

Overview

Two complementary goals to leave no one behind

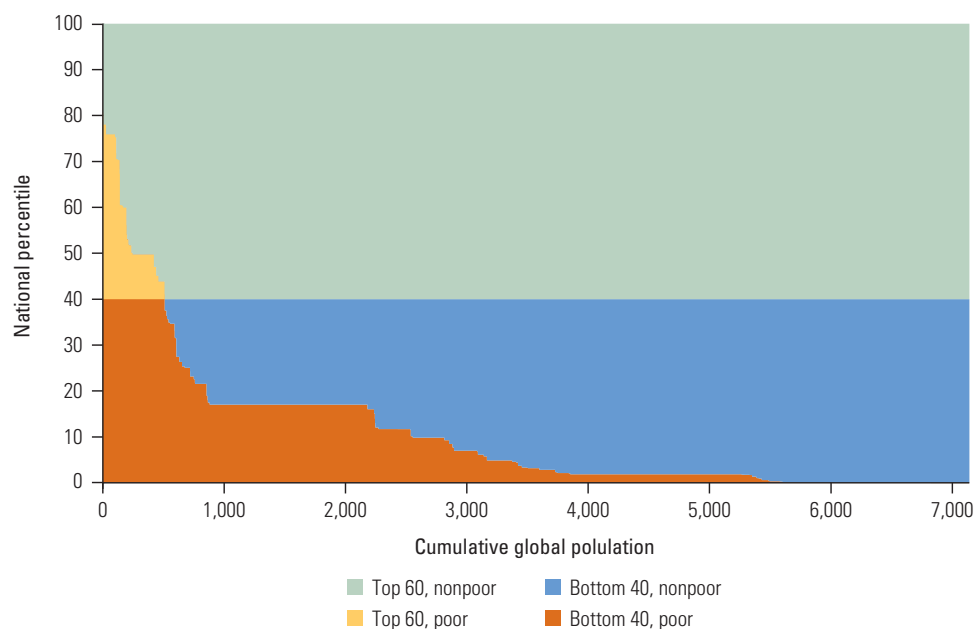
On April 20, 2013, the Board of Executive Directors of the World Bank adopted two ambitious goals: end global extreme poverty and promote shared prosperity in every country in a sustainable way. This implies reducing the poverty headcount ratio from 10.7 percent globally in 2013 to 3.0 percent by 2030 and fostering the growth in the income or the consumption expenditure of the poorest 40 percent of the population (the bottom 40) in each country. These two goals are part of a wider international development agenda and are intimately related to United Nation's Sustainable Development Goals 1 and 10, respectively, which have been adopted by the global community.

Each goal has an intrinsic value on its own merits, but the two goals are also highly complementary. Take the example of a low-income Sub-Saharan African country with a high poverty headcount ratio and an upper-middle-income country in Eastern Europe or Latin America with low levels of extreme poverty, but rising concerns about inequality. Ending extreme poverty is especially relevant in the former, while expanding shared prosperity is especially meaningful in the latter. The complementarity of the two goals also derives from the composition of the world's poor and bottom 40 populations. At a global scale, while 9 in every 10 of the extreme poor were among the national bottom 40 in 2013, only a quarter of the bottom 40 were among the extreme poor (both cases refer to the orange area in figure O.1).

This complementarity has three important implications. First, by choosing these two goals, the World Bank focuses squarely on improving the welfare of the least well off across the world, effectively ensuring that everyone is part of a dynamic and inclusive growth process, no matter the circumstances, the country context, or the time period. Second, monitoring the two goals separately is necessary to understand with precision the progress in achieving better living conditions among those most in need. Third, policy interventions that reduce extreme poverty may or may not be effective in boosting shared prosperity if the two groups—the poor and the bottom 40—are composed of distinct populations.

To understand more clearly the progress toward the achievement of the goals, the World Bank is launching the annual *Poverty and Shared Prosperity* report series, which this report inaugurates. The report series will inform a global audience comprising development practitioners, policy makers, researchers, advocates, and citizens in general with the latest and most accurate estimates on trends in global poverty and shared prosperity. Every year, it will update information on the global number of the poor, the poverty headcount ratio worldwide, the regions that have been more successful or that have been lagging in advancing toward the goals, and the enhancements in monitoring and measuring poverty. In addition, it will feature a special

FIGURE 0.1 Distribution of the Extreme Poor, the Nonpoor, the Bottom 40, and the Top 60, 2013



Source: Inspired by Beegle et al. 2014 and updated with 2013 data.

Note: The figure has been constructed from vertical bars representing countries sorted in descending order by extreme poverty headcount ratio (from left to right). The width of each bar reflects the size of the national population. The figure thus illustrates the situation across the total global population.

focal theme. This year, the focal theme is inequality.

Inequality matters for achieving the goals, but also for other reasons

Despite decades of substantial progress in boosting prosperity and reducing poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower odds of receiving key health care interventions.¹

Such inequalities are associated with high financial cost, affect economic growth, and generate social and political burdens and barriers. But leveling the playing field is also an issue of fairness and justice that resonates across societies on its own merits.

These substantive considerations highlight the importance of directing attention to the problem of inequality.

There are other reasons too. Sustaining the rapid progress in reducing poverty and boosting shared prosperity that has been achieved over the last 25 years is at risk because of the struggles across economies to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating extreme poverty by 2030—which is likely to become more difficult as we approach more closely to it—might not be achieved without accelerated economic growth or reductions in within-country inequalities, especially among those countries with large concentrations of the poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two.² Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution. It follows that, to reach the goals, efforts to fos-

ter growth need to be complemented by equity-enhancing policies and interventions.

Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers ample room for taking on inequality. Doing so without compromising growth is not only possible, but can be beneficial for poverty reduction and shared prosperity if done smartly. A trade-off between efficiency and equity is not inevitable. The evidence that equity-enhancing interventions can also bolster economic growth and long-term prosperity is wide-ranging. To the extent that such interventions interrupt the intergenerational reproduction of inequalities of opportunity, they address the roots and drivers of inequality, while laying the foundations for boosting shared prosperity and fostering long-term growth. Reducing inequalities of opportunity among individuals, economies, and regions may also be conducive to political and societal stability and social cohesion. In more cohesive societies, threats arising from extremism, political turmoil, and institutional fragility are less likely.

The key question the report addresses: what can be done to take on inequality?

This report addresses the issue of inequality by documenting trends in inequality, identifying recent country experiences in successfully reducing inequality and boosting shared prosperity, examining key lessons, and synthesizing the evidence on public policies that lessen inequality by reducing poverty and promoting shared prosperity.

Inequality exists in many dimensions, and the question “inequality of what?” is essential. The report focuses on inequalities in income or consumption expenditures, but it also analyzes the deprivations among the extreme poor and the well-being of the bottom 40. However, it does not address all types of inequality, for example, inequality related to ownership of assets. This does not

mean that such forms of inequality do not deserve attention. According to Oxfam, 62 individuals in 2015 had the same wealth as the bottom half of the world’s population; within the African continent, this statistic is even more extreme.³ However, the report looks into inequality in income, in outcomes such as in health care and education, and inequality in opportunities. Income inequality and unequal opportunities are intimately related. This report aims to dispel myths around income inequality. Reflecting on what has worked in addressing this profound problem is key to taking on inequality more successfully.

The report makes four main contributions. First, it presents the most recent numbers on poverty, shared prosperity, and inequality. Second, it stresses the importance of inequality reduction in ending poverty and boosting shared prosperity by 2030, particularly in a context of weaker growth. Third, it highlights the diversity of within-country inequality reduction episodes and synthesizes the experiences of several countries and policies in addressing the roots of inequality without compromising economic growth. Along the way, the report shatters some myths and sharpens our knowledge of what works in reducing inequalities. Finally, it also advocates for the need to expand and improve data collection—availability, comparability, and quality—and rigorous evidence on inequality impacts. This is essential for high-quality poverty and shared prosperity monitoring and the policy decisions such an exercise ought to support.

Extreme poverty is shrinking worldwide, but is still widespread in Africa

In 2013, the year of the latest comprehensive data on global poverty, 767 million people are estimated to have been living below the international poverty line of US\$1.90 per person per day (table O.1). Almost 11 people in every 100 in the world, or 10.7 percent of the global population, were poor by this standard, about 1.7 percentage points down from the global poverty headcount ratio in 2012. Although this

TABLE 0.1 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 ^a	—	—	—	—
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.

represented a noticeable decline, the poverty rate remains unacceptably high given the low standard of living implied by the \$1.90-a-day threshold.

