Loan
ECA	Europe and Central Asia Region
ECD	Early Childhood Development
FCS	Fragile and Conflict-Affected Situations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFDR	Global Financial Development Report
GIF	Global Infrastructure Facility
GMR	Global Monitoring Report
GNI	Gross National Income
GP	Global Practice
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean Region
MDG	Millennium Development Goal
MENA	Middle East and North Africa Region
MIGA	Multilateral Investment Guarantee Agency
P4R	Program-for-Results
PIT	Personal Income Tax
PPP	Purchasing Power Parity
PRR	Policy Research Report
SAR	South Asia Region
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
UNICEF	United Nations Children’s Fund
US	United States
WBG	World Bank Group
WDR	World Development Report
WHO	World Health Organization
WTO	World Trade Organization

Promoting Shared Prosperity in an Unequal World: Key Challenges and The Role of the World Bank Group

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Executive Summary

The objective of this paper is to stimulate Development Committee discussion on the policy agenda for promoting shared prosperity and the World Bank Group's role in supporting that agenda. Among other sources, the paper draws on the 2014 *Global Monitoring Report (GMR): Ending Poverty and Sharing Prosperity*.

A new World Bank Group (WBG) Strategy, endorsed by the Development Committee in October 2013, is now under implementation. The Strategy is driven by the twin goals of ending extreme poverty and boosting shared prosperity, defined as fostering income growth of the bottom 40 percent of the population in every country. Progress with both goals must be consistent with ensuring economic, social, and environmental sustainability. Addressing economic inequality is an integral element of both goals.

Over the past decade, there has been progress in promoting shared prosperity with rapid growth in incomes of the bottom 40 percent, often exceeding growth of overall income per capita. In almost a third of the countries for which the World Bank has data, income (or consumption) per capita of the bottom 40 percent grew by 5 percent or more annually.

Global economic growth, however, has slowed recently and medium-term growth prospects have diminished. In a number of countries—both advanced and emerging—income inequality has risen in recent years. These trends pose risks for continued progress in promoting shared prosperity. In addition, growing geopolitical tensions continue to pose a threat. Environmental problems hang as a dark cloud over the sustainability of progress.

Inclusive growth, job creation, and a social contract for investing in people and strengthening safety nets are central to the policy agenda to confront these challenges to promoting shared prosperity. In developing countries, labor earnings—including earnings from microenterprises and small farms—are the main source of income of the bottom 40 percent. The World Bank Group is working with governments, businesses, and civil society on the many dimensions of improving the general investment climate and the income earning capacity of the bottom 40 percent.

Given these challenges, countries face a three-fold agenda:

- ***Enhancing human capacities and building assets of the bottom 40 percent.*** Education, health, and sanitation services play a central role in helping people build their human capital. As noted in the 2014 GMR, early childhood development programs can assure that capacities are developed starting from an early age. A key asset is the skills base that workers in the bottom 40 percent need for productive jobs.
- ***Improving access to markets*** is needed to productively utilize these assets, and this requires regulations that create a level playing field, labor markets that are both flexible and inclusive, and access to reasonably priced finance and key infrastructure services, such as transport and electricity. Lagging regions within countries require transport links to integrate into the national economy. In many low-income countries, improving access to inputs and markets for agriculture is a priority. In others, a priority may be to enhance the participation of disadvantaged groups (such as women and ethnic minorities).
- ***Strengthening tax and transfer systems*** is necessary to ensure that social safety nets and redistributive programs complement structural policies in promoting shared prosperity. There are several ways in which fiscal policies can be designed to promote equity and growth while ensuring fiscal sustainability, such as introducing or strengthening conditional cash transfer programs; targeting subsidies better; expanding coverage of the personal income tax, while ensuring appropriate progressivity and removing regressive tax exemptions; and improving property taxation.

Finding solutions to these challenges requires both effective ***governance*** and ***knowledge-sharing***. Good governance improves service delivery and the regulatory framework via better accountability between citizens and regulators and service providers. Effective knowledge diffusion allows successful practice to be replicated and scaled up.

Progress in shared prosperity across generations requires environmental sustainability. Green growth processes assure that growth itself is more robust and sustainable through improved management of natural assets, increased resource efficiency, and strengthened resilience. Climate change poses particularly urgent risks to environmental sustainability.

The new World Bank Group Strategy and reform process will help position the institution to support countries in finding solutions. A key element is to conduct a Systematic Country Diagnostic (SCD) that analyzes the key challenges and opportunities for each individual country. The SCD will identify the key needs of the bottom 40 percent of the population, so that the new Country Partnership Framework (CPF) can be tailored to addressing those needs. In addition, this paper highlights:

- ***Data:*** Data limitations inhibit the World Bank Group’s ability to monitor both the shared prosperity goal and the extreme poverty goal. The new Data for Goals Initiative aims to address the critical need for improved country-level data. New technologies and statistical approaches can help to bridge some of the gaps in data measurement and assessment; however, data development requires institutional capacity building that will take time to develop.
- ***Knowledge:*** Improving the creation, capture and sharing of knowledge for solutions, including south-south learning, is central to the implementation of the World Bank Group Strategy and the role of the global practices. As an example, a Community of Practice has been established on Conditional Cash Transfers that includes 11 Sub-Saharan African Countries. New knowledge hubs have been established, or are in the planning stage, in multiple locations globally.
- ***Finance:*** IBRD headroom has increased, the largest IDA replenishment ever has been completed, and there is more creative use of the Group’s multiple balance sheets. There are initiatives to catalyze more partner financing (including the Global Infrastructure Facility). Of particular importance to low-income countries is the record IDA17 replenishment. The promotion of inclusive growth is a core theme of IDA17. A number of promising new projects are underway that are tightly linked to the agenda for promoting shared prosperity.
- ***One World Bank Group:*** The complementary roles of the public and private sectors in promoting shared prosperity imply that the World Bank Group can increase its effectiveness through improved coordination of actions across the agencies of the Group. Collaboration between IBRD-IDA, the IFC, and MIGA is increasing rapidly. For example, there are multiple power sector collaborative projects underway in Central-South Asia and Sub-Saharan Africa. Other examples include collaborative efforts on job creation in the MENA region, and investment climate reforms in Tunisia.
- ***International policy coordination*** is another important area to ensure that the global economy works for promoting shared prosperity. The openness of the global economy to international movement of goods and capital needs to be complemented with national policies to address adjustment costs and assure that broad segments of the national population can benefit from opportunities created via global trade and finance. Perhaps the most important area for international coordination, from a sustainability perspective, is the reduction of greenhouse gas emissions. The WBG is working with partners on this international agenda, including such areas as climate change, trade, and the design of the Sustainable Development Goals (SDGs).

Issues for Discussion

- *How do Ministers view the policy agenda for promoting shared prosperity? What practical interventions would they like to emphasize?*
- *What do Ministers see as the key shifts in WBG engagement at the country and global levels to support the shared prosperity agenda?*

I. Introduction

A new World Bank Group (WBG) Strategy is now under implementation, following its endorsement at the 2013 Annual Meetings. Two goals drive the Strategy: (i) End extreme poverty: reduce the percentage of people living on less than \$1.25 a day (PPP, Purchasing Power Parity adjusted) to 3 percent, or lower, by 2030; and (ii) Promote shared prosperity: foster income growth of the bottom 40 percent of the population in every country. As noted in the Strategy, “the WBG is committed to supporting countries in reducing poverty and building shared prosperity in a sustainable manner. Environmental, social and economic sustainability require action to secure the future of the planet, ensure social inclusion, and set a solid foundation for the well-being of future generations.”¹

Addressing inequality is an integral element of both goals. Changes in the headcount poverty rate can be decomposed into two components: the growth in average household income (i.e., economic growth) and the change in the distribution of income.² Similarly, the growth of the income of the bottom 40 percent can be decomposed into its two components: the growth in the average income of the total population, and the growth in the share of the bottom 40 percent in total income.³ As noted in the Spring 2013 Development Committee paper⁴, cross country evidence points to the importance of growth for both goals.⁵ Growth contributes more to these goals when it is “inclusive”; that is, when the poorer segment of society participates in the process of and gains from economic growth, and when both growth and distributional components show improvement. Improving the income earning potential of the poor and bottom 40 percent is the direct route to increasing shared prosperity. This implies creating the conditions for quality job creation, investing in human capital, and enhancing the scope for small scale entrepreneurship.

Economic growth is decelerating in a number of important economies, and inequality has been rising in a number of countries as well. Social sustainability can be put at risk when the benefits of economic growth are not shared adequately. Excessive concentration of income or wealth has been associated with episodes of conflict and violence, and a number of recently expanding conflicts threaten the prospects for promoting shared prosperity.⁶ Environmental problems also cast a cloud over recent progress in shared prosperity.

This paper aims to synthesize existing knowledge on shared prosperity, the practical implications for action, and the innovative WBG activities underway to promote shared prosperity in an unequal world. The next section provides background on the origins of shared prosperity as a development goal. The following section presents trends in shared prosperity and inequality. Practical policy options and interventions are then discussed. The final section focuses on strategic directions for the World Bank Group in promoting shared prosperity, drawing on specific examples of effective interventions and promising new areas of work.

II. Shared prosperity: Rationale and measurement⁷

The shared prosperity goal, as a concept, builds upon longstanding concerns that growth of income per capita alone is insufficient as a development objective. By focusing on the growth of the incomes of the bottom 40 percent, both growth and distributional concerns are considered. In addition, growth in the incomes of the bottom 40 percent is more highly correlated with non-income measures of well-being. Finally, the goal complements the first goal of ending extreme poverty of \$1.25 a day (PPP), in that people emerging from extreme poverty remain poor by the definition of most national poverty lines. They also remain vulnerable to returning to extreme poverty. In brief, people everywhere aspire to living standards that are multiples of the extreme poverty line.

