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POVERTY AND SHARED PROSPERITY 2016

# TAKING ON INEQUALITY KEY FINDINGS









**JIM YONG KIM** President, The World Bank Group

### **Foreword**

In recent decades, we have seen development gains of unprecedented magnitude. From child survival to primary school enrollments to poverty reduction, human wellbeing and prosperity are advancing with a momentum that few could have imagined when the World Bank Group and other international organizations were founded.

But today we face a powerful threat to progress in all these areas. That threat is inequality.

Stark income inequality is hardly new in human history. But today, it is constraining national economies and destabilizing global collaboration in ways that put humanity's most critical achievements and aspirations at risk. This includes the goal of ending extreme poverty by 2030.

The World Bank's first annual *Poverty and Shared Prosperity Report* says that if we are going to accelerate poverty reduction and reach the goal for 2030, we've got to take on inequality—now.

This companion report sums up the key findings of *Poverty and Shared Prosperity 2016*. The report does much more than highlight the problem of inequality. It makes the case for action by explaining the benefits for countries in

closing inequality gaps. More equal countries tend to have healthier people, be more economically efficient, and have greater social stability than highly unequal countries. And countries that invest smartly in reducing inequality today are likely to see more sustained economic growth than those that don't invest. Less inequality can benefit the vast majority of the world's population.

The last part of this report describes the successful strategies that many countries are already using to fight inequality. World Bank Group economists have conducted a comprehensive review of policies that can lower inequality, analyzed a vast body of evidence, and found strategies leaders can count on. Their results offer policy options that can be relevant for most countries in the world.

Whether you're a government leader, an entrepreneur, an activist, or a frontline service provider, my hope is that this report will inform your decisions and inspire you to make your action count.

Thank you for your work to build a fairer, *more equal*, and more prosperous future for all.

Jim Yong Kim

President, The World Bank Group



### Introduction

#### REPORTING ON THE WORLD BANK GROUP GOALS

October 2016 marks the publication of the World Bank Group's first annual report on *Poverty and Shared Prosperity*. We will release these reports each year to provide the latest and best data on global poverty; track progress towards the World Bank Group goals of ending extreme poverty and boosting shared prosperity; and analyze technical and policy issues. Each report will have a theme. The focus of this year's inaugural edition is inequality.

#### **KNOWLEDGE FOR ACTION**

The companion report you are now reading synthesizes key findings and recommendations from the complete *Poverty and Shared Prosperity 2016: Taking on Inequality.* This companion document highlights results from the longer technical report that can directly inform decisions and action by governments, non-governmental organizations, international agencies, donors, private companies, and citizens.

#### WHAT THIS REPORT TELLS US

Global extreme poverty continues to decline. In 2013, the proportion of the world's population living in extreme poverty fell by an impressive 1.7 percentage points, from 12.4 to 10.7 percent. Yet, with global economic growth flagging, the goal of ending extreme poverty worldwide by 2030 is at risk. Poverty reduction in the years ahead may be too slow to get us to the goal. Even the high economic growth rates of the past two decades would have been insufficient to end extreme poverty by the 2030 target date. And global economic growth is now slowing further, while poverty reduction in key regions may also be losing steam.

The report offers a possible solution — and one that more than a few people will find surprising. It argues that in order to increase the rate of poverty reduction, we've got to focus on what many consider a different problem: namely, income inequality. The World Bank Group's twin goals don't talk about income inequality explicitly. But evidence presented in this report shows that, if key countries are able to reduce income inequality, they will provide critical momentum toward the global goal of ending extreme poverty. For this to happen, income inequality must come down in populous countries where many people are poor.

The report explains why this is true. It also tells us how it can be done. It presents the results of an extensive review of evidence on what public policies work best to reduce income inequality. It identifies proven strategies that offer multiple entry points. Examples include: cash transfer programs that directly raise poor people's incomes, while helping families keep kids healthy and in school; improved road networks that multiply economic opportunities for the rural poor; and nutrition and parent training interventions that optimize children's early cognitive development and their later earning potential.

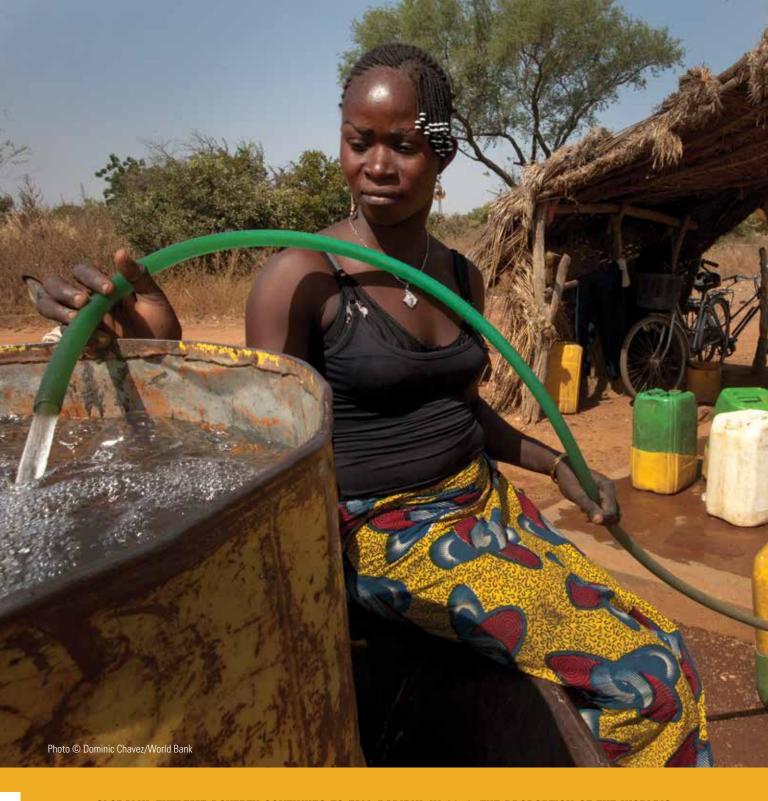
This report describes these and other solutions and summarizes the evidence of their effectiveness. It shows that middle-income countries and some very poor countries are already successfully implementing many of these policies, though usually on a small scale. And it argues that a vast, untapped potential exists to reduce

inequality and bring down extreme poverty by expanding these interventions in the countries with the largest numbers of people living below the poverty line.

# MEASURING INEQUALITY, INCOME, AND CONSUMPTION

Inequality exists in many dimensions: income, wealth, education, political voice, and others. In this report, unless otherwise specified, we are talking about income inequality. Not because this is the only important kind, but because it is a fundamental form of inequality based on something that is commonly measured. Income levels give us a rapid marker of people's position in society and their likely well-being overall. Income inequality is also directly related to the World Bank's goals on poverty and shared prosperity, which are defined in income terms.

In some countries, especially developing countries where many people are engaged in agriculture or informal labor, poverty and inequality statistics are compiled using measures of household consumption, not income per se. The reasons for this difference and its statistical implications are discussed in detail in the first chapter of *Poverty and Shared Prosperity 2016*. For our purposes here, the main point is that household consumption is a more reliable reflection of well-being in settings where many people do not participate in formal paid labor. Cross-country comparisons between countries using income measures of welfare and those using consumption measures need to be interpreted with caution.



GLOBALLY, EXTREME POVERTY CONTINUES TO FALL RAPIDLY. IN 2013, THE PROPORTION OF THE WORLD'S POPULATION LIVING IN EXTREME POVERTY FELL FROM 12.4 TO 10.7 PERCENT, WHILE THE TOTAL NUMBER OF EXTREMELY POOR PEOPLE DROPPED BY AN ESTIMATED 114 MILLION. EXTREME POVERTY IS INCREASINGLY CONCENTRATED IN SUB-SAHARAN AFRICA.

# 1. The State of Global Poverty

Since 1990, the world has dramatically reduced extreme poverty. This applies both to the percentage of the global population living under the international poverty line of US\$1.90 a day, and to the absolute number of people in the world who are poor.

As recently as 1990, 35.0 percent of the world's people lived in extreme poverty. By 2012, the proportion was 12.4 percent, and in 2013, the latest year for which we have data, the figure had fallen to 10.7 percent. Similarly, in 1990, the absolute number of people living in extreme poverty was almost 2 billion. By 2013, that number had plunged by well over half, to 767 million. This progress came despite global population growth of some 1.9 billion, which has been heavily focused in high-poverty regions. In 2013 alone, the net number of people living in extreme

poverty worldwide fell by 114 million, though a portion of this decline results from methodological changes in poverty measurement.<sup>1</sup>

These numbers show that we still have far to go. But they also reveal the magnitude of what has been achieved. There were almost 1.1 billion fewer extremely poor people in the world in 2013 than in 1990. A net average of about 50 million people have escaped poverty each year, equivalent to the population of Colombia or the Republic of Korea.

Figure 1.1 shows this steady decline in the share and total number of the world's poor people. Since 2002 in particular, the percentage of people living in poverty has followed a steady downward trajectory, with no slowdown even during the global financial crisis (2008–09).

1,850 1,855 1,693 1,666 1 588 Poverty headcount ratio (%) 1,328 1.400 1.206 35.0% 33 5% 1.078 28.8% 28.1% 30 25.3% 20.4% 17.8% Poverty headcount ratio (% of people who live below \$1.90) Number of people who live below \$1.90 a day (right axis)

Figure 1.1. Trends in percentage of people living in poverty and absolute number of the extremely poor, 1990–2013

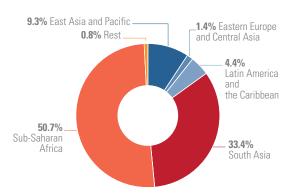
Sources: Poverty and Shared Prosperity 2016, Annex 2A; 2016 estimates on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

Note: The data are measured using the US\$1.90-a-day 2011 PPP poverty line.

#### THE NEW GEOGRAPHY OF POVERTY

Gains against poverty have not been uniform across regions, however. As extreme poverty declines globally, its regional profile is shifting. In 2013, Sub-Saharan Africa accounted for more of the poor—389 million—than all other regions combined. Its share of the global total was 50.7 percent (Figure 1.2). This is a remarkable change in the geography of global poverty since 1990, when half of the poor were living in East Asia and the Pacific.

Figure 1.2. Where are poor people living? The global poor by region, 2013



Source: Latest estimates on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

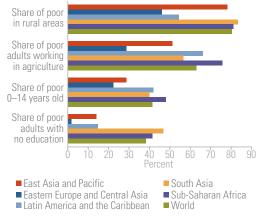
Most of this changing geography of global poverty stems from Sub-Saharan Africa's lagging poverty reduction relative to sharp declines in East and South Asia. Figure 1.3 shows the trends in the regional composition of global poverty. Sub-Saharan Africa's rising number of poor people stands out as a stark exception. This increase occurred despite substantial economic growth in the region.

The implication of today's geography of global poverty is clear: to reach the goal of ending poverty, most future reduction will have to come from Sub-Saharan Africa and, to a lesser extent, South Asia.

#### WHO IS POOR TODAY?

To fight poverty effectively, we need to know what kinds of people are most affected. While poor people are increasingly concentrated in Sub-Saharan Africa, recent analyses provide sharper demographic detail. The poor are predominantly young, rural, with little formal education, and employed in the agricultural sector. Figure 1.4 reports the share of the poor who live in rural areas (80 percent of the poor worldwide), work in agriculture (64 percent), are 14 years old or younger (44 percent) and have no formal education at all (39 percent). These traits vary across regions.

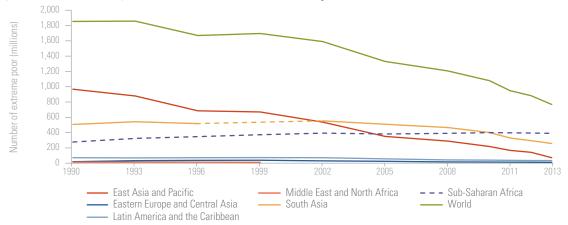
Figure 1.4. Profile of the poor by characteristics and region, 2013



Source: Castañeda et al. 2016.

Note: The data are measured using the US\$1.90-a-day 2011 PPP poverty line.

Figure 1.3. World and regional trends, number of the extreme poor, 1990–2013

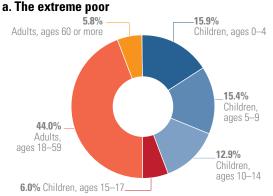


Sources: Annex 2A; 2016 estimates on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/. Note: The data are measured using the US\$1.90-a-day 2011 PPP poverty line. Breaks in trends are due to lack of quality data.

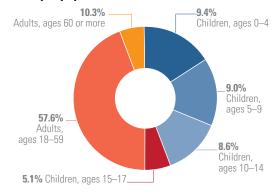
#### **CHILDREN SUFFER MOST**

Children are more likely to be poor than adults.<sup>3</sup> Globally, children account for half the poor (50 percent in 2013), while they are less than a third of the world's total population (32 percent) (figure 1.5).

Figure 1.5. Age profile of the poor, 2013



#### b. Sample population



Source: Newhouse, Suarez-Becerra, and Evans 2016.

Children in Sub-Saharan Africa are much more likely to be living on less than US\$1.90 a day than adults, and almost half of all the poor in the region are children 14 years old or younger. The region also contributes the most to global child poverty: 52 percent of the extremely poor children worldwide live in Sub-Saharan Africa. The next largest contributor is India, where 30 percent of the world's poorest children live.

#### **CAN THE WORLD AFFORD TO END POVERTY?**

The overall trends in global poverty give grounds for optimism. Yet the figures on child poverty, in particular, show that progress is still too slow. In a time of economic uncertainty and flagging global economic growth,

however, is it realistic to think that countries can mobilize the resources needed for more poverty reduction?

We'll return to this question in the pages ahead. For now, it will be helpful to get a rough sense of the scale of investment that ending extreme poverty might involve.

Economists have calculated that, in 1990, the approximate cost of lifting the incomes of all the world's poor to the international poverty line represented 1 percent of the world's total gross domestic product (GDP). By 2013, with lower poverty and greater global wealth, the projected cost had shrunk to less than 0.2 percent of global GDP. This sum is only 10 percent more than the amount of development aid that donors actually disbursed that year.<sup>4</sup> It's also just about half of what countries lose annually through tax avoidance.<sup>5</sup>

We should keep in mind that these calculations involve numerous simplifying assumptions and provide only an order-of-magnitude approximation of the lowest figure that might be discussed as the cost of ending extreme poverty. They do not imply any judgment on current aid policies or any specific prescriptions. Moreover, even if world leaders agreed to a global safety net scheme of direct cash payments to the world's poor people, the administrative and logistical challenges would be immense. Implementation costs are not included in this simplified model. The transfer payment would also have to happen not just once, but every year.

