**Approach Paper**
**The World Bank Group's Support for**
**Shared Prosperity Evaluation**

**Report to the Board from the Committee on Development Effectiveness**
**Sub-Committee Report***

**Meeting of August 31, 2016**

The Sub-Committee (SC) of the Committee on Development Effectiveness (CODE) met to consider the IEG approach paper entitled *The World Bank Group's Support for Shared Prosperity* (CODE2016-0047).

The Committee welcomed the opportunity to discuss the approach paper of this important real-time evaluation with a learning rather than an accountability focus. Members were broadly satisfied with the scope of the evaluation, highlighting the need for close collaboration between IEG, WBG Management and DEC. The Committee was pleased to learn that in selecting the countries for the case studies, IEG would ensure an appropriate balance across regions, income and inequality levels and will include countries affected by Fragility, Conflict and Violence (FCV) and/or small states. A number of members felt that the approach paper questions could be clarified to ensure that the relevant and comprehensive answers are obtained and suggested that IEG take into account how country preparedness for unexpected crisis affects shared prosperity achievements and rigorous the Bank is adopting systematic diagnostics to address inequality. They also encouraged IEG to look at the role that infrastructure plays in access to services and opportunities; at the impact of economic policies that create quality and decent jobs and social policies that improve health and education outcomes; the effect of institutional and regulatory framework on bottom 40 percent; the tradeoffs between the twin goals; and the tools and indicators the Bank uses, such as the corporate scorecard, to promote shared prosperity.

Since shared prosperity was recently adopted as a corporate goal and only a few number of SCDs and CPFs have been conducted, members acknowledged that the report's conclusions and lessons would have to be sufficiently nuanced to take this into account and therefore suggested that at a more comprehensive review be conducted at a later stage. The Committee was pleased to learn that IEG's poverty report and upcoming SCD/CPF and Data evaluations will provide inputs for this evaluation. IEG underscored they would continue to work closely with DEC in order to ensure learning and consistent access to data, recognizing the challenges of quality data availability. Members appreciated that IEG acknowledged the challenges of attribution to the bottom 40%, and that a large share of IFC interventions – such as infrastructure, access to finance, human capital and the investment climate – impact the bottom 40% by enabling broad-based growth and contestable markets. These are essential to shared prosperity and are at the forefront of IFC strategy, but yet difficult to measure due to the multiple, complex transmission channels through which the incomes of the bottom 40% are impacted.

* This report is not an approved record.

**Approach Paper**

# The World Bank Group's Support for Shared Prosperity

**June 27, 2016**

## I. Background and Context

### Introduction

1. The Development Committee in October 2013 endorsed the new World Bank Group (WBG) strategy comprising the twin goals of ending extreme poverty and boosting shared prosperity in every developing country (see World Bank Group 2013). The goal of ending extreme poverty is operationally defined as the percentage of people living on less than $1.90 a day (in 2011 Purchasing Power Parity terms), which is to be reduced to 3 percent globally by 2030. Shared prosperity is defined as "foster(ing) the income growth of the bottom 40 percent of the population (B40)." (World Bank 2013, p.1). Also, "two goals emphasize the importance of economic growth, inclusion and sustainability—including strong concerns for equity." (World Bank 2013, p.1). The twin goals are related: projections indicate that the first goal will be very difficult to achieve without sufficient improvements in the distribution of income (World Bank 2014a). Over the past three years, the WBG has been reorienting its country client model towards the new goal of shared prosperity, but the World Bank Group has been pursuing distributional objectives for a long time. This evaluation will address how well has the Bank Group been pursuing distributional objectives in its strategies, projects and key knowledge products, including towards explicit goal of shared prosperity, how can recent operational experience inform current efforts, and what lessons can be learned from the early experience with implementation of the new goal of shared prosperity.

2. The concept of shared prosperity is not new. The WBG has been supporting policy interventions that aim to foster development for the purpose of expanding opportunity, integrating markets, and delivering services: rural development initiatives, mandatory education standards, or national vaccination drives are examples. Around the mid-20$^{th}$ century, income inequality was viewed somewhat as a natural byproduct of development and a key ingredient of the incentives wards risk and entrepreneurship (Kuznets 1954, Lewis 1954); some now label this as 'good inequality.' Increasingly, however, high income and wealth inequality are understood to have potentially negative effects on economic growth and on its poverty-reducing impact (Aghion, Caroli, and Garcia-Penalosa 1999; Stiglitz and Hoff 2001; Bourguignon 2004) - 'bad inequality.' Its many sources include imperfect or missing markets, inequality that constrains the ability to achieve individual potential, or other factors preventing a 'level playing field.' In 1990, World Development Report (WDR) on poverty recognized the importance of income inequality. A decade later, a focus on 'pro-poor growth' emerged, noting that some growth patterns had a

greater impact on poverty reduction (Ravallion and Chen, 2002, Kakwani 2000, World Bank et al, 2005). Concern has been raised that high and increasing inequality can be destabilizing and a hindrance to poverty reduction (World Development Report on Poverty 2000, Piketty 2014). Hence the importance of focusing development efforts on and policies on equity or 'shared prosperity' (World Bank 2014, 2015). Also, inequality issues have emerged center stage globally as the United Nations has recently adopted the principle "no one will be left behind," the Sustainable Development Goals, and the 2030 agenda for sustainable development (UN General Assembly 2015, preamble).

3. The IEG has recently completed an evaluation 'Poverty Focus of Country Programs: Lessons from the World Bank experience' (2015), which examines the consistency of poverty focus in each of four links in a causal chain: data, diagnostics, strategy formulation, and strategy implementation through lending and nonlending instruments and feedback loops to improve program design and implementation. The present evaluation—which builds on the poverty evaluation—has twin objectives to document, analyze, and learn how (i) the Bank has been designing and implementing its interventions towards distributional objectives and (ii) how the Bank has, more recently, reoriented its country strategies and lending and knowledge instruments towards the corporate goal of shared prosperity. Timing of this evaluation is opportune, close to three years since the Bank announced its second corporate goal, and with the rise of the global development agenda associated with inequality and inclusive development.

## The context and issues

### *Definition and the basic indicator of shared prosperity*

4. The WBG goal of shared prosperity focuses on (i) income among households in the bottom two quintiles of the income distribution, not just the extremely poor, and (ii) non-income and relative measures. It is relevant for all countries, including middle-income and high-income countries, which broadens the WBG's mission beyond poverty reduction to the issues of distribution. The implicit goal behind shared prosperity is lower inequality and, potentially, greater equity understood in a broad sense of equality of opportunities, inclusion, voice, and participation. The basic indicator is appealing in its simplicity and the spotlight it provides on those less well off in all countries, rather than just the extreme poor and vulnerable in the lowest income deciles. But it has many limitations. It does not provide a sense of relative inequalities across the full distribution. It ignores differences in distribution *within* the bottom income deciles and, as such, gives greater weight to the higher income deciles within the B40. It also fails to capture vulnerability, with movement in and out of poverty. So, while it is a useful starting point, describing and analyzing shared prosperity requires a wider menu of income and non-income metrics.

### *Non-income and relative income indicators of shared prosperity*

5. Shared prosperity refers both to income and important non-income dimensions of inequality and access. There are many non-income indicators related to equity: for example, access to education, health, and other basic services. There is also a correlation between income and non-income dimensions of poverty and an overlap with the Millennium Development Goals (MDGs) so that income inequality can serve as a proxy for overall inequality. The 2014 Global Monitoring Report (GMR) focuses on the non-income welfare indicators of the B40 and notes striking inequalities in living standards between the B40 and the top three income quintiles, despite the fact that the B40 has enjoyed more rapid growth in income in 58 of 86 countries in the GMR country sample during the 2000s. Dang and Lanjouw (2015) propose an alternative and complementary measure that takes into account dynamic shifts between three subgroups in the population of each country—the 'poor,' the 'vulnerable', and the 'secure'. Another valuable indicator is the "Palma ratio" (the share of income of top decile divided by the share of income of the B40) which captures substantial *relative* information and spotlights the important inequality relative to the *top income deciles* (Palma 2011). The Sen Index combines growth of mean income with changes in the Gini coefficient, putting most of the weight on the middle of the income distribution. Finally, there is recognition that changes in income and wealth at the very top of the income distribution matter for the overall distribution of income, wealth and the societal sense of fairness, opportunity, and social stability (e.g., Piketty 2014). This evaluation will take a broad view of shared prosperity, understood as an issue of inclusive growth and inequality, while measuring inequality by a variety of indicators, including the basic indicator. It will use relative income indicators, for example the ratio of B40 income to average income, which the Bank has adopted for tracking in its Corporate Score Card (World Bank 2013e). Non-income indicators related to access to education, health, infrastructure, and indicators of gender equity, for example, will be examined. The evaluation will assess the implications for the Bank of which indicator(s) are used for operational purposes.

### *Data and measurement issues*

6. There are important data and measurement issues with the WBG goals of poverty reduction and shared prosperity. This evaluation, however, will not look comprehensively at the data and measurement issues both because they were analyzed in the 2015 IEG poverty evaluation and because of other efforts underway. That evaluation identifies knowledge gaps and advocates specific measures to improve generation and use of these data (IEG 2015b). And data quality issues were noted in several world regions, including ASEAN, South East Europe and, especially, MENA (ASEAN 2014d, World Bank 2014g, and 2014 GMR report). An evaluation of Data for Development (IEG 2016) is also underway, which will address a broad set of data challenges. A recent report by the Development Economics Research Group (World Bank 2015f) looks at both poverty and shared prosperity measurement and data issues. The present evaluation

will, therefore, briefly review existing knowledge on distributional data as related to *shared prosperity indicators.*

***A very brief literature review***

7. This very brief review highlights only the broad evolution of the concept of shared prosperity while attachment 3 provides a more complete overview. The concept of shared prosperity rests on a long tradition in development economics. Simon Kuznets (1955) and Arthur Lewis (1954) and (Forbes 2000), for example, emphasize inequality as a byproduct of development with a potentially positive impact on growth (see also Barro 2000; Lundberg and Squire 2003). But the literature has since also recognized negative influences of inequality on poverty-reducing impact of growth (Aghion, Caroli, and Garcia-Penalosa 1999; Stiglitz and Hoff 2001; Bourguignon 2004) and on social stability and growth (e.g., Piketty 2014). Recent literature at the World Bank has emphasized equity and equality of opportunity (World Bank 2006, 2008). Access to education (Filmer 2014), health (World Bank 2000/01, 2004, 2014), land (Deininger 2013) and labor markets, can be sources of large inequities or opportunities (Growth Commission, World Bank 2008). The 2000 WDR on poverty played an important role in bringing about greater awareness of issues around inequality. Duflo (2012) and the World Bank (2012) make a strong case for the empowerment of women as instruments of achieving greater equity and development.[1] Subsequent literature shows complex relations. On the one hand, Dollar and Kraay (2001, 2002, and Dollar, Kleineberg, and Kraay (2013, and Dollar et al.) argue that the poor benefit from growth, with empirical evidence that the income of the bottom quintile increased equi-proportionally to that of the national average. Ferreira et al. (2014), using two panel data sets conclude that the hypothesis that there is no relationship between inequality and growth cannot be rejected.

8. Other studies show the importance of inequality for growth and poverty reduction. The World Bank estimates that, given a plausible growth path, the global poverty goal of 3 percent cannot be achieved without improvements in the distribution of income (World Bank 2015). Recent empirical research supports this view. Ostry et al (2014) find a robust correlation between lower net inequality and faster and more durable growth based on a cross-country dataset that includes both inequality before taxes and transfers ("market inequality") and inequality after taxes and transfers ("net inequality"). Narayan and et. (2013) find a positive relationship between B40 growth and poverty reduction and the correlation is higher for countries with higher rates of

---

[1] At the World Bank, the 40 percent figure appears to have been based on the Bank's past research on the extent of extreme poverty in developing countries, which was led at the World Bank's research department by Hollis Chenery, Montek Ahluwalia, and others (1974, 1978, and 1979).

initial poverty; they find that shared prosperity is strongly correlated with overall prosperity. Dabla-Norris et al (2015) analyze a sample of 159 advanced, emerging, and developing economics for the period 1980-2012 and find that an increase in the income share of the bottom 20 percent increases growth while an increase in the income share of the Top 10 percent decreases growth. They also argue that fiscal policy can be a powerful tool for reducing inequality and that improving skills and labor market institutions are important for reducing inequality. Finally, several influential World Development Reports have documented the importance of policies geared towards poverty and greater equity (in 2000/01 on poverty, 2004 on service delivery, and 2006 on equity) and the work of Lustig (Lustig 2015a, c) and the Commitment to Equity project shows the importance of government interventions in changing (in both directions) market determined distributional outcomes.

**WBG's policy and interventions towards shared prosperity**

9. The new WBG strategy aims to reposition the WBG into a "Solutions WBG" that works in cooperation with member countries and development partners towards accomplishing the twin goals. Two key elements in this new model are the Systematic Country Diagnostic (SCD) and the Country Partnership Framework (CPF), which replaces previous Country Assistance Strategies. The SCD (which is supposed to be prepared by WBG staff prior to any new CPF) aims to identify critical opportunities for, and constraints to, reducing poverty and promoting shared prosperity. This is to be done in a sustainable manner and taking into account the voices of the poor and views of the private sector. Based on the SCD, the CPF aims to selectively outline priority areas for World Bank Group support and specific interventions, targeting the key opportunities and constraints identified by the SCD. The WBG strategy also emphasizes the need for 'One World Bank Group,' which exploits synergies across its different parts, to maximize the effectiveness of its support. A new WBG country engagement model of SCD/CPE presents an opportunity to have a common understanding on the role of the World Bank and IFC in the private sector development and how the private sector can contribute to the twin goals. Previously, the role of the private sector in development has not always been sufficiently taken into account since the CAS document was based mainly on the dialogue between two public sector institutions - the World Bank and the relevant national government.[2]

10. IFC's main contribution to the twin goals is through its work with the private sector and its support for broad-based growth, which in turn benefits the poor and contributes *indirectly* to the goal of shared prosperity. The IFC road map states[3] that IFC's unique positioning as a leading

[2] IFC Smart Lessons, Lines of Sight: Private Sector Development and the "Twin Goals" of Extreme Poverty Eradication and Shared Prosperity, April 2004.

[3] IFC road maps for FY14-FY16 and FY15-FY17.

investor in the emerging market investments provides the private sector with the means to help companies succeed, expand their positive impacts on society, and thus address the WBG goals of eradicating extreme poverty and pursuing shared prosperity. Before adopting the WBG twin goals (in FY14-FY16), IFC has been implementing its strategic goal of increasing its engagements in frontier markets by targeting IFC investments and advisory service activities more *directly* to the poor and vulnerable in these frontier markets. IFC's focus on investment in the frontier markets has been one of five strategic focus areas since 2004. In the earlier IFC's road map in FY12-FY14, frontier markets are defined as (i) IDA countries, (ii) fragile situations (or FCS), and (iii) frontier regions in the middle income countries (MICs). In various strategic documents, IFC has also stressed the need for inclusiveness in the private sector. It has supported inclusive business models, i.e., supporting businesses that provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid, making them part of the value chain of companies' core business as suppliers, distributors, retailers or customers. In its latest strategy paper (MIGA's Strategic Direction in FY15-17), MIGA aims to contribute to the WBG corporate twin goals by facilitating private investment. MIGA is positioning itself to fully leverage resources of both the WBG and private sector through effective partnerships, and contribute to country priorities articulated in the CPFs.

**A conceptual framework of shared prosperity and the broad policy agenda**

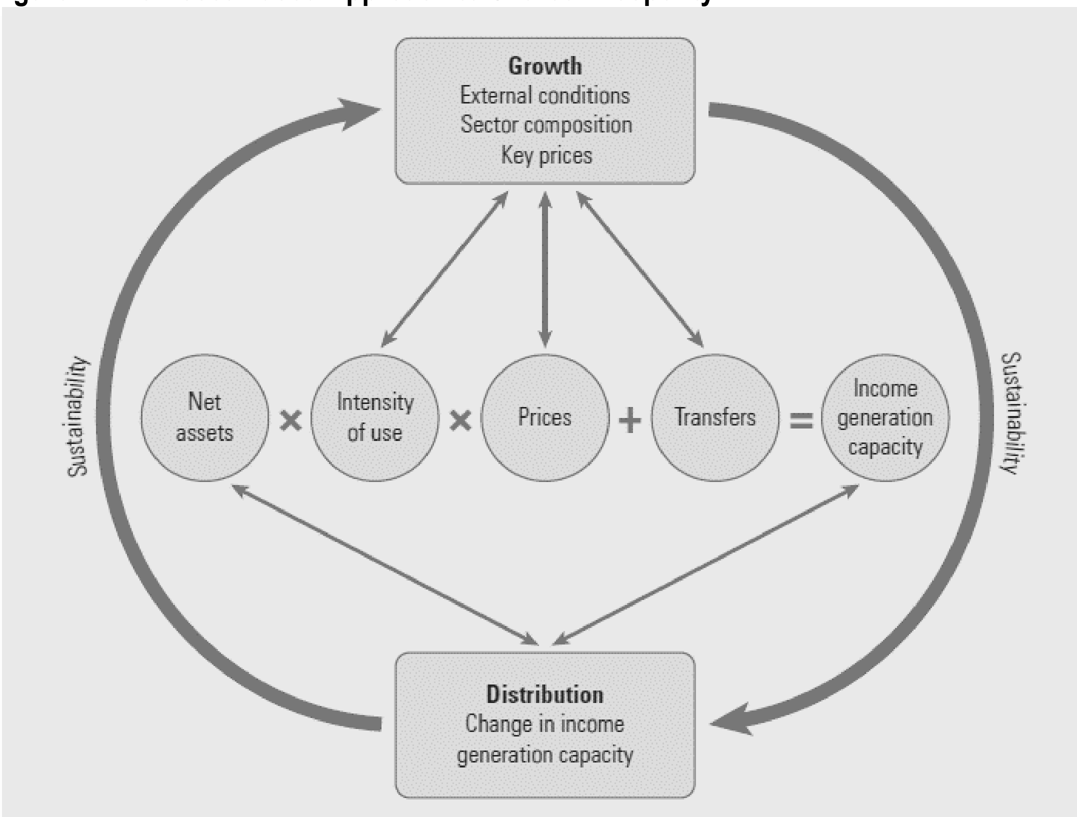
11. Following adoption of the WBG strategy, several regional papers have outlined conceptual frameworks to operationalize the goal of shared prosperity. While there is no single "official" WBG framework in operationalizing its second goal, these papers have developed a broadly similar underlying framework which relies on an assets-based approach to *a joint determination of growth and distribution*. The advantages of this approach are that it combines microeconomic factors behind long-term productive capacity of households to contribute to growth as well as the macroeconomic variables that affect, for example, the demand for labor across sectors, relative prices (returns), and the intensity of the use of assets over the economic cycle. The framework recognizes that robust and sustained economic growth is a key driver of poverty reduction and shared prosperity. IFC's Smart Practice on Lines of Sight,[4] which illustrates the conceptual approach of IFC's private sector approach to meet the WBG twin goals, also acknowledges the high correlation between economic growth and poverty reduction as well as shared prosperity. But the framework also recognizes the role of policy and institutions, especially in settings where growth is either insufficient or inequitable. Importantly, the framework is flexible in that it accommodates the role of institutions and public policy in influencing both micro and macro

[4] Smart Practice on Lines of Sight: Private Sector Development and the "Twin Goals" of Extreme Poverty Eradication and Shared Prosperity (IFC, April 2014).

determinants of growth and distribution (see Attanasio and Székely 1999; Barret and Carter 2005, Regional papers from the ECA (World Bank 2014), LAC (World Bank 2014), and SA (World Bank 2015) regions). The basic building blocks of the framework are:

- Macroeconomic drivers of growth and its distribution across income groups, which include commodity prices, external conditions, the importance of trade in the economy, the sectorial composition of growth, and fiscal policies.
- Microeconomic drivers of the capacity of households and firms to contribute productively to overall growth. This capacity depends on the assets owned, the returns to these assets, and how intensively the assets can be used. These assets include human, financial, physical, environmental and social capital.
- Non-market income complements these market drivers of income generation capacity of households: transfers from private sources (remittances, for instance) and public sources (social assistance, for example). These depend significantly on the role and quality of governance, public policy, and public and private institutions.

**Figure 1. The Asset-Based Approach to Shared Prosperity**




*Source*: Shared Prosperity: Paving the Way in Europe and Central Asia, World Bank, 2014.

12. The framework postulates that in the short run the distribution of assets is a given and variables such as prices, growth composition, employment, and fiscal transfers will play a bigger role in determining distributional outcomes (emphasizing the demand side of the economy). The framework is general in that, in principle, it includes a *variety of assets*. In the medium and long term, the level and distribution of assets and the returns on the assets, which, in principle, reflect their productivity, will be the main drivers of the performance in terms of growth and growth incidence (supply side). (Of course, when there are market imperfections and information asymmetries, assets returns may not fully reflect their productivity). In this setting, it is easier to understand that if the lower quintiles possess lower productive capacity to begin with, there will be an upper bound to the overall growth potential for a given distributional profile: the *welfare of the poor and B40 matter for the welfare of all.*

13. This framework defines the main channels of transmission of macro and micro variables to growth and distribution and highlights the drivers of shared prosperity. Institutions, policies, and voice and participation are some of the key avenues through which those variables affect—positively or negatively—various socioeconomic groups in the society. So different socio-economic groups (e.g., women, minorities, excluded groups) may participate in economic and societal activities to a very different extent depending on their relative capacities, barriers, and opportunities to access markets. Those capacities, barriers, and opportunities are shaped, inter alia, by institutions, public policies, political, behavioral and cultural factors.

14. Because aggregate growth and poverty reduction mediated through social norms, choices, and institutions by themselves may not fully address gender inequality in many societies, explicit policies may be needed to narrow remaining disparities in opportunities between men and women. As documented by the World Development Report on *Gender Equality* (World Bank 2011a), some gender gaps—after accounting for educational, professional and industry related and other differences under the control of the individual—remain particularly "sticky." For example, although women have entered the labor market in large numbers over the past few decades, gender segregation in economic activity persists as do explicit or implicit gender barriers to opportunities and earnings gaps. This has implications not only for women's (current) economic empowerment but also for their ability to save and be included in pension and insurance schemes. Unequal control of household resources is both cause and effect of unequal decision-making power, voice, and agency in the household and in the community, which tend to be reproduced over time. Such persistent inequalities call for policies or specific attention to gender issues in broader programs to improve women's economic opportunities and address gender-specific vulnerabilities (Bardasi and Garcia et al. 2014). This evaluation incorporates the focus on gender (and other vulnerable groups) through two entry points: institutions and

identification of the socioeconomic profile of the bottom 40 percent and the integration of gender in the case studies.

15. Consistent with the broad framework, countries face a threefold broad policy agenda for promoting shared prosperity:[5] Enhancing human capacities, improving access to markets, and delivery of public services.

16. *Enhancing human capacities and building assets of the bottom 40 percent*. This reflects a broad concept of human capital, not just education and health but also, for example, the role of early childhood development (ECD) in promoting intergenerational equity, and women in shaping early capabilities. Education and health of women and girls, in particular, are critical part of this agenda because of the positive spillovers to households and society as a whole as well as the impact on gender equality. These capacities influence the specific skills and the ability of the households to participate in the labor markets and obtain jobs that may help them escape from poverty, overcome barriers, and climb the economic and social ladder.