Promoting shared prosperity in the long run requires a strong commitment to addressing environmental, social and economic sustainability concerns. If inequality increases during economic

growth, the income of the bottom 40 percent may lag behind the incomes of the rest of the population. Inclusive growth processes spread the gains to the bottom 40 percent. Green growth processes assure that growth itself is more robust and sustainable through improved management of natural assets, increased resource efficiency, and strengthened resilience.^{8, 9} Green growth assures environmental sustainability by reducing ecosystem degradation and pollution, by using natural resources sustainably, and by tackling climate change which, in many cases, could benefit the bottom 40 percent more heavily than the rest of the population.

The simplest monitoring indicator for the shared prosperity goal is to track the income per capita of the bottom 40 percent of the population. A natural extension is to compare the growth of this indicator with the growth of income per capita of the total population. The latter comparison focuses on the distributional dimension of the goal: when the growth of income per capita of the bottom 40 percent is higher than the growth of income per capita of the total population, it implies that the share of total income accruing to the bottom 40 percent is growing. Hypothetically, a country with absolute *equality* of income would imply the share of the bottom 40 percent would reach 40 percent, the upper limit. Finally, as noted in the 2014 *Global Monitoring Report* (GMR), non-income measures of well-being will be tracked in terms of the attainment of the MDGs by the bottom 40 percent of the population.

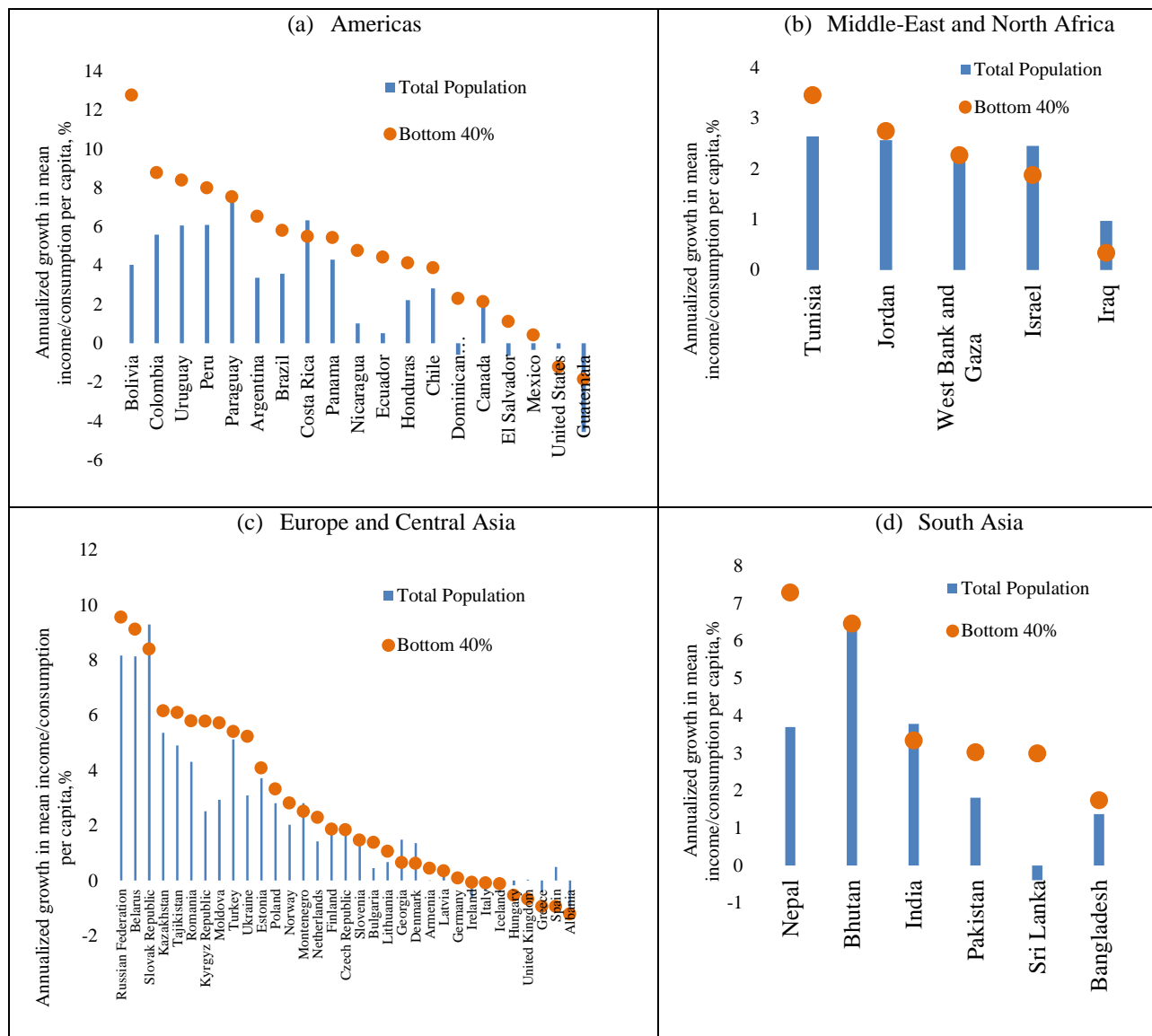
A key limitation on measuring shared prosperity and global inequality is the quality and frequency of household survey data in individual countries – especially in the poorest countries. Data for Gross National Income or Gross Domestic Product per capita are produced from the national accounts. Although there are improvements to be made and occasional large updates or adjustments, the frequency and quality of national accounts data is generally adequate for the vast majority of developing countries. However, shared prosperity requires household survey data to measure the income levels of the bottom 40 percent of the distribution of household income (or consumption). In addition, if one compares average income growth of the bottom 40 percent with average income growth of the total population, the latter should be based on income per capita from household surveys, not the national accounts. Here another problem arises: income per capita estimated from household survey data often is quite different from the income per capita from the national accounts, and even the growth rates are often quite different. In terms of data availability and quality, household surveys tend to be conducted less frequently and comparability over time is often an issue, given more frequent changes in methodology (as compared with national accounts statistics). These data challenges are particularly acute in poorer countries. Another complication is that some household surveys ask households to report income, while others ask households to report expenditure (consumption). This makes it more difficult to compare outcomes across countries. Finally, household surveys tend to understate the income or expenditure of the richest members of society.

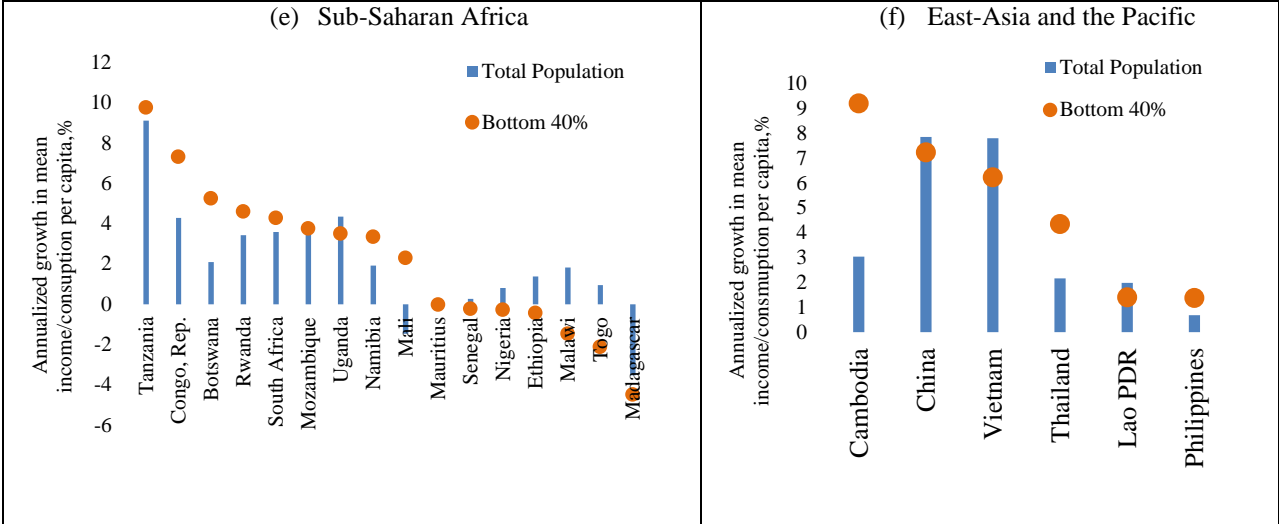
“Equality of opportunity” is more difficult to measure, but it may be a more relevant concept for policy makers than the equality of outcomes.¹⁰ Traditional inequality measures are based on the equality of economic outcomes: income or consumption. Some of this inequality in outcomes is generated by differences in effort or talent; however, another part is due to different circumstances at birth in terms of access to education, health and other basic services. At the same time, opportunity is often correlated with outcomes – for example, children from higher income families often experience better opportunities to build their skills, so the two concepts are not unrelated, in practice. Inequality in family wealth plays a role in generating inequality of opportunity that may persist across generations. As noted in the 2014 GMR, a focus on early childhood development is one means of increasing social mobility and breaking the intergenerational transmission of poverty.