The substantial decline is mostly explained by the lower number of the extreme poor in two regions, East Asia and Pacific (71 million fewer poor) and South Asia (37 million fewer poor), that showed cuts in the extreme poverty headcount ratio of 3.6 and 2.4 percentage points, respectively. The former is explained in large part by lower estimates on China and Indonesia, whereas the decrease in South Asia is driven by India's growth. The number of the poor in Sub-Saharan Africa fell by only 4 million between 2012 and 2013, a 1.6 percentage point drop that leaves the headcount ratio at a still high 41.0 percent. Eastern Europe and Central Asia's headcount ratio shrank by about a quarter of a percentage point, down to 2.3 percent, while, in Latin America and the Caribbean, the ratio declined by 0.2 percentage points, to 5.4 percent (figure O.2).

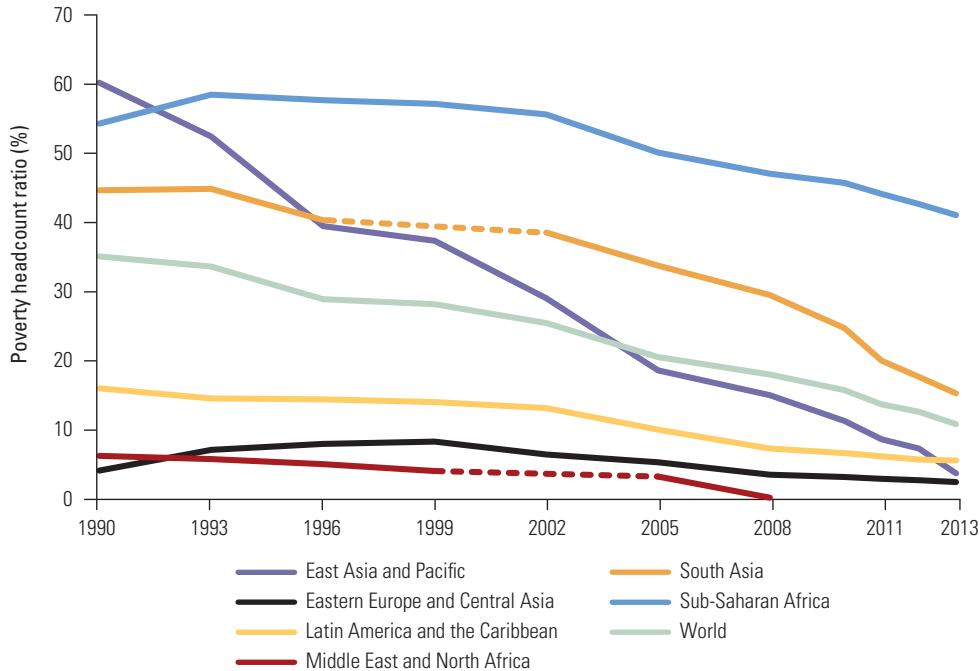
Both the extreme poverty headcount ratio and the total number of the extreme poor have steadily declined worldwide since 1990 (figure O.3). The world had almost 1.1 billion fewer poor in 2013 than in 1990, a period in which the world population grew by almost 1.9 billion people. Overall, the

global extreme poverty headcount ratio dropped steadily over this period. Despite more rapid demographic growth in poorer areas, the forceful trend in poverty reduction culminated with 114 million people lifting themselves out of extreme poverty in 2013 alone (in net terms).

The geography of global extreme poverty is changing as poverty declines

As extreme poverty declines globally, the regional poverty profile has been changing. This is a direct result of uneven progress, mainly at the expense of Sub-Saharan Africa, which has the world's largest headcount ratio (41.0 percent) and houses the largest number of the poor (389 million), more than all other regions combined. This is a notable shift with respect to 1990, when half of the poor were living in East Asia and Pacific, which, today, is home to only 9.3 percent of the global poor. South Asia has another third of the poor, while Latin America and the Caribbean, along with Eastern Europe and Central Asia, complete the global count with 4.4 percent and 1.4 percent, respectively (figure O.4).⁴

FIGURE 0.2 World and Regional Trends, Poverty Headcount Ratio, 1990–2013



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

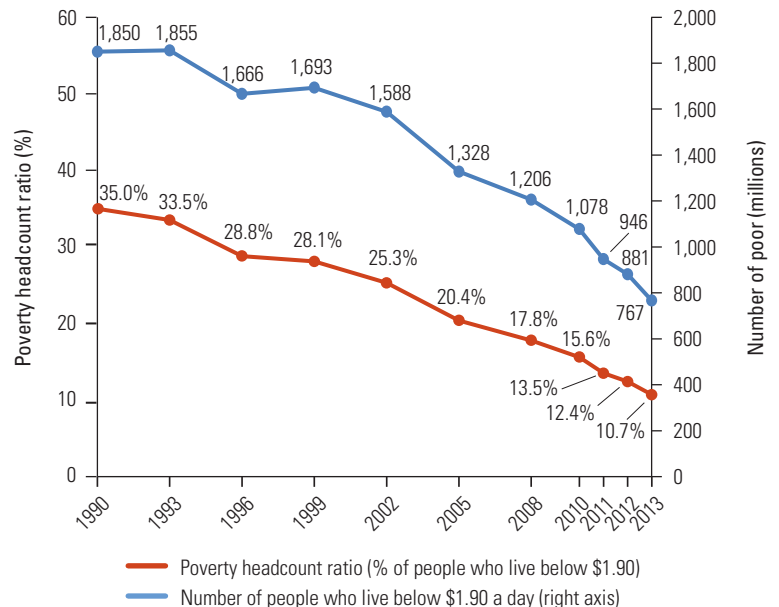
Note: Poverty is measured using the US\$1.90-a-day 2011 PPP poverty line. Breaks in trends arise because of a lack of good-quality data.

Who are the poor?

Exploring the characteristics of the poor is key to a better understanding of the circumstances and contexts surrounding poverty. A large database of household surveys in 89 developing countries provides insights into this issue by facilitating a demographic profile of the poor at the US\$1.90 poverty line.⁵ This poverty profile reveals that the global poor are predominantly rural, young, poorly educated, mostly employed in the agricultural sector, and live in larger households with more children. Indeed, 80 percent of the worldwide poor live in rural areas; 64 percent work in agriculture; 44 percent are 14 years old or younger; and 39 percent have no formal education at all. The data also confirm wide regional variations in the distribution of the poor across these characteristics (figure O.5).

When looking at the incidence of poverty across different population groups, poverty headcount ratios are more than three times higher among rural residents

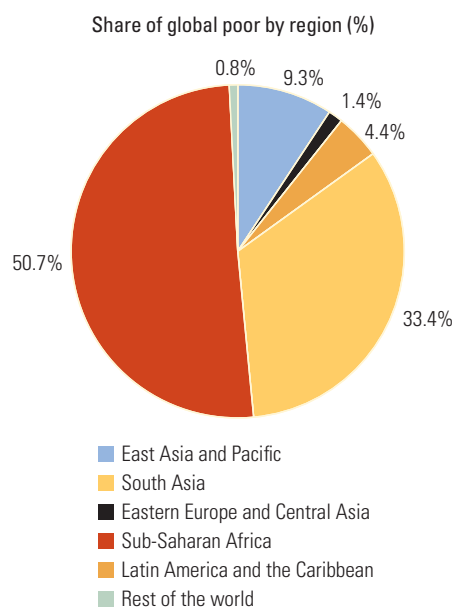
FIGURE 0.3 Trends in the Global Poverty Headcount Ratio and the Number of the Global Poor, 1990–2013



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 PPP poverty line.

FIGURE 0.4 Where Are the Global Poor Living? The Global Poor, by Region, 2013



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

than among urban dwellers: 18.2 percent versus 5.5 percent, respectively. Agricultural workers are over four times more likely than people employed in other sectors of the economy to be poor. Educational attainment is inversely correlated with poverty. A small share of primary-school graduates are living in poverty: fewer than 8.0 percent of people who completed primary school, but not secondary school, are living below the US\$1.90 poverty line. Among individuals who have attended university, the share is less than 1.5 percent.⁶ Similar differences are observed if poverty incidence is measured relative to the US\$3.10-a-day poverty line.

Age profiles confirm that children are more likely than adults to be poor. Children under 18 account for half the global poor in 2013, but less than a third of the sample population (32 percent) (figure O.6). Younger children (ages 0–14) contribute especially heavily to the poverty headcount, much more than their share in the world’s population.

