



FOREWORD

It is a great pleasure to discuss the achievements of the Knowledge for Change Program (KCP) with its 14 partners, who are dedicated to supporting research and analysis of poverty reduction and sustainable development undertaken in the World Bank client countries by the Development Economics (DEC) research program. As you know, this partnership has been very successful as it continues to make significant contributions to the way we view development and by supporting sound development policies throughout the Bank's client countries.



Justin Yifu Lin
Senior Vice President
& Chief Economist
The World Bank

The KCP has received positive evaluations confirming the success and impact of this important partnership. According to Professors Bigsten and Durevall's evaluation report,

"... the KCP has worked well ... many of the projects have achieved very good results, and some are outstanding. Apart from substantial contributions with regard to analysis and publications, there have also been major achievements with regard to data collection and

the development of policy analysis tools. There is a broad consensus that there is a shortage of research funds, which KCP has helped to alleviate. Funding from the KCP has produced value added over and above what regular research funding gives."

This year's annual report is special in many ways. We are now at a crossroad, since the initial phase of the KCP will come to an end in July 2010. The report focuses on some of the achievements produced by the KCP partnership; it looks back at the productive and successful year of 2008 and introduces some of the emerging challenges that developing countries are currently facing. An urgent issue in particular is the soaring food prices that are threatening the lives of the poorest in the world. Food prices have increased in response to many factors: higher energy and fertilizer prices, increased demand for biofuels, and droughts in Australia and other countries. World grain stocks are at record lows and next year's prices depend on the success of the next harvest in the northern hemisphere. Wheat prices have increased by 200 percent, and overall food prices have risen by 75 percent since the turn of the century. Adjusting for exchange rates and domestic inflation reduces the

price increases faced by developing countries, but these increases are still severe for millions of poor consumers. More research needs to be undertaken to better understand the issues, and KCP funds have been deployed quickly to analyze and mitigate the impact on the poor, as you will see from reading this annual report.

A number of ongoing evaluative research initiatives (impact evaluations) are highlighted in the report, as well as efforts that helped reshape development policies in some of the Bank's client countries. The report touches on some of the KCP-funded work that helped build research capacity throughout our client countries, a subsidiary objective of the KCP. In addition, there is a section that presents the KCP 2008 statistics and financials, as well as a few thoughts and reflections on the future of this partnership.

In our meeting in Helsinki on September 30, 2008, we look forward to a very productive and fruitful discussion about the next phase of the KCP. We are extremely grateful to the government of Finland for hosting the 7th Consultative Group (CG) meeting in their beautiful capital.

Finally, I wish to express our sincere gratitude for your generous support, which is invaluable for our research and analysis. We look forward to continuing to address new and existing challenges for the developing world. Only by combining our efforts and working together can we make progress in realizing our dream of a world free of poverty.

We are now at a crossroad...the KCP partnership looks back at the productive and successful year of 2008 and introduces some of the emerging challenges that developing countries are currently facing...in particular is the soaring food prices...



CONTENTS

3	Message from the Bank's Research Director
5	The KCP in 2008
11	Responding to Challenges in The Global Economy
15	From Knowledge to Policy
19	Evidence-Based Knowledge—Impact Evaluation
23	Enhancing Research Capacity In Client Countries
25	The KCP Portfolio
27	Future Research Directions In KCP II
35	Annex I: KCP Financials
	The Unaudited Key Financial Tables, Found In Annex 1, Are All Based On a snapshot as of June 30, 2008:
	<ul style="list-style-type: none">• Table 1. Parent Fund Accounts• Table 2. Allocations and Disbursements• Table 3. Beneficiary Countries• Table 4. Projects in 2008
45	Annex II: KCP Project in Profile
49	Annex III: New KCP Projects in FY2008





MESSAGE FROM THE BANK'S RESEARCH DIRECTOR

Why should KCP invest in evaluative research?

The KCP aims to fill key knowledge gaps about development. To understand this role of the KCP one must first understand a few things about why there are these knowledge gaps in the first place. I will pay particular attention to the knowledge gaps about development effectiveness, since this is a key issue facing aid donors and a high priority for KCP-funded research as well.

Rigorous evaluations of development effectiveness are rarely easy. Practical and logistical difficulties abound. Special-purpose data collection and close supervision are typically required. The analytic and computational demands for valid inferences can also be daunting and require specialized skills. The Bank's research department is probably the largest concentration found anywhere of development researchers with those skills.

However, the difficulty of doing rigorous evaluations is probably not the main reason why knowledge gaps about development effectiveness persist. There are also reasons to doubt that the market for knowledge about development effectiveness works well, and the outcome is almost certainly that we probably underinvest in rigorous impact evaluations.