III. Shared prosperity and inequality: Recent trends

The past 15 years has been a period of strong economic growth, overall, and strong increases in shared prosperity in many developing countries. In almost a third of the countries for which we have data, annual growth of income or consumption per capita of the bottom 40 percent was in excess of 5 percent in the second half of the last decade.¹¹ The 2014 *Global Monitoring Report (GMR)* reports that income (or consumption) per capita of the bottom 40 percent grew faster than income (or consumption) per capita of the total population in 58 of 86 countries for which there were adequate data, over the same period. There may be some “self-selection” in the sample countries, given that some of the poorer performing countries – including fragile and conflict-affected situations (FCS)--may not have household survey data available over this period. For example, only 5 of the 33 countries/territories on the harmonized list of fragile situations (FY15) are included in the sample of countries.

Figures 1(a)-(f): Progress in Shared Prosperity, Growth of the Income/Consumption per Capita of the Bottom 40 percent and Total Population, circa 2003-2012¹²

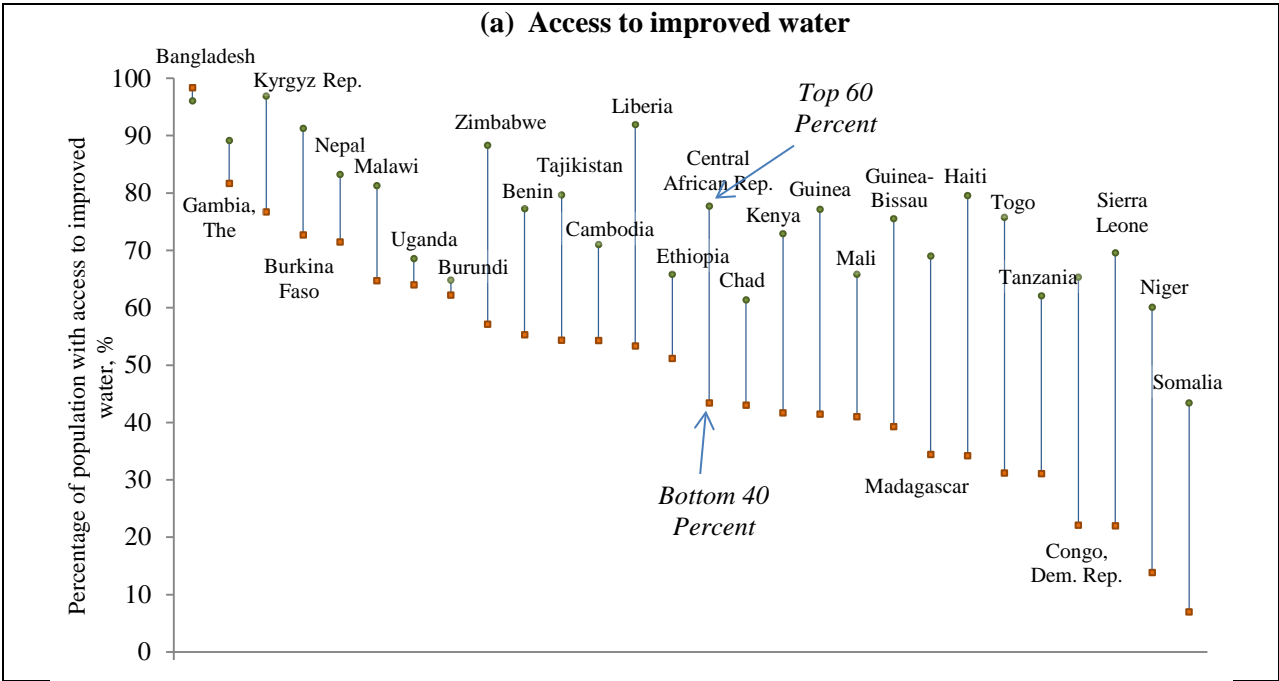


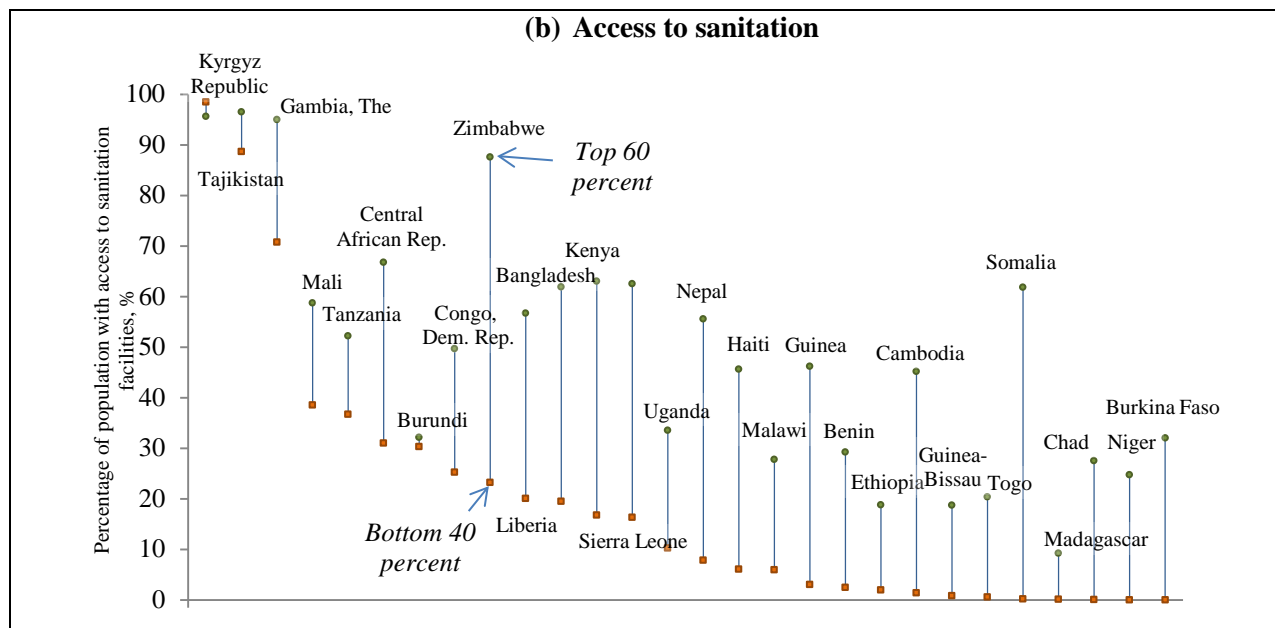


Source: 2014 *Global Monitoring Report*.

In many dimensions of the Millennium Development Goals (MDGs), the bottom 40 percent fare much worse than the rest of the population, as evidenced by lagging performance in the MDGs.¹³ For example, young children in the poorest households are two to three times more likely to be malnourished than those in the top wealth quintile. This is one of the advantages of focusing on the bottom 40 percent for income growth: it correlates with the non-income dimensions of deprivation more strongly than just targeting average income of the total population. Figures 2(a) and (b) provide data on the disparity in two non-income dimensions of well-being, drawing on the 2014 GMR.

Figures 2(a) and (b): Coverage in water and sanitation access

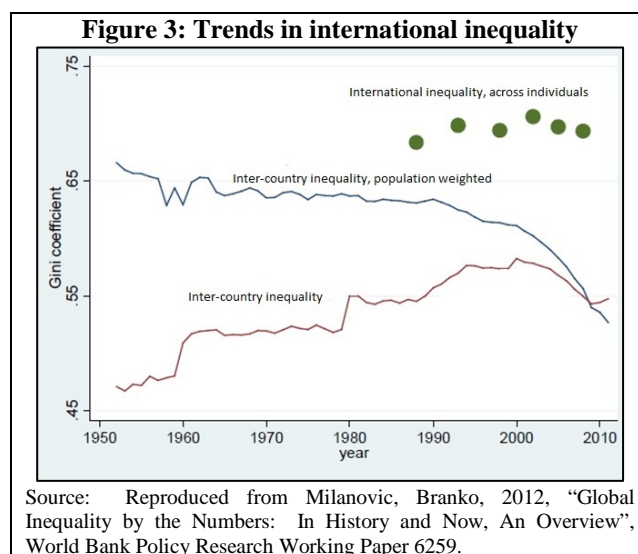




Source: 2014 Global Monitoring Report, based on data from WHO/UNICEF joint monitoring program for water supply and sanitation.

As noted above, behind the generally favorable numbers, fragile states pose particular challenges for shared prosperity. Extreme poverty characterizes the living conditions of most of the bottom 40 percent in fragile states. As reported in the 2014 GMR, the average prevalence of extreme poverty in fragile situations is 40.2 percent, well over two and a half times that of the global average. Although global poverty has declined sharply in non-fragile states, there has been little progress in fragile states, and the poor are increasingly, and disproportionately, located in fragile states. Given current economic and demographic conditions, it is estimated that, by 2015, one in five people in extreme poverty will live in fragile and conflict-affected countries. As noted in the 2011 *World Development Report (WDR)*,¹⁴ to break cycles of violence and insecurity, it is critical to re-establish confidence and restore the basic institutions that provide citizen security and justice. Revitalizing economic markets and job creation are critical to sustaining the improved state of security.