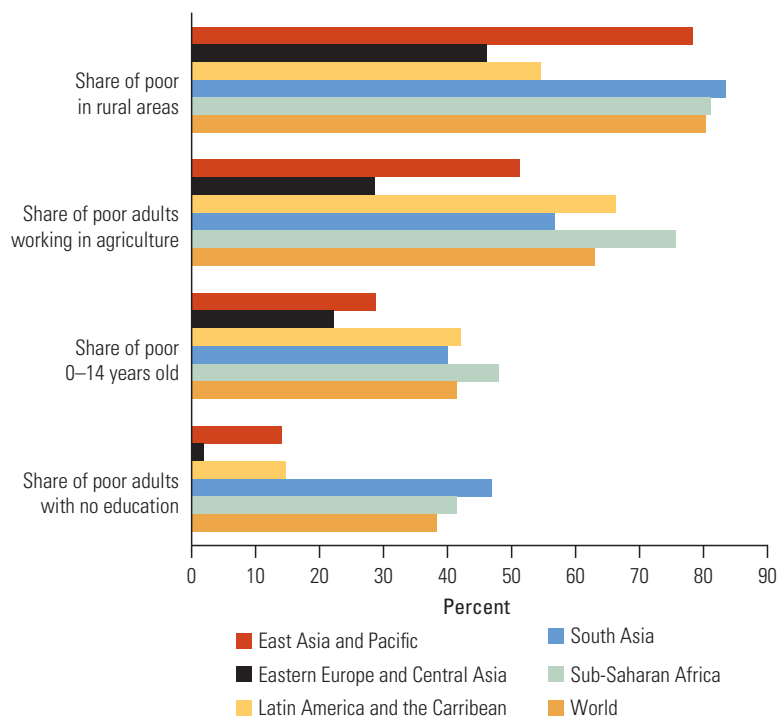
Progress in boosting shared prosperity worldwide is uneven

Shared prosperity is measured as the growth in the average income or consumption of the bottom 40. The larger the growth rate in the income of the bottom 40, the more quickly prosperity is shared with the most disadvantaged sectors in society.

To the extent that greater economic growth is associated with rising incomes among the poor and the bottom 40, more rapid growth will lead to greater shared prosperity and poverty reduction. Likewise, a more rapid increase in shared prosperity and in the narrowing of inequality typically accelerates the decline in poverty at any given rate of growth.

Progress on this indicator is examined in this report using the latest information available on each country, currently circa 2008–13. To take into account the share of prosperity going to groups other than the bottom 40, the report also monitors the *shared prosperity premium*, defined as the difference between the growth in the income of the bottom 40 and the growth in income at the mean in each country. A pos-

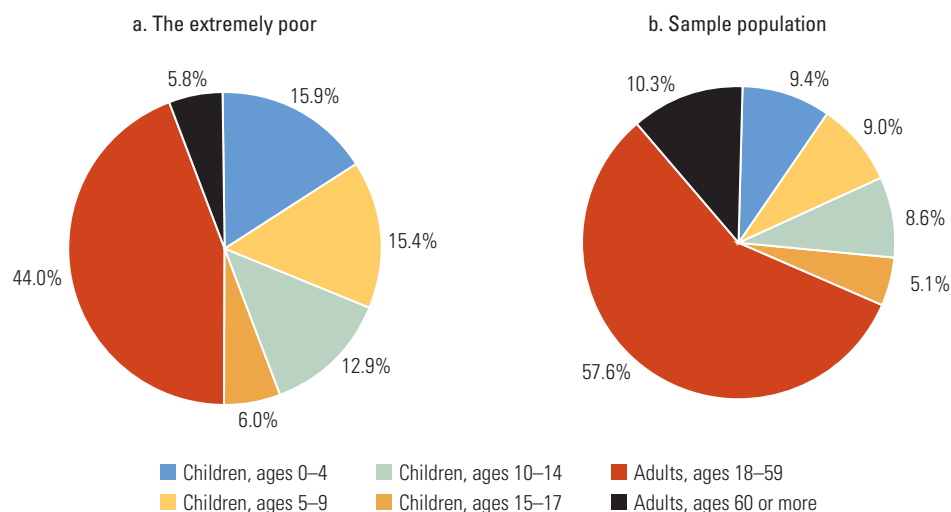
FIGURE 0.5 Profile of the Poor, by Characteristics and Region, 2013



Source: Castañeda et al. 2016.

Note: Poverty is measured using the US\$1.90-a-day 2011 PPP poverty line.

FIGURE 0.6 Age Profile of the Poor, 2013



Source: Newhouse et al. 2016.

itive premium indicates that the growth in the income or consumption of the bottom 40 exceeds that of the mean, and by implication, that of the rest of the population. A higher or lower premium indicates the extent to which distributional changes favor the bottom 40 relative to the top 60.

The bottom 40 benefited from solid economic growth in many countries in 2008–13. Overall, the bottom 40 in 60 of the 83 countries monitored experienced positive income growth, representing 67 percent of the world’s population and 89 percent of the population represented by the surveys (figure O.7). A total of 49 countries reported a positive shared prosperity premium: income growth among the bottom 40 exceeded that of the mean (and therefore, that of the top 60). However, there is no room for complacency: in 23 countries, the incomes of the bottom 40 declined during the period.

There are wide regional differences in shared prosperity and the shared prosperity premium. The best performers were in East Asia and Pacific and in Latin America and the Caribbean, while high-income industrialized countries performed the least well. Greece, a high-income country, experienced an annualized contraction of 10.0 percent in the income of the bottom 40, while the Democratic Republic of Congo recorded a rise of 9.6 percent. In Latin America and

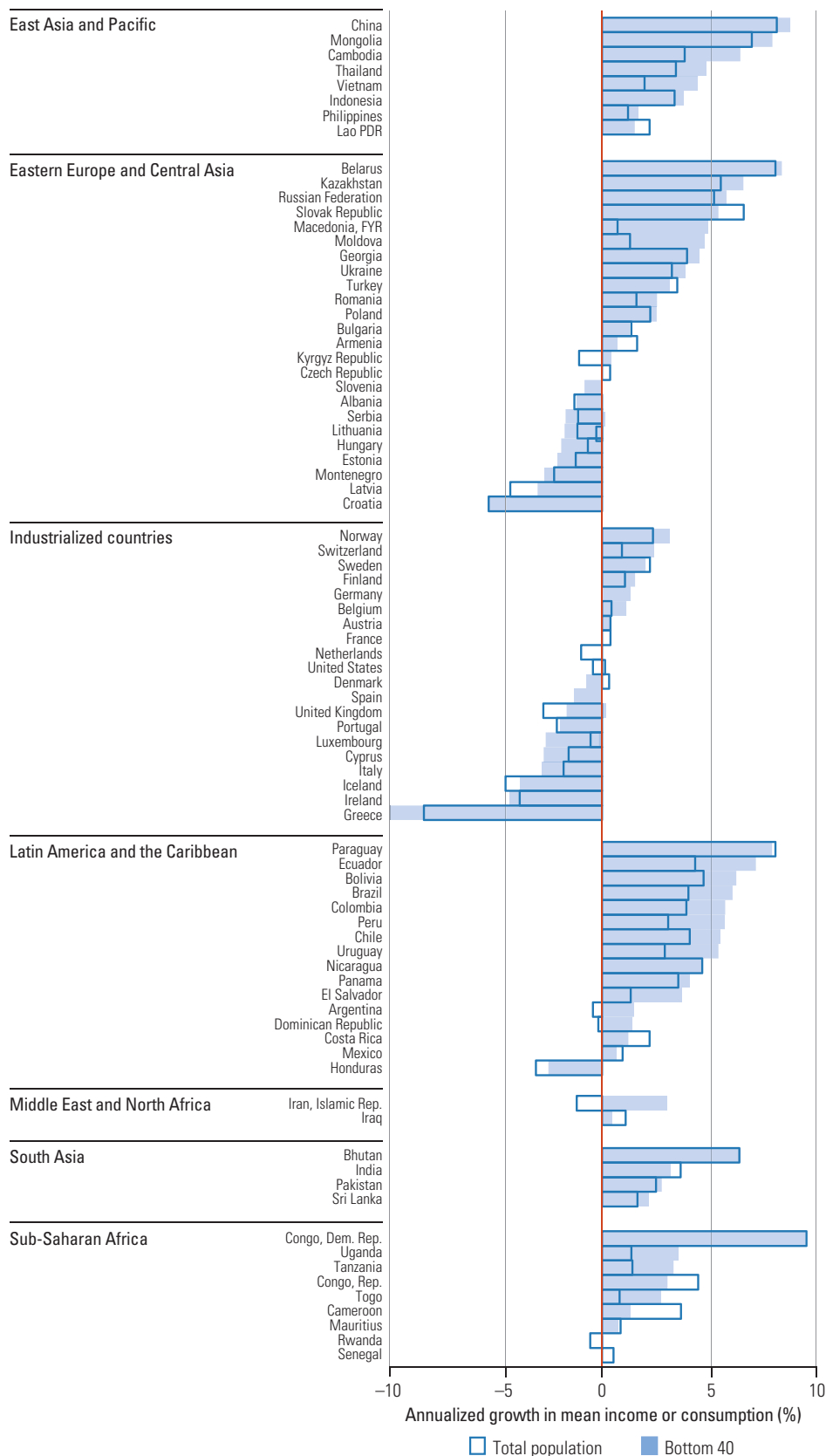
the Caribbean, the income of the bottom 40 grew by 8.0 percent in Paraguay, while in Honduras, income contracted by about 2.5 percent annually during the same spell.