17. *Improving access to markets.* Access to markets is a precondition of the productive use of human, capital, natural and financial assets. This includes ownership of physical capital such as land and working assets for small farmers, for example, as well as access to labor markets, which are a key channel of income generation opportunities for all. The role of infrastructure—and, generally, connectivity—in ensuring access to markets is important, especially for often excluded or disadvantaged groups such as women, the poor and specific minority groups that may be living in isolated areas. But returns/rewards to the assets of the B40 are determined in product and factor markets to which these assets are more closely linked. So well-functioning markets with supportive public infrastructure, public goods and legal institutions are very important in ensuring access and returns. They all influence the demand for the services generated by the assets of the B40 group and the productivity of those assets. Some of these links can be indirect but powerful. Rates of return to additional education will depend on quality jobs in poor areas, itself depending on firms having electricity and roads, as well as a good business environment. And the productivity and incentives to invest by poor farmers will depend on secure title to land and[6] available irrigation water. At the same time, there are many market failures (e.g., inefficiencies due to asymmetric information, monopolies, property rights, missing or incomplete markets, etc.) which justify the need for regulation and policy interventions.

---

[5] Promoting Shared Prosperity in an Unequal World: Key Challenges and the Role of the World Bank, September 23, 2014.

[6] IEG. 2015. "Growing the Rural Non-Farm Economy to Alleviate Poverty: An IEG Evaluation of World Bank Group Support 2004-2014." Washington, DC: World Bank.

Unbridled markets can result in especially adverse impact on the vulnerable and the poor (e.g., exploitative pricing, human trafficking, prostitution, child labor). Hence the need for public action to rectify market failures and prevent and reduce the adverse impact on the vulnerable groups.

18. *Financing and delivering public services, through tax and expenditure/transfers systems.* In particular, tax system and social transfers such as conditional cash transfer programs can be used to reach the bottom 40 percent. Tax systems are often designed primarily with revenue collection and efficiency objectives in mind. But tax systems can also be important instruments of redistribution. Each country faces a challenge to strike a balance between revenue, efficiency, and equity objectives in their tax systems that is consistent with societal values and political choices (Bogetic et al. 2015). On the expenditure side, transfers are the most direct and powerful instruments of redistribution (e.g., public pensions, social assistance, unemployment insurance). Productive public investments targeting access and growth bottlenecks that affect B40 can also be an instrument that enhances not only growth capacity of the country as a whole but also the income opportunities of the bottom 40 percent. Last but not least, addressing early childhood development can be critical in breaking intergenerational transmission of poverty. Access to basic care, nutrition, safe water and sanitation, and stimulation are essential during the first 1000 days of life when cognitive development is rapid.

19. Underpinning this policy agenda is the need to build and maintain sustainable social capital (e.g., Woolcock and Narayan 2000), ensure voice and accountability (Paul 1994), empowerment, community development, decentralization, and accountability of public and private service providers.

**Links with previous evaluations**

20. As noted, above, this evaluation is complementary to the recent IEG poverty evaluation and early childhood development evaluation, and the ongoing CPF//SCD evaluation. The poverty evaluation examined how consistently the Bank focused its country programs on poverty along the four main dimensions of results chain: data, diagnostics, strategy and implementation. Its main findings are threefold. First, the Bank creates important knowledge on poverty that is a global public good, but the data quality and access need improvement and diagnostics need to better reflect institutional and political factors and have more actionable recommendations. Second, understanding context and government commitment are key to greater fidelity and actionability between the government's and the Bank's strategies. And third, the effectiveness of Bank interventions in helping clients reduce poverty will increasingly depend on improving the way it uses instruments as pilots and as catalysts to leverage resources from development partners and other stakeholders and how well it combines complementary instruments:

diagnostics, lending and technical assistance. By contrast, the current evaluation will, in particular, examine the design and implementation of projects and the evidence available on their distributional effects, (while not undertaking primary analysis of impact, which is beyond the scope of the evaluation). It will look for evidence of redistributive impact in the existing and ongoing evaluations and learning products. It will also be squarely focused on distributional objectives and shared prosperity and while emphasizing linkages to poverty as appropriate.

21. Several recent thematic evaluations and reports are of particular relevance. First, this evaluation will be informed by recent IEG's thematic evaluation on Early Childhood Development (ECD) (IEG 2015c), which documents how the first 1000 days of a child's development play a critical role in subsequent cognitive capacity, school performance, health outcomes, socialization, and future earnings. The report finds that more attention is needed to create knowledge related to scale, quality models for early learning, coordinated support for ECD, cost-effectiveness, and capacity building at all levels of government. It also argues for a WBG strategic framework and an organizational structure to support a coordinated approach across Global Practices (GP). The impact of the Bank's work could be increased by changing its focus on health and survival to include child stimulation and development interventions in health, nutrition, and social protection. Second, also relevant is the evaluation of health finance (IEG 2015d). One of its main conclusions is that an integrated approach that links health financing with public sector reforms is likely to be more effective than single-issue interventions because this builds the institutions that are needed for sustainability. This includes equitable revenue instruments, taking into account the overall public finance situation, moving toward compulsory pooling in insurance and national health systems. Third, evaluation of Financial Inclusion will provide relevant evidence on the key role of access to finance and the evidence on WBG support to financial inclusion for lifting people out of poverty. Fourth, there will be a systematic examination of available evidence in IEG's project and program validation and evaluation data base to extract relevant insights on recent project design and implementation. Finally, several other evaluations are relevant in different ways to this evaluation: the learning product on domestic resource mobilization (being prepared in parallel); the suite of learning products on development policy operations effectiveness and design; the recent two volume evaluation of Energy and Electricity Access, recognized as a key complementary factor in reducing poverty and promoting investment opportunities; as well as other recent and ongoing thematic work across the IEG Strategic Engagement Areas.

22. The evaluation of SCD and CPFs is particularly relevant because it is proceeding in parallel and has many complementarities that can be exploited. The SCD/CPF evaluation focuses only on countries that have completed their SCD and CPF, analyzing the process and their quality of design in view of the new Bank country engagement model. By contrast, the shared prosperity evaluation is asking a much broader question on a larger set of countries that goes to the

implementation and influence/impact and not just process and design of strategies: what has been the experience with the WBG interventions pursuing distributional objectives? This evaluation will also look at how some countries that recently adopted CPF/SCD reoriented their strategies towards explicit shared prosperity goal, but this will be done within that broader context of the analysis of the WBG's distributional objectives. The two teams are coordinating their activities including client engagement and joint missions where possible. IEG's ongoing evaluation on Growing the Rural Non-Farm Economy to Alleviate Poverty: An IEG Evaluation of World Bank Group Support 2004-2014 and the ongoing evaluation Data for Development (IEG 2016) are being consulted and may provide useful insights to the current evaluation.

## II. Purpose, Objectives, and Audience

23. The evaluation will provide Bank Group management early feedback and lessons in order to take corrective action in implementation of the shared prosperity goal. Such an early evaluation provides more current and relevant evidence from interviews and consultations than is usually the case because of the real-time, ongoing engagement of informants with these issues. Finally, the evaluation will aim to generate a clear metric for assessing progress and 'benchmarking' of WBG performance in advancing the SP goals, which can be returned to 5 or 10 years hence to gain a clear perspective on how the initiative has performed.

24. Since 2015/16 IEG has organized its work program around three strategic engagement areas (SEAs) to lend greater coherence, relevance and impact on leading development challenges (IEG 2015f) The current evaluation is central to IEG's work on Inclusive Growth, embracing the objective of growth that is key to virtually all national development strategies, framed around the ability of all people, explicitly including the poor and disadvantaged, to share in growth. It emphasizes the joint determination of growth and distribution and hence the need to factor in the distributional consequences of national and local policies influencing growth. Inclusive growth rests largely on three elements: augmenting assets of the poor (human, social, and physical capital), ensuring broad access to markets, and tax and transfers policies and institutions. This evaluation will enhance our understanding of growth dynamics and the distributional consequences in WBG supported programs and projects through the examination of existing evidence on policy design and impact expressed through recent country program experience.

25. The evaluation directly supports the first objective of the IEG Results Framework: deepening evidence about the results of the WBG programs and activities. By assessing how the WBG has reoriented its engagement model towards the goal of shared prosperity, it also supports the second IEG objective of the IEG Results Framework: generating evidence on the early implementation experience of the WBG strategy. The purpose of this evaluation is to provide new evidence on how and how effectively WBG institutions have pursued and impacted

distributional objectives in their strategies, projects and key knowledge products in the past, and how it has more recently reoriented its country strategies and lending design and knowledge instruments towards the corporate goal of shared prosperity. Timing of this evaluation—close to three years since the Bank announced its second corporate goal—is opportune to make course corrections, if needed, to ensure that WBG will be successful in delivering on its goals. The objectives are threefold. First, as the first evaluation of shared prosperity, it contributes directly to deepening relevance to the World Bank Board and Management of the IEG's knowledge and evidence about new Bank programs and initiatives, and their orientation towards shared prosperity. Second, because of the close links between poverty reduction and shared prosperity, and building on the recent poverty evaluation, it aims to contribute to a greater understanding of the potential synergies between economic growth, poverty, inequality and broader dimensions of shared prosperity. And third, such an evaluation will help identify strengths and weaknesses in operational practice, providing input to the Bank's mid-course corrections towards better results, accountability, and learning about shared prosperity.

26. The audience will consist of four main groups of stakeholders: (i) the Board representing the Bank's shareholders, (ii) the Bank's management and country and task teams, (iii) WBG member country client governments as well international evaluation and development community, and (iv) external academic and civil society interested in the broad issues of equity and economic development. Outreach and dissemination approaches will be tailored to these four main stakeholder groups (see section "Expected Output and Dissemination" below).

## III. Evaluation Questions and Coverage/Scope

27. The evaluation starts with the premise that Bank projects and knowledge products are geared towards sustainable growth and poverty reduction and they have, in principle, sometimes explicit and often implicit distributional objectives, content, and results. For some of its projects, the objectives of IFC and MIGA projects include explicit distributional objectives. The evaluation will answer the following four related, broad evaluation questions, each with more specific questions as follows. The evaluation design matrix in Attachment 2 contains more detail about the information sources, data collection methods, and strengths and limitations of the coverage and scope. The evaluation treats different agencies within the World Bank Group as "One World Bank Group:" IBRD, IDA, IFC and MIGA strategies and operations will be the subject of study under the evaluation questions below.

28. **Question 1**: How do **strategies** of the WBG and each WBG institution with their projects and country diagnostics define and influence distributional objectives? Specifically, how effective is each of the Bank Group institutions operationalizing the distributional objectives in its strategies and major diagnostics? More specifically whether:

a. The Bank, IFC, and MIGA articulated *country strategies*—objectives, pillars, a mix of instruments, and results frameworks—that promote distributional objectives in line with identified constraints and policy directions in *key country diagnostics*—in the period before the goal of shared prosperity was formulated.

b. Evidence on the question above shows changes and evolution in recent years with the advent of the goal of shared prosperity and SCD and CPF?

c. Do WBG staff and management, and each WBG agency, have a common understanding of the concept and definition of shared prosperity?

29. **Question 2**: How, and how effectively, is **Bank lending** (projects and programs) incorporating and implementing the distributional goals in projects before the new SCD/CPF frameworks were put in place? And how well is it influencing those objectives through *design, implementation and impact*? More recently, how is the new goal of shared prosperity incorporated in the *design* of lending projects and program? For IFC and MIGA projects, this evaluation will primarily assess the projects which have explicit distributional objectives but within the context of the overall IFC and MIGA strategies and portfolios in country case studies.[7]

30. In particular, the evaluation will seek to answer whether and how well:

a. Development Policy Financing (DPFs) incorporate in its objectives, policy frameworks and results frameworks country-specific, relevant concerns and challenges to addressing distributional objectives such as inequality and shared prosperity? And how effective were these interventions in terms of implementation and outcomes?

b. Investment projects incorporate in their objectives, project components, and results frameworks country-specific, relevant concerns and challenges to expanding service delivery and opportunity to the poorest quintiles and groups, including gender, ethnic, or other excluded communities with low access? And what were the outcomes (based on available evidence)? As in the case of IBRD, for IFC and MIGA, these assessments will be, in principle, limited to the projects with explicit distributional objectives. The team will review joint WBG projects and will also draw lessons from recent IEG evaluations and learning products, including IEG's Learning Product on Transformational Engagements.

[7] This recognizes that the main mission of the IFC is support of private sector investment, growth and jobs, which act indirectly to influence distributional outcomes. In the case studies, however, the evaluation will look at the IFC and MIGA projects with distributional objectives within the broader country portfolios.

c. For the period after 2013 when the SCD and CPF were in place for limited number of countries, and given the lack of evaluative material for many of these recent projects and programs, the above questions will be looked at the level of design only.

31. **Question 3**: How and how effectively are the Bank's key **knowledge products** (and related policy dialogue) on public expenditure allocations and domestic resource mobilization issues informed by and geared towards shared prosperity concerns? Specifically, the evaluation will seek to answer whether and how well:

a. Public Expenditure Reviews broadly defined (including other country knowledge products with substantial public expenditure and distributional content, e.g., Public Finance Reviews, CEMs with focus on fiscal and public expenditure issues, and sectoral PERs or poverty assessments with strong policy focus) are geared towards issues of shared prosperity when relevant in the country context.

b. Resource mobilization and distribution issues are addressed. Specifically, do knowledge products reflect the focus on domestic revenue mobilization, where warranted? Do they reflect not just concerns about revenue collection and efficiency but also about equity and distributional issues?

c. Policy dialogue underlying preparation of DPFs and underlying knowledge products takes on board country relevant priorities regarding shared prosperity in their design, and whether the dialogue contributes to the improvements of policies towards shared prosperity.

32. **Question 4.** Which **indicators** of shared prosperity, how, and how well is the WBG using its strategies, lending, investment, knowledge, and advisory products to measure and promote distributional issues and shared prosperity? Are indicators of shared prosperity largely limited to the basic indicator (growth of real income of B40) or there are other (and which ones) indicators in use? What are the prevailing and good practices? In the context of country case studies, what is the prevailing practice and data gaps in the indicators of shared prosperity?

33. These questions will be addressed at the level of a global review, sectoral review, and country case studies. Interplay of different interventions will be analyzed in depth at the level of case studies. At the same time, it is important to state clearly what this evaluation would not cover. In defining the scope of this evaluation some relevant issues will not be fully addressed although they are recognized as important and relevant to sustainable advancement of the SP agenda. In particular, the complex issues of voices of the poor, fostering local empowerment of minorities, and the mechanisms for gaining greater accountability in public service delivery through both national and local governance reforms (including decentralization, devolution, transparency, civil service reform and legal reform, etc.) will not be incorporated into this evaluation. Moreover, the important issues surrounding human rights, security, and access to the

justice system will not be explored in depth. These are all extremely important issues which disproportionately affect the poor and diminish their prospects for advancement, but as such they deserve and require greater attention than will be possible within the scope of this evaluation. We anticipate separate focused work on these important issues in subsequent evaluation. Also, the cross cutting issue of social and environmental risks and safeguards will not be addressed as they are subject of separate evaluations and learning products (e.g., the 2015 learning product on social and environmental risks in DPOs).

34. The evaluation will focus on the period FY05 to FY16, which includes the period FY14-16 when the corporate goal of shared prosperity has been in place. For IFC and MIGA, this evaluation will focus primarily on strategies and projects that have explicit distributional objectives. At the same time, it is recognized that IFC's mandate focused on private sector development can make an important contribution to private sector growth and, therefore, shared prosperity. However, these indirect links to shared prosperity will only be examined at the level of country case study, but not at the level of global review of shared prosperity issues at the WBG. To make the evaluation manageable, the evaluation will use appropriate sampling and selectivity of sectors of focus as described below.

## IV. Evaluation Design and Evaluability Assessment

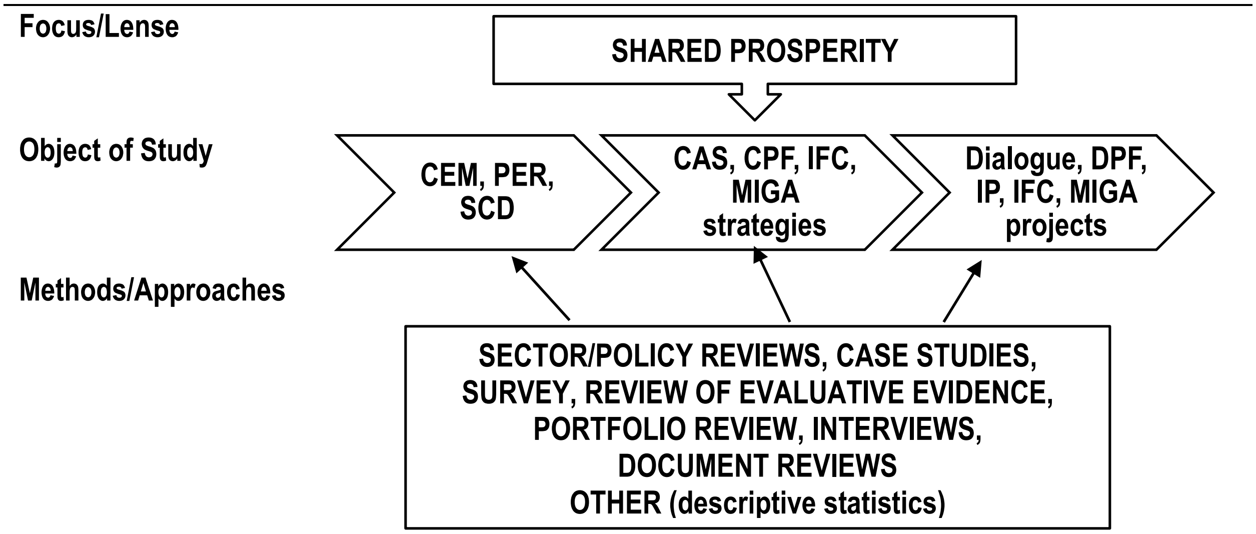
### Methodological approach in this evaluation

35. The evaluation will be a combination of thematic and process evaluation of WBG support to shared prosperity. It will encompass several analytical levels and approaches: (i) global strategy, portfolio, and knowledge reviews with particular emphasis on WBG interventions towards shared prosperity, (ii) sector/policy reviews focused on certain sectors with significant relevance for shared prosperity (e.g., education, health, power, agriculture as well as gender as cross cutting area, and fiscal policy as the main policy instrument affecting distributional outcomes), and (iii) case studies of countries with different levels of inequality and indicators of shared prosperity as well as countries with broadly continuous Bank lending over the period FY2005-16, which also have minimum quality data on distributional aspects of income and non-income welfare. Some of these countries have adopted the CPF/SCD but others have yet to do so. The evaluation will review and analyze strategies and lending and targeted knowledge instruments using a combination of global portfolio review, sector/policy reviews, survey, interviews, descriptive statistics, and desk reviews of relevant evaluation evidence (Figure 2). Practicality (including coverage of related issues in other evaluations), direct relevance for shared prosperity, and prioritization were guiding the choice of these sectoral and policy themes among many others that also may have more indirect influence on aspects of shared prosperity (e.g., climate change, governance and transparency etc.). At the level of country case studies, the lens deepens

to a ‘general equilibrium’ view into the entire country portfolio of WBG operations with particular focus on the above sectoral and policy areas. These approaches are complementary but neither approach gets fully at the impact of the WBG operations.

36. This evaluation will address in greater depth how each of the WBG institutions have been deploying its financial and knowledge interventions and convening role to advance the distributional objectives, including, more recently, explicit shared prosperity objectives. The evaluation will use a combination of desk reviews and targeted interviews for all countries, about 10-12 in-depth country case studies with country visits, a portfolio review, a possible targeted survey, and appropriate descriptive statistical analysis.

**Figure 2. A Simple Framework for Shared Prosperity Evaluation**




*Source:* IEG evaluation team.

37. **Selection of case studies.** A purposive sample of case study countries will be selected to provide inductive narratives of how and how well WBG combines its various instruments in the pursuit of shared prosperity at the country level. Countries with different levels of inequality, growth and shared prosperity profiles and long standing WBG engagement and sufficient data quality will be the subject of study (Table 1 in attachment 2b). The choice of case studies will also be informed both by the IBRD/IDA portfolio mix as well as the depth of the IFC and MIGA portfolio to ensure that most countries selected had significant IFC country portfolios. The country case studies will cover country programs from all the world regions. The criteria for the selection of case study countries are: (i) different levels of inequality and metrics of shared prosperity, (ii) country characteristics to ensure representation from different regions, income levels (IBRD, IDA), post-conflict and fragile situations, and different size of countries, (iii) long term engagement of the Bank with associated lending and knowledge instruments, including

countries from all world regions, and (iv) availability of minimum data on distributional issues and outcomes. An instrument based on the template (Annex 7) is being developed to guide country case studies to ensure harmonized approaches across all countries and clearly focused fieldwork.

**Analytical Framework**

38. The evaluation will use the following building blocks:

39. **Literature survey and analytical background papers.** A literature review is being completed, covering broad academic literature as well as that carried out at WBG, IMF, and other bilateral agencies as well as WBG corporate materials concerning the new country engagement model. Following the completion of the template guiding the country case studies, and team discussions, several background papers will be commissioned. These will include, inter alia, WBG support for shared prosperity in select sectors and profiling of the bottom 40 percent, and measurement of income and wealth concentration in the top deciles in developing countries.

40. **Desk reviews.** The desk reviews will evaluate strategies of each WBG institutions, DPOs and IP portfolios and associated key diagnostics in these countries based on a common template currently being prepared. This will be supplemented by IEG other available country strategy and project level evaluation evidence. Document reviews will be supplemented by key informant interviews and, where appropriate, focus groups to help gain further insight. IEG's new pilot 'shared prosperity flags' for Implementation Completion Report Reviews (ICRRs) will be used to inform these desk reviews. For practical and selectivity purposes, reviews will focus on a limited number of sectors and policy areas where distributional objectives are especially important. These sectors and policy areas follow from the above framework on shared prosperity in which critical role in shared prosperity is assigned to human capital accumulation (education, human capital, social protection) and physical capital (select infrastructure sub-sectors, such as power) and tax and transfer policies and access to markets. These desk reviews will draw on existing project level evaluations and major thematic evaluations in the selected sectors and policy areas, both in terms of ratings as well as insights on what works and what lessons they afford for the future. Where relevant, evaluative material on these projects and products from the IEG's Strategic Engagement Area (SEA) on Sustained Service Delivery for the Poor will be drawn on.

41. **Field visits and case studies.** The IEG team will visit about 10-12 countries and prepare case study reports based on the information collected using a detailed template. Previously prepared in-depth desk reviews will inform field visits and country case study reports. Field visits will provide additional information from the interviews with stakeholders, especially on stakeholder

perspectives, policy dialogue, country ownership etc. They will be coordinated with the parallel evaluation of SCD and CPFs which will focus on the quality, ownership, coordination and selectivity of these recent strategic documents.[8] The consultations with country authorities and other stakeholders through these visits will be used to validate and revise the initial findings of the desk reviews. Attention will also be paid to WBG partnerships and alliances at the country level in pursuit of shared prosperity.

42. **A targeted survey.** The team will design and implement a survey of WBG staff to ascertain the positive and normative understanding, perceptions, and implementation of the goal of shared prosperity across WBG institutions, global practices, and regions. Depending on the timeline and budget, a follow up external client survey would ascertain the same issues so that a comparison with the WBG staff survey can be made and implications drawn for future positioning of the goal of shared prosperity within and outside the WBG.

43. **WBG consultations.** The IEG team will carry out selective consultations within the WBG. This will include interviews with the Bank regional chief economists, global practices, IFC and MIGA chief economists, country directors and country representatives, and SCD and CPF, and select DPF and IP team leaders, as well as the executive directors' offices.