The recent literature on international inequality has shown that inequality across the world's citizens has been persistently high (figure 3). Underlying this stylized fact is the trend of convergence in incomes per capita across countries over the last decade (the “inter-country” line in Figure 3) represented by a declining Gini, following decades of divergence – that is, an increase in the inter-country Gini. This concept treats each country equally, as if it were a person. The declining trend is much stronger and extends further back in time, if countries are weighted by their population (the upper line in figure 3). Weighting by population is equivalent to assigning the income per capita of the country to each individual in the country. In other words, it ignores within country inequality. The lines are based on the Gini measure of inequality, which is a measure of average distances between any two



Source: Reproduced from Milanovic, Branko, 2012, “Global Inequality by the Numbers: In History and Now, An Overview”, World Bank Policy Research Working Paper 6259.

countries. If one looks at the extremes of the distribution, there is a different story. For example, just based on unweighted income per capita, the ratio of the average for the top 10 percent to the average for the bottom 10 percent started rising in the early 1990s, from the upper 20s to about 40 in the late 2000s.¹⁵ Household survey data can be used to arrive at inequality across individuals in the world. Increasing inequality in several important developing and high-income countries has maintained inequality across citizens hovering at about 0.70, in terms of the Gini coefficient (dots in figure 3). More recent research has found a decline of two “Gini-points” in international inequality over the last two decades; however, this decline may be within the margin of error.¹⁶ That said, at the least, the rising trend of global inequality during the nineteenth and twentieth centuries has stopped.¹⁷

The concentration of income in the top 10 percent of the distribution is another measure that has been studied in recent work, most notably in the papers and much discussed recent book by Thomas Piketty.¹⁸ Piketty uses tax records to track this evolution for 20 high-income countries. A similar methodology is difficult to follow in many developing countries, given the limited use and/or enforcement of the personal income tax. That said, the methodology is effective in addressing the problem of frequent underreporting of incomes at the top of the distribution in household surveys, and as such, represents a promising approach as data improve in developing countries.

Many countries have *not* experienced increasing inequality; however, there have been some important cases where inequality has increased. Most notably, Gini coefficients have increased in the two largest economies of the world, China and the United States. India, the second most populous country on earth, also experienced an increase between the mid-1990s and mid-2000s, although India’s Gini levels are still relatively low. Some large European economies experienced an upward trend in the Gini coefficient over the past 20 years – albeit again from relatively low levels. Meanwhile, there has been an important downward trend in Brazil, as has been the case in many Latin American countries and other developing countries.

IV. Policy options, instruments and interventions

a. Who are the bottom 40 percent? Implications for interventions

Promoting shared prosperity at the country level involves country-specific challenges and trade-offs. In several low-income countries, the bottom 40 percent of the income distribution suffer from extreme deprivation, with household income (or consumption) per capita below the extreme poverty line of \$1.25 (PPP). In many of these countries, most of the families in the bottom 40 percent survive on agricultural production in rural areas. Investing in agricultural productivity is critical, but given almost inevitable rural-urban migration in the future, preparing youth for non-agricultural occupations is also important. In middle-income countries, many of the bottom 40 percent may still be in rural areas; however, there is also a large group of urban residents,¹⁹ earning their incomes in industrial or service sector jobs. Many are also self-employed, or working under informal labor arrangements. Improving the investment climate for job creation and firm productivity then becomes vital. Many middle-income countries have adopted various forms of cash transfer programs to lift the poorest segments of the bottom 40 percent out of poverty, and in some cases, incorporated conditional clauses that motivate the use of public health and educational facilities as a means of breaking the intergenerational propagation of poverty. In each country situation, there are many challenges to identifying the key transformational interventions that can spur more rapid income growth of families in the bottom 40 percent.

Regardless of country conditions, *knowledge diffusion* is essential for learning from other country experiences. Many countries at similar levels of development face similar challenges and successful programs can be adapted to local conditions to provide practical solutions.

b. Jobs and the social contract

As noted in the 2014 GMR, labor earnings are the key driver of poverty reduction and income growth of the bottom 40 percent. This is due to the fact that labor earnings—including earnings from microenterprises and small farms—are the main source of income of the bottom 40 percent. In a number of countries that recently experienced declines in inequality, declining labor income inequality was an important factor.²⁰ Quality job creation, as discussed in the 2013 WDR *Jobs*, is central to promoting shared prosperity. In addition, a social contract for investing in people and strengthening safety nets is essential for establishing consensus for these policies – consensus that is needed for sustainable funding of these programs.

c. Frameworks for analyzing policies and instruments

Given the varying characteristics across countries, the framework for analyzing policies, instruments and interventions may take a different focus across countries. There are, however, general approaches that are useful across country typologies. Promoting shared prosperity requires economic growth, but not just any type of growth: it must be inclusive and sustainable. Inclusive growth can be defined in terms of “pro-poor” growth that lowers poverty,²¹ or more general approaches that use social welfare functions.²² As part of the change process within the World Bank Group, an Advisory Group was formed for laying out guidelines and providing support to country teams that are working on Systematic Country Diagnostics (SCDs). The Advisory Group has developed a general framework for identifying the key constraints and opportunities for growth, as a first pillar, as well as the inclusiveness of growth, as a second pillar. A third pillar identifies the key risks and opportunities in the realm of economic, social, and environmental sustainability.²³ The approach, discussed in more detail in the next section on the Role of the World Bank Group, is deliberately general enough to allow for tailoring it to specific country conditions. Addressing shared prosperity directly implies improving the income earning ability of the bottom 40 percent of the population: in other words, better jobs and increased productivity of farms and firms where the bottom 40 percent work, either as employees or as small-scale entrepreneurs.

A recent World Bank regional report for Europe and Central Asia (ECA) proposed an “asset-based” approach for designing policies and interventions to promote shared prosperity.²⁴ The framework is based on the idea that the ability of households and individuals to benefit from and contribute to economic growth is a function of the following: (i) their access to human capital and other productive assets (e.g. physical, financial, social, and natural); (ii) their ability to deploy these assets productively and receive a reward or return (e.g. being paid a wage when employed or an interest rate when saving or investing); and (iii) their access to non-market income, in the form of public transfers (e.g. pensions or safety nets) or private ones (e.g. remittances). In the short run, the distribution of assets is given and variables such as prices, external demand, growth composition, and fiscal transfers play a determining role in growth and growth incidence. In the medium and long term, however, the level and distribution of assets and the returns on the assets, which reflect their productivity, will be the main drivers of shared prosperity. Finally, the framework is dynamic, in that it considers the interaction of macroeconomic, microeconomic, policy and governance factors over time, thus allowing for a discussion of the sustainability (economic, social and environmental), of observed patterns.

A recent World Bank report on inequality in South Asia uses a somewhat different approach for analyzing policies and instruments to address inequality concerns.²⁵ The authors take a life-cycle approach in addressing the drivers of inequality, starting with “circumstances” at birth, “opportunity” during the youth years and a combination of “mobility” and “support” throughout life. In the South Asian case, caste, ethnicity, religion, and gender are important social constructs that impact individuals’ circumstances and economic outcomes, in addition to the income class of the households. In the framework of the South Asia report, *opportunity* focuses on health and education programs for children

and young adults. *Mobility* relates to programs to facilitate successful migration to urban areas, an inevitable tendency in low-income countries, and the ability to find productive employment and retrain for new jobs, when necessary. *Support* focuses on social protection for buffering shocks – economic, natural disasters, health -- and the tax and transfer system for redistribution.

Specific policy options, instruments, and interventions can be organized around the following three themes: enhancing human capacities and building assets, improving access to markets, and strengthening tax and transfer policies. These themes are broadly consistent with the frameworks discussed above. Of the three policy areas, the first two are “win-win”: they are good for growth and for inclusion. Even the third area, redistribution through taxes and transfers, can be “win-win” – or at least not harmful for growth—if the instruments are well designed.²⁶ One overarching theme is the role of governance: poor implementation, corruption, or political exclusion can lead to government programs that fail to attend to the lower segments of society. Empowering the bottom 40 percent and enhancing voice are means of assuring greater accountability of service delivery. Improved governance and voice are part of securing the stability of the social contract to establish inclusive, sustainable growth.

d. Enhancing human capacities and building assets

Inequality of opportunity derives in part from unequal circumstances at birth. Since inequality at birth cannot be attributed to the newborn’s choice, the high levels of such inequality are an urgent concern.²⁷ Without government policies, programs and institutions, these unequal circumstances are likely to lead to vicious cycles of entrenched and deepening inequality of both opportunities and outcomes, as the better off can send their children to private schools and provide them with initial capital to build their careers or start businesses, advantages that are beyond the grasp of the poor. The 2006 WDR, *Equity and Development*, emphasized the need to build human capacities via programs for early childhood development, schooling at the more mature stages of youth, health programs, and social protection for risk management.²⁸ Social infrastructure, like access to water and sanitation services, is also essential for keeping children healthy. The 2006 WDR also highlights access to land. On this point, the WDR 2013 *Jobs* emphasized the role of land and agricultural productivity for the rural poor, given that rural incomes are dependent on agriculture. As noted above, in low-income countries, much of the bottom 40 percent is extremely poor and rural. Rural extension and other rural development programs can be a critical element to helping the bottom 40 percent to build on their limited land resources to increase their incomes.

There are important gender dimensions to building assets. For example, control over land and housing can increase self-esteem, economic opportunities, mobility, and decision making power. In Vietnam, women with a joint land title are more aware of legal issues, have more say in the use and disposition of land, and are more likely to earn independent incomes than those who are not on the title.²⁹ The 2012 WDR, *Gender Equality and Development*, also emphasized asset building in its discussion of policies for promoting gender equality, especially with regard to human capital endowments.

Human capital development to prepare the bottom 40 percent for success in labor markets is another key element.³⁰ In many cases, the only asset that people in the bottom 40 percent possess is their own skills and knowledge. Labor productivity is a driving force behind levels of prosperity in both high-income and developing countries.³¹ For example, chapter 3 of the 2014 GMR presents strong evidence that differences in income per capita are largely driven by differences in labor productivity across OECD countries. Rural residents also need education and training, especially for those who leave the farm for rural or urban non-farm employment.

As noted in the 2014 GMR, early and continuous investment in human capital can help break the intergenerational transmission of low incomes and poor job prospects. Conditional Cash Transfers (CCTs) promote objectives beyond redistribution by providing incentives for families to invest in

children's human capital. Human capital also represents a mobile asset the bottom 40 percent can bring with them to new locations, when migration presents opportunities in other geographic locations.