A source of concern is the small value of the shared prosperity premium. While the average annualized growth in the income or consumption of the bottom 40 was 2.0 percent worldwide circa 2008–13 (a population-weighted 4.6 percent), the average shared prosperity premium was only 0.5 percentage points during the same period (a population-weighted 0.4 percentage point). Is this sufficient to expect large reductions in inequality and poverty so as to achieve the World Bank goals by 2030?

A more rapid decline in inequality is needed to end poverty

Figure O.8 makes it clear that the goal of ending poverty by 2030 cannot be reached at current levels of economic growth. It shows the trajectory of the global poverty headcount ratio under various assumptions about distributional changes and under the assumption that every country will grow at its rate of the last 10 years. These changes are modeled by means of alternative shared prosperity premiums in each country. Thus, in the scenario of a premium labeled

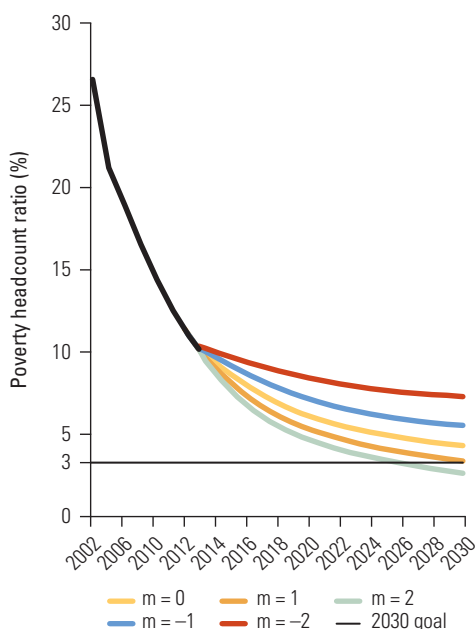
FIGURE 0.7 Shared Prosperity, 83 Countries, 2008–13



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 mean household per capita income or consumption according to surveys.

FIGURE 0.8 Boosting Shared Prosperity and Ending Poverty, 10-Year Scenario, 2013–30



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

Note: m = the assumed shared prosperity premium, that is, the growth in income or consumption among the bottom 40, minus the growth in income or consumption at the mean. Thus, for example, $m = 2$ indicates that the growth in income among the bottom 40 exceeds the growth in income at the mean by 2 percentage points in each country. Poverty is measured using the US\$1.90-a-day 2011 PPP poverty line.

$m = 1$, the growth in the income of the bottom 40 in each country is assumed to exceed the growth rate in the mean by 1 percentage point. Meanwhile, in the scenario $m = 0$, growth is distributionally neutral: the income of the bottom 40 and the mean grow at the same pace. Under these scenarios, the poverty goal would only be reached if the shared prosperity premium is in excess of 1 percentage point, which is double the simple average premium countries are able to achieve today (0.5 percentage points). Thus, income or consumption needs to grow more quickly among the bottom 40 than at the mean, and at a more rapid pace than today, especially in countries with substantial numbers of the poor.

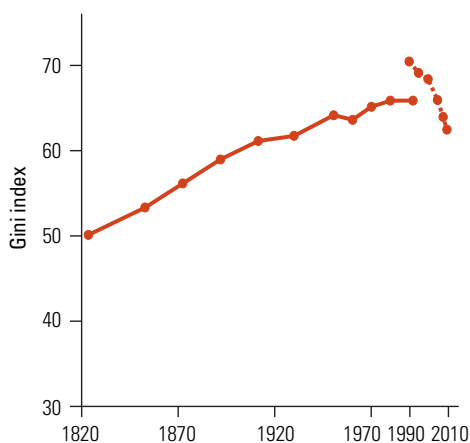
This is the analytical result of a set of simulations. In practice, this does not mean that every country worldwide must improve its income distribution to achieve the pov-

erty goal by 2030. However, it illustrates that under current average growth rates, reductions in inequality will be key to reaching the poverty goal by 2030. This is so under specific assumptions about how economic growth will occur until 2030. If the poverty goal is to be accomplished by 2030, the income distribution must improve, especially among countries in which there are high numbers of poor, relatively wide inequality levels, and weak economic growth.

Globally, the narrowing in inequality since the 1990s is an historical exception to a rising trend

Data since the 1990s show a substantial narrowing in inequality in income or consumption worldwide, irrespective of residence. This is the first such reduction since the industrial revolution (figure O.9). This unprecedented decline occurred during a period of increasing global integration. From 1820 to the 1990s, global inequality steadily rose. Then, the Gini index fell to 62.5 in 2013, most markedly beginning in 2008, when the Gini was 66.8 (the blue line in figure O.10).

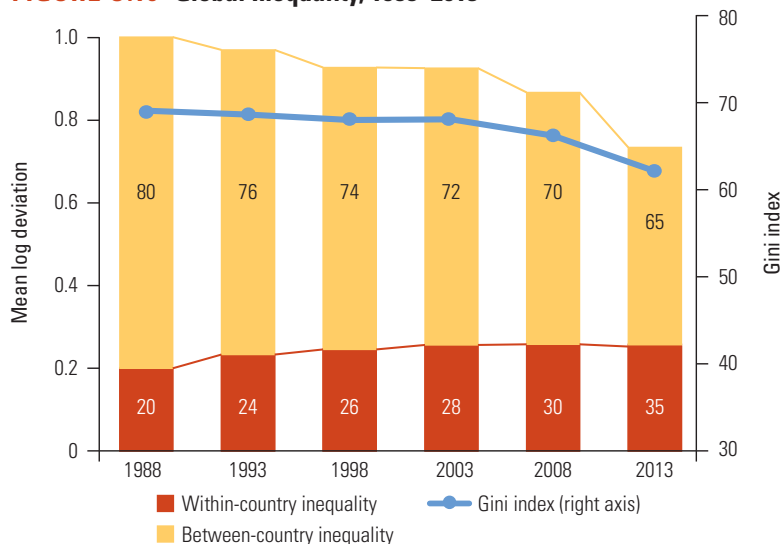
FIGURE 0.9 Global Inequality, 1820–2010



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

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. Figure O.10 uses income (or consumption) per capita directly from household surveys (in 2011 PPP exchange rates).

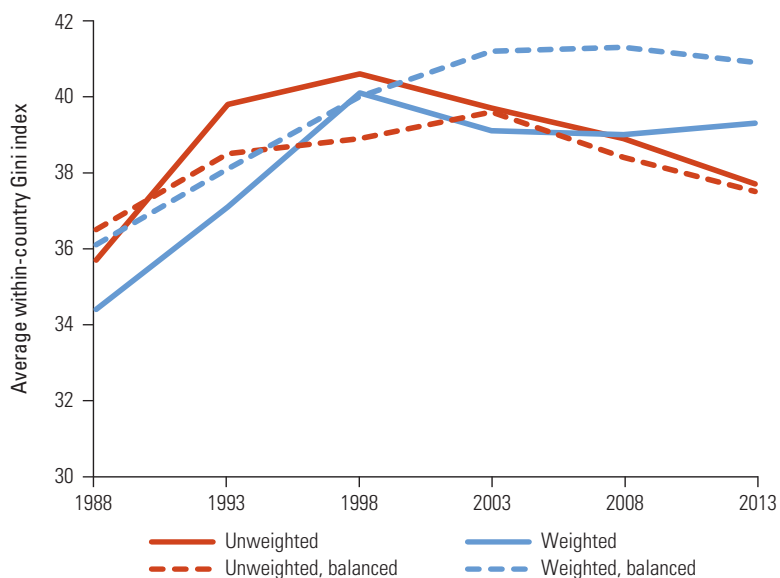
FIGURE O.10 Global Inequality, 1988–2013



Sources: Lakner and Milanović 2016; Milanović 2016; World Bank calculations based on PovcalNet (online analysis tool), World Bank, Washington, DC, <http://iresearch.worldbank.org/PovcalNet/>.