Thus, the models we've cited are not trying to describe a practical strategy for solving poverty. They are making a conceptual point. Their purpose is simply to remind us that the amount of money separating us from a world in which everyone's income is above the international poverty line is negligible in comparison to the flows of money in today's global economy.

These simple calculations underestimate the real investments required to end poverty for good. But they correctly suggest that the costs of meaningful action against poverty are not prohibitive.

Those costs can be lowered even further if countries strengthen their focus on shared prosperity—the income share of the poorest 40 percent of their population. That's the World Bank's second goal. We'll look at progress on it next.



WE CAN SEE HOW PROSPERITY IS BEING SHARED IN A COUNTRY BY LOOKING AT INCOMES AMONG THE POOREST 40 PERCENT OF ITS PEOPLE. FROM 2008 TO 2013, MORE THAN HALF THE COUNTRIES MONITORED SAW POORER PEOPLE'S INCOMES GROW FASTER THAN WEALTHIER PEOPLE'S. IN THESE COUNTRIES, THE POOREST 40 PERCENT ARE GAINING A GREATER RELATIVE SHARE IN THE FRUITS OF ECONOMIC GROWTH—BUT THE CHANGE IS SLOW.

# 2. The State of Global Shared Prosperity

The World Bank's second global goal is to boost shared prosperity by improving incomes among the poorest 40 percent of people (the "bottom 40") in every country. The larger the growth in incomes of the bottom 40, the more quickly prosperity is changing life for poor people in a society. The size of income growth among the bottom 40 defines a country's level of success in boosting shared prosperity.

The graph below (Figure 2.1) shows where we stand today on promoting shared prosperity in every country for which we have data, across all global regions. The graphs indicate the average annual change in income or consumption for the bottom 40 in each country in 2008–2013 (orange bars). Within each region, countries are ranked by the size of annual income change among the bottom 40, from largest positive growth to largest contraction. From 2008 to 2013, the Democratic Republic of Congo showed the fastest bottom-40 income growth of any country, with an annualized rate of 9.6 percent. Many other countries recorded impressive gains, including four where income or consumption among the bottom 40 grew by 8 percent a year or more: Belarus, China, Mongolia, and Paraguay. Greece showed the largest contraction in its bottom 40 incomes, with minus 10 percent a year over the period, which encompassed the worst years of its economic crisis

Figure 2.1 gives us additional important information. We are interested not just in how fast the incomes of the

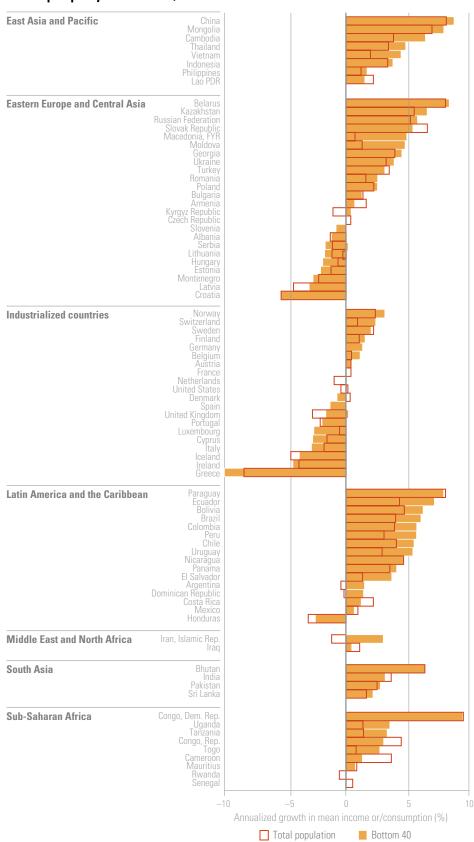
bottom 40 are growing, but in how poorer people's income growth compares with the growth rates that more affluent people experience. Are things getting better faster for the poor than for those higher up the income ladder?

The red-framed bars in Figure 2.1 show the annual change in average income in the countries we've studied. By comparing the orange bars (annual change in bottom-40 income) with the red-framed bars (annual change in average income), we can see how poorer people in each country are doing relative to the more affluent members of their society, on the rate of growth or shrinkage of their incomes. This tells us whether, during these years, the bottom 40 were obtaining a bigger relative share in the added prosperity generated by their country's economic growth.

Thus, Figure 2.1 provides some insights into differences in how the fruits of economic growth have been shared within countries. In some but not all cases, these differences have been shaped by deliberate policy choices. Some countries have intentionally managed their growth to maximize benefit to their poorest people. They have used growth to reduce inequality and enacted public policies for that purpose. On the other hand, countries' respective performances in boosting shared prosperity have also been influenced by contextual factors beyond leaders' control.

For example, many commodity-exporting countries benefitted from high global commodity prices during

Figure 2.1. Shared prosperity: 83 countries, 2008–13



Source: GDSP (Global Database of Shared Prosperity), World Bank, Washington, DC, http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity. Note: The data show the annualized growth in per capita mean income or consumption.

these years. Inflows of money from global commodity markets in turn expanded domestic demand in sectors like construction and services that employ low-skilled workers. This tended to boost incomes among poorer people, independent of policy choices.

Of particular concern in Figure 2.1 are the countries, some with solid average growth levels, that saw income growth among their more affluent citizens outstrip growth in the bottom 40, threatening to widen existing inequalities.

To see how these dynamics have played out in specific cases, we can look at Cambodia and Cameroon. Average consumption in these two countries grew at a roughly similar annual rate circa 2008 to 2013, 3.9 percent and 3.7 percent, respectively. However, while Cambodia's bottom-40 consumption increased at a remarkable 6.5 percent annually, Cameroon's progressed at only 1.3 percent during the same period. This means that during these years Cambodia substantially cut inequality, while inequality in Cameroon got worse despite respectable average growth. Cambodia's Gini index fell by 4.4 points over this period. Cameroon's rose by 3.7 points.<sup>6</sup>

#### What the pictures mean

Overall, Figure 2.1 shows that the bottom 40 benefited from solid income growth in many countries during 2008–13. In 60 of the 83 countries monitored, the bottom 40 experienced positive income growth, despite the global financial crisis. Those countries represent 67 percent of the world's population. Importantly, 49 of the 83 countries also reported faster growth in bottom-40 incomes than in their population's average incomes during this period.

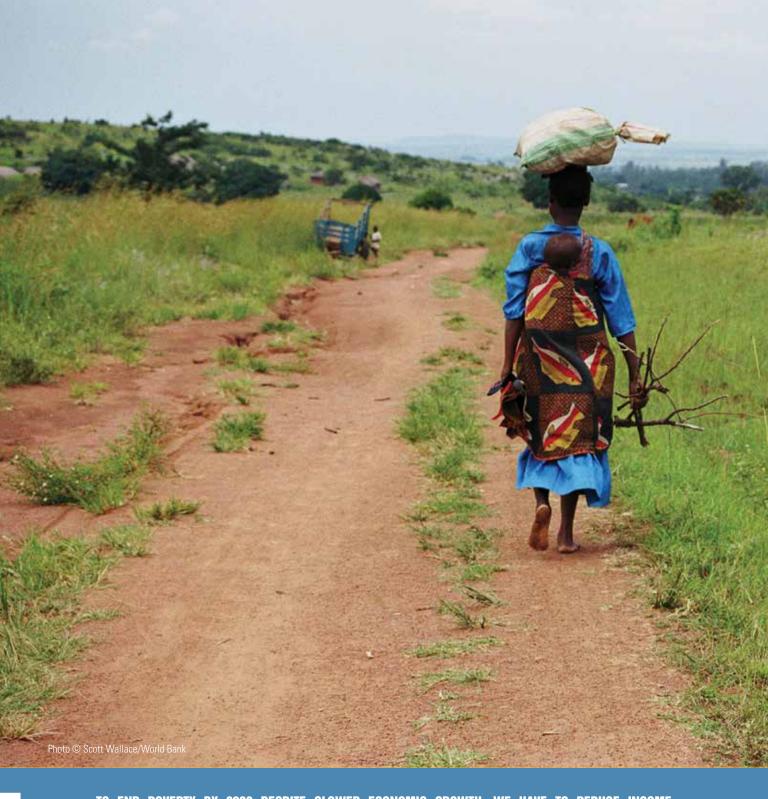
So more than half of the countries for which we have data saw an improvement in relative income distribution in favor of the bottom 40. This is no resounding victory. But it is encouraging, particularly given that the period of assessment encompassed a profound global financial crisis whose effects are still being felt.

There is no room for complacency. In 34 of 83 countries monitored, income gaps widened between 2008 and 2013, as incomes grew faster among the wealthiest 60 percent of people than among the bottom 40—Cameroon is just one example. And in 23 countries, the bottom 40 saw their incomes actually decline during these years: not just relative to wealthier members of society, but in absolute terms.

We also need to be concerned about the modest size of the shared prosperity gains reported, even though the overall trends were positive. The average annualized income growth of the bottom 40 around the world was a solid two percent in 2008–13. However, this was just 0.5 percentage points more than the increase in average income across the whole global population during this period.

This means the poorest 40 percent in individual countries for which we have data are gaining a greater share in the fruits of global economic progress. However, on average, the gains are happening slowly. Prosperity needs to be shared faster with those who have been excluded, if the world is going to end extreme poverty by 2030. Next, we'll look more carefully into why this is the case, and what consequences greater shared prosperity might have.

# Some countries have intentionally managed their growth to maximize benefit to their poorest people.



TO END POVERTY BY 2030 DESPITE SLOWER ECONOMIC GROWTH, WE HAVE TO REDUCE INCOME INEQUALITY NOW IN COUNTRIES WHERE LARGE NUMBERS OF POOR PEOPLE LIVE. IF THESE COUNTRIES ACT STRATEGICALLY TO CUT INEQUALITY, THEY'LL LIFT MORE PEOPLE OUT OF POVERTY FASTER. OVER TIME, THEY'LL PROBABLY ALSO GET BETTER HEALTH; A HIGHER-SKILLED, MORE COMPETITIVE WORKFORCE; MORE OPPORTUNITIES FOR WOMEN; AND MORE SUSTAINED ECONOMIC GROWTH.

# 3. Facing Inequality

Today, wherever people live, they don't have to look far to confront the evidence of inequality. Inequality in its various forms is a condition that seems to define our times.

Economic analyses of inequality, ethical debates on it, and experts' prognostications about its consequences proliferate in academic journals and think tank roundtables. But arguments about inequality now also regularly erupt in popular media and political campaigns, influencing key events and collective decisions. Examples include the uprisings of the Arab Spring, the Brexit vote in the United Kingdom, social unrest in several Latin American nations, and the rising tide of demagogic populism in countries around the world

There are many reasons to be worried about income inequality. Here are three:

- In most societies, family income levels powerfully determine the educational, social, and professional opportunities that will be open (or closed) to children. Income inequality shapes unequal life opportunities in the next generation. This also means that unequal societies waste critical resources (the productive capabilities of many of their members) in a way that is economically inefficient.
- 2. Income inequality drives or exacerbates other forms of inequality, including disparities in health and life expectancy. The rich live longer than the poor,

- sometimes by decades. But rich people in unequal societies have shorter, less healthy lives than rich people in countries with greater income equality.<sup>7</sup>
- Income inequality often weakens social bonds and can foster a climate of mutual resentment and suspicion among social groups. By weakening social unity and trust, high inequality creates openings for paranoid populism and religious or political extremism.

Meanwhile, the relationship between income inequality and economic growth is contested. Some recent studies have found that more equal societies enjoy stronger, longer-lasting economic growth. Other researchers have found no significant influence of inequality on growth. What is clear is that some policies that reduce inequality, for example by expanding access to quality education and health care, are also good for growth. Conversely, failing to invest in such anti-inequality policies is a missed opportunity to strengthen growth.

There's another reason to be concerned about inequality, related to all of the above. This reason is critical for us at the World Bank Group. And it's the reason we've made inequality the focus of this report:

Under current conditions of slow global economic growth, reducing inequality gives us a critical lever to end poverty.

#### **MEASURING INEQUALITY: THE GINI INDEX**

A commonly used measure of income inequality is the Gini index. It quantifies the inequality of income within a population (usually, a country population). The Gini index is a number from 0 to 100, where 0 represents perfect income equality (every person in the population receives exactly the same income) and 100 represents perfect income inequality (all the income in the population goes to just one person). The Gini indexes for most countries are in the 30 to 50 range. The most unequal countries in terms of income distribution have Ginis of > 60. The units of the Gini index are referred to as "points": for example, we might say that a particular country reduced its Gini index by five points over a given period.

The promise to end extreme poverty by 2030 is enshrined in the World Bank's twin goals on poverty and prosperity and in the United Nations' Sustainable Development Goals. But today this commitment is threatened. To understand why, we need to know three facts. First, even the robust global economic growth rates of the past two decades would have left us short of the 2030 goal. Second, global economic growth has weakened in the wake of the financial crisis—effectively pushing the goal line further away. And third, as we saw in Section 1, future poverty cuts must be focused in Sub-Saharan Africa; but poverty reduction in that region isn't gaining sufficient momentum. Together, these factors put the global community's commitment to end poverty at risk.

If we reduce income inequality in key settings, however, the world can still keep its pledge.

This doesn't mean that income inequality must fall in every country in the world. But, on average, inequality must come down, and inequality must be cut substantially in countries where large numbers of people are living below the international poverty line.

The relationship between reducing inequality and ending extreme poverty may not be obvious. In fact, we can easily imagine scenarios in which poor people in a country would see their incomes rise enough to lift them above the poverty line, while the incomes of the rich simultaneously go up even faster. In such a country, extreme poverty would end without a decrease in inequality. But we will look at why such scenarios are not the most relevant to the poverty challenge today, and why reducing inequality is crucial to ending extreme poverty now. After that, we step back to provide more information on the current state of income inequality in the world. With those facts in place, we can talk about solutions.