To the extent that the bottom 40 percent of the population possesses physical assets, there is a nexus of important issues related to property rights and protection against natural disasters and environmental risks. Many of the bottom percent reside in areas of increased risks to property losses.

Many middle-income countries have secured progress in the basics of human capital: immunizations, pre-natal care and primary education. However, these countries often face competitive pressures to reach the next skill level of their workforce. A priority then becomes to extend the access and improve the quality of secondary and higher education. In the poorest regions, ending illiteracy and extending access to water and basic sanitation services can have a transformative impact on the bottom 40 percent of the population, most of whom suffer from extreme poverty. In the end, priorities will vary across countries, depending upon local circumstances.

e. Improving access to markets

A business climate that ensures a level playing field for firms, large and small, is a key factor for promoting shared prosperity. Appropriate regulation, rule of law, and creation of facilitating infrastructure are all part of this agenda. Policies that support financial inclusion create new opportunities for the self-employed and small-scale entrepreneurs in the bottom 40 percent.

Access to infrastructure is a major problem for the bottom 40 percent in many developing countries. For example, in Sub-Saharan Africa, only a tiny percentage of the bottom 40 percent has access to electricity.³² Even in the middle-income countries of East Asia, a very small percentage of the bottom 40 has access to water.³³ Clearly transport infrastructure is vital for workers in the bottom 40 percent to get to their jobs or for farmers in the bottom 40 percent to get their goods to market. Access to financial services is another problem that is now being monitored by the Bank's FINDEX database and annual reporting via the *Global Financial Development Report* (GFDR).

Ending discrimination is a key element in many countries. Discrimination based on gender, ethnicity, caste, religion, sect, or sexual orientation limits people's ability to deploy their capabilities in markets and earn a livelihood. In addition to the moral aspects of discrimination, exclusion of this form perpetuates cycles of poverty and constrains prosperity. Non-discrimination is a concomitant of shared prosperity, but it is also an end worth pursuing for its own sake.

Technological change, particularly, in information and communications technology (ICT), is opening up new possibilities for access to markets. Most developing regions now have 100 or more mobile subscriptions per 100 people; the lower-income regions of Sub-Saharan Africa and South Asia have 66 and 71 mobile subscriptions per 100 people, respectively. This technological revolution is changing access to information and access to markets, including financial instruments,³⁴ in dramatic ways. Access to the internet has increased massively in developing countries since the mid-2000s; however, there are still only 14 and 17 Internet users per 100 people in the South Asia and Sub-Saharan Africa regions, respectively.³⁵ The Internet has empowered populations to voice discontent on many occasions. Unfortunately, in some cases, the result has been that the Internet is being monitored (or access restricted), instead of allowing it to increase transparency, voice and accountability. These issues will be discussed in the upcoming 2016 *World Development Report*.

Box 1: Lessons from developing countries: practical interventions that work. Numerous programs – some of which were conceptualized in the developing world— are improving the living conditions of the bottom 40 percent in a variety of ways. A few examples are:

- (i) *Conditional Cash Transfer (CCT) programs.* The first programs were implemented in Brazil, Mexico and Bangladesh, but they have now been expanded to dozens of countries around the world. Most have been designed to be well targeted to the poorer segments of society providing a direct effect on raising the incomes of those families. Impact evaluations have shown that many of these programs have had positive effects on school attendance and children’s health outcomes. That said, more work is needed on how best to design the conditions used in CCTs. The poorest of the bottom 40 percent are the main beneficiaries of these programs.
- (ii) *Early Childhood Development (ECD) programs.* Investing in the human capacities and assets of the poor needs to start at the early stages of life. Multiple intervention programs focus on nutrition, health and pre-school education. Studies have shown that ECD programs have a high impact on cognitive skills development. There is scope, however, for important scaling up to include more children in these types of programs. The bottom 40 percent of the population often have less access to ECD-related services.
- (iii) *Bus Rapid Transit (BRT) Systems.* Originally conceived and implemented in Curitiba, Brazil, BRT systems, when well designed, have improved workers’ access to their jobs in a very cost effective way for local governments. BRT systems have also contributed to the safety of commuters and reduced pollution/carbon emissions. The basic design has been emulated in 180 cities worldwide – in developing and high-income countries. Many of the bottom 40 percent rely on public transportation to reach their jobs.
- (iv) *Mobile banking and payments.* Mobile phone technology has been spreading rapidly across the developing world. In addition to the direct impact on people’s lives, it has also opened up the possibility of using the technology to expand financial inclusion.

Sources: CCT Policy Research Report; Engle et al (International Child Development Steering Group), 2007, “Strategies to avoid the loss of developmental potential in more than 200 million children in the developing world,” *The Lancet*, Vol. 369; The Global BRT data site (www.brtdata.org); World Bank, 2014, *Global Financial Development Report: Financial Inclusion*.

In some countries, there are lagging regions where the bottom 40 percent of the population are concentrated. In these cases, highway and electricity infrastructure to link these lagging regions with the national economy may have the largest payoff for improving the incomes of the bottom 40 percent. In countries where the bottom 40 percent are concentrated in urban areas, regulatory reforms, urban services, and access to finance may be the priority areas. The key is to understand the needs of the bottom 40 percent in each country context for improving access to markets.

*f. Strengthening tax and transfer systems*³⁶

Public sector expenditure priorities can be directed toward areas of interest to the poor and bottom 40 percent. Recent analysis shows how countries can use fiscal policy to address inequality in an efficient manner.³⁷ For example, education spending can affect the inequality of market outcomes through their impact on future earnings and progressive income taxes can improve income distribution.

Fiscal policy has played a significant role in lowering inequality in high-income countries. For instance, in 2005, the average Gini coefficient for disposable income was 0.29, compared with 0.43 before the effects of government tax and spending policies are taken into account.³⁸ On the expenditure side, most of the impact of government policy on inequality was achieved through transfers. On the tax side, personal income taxes were the more important factor in reducing inequality. Gender plays an important dimension as well, with many cash transfers functioning more successfully when women are empowered to receive the funds.

Much less evidence is available on the distributional incidence of fiscal policy in developing countries. Lower tax-to-GDP ratios limit the scope for social spending to obtain a more equitable distribution of income. Larger informal sectors hamper tax collection, especially of income taxes. Recent evidence from Latin America shows that Gini coefficients are lower when comparing market incomes with “post-fiscal” incomes that include the effects of taxes and transfers, with Gini declines on the order of three Gini points in some countries (e.g., Brazil and Uruguay) but smaller impacts in other countries (e.g., Peru and Bolivia). Much larger effects are found when taking into account the benefits received

from “free” government services, like education and health.³⁹ But to finance this, the state needs to tax or earn rents on property owned by the state.

On the broad menu of options, policy makers cope with varying circumstances in their own countries. For example, where capacity is weak and resources insufficient for enforcement of progressive income taxes, it may be necessary to focus on the expenditure side of the budget for introducing distributional instruments. Fiscal resources can also be generated in a progressive way by reducing regressive subsidies. On cash transfers, demographic issues may affect design; for example, in terms of the balance between targeting families with children, and targeting the elderly. In addition, implementation and monitoring capacity may affect the practical choice of whether to introduce “co-responsibilities” (the conditional element) to cash transfers or use unconditional cash transfers.

The International Monetary Fund (IMF) recently conducted analysis on fiscal policy and income inequality. To conduct redistributive policies at a minimal efficiency cost to the economy, the policy options offered were: “In advanced economies: (i) using means-testing, with a gradual phasing out of benefits as incomes rise to avoid adverse effects on employment; (ii) raising retirement ages in pension systems, with adequate provisions for the poor whose life expectancy could be shorter; (iii) improving the access of lower-income groups to higher education and maintaining access to health services; (iv) implementing progressive personal income tax (PIT) rate structures; and (v) reducing regressive tax exemptions. In developing economies: (i) consolidating social assistance programs and improving targeting; (ii) introducing and expanding conditional cash transfer programs as administrative capacity improves; (iii) expanding noncontributory means-tested social pensions; (iv) improving access of low-income families to education and health services; and (v) expanding coverage of the PIT. Innovative approaches, such as the greater use of taxes on property and energy (such as carbon taxes), could also be considered in both advanced and developing economies.”⁴⁰

g. International coordination

Globalization implies the need for policy coordination to promote and sustain shared prosperity in all countries. Some research findings suggest that trade openness has contributed overall to declines in national inequality.⁴¹ That said, there is growing concern, especially in some high-income countries, that globalization itself has contributed to growing inequality through the displacement of lower-skill manufacturing jobs. These concerns can be addressed through domestic policies that support skills development and retraining, rather than engaging in protectionism, which is self-defeating over the longer term. Promoting an open trade regime, through the World Trade Organization (WTO) and other instruments, is a clear area for multilateral cooperation. Perhaps the most important area for international coordination, from a sustainability perspective, is international coordination to reduce greenhouse gas emissions.

V. Role of the World Bank Group

a. Shared Prosperity: Transforming the World Bank Group’s work

The shared prosperity goal, by design, places a focus on both economic growth and inequality concerns, as well as sustainability over time. There is already increased analytic work at the global and regional levels (e.g., ECA, LAC and South Asia) to deepen our understanding of the implications of the goal, as well as recent trends at the global, regional, and national levels. The Policy Research Report released during the 2014 Annual Meetings provides an overview of the conceptual and measurement issues surrounding shared prosperity, as well as projections and measurement concerns surrounding the extreme poverty goal. The Policy Research Report suggests that both goals should be considered simultaneously when considering what policies, programs and interventions should be undertaken. The 2014 GMR initiates the formal annual monitoring of the goals and provides insights on policy aspects of

realizing the goals. The Sub-Saharan Africa region is preparing a regional report on the goals, as is the East Asia and Pacific region, and the Middle East and North Africa region plans to do a regional study on shared prosperity as well. In brief, every region has either recently completed or is initiating regional work on shared prosperity, the twin goals, or inequality.