Note: For each country, household income or consumption per capita is obtained directly from household surveys and expressed in 2011 PPP exchange rates. Each country distribution is represented by 10 decile groups. The line (measured on the right axis) shows the level of the global Gini index. The height of the bars indicates the level of global inequality as measured by GE(0) (the mean log deviation). The red bars show the corresponding level of population-weighted inequality within countries. The level of between-country inequality, which captures differences in average incomes across countries, is shown by the yellow bars. The numbers in the bars refer to the relative contributions (in percent) of these two sources to total global inequality.

FIGURE O.11 Average Within-Country Inequality, 1988–2013



Source: World Bank calculations based on data in Milanović 2014; PovcalNet (online analysis tool), World Bank, Washington, DC, <http://iresearch.worldbank.org/PovcalNet/>; WDI (World Development Indicators) (database), World Bank, Washington, DC, <http://data.worldbank.org/data-catalog/world-development-indicators>.

Note: The solid lines show the trend in the average within-country Gini index with and without population weights in the full sample (an average of 109 countries per benchmark year). The dashed lines refer to the balanced sample, that is, using only the set of 41 countries on which data are available in every benchmark year.

This unprecedented drop in global inequality was driven by a convergence in average incomes across countries that was spurred by rising incomes in populous countries such as China and India. As a result, between-country inequality declined. In contrast, within-country inequality, the other component of global inequality, took on a greater role in global inequality (explaining a third of the total variation) (figure O.10).

Despite recent progress, average within-country inequality is greater now than 25 years ago

The population-weighted Gini index captures within-country inequality relative to the average person across the countries on which data are available (figure O.11). This indicator rose steeply, by 6 points, from 34 to 40 between 1988 and 1998. Since then, inequality has declined more moderately, by almost 1 point, to a Gini of 39 in 2013. Thus, within-country inequality for the average person in the world was wider in 2013 than 25 years previously.

The population-weighted result on within-country inequality is largely robust to other specifications, such as population-unweighted estimates or estimates drawing on different country samples. As shown in figure O.11, the unweighted Gini index of within-country inequality worldwide also rose during the 1990s, but by a smaller amount than the population-weighted index. The simple average Gini increased by around 5 points, from 36 in 1988 to 41 ten years later, before declining steadily thereafter, reaching 38 in 2013.

The levels and trends in average inequality are quite different across regions, although the most recent decline is broad-based (figure O.12). Developing countries tend to exhibit wider within-country inequality relative to developed countries. Latin America and the Caribbean, as well as Sub-Saharan Africa, stand out as high-inequality regions. The former is also the region most successful in reducing inequality. Sub-Saharan Africa has likewise steadily narrowed inequality since the early 1990s,

although this progress hides wide-ranging variations within the continent.⁷ 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. The average industrialized country saw an increase in the Gini index from 30 to 33 between 1988 and 2008. In the five years leading up to 2013, average within-income inequality appears to have fallen in all regions except in the Middle East and North Africa and in South Asia.

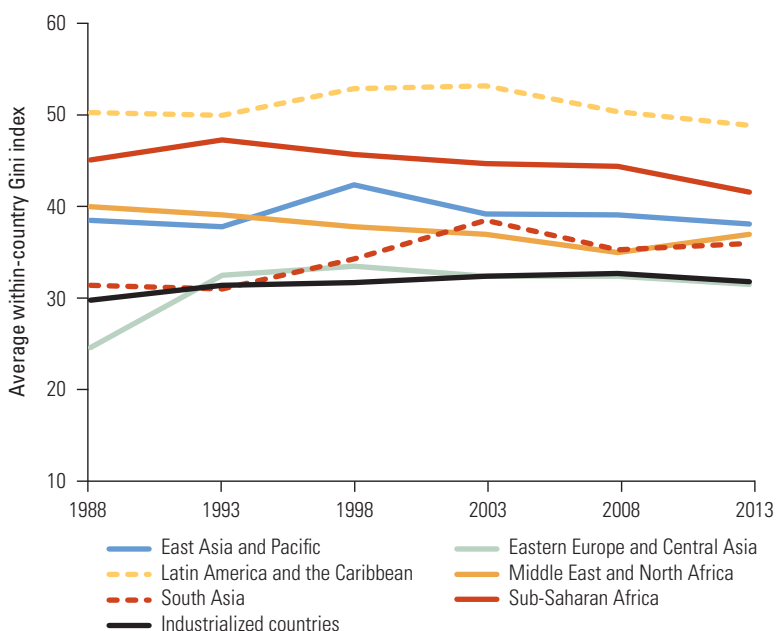
Providing a simple explanation behind regional inequality trends is particularly challenging because the patterns may be distinctive and the drivers specific to the trends exhibited by countries within a region. Rather than providing a simplistic explanation, it may therefore be useful to examine closely the country variations within regions to understand the extent to which the common drivers behind inequality—gaps in human capital accumulation, varying access to jobs and income-generating opportunities, and government interventions to address market-based inequalities—are relevant in each country.

Indeed, between 2008 and 2013, the number of countries experiencing declining inequality was twice the number exhibiting widening inequality. This shows that within-country inequality can widen or narrow. Despite the progress, stark inequalities persist. For example, Haiti and South Africa are the most unequal countries in the world (for which data are available), with a Gini exceeding 60 points in 2013. Another Sub-Saharan African country (Rwanda) and another seven Latin America and Caribbean countries (Brazil, Chile, Colombia, Costa Rica, Honduras, Mexico, and Panama) make up the top 10 most unequal countries in the world, with Gini indexes in excess of or close to 50.

In many economies, the income share of the top income groups is expanding

In many economies in which information on the top 1 percent of the income distri-

FIGURE 0.12 Trends in the Average National Gini, by Region, 1988–2013



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

Note: The lines show the average within-country Gini index by region. It is the simple average in the full sample without weighting countries by population. Industrialized countries are a subset of high-income countries. See chapter 2, annex 2B, for the list of industrialized countries.

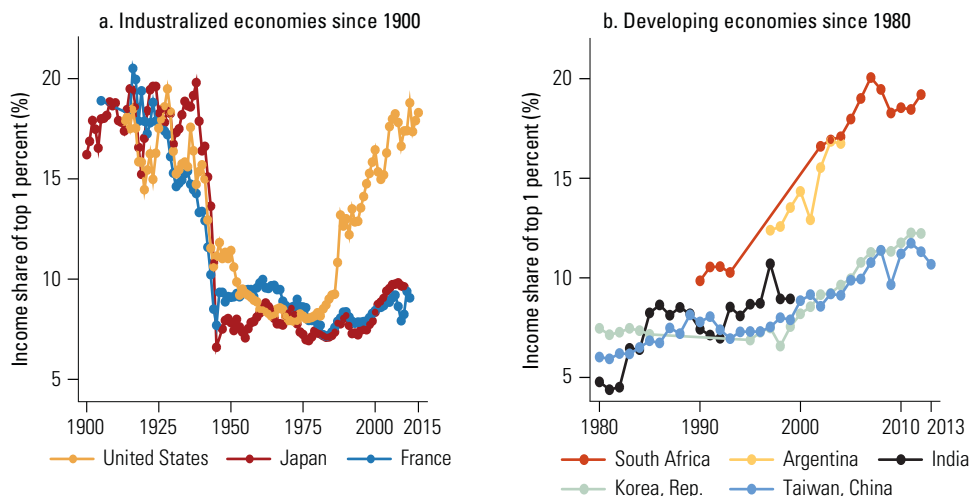
bution is available, such as Argentina; India; the Republic of Korea; South Africa; Taiwan, China; and the United States, the share of the top 1 percent in total income has been increasing. In South Africa, the top income share roughly doubled over 20 years to levels comparable with those observed in the United States (figure O.13).

Inequality reduction is not limited to a few countries, settings, and policy choices

Some countries have performed remarkably well in reducing inequality and boosting shared prosperity. Others have not. Among the constellation of policies that have been implemented, what have been the key levers in boosting shared prosperity and narrowing inequality among countries?

The report focuses on the experiences of five low- and middle-income countries, covering Asia, Latin America and the Caribbean, and Sub-Saharan Africa. The countries

FIGURE 0.13 The National Income Share of the Richest 1 Percent, Selected Economies



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

Note: The income share excludes capital gains. These measures are typically derived from tax record data. For South Africa, the income share refers to adults.

analyzed are Brazil, Cambodia, Mali, Peru, and Tanzania. These are among the best performers, showing good shared prosperity premiums and strong records in narrowing income inequality and reducing extreme poverty. They are also sufficiently diverse to embody different development strategies and historical circumstances.