#### **INEQUALITY AND THE END OF POVERTY**

Hundreds of millions of people around the world have broken free of extreme poverty since the 1990s. But since the financial crisis that began in 2008, global economic growth has slowed. If slow growth persists, poverty reduction may be less rapid in the years ahead—that is, if we don't take action.

What can be done?

Let's first recall that there are two major, potentially complementary forces that can reduce poverty: (1) higher overall economic growth; and (2) a shift in the distribution of incomes that favors poorer people. In a scenario of rising growth (our number 1), the overall economic "pie" gets bigger and everyone's piece grows in proportion. In a scenario of flat growth with distribution that favors the poor (our number 2), the pie stays more or less the same, but poor people get a bigger slice of it. In the midst of a global economic slowdown, many countries can't count on strong versions of scenario 1. Scenario 2 is the most effective option we have, assuming that economic growth does not substantially increase. If growth were to increase significantly, cutting income inequality would become less important for poverty reduction (though it might still be pursued for many other reasons).

A picture helps make the point. The graphs in Figure 3.1 represent the results of World Bank economic simulations. They show possible trajectories of global poverty reduction from now through 2030, as determined by the overall rate of global economic growth and by inequality trends. By "inequality trends," we mean whether the incomes of the poorest 40 percent grow faster than the average income (inequality gets worse); or at the same rate as the average income (inequality remains unchanged).<sup>9</sup>

There are two different graphs (a and b), because we can make at least two hopeful but reasonable assumptions about the overall rate of global economic growth in the coming years. In graph a, we assume that every country's economy keeps growing at its average rate for the past 10 years. (This is actually a very optimistic assumption, since these 10-year growth rates are high, in historical terms.) Graph b is also optimistic, but less so. It assumes that all countries will now grow steadily at their average rate over the past 20 years, slower than the 10-year rate.

Under current conditions of slow global economic growth, reducing inequality gives us a critical lever to end poverty.

In the two graphs, the orange and green lines represent the "reduced inequality" scenarios, in which inequality shrinks and poverty reduction speeds up. The yellow and light blue lines represent the "inequality gets worse" scenarios. The dark blue lines represent "distribution neutral" scenarios, in which the incomes of the bottom 40 grow at exactly the same rate as the average income. The only situations in which the goal of ending extreme poverty is reached happen when one of the poverty trajectories crosses the red target line.

The message of these graphs is that, under two reasonable but optimistic global economic growth scenarios, the goal of ending extreme poverty by 2030 can best be reached if the incomes of the poorest 40 percent of people grow faster than average incomes: that is, if average income inequality is reduced worldwide.

Again, this refers to the average reduction in income inequality across all countries. Some individual countries could fail to reduce their domestic income inequality without disrupting the overall global effect. Countries whose income inequality is already low might have little incentive to reduce it further. What is most critical is that, to end poverty, income inequality must fall in very populous, very unequal countries where many people are poor.

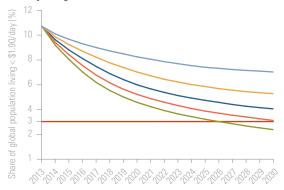
#### **INEQUALITY TODAY: THE FACTS**

We've seen why it's critical to reduce income inequality now. But can it be done? Is it realistic to think that countries, especially very poor countries, can substantially cut their levels of income inequality within the time frame needed for the 2030 goals? To answer that question, we've got to know more about how severe income inequality is today; how it's distributed within and among countries; and how it's changing over time.

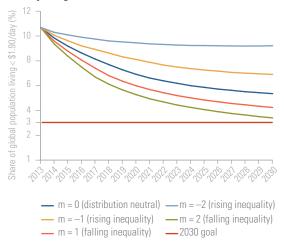
The authors of *Poverty and Shared Prosperity 2016* have conducted an extensive analysis of inequality conditions and trends. Their results provide the best available data on exactly these questions. Some of the findings confirm what most of us already know, or have felt intuitively. But some of the results challenge our preconceptions and open up new ways of thinking about inequality—as well as fresh avenues for action.

Figure 3.1. The Twin Goals work together: How boosting shared prosperity helps end poverty

#### a. 10-year growth scenario



#### b. 20-year growth scenario



Source: Updated results based on Lakner, Negre, and Prydz 2014.

Note: Each country is assumed to grow at its historic growth rate over the 10 (panel a) or 20 (panel b) years leading up to 2013. The simulations assume a linear growth incidence curve. The value of "m" tells us by how many percentage points the income growth rate among the bottom 40 differs from the average income growth rate. So, for example, with m=2 (the green line), annual growth in bottom-40 incomes exceeds the growth in average income in each country by 2 percentage points. With bottom-40 incomes growing faster, poverty also falls more rapidly. When the value of "m" is negative (richer people's incomes grow faster than poor-

er people's), the opposite is seen: poverty reduction slows.

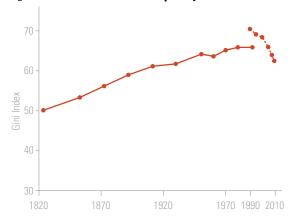
TAKING ON INEQUALITY **KEY FINDINGS** 

A first fundamental point is the need to distinguish between different *types* of inequality. We need to consider inequality of incomes among people within a given country, inequality between countries, and global inequality. The latter is what economists define as income inequality among all individuals in the world, regardless of their countries of origin.

#### Global inequality: a historic shift?

Global inequality worsened steadily for almost 200 years, from the dawn of the Industrial Revolution until the early 1990s (Figure 3.2). During this period, incomes and lifestyles in the "First World" soared with the power of new technologies, while non-industrialized nations lagged behind. However, data since the 1990s show a reduction in global inequality: the first sustained downturn of its kind ever recorded. This fall in global inequality marks a historic turning point. It has been driven by a strong convergence in average incomes across countries, spurred by rising incomes in very populous, fast-growing countries such as China and India. As this convergence continues in the years ahead, it will reshape the landscape of inequality, the global economy as a whole, and geopolitical power relations.

Figure 3.2. Global income inequality, 1820–2010



Source: Based on figure 1 (p. 27) of *The Globalization of Inequality* by Francois Bourguignon (Princeton University Press 2015).

Note: The discontinuity in the series represents the change in the base year of the purchasing power parity (PPP) exchange rates from 1990 to 2005. The figure uses GDP per capita in combination with distributional statistics from household surveys.

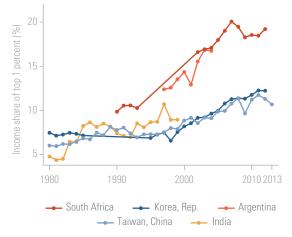
#### Within-country inequality: mixed signals

The form of income inequality that primarily interests most people is inequality in their own country. We want to know how our income compares with our neighbor's, or with that of other people we think of as basically like ourselves.

The pattern of change in within-country inequality over recent decades has been complex. One feature is clear, however. Social movements have sensitized us to the issue of the "1 percent": soaring incomes and wealth among the very richest people. The rhetoric may sometimes be shrill, but the fact is that the top 1 percent are doing disproportionately, even disconcertingly, well. The pattern has been marked in some high-income countries, particularly the United States, but it also applies to some emerging economies for which we have adequate data (Figure 3.3). In South Africa, for example, the income share of the top 1 percent has roughly doubled in 20 years.

Unfortunately, reliable data on the incomes of the very rich are currently only available for a few developing countries. In most cases, we must still rely on data from household surveys, which do not reliably capture the earnings of

Figure 3.3. Income shares of the top 1 percent in selected developing economies, since 1980



Sources: Calculations based on data of WID (World Wealth and Income Database), Paris School of Economics, <a href="http://www.parisschoolofeconomics.eu/en/research/the-world-wealth-income-database/">http://www.parisschoolofeconomics.eu/en/research/the-world-wealth-income-database/</a>.

Note: The figure shows the share of national income (excluding capital gains) going to the richest 1 percent of national populations. These measures are typically derived from tax record data. For South Africa, the figure shows the top 1 percent income share among adults.

the richest people in society. Household survey data may lead researchers to underestimate a country's income inequality. Even using this kind of data, however, within the average country, income inequality as measured by the Gini index increased during the 1990s.

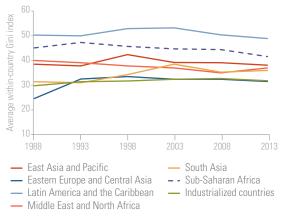
However, recent years have also seen a downturn in this form of inequality in many settings. Within-country inequality fell broadly during the 2000s, particularly after 2008. In many countries, the reduction was substantial. In the *Poverty and Shared Prosperity* analysis, during the period 2008–2013, for every country in which inequality widened by more than 1 Gini point (19 of 81 countries), there were two countries in which inequality narrowed by more than 1 Gini point (41 out of 81 countries). More than a third of the population in the sample were living in a country in which the Gini had fallen by more than 1 point between 2008 and 2013.

#### A hopeful trend?

Figure 3.4 compares trends in average within-country inequality across regions, as measured by the Gini index. Developing countries tend to exhibit higher levels of inequality than developed countries. Latin America and the Caribbean and Sub-Saharan Africa stand out as high-inequality regions. However, the prolonged downward slope of the curve for Latin America after 2003 shows that the region has made substantial and sustained progress in reducing inequality. Notably, however, these declines occurred after a prolonged increase during the 1980s and 1990s. 10 Hence, the long-run progress in inequality reduction in Latin America has been limited, while in fact the more recent downtrend now appears to have slowed. 11

Sub-Saharan Africa, the second most unequal region worldwide, has also steadily reduced inequalities since the early 1990s, though the average trend masks substantial differences across countries. In Eastern Europe and Central Asia, average inequality rose sharply after the fall of the Berlin Wall, but has since been on a declining trend. On average, industrialized countries saw increases in their Gini index. In the five years leading up to 2013, average inequality appears to have fallen in all regions except the Middle East and North Africa and South Asia.

Figure 3.4. Levels and trends in the average Gini across regions, 1988–2013



Source: World Bank calculations based on data in Milanovic 2014; PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/

Note: The within-country Gini index by region is the simple average across countries without weighting countries by population. Industrialized countries are a subset of high-income countries, as defined in Annex 2B of Poverty and Shared Prosperity 2016.

#### **INEQUALITY AND POLICY CHOICES**

There is no guarantee that the positive inequality-reducing trends we've just described will continue. Indeed, they are likely to be assailed by multiple counterforces: from unstable commodity prices to the impacts of climate change.

But the results to date give reason for optimism. The fight against inequality can be won. Many of the countries that have already made progress in lowering inequality and reducing poverty have done so despite periods of global economic instability and domestic stress.

A critical message that emerges from the analysis is that inequality is not just the product of global economic forces. A country's level of inequality also reflects its policy choices. Domestic policy decisions can explain much of the recent reduction of within-country inequality.

By making smart decisions, many countries and communities are reducing inequality right now. We'll look at some examples next.



AROUND THE WORLD, COUNTRIES ARE TAKING ON INEQUALITY. MACROECONOMIC DISCIPLINE, ROBUST ECONOMIC GROWTH, JOBS FOR POORER PEOPLE, AND WISE SOCIAL POLICY HAVE ALL HELPED COUNTRIES TURN OPPORTUNITY INTO MORE EQUALITY.

## 4. A Tale of Three Countries

In the past decade, many low- and middle-income countries have successfully cut their levels of poverty and income inequality. In the same period, other nations starting from similar conditions have seen inequality gaps widen. What are the inequality-reducers doing that the other countries aren't? To begin answering this question, we'll focus on three top performers in inequality reduction: Brazil. Cambodia. and Tanzania.

We'll see how countries have made gains against inequality under real-world conditions. We'll explore the interaction of contextual factors, macroeconomic fundamentals, the management of external shocks, and specific sectoral policy choices.

The three countries we've chosen don't reflect the full range of global diversity. However, they do embody deep differences in geography, demographics, history, cultures, wealth, and the composition of their national economies. Thus a first lesson is that countries in widely different circumstances can reduce inequality.

A second lesson also emerges quickly. It is that contextual factors not under their control have played a substantial role in enabling these countries' progress against inequality. During the period of their most impressive gains, Brazil, Cambodia, and Tanzania all benefited from a favorable global economic environment, including cheap credit in international markets, booming trade, and high commodity prices.

## BRAZIL: MULTIPLE TOOLS TO FIGHT ENTRENCHED INEQUALITIES

In 1989, Brazil's Gini index was 63, second highest in the world. However, beginning in the mid-1990s, inequality fell—and kept on falling. Between 2004 and 2014, the incomes of the less well-off surged amid rapid economic growth. The Gini reached 51 in 2014, 19 percent lower than it had been in 1989

Figure 4.1 shows that Brazil's inequality reduction mirrors a trend across the Latin American region, but that Brazil has reduced income inequality even faster than the region as a whole.

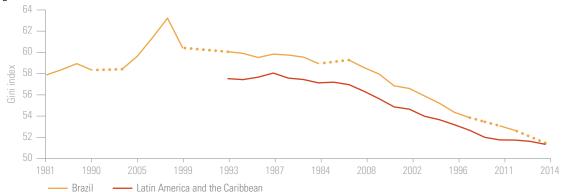


Figure 4.1. Trends in the Gini index, Brazil, 1981–2014

Source: Tabulations of Equity Lab, Team for Statistical Development, World Bank, Washington, DC, based on data in SEDLAC (Socio-Economic Database for Latin America and the Caribbean); WDI (World Development Indicators) (database), World Bank, Washington, DC, <a href="http://data.worldbank.org/data-catalog/world-development-indicators">http://data.worldbank.org/data-catalog/world-development-indicators</a>; PovcalNet (online analysis tool), World Bank, Washington, DC, <a href="http://iresearch.worldbank.org/PovcalNet/">http://iresearch.worldbank.org/PovcalNet/</a>.

Lower income inequality helped translate the country's economic growth in the new millennium into impressive poverty reduction. Between 2004 and 2014, a net total of 26.5 million Brazilians rose out of poverty.