The World Bank Group faces the challenge of tightening the focus of its programs and dramatically increasing their impact to help countries meet the twin goals. While implementation of the new organizational structure is in its early stages, there are many examples of new approaches and some are highlighted in this section to illustrate progress. More specifically, last year's endorsement of the two goals has already changed the approach to country programs in some major countries, as well as inspired new coordinated efforts across the Group to support transformational projects. At the same time, implementation is still a work in progress: continued learning and adjustments will be needed as the process continues.

The World Bank Group has improved its financial capacity by increasing development partner contributions to WBG funds in response to the needs of client countries. This includes enhancing contributions from emerging economies and other new players; leveraging and ensuring the complementarity of WBG financial resources and instruments including market-based finance (IBRD), unearmarked concessional finance (IDA), earmarked concessional finance (trust funds), and private sector resources; and aligning the use of all funds with the WBG strategy.

b. Country engagement

The discussion of the shared prosperity goal and the design of policies, programs and interventions lead to one key strategic focus at the country level: understand the needs of the bottom 40 percent of the population and establish a country engagement that is tailored to those needs. The new Country Engagement Model introduces the analytic elements needed to identify the key policy interventions and instruments for each individual country. A new core diagnostic product, the Systematic Country Diagnostic (SCD), is to be prepared prior the preparation of the Country Partnership Framework (CPF). The new Country Engagement Model also places a greater emphasis on learning from experience throughout the implementation of the country program.

Box 2: The India Country Program's focus on the twin goals. The goals are already changing the focus of country programs, and the India Country Partnership Strategy is a good example. India is home to nearly a third—or around 300 million—of the world's people living in extreme poverty. The Government of India's 12th Five Year Plan (FY13-FY17), supported by the World Bank Group's Country Partnership Strategy (CPS), seeks to make growth not only faster, but more inclusive. Central to the World Bank Group's strategy are two long-term scenarios articulating a vision for India in 2030.

The diverse experience of the Indian states during 2005-10 provides insights into India's long-term potential. What set states apart in India was not necessarily their economic growth performance. Until recently, low-income states grew more slowly, but growth rates across other states did not vary dramatically. However, the inclusiveness of growth varied across states. Analytical work underpinning the CPS indicates a strong correlation between India's overarching goals and intermediate development outcomes. Rapid growth is associated with higher urbanization rates, faster poverty reduction with better human development indicators—especially lower infant mortality—and shared prosperity with off-farm employment. In addition, the same aggregate growth rate can lead to faster poverty reduction if there is greater convergence across states, and the poorer ones catch up faster.

Pursuing the twin goals called for at least two major strategic shifts in the WBG program in India. One is the more pronounced focus on low-income and special category states, which together account for half of India's poor people. Many of these states have poverty rates and human development indicators comparable to the world's poorest countries; but because they are starting from a lower base, marginal returns on investment can be higher in their case. The other strategic shift is a focus on the rural-urban transition and supporting the government in its efforts to

create functional secondary cities, urban centers that create jobs and provide services meeting the expectations of a rapidly developing India. The country team is continuing to advance knowledge through a cluster of knowledge services on poverty and shared prosperity.

In the implementation of the India CPS, a renewed emphasis on transparency and results has been combined with creative use of ICT to allow country clients and the development community to access information on the country program via the website: openindia.worldbankgroup.org. Data cover both analytic-advisory services and financial services delivered by either IBRD-IDA or the IFC. See www.openindia.worldbankgroup.org.

The India example in box 2 shows how the goals can and should shape the strategy. The Country Partnership Strategy (CPS) in India first used key analytics related to the goals, before designing the contours of the strategy. The WBG has established a formal process for preparing an SCD as the first step in the new Country Engagement Model.

(i) **Systematic Country Diagnostic (SCD).** The SCD, as mentioned in the previous section, uses a conceptual framework that focuses on identifying the key constraints (and opportunities) to growth, its inclusiveness, and its sustainability. The first step is to frame the issues with respect to the goals by providing an overview of the trends in growth, the inclusiveness of growth, and key sustainability concerns. This will include descriptive data that profiles the living conditions of the poor and the bottom 40 percent. At this stage, country data limitations will also be brought to the forefront. A series of questions will then be addressed. First, for example, what are the critical factors driving or constraining productivity, private sector investment, entrepreneurship, and aggregate growth? This would lead to more detailed questions to drill down in each of these dimensions. Second, another set of questions focus on identifying the critical factors determining the inclusiveness of growth. Third, a set of questions will explore how sustainable is the current pattern of growth, distribution, and poverty reduction. The analytic framework is broad enough to be compatible with a variety approaches, including the ECA and South Asia Region approaches discussed in the previous section. And the framework allows one to identify policies for building assets and human capacities, access to markets, and fiscal systems to sustainably finance transfer mechanisms.

A key challenge facing teams preparing SCDs is how to arrive at clear and specific priorities. Most countries face multiple constraints and identifying them is often easier than ranking them. The interim guidelines for SCDs suggest ranking the constraints in a variety of dimensions: (i) overall impact on the goals; (ii) time horizon of impacts; (iii) preconditions (yes/no, based on whether the constraint is a fundamental issue for assuring a basic minimum standard of living or a macro constraint that affects all, like a financial crisis); (iv) complementarities; (v) evidence base (how strong the evidence is on the likely impact); and (vi) political feasibility.

The SCD should be an objective analysis of the key constraints and opportunities for reaching the goals. It should then inform the new Country Partnership Framework (CPF) where country teams would then apply another set of criteria to see which priority areas the WBG should devote its efforts. This would include the World Bank Group's comparative advantage relative to other development agencies.

(ii) **Country level examples.** There are many examples of innovative approaches to promoting shared prosperity through the use of a variety of WBG instruments. For the overarching theme of improved **governance**, the first Pakistan Program-for-Results (P4R) (at the sub-national level) uses innovative citizen feedback mechanisms (via mobile phones, texting, help-lines) to enhance service delivery and address corruption. In Tunisia, the Social Protection Reforms Support Project also uses innovative techniques to improve access to information on social protection programs and labor reforms, along with outreach via media and citizen surveys. Data is essential for good **governance** and program design. In Haiti, the World Bank worked collaboratively with the government through technical assistance to produce the first household survey in 10 years. The process built broad country ownership of the

poverty estimates, and generated the scope for additional analytical and action oriented analysis. *Governance* concerns extend to workplace regulation, as well. One example of the WBG's work in this area is the IFC's ongoing efforts to help the apparel industry become more competitive and sustainable by working with partners (including the International Labor Organization, ILO) to strengthen occupational, environmental, safety and labor standards.

The WBG has been scaling up efforts to assure the *sustainability* of shared prosperity – another overarching issue. Examples include the Morocco Inclusive Green Growth DPL, supporting the government to strengthen management of natural resources and encourage a shift towards low carbon growth. Small island states suffer from disaster risks, and the innovative Caribbean Catastrophe Risk Insurance Framework is now being expanded to Central America. The ECA region is supporting 15 countries in implementing energy tariff and subsidy reforms.

There are many examples of important work in *enhancing human capacities and building assets*, and a few examples are noted here. In Turkey, the IFC has supported public-private partnerships in the health sector that have reached about seven million patients. In Central America, the World Bank is supporting scholarship programs, full-time school models, and labor intermediation programs in Honduras and El Salvador. In Indonesia, the World Bank worked closely with the government to develop a unified household registry of the bottom 40 percent of the population; the registry is being used in a range of programs providing targeted assistance, from scholarships for children from low-income families, to CCTs linked to child immunizations and pre-natal and post-natal care. In terms of *improving access to markets*, small firms need a reliable energy supply to produce their goods for markets. In Sub-Saharan Africa, the WBG is supporting energy infrastructure in multiple countries, given the extraordinarily low access to electricity for the bottom 40 percent. In addition, the Sub-Saharan Africa region is focusing on rural, land, water, and agriculture interventions as packages of support in nearly every major river basin in the region. The IFC in Africa is also supporting value chain investments for agribusiness in multiple countries. In terms of *strengthening tax and transfer systems*, the WBG has been extremely active in knowledge sharing on the design of CCTs, and Social Assistance and Safety Net investment loans are financing the modernization of the delivery of these programs (e.g., in Pakistan and Romania).

In the area of *gender equality*, there are several important examples of Bank Group work across instruments. Development policy operations have supported implementation at the state level of domestic violence legislation in Brazil and micro lending to women in Burkina Faso. A rural electrification project in Mali aims to improve household air quality and reduce associated health risks that impact women and children. Land tenure regularization in Rwanda, supported by DFID and the World Bank, has helped improve the lives of female-headed households, as documented by impact evaluations conducted by Bank staff. The Sub-Saharan Africa Region's *Gender Innovation Lab* works with partners on innovative approaches to research projects on what works to close gender gaps. (See the Development Committee paper: "Update on the Implementation of the Gender Equality Agenda at the World Bank Group.")

c. Global engagement

Global Practices are designed to provide services to clients and share knowledge from around the world. They are defined along relatively narrow specializations to focus on technical skills at the highest level. Promoting shared prosperity sustainably in every country requires this level of technical expertise. Global partnerships are a key in several areas, including the proposed Global Infrastructure Facility (GIF).

i. Global knowledge exchange. Global experience on what works and does not work is central to delivering value to WBG clients. Whether building the human capital assets of the bottom 40 percent, improving access to markets, or delivering conditional cash transfers, both design and

implementation can benefit from the lessons and experience of others. Data, research, analytics and curating of knowledge are all vital functions in this regard. DEC, Global Practices (GPs) and CCSAs will need to work with clients and partners internally and externally to develop and capture the lessons of experience. Often the role of the GP is to facilitate knowledge exchange between countries. The new Global Practice online portals are an important tool that, once fully operational, aims to assure that global experience can bring solutions to development problems across the globe.