The five countries exercised judicious macroeconomic management, appropriately dealt with external shocks, and implemented more or less protracted and coherent economic and social sector reforms. They also benefited from favorable external conditions in the form of cheap and abundant international credit, high commodity prices, and booming trade. Decision making and the context allowed rapid, sustainable, and inclusive growth. The countries also highlight the importance of labor markets in translating economic growth into inequality reduction by increasing job opportunities and earnings, reintegrating individuals who have been excluded from economic opportunities, and narrowing gaps across workers because of gender, residence, or sector of employment. Notwithstanding these common factors, country-specific choices and economic developments—deliberate or not—

also play a role in reducing inequalities. For example, the minimum wage and safety nets have been crucial in allowing Brazil to lessen inequality, while diversification from agriculture into light manufacturing and services in Cambodia opened job opportunities to the poor.

Overall, these country cases also highlight that success in reducing inequality and boosting shared prosperity in a given period does not necessarily translate into similar success on other economic, social, or political fronts, nor into sustainable reductions in inequality over time. Indeed, conflict emerged in Mali after the period of inequality reduction, in large part because of protracted flaws in governance.⁸ The marked differences in the most recent policy choices between Brazil and Peru on fiscal consolidation and the control of inflation largely explain the stark differences in their most recent growth patterns: gradual recovery in Peru, recession in Brazil. Meanwhile, long-standing barriers constraining productivity and investments in agriculture in Cambodia and an unfinished transition to a market-based economy in Tanzania call into question the sustainability of inequality reduction in these two countries.⁹

The common elements and country-specific peculiarities are summarized below.

Brazil, 2004–14: policies aligned to redress record inequality

In 1989, Brazil's Gini index was 63, the second highest in the world. However, the incomes of the less well off in Brazil surged between 2004 and 2014 amid rapid economic growth. The Gini dropped to 51 in 2014, while income growth among the bottom 40 averaged 6.8 percent a year, well above the average 4.5 percent among all Brazilians.

Multiple drivers underlie Brazil's success. The 1988 Constitution laid the foundations for tackling historical inequalities by guaranteeing basic social rights such as free public education, free universal health care, pensions, and social assistance. A macroeconomic framework established in the 1990s allowed inflation to be curbed, promoted the prudent management of fiscal balances, and created an enabling environment for policies to address inequality. During the 2000s, the boom in commodity prices generated positive terms of trade. Macroeconomic stability, combined with this favorable external context, propelled economic growth. Labor market dynamics—including increasing wage premiums for the less skilled, more formal jobs, and a rising minimum wage—and the expansion of social policies helped boost the incomes of the poor. These two factors accounted for approximately 80 percent of the decline in inequality in 2003–13: 41 percent of the Gini decline in these years stemmed from labor incomes, and 39 percent from nonlabor income sources such as government transfers.¹⁰ According to some estimates, Bolsa Família, Brazil's flagship conditional cash transfer (CCT) program, alone explains between 10 percent and 15 percent of the narrowing income inequality observed in the 2000s.¹¹

Cambodia, 2004–14: earning opportunities emerging from growth

Cambodia's annual economic growth averaged 7.8 percent between 2004 and 2014,

placing the country among the most rapidly growing economies in the world. Poor Cambodians harnessed the opportunities created by this growth. They seized jobs in labor-intensive industries and services, diversifying their incomes away from subsistence agriculture and reaping higher returns from traditional agricultural activities. Annual consumption growth among the bottom 40 averaged 6.3 percent between 2008 and 2013, twice the consumption growth of the top 60.

A proliferation of employment opportunities followed expansions in the garment, tourism, and real estate sectors.¹² Relative to other sectors, wages in the garment industry tended to be higher and more stable, while the gender gap tended to be narrower. Meanwhile, the agricultural sector's vitality at a time of historically high international prices explains how farm incomes from paddy rice farming more than doubled between 2004 and 2009.¹³ Indeed, rural areas largely drove the country's success in inequality and poverty reduction. Nonetheless, obstacles are evident in the inadequate pace of job creation, given Cambodia's young demographic and structural constraints that weigh on leading sectors.

Mali, 2001–10: vagaries of agriculture rescue a weak economy

Before the outbreak of conflict in the country's northern region in 2012, Mali had made important strides in reducing inequality. Between 2001 and 2010, GDP growth averaged 5.7 percent a year. During the period, the Gini index fell 7 points. The income of the bottom 40 grew, while the mean contracted.

Agriculture has been a key driver behind the improvement in living conditions among the poor. Approximately 73 percent of Malians and 90 percent of the poor live in rural areas. For those involved in farming activities, own-account production typically does not permit self-sufficiency, and income has to be supplemented with casual labor and private transfers. Higher cereal production in the 2000s benefited the

labor income of the poor by raising both farm production and off-farm labor income through greater demand for wage labor by commercial cereal producers. In the latter half of the first decade of the 2000s, while manufacturing was contracting, agricultural production, favored by good weather conditions, boomed, resulting in reduced inequality.¹⁴ Since 2012, however, the conflict in the north has put the brakes on the progress of the previous decade. The crisis has disrupted education and health care services in the north, and displaced populations are exerting pressure on service delivery in the south. This resurgence of conflict comes after two decades of relative stability, including multiparty elections, and is associated with a long-term deterioration in governance, the expanding presence of political pay-offs and co-optation, and an army with limited capacity to face increasing security threats.¹⁵

Peru, 2004–14: equalizing growth through capital investment

The improvement in living conditions among the poor and the bottom 40 in Peru has been remarkable. The Gini index fell from 51 in 2004 to 44 in 2014, and poverty rates dropped from 12 percent in 2004 to 3 percent in 2014. The outstanding growth of the economy (6.6 percent annually during the period) in a context of macroeconomic stability, favorable external conditions, and important structural reforms was responsible for this progress. In the early 2000s, prudent macroeconomic policies and high commodity prices attracted foreign direct investment into the economy, particularly in the mining sector. Capital accumulation became the main driver of growth, accounting for more than two-thirds of total growth after 2001. The labor market was the main pathway for the translation of the country's impressive growth into less inequality and poverty, explaining about 80 percent of the reduction in the Gini and three-quarters of the reduction in extreme poverty during the last decade.¹⁶ Critical to this success were a closing wage gap between formal and infor-

mal workers, high labor force participation rates, and low unemployment.

Challenges remain. Analysts question the quality of public spending, notably in education. Despite significant gains in enrollments, Peru lags comparator countries in international assessments of education quality outcomes, such as student test scores. This is a serious consideration because the favorable external conditions that have underpinned Peru's growth have recently begun to recede. Maintaining the impressive gains in a much less favorable environment will require policy reforms that address the limited productivity resulting from the low quality of human capital and the high rates of informality.

Tanzania, 2004–14: sharing prosperity amid diversification

Tanzania maintained robust and stable economic growth between 2004 and 2014, averaging 6.5 percent a year. The national poverty headcount ratio fell from 34.4 percent in 2007 to 28.2 percent in 2012. The Gini index declined from around 39 to 36 over the same period. Annual consumption growth among the bottom 40, at 3.4 percent, was more than three times the growth among the top 60, at 1.0 percent.

Since the early 2000s, the country's economic expansion has been driven primarily by rapidly growing sectors, especially communications, financial services, and construction. However, the growth in these sectors has not been translated into substantive improvements in the living conditions of the poor, the less well educated, or rural residents. After 2007, there was a surge in retail trade and manufacturing, particularly agroprocessing in products such as food, beverages, and tobacco, which has allowed the inclusion of less highly skilled workers in the economy.¹⁷ Among policies explicitly aimed at rendering the income distribution more equitable, the Tanzania Social Action Fund stands out. It encompasses a CCT program, public works, and a community savings component that is expected to enable the poorest segments of the population to increase their savings and their in-

vestments in livestock and to become more resilient.¹⁸ Despite this progress, much remains to be done to trim regional disparities and expand access to basic services in a context of rapid urbanization. Indeed, today's economy is still characterized by a lack of competition in the private sector and the absence of growth, as well as a strongly regulated economic environment.

There are some common building blocks behind successful inequality reductions

The experiences of five countries cannot supply precise policy prescriptions that are valid everywhere and in all circumstances. However, they demonstrate that narrowing inequality and sharing prosperity are possible in many settings, including low- and middle-income countries; rural economies; more highly diversified, modern economies; and countries benefiting from external booms, but also countries facing unfavorable conditions, such as a history of conflict or substantial, long-term inequality. The building blocks of success have been prudent macroeconomic policies, strong growth, functioning labor markets, and coherent domestic policies focusing on safety nets, human capital, and infrastructure.

As the building blocks get in place, many approaches to narrowing inequality are possible. However, sustaining this success may require similar approaches. The accumulation of good-quality human capital, diversification in the income-earning opportunities available to the poor, safety nets capable of protecting the poorest from risk, and enhanced infrastructure to connect lagging regions to economically more vibrant ones are all potentially desirable approaches to sharing prosperity and reducing inequality.