Multiple drivers underlie this success. The country's 1988 Constitution, created after the transition from military rule to democracy, established ethical and legal foundations for a more inclusive society. The Constitution guaranteed universal social rights such as free public education, free universal health care, pensions, and social assistance. A new macroeconomic framework was introduced in the 1990s. The adoption of inflation targets, floating exchange rates, and a more prudent fiscal policy supported by the country's Fiscal Responsibility Law in 2000 reinforced macroeconomic discipline. Then during the 2000s, the boom in commodity prices benefited Brazil as a major commodity exporter. Macroeconomic stability, combined with this favorable external context, propelled economic growth.

As the economy prospered, labor market dynamics and the expansion of social policies both boosted the incomes of the poor.<sup>12</sup> These two factors account for about 80 percent of the decline in inequality between 2003 and 2013: analyses show that 41 percent stemmed from labor incomes and 39 percent from non-labor income sources such as government transfers. 13 On the labor side, a fall in the wage gap between skilled and unskilled workers explains much of the decrease in labor income inequality. This was partly due to a significant increase in the relative supply of skilled workers, thanks to expanded access to education. Between 1995 and 2010, the average years of schooling among adults above 25 years of age rose 56 percent to 7.2 years. More than four in 10 workers in 2010 had 11 or more years of formal education, twice the level in the mid-1990s.14

Though the situation may change in the future under less favorable external circumstances, increases in Brazil's minimum wage during the first decade of the 2000s did not create large distortions in the labor market. Instead,

there were substantial reductions in the wage gaps across urban and rural areas, across regions, between men and women, and between whites and nonwhites with similar educational attainment and experience. A recent study estimates that the fall in gender, race, and geographical wage inequality and the growth in formal sector employment explain about 60 percent of Brazil's drop in labor income inequality between 1995 and 2012.<sup>15</sup>

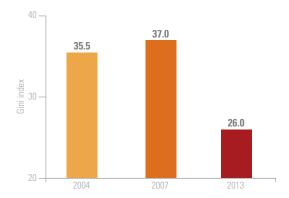
Targeted government transfers also significantly improved the living conditions of the poorest. The expansion of Bolsa Família (family grant), Brazil's flagship conditional cash transfer program, has had a major equalizing impact. By some estimates, Bolsa Família accounts for between 10 and 15 percent of the reduction in income inequality observed in Brazil during the 2000s.<sup>16</sup>

Today, the global growth slowdown, the end of the commodity price boom, a political crisis, and domestic policy choices (including weaker fiscal discipline) threaten the sustainability of Brazil's success in reducing income inequality. Reigniting growth by increasing investment and productivity—including in services produced by low-skill workers—will be important to sustain job creation and continue boosting the earnings of the poor. Unfortunately, given the less favorable context, growth gains may be more difficult to achieve now than in the 2000s.

# CAMBODIA: TURNING HIGH GROWTH INTO EARNING OPPORTUNITIES FOR THE POOR

Cambodia's annual economic growth averaged 7.8 percent between 2004 and 2014, placing it among the most rapidly growing economies in the world. Poor Cambodians harnessed the opportunities created by this growth. Many found labor-intensive industry and services jobs, diversifying their incomes away from subsistence agriculture. Consumption growth among the bottom 40 averaged an annual 6.3 percent between 2008 and 2013, twice the consumption growth of the top 60. As a result, Cambodia's Gini index fell sharply, from 37 in 2007 to 26 in 2013, the latest year for which data are available (figure 4.2).

Figure 4.2. Trends in the Gini index, Cambodia, 2007–13



Source: Calculations based on data in "Measuring Inequality," World Bank, Washington, DC, <a href="http://go.worldbank.org/3SLYUTVY00">http://go.worldbank.org/3SLYUTVY00</a>; PovcalNet (online analysis tool), World Bank, Washington, DC, <a href="https://iresearch.worldbank.org/PovcalNet/">https://iresearch.worldbank.org/PovcalNet/</a>.

Cambodia's growth since the mid-2000s has been largely driven by garment and apparel exports, tourism, real estate, and construction. A proliferation of salaried employment opportunities has followed the expansion of these sectors, fundamentally altering an economy in which the vast majority of people had previously engaged in unpaid agricultural labor.

New research indicates that garment jobs generally improve the well-being of the bottom 40. Poor households with members working in the sector are more likely to experience consumption gains; suffer less from food insufficiency; and report higher rates of school enrollment for their children. The sector also has a much lower gender wage gap than other industries and is a main reason Cambodia has been able to incorporate women into the productive economy.

Although its economic importance has been declining, agriculture has also helped narrow inequality in rural areas over the last several years. Farm incomes from agricultural crops, mainly paddy rice, more than doubled between 2004 and 2009. Increasing nonfarm self-employment and rising wages are also key features of Cambodia's strides in reducing rural inequality. Average per capita daily wage labor incomes among rural residents rose 9.5 percent annually during 2004–09, and, as of 2013,

wages and salaries represented 43 percent of total rural household income.<sup>17</sup>

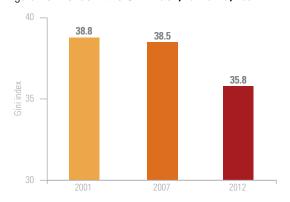
Still, obstacles to further inequality and poverty reduction are evident in the inadequate pace of job creation, given Cambodia's young demographics and structural constraints that weigh on leading sectors, including garment production. Social safety net programs remain weak.

Currently, only 2 percent of the poorest fifth of Cambodians receive any form of assistance through social safety nets. <sup>18</sup> Scaling up policy efforts and investments in infrastructure and rural development, together with social protection, could help open bottlenecks and sustain the success already achieved. Safety nets have been successfully piloted in poor rural areas, and coverage should rapidly expand (Box 4.1).

# TANZANIA: BOOSTING SHARED PROSPERITY THROUGH ECONOMIC DIVERSIFICATION

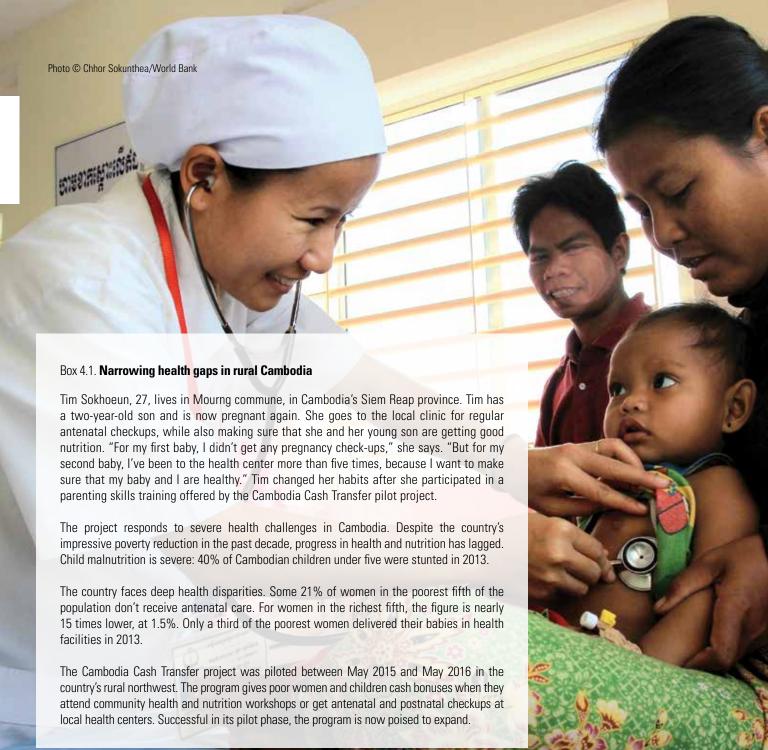
As we've learned, whether the world can end extreme poverty by 2030 may depend substantially on what happens to income inequality in large, populous countries with many poor people. Many of these countries are in Sub-Saharan Africa. Tanzania is one of them. So the fact that Tanzania has made progress in cutting inequality in recent years is of special interest. Between 2007 and 2012, Tanzania's Gini index fell from around 39 to less than 36 (Fig. 4.3).<sup>19</sup>

Figure 4.3. **Trends in the Gini index, Tanzania, 2001–12** 



Source: PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

21



Even at baseline, Tanzania's inequality level was not extreme, relative to many other countries in Sub-Saharan Africa (where the average Gini in 2015 was 45.1), or to Latin American countries like Brazil.<sup>20</sup> Still, Tanzania's progress in inequality reduction over this short period was remarkable. Evidence suggests that inequality reductions were mainly driven by a larger increase in consumption accruing to the bottom 40, whose 3.4 percent annual consumption growth was more than three times the 1.0 percent growth among the top 60 (Figure 4.4).

Not coincidentally, Tanzania achieved these inequality reductions during a period of robust economic growth, averaging 6.5 percent a year from 2004-2014. The national poverty rate declined from 34.4 percent in 2007 to 28.2 percent in 2012.<sup>21</sup>

The growth incidence curve (Figure 4.4) is a graph that lets us see exactly where new income or consumption growth is happening within a population. The x axis represents the income or consumption fifths of the population, from the poorest (0-20) to the richest (80-100). Figure 4.4 shows that, for Tanzania between 2007 and 2012, the largest relative increase in consumption took place among the poorest 20 percent of the population, while growth was more moderate among middle-income groups and actually negative among the top 40 percent.

Clearly, things were getting better for poor people faster than for the more affluent during this period. On the other hand, we shouldn't overestimate the tangible impact of these shifts on poor people's daily living conditions. The consumption growth took place from a low baseline, so the absolute gains were modest. Among the poorest 20 percent of the population, they translated into an additional consumption value of about 4,300 Tanzanian shillings per adult per month, which is equivalent to 10 percent of the cost of a basic monthly basket of consumption needs, or less than US\$3 per month.

Tanzania's poverty and inequality status is bound up with its political history. Since its independence in 1962, Tanzania has undergone a gradual and incomplete transition from a state-led development strategy towards a market-based economy. Today, the private sector is still characterized by high informality and relatively low productivity, and market institutions remain weak. The state still exerts considerable control over markets, particularly in agriculture.<sup>22</sup>

Since the early 2000s, Tanzania's economic expansion has been driven primarily by several rapidly growing sectors, particularly communications, financial services, and construction. However, growth in these sectors did not immediately translate into substantive improvements

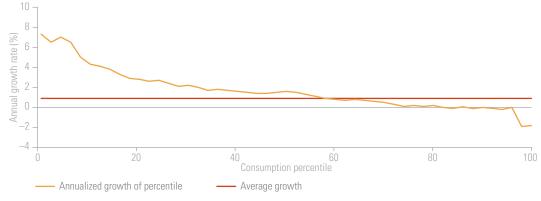


Figure 4.4. Growth incidence curve, Tanzania, 2007–12

Source: World Bank 2015b based on data of the 2007 and 2011/12 household budget survey.

# Countries in widely different circumstances can reduce inequality.

in the living conditions of the poor, the less well educated, or rural residents. After 2007, however, there was a surge in retail trade and manufacturing, particularly agroprocessing of food, beverages, and tobacco. This shift has sped the reduction of inequality by helping larger numbers of less-skilled workers participate in the economy.

Agriculture is still the leading economic sector; it has supported the industrialization process and experienced some diversification toward higher-value cash crops such as cotton, cashews, tea, and coffee, along with an increase in land productivity.

The government's commitment to policies aimed at making income distribution more equitable has contributed to Tanzania's progress. One key component is a national strategy for growth and poverty reduction designed to boost poor people's access to basic services, including health care, primary education, and water and sanitation. A second component is the Tanzania Social Action Fund, which encompasses a conditional cash transfer program, public works, and a community savings scheme. The poorest households use resources from this program to increase savings and invest in livestock, an indication that the program helps households reduce risks and improve livelihoods rather than merely raise consumption.<sup>23</sup> As Tanzania aspires to reach middle-income country status by 2025, the country's leaders have committed to ambitious programs to strengthen the country's human capital, for example by improving educational quality (Box 4.2).

Despite gains in some areas, much still needs to be done to reduce Tanzania's regional disparities and expand access to basic services. Coverage rates are especially low in the supply of electricity and in improved sanitation services.

#### WHAT CAN WE LEARN?

A small number of country experiences will not yield detailed policy prescriptions valid everywhere. However, these countries' diversity lends importance to commonalities that do emerge. And when we analyze the drivers of inequality reduction—not only in Brazil,

Cambodia, and Tanzania, but in many other successful countries—we find several constants.

- Sound macroeconomic foundations: Successful countries have paved the way for greater equality by adhering to disciplined macroeconomic policy. This means, for example, that they have brought inflation under control and maintained manageable public sector deficits. Brazil, Cambodia, and Tanzania all maintained this commitment during their most successful periods of reducing poverty and inequality. They also benefited from favorable global economic conditions, including high commodity prices and booming trade. On the other hand, Brazil's recent loosening of macroeconomic discipline may explain some of the country's struggles to maintain momentum in lowering poverty and inequality.
- Sustained growth: In all countries studied, economic growth has been a critical driver of poverty reduction and shared prosperity. Growth translates into rising average incomes, which in turn explain much of the improvement in poor people's living conditions: more than 50 percent of the decline in poverty in Brazil, for example. Growth by itself doesn't guarantee a more equal distribution of incomes. But without robust, sustained growth in their economies, the countries we've looked at would not have been able to make such impressive progress in reducing poverty and inequality.
- Look to labor markets: Improvements in the functioning of labor markets can help countries translate economic growth into shared prosperity. Labor markets can reduce inequalities by expanding job opportunities in emerging industries, as in Cambodia; or in traditional sectors, as in Tanzania; by offering opportunities to people previously excluded from growth, like low-skilled workers and women in Tanzania and Cambodia; and by narrowing wage gaps among workers, for example between men and women in Cambodia, and between formal and informal workers in Brazil.



Tanzania has made progress over the past decade in getting more children into school, but learning outcomes have faltered as schools cope with larger numbers of students. To make the leap from educational quantity to quality, Tanzania has adopted a new approach to solving education challenges with the country's "Big Results Now in Education" program. The program encourages innovation and seeks to fast-track quality improvements in primary and secondary education, ensuring that students are not just going to school but acquiring the knowledge and skills they need.

When the initiative started in 2014, Tanzanian education leaders identified specific quality bottlenecks in their schools. These included low teaching time, weak performance incentives for teachers, delayed or insufficient resource flows to schools, and absence of student assessments in early grades.

An action plan was developed through a participatory process involving government, donors, and civil society. What emerged was the Big Results Now in Education agenda, which includes financial rewards for school performance, early-grade student assessments, targeted support to lagging students, recognition incentives for teachers, and measures to ensure that funds reach schools in a timely manner.