One feature is that producers and consumers of knowledge about development effectiveness do not typically have the same information about the quality of the evaluations that are done, a source of market failure. Development practitioners cannot easily assess the quality and expected benefits of an impact evaluation to weigh them against the costs. Short-cut methods promise quick results at low cost, though rarely are users in aid agencies or government well informed of the inferential dangers. Since it is often hard for practitioners to know whether research is of good quality or not, there is a real risk that rigorous evaluations are driven out by non-rigorous ones.

Another important feature of this market is that the decision about whether resources should be invested in data and research on a specific project or policy is often made (or heavily influenced) by the individual practitioners involved. The portfolio of rigorous evaluations is almost certainly

biased toward programs that work well: managers of weak programs try to avoid rigorous impact evaluations, which threaten to expose the program's weaknesses; lighter "evaluations" are easier to manipulate to show seemingly positive results.

Development is a learning process in which future practitioners benefit from current research. The individual project manager will typically not take account of these external benefits when deciding how much to spend on evaluation. (This is what economists call an "external-ity.") This is an important reason why research needs to be supported institutionally, supplementing the funding that is provided by the specific interventions under study.

Certain types of evaluations are likely to be more prone to this problem. It is typically far easier to evaluate an intervention that yields all its likely impact within one year than an intervention that takes many years. It is no surprise that credible evaluations of the longer-term impacts of (for example) infrastructure projects are rare. Similarly, we know very little about the long-term impacts of development projects that do deliver short-term gains; for example, we know much more about the short-term impacts of transfers on the current nutritional status of children in recipient families than about the possible gains in their longer-term productivity from better nutrition in childhood. (KCP-funded research has put a lot of emphasis on studies of the longer-term impacts of development efforts.) So future practitioners are poorly informed about what works and what does not. There is a "myopia bias" in our knowledge, favoring development projects that yield quick results.

By the same logic, it can be expected that we will tend to underinvest in research on the external validity (generalizability) of impact evaluations, i.e., the lessons that can be



Martin Ravallion
Director, Development
Research Group
The World Bank

drawn to benefit other projects and settings besides that of the specific evaluation, which is exactly what happens in practice—the bulk of the academic attention goes to the “internal validity” of a research study and very little attention is typically given to its external validity. Yet external validity matters enormously to the policy lessons drawn from research. We are planning to invest KCP resources in an effort to improve the tools available for assessing the external validity of evaluations.

The implication of all this is that without strong institutional support and encouragement, such as through the KCP, there will probably be too few evaluations, particularly of the long-term impacts of development interventions and of broader sectoral or economy-wide reforms and the evaluations that do get done will focus too much on their internal validity, relative to their external validity. The fact that long-term evaluations are so rare (though it is widely agreed that development does not happen rapidly) and that we clearly know too little about external validity suggest that the available support is currently insufficient or misallocated.

There has been substantial growth in donor support for impact evaluations in recent years. While the resources available do not always go to rigorous evaluation, researchers have helped stimulate broader awareness of the problems faced when trying to do evaluations, including the age-old problem of identifying causal impacts. This has helped make donors less willing to fund weak proposals for evaluations that are unlikely to yield reliable knowledge about development effectiveness.

...without strong institutional support and encouragement, such as through the KCP, there will probably be too few evaluations, particularly of the long-term impacts of development interventions...

Nonetheless, what gets evaluated is still a modest fraction of what gets done on the ground in the name of development. More worrying though is that it is a decidedly non-random fraction. A self-selected sample of practitioners approaches the funding sources, often with researchers already in tow. This is likely to favor projects and policies that are expected by their advocates to have benefits.

It is therefore very important that efforts, such as the KCP, to support more work on impact evaluations of development policies—to address the market failures discussed above—start from those knowledge gaps, not some prior preference for one sort of data or method. The inclination to start with interesting questions, and not preconceived methods, has been one of the distinctive features of research at the Bank, and one of the key differences with academic research.

KCP II cannot solve all these problems in the market for knowledge; but with a concerted effort on the part of both donors and the Bank’s managers of researchers and (of course) the researchers themselves, we can go a long way toward making sure that the research that is done is aimed squarely at the most important knowledge gaps that we face. The commitment to rigorous research and the flexibility of the KCP’s innovative design make it an ideal instrument for this purpose.





THE KCP IN 2008

Fiscal year 2008 was an important year for the KCP and its partners. The first phase of the KCP (KCP I) is set to close in July 2010 and no new contributions can be accepted. Since the average duration of KCP projects is between two and three years, the last projects were awarded funding from KCP I in June 2008. KCP I will close its books with an allocation of \$23 million to 99 research projects. During the year, 17 new projects were approved; there were 43 ongoing research projects; and five projects were successfully completed. The profiles of new, ongoing, and completed projects are shown below.