44. The strength and limitations of the evaluation design is described in detail in the Attachment 2a on the design evaluation matrix.

## V. Quality Assurance Process

45. The evaluation will be overseen by Nick York, Director, and Mark Sundberg, Manager, of IEGEC. Peer reviewers will be professors Anthony S. Atkinson (Fellow of Nuffield College, Oxford, and Centennial Professor of London School of Economics), Ravi Kanbur (Cornell University), Nora Lustig (Tulane University; the leader of the Commitment to Equity Project), and Francois Bourguignon (Paris School of Economics). Peer reviewers are among the world's leading scholars on the issues of inequality, equity, and the interactions between growth, poverty and inequality as well as shared prosperity. The critical skills required of the team for this evaluation include a deep understanding of the process and practice of the World Bank Group engagement with countries, and how the Bank key diagnostics, country partnership strategies and major interventions are developed, coordinated, and implemented. This includes specific skills in in macroeconomics and inclusive growth, inequality, poverty, gender, infrastructure, microeconomics, project analysis, preparation, and evaluation, and a broad and deep prior operational and evaluation experience.

[8] It is anticipated that the two teams will field several joint field visits to exploit synergies and reduce costs and the client country mission burden.

46. The evaluation team will be led by Zeljko Bogetic (IEG lead economist and thematic coordinator for macro-fiscal management and governance). The core IEG team includes Shahrokh Fardoust, Marcelo Selowsky, Malathi Jayawickrama, Aghassi Mkrtchyan, Moritz Piatti, Takatoshi Kamezawa, Anjali Kumar, Lodewijk Smets, Aristomene Varoudakis, Elena Bardasi, and Yumeka Hirano. The team will be supplemented with additional consultants and sector specialists and staff from all units in IEG, drawing on diverse expertise and evaluation knowledge of both departments, as needed, as well as additional specialists with IFC experience. The multi-disciplinary team possesses extensive operational, country, research and evaluative experience tailored to the evaluation task.

## VI. Expected Outputs and Dissemination

47. The output will the evaluation report for the Committee on Development Effectiveness (CoDE) and the Board. The report will be shared with the relevant country teams for their information and comments and disclosed in line with standard procedure. The demand for special internal or external dissemination is expected to be large because this is the first evaluation of the WBG's new corporate goal. Early consultations with global practices and DEC show keen interest within the Bank. Given the importance of equity issues in the global economy and at country level in most member countries, strong external demand is expected. As a result, a dissemination and outreach strategy will be developed in an early collaboration with the IEG knowledge and communications unit. Key messages and learning are to be effectively communicated and disseminated among all relevant Bank Group stakeholders as well as to the external audiences (multilateral development partners and select member countries). The final report will consist of the main report limited to 50 pages in addition to annexes as well as a 10 page summary and presentation, which will be used for dissemination. Advance planning of outreach to target audiences via internal and external events, conferences, and social media will help ensure wide and effective dissemination. To facilitate greater and continuous engagement with stakeholders and feedback, consideration may be given to producing the output in smaller, thematic segments with the final report representing a synthesis. This idea will be further discussed in the course of consultations.

## Resources

48. Timeline and budget. Work on a template for of shared prosperity focused desk reviews of WBG strategies, DPFs, IPs, and knowledge products is ongoing. An early scoping mission will be followed by field visits for case studies, which—on current schedule—will be completed by end-November 2016. A draft report will be discussed with IEG management at a one-stop review meeting in February 2017; and finalization is planned in June 2017. The final output will remain within the fiscal year 2017.

49. The budget needed for this evaluation is $1.289 million over two fiscal years (FY16-17). The cost includes coverage of 10-12 in-depth country case studies with field visits, several background papers, and cost of the multi-disciplinary evaluation team spanning all units in IEG. The cost of field visits is controlled to some extent through combining visits to more than one country on the same trip, and ensuring that relevant desk assessments have been completed prior to the visits. As explained above, cost savings will also be sought by combining several missions with the ongoing evaluation of the SCD/CPF and, potentially, Data for Development evaluation.

## Attachment 1

## References


Afonso, A. and D. Furceri. 1997. "Government Size, Composition, Volatility and Economic Growth." *European Journal of Political* Economy, 26(4), pp. 517-532.

Alesina, A. and R. Perotti. 1994. "The Political Economy of Growth: A critical Survey of the Recent Literature." *World Bank Economic* Review, September 1994, 8(3), pp. 351-71.

Alesina, A. and D. Rodrik. 1994. "Distributive Politics and Economic Growth." *Quarterly Journal of* Economics, 109(2), pp. 465-90.

Atkinson, A. 1973. "On the Measurement of Inequality." In Wealth, Income and Inequality, ed. A. Atkinson. Harmondsworth, United Kingdom: Penguin Education.

Atkinson, Anthony B. 2015. "Inequality: What Can Be Done?" London: Harvard University Press.

Azevedo, J., and A. Atamanov. 2014. "Pathways to the Middle Class in Turkey: How Have Reducing Poverty and Boosting Shared Prosperity Helped?" Policy Research Working Paper 6834, World Bank, Washington, DC.

Banerjee, Abhijit V. and Newman, Andrew F. 1991. "Risk-Bearing and the Theory of Income Distribution." *The Review of Economic Studies* 58(2): 1-235.

Banerjee, Abhijit V., and Newman, Andrew F. 1993. "Occupational choice and the process of development." *Journal of Political Economy* 101(2): 274–298.

Banerjee, Abhijit V., and Newman, Andrew F. 1994. "Poverty, incentives, and development." *American Economic Review Papers and Proceedings*, 84(2): 211–215.

Bardasi, Elena and Gisela Garcia. 2014. *Social Safety Nets: Learning from Impact Evaluations and World Bank Projects.* World Bank.

Barro, Robert. 2000. "Inequality and Growth in a Panel of Countries." *Journal of Economic Growth* 5: 5-32.

Barro, R. 2008. "Inequality and Growth Revisited." Working Paper Series on Regional Economic Integration No. 11, Asian Development Bank.

Basu, Kaushik. 2000. "On the Goals of Development," in *Meier, G.M. and J. E. Stiglitz*, eds., Frontiers of Development Economics. Washington, DC: World Bank.

______. 2006. "Globalization, Poverty, and Inequality: What Is the Relationship? What Can Be Done?" *World Development* 34 (8).

______. 2013. "Shared Prosperity and the Mitigation of Poverty: In Practice and in Precept," World Bank Policy Research Working Paper 6700, World Bank, Washington, DC.

Beegle, Kathleen, Pedro Olinto, Carlos Sobrado, Hiroki Uematsu, and Yeon Soo Kim, with Maximillian Ashwill. 2014. "Ending Extreme Poverty and Promoting Shared Prosperity: Could There Be Trade-Offs between These Two Goals?" Inequality in Focus, vol. 3, no. 1, May. World Bank: Washington, DC.

Berg, A., J. D. Ostry and J. Zettelmeyer. 2012. "What Makes Growth Sustained?" *Journal of Development Economics*, 98(2), pp. 149-166.

Biller, D., L. Andres, M. Dappe, and A. Basnyat. 2014. "Sharing Prosperity by Closing South Asia's Infrastructure Gap." *Economic Premise* (149). Washington, DC: World Bank.

Bluhm, Richard, Denis de Crombrugghe, and Adam Szirmai. 2013. "The Pace of Poverty Reduction: A fractional response approach." Working Paper, Maastricht University.

Boadway, R. and M. Keen. 2000. "Redistribution." In: A.B. Atkinson and F. Bourguignon (Eds). "Handbook of Income Distribution. Amsterdam: Elsevier.

Bogetic, Zeljko et al. 2015. "Fiscal Policy Issues in the Aging Societies,"MFM Discussion Paper No. 1, Washington D.C.: World Bank.

Bourguigon, Francois. 2003. "The Growth Elasticity of Poverty Reduction: Explaining Heterogeneity Across Countries and Time Periods." In T. Eichler and S. Turnovsky, eds., Growth and Inequality. Cambridge, MA: MIT Press.

Bourguignon, F. 2004. "The Poverty-Growth-Inequality triangle." Indian Council for Research on International Economic Relations Working Paper # 125.

Bourguignon, F. 2015. "The Globalization of Inequality." Princeton University Press.

Bruns, Barbara, Dean Filmer, and Harry Anthony Patrinos. 2011. "Making Schools Work: New Evidence on Accountability Reform." Washington, DC: World Bank.

Bussolo, M., and L. Lopez-Calva. 2014. "Shared Prosperity—Paving the Way in Europe and Central Asia." Washington, DC: World Bank.

Cali, M., C. Hollweg, and E. Ruppert Bulmer. 2015. "Seeking Shared Prosperity through Trade. "Policy Research Working Paper 7314, World Bank, Washington, DC.

Campbell, D.E., and Kelly, J.S. 2002. "Impossibility theorems in the Arrovian framework," in Handbook of Social Choice and Welfare (ed. by Kenneth J. Arrow, Amartya Sen and Kotaro Suzumura), vol.2, North-Holland.

Chandy, Laurence, Natasha Ledlie, and Veronika Penciakova. 2013. "Prospects for Ending Extreme Poverty by 2030." Brookings Institution, Washington DC.

Chenery, Hollis, Montek Ahluwalia, C.L.G. Bell, John Duloy, and Richard Jolly. 1974. Redistribution with Growth, World Bank and the Institute of Development Studies, University of Sussex, and later in Ahluwalia, Montek S., Nicholas G. Carter, and Hollis B. Chenery. 1978. "Growth and Poverty in Developing Countries." *Journal of Development Economics* 6: 299–341.

Cobham, Alex, and Andy Sumner. 2013. "It is about the tails? The Palma measure of income and inequality," ECINEQ WP 2013-308.

Cord, L., M. Genoni, and C. Rodríguez-Castelán. 2015. "Shared Prosperity and Poverty Eradication in Latin America and the Caribbean." Washington, DC: World Bank.

Cruz, M., J. Foster, B. Quillin, and P. Schellekens. 2015. "Ending Extreme Poverty and Sharing Prosperity: Progress and Policies." Policy Research Note PRN/15/03. Washington, DC: World Bank.

Dabla-Norris, E, K. Kochhar, N. Suphaphiphat, F. Ricka, and E. Tsounta. 2015. "Causes and Consequences of Income Inequality: A Global Perspective. IMF Staff Discussion Note SDN/15/15.

Dang, J.-A., and P. Lanjouw. 2015. "Toward a New Definition of Shared Prosperity: A Dynamic Perspective from Three Countries. "Policy Research Working Paper 7294, World Bank, Washington, DC.

Dani, Anis A., and Arjan de Haan. 2008. "Inclusive States: Social Policy and Structural Inequalities." Washington, DC: World Bank.

Deininger, K. 2013. "Leveraging Land Policies for Greater Equity, Growth and Transparency." World Bank Development Research Group. World Bank, Washington, DC. http://siteresources.worldbank.org/INTRES/Resources/469232-1368745341168/Deininger_Research_Talk_Sep5.pdf

Deininger, K. and P. Olinto. 2000. "Asset Distribution, Inequality, and Growth." Policy Research Paper 2375. World Bank, Washington, D.C.

Dollar, D., and A. Kraay. 2001. "Growth is Good for the Poor." Policy Research Paper 2587. World Bank, Washington, DC.

______. 2002. "Growth is Good for the Poor." *Journal of Economic Growth*, 7(3): 195-225.

Dollar, D., T. Kleineberg, and A. Kraay. 2013. "Growth Still is Good for the Poor." Policy Research Paper 6568, World Bank, Washington, DC.

______. 2014. "Growth, Inequality, and Social Welfare." Policy Research Working Paper 6842, World Bank, Washington, DC.

______. 2015. "Growth Still is Good for the Poor." European Economic Review. Forthcoming.

Duflo, Esther. 2012. "Women Empowerment and Economic Development." *Journal of Economic Literature* 50(4): 1051-1079.

Edward, Peter, and Andy Sumner. 2014. "Estimating the Scale and Geography of Global Poverty Now and in the Future: How Much Difference Do Method and Assumptions Make?" *World Development* 58: 67–82.

Ferreira, F. 2010. "Distributions in Motion: Economic Growth, Inequality, and Poverty Dynamics." Society for the Study of Economic Inequality. Working Paper ECINEQ WP 2010-183.

Ferreira, F, C. Lakner, M. Lugo, and B. Özler. 2014. "Inequality of Opportunity and Economic Growth." Policy Research Working Paper 6915, World Bank, Washington, DC.

Ferreira, F., J. Messina, J. Rigolini, L.-F. Lopez-Calva, M. Lugo, and R. Vakis. 2013. "Economic Mobility and the Rise of the Latin American Middle Class." Washington, DC: World Bank.

Filmer, Deon, 2014. "Schooling and Learning: Understanding Inequalities and What to Do About them." DEC presentation, World Bank, Washington, DC. http://siteresources.worldbank.org/INTRES/Resources/469232-1368745341168/Filmer_DEC_Lecture_031814_2.pdf

Forbes, K. J. 2000. "A Reassessment of the Relationship Between Inequality and Growth." *The American Economic Review* 90(4), pp. 869-887.

Ghani, E., L. Iyer, and S. Mishra. 2013. "Promoting Shared Prosperity in South Asia." *Economic Premise* (10). Washington, DC: World Bank.

Glaeser, E. and A. Joshi-Ghani. 2013. "Rethinking Cities: Toward Shared Prosperity." *Economic Premise* (126). Washington, DC: World Bank.

Gregory, N and Michelitsch, R, 2014 "Lines of Sight: Private Sector Development and the "Twin Goals" of Extreme Poverty Eradication and Shared Prosperity - How can we relate IFC's private sector work to the World Bank Group's poverty mission?" Washington, DC: International Finance Corporation.

Hallward-Driemeier, Mary, Tazeen Hasan, and Anca Bogdana Rusu. 2013. "Women's Legal Rights over 50 Years," World Bank Policy Research Working Paper 6616, World Bank, Washington, DC.

Hirano, Y. and S. Otsubo. 2014. “Aid is Good for the Poor.” Policy Research Working Paper 6998, World Bank, Washington, DC.

Hoff, K. and J.E. Stiglitz. 2001. “Modern economic theory and development.” In: Meier, G. and J. Stiglitz (Eds.) “Frontiers of Development Economics, the future in perspective.” Washington, D.C.: World Bank and Oxford University Press, pp. 389-459.

Independent Evaluation Group. 2011. IFC’s Poverty Focus and Results. Washington, DC: World Bank.

______. 2014a. *Results and Performance of the World Bank Group.* Washington, DC: World Bank.

______. 2014b. *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected Countries.* Washington, DC: World Bank.

______. 2015a. *Clustered Country Program Evaluation for Resource Rich Developing Countries: Cases of Bolivia,Kazakhstan, Mongolia, and Zambia*. Washington, DC: World Bank.

_____. 2015b. *The Poverty Focus of Country Programs: Lessons from World Bank Experience.* Washington, DC: World Bank.

_____. 2015c. *World Bank’s Support for Early Childhood Development*, Washington D.C: World Bank.

_____. *2015d. IEG Approach Paper: Growing the Rural Non-Farm Economy to Alleviate Poverty: An IEG Evaluation of World Bank Group Support 2004-2014.*

_____.*2015e. Approach Paper: Systematic Country Diagnostic and Comprehensive Partnership Framework Process Evaluation, June 26.*

_____.*2015f. IEG Work Program and Budget (FY16) and Indicative Plan (FY17-18).*

_____. 2016. *Approach paper for an Independent Evaluation on Data for Development – World Bank Support for Data and Statistical Capacity*. Draft. Washington, DC: World Bank.

International Monetary Fund. 2014. “World Economic Outlook Update.” Washington, DC: IMF.

Jenkins, S. P. 2014. “World Income Inequality Databases: An Assessment of WIID and SWIID.” IZA Discussion Papers, No. 8501.

Kanbur, Ravi. 1987. “The Standard of Living: Uncertainty, Inequality and Opportunity.” In *The Standard of Living,* ed. Geoffrey Hawthorn. Cambridge: Cambridge University Press.

Keefer, Philip. 2011. “Collective Action, Political Parties and Pro-Development Public Policy,” World Bank Policy Research Working Paper 5676, World Bank, Washington, DC.

Killick, T. 2002. “Inequality Briefing: Responding to Inequality.” Briefing Paper No. 3. Overseas Development Institute.

Kourtellos, A. and C.G. Tsangarides. 2015. “Robust Correlates of Growth Spells: Do Inequality and Redistribution Matter?” The Rimini Centre for Economic Analysis, Working Paper WP15-20.

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

Kuznets, Simon. 1955. “Growth and Income Inequality.” *American Economic Review*, 45: 1-28.

Lewis, Arthur. 1954. “Economic Development with Unlimited Supplies of Labour.” *Manchester School* 22: 139–191.

Lakner, C., M. Negre, and E. Prydz. 2014. "Twinning the Goals: How Can Promoting Shared Prosperity Help to Reduce Global Poverty?" Policy Research Working Paper 7106, World Bank, Washington, DC.

Li, H. and H. Zou. 1998. "Income Inequality if not Harmful for Growth: Theory and Evidence." *Review of Development Economics*, 2(3), pp. 318-334.

Li, H. and H. Zou. 2002. "Inflation, Growth, and Income Distribution: A Cross-Country Study." *Annals of Economics and Finance*, 3(1), pp. 85-101.

Lindert, P.H. 2000. "Growing Public: Social Spending and Economic Growth Since the Eighteenth Century." Cambridge University Press.

Lundberg, Mattias, and Lyn Squire. 2003. "The Simultaneous Evolution of Growth and Inequality." *The Economic Journal* 113(487): 326-344.

Lustig, Nora. 2015a. "Income redistribution and poverty reduction in Latin America: the role of social spending and taxation in achieving development goals." *Development Journal - Society for International Development* 57(3-4).

Lustig, Nora. 2015b. "The Redistributive Impact of Government Spending on Education and Health: Evidence from 13 Developing Countries in the Commitment to Equity Project." In *Inequality and Fiscal Policy (Chapter 17)*, ed. Gupta, Sanjeev, Michael Keen, Benedict Clements, and Ruud de Mooij. Washington: International Monetary Fund.

Kakwani, Nanak, and Ernesto M. Pernia. 2000. "What is Pro-poor Growth?" *Asian Development Review* 18(1). Asian Development Bank.

MIGA (2015. MIGA's Strategic Direction in FY15-17. MIGA, Washington D.C.: World Bank.

Milanovic, Branko. 2012. "Global Inequality by the Numbers: In History and Now," World Bank Policy Research Working Paper 6259, World Bank, Washington, DC.

Narayan, A., J. Saavedra-Chanduvi, and S. Tiwari, 2013. "Shared Prosperity—Links to Growth, Inequality and Inequality of Opportunity." Policy Research Working Paper 6649, World Bank, Washington, DC.

Nayar, R., P. Gottret, P. Mitra, G. Betcherman, Y. Lee, I. Santos, M. Dahal, and M. Shrestha. 2012. "More and Better Jobs in South Asia." Washington, DC: World Bank.

Ostry, J., A. Berg, and C. Tsangarides. 2014. "Redistribution, Inequality, and Growth." IMF Staff Discussion Note SDN/14/02. Washington, DC: IMF.

Palma, J. G. 2006. "Globalizing inequality: Centrifugal and centripetal forces at work." DESA Working Paper 35, New York: UN Department of Economic and Social Affairs.

_____. 2011. "Homogeneous middles vs. heterogeneous tails, and the end of the Inverted-U: The share of the rich is what it's all about." Cambridge Working Papers in *Economics* 1111, Cambridge: University of Cambridge Department of Economics (later published in Development and Change, 42, 1, 87-153).

Perotti, R. 1996. "Growth, Income Distribution and Democracy." *Journal of Economic Growth*, 1(2), pp. 1490187.

Persson, T. and G. Tabellini. 1994. "Is Inequality Harmful for Growth?" *American Economic Review*, 84(3), pp. 600-21.

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*, Harvard University Press, Boston.

Rajan, R. G. 2010. “Fault Lines: How Hidden Fractures Still Threaten the World Economy.” Princeton University Press.

Ravallion, M. 2004. “Pro-Poor Growth: A Primer.” Policy Research Working Paper 3242, World Bank, Washington, DC.

Ravallion, Martin, and G. Datt. 2002. ”Why has Economic Growth been more Pro-Poor in Some States of India than Others?” *Journal of Development Economics* 68 (2): 381-400.

Ravallion and Chen, 2002. “Measuring Pro-poor Growth,” in Economic Letters, May 2002.

Ravallion, Martin. 2013. “How Long Will It Take to Lift One Billion People out of Poverty?” World Bank Policy Research Working Paper 6325, World Bank, Washington, DC.

Romer, C.D. and D.H. Romer. 2010. “The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks.” *American Economic Review*, 100 (3), pp. 763-801.

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

Sen, A. 1973. “On Economic Inequality.” New York: Norton.

Stiglitz, J. 2012. “The Price of Inequality: How Today’s Divided Society Endangers Our Future.” New York: Norton.

United Nations General Assembly. 2015. *Transforming Our World: The 2030 Agenda for Sustainable Development,* UN General Assembly Resolution, A/Res/70/1.

Van der Weide, R., and B. Milanovic. 2014. “Inequality is Bad for Growth of the Poor (But Not for That of the Rich).” Policy Research Working Paper 6963, World Bank, Washington, DC.

White, H. and E. Anderson. 2001. “Growth Versus Distribution: Does the Pattern of Growth Matter”” *Development Policy Review*, 19(3), pp. 267-289.

Woolcock, Michael, and Deepa Narayan. 2000. “Social Capital: Implications for Development Theory, Research and Policy.” *World Bank Research Observer* 15(2): 225-49.

World Bank. 2005a. “World Development Report 2006: Equity and Development.” Washington, DC.

_____. 2005b. “Pro-Poor growth in the 1990s: Lessons and insights from 14 countries.” Operationalizing pro-poor growth research program. Washington, DC. http://documents.worldbank.org/curated/en/2005/01/6049881/pro-poor-growth-1990s-lessons-insights-14-countries

_____. 2012. “World Development Report 2012: Gender Equality and Development,” World Bank, Washington D.C,

_____. 2013a. “Inclusion Matters—The Foundation for Shared Prosperity.” Washington, DC.

_____. 2013b. “A Common Vision for the World Bank Group.” Development Committee Paper, Spring Meetings 2013. Washington, DC.

_____. 2013c. “World Development Indicators.” Washington, DC.

_____. 2013d. “World Bank Group Strategy.” Washington, DC.

_____. 2013e. *The World Bank corporate scorecard: progress and challenges*. Washington DC; World Bank. https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=18077540

_____. 2014a. "Global Monitoring Report 2014/15—Ending Poverty and Sharing Prosperity Overview." DC21014-0009/1. Washington, DC.

_____. 2014b. "Bridging the Development Gap: ASEAN Equitable Development Monitor 2014." Washington, DC.

_____. 2014c. "Trade and Shared Prosperity in the Caribbean Region." Washington, DC.

_____. 2014d. "Voice and Agency: Empowering women and girls for shared prosperity." Washington, DC.

_____. 2014e. "First Insights into Promoting Shared Prosperity in South East Europe." South East Europe Regular Economic Report No. 5. Washington, DC.

_____. 2014f. "Investing in Natural Capital for Eradicating Extreme Poverty and Boosting Shared Prosperity—A Biodiversity Roadmap for the WBG." Washington, DC.

_____. 2014g. "Inequality in South Asia." Washington, DC.

_____. 2015a. "Addressing Inequality in South Asia. South Asia Development Matters." Washington, DC.

_____. 2015b. "2015 Development Policy Financing Retrospective—Results and Sustainability." Operations Policy and Country Services. Washington, DC.