The Big Results Now in Education program is aligned with other activities aiming to build human capital in Tanzania. They include the expansion of the country's cash transfer program and a campaign to expand access to basic health services at community level.





In all countries studied, economic growth has been a critical driver of poverty reduction and shared prosperity.

Macroeconomic stability, growth, and functioning labor markets form a shared foundation. Very different inequality-reducing policy agendas can be built on that foundation. Brazil increased access to basic services, including education, and aggressively expanded safety nets. Cambodia relied on economic growth driven by emerging labor-intensive industries (garment manufacturing, tourism, construction) to fuel its reduction of extreme poverty and inequality, and has only recently started to focus on safety nets. In Tanzania, diversification in agriculture (toward cash crops) and in the rest of the economy (toward manufacturing and retail commerce) explains much of the country's recent success, while the transition to a market economy remains a work in progress.

We've repeatedly seen that contextual factors like global growth conditions; changing commodity prices and interest rates; domestic political events; and in some cases conflicts or natural disasters can powerfully affect countries' success in reducing inequality. However, we've also observed that, of course, countries do much more

than merely respond to the pressure of external forces. Governments actively shape poverty and inequality in their societies through policymaking.

But what policy choices are the right ones, for countries that want to reduce poverty and inequality?

We've drawn suggestive lessons from three countries. Now it's time to assemble more evidence and answer this question systematically.

What we'll learn is that a set of policies exist that have a proven track record of building poor people's assets, improving their access to essential services, and raising their long-term earning potential. These policies span diverse sectors and operate through multiple pathways. What they have in common is robust evidence that they've helped make poor people less poor in settings around the world. This makes them the most reliable tools we know of to help reduce income inequality.

Let's find out what they are.



EFFECTIVE POLICY OPTIONS EXIST FOR COUNTRIES THAT DECIDE TO TACKLE INEQUALITY. THE BEST EVIDENCE POINTS TO SIX HIGH-IMPACT STRATEGIES. THEY RANGE ACROSS SECTORS FROM CHILD NUTRITION TO RURAL ROAD CONSTRUCTION. THEY ARE NOT MIRACLE CURES. BUT THEY GIVE EVERY COUNTRY OPTIONS FOR ACTION THAT CAN START RIGHT NOW.

# **5. Reducing Inequality: Policies That Work**

We've seen that countries as diverse as Brazil, Cambodia, and Tanzania all cut income inequality substantially during the past decade. And they aren't alone. Recall that, from 2008–2013, among countries with good data, for every country in which inequality worsened by more than 1 Gini point, there were two countries that reduced inequality by 1 Gini point or more.

The next question is: What should other countries be doing if they want similar results?

Poverty and Shared Prosperity 2016 answers that question not with prescriptions, but with a set of evidence-based policy options. The spectrum of domestic policies that can lead to higher living standards among the poor—and that may thus reduce inequality—is large. Our researchers have focused on reviewing the available evidence to identify the measures that have been most rigorously evaluated and *proven*. The results offer all countries, regardless of their resource levels and technical capacities, options for action.

#### **EVIDENCE-BASED STRATEGIES**

Our researchers have identified six high-impact inequalityreducing strategies:

- 1. Early childhood development and nutrition interventions
- 2. Universal health coverage
- 3. Universal access to quality education
- 4. Cash transfers to poor families
- 5. Investing in rural infrastructure
- 6. Tax reform

Some of these measures can rapidly affect income inequality. Others deliver benefits more gradually. None is a miracle cure. But each is supported by robust evidence. And credible versions of some are within the financial and technical reach of virtually all countries.

Adopting the same policies doesn't mean that all countries will get the same results. As the last section taught us, even the same intervention in the same country may yield

varying outcomes over time. However, the policies we've identified have worked repeatedly in different settings around the world.

Let's look more closely at these strategies. We'll highlight evidence of their effectiveness, along with some issues of design and implementation.

#### 1. Investing in a child's early years.

The period from conception to a child's second birthday (the "first 1000 days") is crucial for her developing body and brain. Deprivation during these years can be irreparable, leaving children with permanent cognitive, linguistic and relational deficits. But if children receive adequate nutrition, health care, cognitive stimulation, and affective support during this period, they'll get a powerful boost toward a lifetime of learning and achievement. Ensuring that children from poor households receive sufficient early developmental support, just like their wealthier peers, is among the most decisive actions policymakers can take to level the playing field of economic opportunity in the long run.

Powerful interventions during a child's first five years include: breastfeeding and nutrition programs; parenting skills training to help parents provide an optimal environment for children's physical, emotional, linguistic, and cognitive development; and preschool programs that accelerate children's access to formal learning.

The effects of intervention in this period can last a lifetime. For example, a protein supplementation program for children in Guatemala found that, four decades after the intervention, people who had been program beneficiaries as children had completed more schooling than non-beneficiaries, had higher cognitive skills, earned higher wages, and were more likely to be employed in skilled labor and white-collar jobs. Women beneficiaries had fewer pregnancies and faced less risk of miscarriages and stillbirths than peers who had not received the intervention.<sup>24</sup>

Early childhood development programs produce powerful long-term economic benefits for countries as well as individuals. Researchers have estimated that every dollar spent on preschool, for example, will generate more than six dollars in benefits to society over the following decades. Each Gains in lifetime earnings range from 25 to 60 percent for poor children participating in early child development programs.

The availability of early childhood interventions has also been shown to free women's time from childcare responsibilities, which increases their economic participation. This in turn contributes to reducing gender inequality and hence overall inequality within a society.

But despite recognition of the benefits of early childhood development programs, millions of children in developing countries still lack access to them, with those from the poorest families least likely to be reached. For example, in 21 of 27 low- and middle-income countries surveyed, preschool enrollment rates among the poorest income fifth of the population are less than a third the rates among the richest fifth.<sup>27</sup> We are still failing to fully seize one of the most powerful levers available to reduce inequalities through public policy.

The reality of persistent inequality in children's developmental opportunities is tragically manifested in the global prevalence of stunting: low height for age, a sign of chronic malnutrition. Despite recent progress, nearly one child in four under the age of 5 suffers from stunting. <sup>28</sup> The consequences will affect every aspect of children's lives, from their cognitive development to their school results to their earning potential in adulthood. <sup>29</sup> One expert calls stunting "a life sentence of underachievement." <sup>30</sup>

# The policies we've identified have raised poor people's incomes and improved their lives, contributing to lower inequality.

# 2. Ensuring universal health care access

Countries and international institutions increasingly recognize the importance of universal access to health care in reducing poverty and sharing prosperity that can be sustained

The universal health coverage movement is based on the simple premise that all people should be able to obtain the care they need, when they need it, at a cost they can afford. The ethical and public health arguments for this have long been clear, but until recently, the economic case for universal health coverage was less well understood. This is changing. Recent evidence has underscored the contribution of health to economic growth and the potential for better health care services to accelerate countries' economic progress. One study found that health improvements accounted for about 11 percent of economic growth in selected low-income and middle-income countries from 1970–2000. While the 2013 Lancet Commission on Investing in Health, looking at broad measures of national economic wellbeing, concluded that health investments explain an even larger share of full income growth in selected developing countries.<sup>36</sup> Investing in health lays the foundations of future prosperity.

# Box 5.1. Beating the stunting scourge

Stunted growth and the deprivations it reveals are a cruel form of inequality. How effective are early childhood development programs at reducing these effects? Let's consider a widely studied example, a Jamaican intervention that began in 1986.

Importantly, this program targeted *already growth-stunted toddlers* between 9 and 24 months and provided nutrition supplements and psychosocial stimulation. It included weekly visits from community health workers to teach parenting skills aimed at fostering cognitive and socio-emotional development.<sup>31</sup> The children were divided into four groups: one received stimulation only, one nutrition only, one both, and one neither. Undersized children benefiting from stimulation and nutrition interventions actually caught up with normal sized children after 18 months in the program, a dramatic change compared to undersized children not receiving the intervention (figure 5.1).<sup>32</sup> Twenty years later, researchers followed up with participants and found that groups receiving stimulation (with or without the nutrition supplement) had 25 percent higher earnings than the control group. In fact, this increase in earnings allowed them to catch up completely with a non-stunted comparison group.<sup>33</sup>

Other countries have adapted this approach to local conditions, with largely positive results. A program in Ecuador found significant improvements in children's language, memory, and fine motor skills.<sup>34</sup> In Bangladesh, a randomized controlled trial involved weekly group meetings for new parents, coupled with home visits. It led to significant benefits in cognitive development; the children were happier, more cooperative, more vocal, and more responsive.<sup>35</sup>

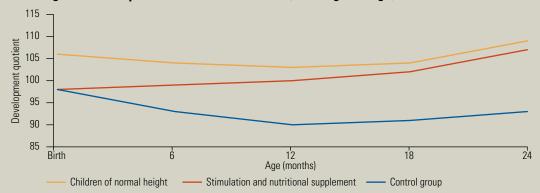


Figure 5.1. Cognitive development of undersized children (low height for age), Jamaica, 1986–87

Source: Grantham-McGregor et al. 1991.

Note: the y-axis reports the development quotient of children involved in the program. Development quotient is defined as the age of the group into which test scores place the child divided by the child's chronological age and multiplying by 100.

As they create enabling conditions for economic growth, universal health coverage reforms also explicitly target drivers of inequality. The 2015 World Bank study *Going Universal* looked at 24 countries that have made progress toward universal health coverage. Results in these countries showed that chronic drivers of social and economic inequality, such as catastrophic health expenditures among the poor, can be reduced by adopting pro-poor financing and delivery strategies in health care.<sup>37</sup>

While scaling up advanced medical services may take years or decades, rapid expansion of simple interventions can have a swift equalizing impact. Low-tech interventions can radically improve poorer people's health and with it their economic productivity and earning potential. For example, on top of the gains for children we saw above, nutritional supplementation can also benefit adults. An experimental study in Indonesia found that male rubber harvesters who received iron supplements increased their incomes by 20 percent in four months, relative to a control group that received no iron. In China, a randomized controlled trial analysis of women cotton mill workers found a 17 percent rise in productivity among women who received 12 weeks of iron supplementation relative to a control group.<sup>38</sup> Basic nutrition and health care interventions for adults sustain and expand the impact of programs that target children. 39

### 3. Education: finding the keys to quality

Disparities in education access and quality are another major driver of income inequality within countries worldwide. They result in persistent, intergenerational poverty gaps. Poor people's lack of educational opportunity leads to differences in life chances, earning opportunities, and political voice, which in turn perpetuate poverty.

Education is the cornerstone of a country's human capital—the fund of knowledge and capabilities required to compete in a digitalized global economy. Thus, chronic inequality in access to a good education does more than crush individual people's hopes. It drags down national economic growth. That's why higher average student scores on international assessments of reading and

mathematics are associated with appreciably higher annual per capita growth rates in countries' gross domestic product (GDP).<sup>42</sup> This finding suggests that boosting educational attainment among the poor will benefit everybody over the long term.

In recent years, countries have made impressive progress in raising school enrollments. Though gaps in access must still be addressed, a key challenge for many countries now is to improve the quality of education. We saw in the last section, for example, how Tanzania is taking on this issue.

Evidence supports a range of interventions to improve educational quality. Some target teacher performance: financial incentives rewarding teacher attendance and better pedagogy may be part of the solution. In an intervention in rural India, salary incentives among teachers helped improve student test scores, particularly if incentives went to teachers individually rather than collectively. Further evidence from rural India shows that student attendance increases if incentives and monitoring are introduced to reduce teacher absenteeism.<sup>43</sup>

Good teaching makes for good learning. But what makes a good teacher? Teachers' effectiveness has been found to depend on features of teacher-student interactions that encompass emotional support and classroom organization, not just teachers' mastery of subject matter. In an Ecuadorian study, teachers' IQ and personality didn't significantly influence learning differences among students. Instead, it was the quality of teacher-student interactions that was found to correlate positively with higher test scores and improvements in children's attention, self-control, and memory skills. In the second state of the second sta

#### 4. Tested success: Cash transfers

Social safety nets are programs designed to provide regular, predictable support to poor and vulnerable people, either in cash or "in kind." (An example of in-kind benefits is food rations.) Some of the best-evaluated safety net interventions are cash transfer programs. These provide regular cash payments to poor families. In some program designs, payments are "conditional": families have to

fulfill certain defined conditions, like children's regular school attendance, to keep receiving benefits. In other programs, payments are unconditional, not tied to any specific responsibility the family has to meet. Both types of transfers can be effective, with unconditional often preferred in settings where administrative capacities and the provision of public services are weak.

Often, a woman in the household, a mother or grandmother, is designated to manage the money disbursed through cash transfers; research shows this usually leads to better outcomes for children. Cash transfers directly raise the income of poor households, immediately narrowing income gaps between poor and wealthier households. But conditional cash transfer programs can do much more.

When cash transfers first gained global attention in the 1990s, leaders were especially interested in their reported capacity to improve poor children's health indicators and educational participation. Recent evidence confirms the programs can deliver impressive results in these areas. We'll cite a handful from dozens of successful examples.

The Nahouri Pilot Project—a two-year cash transfer program in Burkina Faso that had both conditional and unconditional components—is credited with raising primary and secondary enrollment rates by 22 percent among boys. 46 In Cambodia, secondary school attendance rose by 26 percentage points among children whose families received transfers. 47 Evidence from conditional cash transfer programs that limit eligibility to girls, as in Bangladesh and Pakistan, also demonstrates large increases in enrollment (11–13 percentage points).

We've emphasized that countries are increasingly concerned not just with attendance figures, but with educational outcomes. Can cash transfers help here, too? The evidence on this is less robust. But a few studies have found gains in cognitive ability among children who were transfer beneficiaries. In Ecuador and Nicaragua, studies reported significant increases in language and personal-behavioral skills even from brief exposure to the programs. The benefits were greater for children in poorer households. 48

# Box 5.2. Support that adds up: Cash transfers help a young math scholar in the Philippines

Ellen Pagkalinawan remembers a time when she didn't know how to make ends meet for her family, in the poor community of Taguig City, Philippines. A single parent then because her husband was serving time in jail, Ellen worried daily about her family's survival and her children's future. "I was the only one my family could depend on, but I didn't have a job," she recalls.