KCP-funded research has continued at full speed. Fiscal year 2008 was a very productive year with the launch of 17 new projects. The list, shown in Annex III, includes a range of topics—from *Commodity Prices, Policies, and Poverty, Climate Change and Development, and Are Opportunity Profiles Useful to Inform Policy Decisions?* to *Capital Raising Activity in Domestic and International Markets, Migration, and Labor Markets*. The range of focus countries covered by the new projects is wide, from Ghana (*Brain Drain and Brain Gain of Ghana's Best and Brightest*) and Sri Lanka (*Innovation and Informality Across the Firm Size Spectrum in Sri Lanka*) to China (*Urban Di Bao Study*) and Mexico (*Impact Evaluation of Structural Shift in Supply of Banking Services*). The average size of the new projects is about \$80,000, with project amounts ranging from as low as \$50,000 (*Credit Bureau Reform: Does Greater Credit Bureau Coverage Improve Borrower and Lender Outcomes?* and *Macroeconomic Volatility: Causes and Consequences*) to as high as \$200,000 (Climate Change and Development) and \$250,000 (*Biofuels and Sustainable Development*).

The KCP portfolio includes 43 ongoing research projects that cover a broad range of topics, from rural poverty reduction in Africa (*African Green Revolution: Finding Ways to Boost Productivity*), to health (*Improving Womens Health in Africa*), to fragile states (*Peace and Development, Post-Conflict Transitions*), and to climate change (*Global Warming and Developing Countries: An Economy-Wide Perspective*). By KCP theme, there are 19 projects under Poverty Dynamics and Delivery of Basic Services, 17 projects under Investment Climate and Trade and Integration, and seven projects under Global Public Goods. All ongoing projects are in different stages of completion, but are on track to be delivered within the next 1–2 years.

During the year, five significant projects were completed. Brief abstracts of the completed projects are found below,



while the full completion reports are posted on the KCP Web site (www.worldbank.org/kcp).

Decentralization, Community Organizations and Elite Capture

Community Based and Driven Development (CDD), is an increasingly important method of empowering poor and vulnerable groups, improving the delivery of public services, and increasing access to resources and information. The KCP has funded the first step, the creation of base data, in the evaluation of a large Bank-funded community development program, the Pakistan Poverty Alleviation Fund (PPAF).

Migration Policies and their Impact on Development

International Migration and Development Policies that may enhance the positive development effects of migration were the focus of this study. The report concludes that new institutional mechanisms to align migration and development policies are emerging, but that mainstreaming of migration into development policy agendas and vice versa remains limited.

The World Trade Organization (WTO) and Economic Development

An important research and policy question is to assess the benefit of the WTO from the perspective of developing countries. This KCP-funded project explores the WTO dispute settlement process and its relevance for developing countries. The study finds that WTO rules can have a significant and pro-development effect on developing country trade flows.

Investment Climate Analysis

Investment Climate Enterprise Surveys (ICES) and Investment Climate Assessments (ICAs) are central pillars of the Bank's Board-approved Private Sector Development strategy. This KCP-funded project supported surveys in Angola, Burkina Faso, Cameroon, Cape Verde, the Gambia, Guinea-Bissau, Malawi, Mauritania, Mozambique, Namibia, Niger, Rwanda, South Africa, Swaziland, Tanzania, Uganda, and Zambia. This project greatly expanded the coverage of Sub-Saharan African countries, and in several of these countries, is the only firm-level database available to researchers.

Climate Mitigation, Adaptation, and Sustainable Development

The objective of the project was to clarify the relationship between climate mitigation and sustainable development and to evaluate the likely merits of adaptation in the agricultural sector. The study had a broad sectoral view and produced interesting results; the following are some of its conclusions. Results indicate that tens of millions of people in the developing world may be displaced by Sea Level Rise (SLR) within this century. The study also found that the current generation of biofuels is intensive in land, water, energy, and chemical inputs and that the implications of biofuel impact on production, human health, soil quality, biodiversity, and water depletion are significant. The report also suggests that future agrarian incomes in Africa are climate sensitive and will be severely threatened in the event of extreme climate change scenarios. However, the impacts of climate change will not be evenly distributed across Africa; farms in some agro-ecological zones will benefit while those in other zones will lose. (See Box 2 for additional details.)





The complete lists of new, ongoing, and completed research projects are shown in Annex I, Table 4.

As KCP I draws to a close, the key question for the KCP partners was to decide on the possible future of the program. The Bank and the KCP partners agreed that a successor to the KCP would be contingent on a comprehensive external program evaluation. The Terms of Reference (TORs) were discussed and agreed upon by the KCP partners, and Professors Bigsten and Durevall of Gothenburg School of Economics were selected as evaluators. During the summer/fall of 2007, the two evaluators conducted an extensive evaluation of the KCP and its achievements so far. A preliminary report was discussed at the last Consultative Group (CG) meeting in Paris in November 2007. Summarized in Box 3 are some of the evaluators' findings.