Knowledge exchange can yield strong results for sustainable growth with a better distribution of income. The World Bank Group is scaling up its efforts to facilitate knowledge exchange across the developing world. Box 3 provides some examples of the Sub-Saharan African experience. New knowledge hubs have been established, or are in the planning stage, in Japan (Tokyo Development Learning Center), Singapore (focus on infrastructure, urban development and financial services), the Republic of Korea, and China. On innovation policy, there is a new World Bank/OECD Innovation Policy Platform. The LAC region of the World Bank has started systematically tracking recent and ongoing knowledge exchanges and the information is made available on a publicly available database. Close to 100 exchanges were identified in FY13, more than the total cumulative number achieved in the previous three years. Two thousand participants were reached in one year, 40 percent of which were from receiving countries in other regions. India, Vietnam, the Philippines and Indonesia were the top recipients, while Brazil (34 percent), Mexico (24 percent), and Colombia (23 percent) were the top providers.

Box 3: South-south knowledge transfers in Sub-Saharan Africa. World Bank Group client countries have shared their experience with less developed countries in Sub-Saharan Africa, and these interactions have become more frequent and intensive in recent years. Some examples are the following:

- China sharing expertise with Ethiopia on the development of the Expressway master plan.
- Chile sharing lessons learned with Zambia on the use of royalties from the mining sector to invest in social development.
- Colombia's exchange with Burundi on promoting sustainable coffee landscapes.
- Seychelles' providing lessons to Cape Verde on the development of the tourist sector.
- Community of Practice on CCTs (includes 11 SSA countries).

Source: Sub-Saharan Africa Regional Update to the Board of Directors, May 2014

ii. Data and research. The timeliness and frequency of data collection urgently needs to improve.⁴² More funding is needed for data and greater support to improve the capacity of statistical agencies, and even more emphasis needs to be placed on the importance of open access to data. Beyond producing more frequent surveys, however, more attention to the careful design and collection of data is required. New technologies and statistical approaches can help to bridge some of the gaps in data measurement and assessment. For example, technological innovations, such as computer-assisted interviews or mobile phone-based data collection, can help improve the frequency of surveys, especially in geographically dispersed countries. The use of new technologies that can improve data collection and the use of well-designed survey-to-survey imputations should be scaled up. The WBG's Data for Goals Initiative aims to improve substantially the availability and quality of data on poverty and shared prosperity, to inform policy and track progress by coordinating efforts across Global Practices and CCSAs.

More evidence on what works is vitally needed, through impact evaluations and other multi-disciplinary techniques. More and better impact evaluations are one line of future research. Beyond impact evaluations, a promising line of work is to develop "adaptive capacity" in projects via a "social observatory approach."⁴³ To improve implementation, impact evaluations need to be integrated with monitoring and decision support systems, methods to understand mechanisms of change, and efforts to build feedback loops that pay attention to everyday and long-term learning. To achieve this, there are two guiding principles: embedded research and inter-disciplinarity. Embedded research implies frequent

contact between researchers and project implementation teams to ensure learning between the groups and to ensure the practical relevance of new research. The Social Observatory is one example. It is comprised of an integrated, inter-disciplinary team to bring various perspectives and allow “the question to determine the method.”

More research could help disentangle the relationship between growth and inequality; however, microeconomic evidence may be the key, especially for understanding the role of policy. The cross-country growth regression literature has produced mixed results.⁴⁴ In the general empirical literature on the determinants of growth, understanding the productivity and dynamics of firms at the micro level has become the predominant line of inquiry. Similarly, one could take a more micro approach on the growth-inequality questions, drawing on case studies and natural experiments. Policy makers often target certain interventions to disadvantaged groups in an attempt to reduce future inequality of opportunity. Some examples are anti-discrimination laws against minorities, early childhood interventions for certain ethnic groups, schooling and mentoring programs for adolescent girls, and interventions to give voice and increase the participation of oppressed groups. To the extent that such interventions cause strong changes in measurable inequality of opportunity, they can be used as instruments to study the relationship between inequality of opportunity and subsequent growth.

iii. Global policy coordination. Global policy coordination is needed in particular areas to promote shared prosperity at the national level. Trade policy is a traditional area where the Bank has played a role. Macro and fiscal policy coordination would be important as well, with the IMF in the lead, but where the WBG can contribute in close collaboration. At the project level, the WBG can structure multi-country projects often for transport, water, and energy infrastructure, where cross border linkages are key for transformational impact. Regional initiatives in the Sahel and Great Lakes region of Africa represent two examples of this approach that are already underway. Climate change is arguably the single most urgent area, so the Climate Change CCSA takes on a particularly important challenge in the global policy realm. The WBG is engaging actively in the shaping of the post-2015 Development Agenda and the formulation of the Sustainable Development Goals (SDGs). The WBG’s twin goals are not just consistent with the emerging SDGs but are reinforced by them. These are only a few examples of the WBG’s work in global policy coordination.

d. One World Bank Group: Roles of both the public and private sectors

To promote shared prosperity sustainably, income earning capacity of the bottom 40 percent needs to improve. This implies better job opportunities and higher productivity for small scale farmers and small scale enterprises. As a result, the public and private sectors must work together in complementary ways to promote shared prosperity. The World Bank Group is making progress in assuring a complementarity of its own activities across the agencies of the group, working with both the public and private sectors in client countries.

For financing public sector activities, IBRD and IDA have enhanced resources. IBRD’s annual lending commitment capacity will expand from the currently constrained \$15 billion per year to more than \$25 billion per year. The maximum loan book possible in the next 10 years will increase from about \$200 billion to nearly \$300 billion and the Bank’s countercyclical crisis response capacity will be boosted. IDA concluded the highest replenishment round ever of US\$52 billion for IDA 17. IDA is transforming to be able to increase support to a more heterogeneous group of low and lower-middle income countries by providing increased financing at concessional terms, which will help IDA-eligible countries to pursue their developmental goals while maintaining fiscal sustainability. Going forward, IDA financing will focus on helping fragile countries address their underlying causes of fragility, conflict, and violence; help countries reduce the gender gap in economic and social dimension; and address the negative impact of climate change, which affects disproportionately the poor. This increased financing

capacity complements the knowledge agenda linked to the Global Practices and CCSAs for providing support to the public sector.

The IFC has carried out several analyses outlining its contribution to the World Bank Group (WBG) goals through support of the private sector.⁴⁵ The findings highlight that the key contribution of private sector engagement to these goals is through supporting economic growth, job creation and provision of critical goods and services. In the case of economic growth, IFC's support to firms helps enhance sector competitiveness through productivity enhancement, deepening linkages and generating demonstration effects. Further, in some cases, IFC's engagement also helps bring about market transformation. Sound infrastructure and investment climate are precursors to creating growth and IFC's support in these areas contributes to providing the conditions for growth. The private sector is a key conduit for job creation and IFC's support is targeted towards clients and sectors that have the potential for (i) significant job creation (both direct and indirect), (ii) enhance the quality of jobs, and (iii) skill building. These areas are all transmission links to achieving the WBG goals. Finally, the private sector also provides access to critical goods and services including access to utilities, markets, and social services. Not only do these have a direct impact on the lives of the poor and the bottom 40 percent, they are also important in removing constraints to growth and job creation.

These links to the goals can be further strengthened through the new Country Engagement process, as priority areas for investment will be identified based in part on the likelihood of maximum impact on the twin goals, as discussed in the SCD. This prioritization could factor in conditions that increase the likelihood of inclusion, such as demographics (e.g., women and youth), geographical location (e.g., rural versus urban poverty), and sectors with potential links to the poor (e.g., labor intensive manufacturing).

Box 4: Recent examples/experience with complementary instruments across the WBG. The experiences below have close ties to promoting shared prosperity in their respective countries. The examples span a variety of sectors and regions. Not all these projects will necessarily succeed, as several are highly complex and risky; however, the synergies across the WBG enhance the likelihood of success.

-Power Sector in Central-South Asia, Sub-Saharan Africa and East Asia and Pacific regions:

- (i) Central Asia and South Asia (CASA) regional power project, Pakistan Power Sector Transformation – AAA, TA (IFC investment and advisory, MIGA, IDA and partner financing),
- (ii) Azito Power Project in Côte D'Ivoire (IFC, MIGA),
- (iii) Côte D'Ivoire oil and gas (MIGA, IFC, IDA),
- (iv) Nepal Hydropower Sector Transformation (IBRD-IDA, IFC, MIGA),
- (v) Mauritania Gas, Myanmar Power (IDA, MIGA, possibly IFC)
- (vi) Kenya Thika Power Project (MIGA, IFC)

-Private Partnership for Health in India (IBRD, IFC),

-Climate Change in India (IBRD-IDA, IFC, MIGA)

-Access to Finance in Sri Lanka and Yemen (IBRD-IDA, IFC)

-Joint work on job creation in MENA (IBRD-IDA, IFC, multiple instruments across countries)

-One WBG climate change action (IBRD-IDA, IFC, and MIGA: investments in renewable generation and financial innovation for reduced emissions and energy efficiency)

-TA on trade and logistics in Greece (IBRD, IFC)

-Tunisia investment climate reforms (IBRD DPL, IFC advisory)

-Nepal-India cross-border trade (IFC advisory services, IBRD-IDA TA and investment projects)

MIGA is adjusting its strategic focus in line with the twin goals. In the FY15-17 period, MIGA plans to shift its priorities toward IDA countries, FCS, transformational projects, energy efficiency and climate change, and transactions with strong development impact in middle-income countries. Over the next few years, MIGA will continue to increase its activities in Sub-Saharan Africa (e.g., in power generation) and the Middle East and North Africa (e.g., job creating enterprises), while strengthening its business development efforts in South Asia (e.g., energy), East Asia (infrastructure), and Latin America and the Caribbean (e.g., urban mobility) and maintaining its already strong position in Europe and Central Asia (e.g., financial sector).