Today Ellen looks back at how far she and her family have come, especially her youngest daughter, Joanna, who is now in fifth grade in a public school in Metro Manila.

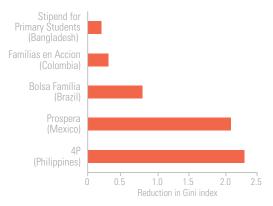
The turning point for the family came when they started receiving benefits from the Pantawid Pamilyang Pilipino Program, the Philippines' conditional cash transfer program. The family's cash grants came on the condition that Joanna attend school regularly.

Launched in 2008, the program has reduced stunting among children in beneficiary families, raised immunization rates, and increased household investments in health and education. Parents are taught how to take better care of their children through regular seminars called Family Development sessions. The program also provides cash grants to poor, pregnant mothers, in exchange for having pre- and post-natal check-ups, with their deliveries attended to by health personnel.

The Pagkalinawan family has experienced the benefits first-hand. According to Ellen, the support kept Joanna in school and motivated her to study. Joanna showed outstanding talent in math, and she has now represented her school in math competitions. She says she gets her talent from her dad, who continued to tutor her when they visited him in prison on weekends. A row of medals hung on a pole just below the ceiling of their home proudly displays Joanna's achievements. "They're all mine," beams the fifth grader, who has earned the admiration of her classmates and teachers at her school. Joanna says she is inspired by both her parents, because "they work hard to send me to school."

Researchers have found that conditional cash transfers have robust effects in reducing inequality. World Bank simulations suggest that the five largest cash transfer programs worldwide reduce countries' Gini indexes by up to 2.3 points (Figure 5.2).

Figure 5.2. Estimated percentage point reduction in Gini attributable to conditional cash transfers, circa 2013



Source: Estimates based on data in ASPIRE (Atlas of Social Protection Indicators of Resilience and Equity) (database), World Bank, Washington, DC, <a href="http://datatopics.worldbank.org/aspire/">http://datatopics.worldbank.org/aspire/</a>.

Of course, safety net interventions are not a panacea. Some cash transfers, both conditional and unconditional, have failed to yield significant results. The idea behind the programs is straightforward, but design specifics and implementation pose challenges. Tough questions include how large the cash benefit will be; which household members will receive the payments (only women?); whether transfers will be conditional or unconditional; and how programs will link to other services, such as health care, education, or job training. The structural trade-off between expanding coverage versus raising the benefit amount paid to each household poses an ongoing challenge for all countries that implement cash transfers, regardless of conditionality.

Social safety net programs have proliferated globally in the last decade, thanks to their demonstrated benefits. Some 40 African countries now have unconditional cash transfers, and 12 have conditional programs.<sup>49</sup> However, despite the rapid expansion, today only a quarter of households in the poorest income fifth worldwide are covered by social safety nets. Figures are even lower in Sub-Saharan Africa (10 percent) and South Asia (20 percent). There's still much room to expand these successful programs and multiply their inequality-reducing impact.

## 5. Investing in rural infrastructure

Large numbers of the world's extremely poor people live in rural areas, including in the populous countries that are critical for reaching the 2030 goals. This means investments to improve living conditions and economic opportunities in rural settings can have powerful equalizing impacts.

#### Roads to equality

Robust transportation infrastructure facilitates growth, poverty reduction, and income equality.<sup>50</sup> Rural roads in particular bring benefits to the poor. With good paved roads, for example, farmers pay lower prices for agricultural inputs and consumer goods. They can also deliver crops to markets more easily and access multiple markets, creating opportunities for higher profits. Better roads also make it easier for people in rural areas to diversify their incomes with non-agricultural jobs.

Rural roads are still far from reaching all who could benefit. About a third of the world's rural population—a billion people—still lives in settlements more than two kilometers away from a paved road.<sup>55</sup>

A word of caution, though: benefits from rural roads don't always flow immediately to the poorest households. In Indonesia, the Philippines and Sri Lanka, the immediate winners from new rural roads were relatively better-off people who were already operating a transport vehicle or able to invest in one quickly.<sup>56</sup> Similarly, while better roads can lower transportation costs for the poorest, they will generally do so only to the extent that competition exists among local transport providers. Effective programs can combine road construction with measures to stimulate competition in services using the new infrastructure.



#### Rural electrification: turning on opportunity

Bringing electricity to rural areas is another infrastructure investment that can fundamentally change poor people's lives and boost their economic participation. For example, electrification can raise rural household incomes by making small, home-based businesses economically viable or more productive. Evidence from Vietnam shows that rural households connected to the electricity grid are nine times more likely to be involved in non-agricultural home production activities than those without electricity. Incomes from nonfarm activities rose an estimated 29 percent among families benefiting from electrification.<sup>57</sup>

Electricity also helps build human capital, through impacts on education and health. The availability of lighting at home expands opportunities for children to study and is associated with higher school attendance and school completion rates, especially among girls.

Electrification has also been shown to promote gender equality in other ways. It frees up women's time from household chores (for example, collecting firewood) and increases their employment. There is evidence that electricity access increases the income controlled by rural women, both through formal employment and the creation of women-run small businesses.<sup>58</sup>

The extent to which electrification benefits the poorest households depends on program design—which reflects policy choices. For example, rural electrification programs may try to recoup construction costs by charging high household connection fees once the new grid is operational. These fees may prevent the poorest rural families from actually accessing the new power supply. But countries are finding solutions to keep electricity affordable for the poorest people. Brazil and Bangladesh both have progressive pricing schemes offering low prices to households that consume only small amounts of electricity. South Africa offers a "poverty tariff" that provides 50 kilowatt-hours per month to poor households free of charge.

### 6. Tax reform

To most people who pay taxes, it's clear that they can have a major role in shaping citizens' financial well-being. Taxes are—or can be—one of government's most powerful instruments for reducing inequalities. That, today, taxes in developing countries often fail to fulfill this role is an obstacle to building more inclusive and prosperous societies. But understanding and overcoming this barrier opens opportunities for greater equity.

One reason why taxes are important to inequality reduction is immediately apparent. Public education, universal health care, and other pro-equality policies must be paid for. The taxes that provide government with resources to fund such programs constitute an essential component of any realistic strategy to promote equal economic opportunity.

In addition to paying for government programs that may reduce income inequality, taxes also have a redistributive role of their own. Taxes can redistribute income in two ways. First, they address the income inequality emerging from labor and capital markets by establishing different tax rates for individuals, households, and firms. Second, they influence the labor, savings, and investment decisions people and businesses make. These decisions in turn affect people's and firms' incomes. For example, high social insurance contributions and payroll taxes have been blamed for making formal work less attractive in Colombia and Mexico.

The impact of taxes on inequality depends in part on the progressivity of each tax: that is, whether it requires people with high incomes to contribute a larger share of their income than people who earn less. But inequality effects also depend on the composition of taxes that support the fiscal system. We can see an example with recent reforms in Chile and Mexico.

Both countries' tax reforms aimed at reducing fiscal deficits, raising revenue to finance social spending, and

enhancing tax equity. Mexico relied on a combination of increases in the value added tax (VAT) and special sales taxes, while also raising its top personal income tax rates. In Chile, the reform focused mainly on corporate taxes. Both reforms were generally progressive. However, in Chile, the top 3 percent of the income distribution bore the brunt. While, in Mexico, the tax changes affected the entire top 40 percent.

In some cases, along with large, well-targeted benefits, taxes can redress market income inequalities dramatically. In the European Union, for example, taxes and transfers together redistribute important shares of market incomes, reducing the Gini index of the 27 member states by an average of 20 points.<sup>59</sup>

Unfortunately, things do not always work this way, especially in developing countries. Indeed, the redistributive role of taxes and fiscal systems is often limited. A recent comprehensive study comparing the tax and benefit systems of 150 countries, including both high-income and developing countries, concludes that tax systems have had a limited overall impact on inequality since 1990. Even more troubling, the average net impact of these systems has actually tended to be inequality-increasing, rather than the opposite. <sup>60</sup>

In many low-income countries, weak administrative capacity and the small size of the overall economic "pie" tend to limit the capacity of tax systems to achieve substantial redistribution and significantly reduce inequality. However, in other countries there is clearly scope to improve tax system performance and progressivity, and this may signal an important front for action against inequality.

The take-away lesson is that choices about government revenue collection and redistribution mold the landscape

of inequality and poverty. A recent analysis suggests that much of extreme poverty could be eliminated in developing countries by reallocating regressive fossil-fuel energy subsidies and excessive military spending to cash transfers. 61

This brings us back full circle to a question we raised at the start of this report: Can the world afford to end extreme poverty? The answer is yes. Are the policy choices required to reduce inequality and end poverty riddled with difficult trade-offs? Yes again.

This doesn't just apply to tax reform. All the policies we've discussed—from parent training to cash transfers to rural electrification—involve trade-offs and implementation challenges. But these policies can also make some of leaders' tough choices easier. For one thing, strong evidence shows they work. Investments in these policies have repeatedly delivered measurable improvements in poor people's incomes, living conditions, and opportunities to achieve a better future.

Many of the policies we've described have also demonstrated a capacity to garner support across a broad social and political spectrum. For example, successive, ideologically diverse governing parties in some Latin American countries have supported and expanded their countries' cash transfer programs. While this has not been true in every case, the policies we've identified generally tend to create space for consensus, rather than to provoke ideological confrontation. This makes them especially suitable for the swift action needed now to reach the 2030 goals.

Now, in closing this report, we'll review some of these policies' other strengths, and highlight some approaches that can further increase their impact.

# We are still failing to seize powerful levers to reduce inequality through public policy.



# 6. Conclusion: Real-World Options to Lower Inequality Now

In addition to the strategies we've reviewed, a wide range of other domestic public policy measures may help reduce income inequality. But we do not yet have as much evidence to fully support their effectiveness. While we have undoubtedly omitted some policies that could make positive contributions, we can be confident about the value of the policies included in this report.

Our approach has focused on identifying measures where the link between policy action and improvements in the living standards of those at the bottom of the income distribution is most robustly documented. We've found six such policies. They have been thoroughly and impartially evaluated in a variety of settings using multiple assessment methods. None is infallible. But we've identified them as the best tools to reduce inequality across multiple contexts.

It's also worth emphasizing again that these are options, not prescriptions. They are possibilities that many governments have found useful, and that they've combined and integrated in multiple ways. Decisions about design, delivery, integration, and sequencing will differ in each setting.

Some readers may say they have already heard about all these interventions. It's true—and that's the point. The policies we've identified have been widely applied and rigorously tested. Many countries, including very poor ones, already have experience delivering these policies

successfully, at least on a small scale. As of 2015, for example, every country in the world had a social safety net program of some kind in place. Thus, these are options that countries can deploy in a politically realistic timeframe. Countries that are determined to act could start rolling out some of these interventions in a matter of months

Poverty and Shared Prosperity 2016 has marshaled decades of evidence and found the policies that have had the most powerful impact on improving poor people's earnings and living conditions, thus reducing income inequality. In the past, most of these interventions were not thought of primarily as anti-inequality measures. Rural road building and even conditional cash transfer programs have not usually been framed primarily as ways to reduce income inequality. But now, decision-makers who make inequality reduction an explicit policy priority have evidence that these policies can work for that purpose.

As we close our discussion, we'll highlight six crosscutting points about the policies reviewed above:

1. Integration raises impact. Many of the policies we've identified can work together synergistically. For example, cash transfer programs with accompanying social outreach measures can powerfully enhance early childhood development outcomes by fostering behavioral changes among parents. This approach is particularly relevant for low-income countries, where early childhood

development services are limited. In Bangladesh, the Shombob pilot cash transfer program provided cash to families conditional on regular growth monitoring of children from birth to 36 months. The program significantly reduced the incidence of wasting among children who were 10 to 22 months old when the intervention started. <sup>62</sup> Another example of integration is rural road projects that also pull in additional investments in electrification, agricultural extension, and improved water and sanitation.

2. More equality can mean more efficiency. There are numerous examples of equalizing policies that do not compromise economic growth. Many can boost growth. Investments in early childhood development, universal health care, and good-quality education have both equity and efficiency benefits. Connecting poor farmers to urban markets can raise individual rural household incomes and simultaneously reduce income gaps across regions. In the effort to reduce inequality, policy choices are less often restricted by an imbalance in the equity-efficiency trade-off than by structural tradeoffs connected with implementation. With conditional cash transfers, for example, we found tension between expanding coverage and raising the amount paid to each family. In the case of health and education, the tradeoff comes between rapidly increasing access to services and ensuring service quality.

3. Equalizing interventions are not a luxury reserved for middle-income countries or for global boom times. We've seen numerous examples of successful early childhood development programs, conditional cash transfers, health care coverage expansion, and other inequality-busting interventions in low-income countries. These examples should dispel any notion that only middle-income countries can afford equalizing policies. Similarly, many countries have maintained and even increased their commitment to pro-equality policies during economic downturns and crisis events. For example, both the Philippines and Ethiopia have successfully ramped up their cash transfer programs during extreme weather crises to deliver support to many more people.

The delivery architecture put in place by pro-equality programs strengthened national resilience and helped speed recovery.<sup>63</sup>

4. We can expand proven solutions. As we saw, only 10 percent of poorest-fifth households in Sub-Saharan Africa are currently covered by any kind of safety net. The average size of safety net transfers also remains very low, especially in the poorest countries. The average transfer in the world's five largest conditional cash transfer programs is only equivalent to about 15 percent of what an average very poor family consumes.<sup>64</sup> If we want to take full advantage of safety nets' transformative capability, we need to expand these programs and deliver bigger benefits to more people. The same is true for early childhood development programs, which experts concur are among the highest-yield investments a country can make in its own economic future. Today, over 200 million children under the age of 5 in developing countries still lack access to these interventions. There is still a vast untapped potential for reducing poverty and inequality using these strategies.

5. Long-term solutions engage the private sector and strengthen it. The best way for poor people to leave poverty for good is for them to get good, well-paying jobs. The vast majority of those jobs will be created by the private sector. As we close this report, it's important to recall that many of the government policies discussed above: (1) depend on the private sector for their ultimate success; and (2) can act powerfully in the private sector's interest. Road construction employs private contracting companies directly. Electrification creates new markets for goods and services. As government early childhood, health, and education services improve a country's human capital, they provide firms with their most critical input: a skilled, competitive workforce. Finally, we've seen how cash transfers and rural infrastructure can unleash poor people's own entrepreneurship, helping them become small business owners who may one day create jobs for others.