_____. 2015c. "Central America Shared Prosperity—Progress Report." Washington, DC.

_____. 2015d. "Education: Ending Poverty and Boosting Shared Prosperity." Snapshot. Washington, DC.

_____. 2015e. "A Research Note and Ending Extreme Poverty and Shared Prosperity." Washington, DC.

_____. 2015f. "A Measured Approach to Ending Poverty and Boosting Shared Prosperity—Concepts, Data, and the Twin Goals." Policy Research Report. Washington, DC.

_____.2015g. Approach paper for the Systematic Country Diagnostics (SCD) and Country Partnership Framework (CPF) Process Evaluation. Washington, DC: World Bank.

World Bank Group. 2014a. "A Stronger, Connected, Solutions World Bank Group. An Overview of the World Bank Group Strategy." Washington, DC.

_____. 2014b. "Promoting Shared Prosperity in an unequal World: Key Challenges and the Role of the World Bank Group." DC2014-0008. Washington, DC.

_____. 2014c. "Prosperity for All: Ending Extreme Poverty." Spring Meetings. Washington, DC.

## Attachment 2a

## Evaluation Design Matrix

| Key Questions | Information required | Information sources | Data collection methods | Data analysis methods | Strengths and limitations |
|---|---|---|---|---|---|
| How has the World Bank Group and each WBG institution, including IFC and MIGA, operationalized its goal of shared prosperity in its key country diagnostics and strategies? More specifically, the evaluation will seek to assess whether:<br>1. Diagnostics have identified key binding constraints and challenges to shared prosperity as well as related policy directions, and<br>2. Strategies articulated country strategies—objectives, pillars, a mix of instruments, and results frameworks—that promote shared prosperity in line with identified constraints and policy directions as well DAC criteria of selectivity, relevance, and sustainability?<br>3. Does this evidence on the two questions above represent a significant departure from past practice (pre-twin goals)? | Binding constraints, policy priorities and directions and interventions in, CASes, SCD, CPF, CEM, CAS for all countries under study. | CASm SCD, CPF, CEMs, CAS, CAS progress reports; IFC road maps, IFC regional, industry or country strategies, MIGA strategies; field visits. | Document review, interviews, Text search programs. | Desk review and analysis, Analysis and synthesis of interviews, Case studies, Text analytics, descriptive statistics. | Strength: complementary approaches of global, sectoral and case studies and statistical analysis and surveys, timeliness, early lessons, identification of degree, relevance, and quality of shared prosperity content in the design of the Bank's diagnostics and strategies. Limitation: it does not allow analysis of outputs or impact after the introduction of the goal of shared prosperity. But it draws on evidence on implementation of past strategies. |
| How, and how effectively, is Bank lending (projects and programs) incorporating the goal of shared prosperity? In particular, how well:<br>4. Development Policy Operations (DPOs) incorporate in its objectives, policy frameworks and results frameworks country-specific, relevant concerns and challenges to addressing inequality/shared prosperity?<br>5. Investment Projects (IPs) incorporate in its objectives, project components, and results frameworks country-specific, relevant concerns and challenges to expanding service delivery and opportunity to the poorest quintiles and groups, including gender, ethnic, or other excluded communities with low access? | Objectives, policy pillars, project components, prior actions, results frameworks, M&E in DPOs and IPs, before and after the CPF; content, focus, and quality of policy dialogue in DPOs. M&E in DOTS, PCRs, and XPSRs. Evaluative project level evidence, ICRR, PPARs, EvNotes, cluster evaluations. | Documents on DPOs, IPs, before and after the CPF, CASs, CPFs; select Aide Memoires, ICRR for completed DPOs, IPs; field visits; PPARs, DOTS, PCRs, XPSRs, EvNotes, and relevant cluster evaluations. | Document review, Interviews, Text search, IEG shared prosperity tagging. | Desk analysis, Analysis of interviews, Text and context analytics, Case studies, Portfolio review, descriptive statistics. | Strength: complementary approaches of global, sectoral and case studies and statistical analysis and surveys, timeliness, early lessons, identification of degree, relevance, and quality of shared prosperity content in the design of the Bank's lending instruments. Limitation: It is based on the existing evaluative evidence and new analysis of the selected sectors and policy areas. Validity is limited to the areas of focus. |

| | | | | | |
|---|---|---|---|---|---|
| 6. Based on the answers t to the above two questions, and analysis of pre-CPF lending, are there notable changes in how the Bank treats issues of shared prosperity and inequality in the post-CPF period?<br>7. What were the outcomes of Bank projects?<br><br>For IFC and MIGA, this evaluation will assess, primarily the projects which have explicit distributional objectives within overall IFC strategies and portfolios at country case study level. In particular, to what extent and how well:<br><br>8. IFC investment and advisory service projects as well as MIGA guarantee projects incorporate in its objectives, project components, and results frameworks country-specific, relevant concerns and challenges to expanding service delivery and opportunity to the poorest quintiles and groups, including gender, ethnic, or other excluded communities with low access?<br>9. What were the outcomes of IFC or MIGA projects? | | | | | |
| How and how effectively are the Bank's key knowledge products [and related policy dialogue] on public expenditure allocation and domestic resource mobilization issues informed by and geared towards shared prosperity? Specifically, how well<br>10. Public Expenditure Reviews broadly defined (including other country knowledge products with substantial public policy and expenditure content, e.g., Public Finance Reviews, CEMs with focus on fiscal and public expenditure issues, and sectoral PERs) [and poverty assessments] are geared towards issues of shared prosperity when relevant in the country context.<br>11. Resource mobilization and distribution issues are addressed. Specifically, do knowledge products reflect the focus on domestic revenue mobilization, where warranted? And do they reflect not just concerns about revenue collection and efficiency | Objectives, focus, and policy recommendations and directions in PER, PFR, CEMs with fiscal focus, Pas, and related knowledge products on each of the countries under study; nature and quality of policy dialogue. | Key knowledge products documents, field visits. | Document review, Interviews, Text search, IEG shared prosperity tagging. | Desk analysis, Analysis of interviews, Text and context analytics, Case studies, Portfolio review, descriptive statistics. | Strengths: complementary approaches of global, sectoral and case studies and statistical analysis and surveys, timeliness, early lessons, and identification of degree, relevance, and quality of shared prosperity content in the Bank knowledge products. Limitation: validity is limited to the areas of focus. |

| | | | | | |
|---|---|---|---|---|---|
| but also about equity and distributional issues?<br>12. Policy dialogue underlying preparation of knowledge products takes on board country relevant priorities regarding shared prosperity in their design and whether the dialogue contributes to the improvements of policies towards shared prosperity. | | | | | |
| Which indicators of shared prosperity, how, and how well are the Bank using in its strategies, lending and knowledge products to measure and promote shared prosperity? What are prevailing and good practices? | Indicators used in measurement, policy and results frameworks on shared prosperity in strategies, knowledge and lending instruments. | As above | Document review, Tabulation using Tableau, Interviews, Text search, IEG shared prosperity tagging. | Desk analysis, Analysis of interviews, Text and context analytics, Case studies, Portfolio review, descriptive statistics, comparative analysis of indicators of shared prosperity. | Strengths: a first comparative analysis of indicators of shared prosperity in Bank operations and knowledge products and strategies with insights for future implementation. Limitation: preliminary and basic analysis focused on comparative use and strengths and weaknesses. |

# Attachment 2b

**Table 1. Inequality, Growth, Shared prosperity, and IBRD, IDA and IFC Commitments across Countries (Ranked from Highest (Rank 1) to Lowest (Rank 150) Reported Gini Coefficient)**

| Rank | Country Name | Gini (latest) | Aver. Growth | B40 Growth | IBRD Commit Amt | IDA Commit Amt | IFC Net Commit Activity |
|---|---|---|---|---|---|---|---|
| 1 | South Africa | 63.4 | 3.1 | 4.3 | 3,750 | | 1,390 |
| 2 | Namibia | 61.0 | | | | | |
| 3 | Haiti | 60.8 | 1.6 | | | 1,025 | 127 |
| 4 | Botswana | 60.5 | | | | | |
| 5 | Central African Republic | 56.2 | | | | | |
| 6 | Comoros | 55.9 | | | | | |
| 7 | Zambia | 55.6 | 7.6 | | | 1,028 | 126 |
| 8 | Lesotho | 54.2 | | | | | |
| 9 | Honduras | 53.7 | 4.0 | 3.0 | | 964 | 1,283 |
| 10 | Colombia | 53.5 | 4.8 | 6.4 | 0,315 | | 2,120 |
| 11 | Brazil | 52.9 | 3.6 | 5.5 | 25,654 | | 9,691 |
| 12 | Guatemala | 52.4 | | | | | |
| 13 | Panama | 51.7 | | | | | |
| 14 | Swaziland | 51.5 | | | | | |
| 15 | Rwanda | 51.3 | 7.6 | 4.6 | | 1,723 | 156 |
| 16 | Guinea-Bissau | 50.7 | | | | | |
| 17 | Chile | 50.5 | | | | | |
| 18 | Costa Rica | 49.2 | | | | | |
| 19 | Kenya | 48.5 | | | | | |
| 20 | Paraguay | 48.3 | | | | | |
| 21 | Mexico | 48.1 | 2.6 | 1.1 | 19,072 | | 3,501 |
| 22 | Bolivia | 48.1 | 4.9 | 7.4 | 115 | 781 | 227 |
| 23 | Gambia, The | 47.3 | | | | | |
| 24 | Ecuador | 47.3 | | | | | |
| 25 | Cabo Verde | 47.2 | | | | | |
| 26 | Dominican Republic | 47.1 | | | | | |
| 27 | Venezuela, RB | 46.9 | | | | | |
| 28 | Malaysia | 46.3 | | | | | |
| 29 | Malawi | 46.1 | 5.4 | | | 1,577 | 147 |
| 30 | Solomon Islands | 46.1 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 31 | Togo | 46.0 | | | | | |
| 32 | Nicaragua | 45.7 | 3.9 | 4.8 | | 777 | 504 |
| 33 | Mozambique | 45.6 | 7.5 | 3.8 | | 3,201 | 235 |
| 34 | Jamaica | 45.5 | | | | | |
| 35 | Djibouti | 45.1 | | | | | |
| 36 | Peru | 44.7 | 6.0 | 6.8 | 4,343 | | 1,448 |
| 37 | Macedonia, FYR | 44.1 | 3.4 | -1.4 | 723 | | 131 |
| 38 | Papua New Guinea | 43.9 | | | | | |
| 39 | El Salvador | 43.5 | | | | | |
| 40 | Benin | 43.4 | | | | | |
| 41 | Chad | 43.3 | | | | | |
| 42 | Cote d'Ivoire | 43.2 | | | | | |
| 43 | Philippines | 43.0 | 5.4 | 0.3 | 5,991 | | 1,313 |
| 44 | Nigeria | 43.0 | 8.3 | -0.3 | 500 | 9,761 | 8,167 |
| 45 | Cameroon | 42.8 | | | | | |
| 46 | Fiji | 42.8 | | | | | |
| 47 | Israel | 42.8 | | | | | |
| 48 | Ghana | 42.8 | 7.1 | | | 4,046 | 1,959 |
| 49 | Seychelles | 42.8 | | | | | |
| 50 | Angola | 42.7 | | | | | |
| 51 | Samoa | 42.7 | | | | | |
| 52 | Uganda | 42.4 | 6.9 | 3.5 | | 4,194 | 394 |
| 53 | Argentina | 42.3 | | | | | |
| 54 | Gabon | 42.2 | | | | | |
| 55 | Congo, Dem. Rep. | 42.1 | 6.6 | | | 4,170 | 305 |
| 56 | China | 42.1 | 10.0 | 7.2 | 18,608 | | 6,395 |
| 57 | Uruguay | 41.9 | | | | | |
| 58 | Russian Federation | 41.6 | | | | | |
| 59 | United States | 41.1 | | | | | |
| 60 | Morocco | 40.7 | 4.3 | 3.3 | 6,109 | | 459 |
| 61 | Madagascar | 40.6 | 3.1 | -4.5 | | 1,439 | 197 |
| 62 | Senegal | 40.3 | 4.0 | -0.2 | | 1,640 | 274 |
| 63 | Turkey | 40.2 | 4.7 | 4.3 | 17,559 | | 6,703 |
| 64 | Congo, Rep. | 40.2 | | | | | |
| 65 | Georgia | 40.0 | 5.7 | 2.9 | 834 | 824 | 769 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 66 | Burkina Faso | 39.8 | | | | | |
| 67 | Thailand | 39.3 | | | | | |
| 68 | Vietnam | 38.7 | 6.3 | 5.4 | 2,818 | 13,091 | 4,636 |
| 69 | Bhutan | 38.7 | 7.3 | | | 231 | 49 |
| 70 | Sri Lanka | 38.6 | 6.3 | | 315 | 2,412 | 517 |
| 71 | Tonga | 38.1 | | | | | |
| 72 | Lao PDR | 37.9 | 7.8 | 1.5 | | 645 | 63 |
| 73 | Tanzania | 37.8 | 6.7 | 9.8 | | 6,964 | 293 |
| 74 | Kiribati | 37.6 | | | | | |
| 75 | Mauritania | 37.5 | 5.7 | | | 280 | 186 |
| 76 | Iran, Islamic Rep. | 37.4 | | | | | |
| 77 | Vanuatu | 37.2 | | | | | |
| 78 | Maldives | 36.8 | | | | | |
| 79 | Greece | 36.7 | | | | | |
| 80 | Liberia | 36.5 | | | | | |
| 81 | Portugal | 36.0 | | | | | |
| 82 | Bulgaria | 36.0 | | | | | |
| 83 | Spain | 35.9 | | | | | |
| 84 | Yemen, Rep. | 35.9 | | | | | |
| 85 | Mauritius | 35.8 | | | | | |
| 86 | Tunisia | 35.8 | 3.6 | 3.5 | 2,830 | | 338 |
| 87 | Syrian Arab Republic | 35.8 | | | | | |
| 88 | Indonesia | 35.6 | 5.7 | 3.8 | 19,609 | 1,262 | 2,500 |
| 89 | Latvia | 35.5 | | | | | |
| 90 | Sudan | 35.4 | | | | | |
| 91 | Uzbekistan | 35.3 | | | | | |
| 92 | Italy | 35.2 | | | | | |
| 93 | Lithuania | 35.2 | | | | | |
| 94 | Australia | 34.9 | | | | | |
| 95 | Luxembourg | 34.8 | | | | | |
| 96 | West Bank and Gaza | 34.5 | | | | | |
| 97 | Cyprus | 34.3 | | | | | |
| 98 | Sierra Leone | 34.0 | | | | | |
| 99 | India | 33.9 | 7.7 | | 22,210 | 9,868 | 7,089 |
| 100 | Mongolia | 33.8 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 101 | Guinea | 33.7 | | | | | |
| 102 | Canada | 33.7 | | | | | |
| 103 | Jordan | 33.7 | 5.3 | 2.7 | 1,354 | | 1,057 |
| 104 | Burundi | 33.4 | | | | | |
| 105 | Montenegro | 33.2 | 3.3 | -4.8 | 231 | 70 | 64 |
| 106 | Ethiopia | 33.2 | 10.9 | -0.4 | | 10,259 | 211 |
| 107 | Estonia | 33.2 | | | | | |
| 108 | France | 33.1 | | | | | |
| 109 | Bosnia and Herzegovina | 33.0 | 2.7 | -0.7 | 345 | 605 | 238 |
| 110 | Mali | 33.0 | 4.1 | 2.3 | | 1,684 | 156 |
| 111 | Nepal | 32.8 | | | | | |
| 112 | United Kingdom | 32.6 | | | | | |
| 113 | Ireland | 32.5 | | | | | |
| 114 | Poland | 32.4 | | | | | |
| 115 | Japan | 32.1 | | | | | |
| 116 | Bangladesh | 32.0 | 6.1 | | | 3,030 | 2,339 |
| 117 | Croatia | 32.0 | 0.6 | | 2,909 | | 604 |
| 118 | Switzerland | 31.6 | | | | | |
| 119 | Timor-Leste | 31.6 | | | | | |
| 120 | Armenia | 31.5 | 5.6 | -1.5 | 718 | 684 | 317 |
| 121 | Niger | 31.5 | 5.1 | | | 1,303 | 23 |
| 122 | Sao Tome and Principe | 30.8 | | | | | |
| 123 | Tajikistan | 30.8 | 7.2 | 6.1 | | 467 | 104 |
| 124 | Cambodia | 30.8 | 7.8 | 3.4 | | 352 | 258 |
| 125 | Egypt, Arab Rep. | 30.8 | 4.3 | -1.4 | 8,658 | | 1,506 |
| 126 | Hungary | 30.6 | | | | | |
| 127 | Austria | 30.5 | | | | | |
| 128 | Germany | 30.1 | | | | | |
| 129 | Serbia | 29.7 | 2.6 | -1.7 | 1,749 | 297 | 1,236 |
| 130 | Pakistan | 29.6 | 4.3 | | 1,747 | 11,894 | 4,194 |
| 131 | Iraq | 29.5 | | | | | |
| 132 | Denmark | 29.1 | | | | | |
| 133 | Albania | 29.0 | 4.0 | -1.2 | 775 | 250 | 297 |
| 134 | Moldova | 28.5 | 4.6 | 5.0 | 80 | 541 | 166 |
| 135 | Netherlands | 28.0 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 136 | Belgium | 27.6 | | | | | |
| 137 | Kyrgyz Republic | 27.4 | 4.5 | 0.5 | | 603 | 66 |
| 138 | Romania | 27.3 | 3.2 | | 6,786 | | 2,008 |
| 139 | Sweden | 27.3 | | | | | |
| 140 | Finland | 27.1 | | | | | |
| 141 | Iceland | 26.9 | | | | | |
| 142 | Kosovo | 26.7 | | | | | |
| 143 | Kazakhstan | 26.4 | 6.7 | | 5,115 | | 981 |
| 144 | Czech Republic | 26.1 | | | | | |
| 145 | Slovak Republic | 26.1 | | | | | |
| 146 | Belarus | 26.0 | | | | | |
| 147 | Norway | 25.9 | | | | | |
| 148 | Slovenia | 25.6 | | | | | |
| 149 | Ukraine | 24.6 | 1.6 | 3.6 | 6,716 | | 2,001 |
| 150 | Azerbaijan | 16.6 | 11.4 | | 2,658 | 531 | 260 |
| Average Gini Index (all 150 countries) | | 38.7 | Total - all countries* | | 244,361 | 164,652 | 108,247 |
| Median Gini Index (all 150 countries) | | 37.4 | | | | | |

*Sources*: WDI and WB Poverty Lab/Portal.
Notes: Among 56 selected countries, Afghanistan is not included in this table due to the data limitation.
Countries with data available on inequality. Data for Afghanistan are not available. Gini data are the latest available. Growth data are for the period 2004-15 or the latest for which data are available. Commitments data are in millions of U.S. dollars.
* All countries refer to the ones, which have IBRD/IDA operations.

## Attachment 3

## A brief literature review

The concept of shared prosperity rests on a long tradition in development economics. Looking at the related research and literature at the World Bank, the idea behind the bottom 40 indicator is not entirely new either. The 40 percent figure appears to have been based on the Bank's past research on the extent of extreme poverty in developing countries, which was led at the World Bank's research department by Hollis Chenery, Montek Ahluwalia, and others (1974, 1978, and 1979). Ahluwalia, Carter, and Chenery (1978), for example, note that "almost 40 percent of the population of the developing countries live in absolute poverty defined in terms of income levels that are insufficient to provide adequate nutrition by South Asian standards.

Beyond inequality of incomes, there is increased emphasis on broader concepts of equity and equality of opportunity, which are viewed as instrumental to social stability, fairness, and economic prosperity (World Bank 2006, 2008). The World Development Report on Equity and Development (2006) brought into a sharp focus wide inequalities within and across countries, emphasized the role of investment and institutions, and outlined a wide-ranging policy agenda to level political and economic field for all groups of society, including by enhancing human capacities and improving justice, land, and infrastructure systems. Education (Filmer 2014), health (World Bank 2000/01, 2004, 2014), land (Deininger 2013) and labor market, can be sources of large inequities but also of opportunities so prudent policy interventions can be key to achieving sustained growth, greater equity and poverty reduction (Growth Commission, World Bank 2008). Summers (1992), Duflo (2012) and the World Bank (2012) make a strong case for education of girls and empowerment of women as instruments of achieving greater equity and contributing to general development.

Overall, research on shared prosperity related issues shows the importance of empirical linkages to growth and poverty reduction and inequality which. It also raises important questions of policies to promote shared prosperity: the importance of investments in human capital (2014 GMR Report), interaction of trade policy with other policies (Cali et al. 2015), removing barriers to labor mobility, infrastructure (Biller et al. 2014), greater social inclusion and gender equity World Bank (2013, 2014f) and Summers 1994), urban policies (Glaeser and Joshi-Ghani (2013)), education (World Bank (2015d), especially Early Childhood Education (ECD) (IEG, 2015)), and rural, biodiversity and health (World Bank 2014g).

Shared prosperity defined as the income growth of B40 is not in itself a measure of inequality. A given income growth of B40 can be consistent with an increase, decrease, or no change in inequality—depending on the relationship between B40 growth and overall growth and changes in the share of B40 in the overall population. Put differently, B40 growth can be decomposed into two additive components: (i) the overall growth rate of the economy, and (ii) the change of the share in B40 in the overall population. It is the second component which establishes a connection between shared prosperity and inequality as it represents a particular (but by no means distinguishing) feature of the overall distribution of income.

**Growth and Inequality**

Simon Kuznets (1955) viewed income inequality as a natural byproduct of development. According to Kuznets' inverted-U hypothesis, income inequality is expected to increase in the earlier stages of a countries' development, then reach a turning point, after which the distribution of income would become more even again and poverty would rapidly disappear as a result of strong economic growth. This seemed to model the experience of many developed countries that had moved from agrarian economies to industrialized countries. Rather than just being seen as a by-product of development, income inequality is viewed as facilitating development a key ingredient of the incentives to encourage risk taking, innovation, private investment and growth Lewis (1954). This paradigm remained largely unchallenged for several decades.

Starting in the 1990s, the economic literature started to focus on the links from income distribution to growth through a variety of channels. Murphy et al. (1989) looked at the impact of the income distribution on growth, while Banerjee and Newman (1993) pointed out that imperfect capital markets can negatively impact growth by stifling economic activity of lower-income groups that fail to have adequate access to credit. As later argued by Aghion et al (1999) this confirms that with imperfect capital markets there is not necessarily a trade-off between equity and efficiency. Similarly, Deininger and Olinto focus on asset inequality (access to land) which they find to have a relatively large negative impact on growth.

