Growth for the Bottom 40 Percent: The World Bank Group's Support for Shared Prosperity

This evaluation assesses the World Bank Group’s record on implementation of the shared prosperity goal since 2013, using the official definition of the goal of fostering income growth of the bottom 40 percent. It also analyzes institutional requirements for effective implementation of the goal, and evaluates the extent to which the Bank Group was already incorporating distributional issues in its various activities during the period 2005-13, before the adoption of the goal.

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- Addressing high levels of inequality at the country level is essential for making progress toward the SDGs.
- Results frameworks must adequately monitor impacts on the bottom 40 percent.
- Core diagnostics must contain rigorous analysis of the distributional effects of interventions.

Main Findings

One of the main findings of the evaluation is that the World Bank has made a significant effort to incorporate the shared prosperity goal—since its introduction in 2013--into its various products and services, across regions, global practices and World Bank Group institutions. In addition to the World Bank Group's first goal of poverty reduction, shared prosperity goal is defined as the growth of real incomes of the bottom 40 percent. Lessons from the evaluation of early implementation of the goal and the World Bank Group's related, equity oriented operations pre-2013 period, however, suggest that an increased focus on distributional issues in the World Bank's lending projects does not automatically lead to improved development outcomes.

This implies that continued attention will be needed to ensure success of the new shared prosperity agenda. To that end, a key factor identified in this evaluation will be the inclusion in World Bank Group strategies and projects of well-defined theories of change that explain how and under what conditions World Bank interventions are expected to lead to improved shared prosperity outcomes.

Moreover, it is important to ensure that the associated results frameworks allow for adequately monitoring impacts on the bottom 40 percent, and that data is available for measuring World Bank contributions.

Furthermore, strong analytical underpinnings are critical to strengthening the design of shared prosperity-focused interventions. This requires ensuring that core World Bank diagnostics are adequately funded and contain rigorous analysis of distributional effects.

A Growing Consensus

A significant consensus has emerged in recent years about the importance of addressing high levels of inequality at the country level for making progress toward the World Bank Group’s vision of a world free of poverty. In the mid-20th century, mainstream development economics treated income inequality as a by-product of development and a key incentive for taking risk and engaging in entrepreneurship. Today, however, income and wealth inequality are understood to also have potentially negative effects on economic growth and on the ability of growth to reduce poverty. In part, this is because some of key drivers of inequality may destabilize countries and compromise their growth potential —such as, for example, imperfect or missing markets, and high levels of corruption or other governance challenges.

https://ieg.worldbankgroup.org/evaluations/shared-prosperity...diium=email&utm_term=0_fc6e7f2a32-52c0de5d2a-113591945...
Also, using the latest advances in geospatial data collection and the matching of spatial subnational data, the report also analyzes geographic footprint of the World Bank projects and it recommends that the Bank monitor systematically spatial congruence of World Bank projects with the geographic distribution of the bottom 40 percent populations.

Last but not least, stronger efforts are needed to make sure that World Bank Group staff are not only aware of what the shared prosperity goal entails for the institution and its clients, but also have the skills needed for effectively incorporating and monitoring distributional objectives in the result chains of World Bank Group strategies and projects.

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### An Evolving View from Income Inequality to Shared Prosperity

At the World Bank, the importance of addressing high inequality levels to achieving the vision of poverty elimination has been increasingly recognized over the past decades. Starting with the 1990 World Development Report (WDR) on poverty, various World Bank Group flagship studies and strategy documents have recognized that high levels of inequality can be an obstacle to sustained poverty reduction.

The 1990 World Development Report *Poverty* argues that this is especially relevant in some of the most highly unequal countries in Latin America and the Caribbean. This and many other World Bank publications have increasingly emphasized that although poverty alleviation requires growth, growth is not enough: growth must be broad-based and labor-intensive, and it must be coupled with efforts to improve the targeting and effectiveness of basic social expenditures.

The 2000/01 World Development Report *Attacking Poverty*, for example, concludes that attaining the international development goals will require actions not only to spur economic growth but also to reduce income inequality and make progress in two other important fronts: facilitating empowerment by developing sound and responsive public sector institutions, and enhancing security by reducing the poor’s vulnerability to various external shocks. Many of these issues were revisited in depth in the *Equity and Development* 2006 World Development Report.

The World Bank Group has recognized the importance of avoiding growing levels of inequality to achievement of the twin goals; however, it has stopped short of considering inequality reduction a goal in itself. Continued increases in inequality, as observed in some of the larger developing countries in recent years, imply that attaining the global poverty eradication target would require growth rates that are higher than what has been historically observed.

The World Bank has thus recognized that to make progress toward the first twin goal, countries will have to implement policies and reform institutions so as to limit increases in inequality. Similarly, official World Bank documents have explicitly stated that sustained progress in achieving the second twin goal is incompatible with a steady increase in inequality. However, the World Bank has also noted that promoting shared prosperity does not necessarily imply reducing inequality in all countries at every point of time. In the event, in 2013, the World Bank Group has adopted the shared prosperity goal that defines it as growth of real income of the bottom 40 percent. While this measure is a growth and not an inequality measure, it has strengthened the Bank’s focus on inclusive growth, the bottom income deciles, and the broad development agenda that includes inequality.

*See Chapter 1: Introduction.*

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### The World Bank Group’s Operational and Institutional Embrace of the Shared Prosperity Goal

### Recommendations

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The Independent Evaluation Group evaluates the work of the World Bank Group to find what works, what doesn’t, and why. IEG evaluations provide an objective assessment of World Bank Group results, and identify lessons learned from experience. Through independent evaluation, IEG is helping the World Bank Group achieve its twin goals of eradicating extreme poverty and boosting shared prosperity.