# There is a vast untapped potential for reducing poverty and inequality using proven strategies.

6. Reaching the goals depends on strengthening civil society voice and participation. Reducing inequality involves balancing the interests of social groups with different levels of power and resources. This fact underscores the critical role of organized civil society in achieving the goals set out in this report. From local community alliances, to religious associations, to international non-governmental organizations, civil society has long been at the forefront of action to combat high inequality and end extreme poverty. Civil society roles include direct service provision; education; advocacy at multiple levels; and the production of knowledge through research. The public policy options presented in this report offer entry points for practical collaboration among government, civil society, and the private sector. We see such collaboration in many settings where these policies have been successfully implemented. This collaboration involves reconciling tensions and divergent priorities. Moments of conflict, far from suggesting that engagement should stop, underscore the importance of civil society participation and voice.

In conclusion, this discussion has shown us some important facts. We know that there are public policies that reduce inequality. We know that all countries — even the poorest — can deliver these programs effectively. We've seen that many countries are already doing so, building experience and consolidating know-how as they go. We still have to solve tough questions around program design, sequencing, and implementation in all countries. We have no standard answers. But based on our findings, leaders should know that when they commit to reducing inequality — whether it's by delivering cash transfers, breastfeeding promotion, rural electrification, or other proven interventions — they can achieve results. sometimes dramatically. Inequality is not an unsolvable mystery. It can be reduced, creating more stable, more inclusive, and more prosperous societies. And as countries take on inequality, they will make greater strides toward the global goal of ending extreme poverty by 2030.

# **Endnotes**

- The calculation is in net terms. Of the 114 million reduction in the number of the poor, 31 million correspond to methodological changes implemented in China's 2013 national survey, which, for the first time, incorporated imputed rents and replaces the previously separated rural and urban surveys. (See *Poverty and Shared Prosperity 2016*, box 2.1 and annex 2B.)
- 2. Castañeda et al. (2016).
- 3. This subsection draws on Newhouse, Suarez-Becerra, and Evans (2016). Estimates of the number and proportion of children living in extreme poverty depend critically on what we assume about intrahousehold economies of scale. An analysis based on per capita income or consumption, as in this report, generates an "upperbound" estimate of the prevalence of children in poverty. This means our figures represent the highest number and proportion of children living in extreme poverty that would fit with the available evidence.
- WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/worlddevelopment-indicators.
- 5. Zucman (2015).
- Reported changes in the Gini refer to 2008–12 in Cambodia and 2007– 14 in Cameroon. For an explanation of the Gini index, see page 13.
- World Health Organization Commission on Social Determinants of Health (2008).
- 8. Recent research by the International Monetary Fund has claimed that lower inequality in disposable income is associated with more rapid and more durable growth for a given level of redistribution. See Ostry, Berg, and Tsangarides (2014); also see Dabla-Norris et al. (2015). The robustness of these findings has, however, been questioned because of the presence of weak instruments in the econometric technique, a pervasive issue in this field of research. See Kraay (2015). World Development Report 2006: Equity and Development provides a strong empirical underpinning to the claim that interventions that narrow inequality—whether intended or not—can also be good for growth and long-term prosperity. See World Bank (2005).
- 9. Inequality is a multi-faceted concept, which can be measured in many ways. In general, it is possible to observe complex changes in an income distribution such that the gap between the bottom 40 and the average falls, but some other measure of inequality rises (say, because it is more sensitive to income gaps at the top of the distribution). When using the most common inequality measures (such as the Gini coefficient), such discrepancies are empirically rare. In Poverty and Shared Prosperity 2016, we ignore this theoretical possibility and equate a falling gap between the bottom 40 and the mean with "falling inequality."
- 10. Székely and Mendoza (2015).
- 11. Cord et al. (2016), Gasparini, Cruces, and Tornarolli (2016).
- 12. Barros et al. (2010); Azevedo et al. (2013); Lustig et al. (2013), Ferreira et al. (2014)
- 13. World Bank (2016f).
- 14. López-Calva and Rocha (2012).
- 15. Ferreira et al. (2014).
- 16. Barros et al. (2010); Osorio and de Souza (2012).
- 17. World Bank (2014a, 2016b).
- 18. World Bank (2016a); ADB (2014).
- 19. There are also issues of comparability among surveys in Tanzania stemming from changes in the survey design and methodological improvements implemented during the 2011/12 Household Budget Survey (HBS). World Bank (2015b) address these issues using different methods, including the reevaluation of the consumption aggregates for HBS 2007 using the same approach as in 2011/12, as well as nonparametric and parametric imputation procedures. The different adjustment methods support the main results presented here.
- 20. World Bank (2015b).

- 21. The poverty figures are for Tanzania Mainland only and come from the Household Budget Survey data (HBS) for 2007 and 2011/12, they are estimated using, respectively, the national basic needs poverty line of TSh 36,482 per adult per month and the national food poverty line of TSh 26,085 per adult per month. World Bank (2016e).
- 22. World Bank (2016d).
- 23. World Bank (2014b).
- 24. Hoddinott et al. (2011).
- 25. Heckman et al. (2010, 2013)
- Black Morris and Bryce (2003); Heckman (2011); Hoddinott et al. (2011)
- 27. Alderman (2011). The study refers to data around 2005.
- 28. UNICEF (2016).
- 29. Grantham-McGregor et al. (2007)
- 30. Thurow (2016).
- 31. Gertler et al. (2014)
- 32. Grantham-McGregor et al. (1991)
- 33. Gertler et al. (2014.)
- 34. Rosero and Oosterbeek (2011); Berlinksi and Schady (2015).
- 35. Hamadani et al. (2006); cited in Alderman (2011).
- 36. Jamison et al. (2013)
- 37. Cotlear et al. (2015).
- 38. Thomas et al. (2006); Li et al. (1994).
- 39. UNICEF (2016).
- 40. World Bank (2016g).
- 41. World Bank (2006).
- See Hanushek and Woessmann (2008, 2010); Schultz (1961); Lucas (1988); Becker, Murphy, and Tamura (1990); Rebelo (1991); Romer (1994).
- See Bau and Das (2016). Some evidence gathered in schools in the United States suggests there is no causal link between teacher incentives and student outcomes. See Springer et al. (2012); Fryer (2013).
- 44. Araujo et al. (2016).
- 45. Teacher behavior is measured by Classroom Assessment Scoring System scores, a protocol that measures teacher behavior in three domains: emotional support, classroom organization, and instruction support. Each domain captures different dimensions, such as, for example, positive or negative classroom atmosphere, teacher sensitivity and regard for the student perspective. Each dimension is given a score of 1–6, from which a total score is obtained. (See Araujo et al. 2016.) The attention, self-control, and memory effects are distinct from the effects of classroom atmosphere and parental influence.
- 46. Akresh, de Walque, and Kazianga (2015).
- 47. Fizsbein and Schady (2009).
- 48. See Schady and Araujo (2006) for evaluation of *Bono de Desarrollo* in Ecuador; Macours and Vakis (2008) for *Atención a Crisis* and Maluccio and Flores (2005) for *Red de Protección Social* (both in Nicaragua). Thus the benefit from the program is limited to enrollment and additional schooling years, with no gains in quality of learning but some on cognitive abilities. The lack of quality gains is also supported by the very small increase in wages of students who have benefitted from CCT-aided school enrollment. Behrman, Parker, and Todd (2005) find that children exposed to the *Oportunidades* program for two more years earn wages that are about 2 percent higher than the wages earned by other children.
- 49. World Bank (2015a).
- 50. Estache, Foster, and Wodon (2002); World Bank (2006); Calderón and Servén (2008); Seneviratne and Sun (2013).
- 51. Mu and van de Walle (2011).
- 52. Khandker, Bakht and Koolwal (2009).
- 53. Khandker, Bakht, and Koolwal (2009)

- 54. Khandker, Bakht, and Koolwal (2009).
- 55. World Bank (2015a).
- 56. Hettige (2006).
- 57. Khandker, Barnes, and Samad (2013).
- 58. Grogan and Sadanand (2013).
- Large country variations are observed across the EU. Reductions in market inequalities are large in Western Europe, but much more limited in the Baltic States. Avram, Levy, and Sutherland (2014); De Agostini, Palaus, and Tasseva (2015).
- See Martinez-Vasquez, Vulovic, and Moreno Dodson (2014). Taxes are responsible for an average increase of 1.5 percent in the Gini index of market incomes since 1990 in the sample of countries considered.
- 61. Hoy and Sumner (2016).
- 62. Ferré and Sharif (2014); World Bank (2015a).
- 63. Hallegatte et al. (2015).
- 64. The value of the average benefit relative to the average income of the poorest households varies widely, from 2.8 percent in Bangladesh to 22.5 percent in Mexico. See World Bank (2015a).

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# **Annex: Poverty and Shared Prosperity Data**

Data current as of September 20, 2016

# **Part 1: Poverty Tables**

Note on terms: The headcount ratio designates the proportion of the population that lives below a defined poverty line: here, the international poverty line of US\$1.90 per day. The poverty gap measures the intensity, or depth, of poverty. It shows the average shortfall of poor people's incomes below the poverty line, as a percentage of the poverty line itself. Larger values of the poverty gap indicate more severe poverty.

Table 1.1. World and Regional Poverty Estimates, 2013

Region	Headcount ratio, %	Poverty gap, %	Squared poverty gap, %	Poor, millions
East Asia and Pacific	3.5	0.7	0.2	71.0
Eastern Europe and Central Asia	2.3	0.6	0.3	10.8
Latin America and the Caribbean	5.4	2.6	1.8	33.6
Middle East and North Africa <sup>a</sup>	_	_	_	_
South Asia	15.1	2.8	0.8	256.2
Sub-Saharan Africa	41.0	15.9	8.4	388.7
Total, six regions	12.6	3.8	1.8	766.6
World	10.7	3.2	1.5	766.6

Source: Latest estimates based on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

Note: Poverty is measured using the US\$1.90-a-day 2011 purchasing power parity (PPP) poverty line. The six region total includes all developing regions. World includes all developing regions, plus industrialized countries. Definitions of geographical regions are those of PovcalNet. — = not available.

a. Estimates on the Middle East and North Africa are omitted because of data coverage and quality problems. The population coverage of available household surveys is too low; the share of the total regional population represented by the available surveys is below 40 percent. There are also issues in the application of the 2011 PPP U.S. dollar to the region. These issues revolve around the quality of the data in several countries experiencing severe political instability, breaks in the consumer price index (CPI) series, and measurement or comparability problems in specific household surveys. These caveats suggest that further methodological analyses and the availability of new household survey data are both needed before reliable and sufficiently precise estimates can be produced.

Table 1.2. Historical Trends, World Extreme Poverty Estimates, 1990–2013

Year	Poverty line, PPP US\$/day	Headcount ratio, %	Poverty gap, %	Squared poverty gap, %	Poor, millions	Population, millions
1990	1.9	35.0	12.2	5.8	1,850.1	5,283.1
1993	1.9	33.5	11.6	5.5	1,855.4	5,537.8
1996	1.9	28.8	9.4	4.4	1,666.3	5,788.6
1999	1.9	28.1	9.2	4.3	1,692.9	6,034.9
2002	1.9	25.3	8.1	3.8	1,588.1	6,274.7
2005	1.9	20.4	6.2	2.9	1,327.5	6,514.0
2008	1.9	17.8	5.3	2.4	1,205.6	6,758.3
2010	1.9	15.6	4.6	2.1	1,077.5	6,923.7
2011	1.9	13.5	4.0	1.8	946.3	7,006.9
2012	1.9	12.4	3.7	1.7	880.9	7,089.5
2013	1.9	10.7	3.2	1.5	766.6	7,176.1

Source: Most recent estimates, based on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

Table 1.3. Historical Trends, Regional Poverty Headcount Ratios, 1990–2013
Percent

Region	1990	1993	1996	1999	2002	2005	2008	2010	2011	2012	2013
East Asia and Pacific	60.2	52.4	39.4	37.2	29.0	18.4	14.9	11.1	8.4	7.1	3.5
Eastern Europe and Central Asia	4.0	6.9	7.8	8.1	6.3	5.1	3.3	3.0	2.7	2.6	2.3
Latin America and the Caribbean	15.8	14.4	14.2	13.9	13.0	9.8	7.1	6.5	6.0	5.6	5.4
Middle East and North Africa	6.0	5.6	4.8			3.0	2.8				
South Asia	44.6	44.8	40.3		38.5	33.6	29.4	24.6	19.9	17.5	15.1
Sub-Saharan Africa	54.3	58.4	57.7	57.1	55.6	50.0	47.0	45.7	44.1	42.6	41.0
World	35.0	33.5	28.8	28.1	25.3	20.4	17.8	15.6	13.5	12.4	10.7

Source: Most recent estimates, based on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

Table 1.4. Historical Trends, Number of Extreme Poor, by Region, 1990–2013 Millions

Region	1990	1993	1996	1999	2002	2005	2008	2010	2011	2012	2013
East Asia and Pacific	965.9	876.8	683.8	669.0	535.1	349.2	288.2	218.2	166.9	141.8	71.0
Eastern Europe and Central Asia	18.2	32.2	36.3	37.8	29.3	23.8	15.5	14.2	13.0	12.2	10.8
Latin America and the Caribbean	71.2	68.3	70.7	72.2	70.6	55.6	41.9	38.8	36.4	34.1	33.6
Middle East and North Africa	13.7	13.6	12.4			9.2	6.7				
South Asia	505.0	541.5	517.0		552.4	508.3	464.7	400.3	327.9	293.3	256.2
Sub-Saharan Africa	276.1	323.1	346.1	371.3	391.3	381.5	389.1	399.1	395.7	393.1	388.7
World	1,850.1	1,855.4	1,666.3	1,692.9	1,588.1	1,327.5	1,205.6	1,077.5	946.3	880.9	766.6

Source: Most recent estimates, based on 2013 data using PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

# **Part 2: Shared Prosperity Tables**

Note on terms: Shared prosperity is assessed by income growth among the poorest 40 percent of the population. The tables below provide data on changes in bottom-40 income (or consumption) and in average income for regions and countries. The difference between the bottom-40 income growth rate and the rate of growth in average income is called the "shared prosperity premium." A positive shared prosperity premium indicates that incomes among the poorest 40 percent of people are growing faster than the average for that population. The Palma premium is another way of measuring how poorer people are faring, relative to the more affluent. It represents the difference in the rates of income or consumption growth between the poorest 40 percent and the richest 10 percent of people—those at the top of the income distribution.