Fiscal policy is another important channel through which inequality can negatively affect growth. This is brought out by Alesina and Rodrick (1994) and Persson and Tabellini (1994) who argue that high inequality leads to a strong demand for re-distribution (through taxes and/or assets (e.g., land)) which will negatively impact growth. On the other hand, fiscal re-distribution may reduce social tensions and thereby have a positive impact on growth—with no clear theoretical argument on the net result (Alesina and Perotti (1994)). Nevertheless, an influential view had emerged that increases in equality "may actually be detrimental to growth—by increasing agency costs in land rental markets, by tending to lead to economic regimes that restrict access to education and to markets, and be exacerbating social conflicts." (Hoff and Stiglitz (2001)).[9]

The empirical evidence for the link between inequality and growth, however, remained mixed. Alesina and Rodrik (1994) and Persson and Tabellini (1994) found support for the negative relationship. Barro (2000) finds that the overall effects of inequality on growth are weak, but notes that inequality appears to retard growth in poor countries and encourages growth in richer ones. In a later study Barro (2000) finds a negative effect from income inequality on economic growth which diminished as per capita GDP rose. Deininger and Squire (1998) find a strong negative relationship between initial inequality and long-term growth. Lundberg and Squire (2003) show that the determinants of growth and inequality are not mutually exclusive and that there is a possibility to improve growth without worsening income distribution. On the other hand, Forbes (2000) finds that an increase in a country's income inequality has a significant positive relationship with subsequent economic growth. Similarly, Li and Zou (1998) in an extension of the Alesina and Rodrik study find that more equal income distribution can lead to higher income taxation and lower growth and that, more generally, income inequality has an ambiguous effect on economic growth. Li and Zou (2002) point to the role of inflation which they find to worsen the income distribution and reduce the rate of economic growth. Focusing more narrowly on the fiscal channel, Romer and Romer (2010) and Afonso and Fuceri (1997) find that in general taxes or government spending negatively affect growth. In contrast, Lindert (2004) finds that public spending in education and infrastructure spending is does not have adverse impact on growth while Broadway and Keen (2000) find some public policies with redistributing effects may facilitate growth by providing social insurance and safety nets.

There are a number of issues with the empirical studies of inequality and growth. Cross-country studies typically fail to account for model uncertainty (e.g., Brock and Durlauf (2001) and most studies ignore the substantial variation in the volatility of growth (Kourtellos and Tsangarides (2015)). As Atkinson (2015) notes, the conclusion of such cross-country studies should not be overrated as they necessarily miss important country-specific aspects of growth performance. This is the point also made by Bourguignon (2004) who argues that case studies of individual countries might be able to shed more light on the complex relationships involved. Analysis of panel data might overcome some of the issues related to cross-country studies, but they also suffer from an endogeneity bias as inequality and growth need to be seen as jointly determined (Bourguignon (2004). Banerjee and Duflo (2003) make a related point that the inequality-growth relationship might simply be too complicated (and driven by many non-linear processes) to be

[9] There was limited attention to the link from growth to inequality, one example being Aghion et al (1999) who analyze several mechanisms related to technical change through which growth may increase wage inequality.

captured by the relatively simple models used. Similarly, Voitchovsky (2009) points to the gap between the intricacy of the relationship and the simple equations that are being estimated. In addition to all these issues, the data typically used in these studies suffer from a number of shortcomings (quality, coverage, definitions, normalization, etc.). As a result, all empirical results based on aggregate country data should be treated with caution (see Atkinson and Brandolini (2000) and Jenkins (2014)).

Rising inequality in a number of countries in the last decades has given a renewed impetus to the already vibrant research and policy debate on inequality and development. Piketty (2014) shows that capitalism tends to be accompanied by high and rising inequality. Individuals at the top of the income distribution get richer because of the disproportionate share of wealth (real estate and stocks)) held by them. Following a decrease until the post-WW II period, inequality in the US and Europe is now rising back to pre-WW I levels. This, Piketty argues, is bad for social stability and long-term growth and should be addressed through policy measures, such as a much higher marginal tax rates in top income brackets and a tax on wealth. Piketty has partly extended his analysis to the Middle East[10] in view of large wealth disparities, and India[11]."  Bourguignon (2015) contrasts the rising inequality in individual countries with falling inequality between countries—attributable in large part to globalization. He notes the negative effects on economic efficiently and individual welfare of excessive inequality and warns that beyond a certain threshold such inequality will undermine the stability of societies. Similar points have been made by Stiglitz (2012) who deals with rising inequality in the United States, which he characterizes as endangering out future and Atkinson (2015) who views inequality as one of our most urgent social problems.  Rajan's (2010) hypothesis that the recent financial and economic crisis in the United States was partly a result of rising inequalities which led to an expansion of credit to lower income households and ultimately the housing bubble is an example of the negative impact of inequality on economic performance, which has, however, been questioned by a number of economists.

In line with the sharpened focus on rising inequality, there have been a number of recent empirical studies. Berg et al. (2010) find that the duration of growth spells is strongly related to income distribution in their study based on data for 140 countries from the Penn World Tables—more equal societies tend to sustain growth longer. Ostry et al (2014), for example, find a robust correlation between lower net inequality and faster and more durable growth based on a cross-country dataset that includes both inequality before taxes and transfers ("market inequality") and inequality after taxes and transfers ("net inequality"). This study is, of course, subject to the same

---

[10] http://piketty.blog.lemonde.fr/2015/11/24/le-tout-securitaire-ne-suffira-pas-2/

[11] http://www.nytimes.com/2015/12/10/world/asia/thomas-piketty-inequality-india-mumbai.html

criticisms that have been leveled against earlier empirical studies. Kourtellos and Tsangarides (2015) address some of these issues by using a novel approach that focuses on the duration of growth spells and that explicitly accounts for model uncertainty using a model averaging methodology. They conclude that lower net inequality is robustly correlated with longer growth spells, but fail to find robust evidence that redistribution is benign for growth. Ferreira et al. (2014), using two panel data sets conclude that the hypothesis that there is no relationship between inequality and growth cannot be rejected, even though there is some evidence of a negative relationship between inequality and growth, but the results are not robust. Van der Weide and Milanovic (2014) analyze micro-census data from U.S. states covering the period 1960-2010 and find evidence that high levels of inequality reduce the income growth of the poor and help the growth of the rich. Dabla-Norris et al (2015) analyze a sample of 159 advanced, emerging, and developing economics for the period 1980-2012 and find an increase in the income share of the bottom 20 percent increases growth while an increase in the income share of the Top 10 percent decreases growth. They also argue that fiscal policy can be an important tool for reducing inequality and that raising skill levels and labor market institutions are important for reducing inequality.

**Growth and Poverty Reduction**

Bourguignon's (2004) "Poverty-Growth-Inequality Triangle" illustrates that the change in the distribution of income can be decomposed into the proportional change of all incomes that leaves the distribution of relative income unchanged ("growth") and the change in the distribution of relative incomes ("distribution effect"). Given these two components, a change in poverty is then a function of growth, distribution of income, and changes in the distribution of income. It is important to realize that the same growth rate can entail very different changes in poverty. By the same token, the same changes in poverty can be brought about by very different levels of growth. Ravallion (2013) provides illustrative calculations that look at the trade-off between growth and distributional changes that would allow for one billion people to be lifted out of poverty. With inequality at 2008 levels an average growth rate of 4.5 percent in mean household consumption would be needed to get to a poverty rate of 3 percent by 2027. With inequality at 1999 levels (lower total inequality observed), this growth rate would drop to 3.4 percent annually.

There are multiple definitions of pro-poor growth (Ravallion (2004)). One differentiating element is the underlying definition of poverty. In addition, though, pro-poor growth can be defined either as (i) growth that favors the poor, e.g. a situation in which poverty falls more than it would have if all incomes had grown at the same rate, e.g. the incomes of the poor have to increase at a higher rate than the incomes of the rich and thus implies a change in the distribution of income or (ii) growth that benefits the poor, e.g. leads to a reduction in the incidence of poor people. The first definition would exclude cases in which growth is high—even though it favors the rich more—and lifts a considerable number of people out of poverty. The second definition encompasses situations in which the relative share of the lowest quintile(s) of the distribution shrinks, but people are better off in absolute terms and poverty incidence falls.

There is no clear consensus on whether and how much specific policies or interventions may have a direct effect on the well-being of the poor apart from their effect on overall growth. Dollar and Kraay (2001, 2002, and Dollar, Kleineberg, and Kraay (2013), for example, argue that the poor benefit from growth, with empirical evidence that the income of the bottom quintile increased equi-proportionally to that of the national average. They stress the importance of growth and conclude that there is no robust evidence that certain policies such as openness, education, and health expenditures are particularly "pro-poor" or conducive to promoting "shared prosperity" other than through their direct effect on growth. Most recently, Dollar et al. (2015) concludes that average incomes in the poorest two quintiles on average increase at the same rate as overall average incomes.

Several other studies yields different results. White and Anderson (2001) using the Deininger and Squire database decomposed growth in the income of the poorest 20 percent of the population and find that in one quarter of all cases, redistribution is more important than overall growth in explaining the income growth of the poor. Similar, Kraay (2006) finds that between 43% and 70% of the variation in changes in poverty in a sample of developing countries during the 1980s and 1990s is due to the growth component, with the remainder due to changes in relative incomes. Narayan and et al (2013) find a positive relationship between B40 growth and poverty reduction and the correlation is higher for countries with higher rates of initial poverty. Not surprisingly, they find that shared prosperity is strongly correlated with overall prosperity.

A key characteristic in the relationship between growth and poverty reduction is the growth elasticity of poverty. Ravallion and Chen (1997) estimated the growth elasticity of poverty in a sample of developing countries at around 3, while the 2000/2001 WDR Attacking Poverty found that it was on average closer to 2 with considerable cross-country heterogeneity. Bourguignon (2003) proposes to use an approximation of the poverty-mean income-distribution identity that is based on the assumption that the distribution of income or consumption expenditure is lognormal. He concludes that he approximation fits the data well and that for this sample of 114 growth spells for 50 mostly developing countries only about half of the reduction in poverty is explained by growth, the remaining half thus being due to distribution changes.

The question which instruments and channels are most likely to yield pro-poor growth is a difficult one. As Kraay (2006) argues cross-country studies are unlikely to be very informative on this matter. Killick (2002) lists seven potential areas of intervention: (1) agricultural and rural development, (ii) research and incentives to encourage labor-intensive investments, (iii) infrastructural investment to reduce the remoteness of many of the poorest, (iv) social policies to promote education, health and social capital, (v) measures to eliminate biases against women as producers and consumers, (vi) improved access to capital through financial sector reforms and micro-credit schemes, and (vii) the avoidance of macroeconomic crisis. His focus is on those interventions that target what he terms “progressive growth” rather than redistributive interventions (e.g., taxation, land reform) that he terms as “static redistribution.”

## Attachment 4

## Early Progress with Shared Prosperity

Cruz and al. (2015) identify two key challenges to shared prosperity: the unevenness in shared prosperity across regions and countries and the persistent disparities in non-income dimensions of development. Overall income growth continues to be an important driver of B40 income growth, but with lower explanatory power especially in LICs and lower income deciles. Large disparities remain in access of the B40 to education, health, and other non-income dimensions of well-being and they affect the income-generating capacity of B40.

The retrospective of Development Policy Financing (World Bank (2015b)) which analyzed all Bank operations between April 2012 and December 2014 (165 DPOs and two supplemental financing operations) found that designed policy frameworks of DPFs, a Bank's key lending instrument, are broadly geared towards shared prosperity channels. "All prior actions are intended to contribute to poverty reduction and shared prosperity in the medium to long term. Prior actions supported by DPF are aligned with the corporate goals through their impact on growth with high levels of participation by the bottom 40 percent." This was based on a mapping of prior actions to transmission channels to achieving the twin goals, broadly based on an asset-based framework. The transmission channels are broken down into returns to economic activities (assets, returns to assets, and intensity of use) and access to finance.

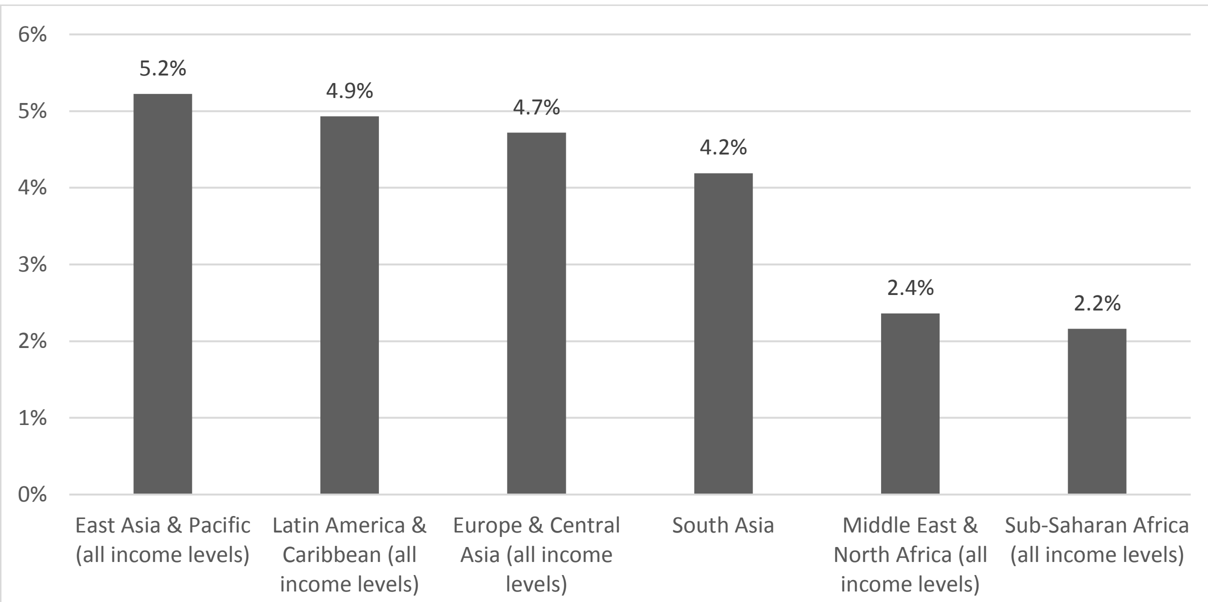
Narayan et al. (2013) provide some stylized facts on shared prosperity based on the WB database. They find that median per-capita income growth for the B40 has exceeded the rate for the overall population during the period 2005-2010 (4.2 percent vs. 3.1 percent) for 79 countries and that low and lower middle-income countries lag behind upper middle and high income countries in boosting shared prosperity.

The composition of B40 varies significantly across countries. While in some countries (e.g., Mali, Angola, and Bangladesh) the B40 and the extremely poor are virtually identical, B40 encompasses predominantly the moderately poor in countries like China and South Africa. Further up the ladder of economic we-being, in countries like Costa Rica and Turkey, about half of the B40 is made up of vulnerable people (those living on between $4 and $10/day) (see World Bank (2015)). This implies that the approach to SP will vary across countries.

Also relevant are experiences of those regions/countries in which the composition of the B40 changed substantially over the recent past (Economic Mobility and the Rise of the Latin American Middle Class (Ferreira et al. (2013)) or the analysis on the rise of Turkey's middle class by Azevedo and Atamanov (2014)). They find that increases in shared prosperity in Turkey for the period 2002-2013 has contributed to an expansion of the middle class by 20 percentage points. Main drivers are labor markets, demographics, pensions, and social assistance. This also points to the potentially important role of redistributive policies in fostering shared prosperity. Growth has been the main driver in poverty reduction (explaining about 89 percent), different from other regions like LAC where redistribution played a larger role.

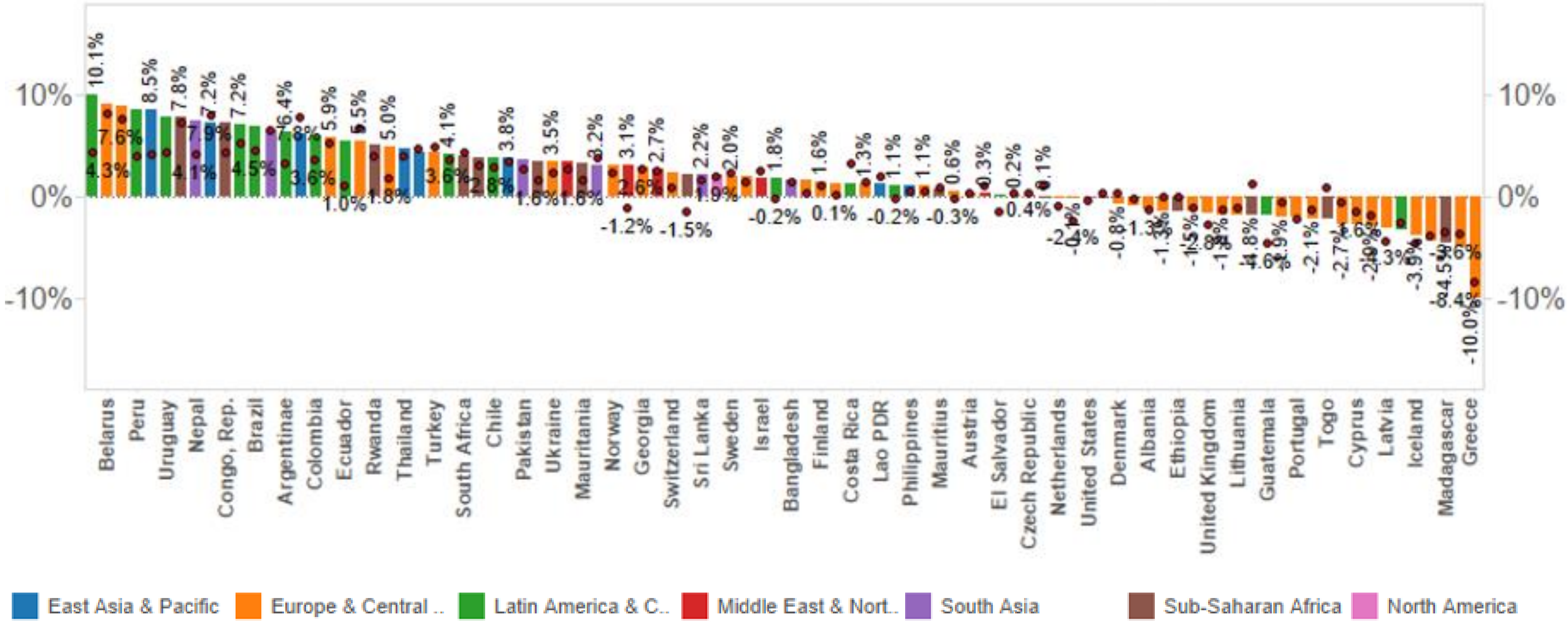
There are large differences in shared prosperity across world regions. Importantly, large differences within an individual country are also common (Figure 1). This maybe points to the need for subnational/ regional targeting.

**Figure 1. Growth of the Bottom 40, by Region, Simple Regional Averages, Circa 2005–10**




*Source*: Household Budget Surveys.

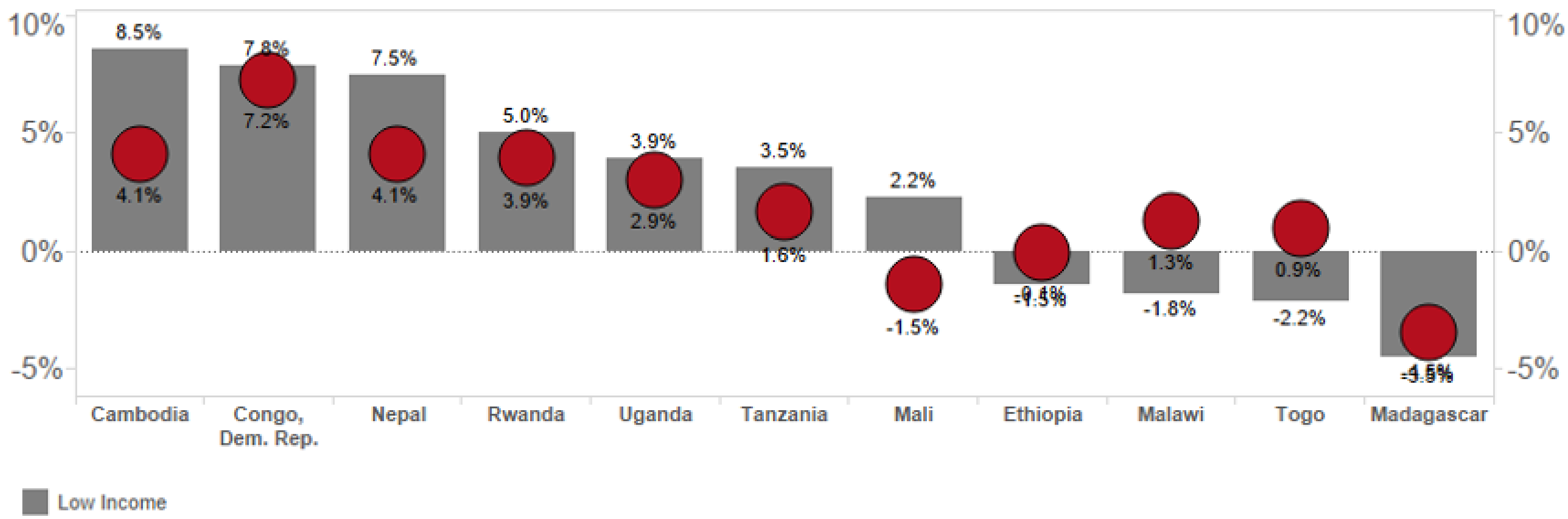
**Figure 2a. Basic Indicator of Shared Prosperity Across the World**




| | East Asia & Pacific | Europe & Central Asia | Latin America & Caribbean | Middle East & North Africa | North America | South Asia | Sub-Saharan Africa | Grand Total |
|---|---|---|---|---|---|---|---|---|
| Number of Countries | 8 | 42 | 16 | 5 | 2 | 6 | 15 | 94 |

*Source*: Global Database on Shared Prosperity prepared by the Global Poverty Working Group, World Bank.
Note: Bar graphs and red dots, respectively, measure the average growth rate of bottom 40 percent and of the country.

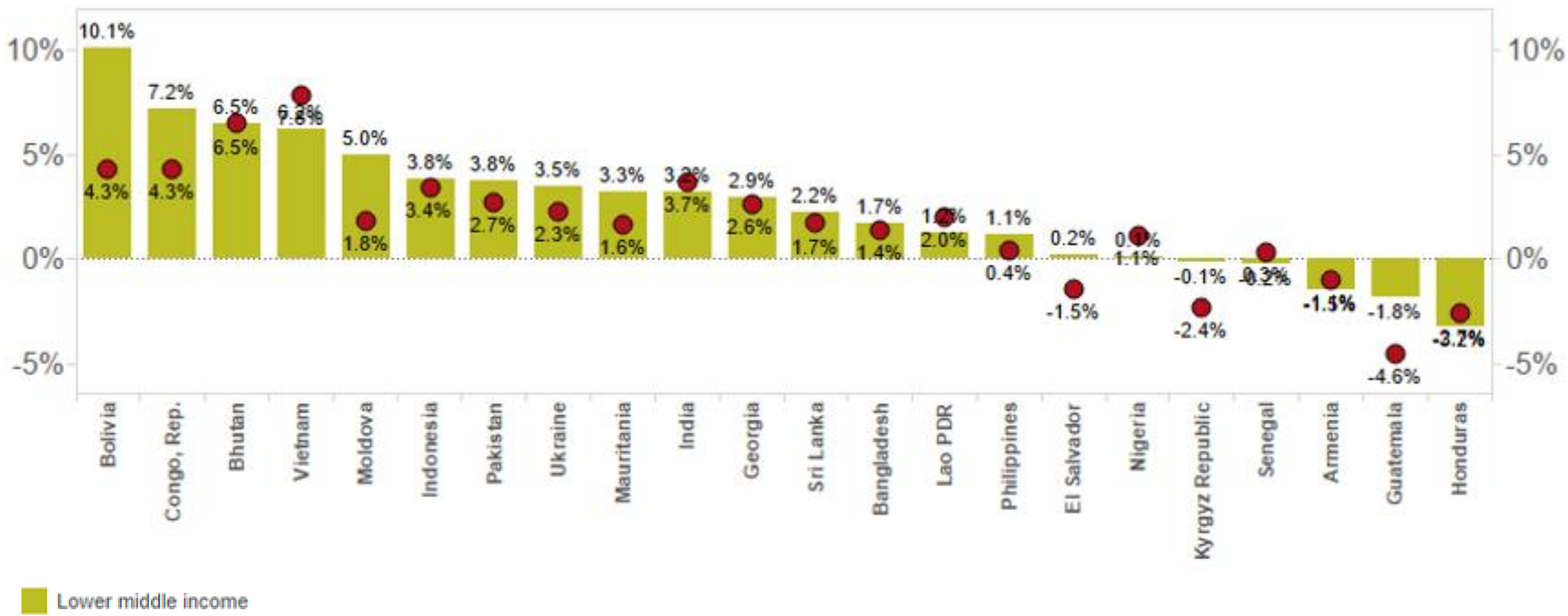
**Figure 2b. Growth of Income of Bottom 40 Compared with Growth of Mean Income**




| | Low income | Grand Total |
|---|---|---|
| Number of Countries | 11 | 11 |

*Source*: Global Database on Shared Prosperity prepared by the Global Poverty Working Group, World Bank.
Note: Bar graphs and red dots, respectively, measure the average growth rate of real income of the 40 percent of the country.