Thus, the experiences of Cambodia, Mali, and Tanzania underscore the need to expand safety nets, which have not been sufficient to protect the poorest in these countries. The experiences of Brazil and

Tanzania point to the need to realign fiscal systems to produce a greater impact in reducing inequality. Infrastructure is apparently still a significant obstacle in Cambodia, while in Mali, in addition to conflict, dependence on external factors, from donor flows to the vagaries of weather, threaten sustained improvement. In Peru, the quality of education is below regional standards and represents a barrier to maintaining and enhancing economic productivity should favorable external conditions disappear.

Countries willing to make the appropriate policy choices are more likely to narrow inequality. Those that are not willing to make these choices might continue to suffer the disadvantages of growing inequality.

Taking on inequality involves human capital accumulation, income generating opportunities, consumption smoothing, and redistribution

The report assesses what we know about key domestic policy interventions that are effective in reducing inequality, the benefits they generate, the choices that need to be made concerning their design and implementation, and the trade-offs with which they are associated. It is not meant to provide an exhaustive or comprehensive review of every intervention that could reduce inequality, nor does it seek to supply universal prescriptions. Instead, it focuses on a few policy areas on which a body of rigorous evidence allows lessons to be drawn with confidence. The policies, if well designed, have favorable effects not only on inequality reduction, but also on poverty reduction without major efficiency and equity trade-offs. The policy areas are early childhood development (ECD), universal health care, universal access to good-quality education, CCTs, investments in new or improved rural roads and electrification, and taxation, mainly on personal income and consumption.

There are many pathways through which policy interventions can affect inequality,

whether this effect is intended or unintended. The impacts can be large or small, short term or lifelong, and they may narrow disparities in income, well-being, or opportunity. For example, taxes can have direct and deliberate redistributive effects, reaching up to 20 points of the Gini index of market incomes in some European Union (EU) economies.¹⁹ In contrast, investments in rural roads and electrification influence income generation opportunities, employment, and even perceptions of gender roles. Expanding ECD, health care coverage, and good-quality education often reduces cognitive, nutritional, and health status gaps, thereby narrowing inequalities in human capital development and future income opportunities. By smoothing consumption among the most deprived, especially during shocks, CCTs help prevent the widening of inequality.

Evidence of the benefits of such interventions is encouraging. For example, in 1986, a Jamaican intervention sought to support toddlers ages 9–24 months who suffered from stunting.²⁰ The intervention consisted of weekly visits to the households of the toddlers by community health workers to teach parenting skills aimed at fostering cognitive and socioemotional development among the children. It also provided nutrition supplements and psychosocial stimulation. Researchers followed up among the participants 20 years after the intervention and found that the groups of children receiving stimulation (with or without the nutrition supplements) had, as adults, 25 percent higher earnings than the control group. The greater earnings had allowed individuals in the stimulation program to enjoy livelihoods at a similar level as the members of a nonstunted comparison group, effectively eliminating the inequality in incomes between the groups.

Thailand's Universal Coverage Scheme enhances equity by bringing a large uninsured population under the umbrella of a national insurance program, thereby greatly reducing catastrophic health care payments and improving access to essential health services among the poor. Within a year of its launch, the scheme was covering 75 per-

cent of the population, including 18 million previously uninsured people.²¹

Recent assessments in developed and developing countries highlight the important consequences of successful experiences in improving the quality of teaching. For example, estimates in the United States indicate that pupils taught by teachers who are at the 90th percentile in effectiveness are able to learn 1.5 years' worth of material in a single academic year, while pupils taught by teachers at the 10th percentile learn only a half-year's worth of material.²² Increased schooling has been linked to more productive nonfarm activities in China, Ghana, and Pakistan.²³

In Bangladesh, the Shombob Pilot Program reduced the incidence of wasting among 10- to 22-month-old infants by 40 percent.²⁴ Mexico's Prospera Program has helped lower infant mortality and maternal mortality by as much as 11 percent.²⁵ The Nahouri Pilot Project in Burkina Faso is credited with raising primary and secondary enrollment rates by 22 percent among boys.²⁶ In Pakistan, CCTs made available only in favor of girls led to increases in enrollment in the range of 11–13 percentage points.²⁷

Also in Bangladesh, the Rural Development Program and the Rural Roads and Markets Improvement and Maintenance Program have boosted employment and wages in agricultural and nonagricultural activities, as well as aggregate harvest outputs. Per capita annual spending across households in the program areas has risen by about 10 percent.²⁸ In rural Vietnam, school enrollment rates among children in households on the electricity grid were 9.0 percentage points higher among girls and 6.3 percentage points higher among boys relative to children in households not on the grid. Electrification was also associated with almost an extra year in the average years of schooling among girls and an extra 0.13 year among boys.²⁹ Similarly, access in rural areas to *telenovelas* (television soap operas) resulted in lower fertility rates in Brazil, which may be related to the empowerment of women through the imitation of role models of emancipated women and the representation of smaller families.³⁰

Such evidence demonstrates that interventions can be designed successfully in a variety of settings. Yet, the long road ahead argues against any complacency and against the fallacy of sweeping prescriptions. The challenges and uncertainties are diverse and complicated, as follows:

Despite progress, intolerable disparities in well-being still exist that concrete policy interventions could confront directly. In many low- and middle-income countries, preschool enrollment rates among the poorest quintile are less than a third of the rates among the richest quintile. Mothers in the bottom 40 across developing countries are 50 percent less likely to receive antenatal care. The poorest children are four times less likely than the richest children to be enrolled in primary education and systematically record lower test scores than children in the richest households. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Only one-quarter of the poorest quintile are covered by safety nets, and the share is even smaller in Sub-Saharan Africa and South Asia.³¹

Trade-offs in implementation should not be overlooked because of excessive attention to efficiency and equity trade-offs. Investments in ECD, universal health care, and good-quality education have both equity and efficiency benefits given the current gaps in access. Connecting poor farmers to urban markets can positively affect the income of farm households as well as reduce their income gaps with the rest of the population. In reducing inequality, many policy choices are less often restricted by an imbalance in the equity-efficiency trade-off than by an imbalance in the trade-offs between expanding the coverage of an intervention and increasing the benefits, between enhancing the quality of services and increasing access to services through the construction of facilities such as schools or clinics, between expanding the coverage of electrification in rural areas and ensuring program financial viability, between cash or in-kind resource transfers, and between conditionality and the lack of conditionality.

The fine points of policy design absolutely matter in ensuring that interventions are

equalizing without compromising efficiency. Different choices in Chile and Mexico in recent tax reforms with the same objectives led to different impacts. The ultrarich bore the brunt of the income tax component of the reform in Chile, while in Mexico, the middle class also largely shared the cost of the reform.³² ECD programs are most effective if they are aimed at the first 1,000 days of the lives of children, continue during childhood, and integrate stimulation, parenting, and nutrition components. In many contexts, incentivizing higher quality in teaching, while making social transfers conditional on school completion may have a greater impact than constructing new schools.

Avoid unexamined reliance on universal prescriptions and unique models of success. Evidence strongly suggests that the implementation of such prescriptions and models does not automatically ensure a reduction in inequality. Nonetheless, some initiatives are more likely than others to generate inequality reductions and improvements in the well-being of the poorest. For example, integrated interventions are more likely to succeed than isolated, monolithic interventions. Composition influences the degree of success. If CCTs are combined with other safety net interventions, such as transfers of productive assets, skills training, and access to credit and finance, they have been shown to generate wide-ranging benefits. Investments in rural roads that attract additional investments in public services, such as electrification, agricultural extension services, and enhanced water and sanitation services, improve not only the connectivity of people to economic opportunities, but also security, productivity, and the quality of services. Simplicity and flexibility often drive success. Thus, the ability of the safety net system in the Philippines to scale up to reach hundreds of thousands of beneficiaries after catastrophic events is in part explained by the flexibility of the system in the face of emergency situations. Exclusive and prolonged breastfeeding is another example of a simple and extraordinarily cost-efficient intervention to improve ECD.³³

Equalizing interventions are not a luxury reserved for middle- and high-income countries, nor an option only available during periods of prosperity. There are numerous instances of the implementation of successful interventions in ECD, universal health care coverage, CCTs, investment in rural infrastructure, and redistributive tax schemes across low-income countries. This evidence should dispel the notion that only middle- and high-income countries can afford equalizing policies. Of course, context always matters: weak capacity, lack of political will, restricted fiscal space, vulnerability to external crises or climate change, internal conflict, and challenging geography are among the obstacles to the reduction of inequality worldwide. These obstacles are not insurmountable, however. This is also the case during periods of crisis. Examples of CCTs integrated in safety nets that effectively protect the most vulnerable against natural disasters demonstrate that a crisis is not an excuse for inaction, but an incentive for the adoption of equalizing interventions.