Table 2.1. Shared Prosperity, Circa 2008–2013

Region	Countries, number	Population, millions	Population, %	•	Countries,		Countries, SP premium > 0, number	Population- weighted average, SP premium, pp <sup>a</sup>	Countries, Palma premium, > 0 (pp), number <sup>b</sup>
East Asia and Pacific	8	2006.2	94	0	8	5.0	7	0.7	7
Eastern Europe and Central Asia	24	479.1	89	10	15	1.5	12	0.3	14
Latin American and the Caribbean	16	622.0	86	3	15	4.1	12	1.4	12
Middle East and North Africa	2	350.1	32	1	2	1.8	1	2.7	1
South Asia	4	1,698.1	86	0	4	3.7	3	-0.4	2
Sub-Saharan Africa	9	948.3	23	1	8	2.7	4	0.6	5
Industrialized countries	20	1,072.4	68	10	8	-1.0	10	0.2	11
World	83	7,176.1	75	25	60	2.0	49	0.4	52

Source: GDSP (Global Database of Shared Prosperity), World Bank, Washington, DC, http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity. Note: SP = shared prosperity = growth in average income or consumption of bottom 40. pp = percentage point. Population coverage refers to 2013.

a. Population-weighted shared prosperity premiums are relative to the covered population in each region or in the world.

b. The Palma premium (p) is here defined as the difference between the growth in the mean of the bottom 40 and the growth in the mean of the top decile ( $p = g_{40} - g_{710}$ ).

Table 2.2. Shared prosperity estimates by country based on the latest surveys, by country, circa 2008–2013

			Annualized growt	h in mean consumption	Mean consumption or income per capita, US\$ a day PPP°					
				per capita, % <sup>c, d</sup>		Baseline	Most	recent year		
Country	Period <sup>a</sup>	Туре	Bottom 40	Total population	Bottom 40	Total population	Bottom 40	Total population		
Albania	2008–12	С	-1.22	-1.31	4.28	7.81	4.08	7.41		
Argentina <sup>e</sup>	2009-14	i	1.51	-0.43	6.45	19.70	6.95	19.28		
Armenia	2009-14	С	0.69	1.64	3.20	5.76	3.31	6.25		
Austria	2007-12	i	0.37	0.39	27.78	52.68	28.31	53.73		
Belarus	2009-14	С	8.46	8.16	7.54	13.16	11.32	19.48		
Belgium	2007-12	i	1.14	0.44	25.79	46.88	27.29	47.92		
Bhutan	2007-12	С	6.53	6.47	2.58	5.91	3.54	8.08		
Bolivia	2009-14	i	6.32	4.78	3.09	10.83	4.20	13.69		
Brazil	2009-14	i	6.14	4.07	3.96	15.18	5.34	18.53		
Bulgaria	2007-12	i	1.29	1.37	6.77	14.70	7.22	15.73		
Cambodia	2008-12	С	6.52	3.89	2.39	4.60	3.08	5.36		
Cameroon	2007-14	С	1.33	3.71	1.56	4.08	1.71	5.27		
Chile	2009-13	i	5.57	4.13	6.16	20.14	7.65	23.68		
China	2008-12	С	8.87	8.23	_	_	_	_		
Colombia	2009-14	i	5.80	3.97	3.00	12.20	3.98	14.82		
Congo, Dem. Rep.	2004-12	С	9.58	9.63	0.29	0.76	0.58	1.51		
Congo, Rep.	2005-11	С	3.07	4.52	1.00	2.96	1.20	3.86		
Costa Rica	2010-14	i	1.23	2.24	6.62	20.34	6.95	22.23		
Croatia	2009-12	i	-5.40	-5.35	9.97	20.33	8.44	17.24		
Cyprus	2007-12	i	-2.75	-1.58	27.10	50.79	23.57	46.91		
Czech Republic	2007-12	i	0.15	0.37	15.70	25.81	15.82	26.30		
Denmark	2007-12	i	-0.75	0.32	28.65	48.29	27.58	49.05		
Dominican Republic	2009-13	i	1.42	-0.18	4.02	12.48	4.26	12.40		
Ecuador	2009-14	i	7.25	4.38	2.98	9.58	4.23	11.88		
El Salvador	2009-14	i	3.74	1.35	3.28	9.32	3.94	9.96		
Estonia	2007-12	i	-2.10	-1.24	12.84	24.56	11.55	23.07		
Finland	2007-12	i	1.55	1.07	26.72	46.79	28.86	49.35		
France	2007-12	i	0.19	0.39	26.58	51.51	26.83	52.53		
Georgia	2009-14	С	4.58	4.00	2.11	5.41	2.64	6.58		
Germany	2006-11	i	1.35	0.14	26.51	52.41	28.35	52.79		
Greece	2007-12	i	-10.02	-8.40	16.32	34.68	9.63	22.36		
Honduras	2009-14	i	-2.53	-3.13	2.48	9.11	2.18	7.77		
Hungary	2007-12	i	-1.93	-0.67	10.89	19.32	9.88	18.69		
Iceland	2007-12	i	-3.85	-4.56	33.07	58.69	27.17	46.47		
India	2004-11	С	3.20	3.70	1.46	2.81	1.82	3.63		
Indonesia	2011-14	С	3.84	3.41	2.11	4.82	2.36	5.33		
Iran, Islamic Rep.	2009-13	С	3.05	-1.20	6.57	17.41	7.41	16.59		
Iraq	2007-12	С	0.46	1.11	3.97	7.00	4.06	7.41		
Ireland	2007-12	i	-4.38	-3.88	26.17	50.03	20.92	41.05		
Italy	2007-12	i	-2.86	-1.82	21.24	43.54	18.37	39.72		
Kazakhstan	2008-13	С	6.65	5.59	5.17	9.13	7.13	11.99		
Kyrgyz Republic	2009–14	С	0.40	-1.09	3.08	5.57	3.14	5.28		
Lao PDR	2007-12	С	1.53	2.24	1.90	3.84	2.05	4.29		
Latvia	2007-12	i	-3.04	-4.33	9.69	22.38	8.31	17.94		
Lithuania	2007-12	i	-1.77	-1.16	10.14	20.99	9.28	19.79		
Luxembourg	2007-12	i	-2.67	-0.54	38.29	72.80	33.44	70.85		

Table 2.2. Shared prosperity estimates by country based on the latest surveys, by country, circa 2008–2013 (continued)

			Annualized growth	n in mean consumption	Mean co	nsumption or incon	ne per capita,	US\$ a day PPP°
				per capita, % <sup>c, d</sup>	В	aseline	Most	recent year
Country	Period <sup>a</sup>	Type⁵	Bottom 40	Total population	Bottom 40	Total population	Bottom 40	Total population
Macedonia, FYR	2009–13	- 1	4.98	0.73	3.36	9.46	4.08	9.74
Mauritius	2006-12	С	0.76	0.86	5.31	11.02	5.54	11.56
Mexico	2010-14	i	0.66	0.96	3.42	10.29	3.51	10.69
Moldova	2009-14	С	4.84	1.32	4.33	8.76	5.48	9.35
Mongolia	2010-14	С	8.03	7.05	4.01	8.05	5.46	10.58
Montenegro	2009-14	С	-2.72	-2.27	8.64	16.27	7.53	14.51
Netherlands	2007-12	i	-0.01	-0.99	28.06	51.72	28.05	49.21
Nicaragua	2009-14	i	4.71	4.72	2.62	7.54	3.30	9.50
Norway	2007-12	i	3.17	2.39	33.37	58.45	39.00	65.77
Pakistan	2007-13	С	2.81	2.53	2.07	3.81	2.44	4.42
Panama	2009-14	i	4.14	3.58	4.83	17.38	5.91	20.72
Paraguay	2009-14	i	8.01	8.16	3.80	12.68	5.59	18.77
Peru	2009-14	i	5.78	3.11	3.71	11.96	4.91	13.94
Philippines	2006-12	i	1.71	1.22	2.17	6.42	2.40	6.91
Poland	2007-12	i	2.57	2.26	9.68	19.97	10.98	22.34
Portugal	2007-12	i	-1.99	-2.14	12.89	27.97	11.65	25.11
Romania	2007-12	i	2.59	1.62	3.71	8.80	4.21	9.54
Russian Federation	2007-12	С	5.86	5.27	7.60	19.42	10.10	25.11
Rwanda	2010-13	С	0.04	-0.57	0.92	2.76	0.93	2.71
Senegal	2005-11	С	-0.01	0.54	1.30	3.06	1.29	3.16
Serbia	2008-13	С	-1.73	-1.13	7.60	13.44	6.96	12.70
Slovak Republic	2007-12	i	5.48	6.67	12.46	20.27	16.27	28.00
Slovenia	2007-12	i	-0.84	-0.28	20.64	33.44	19.79	32.97
Spain	2007-12	i	-1.32	0.00	17.14	36.25	16.04	36.25
Sri Lanka	2006-12	С	2.21	1.66	2.96	6.80	3.37	7.51
Sweden	2007-12	i	2.04	2.25	26.22	45.14	29.01	50.46
Switzerland	2007-12	i	2.43	0.93	30.49	63.18	34.38	66.19
Tanzania <sup>f</sup>	2007-11	С	3.36	1.42	1.05	2.49	1.23	2.67
Thailand	2008-13	С	4.89	3.47	5.15	12.45	6.54	14.77
Togo	2011–15	С	2.76	0.82	0.89	2.63	0.99	2.71
Turkey	2008-13	С	3.18	3.54	5.94	14.29	6.94	17.01
Uganda	2009–12	С	3.59	1.37	1.28	3.25	1.42	3.39
Ukraine	2009-14	С	3.93	3.29	6.51	10.74	7.89	12.63
United Kingdom	2007-12	i	-1.67	-2.78	23.89	51.10	21.96	44.38
United States	2007-13	i	-0.16	-0.43	_	_	_	_
Uruguay	2009–14	i	5.48	2.95	7.33	21.72	9.56	25.12
Vietnam	2010-14	С	4.51	2.00	3.29	7.61	3.93	8.24

Source: GDSP (Global Database of Shared Prosperity), World Bank, Washington, DC, http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity. Note: All estimates are in 2011 PPP U.S. dollars. — = not available.

a. Refers to the years in which the underlying household survey data were collected. In cases in which the data collection period bridged two calendar years, the first year in which data were collected is reported. The range of years refers to two survey collections, the most recent survey within the range and the nearest survey collected five years before the most recent survey. For the final year, the most recent survey available between 2011 and 2015 is used. Only surveys collected between three and seven years before the most recent survey are considered for the earlier survey.

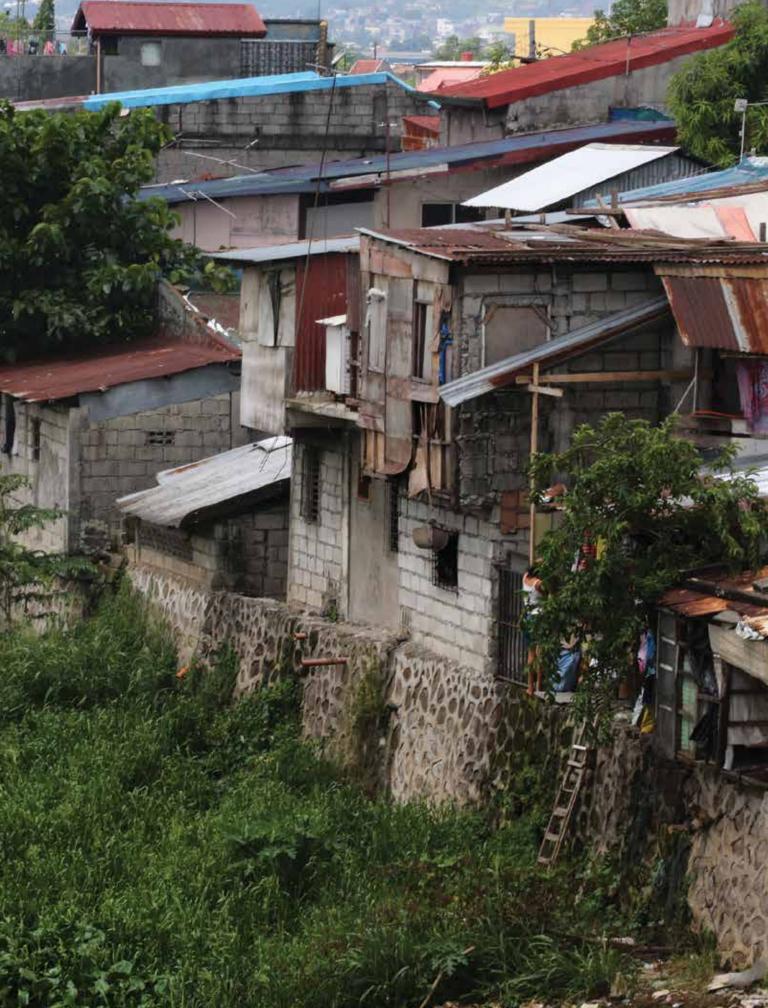
b. Denotes whether the data reported is based on consumption (c) or income (i). Capital letters indicate that grouped data are used.

c. Based on real mean per capita consumption or income measured at 2011 PPP using data in PovcalNet (online analysis tool), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/. On some countries, the means are not reported because of grouped or confidential data.

d. The annualized growth rate is computed as (Mean in year 2/Mean in year 1)^(1/(Year 2 - Year 1)) - 1.

e. Covers urban areas only.

f. Ex ante evaluation of these surveys suggest that they are not comparable. However, the poverty assessment attempted to create a more comparable series and also applied additional methodological techniques to establish comparability and consistency among welfare aggregates.



The World Bank Group's annual Poverty and Shared Prosperity series documents progress towards the goals of ending extreme poverty worldwide by 2030 and boosting shared prosperity, measured by income levels among the poorest 40 percent of people in every country.

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