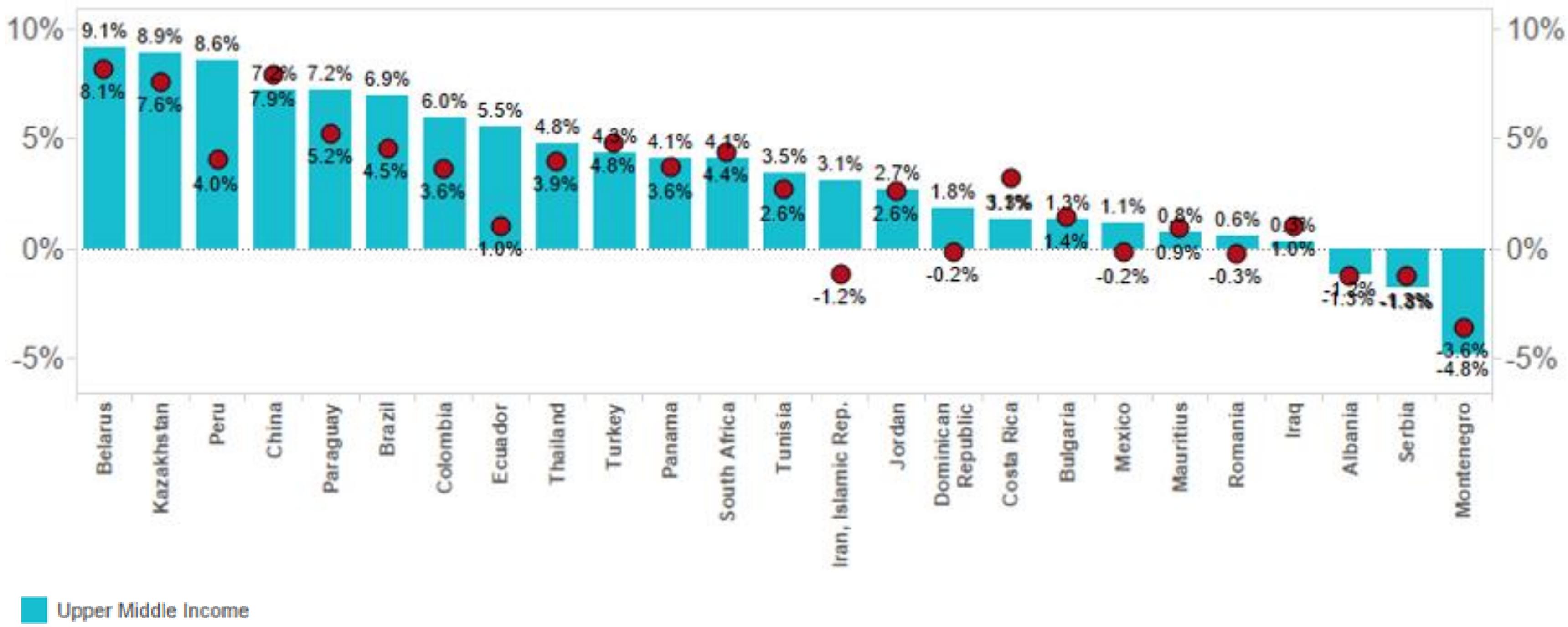
**Figure 2c. Global Database for Shared Prosperity**




| | Lower middle income | Grand Total |
|---|---|---|
| Number of Countries | 22 | 22 |

*Source*: Global Database on Shared Prosperity prepared by the Global Poverty Working Group, World Bank.
Note: Bar graphs and red dots, respectively, measure the average growth rate of real income of the 40 percent of the country.

## Figure 2d. Global Database for Shared Prosperity



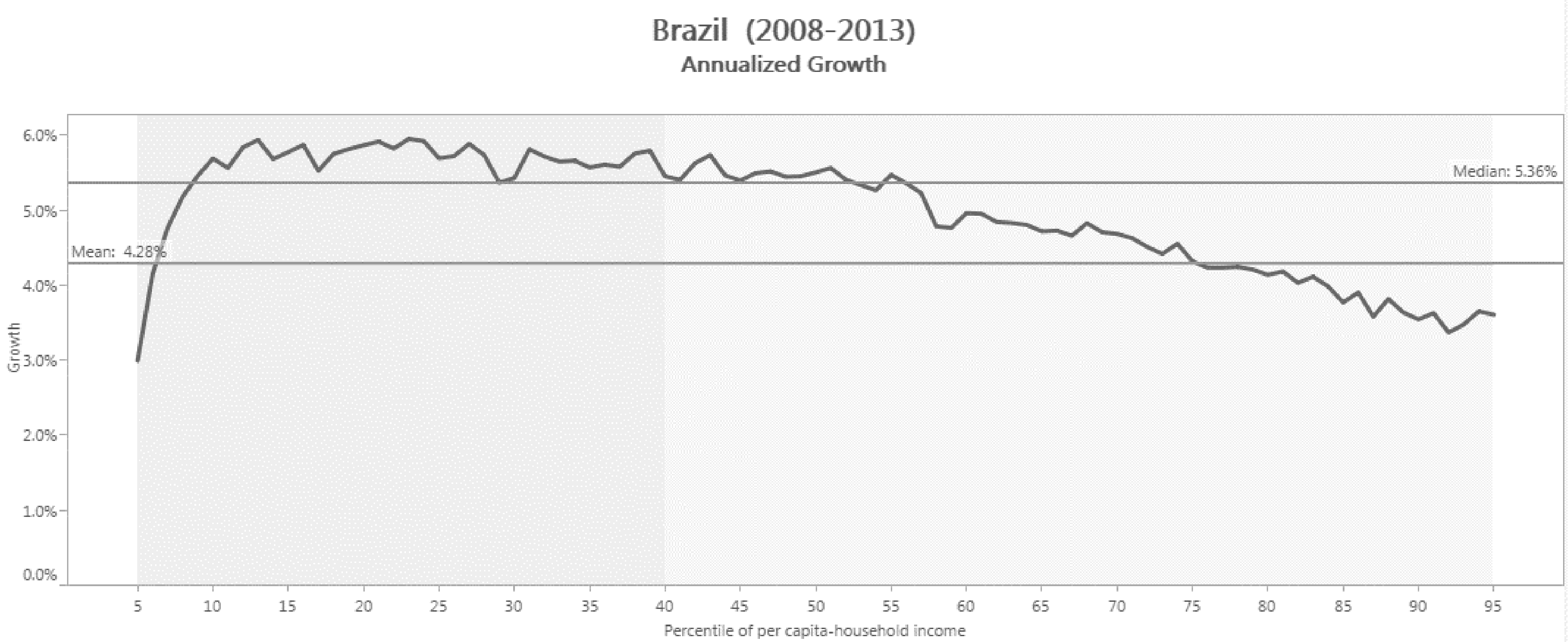

| | Upper middle income | Grand Total |
|---|---|---|
| Number of Countries | 25 | 25 |

*Source*: Global Database on Shared Prosperity prepared by the Global Poverty Working Group, World Bank.
Note: Bar graphs and red dots, respectively, measure the average growth rate of real income of the 40 percent of the country.

The following charts from countries in several world regions illustrate diverse patterns of growth and its distribution across income groups using the growth incidence curves.

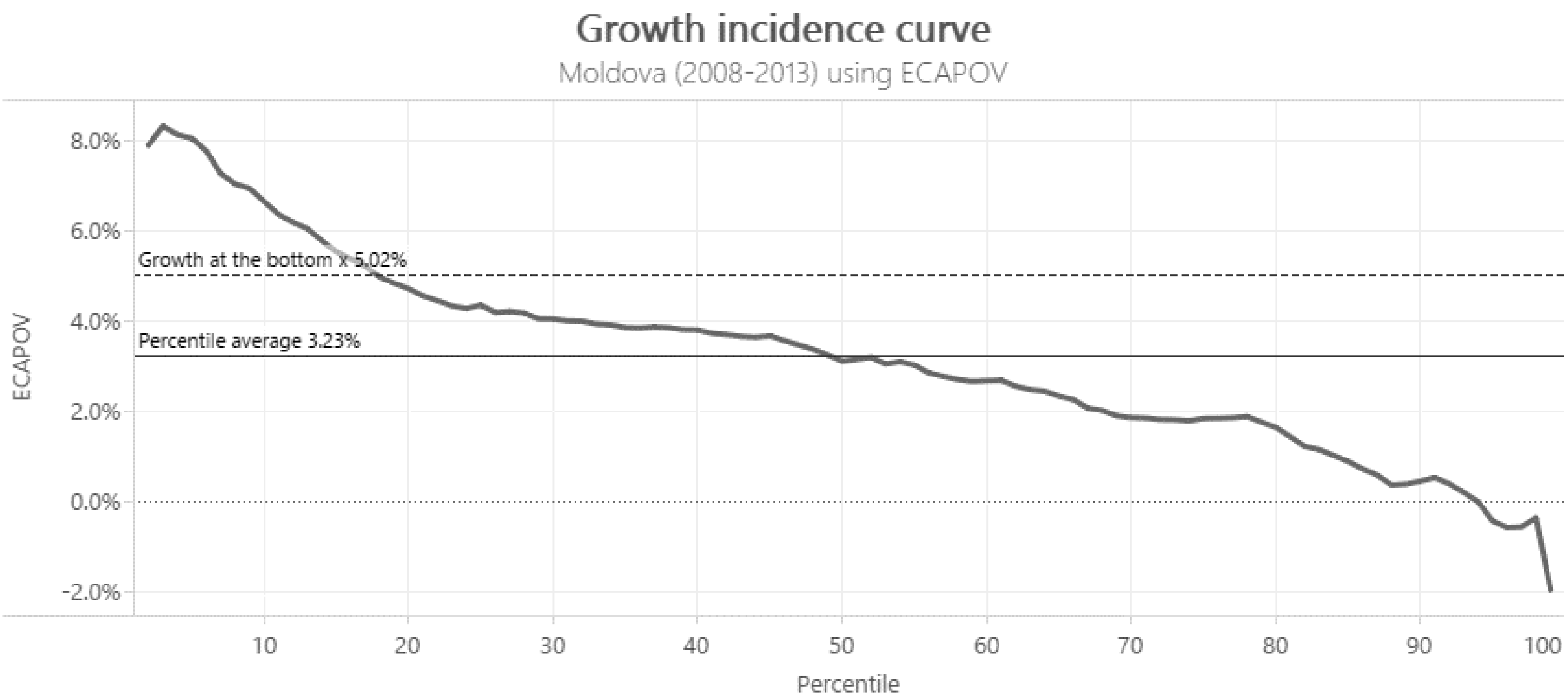
**Examples of the Distributional Impact of Growth: Growth Incidence Curves across the World in Different Regions/Countries**

**Figure 3. Brazil - Broad Based Growth in All Income Deciles**



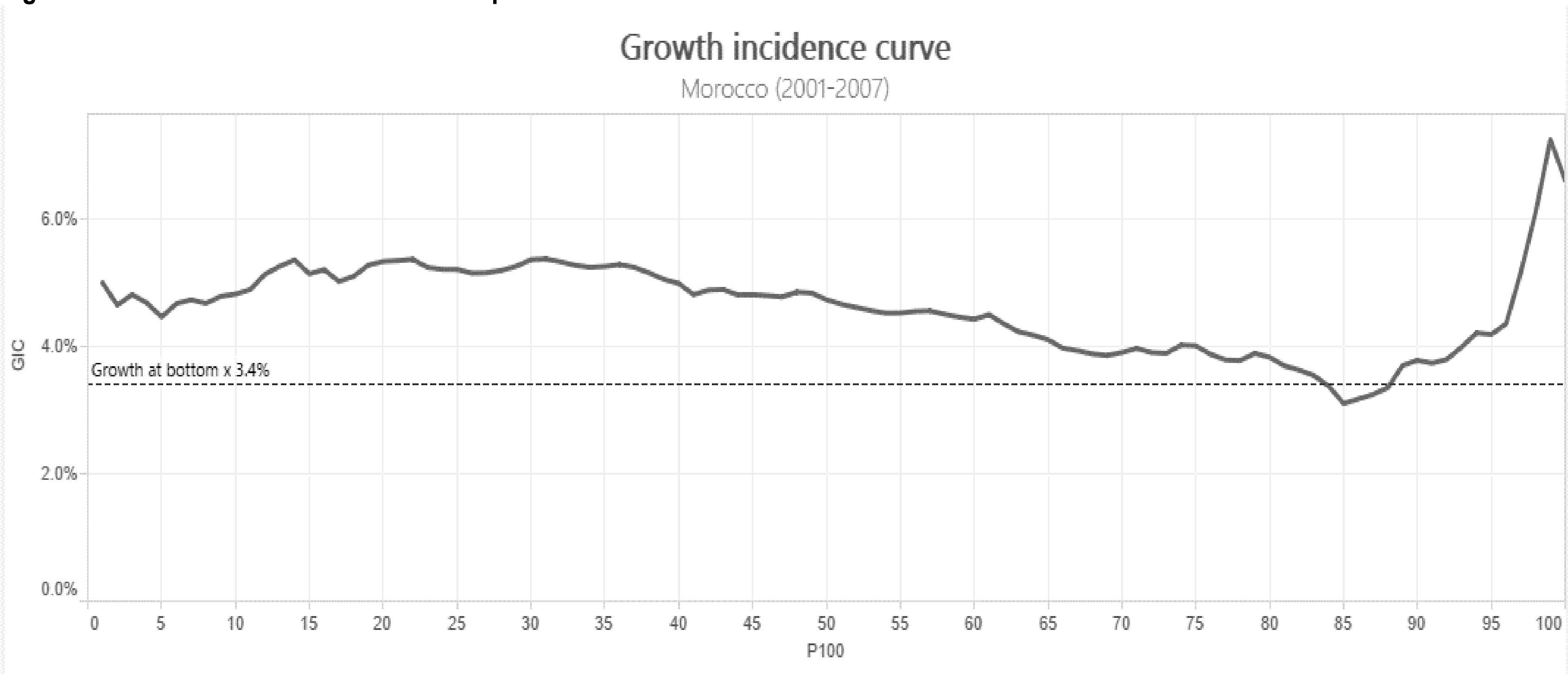

*Source*: World Bank Data Lab.

Figure 4. Moldova - The incomes of the Poor and the Bottom 40 percent Grow Faster than Those of Richer Deciles



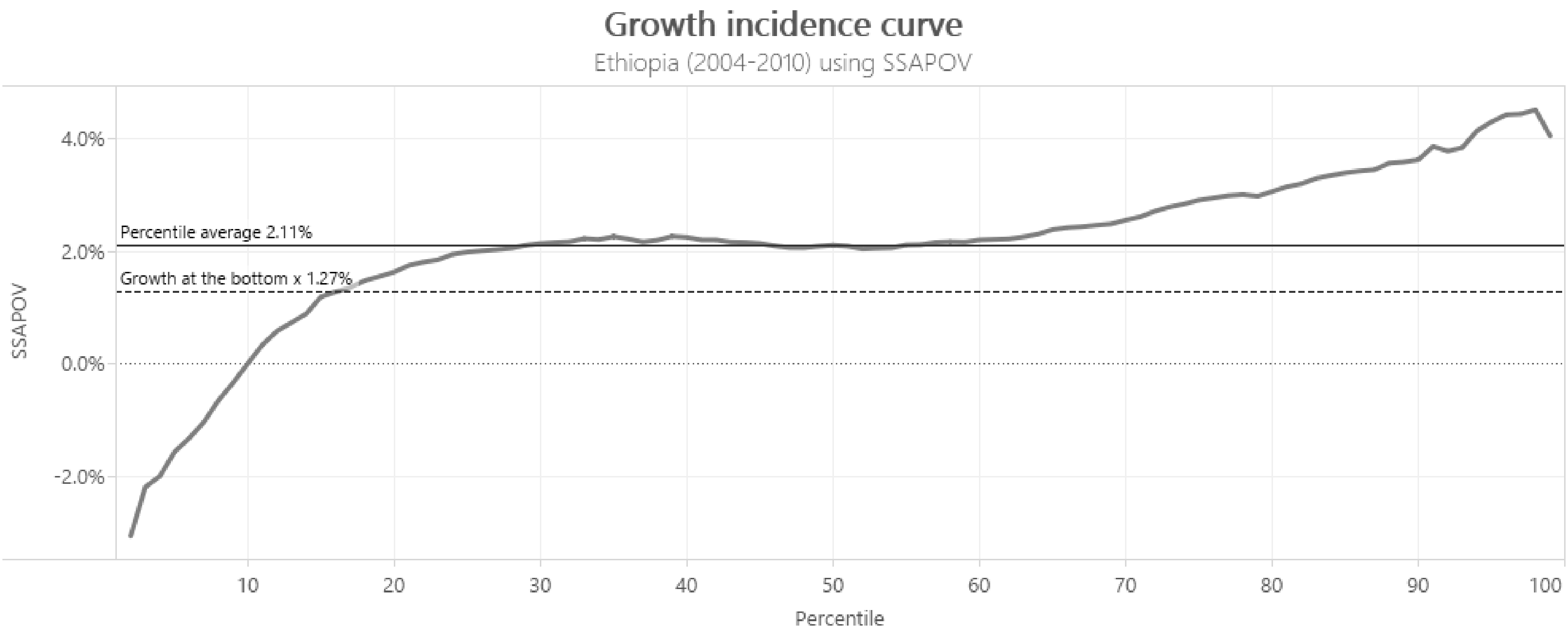

*Source*: World Bank Data Lab.

Figure 5. Morocco - The Incomes of the Super-rich Grow Faster




*Source*: World Bank Data Lab.

**Figure 6. Ethiopia - Negative Growth of the Poorest Income Decile**




*Source*: World Bank Data Lab.

## Attachment 5

## Why is the Bottom 40 percent Important?

The focus on growth at the bottom 40 percent of the income distribution has its origins in a major speech by World Bank President Robert McNamara in 1973, based on the institution's research findings. In Redistribution with Growth, Chenery and others (1974) stated that a "concern with income distribution is not simply a concern with income shares but rather with the level and growth of income in lower-income groups." More recently, Basu (2006) proposed the quintile axiom, which states that in evaluating a country's performance, one should focus on the incomes of the bottom 20 percent of the population's income distribution.

The point of departure in the framework of Chenery and others is the understanding that social welfare (G) can be defined as the weighted sum of the growth in the incomes of all income groups (for example, income quintiles) in a society:

$$G_{t,t+1} = \sum g_{j\,t,t+1} \cdot w_j$$

where $g_j$ is the income growth rate for each of the $j = 1, \ldots n$ income groups between periods $t$ and $t + 1$, and $w_j$ is the weight for each of the $j = 1, \ldots, n$ income groups based on the share of income of that group in the initial period $t$. Choosing the weight of each income group or quintile implies a normative choice. The evolution over time of economic growth, changes in poverty, and changes in inequality are all jointly determined by the individual income dynamics in that distribution (Ferreira 2010). The initial income share of each income group determines the relative weight of that group. As a result, people with initially larger income shares continue to be weighted more heavily than others. By focusing on overall growth, one would therefore promote greater growth among people with initially larger income shares.

Maximizing overall growth is thus not a distributionally neutral objective. If the progressivity of growth is a concern, the distributional weights must be redefined to account for the dynamics at the bottom of the distribution. Doing so is consistent with the Rawlsian view that greater weight should be placed on the disadvantaged.

The question of how this should be done has triggered an important debate in academic and policy circles. Foster and Székely (2008) address the implicit issue of the weighting of different groups in terms of welfare. They propose a general framework for assessing whether economic expansion is felt mainly by the better off, with little if any benefits trickling down to poor people. They introduce a new way to aggregate growth among various groups that builds on Atkinson's (1970) parametric family of equally distributed equivalent income (general means) while allowing for subgroup consistency. Their low-income standards assign progressively less weight to incomes that are higher up the distribution, so that their overall welfare measure is less sensitive to income growth at the top of the distribution.

Use of the bottom 40 indicator is a practical and easily understood tool for measuring shared prosperity (Basu 2013). There is an important weakness of the bottom 40 indicator, however: Two countries with the same level of per capita income and Lorenz curves that cross at the 40 percent population mark will be viewed the same, even if incomes are different elsewhere in the distribution. The simplicity of the indicator outweighs this disadvantage, however.

Boosting income growth among the bottom 40 is not a specific goal that can be met. Although in theory, there is no maximum growth that can be achieved (i.e. essentially there is no limit to how fast an economy can grow), it is possible that in many cases a temporary and significant acceleration in economic growth that cannot be sustained could backfire in the long run. Therefore, the sustainability of growth is crucial. As Basu (2013) notes, pursuing the shared prosperity goal should not create a liability for future generations. Shared prosperity should be achieved in a way that is fiscally sustainable, manages the resources of the planet for future generations, and ensures social inclusion.

Eradicating poverty and fostering shared prosperity are complementary endeavors, as are the two indicators proposed for monitoring their pursuit. The poverty measure is absolute in nature: It measures the share of the population living below a fixed monetary threshold, be it country specific (a national poverty line), international (the $1.25 a day line), or based on regional parameters ($2.50 or $5.00 a day for Europe and Central Asia). In contrast, shared prosperity is a relative measure that looks at income (or consumption) growth among the poorest 40 percent in a country's population over time. The shared prosperity indicator is not an inequality measure (although it can be extended to become one, by, for example, looking at the share of national income owned by the bottom 40 or comparing growth among the bottom 40 with the mean growth in the distribution). Regardless of the income level of the country, the shared prosperity goal will always be relevant, as there is always a bottom 40 percent that represents a group of concern as long as the country is a member of the WBG and eligible to borrow from it. (The focus on growth at the bottom 40 percent of the income distribution has its origins in a major speech by World Bank President Robert McNamara in 1973, based on the institution's research findings. In Redistribution with Growth, Chenery and others (1974) stated that a "concern with income distribution is not simply a concern with income shares but rather with the level and growth of income in lower-income groups." More recently, Basu (2006) proposed the quintile axiom, which states that in evaluating a country's performance, one should focus on the incomes of the bottom 20 percent of the population's income distribution.

The point of departure in the framework of Chenery and others is the understanding that social welfare (G) can be defined as the weighted sum of the growth in the incomes of all income groups (for example, income quintiles) in a society:

$$G_{t,\, t+1} = \sum g_{j\, t,\, t+1} \cdot w_j$$

where $g_j$ is the income growth rate for each of the j = 1, …n income groups between periods t and t + 1, and $w_j$ is the weight for each of the j = 1, …., n income groups based on the share of income of that group in the initial period t. Choosing the weight of each income group or quintile implies a normative choice. The evolution over time of economic growth, changes in poverty, and changes in inequality are all jointly determined by the individual income dynamics in that distribution (Ferreira 2010). The initial income share of each income group determines the relative weight of that group. As a result, people with initially larger income shares continue to be weighted more heavily than others. By focusing on overall growth, one would therefore promote greater growth among people with initially larger income shares.