Collaborative activities across the agencies of the World Bank Group have grown substantially since the new WBG Strategy was approved. This collaboration ranges from the strategy setting stage to program implementation in the realms of advisory services and financial instruments. Box 4 provides some examples of recent collaborative efforts that are underway.

¹ World Bank Group, *World Bank Group Strategy*, 2013, page 5.

² Different techniques can be used depending upon which measure of inequality is used. A classic reference is G. Datt and M. Ravallion (1992), “Growth and Redistribution components of changes in poverty measures: A decomposition with applications to Brazil and India in the 1980s” *Journal of Development Studies*, Vol. 38, pp. 275-295.

³ See D. Rosenblatt and T. McGavock, 2013, “A Note on the Simple Algebra of Shared Prosperity Indicator,” World Bank Policy Research Working Paper 6645 .

⁴ World Bank, 2014, “Growth in the Post-Crisis Global Economy: Policy Challenges for Developing Countries.” Development Committee Paper, Spring 2014.

⁵ See D. Dollar, T. Kleineberg and A. Kraay, 2013, “Growth Still is Good for the Poor,” World Bank Policy Research Working Paper 6568.

⁶ See P. Fajnzylber, D. Lederman and N. Loayza, 2002, “What Causes Violent Crime,” *European Economic Review*, 46, 1323-1357. They find that higher inequality is associated with higher crime rates. The empirical literature, however, is not conclusive on the link.

⁷ This section draws on World Bank, 2014, *A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals*. A World Bank Policy Research Report.

⁸ See World Bank, 2012, *Inclusive Green Growth: The Pathway to Sustainable Development*.

⁹ On macroeconomic dimensions of the issue, see IMF, 2012, “Fiscal Regimes for Extractive Industries: Design and Implementation,” August 15, 2012; and IMF, 2012, “Macroeconomic Policy Frameworks for Resource-Rich Developing Countries,” August 24, 2012. On energy subsidies, see IMF, 2013, “Energy Subsidy Reform: Lessons and Implications,” January 28, 2013.

¹⁰ One useful approach to measuring inequality of opportunity is the Human Opportunity Index. See R. Paes de Barros, F.H.G. Ferreira, J.R. Molinas Vega, and J.S. Chanduvi, 2009, *Measuring Inequality of Opportunities in Latin American and the Caribbean*.

¹¹ See Chapter 2 of World Bank, 2014, *A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals*. A World Bank Policy Research Report..

¹² Based on real mean per capita consumption or income measured at 2005 Purchasing Power Parity (PPP) using the PovcalNet (<http://iresearch.worldbank.org/PovcalNet>) with the exception for Hungary, Kazakhstan, Latvia, Lithuania, Romania, Slovak Republic, Slovenia, Tajikistan (numbers provided by ECATSD), India (provided by South Asia Poverty GP), and Rwanda (provided by Africa Poverty GP). The initial year refers to the nearest survey collected 5 years before the most recent survey available, only surveys collected between 3 and 7 years before the most recent survey are considered. The final year refers to the most recent survey available between 2008 and 2012. See the *Global Monitoring Report 2014: Ending Poverty and Sharing Prosperity* for more details

¹³ See the *Global Monitoring Report 2014: Ending Poverty and Sharing Prosperity* for more details.

¹⁴ World Bank, 2011 World Development Report: *Conflict, Security, and Development*.

¹⁵ Authors’ calculation based on data from Maddison (which is adjusted for Purchasing Power Parity).

¹⁶ See C. Lakner and B. Milanovic, 2013, “Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession,” World Bank Policy Research Working Paper 6719. This paper also finds a higher global Gini of 0.76 when adjusting survey data for underreporting of incomes by the top 10 percent.

¹⁷ See F. Bourguignon and C. Morrison, 2002, “Inequality among world citizens: 1890-1992,” *American Economic Review*, 92(4), pp. 727-744.

¹⁸ Thomas Piketty, 2014, *Capital in the Twenty-First Century*, Harvard University Press. One paper uses similar techniques in a developing country: A. Bannerjee and T. Piketty, “Top Indian Incomes, 1922-2000,” *World Bank Economic Review*, 19(1), pp 1-20.

¹⁹ On the issue of managing urbanization, see World Bank and IMF, *Global Monitoring Report 2013: Rural Urban Dynamics and the Millennium Development Goals*.

²⁰ See, for example, N. Lustig, L. F. Lopez-Calva, and E. Ortiz-Juarez, 2013, “Deconstructing the Decline in Inequality in Latin America,” World Bank Policy Research Working Paper 6552. F.H.G Ferreira et al, 2013, *Economic Mobility and the Rise of the Latin American Middle Class*, a World Bank Latin American and Caribbean regional study

²¹ See A. Kraay, 2006, “When is Growth Pro-Poor: Evidence from a Panel of Countries,” *Journal of Development Economics*, 80(1), 198-227.

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- ²² See R. Anand, S. Mishra and S. J. Peiris, 2013, “Inclusive Growth: Measurement and Determinants,” IMF Working Paper 13/135. May 2013. Also see D. Dollar, T. Kleineberg and A. Kraay, “Growth, Inequality and Social Welfare: Cross-Country Evidence,” World Bank Policy Research Working Paper 6842.
- ²³ World Bank, 2014, “Interim Guidelines for Systematic Country Diagnostic (SCD).”
- ²⁴ M. Bussolo and L.F. Lopez-Calva, 2014, *Shared Prosperity: Paving the Way in Europe and Central Asia*, World Bank Europe and Central Asia Studies.
- ²⁵ World Bank, forthcoming, *Addressing Inequality in South Asia*.
- ²⁶ See IMF, 2014, “Fiscal Policy and Income Inequality,” IMF Policy Paper, January 23, 2014. Also see J. Ostry, A. Berg, and C.G. Tsangarides, 2014, “Redistribution, Inequality, and Growth,” IMF Staff Discussion Notes 14/02 (Washington: International Monetary Fund).
- ²⁷ See K. Basu, 2010, *Beyond the Invisible Hand: Groundwork for a New Economics*, Princeton University Press (chapters 8 and 10).
- ²⁸ Note that the 2014 WDR, *Risk and Opportunity*, develops a broader framework for understanding risk and the impact on households – particular the poor.
- ²⁹ From the draft 2015 WDR, *Mind and Society*, as cited in the draft 2014 GMR
- ³⁰ Chapter 4 of the GMR 2014 provides more details on policies for human capital development using the World Bank’s “STEP” framework – “Skills Toward Employment and Productivity.”
- ³¹ E. Ianchovichina and S. L. Gable (2012) develop an “inclusive growth” framework that is focused on employment and labor productivity as well. (Chapter 8 of Arezki, Pattillo, Quintyn and Zhu, *Commodity Price Volatility and Inclusive Growth in Low-Income Countries*, International Monetary Fund.)
- ³² See data at the “Visualize Inequality” website <http://www1.worldbank.org/poverty/visualizeinequality>.
- ³³ Data also from the “Visualize Inequality” website cited in endnote 28.
- ³⁴ See *Global Financial Development Report* (GFDR), for example.
- ³⁵ *World Development Indicators*, data are for 2013.
- ³⁶ Also see Box 1.6 in the 2014 *Global Monitoring Report*.
- ³⁷ See J. D. Ostry, A. Berg, and C. G. Tsangarides, “Redistribution, Inequality, and Growth,” IMF Staff Discussion Note, SDN/14/02, February 2014.
- ³⁸ Data from GMR, Box 1.6.
- ³⁹ See N. Lustig, C. Pessino and J. Scott, 2013, “The Impact of Taxes and Social Spending on Inequality and Poverty in Argentina, Bolivia, Brazil, Colombia, Mexico, Peru and Uruguay: An Overview,” Inter-American Dialogue/CIPR/Tulane Working Paper Number 13.
- ⁴⁰ IMF, 2014, “Fiscal Policy and Income Inequality,” IMF Policy Paper, January 23, 2014, *Executive Summary*.
- ⁴¹ See F. Jaumotte, S. Lall, and C. Papageorgiou, 2013, “Rising Income Inequality: Technology, or Trade and Financial Globalization?” *IMF Economic Review*, Volume 61, Number 2. On the other hand, the authors find that higher levels of FDI are associated with higher levels of inequality.
- ⁴² See the Policy Research Report on the twin goals (cited in note 7 above) for more details on this issue.
- ⁴³ See the blog on Development Impact by Vijayendra (Biju) Rao, “Are Impact Evaluations Enough? The Social Observatory Approach to Doing-by-Learning.”
- ⁴⁴ See F. H. G. Ferreira, C. Lakner, M.A. Lugo M. A, and B. Ozler, 2014, “Inequality of Opportunity and Economic Growth: A Cross-Country Analysis,” World Bank Policy Research Working Paper 6915.
- ⁴⁵ See, for example, the *SmartPractice* note, N. Gregory and R. Michelitsch, 2014 “Lines of Sight: Private Sector Development and the ‘Twin Goals’ of Extreme Poverty Eradication and Shared Prosperity,” April 2014.