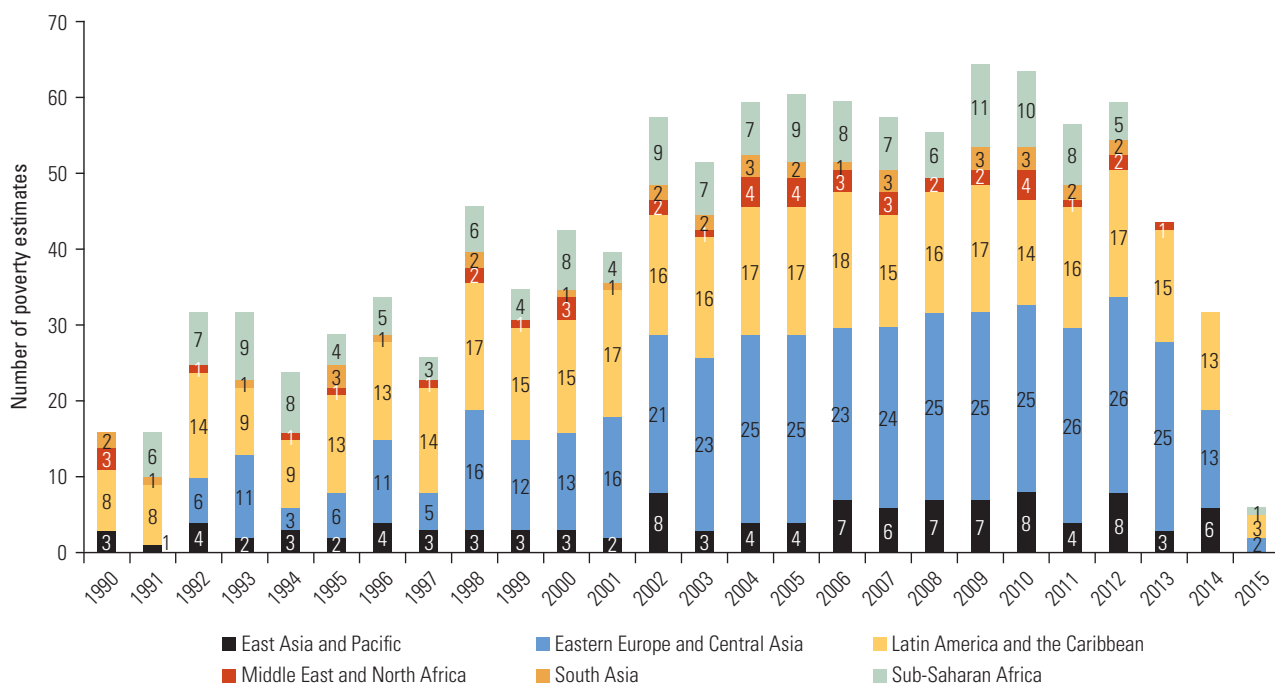
The poor must be able to participate in and benefit from interventions: good policy choices benefit the poorest. Evidence on ECD programs, initiatives to promote universal health care coverage, and efforts to foster good-quality teaching proves that the most underprivileged children often benefit the most.³⁴ Yet, this outcome should not be taken for granted. Thus, the more well off households among the targeted population, that is, households with children with higher baseline levels of development and more well educated mothers, are typically more likely to send their children to preschool or to take part in parenting programs. Many rural electrification initiatives are associated with high connection costs to

keep electrification campaigns financially feasible, but this often means the poorest households must opt out.³⁵ Policy design needs to take such outcomes into account up front and explicitly.

More knowledge! Despite the growing evidence on the impacts of policy interventions, improving the evidence base on initiatives that successfully narrow inequality requires more investment in filling data gaps and enhancing the understanding of the specific pathways—whether intended or unintended—through which programs affect inequality. For example, rigorous evaluations have played a critical role in fine-tuning the design of CCTs and advocating for CCT desirability. Monitoring ECD programs for decades has made the quantification of the long-term effects of such programs possible. Yet, the road ahead is still long and steep. Especially important is the long-term generation of more microeconomic household data, more compelling evidence on the benefits of the integration of multiple interventions, and more information on the potential distributional effects of policy interventions aimed at addressing long-term challenges such as climate change.³⁶

Data need to allow for more comprehensive monitoring of specific changes in inequality, but also in poverty and shared prosperity. Substantial efforts are required to address the poor quality, comparability, and availability of data, especially in low-income countries. Figure O.14 shows the availability of poverty estimates by country and region. The availability is particularly limited in Sub-Saharan Africa and in the Middle East and North Africa. This report makes a strong case for expanding the availability of and access to data on inequality, poverty, and shared prosperity.

FIGURE 0.14 Available Country Poverty Estimates, Number, by Region and Year



Source: Poverty and Equity Data (database), World Bank, Washington, DC, <http://povertydata.worldbank.org/poverty/home/>.

Note: The presentation follows the definition of the developing world of Serajuddin et al. (2015), which includes 150 countries and territories in the early 1990s and 155 in 2013. High-income countries such as the original members of the Organisation for Economic Co-operation and Development (OECD), where extreme poverty is assumed to be zero, are not considered in this sample.

Notes

1. WHO (2015).
2. For a formal decomposition, see Datt and Ravallion (1992), among others. In the general case, a reduction in inequality at a given growth rate leads to a reduction in poverty according to most poverty measures. Exceptions are, for instance, progressive distributional changes whereby some nonpoor fall under the poverty line over time, thus increasing the headcount ratio. Even in that case, other poverty measures with higher social welfare weights for lower percentiles tend to decrease.
3. See Oxfam (2016). Lakner (2015) estimates that the 10 wealthiest Africans own as much as the poorest half of the continent.
4. The countries classified as industrialized in this report are assumed to have zero poverty at the \$1.90-a-day poverty line, an assumption that may change in the future because of the World Bank's implementation of the report of the Commission on Global Poverty on global poverty estimation. See "Commission on Global Poverty," World Bank, Washington, DC, <http://www.worldbank.org/en/programs/commission-on-global-poverty>.
5. Poverty and Equity Data (database), World Bank, Washington, DC, <http://povertydata.worldbank.org/poverty/home/>.
6. Castañeda et al. (2016) analyze the robustness of these results by comparing different lineup methods and different ways to adjust welfare aggregates, weights, and poverty lines. They find only minimal differences. They also check for fixed effects and sensitivity to missing data. The resulting demographic profile thus paints a robust picture of global poverty.
7. Beegle et al. (2016) and Cornia (2014) document a bifurcation in inequality trends in Sub-Saharan Africa, that is, within a set of African countries with at least two recent, strictly comparable surveys, there is an even split between countries with widening inequality and countries with narrowing inequality. The surveys are drawn from the first decade of the 2000s.
8. World Bank (2015a).

9. In Cambodia, these difficulties revolve around problems in land tenure, bottlenecks in fertilizer and seed markets, inadequate extension services and irrigation systems, and, among farmers, the lack of savings and access to credit. In addition, recent agricultural productivity gains from an expansion in the arable land under cultivation are not sustainable indefinitely and are thus unable to offset these problems. As a result, smallholders are generally vulnerable to swings in the international prices for rice. In Tanzania, the unfinished transition to a market-based economy translates into a private sector characterized by a lack of competition, an absence of growth, and a heavy regulatory burden associated with the public sector. See World Bank (2014, 2016a).
10. World Bank (2016b).
11. Barros et al. (2010); Osorio and Souza (2012).
12. ADB (2014).
13. World Bank (2009, 2014).
14. Josz (2013).
15. World Bank (2015a).
16. Genoni and Salazar (2015).
17. World Bank (2015b).
18. World Bank (2016c).
19. Avram, Levy, and Sunderland (2014); De Agostini, Paulus, and Tasseva (2015).
20. Gertler et al. (2014); Grantham-McGregor et al. (1991).
21. UNICEF (2016).
22. Araujo et al. (2016).
23. Fafchamps and Quisumbing (1999); Jolliffe (1998); Yang (1997).
24. Ferré and Sharif (2014).
25. Behrman and Hoddinott (2005); Gertler (2004).
26. Akresh, de Walque, and Kazianga (2013).
27. Fiszbein and Schady (2009).
28. Aggarwal (2015); Asher and Novosad (2016).
29. Khandker, Barnes, and Samad (2013).
30. La Ferrara, Chong, and Duryea (2012).
31. See the evidence presented in chapter 6.
32. Abramovsky et al. (2014); World Bank (2016d).
33. See the evidence presented in chapter 6.
34. See the evidence presented in chapter 6.
35. See the evidence presented in chapter 6.
36. Hallegate et al. (2016).

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