Maximizing overall growth is thus not a distributionally neutral objective. If the progressivity of growth is a concern, the distributional weights must be redefined to account for the dynamics at the bottom of the distribution. Doing so is consistent with the Rawlsian view that greater weight should be placed on the disadvantaged.

The question of how this should be done has triggered an important debate in academic and policy circles. Foster and Székely (2008) address the implicit issue of the weighting of different groups in terms of welfare. They propose a general framework for assessing whether economic expansion is felt mainly by the better off, with little if any benefits trickling down to poor people. They introduce a new way to aggregate growth among various groups that builds on Atkinson's (1970) parametric family of equally distributed equivalent income (general means) while allowing for subgroup consistency. Their low-income standards assign progressively less weight to incomes that are higher up the distribution, so that their overall welfare measure is less sensitive to income growth at the top of the distribution.

Use of the bottom 40 indicator is a practical and easily understood tool for measuring shared prosperity (Basu 2013). There is an important weakness of the bottom 40 indicator, however: Two countries with the same level of per capita income and Lorenz curves that cross at the 40 percent population mark will be viewed the same, even if incomes are different elsewhere in the distribution. The simplicity of the indicator outweighs this disadvantage, however.

Boosting income growth among the bottom 40 is not a specific goal that can be met. Although in theory, there is no maximum growth that can be achieved (i.e. essentially there is no limit to how fast an economy can grow), it is possible that in many cases a temporary and significant acceleration in economic growth that cannot be sustained could backfire in the long run. Therefore, the sustainability of growth is crucial. As Basu (2013) notes, pursuing the shared prosperity goal should not create a liability for future generations. Shared prosperity should be achieved in a way that is fiscally sustainable, manages the resources of the planet for future generations, and ensures social inclusion.

Eradicating poverty and fostering shared prosperity are complementary endeavors, as are the two indicators proposed for monitoring their pursuit. The poverty measure is absolute in nature: It measures the share of the population living below a fixed monetary threshold, be it country specific (a national poverty line), international (the $1.25 a day line), or based on regional parameters ($2.50 or $5.00 a day for Europe and Central Asia). In contrast, shared prosperity is a relative measure that looks at income (or consumption) growth among the poorest 40 percent in a country's population over time. The shared prosperity indicator is not an inequality measure (although it can be extended to become one, by, for example, looking at the share of national income owned by the bottom 40 or comparing growth among the bottom 40 with the mean growth in the distribution). Regardless of the income level of the country, the shared prosperity goal will always be relevant, as there is always a bottom 40 percent that represents a group of concern as long as the country is a member of the WBG and eligible to borrow from it.

## Attachment 6

## IFC and Shared Prosperity - IFC's role and its contributions to one of WBG twin goals

Before adopting WBG twin goals of eradicating extreme poverty and shared prosperity for its formal corporate strategy, IFC's focus on frontier markets is considered to be its strategy that aimed at addressing "the shared prosperity" goal by targeting IFC investments and advisory service activities to the poor and vulnerable in the frontier markets. IFC's focus on its investment in the frontier markets have been one of its five strategic focus areas since 2004. In the IFC road map in FY12-FY14, frontier markets are defined as (i) IDA countries, (ii) fragile situations (or FCS), and (iii) frontier regions in the middle income countries (MICs). The rational for IFC to focus on frontier markets is that these are the markets, where there is significant poverty and where riskiness deters other financiers from providing finance to or otherwise engaging in these areas by themselves, therefore, IFC can have greater development impacts and additionality by focusing on its activities in these frontier markets.

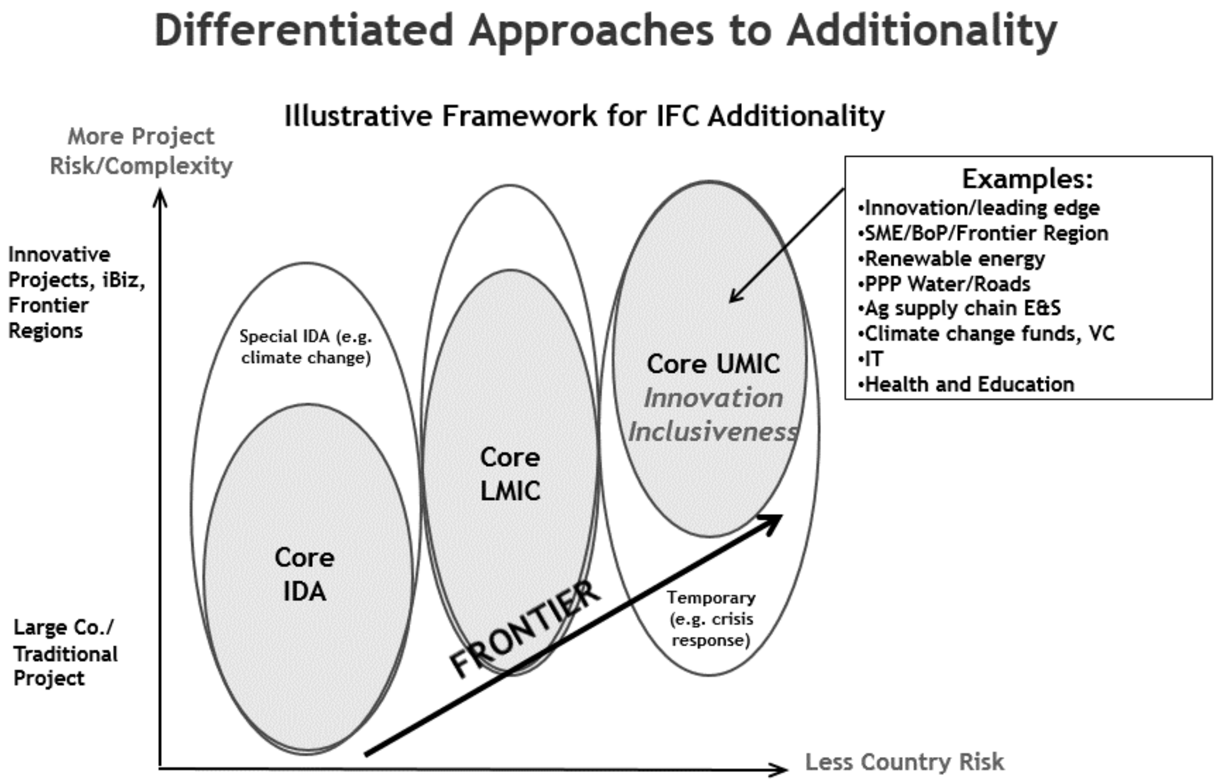
IFC's focus on frontier markets in MICs was the results of IFC's MIC Strategy discussion with Board as a part of the Long-Term Strategy Discussion in January, 2011. One of the key findings of the review was that the world's poor do not live in poor countries only. MICs represented more than 1 billion, or 70%, of the world's poor and low income countries (LICs) represented less than 30% of the world's poor.12  Moreover, even though some populations may not be categorized as income-poor, they often do not have access to quality health care, education, and adequate standards of living such as consistent power and clean water supply. In terms of service poverty dimension, poverty incidence in MICs is even higher, thus, addressing such multi-dimensional poverty is a key challenge in MICs, particularly in lower MICs.

The FY12-FY14 road map articulates further and states that <u>inclusive business</u> would be at the forefront of IFC's MIC strategy, i.e. IFC will support businesses that are offering goods, services and livelihoods to people at the base of the pyramid (BOP) in financially sustainable, scalable ways. This approach would also enable IFC to address issues such as gender, access to finance for the poor, access to basic goods and services and inequality, and would help develop a vibrant private sector that will generate more jobs in MICs. In IDA countries, where capital is scarce and countries are moving up the developmental path, IFC will continue to support more "plain-vanilla" transactions. In MICs, and upper MICs in particular, IFC would focus on more

[12] Based on $1.25 per day income poverty measure. Institute of Development Studies estimates that three-quarters of the world's approximately 1.3 billion poor people live in MICs and only about a quarter of the world's poor (370 million people) live in the LICs, while back in 1990 93% of the world's poor lived in LICs.

innovative and inclusive projects that are at the frontier, where IFC supports the private sector to help develop technology and business processes to better serve the poor and underserved and address climate change and the other big development challenges. As presented in Figure 1, IFC needs to be more selective and focus more on frontier markets and the low income segment of the population as the income level of the country rises.

**Figure 1. Conceptual Framework for IFC's Additionality in MICs**




*Source:* IFC.

For the last 5 fiscal years, IFC's business volume for the frontier region of the MICs (non-IDA countries) and IDA countries have been declining in terms of the number of projects, while IFC business volume has remained more or less constant for FCS countries (Table 1). For FY11, IFC committed 57 projects in the frontier regions of MICs, but it had only 26 of such projects in FY15. This may be a reflection of IFC's increasing focus on its investments in FCS in recent years or due to either (i) a lack of viable business opportunities in the frontier region of MICs or (ii) IFC's strategic shift away from its investments in frontier regions in MICs since improving profitability and engagements with major corporate clients have been corporation's major strategic emphasis in recent years.

**Table 1. IFC Investment Projects in Frontier Markets**

| # | Number of IFC Investment Projects | FY11 | FY12 | FY13 | FY14 | FY15 |
|---|---|---|---|---|---|---|
| 1 | FCS | 43 | 45 | 44 | 19 | 43 |
| 2 | IDA | 251 | 283 | 288 | 153 | 145 |
| 3 | Frontier Regions (non-IDA countries) | 57 | 42 | 59 | 40 | 26 |
| 4 | Total Frontier Markets | 351 | 370 | 391 | 212 | 214 |

*Source:* IFC.

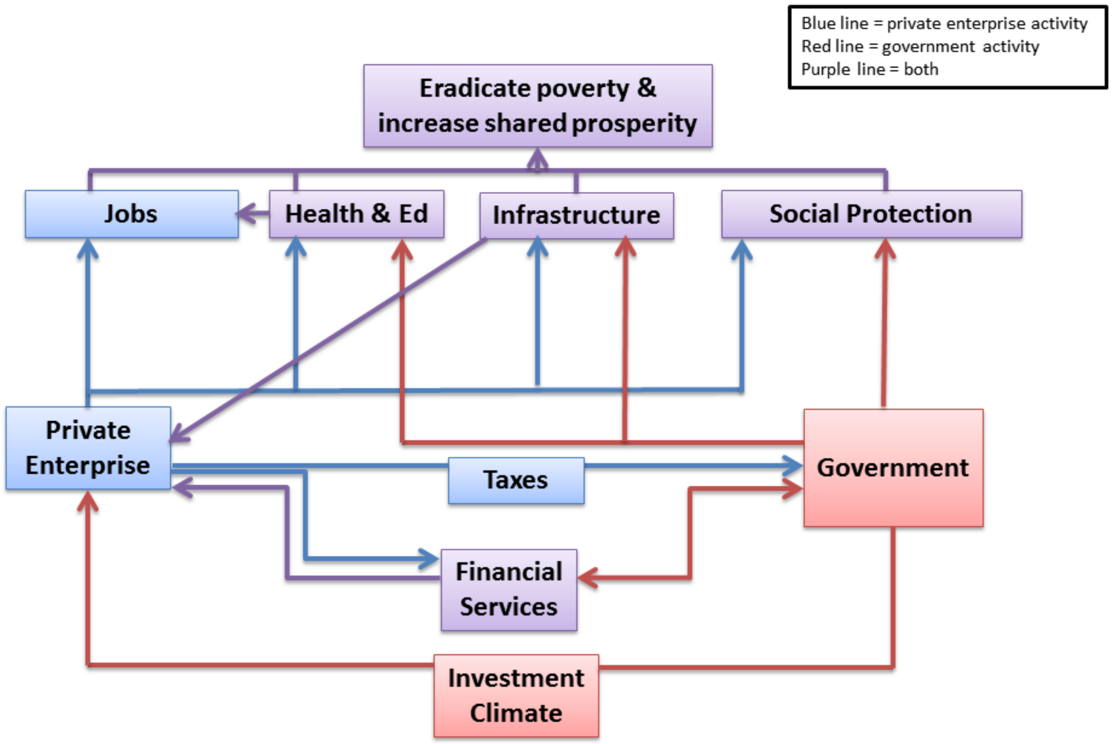
IFC's investments in MICs continue to be its major investments since five largest exposure to MICs[13] accounted for 32% of total disbursed IFC portfolio as of June 30, 2015, it is, therefore, important to evaluate what has been taking place on IFC's corporate strategic focus on frontier region and inclusive business for MICs as IFC might have shifted its focus more on plain-vanilla transaction in MICs with large and established companies that are not necessarily address directly the issue of shared prosperity.

IFC's road map in FY14-FY16 is the first strategic document, which adopted the WBG's overall corporate twin goal of eradicating extreme poverty and shared prosperity. By helping to create a strong and sustainable private sector in developing countries, the FY14-FY16 road map claims that IFC can play a critical role in enabling the WBG to leverage the private sector for development. According to IFC's road maps for both FY14-FY16 and FY15-FY17, IFC's main contribution to the WBG corporate twin goals is through its work with the private sector and its support for broad-based growth, which in turn benefits the poor and contributes indirectly to the goal of shared prosperity. IFC claims that IFC's unique positioning as the leading investor in the emerging market investments provides the private sector with the means to help companies succeed, expand their positive impacts on society, and thus address the WBG goals of eradicating extreme poverty and pursuing shared prosperity. IFC's Smart Practice on *Lines of Sight: Private Sector Development and the "Twin Goals" of Extreme Poverty Eradication and Shared Prosperity* (April 2014), provides a schematic overview on how IFC-supported private sector efforts contribute to the WBG's poverty eradication and shared prosperity objectives (Figure 2).

---

13 These five MICs are India (11%), Turkey (6%), China (6%), Brazil (6%), and Nigeria (3%) of IFC's total disbursed portfolio.

**Figure 2. Paths to Meet WBG Twin Goals**




*Source:* IFC.

Although IFC notes that the bulk of IFC's investment portfolio has a heavier emphasis on promoting broad-based growth, which indirectly benefits the extreme poor and contributes to shared prosperity, IFC claims in these two road maps that it has been doing significant works, through both investment and advisory services, that are more direct approaches to the WBG goal of shared prosperity. Example of IFC's direct engagements include access to finance for micro/individual and SME clients, access to mobile phones, the integration of smallholders in the food supply chain, and IFC's increasing engagements with inclusive business, a sustainable business that benefits low-income communities. In other section of the road maps, IFC also stresses the need for inclusiveness in the private sector. By recognizing that growth needs to be inclusive in the countries where IFC operates, the WBG's shared prosperity goal will signal a need for action by IFC when growth of the bottom 40% in a country is lower than the average.

Recognizing the growing importance of inclusive business model in emerging markets, IFC established its Inclusive Business team in 2010 prior to the adoption of WBG twin goals. For IFC, the definition of inclusive business models is commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations. In 2014, IFC Economics Department published the report, titled "Shared Prosperity through Inclusive Business" and summarized IFC's inclusive business activities. IFC notes in this recent report that companies in emerging markets do business with people who live at the "base of the economic pyramid (BOP)" at various points along the value chain for strategic reasons. IFC has invested in hundreds of such "inclusive businesses" companies. These IFC clients, as the report claims, have achieved commercial sustainability and growth while benefiting the poor. In the report, BOP is defined as the segment of the population who earns $8/day or less (PPP) and/or lacks access to basic goods and services.

The report makes a business case for the companies in developing countries to offer services to BOP as this segment of the population in these countries comprises over 4.5 billion people with a combined spending power of US$5 trillion. IFC's strategy is to engage with both supply and distribution chains of inclusive business model as described in Figure 2.

**Figure 2. IFC's Definition of Inclusive Business**


*Source:* IFC.

IFC client companies use inclusive business models as a competitive strategy to diversify supply chains and create new market opportunities. These commercially viable companies directly benefit low-income populations through scalable market mechanisms. Through their core business, these IFC clients are advancing the WBG's goals of ending extreme poverty and boosting shared prosperity. For example, IFC is providing support for AEGEA Saneamento – a water/wastewater company expanding connections in rural Brazil including connections to low-income households.

The report also claims that IFC is the leading investor in inclusive businesses that provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid,  making them part of the value chain of companies' core business as suppliers, distributors, retailers or customers. IFC has committed US$9.7 billion to over 400 companies across many different sectors in over 80 countries since FY05. In FY13 alone, IFC invested in 96 inclusive business projects amounting to US$1.7 billion (of which 73% of investment were in MICs) in commitment volume (around 9% of IFC's total committed volume in FY13). Going forward, IFC will continue to play a catalytic role in this area to accelerate the uptake of inclusive business models as market-based solutions to poverty by contributing knowledge and South-South replication opportunities.

The report lists 22 IFC client companies as examples of inclusive business model in the seven different business areas (agribusiness, education, health, housing, ICT, retail, and utilities). IFC engaged with well-established companies like Kenya Tea Development Agency with 50 years of operating history and also with a new start-up company, like Bridge International Academies, which aims to provide a new low-cost quality education to students in Africa. For some of these companies, their core business strategy are to address specifically the need of the low-income segment of the population. The mission of Aadhar Housing Finance in India is, for instance, to provide housing finance to low income households (with annual income of INR 60,000-240,000 or US$896 – US$3,850). In the initial phase of up to 5 years of its operations, Aadhar also decided to operate solely in low income states in India.

# Attachment 7

## Draft Template for Country studies for the Share Prosperity Evaluation

### Introduction

The Shared Prosperity initiative aims at positioning the Bank to help countries efforts at improving the overall welfare of the bottom 40 percent (b40) of their populations while also making efforts for a more rapid elimination of extreme poverty, a subset of the bottom 40 percent requiring more speedy assistance.  Since October 2013, the Bank Group Strategy mandates the shift in its strategies and instruments to incorporate the SP goal. But the Bank has been pursuing interventions towards greater equity and inclusion for a long time. As a result, this evaluation will (i) evaluate how well the Bank has *incorporated and implemented* distributional objectives in its operations, and (ii) how well it's been changing its model towards the SP goal.

The general pool of countries studied will be selected based on the criteria (i) continuous Bank lending over the period FY2005-16, and (ii) minimum quality and availability of distributional data (at least two household surveys). They will represent a mix of IBRD, IDA and fragile states, all world regions, and large and small countries, as well as a combination of countries that already have adopted CPF/SCD and those that did not.

As outlined in the main text of the Approach Paper, the evaluation will address the following three questions:

- How well has the Bank operationalized its goal of shared prosperity in its key country **diagnostics and strategies**,

- How and how effectively have the Bank's key **knowledge products** and related policy dialogue examine and identified binding constraints and policy action to address the shared prosperity goal?

- How effectively, is **Bank lending** (projects and programs) incorporating and implementing actions at addressing the shared prosperity goal? And how well is it influencing those objectives?

- What have been the outcomes of the Bank lending operations? Have they achieved their own goals in areas linked to the SP objective?

This template has two main sections: the first outlines an analytical framework, outlining a taxonomy of the possible channels through which the welfare of  b40 can be influenced. It facilities identifying systematically constrains influencing that welfare of the b40 and then policies to address these constraints. Obviously, the most critical specific channels will be country specific and identified in each case study. But the framework provides a checklist that will facilitate country comparability across countries and thus general lessons from the study. The framework also provide some type of metric against which to assesses how well the Bank is performing in its engagement in this area.

The second part identifies the specific set of evaluative activities at the country level to assess the Bank specific operational performance so far and lessons. It focuses on the three questions described above, namely: How well is the Bank incorporating the shared prosperity objective in its (i) WBG country strategy that provides the basis for the engagement with countries, (ii) knowledge products aimed at improving its diagnostics, dialogue, and the analytical basis of its operations, (iii) lending program and operations and its interaction with policy dialogue, and (iv) indicators of shared prosperity used in the assessment of WBG and policy interventions.

**Analytical Framework**

Table 1 identifies the type of information and analysis required to systematically examine the status of the b40. Ideally that information should be derived for each decile in the group. There may be limits to fully develop the information but it provides a road map that can be improved over time.

**Table 1. The Bottom 40 Percent**

| Level | Who they are | Assets | | Returns to Assets Depends on | | Transfers |
|---|---|---|---|---|---|---|
| First Level | Income and Occupations | Human Capital | Physical Capital | Product & Factor Markets | Supportive Infrast. and public goods | - |
| Second Level | Landless | ECD | Land | Competition in agriculture | Physical infrastr. | Taxes |
| | Small farmers | Health | Capital of Self-employed | Flexible labor markets | Property rights | Safety nets |
| | Wage employment | Edu-cation | Finance | Credit market | Judicial system | - |
| | Self-employment | Training | Environment | Business environment | - | - |
| | - | - | Social capital | | | |
| 1st decile | - | - | - | - | - | - |
| 2nd decile | - | - | - | - | - | - |
| 3rd decile | - | - | - | - | - | - |
| 4th d decile | - | - | - | - | - | - |

*Source:* Shared Prosperity evaluation team.

1. ***Who are they? How poor are they? Documenting income and critical non-income indicators.***

Documenting the variability of income within the b40, as well as their benchmarking relative to a poverty line, will be a useful way to start. What fraction of the b40 is below the poverty line? How shallow or deep is the level of poverty across deciles? Are there groups at the bottom of the b40 having such a low level of income (and vulnerability against socks) that they should be considered as a group in extreme poverty, requiring a more speedy attention? This information is usually available from household surveys.

Poverty needs also to be documented by non-income indicators that are more permanent, have major irreversible effects over the long run, and affect the probabilities of survival. Many will reflect health status reflecting low levels of income, but also influenced by levels of education, habits, and the provision of social services. The most important candidates are children malnutrition and morbidly and mortality indicators by age and gender. It is important to document these indicators - many times their improvements are not correlated with income growth and they call for specific interventions.

2. ***How are they inserted in the economy? Documenting links between poverty indicators (above) and occupations, locations, minorities and ethnic groups, etc*.**

What is the share of farmers, landless farm labor, and types of occupations such as wage employment, self-employment, etc? Does it differ across deciles? What are their demographics (age composition of workers, gender labor participation, family size, etc?) and cultural/ethnic/religious features associated with poverty. What is their geographical location, are they dispersed or concentrated in particular regions or communities. Are there the particular features of the households in extreme poverty groups (if identified earlier)? Are there poverty maps in the country in question? Obviously, the ability to identity these dimensions at the decile level will depend on the availability and quality of household surveys.

3. ***What are their assets? Human Capital.***

Human capital may be particularly critical for the b40; it may be the only asset able to enhance their future earnings and welfare. Many non -income indicators described earlier already signal human capital formation (or the lack of it) – they have an impact on future productivity. Many indicators in the areas such as ECD, nutrition, health, different types and quality of education are not only welfare measures of standard of living in their own right (in addition to income) but they also can be considered as investments that affect the future productivity of individuals.

The emphasis on human capital, allows a discussion of intergenerational mobility and the role of children and youth in that dynamics. It allows a discussion of complementarities among assets accumulation and investments through time. The payoff of investment in basic education will depend on early childhood health and nutrition and overall ECD. Lack of investment in early human capital can generate permanent and irreversible damage with major consequences for intergenerational mobility. Early maternal mortality is not only a permanent loss but also influences human capital formation on children left alone.

In the area of education, quality difference may be critical and this has been a document in some PISA studies on learning. And quality of schools and teaching may be associated with households' incomes, through rural urban differences, neighborhoods, isolation of communities due to geographical or ethnic reasons, etc. This is quite critical as qualitative differences in schooling can be more important than quantitative difference, e.g., years of schooling.

The first step is to document critical indicators in these different areas, trying to assess whether important differences exist across deciles and whether certain groups have such a poor state of human capital that they should be incorporated in some definition of extreme poverty. Indicators should be age and gender specific. And most important is to distinguish two dimension of the problem: the present state of the problem (stock) and a recent change. This will provide information on the rate of improvements across deciles and help identify causal factors behind these improvements (or stagnation). It will help sharpen up the inquiry, particularly into the area of public policy in the provision social services (to be discussed later).

***4. What are their assets? Physical and financial capital.***

In most contexts, the most common type of physical capital owned by the b40 is some land by poor farmers as well as some capital and tools by self-employed workers of low skills. Documenting farmland ownership and their quality in the b40 will be critical. Quality needs to be interpreted broadly, not only soil quality and irrigation possibilities but also the degree of access to markets. This information is not easy to obtain. However, there are some household and LSMS surveys that may contain data on farm land ownership and ownership of different types of capital by different types of households.

As in the case of human capital, one may also distinguish between the stock and the recent change, namely the increase in physical assets by the b40 and its determinants. Critical to the increase may be access to credit and financial capital, and what constrains may be impeding that access. These may range from the competitive nature of the financial sector, particularly in rural areas, lack of critical mass/density of borrowers that prevent economies of scale, lack of property right and cadaster, etc.

### *5. The return on their assets. How are they linked to markets?*

The income levels of the b40 do not depend only on their assets but also on their returns and their degree of utilization – namely the demand for those assets in the economy at large. The functioning of goods and factors markets and supportive public infrastructure/ public goods will influence it. Establishing well-functioning markets and a favorable business environment will influence these returns. To empirically establish these connections is a complex task: all markets probably influence directly or indirectly the returns on the assets of the B40. And many of the markets that are relevant for the b40 may also be relevant for higher income deciles, so it is not obvious one can clearly identify and target markets linked solely to the b40.

### *6. Selectivity. Markets to which the B40 are more directly linked.*

We suggest focusing on examining the functioning of specific markets to which the b40 are more closely linked. Improving these markets and providing them with the necessary infrastructure and public goods will distinctively benefit this group for a given growth rate of output or, putting it differently, will enhance the transmission mechanism of GDP growth to the b40 welfare. Of course, this may involve correcting important distortions that may have an additional feedback on that growth—the corrections will then be win /win—for growth and distribution.

Undertaking this analysis requires a good country knowledge. We could identify three major areas to examine: Improving the competitiveness and flexibility of markets; the key role of supportive public infrastructure and public goods, and institutional reforms that may be needed to support and sustain the above measures (with some examples that are obviously partial and aimed at providing some specificity):

- *Improving the functioning of markets. W*here poverty is concentrated in *agriculture*, freeing agricultural prices and improving entry into commercialization and marketing could increase net prices for small farmers and reduce price of inputs. Removing private and public monopolies the distribution and commercialization is a key area. Access to credit for small farmers is sometimes impaired by segmented markets that pre allocate credit to large producers.

- Large part of the b40 is in *wage employment*, much in the informal sector. Thus a good functioning of labor markets is critical, particularly at the low skill end. A major challenge in this area is to protect workers in key areas such as health and unemployment transfers without unduly taxing the use of labor. This may be critical to reduce informality.

An important part of the income of the b40 may consist of wage employment in the non-farm rural economy or in urban areas. In fact there is evidence that the non-farm rural sector is increasingly becoming an important sector in absorbing poor workers migrating from the farm sector. Wage employment has become an important source of income in the non-farm rural sector in many countries, particularly in the service sector. Constraints on the growth of this sector in the non-farm rural economy may be a topic to be expanded under this evaluation.

Much of this agenda, such as flexibilization of labor markets and improving competition in product and other factor markets is relevant for overall growth. Regulations, licenses, and restriction to entry are many times under the control of local and regional governments and may influence the degree of informality.

- *Public infrastructure and public* goods *supporting those markets.* This agenda is more difficult to be targeted because these investments operate more indirectly and may have a much bigger spillovers to the rest of the economy and to other income groups. There is however a spectrum of situations, these interventions may affect b40 workers through very different channels. Thus it is again is critical to have information on the sources of earnings and locations of these groups.

When important segments of the b40 group are concentrated geographically and are linked to the agriculture sector, as owners of land, self-employed workers, or farm labor, their productivity will be influenced by high rate of return from public investments such as irrigation water, rural roads, and rural electrification in selected areas we her these are key bottlenecks.. The rural development agenda becomes relevant.

As mentioned earlier, much of the b40 group may derive their income from wage employment in urban areas and in the non-agriculture rural sector. Thus increasing the productivity of firms that particularly tend to employ these workers is a point of entry for the infrastructure agenda. There is evidence that many of these workers are in small firms in the service and commerce sector, many in small towns in rural area. Connectivity and availability to electricity may be critical be critical to these small firms.

Lack of critical public goods, particularly in the area of property rights, may adversely affect the b40 group, again through direct and indirect channels. Lack of land tilling and cadaster may affect directly small farm producers and self-employed works. It will affect their access to credit. Gender may be an important dimension – females may have less access to property rights overall. Weak regulatory framework governing the environment and other commons may distinctly affect households and workers in the b40.

Lack of public goods and collective action may also affect the b40 through environmental damages that are not being prevented. Water, soil, and river contamination due to industry and mining, overexploitation of fisheries, illegal exploitation of forests, etc. may also be important areas affecting asset formation by the poor as well as their health status. Collective actions to protect the commons, such as water, has been documented to have major impact on poor farmers.

In summary, infrastructure/public goods constraints operate more indirectly on the b40, but still can be powerful. Public infrastructure increases the productivity and investments of firms and boost the demand for labor. Again, this operates for the economy at large, so the issue is again what specific infrastructure can be targeted that has a distinctive impact on the demand for labor of workers in the b40 group. This calls for knowledge on how these workers are integrated in the labor markets, geographically, and by sector, etc. For this the information generated in sections 1 to 4 above is critical.

***7. Institutions may be critical to achieve shared prosperity objective.***

Again, the quality of institutions will influence the wellbeing of the b40 through several channels – they are critical to address several of the areas discussed above. Depoliticized institutions are key to enhance competition in markets and reduce monopolization and rent seeking. Implementing property rights and addressing environment damages and the commons require independent and well-equipped institutions. And most important the effective delivery of social services at the local levels may call for reforms in the revenue/spending responsibilities, accountabilities, and incentives at the subnational levels. Otherwise budgetary reallocations emanating from the central government budget will not permeate toward progress on the ground or they will be wasted.

Again, many of these actions in these is area have wide benefits beyond the b40 group. But one can identify some priorities most linked to the group. Making sure that local governments in poor areas have the capabilities of delivering services and public goods could be part of a priority agenda. This is another reason why in some contexts the subnational government reform agenda may become central.

***8. As we move from assets to markets and institutions policies irradiate beyond the b40.***

An important conclusion from the above is that the budget and expenditure reallocation is the instruments with the highest probability of targeting and concentrating resources on the b40, and if needed on particular subgroups that are especially vulnerable. And this is particularly true on the human capital side**.** As we move towards improving markets (the demand side) and institutions the impact is broader –they benefit populations beyond the b40 group. But they may also have an impact on overall growth, which then indirectly feeds back toward the b40 group.

*9.  The role of taxes and transfer systems.*

Transfer systems, in particularly social protection, are and can reach an important segment of the b40, influencing their purchasing power and level of welfare. In some situations these transfer payments are associated with requirements of monitoring children health and school enrollment (CCT). Assessing the extent these systems are being used and reaching the b40 is important. This section could examine the extent the different deciles within the b40 could efficiently be reached by these transfers.

Tax systems can also be an important mechanism to redistribute or potentially redistribute income to the B40. Certain components of the VAT or indirect taxes may have affect the group, while other higher income groups may be under-taxed due to low levels of wealth and income taxes and high tax evasion.

**Assessing the WBG Performance at the country level: The Case Studies [Draft Template][14]**

The tentative list of case study countries is identified using the selection criteria of particular relevance of a country in terms of its level of inequality and shared prosperity indicators as well as country characteristics, the Bank's long-term engagement and data availability, supplemented by the criteria to ensure a mix of IBRD, IDA, fragile countries, different country sizes, and inclusion of regionally important economies. The list will be determined in consultations with the regions.

By using the earlier analytical framework as metric the performance of the WBG in each of these countries will be a assessed at four levels: How well and clearly the Bank strategy articulates the SP objectives and the way the Bank will try to address it; the quality of its knowledge and diagnostic products, how well are they improving the factual and analytical basis for the Bank operational involvement; how well does the operational lending program addresses the identified constrains and takes advantage about synergisms and complementarities across lending instruments to create synergies and catalytic effects; And finally, what are the observed outcomes of the WBG lending program, do they achieved the objective of these operations in area/channels of relevance to SP? Each question is unbundled into more specific sub-questions.

*In each country case study an effort should be made to assess how Bank performance in these areas has evolved recently and particularly with the advent of the SP mandate. Thus, assessing*

[14] The template is intended to serve as a guide to the authors/teams working on country case studies. It will be refined during team consultations before the launch of the country case study visits.

*the degree and change in performance during 2015 will be critical, particularly in those countries that have recently completed a SCD/CPF cycle.*

**1. How well is the WBG operationalizing the SP objectives in its country strategies?**

- How well has the World Bank Group articulated country strategies—objectives, pillars, a mix of instruments, and results frameworks—addressing shared prosperity in line with identified constraints and policy directions? (In countries without SCD/CPF the main strategic documentation will be the CPS).

- Are more recent strategies consistent with the lessons derived from past strategies and operations and the evaluations done of such experiences? (for example CPEs, CASCRs, and CASCRRs).

- How well has the strategic work made use of the past diagnostic work, such as sectorial work, PERs, PA, TA, and the knowledge emerging from the operational experience in relevant areas? What were major lacunas in the past diagnostic work that adversely affected the ability of country strategies to fully identify critical constrains?

- Does the strategic work recognize that the Bank is in many instances a small player and that its role is be basically catalytic? Thus the follow-up actions by the government is critical. How well is the role of other lenders or donors being integrated?

- Does this evidence above show changes and evolution in recent years with the advent of the explicit goal of shared prosperity? In countries with a SCD/CPF, how has the clarity of the strategy changed from the previous CPS's?

Specific areas of attention will be given to:

- *Prioritization, sequence and complementarities of policy interventions:* Are there clear policy priorities emerging according to urgencies. Is the sequence and its rationale well explained? Are the possible complementarities between instruments fully exploited?

- *Tradeoffs:* Is the strategy candid in acknowledging possible trade offs? For example, is there a trade off between the speed of addressing extreme poverty and addressing the needs of the b40?

- *Sustainability Issues:* Does the SCD discuss whether the reforms and investment priorities identified can be sustained financial and institutionally. Are there scaling up issues being raised?

- *Fiscal constraints and the "adding up:"* Does the SCD have efforts at costing out the suggested program and analyze the fiscal implications?
- *Institutions and Incentives.* Is the role of institutions explicitly addressed in some critical contexts, for example the behavior of local governments, providers of social services? Are incentive issues being addressed?
- *Reliance against shocks*: Is the strategy addressing mechanisms to build reliance in environments prone to climate or external shocks? Or schemes to better share risks, particularly in poorer groups?

- The process of country consultation. How effective has been?
  - What have been areas of agreement and disagreement during the consultation process? Do counterparts and experts in the county agreed that the b40 should be the organizing principle for a shared prosperity strategy? What are alternative views? What are the views about extreme poverty in the country and the urgency of addressing that objective? Do they differ in the critical binding constraints that should be addressed?
  - Are there patterns in these areas agreements and disagreements, namely think tanks and academics a having different views than the authorities or past officials? Does it depend on whether people have or have not been in government?
  - What are the views on trade off, if any? What are the types of trade off seen and the views on how to minimize them?

***Sources of evidence***

In countries without a completed SCD /CPF, the assessment will be based on the last two CPSs. As noted, the evaluation will cover the evaluation period FY2005-2016. Where a SCD/CPF has been completed the assessment will cover mostly the last CPS and the SCD/CPF; this will allow a comparison of strategies regarding shared prosperity since it became an explicit strategy of the Bank. Other desk work to be examined will be past CPEs, CASCR, CASCRR, and major sector analysis of strategic pillars linked to the analytical framework presented earlier.

Interviews with relevant staff will allow more granularity. It may be complemented with interviews with EDs and country authorities visiting Washington as part of the Annual Meetings. In the few countries to be visited a deeper interaction with stakeholders and authorities will allow a deeper analysis. Talking to authorities, past and present, in Washington and during the country visits, will be a key component of the evaluation. It will allow to gauge the process of consultation. This will allow assessing the support for the SP initiatives in countries.

2. **How well has WBG knowledge and analytical work (AAA) identified binding constraints that facilitate identifying priority actions to address the SP objective?** The specific questions to be addressed follow the earlier analytical framework:

- *How well has AAA helped document who is the b40. Does labor market and sectoral work complement the work of PAs? Is there synergism across AAA?* What is the quality and availability of distributional data in the country? Is AAA on labor markets, particularly informal labor markets, agriculture sector work, poverty maps, etc. integrated enough with PA to provide this information? The new initiative calls for much stronger synergism across AAA and the evaluation may like to study this specific topic.

- *How well has AAA documented the state of critical human capital in the b40?* This is usually done through a variety of Bank analytical work. Has PA consolidated the information in order to get a comprehensive picture? All these indicators should ideally have some degree of disaggregation within the b40 so as to detect variability and outlier situations. Has this been done? This is an area where country information comes from different sources and some of them –despite their critical importance--are outdated. How serious is this problem?

- *How well have causal factors been examined? Separating supply and demand factors. E*xplaining human capital variability may vary widely within the b40 and may require a more behavioral analysis, beyond the mapping discussed above. It may be related to supply issues, availability, opportunity costs, and distance of good quality services, and some to demand issues (e.g., how much households value the services). They may be related: poor quality may influence the demand for the services. And cultural and ethnic dimensions may matter –they may influence the demand for the services provided. Services may need to be adapted to specific cultural circumstances. Sector AAA and project work, should provide this information. If not, this should be noted. How well has AAA tried to separate and understand supply and demand factors?

- *How well are links to markets been examined, particularly to labor markets? What are the major market distortions affecting markets most relevant to the b40? Analytical selectivity.* Has the Bank examines the most important transmission mechanism between the incomes of the workers in the b40 and the rest of the economy? Or this is too new? This type of the evaluation is quite complex and calls for selectivity– to focus on a selected number of markets, those that are most “proximate,” namely having the first order effect on b40.

- *How well have specific/relevant institutional and political economy issues affecting markets been addressed?* Rent seeking and capture at the local level may have particularly adverse effects on the b40. The mechanisms through which this operates may be quite subtle—albeit quite important. To the extent local governments may control licensing, entry, availability of commercial land, etc., that may inhibit the entry of firms into the service sector in smaller and rural areas towns where some of the employment of the b40 grips may be important. Often these restrictions are the product of capture by the incumbents.

- *Infrastructure I. How well is infrastructure priorities being identified? Those affecting the earnings of b40 workers in agriculture.* Small farmers that do own land, as well as large farms that employ farm labor, will benefit from public infrastructure that enhances farm productivity. Irrigation, electricity, rural roads, are typical examples. *Can particular type of investments be found that distinctively benefits the b40 groups but also have a good rate of return to the economy*? Trade -offs will be present. One could imagine an expensive irrigation project to reach isolated /small rural communities, with few economies of scale. The project will be highly beneficial to the farmers if provided freely; but it may have a negative rate of return to the economy. Has AAA been able to examine these issues and navigate among these tradeoffs?

- *Infrastructure II. Priorities affecting the earnings of b40 workers outside of agriculture*. An important segment of the b40 may derive incomes as wage employment outside of agriculture, both in the non-farm rural economy and urban areas. Labor demand for the group will depend on the availability of complementary public infrastructure available to the respective firms. This again defines a large agenda in roads, energy, water, etc. The question is again: Has AAA identified specific infrastructure bottlenecks that particularly affect firms that are heavy employers of less skilled labor?

- *Infrastructure III. Priorities affecting b40 households as consumers.* Infrastructure expansion generates also consumer gains. Better roads infrastructure can improve access and reduce consumer prices. It reduces transportation cost and creates income effects. It improves access and attendance to schools and health centers. Electricity enhances the quality of life and welfare of students and human capital formation. The issue is how to identify select interventions that distinctively benefit the b40—this may help concentrate the budget priorities and focus the attention on the technical capabilities of specific local governments. The existence of *poverty maps,* for example, can help and many rural deployment projects do take this approach. Has AAA examined these issues altogether and identified these particular types of investments?

- *How well has AAA identified public goods of particular relevance to the b40 being identified?* Is there a lack of some specific public goods that distinctively are bottlenecks to the welfare of the b40? Again this will be country specific and related to how the b40 are linked to different markets. Some public goods may benefit many communities and regions beyond the b40. Lack of cadaster and land titling in rural areas, both in the farm and non-farm rural sector may affect small farmers and small firms in small localities and towns, particularly in the services sector. Property uncertainties will affect investment and expansion. Local governments may be impaired in terms of institutional capabilities to do a good job in this area. And they may have also an incentive problem. There may be also some environmental damages and negative externalities that may adversely smaller farmers, such as contaminations of rivers and reservoirs from large industries and mining. The issue is how much of this agenda has been addressed by AAA.

- *Transfers and resource mobilization issues of relevance to the b40.* How well AAA has examined the distributive content of transfers and safety nets and the degree they reach the b40, and, if not, why not? Has AAA examined the tax burden of the b40 (for example trough excise taxes) and the extent overall resource mobilization and revenue collection efforts in the country?

***Evolution over time***

An important part of the assessment is to identify improvement over time as the Bank incorporates more explicitly the SP objective. Has the assessment of binding constraints become clearer and more accurate over the last few years? Have efforts been made to better document who is the b40, their income and non-income poverty status, and they we way they are linked to markets? In what areas do we still observe major lacunas that need to be addressed?

***Source of evidence***

The country case study will examine the relevant AAA, such as PA, sector work in critical areas and sectors identified in the analytical framework relevant in the country, and lessons from project evaluations. Public Expenditure Reviews and other country knowledge products with substantial public expenditure content (e.g., public finance reviews, CEMs with focus on fiscal and public expenditure issues, sectoral PERs, etc.) of relevance to critical sectors relevant to SP will need to be included.

**3. How effectively has/is the lending program incorporating the shared prosperity objective so as to address binding constraints?**

- *Consistency:* Is the lending program consistent with the priorities identified in the strategy and AAA? If not, why not?

- *Have DPO been designed so as to influence policies and reforms* that addressed binding constraints relevant to the SP objective. Do they contain policy and result frameworks relevant to the objective?

- *Influencing the direction of public expenditures through synergism:* The synergism between Public Expenditure Reviews, Dialogue, and DPOs (PUEDO) could potentially influence the direction of public expenditures toward the b40 assets. A good quality PER, with enough disaggregation can help map public spending with the asset situation of the b40 and (more indirect) infrastructure investments influencing their returns. It supports a dialogue with the authorities on priorities. How well has this synergism been exploited?

- *Influencing the direction of polices and reforms supporting the SP objective. The dialogue on policies and reforms can also be enhanced when accompanied with policy-based operations providing budget support* - usually to expand the budget envelope or protect it from shocks**.** Has the Bank forcefully engaged in a candid, productive dialogue regarding policies that can address binding constraints on SP?

- *Investment projects.* Do projects incorporate in its objectives, project components and result framework the SP objective? What does existing evaluative evidence on these project tell us in terms of implementation and outcomes on shared prosperity? What are the emerging lessons from this evaluative evidence?

- *Catalytic effects and scaling up of projects: Influencing public expenditures through the scaling up of investment or pilot projects.* Bank investment projects are usually small in relation to the total resources of governments and in relation to what is needed to address SP. Specific pilot projects can generate important learning if they incorporate appropriate M& E components. The major impact and legacy of investment projects depend on their ability and success to incorporate incentives and learning for replication and scaling up by the governments, local authorities, donors, or even the private sectors or beneficiaries themselves. Critical for investment projects is to test new set of incentives (for example willingness to pay) that can facilitate this scaling up. These projects can thus provide important feedback to where the government should add or reduce fiscal resources**.** These catalytic effects are the major contribution of investment lending.

- *Technical assistance - synergies again.* What has been the role of TA projects in addressing SP related objectives? What has been the experience? Have they focused on institutional issues related to SP? Is there synergism between TA and investment projects? Have TA assisted in crating incentives for the scaling up of investment projects? Has there been synergy between TA and DPO in areas relevant to the SP objective?

- *Transfers and safety nets operations. What role have they played in reaching the b40?* Cash transfers through safety nets or CCT programs may be reaching the b40 groups as well as other cash equivalent programs, such as free breakfasts and meals in schools. In some cases, self-targeting programs such as public works at below minim wage levels can also be included as one type of transfer. These are types of programs that lend themselves to some targeting and hence can be distinctively relevant to reach the b40. The Bank has played and can play an important role in this area given its international experience. The evaluation will examine these experiences in the country and lessons that the Bank may have drawn worldwide.

- *The role of IFC.* Operations by IFC can have important effects on the wellbeing of the b40 through various *indirect* channels. Enhancing the investment climate in rural areas can encourage the incentives for self-employed entrepreneurs and SMEs to expand and increase the demand for wage labor, a critical source of income for the b40. Access to finance through IFC projects can generate scaling and learning in the private financial intermediaries that can sustain expansions of credit to households in the b40. IFC operations in frontier regions and those incorporating gender dimension are important in this regard. Experiences in IFC microcredit projects and the scaling up of these projects are also relevant.

- *Working with donors.* Donors usually provide substantive budget support in the case of LICs, much of it in areas of relevance to the poor. It is critical to have a joint approach so as to avoid duplications and working across purposes. Collaboration should be key component of the shared prosperity initiative. The evaluation will examine, where relevant at the country case study level, what was the operational experience with donor coordination in the area of shared prosperity.

***Sources of Evidence***

The evidence will be based on an examination of the relevant portfolio, DPOs, investment projects and TA projects. Special emphasis will be given at examining the scaling up of relevant pilot projects and the extent additional financing of projects encourages scaling up and sustainability. Evaluative evidence will be also examined, such as ICRR, PPAR, thematic evaluations of relevant pillars in CASCR and CACRR, etc. Much of the evaluative work of IFC in SMEs, business environment, and credit finance will be highly relevant.

Interviews with staff for selected operation will add depth to the assessment. Special attention will be given to engage country stakeholders and authorities when they visit Washington and as part of the selected country visits.

4. **What have been the outcomes of the Bank lending operations? Have they achieved their own goals in areas linked to the SP objective?**

The case studies will identify lending operations whose objective was to address some of the key constraints identified in the analytical framework that are of relevance in influencing the welfare of the b40 in the country in question. The following questions will be addressed:

- *Outcomes:* Where the outcomes and indicators specified by the operation themselves achieved?

- *Influencing factors*: What factors  may have prevented achieving the objectives:

    - Unrealistic objectives, horizon, mismatch between the intervention and the objective.
    - Ownership and political economy factors.
    - Lack of complementary actions by the governments, overstating commitments.
    - Design issues, lack of complementarities with other projects.
    - Lack of follow up over time.
    - Changed context and other influencing factors.

It is recommended that the evaluation focuses on DPOs and investment projects. These may facilitate associating outcomes with the intervention (attribution).

The evaluation will focus on the evaluative evidence at the project level (ICR, ICRR, etc.), discussions with TTLs, and views from the authorities in the country visits.