Box 1: Examples of Ongoing KCP Research Projects

The project Improving Women's Health in Africa aims to enhance our understanding of the effects of income, incentives, and information on an individual's likelihood of contracting HIV, and to examine the pathways (or proximate determinants, such as partnership choices, marital transitions, safer sexual practices, frequency of sexual activity, etc.) through which this effect is transmitted. The project is built around a conditional cash transfer (CCT) program, which has been shown to be effective in improving outcomes in education, health, and nutrition, while simultaneously providing an effective social safety net. However, there is good reason to believe that such programs can also have an effect on the sexual behavior of the recipients and possibly reduce the incidence of HIV. Some evidence suggests that attending school provides an incentive for girls to avoid pregnancy, and that financial considerations play a role in decisions to form sexual partnerships for young women, both in and out of school.

The objective of the research project Peace and Development, Post-Conflict Transitions is to study the needs of client countries in a post-conflict stage. The project focuses on the dual challenge faced by fragile and post-conflict states: how to balance poverty reduction while mitigating risks of civil conflict and violence in three important areas—political governance and democratization, peace building through peace agreements and power sharing, and effective macroeconomic policy for fragile and post-conflict states. It is expected that policy makers in selected developing countries will benefit from direct access to leading researchers in these areas, involvement in discussion seminars, and participation in research.

The project Global Warming and Developing Countries: An Economy-Wide Perspective provides an assessment of the medium- and long-term economy-wide impacts of global warming and climate change for developing countries. The aim of the project is to extend the World Bank's existing global general equilibrium model to incorporate climate change-related aspects. Beyond the climate change extensions, the key innovations are to integrate the recent and extensive empirical studies on the country and sector-specific economic impacts of climate change and to provide more detailed coverage of developing countries than in existing global models of the economics of climate change.

Box 2: Research on the Impact of Climate Change in Different Agro-Ecological Zones: The Case of Africa

One of the outputs of the study on Climate Mitigation, Adaptation, and Sustainable Development is a research paper on the Impact of Climate Change in Different Agro-Ecological Zones. Research findings show that future farm incomes in Africa are climate sensitive and will be severely threatened in the event of extreme climate change scenarios. The impact of climate change is not evenly distributed across Africa. Farmers will be able to tolerate—or perhaps take advantage of—mild or moderate climate change scenarios because of various adaptation measures. The key question is whether African farmers have access to the best means of adapting to climate change in their local context. Africa's future distribution of crops will differ depending on the type of climate change scenario that occurs:

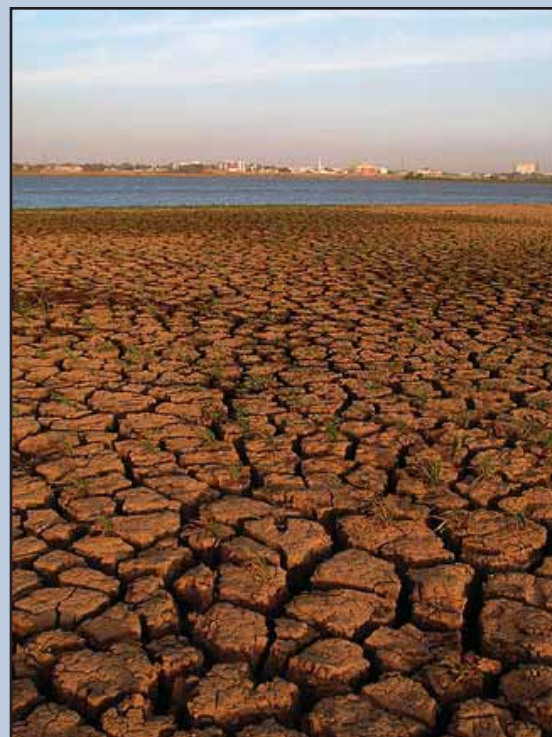
- In a very hot, dry scenario, farmers will grow more fruits and vegetables across traditionally humid parts of Africa, but less of these in lowland semi-arid areas.
- In a mild and moist scenario, farmers will grow more millet, except in the lowland and dry savannah and lowland semi-arid zones.
- In all scenarios, maize will be chosen less often in all zones.
- Wheat will decline across Africa as climate warms.

The implication for African policy makers is that these scenarios could help them to plan for the infrastructure, institutions, and funds that may be needed to alleviate the issues faced by the farmers in agriculture amid different climate conditions. In helping farmers adapt, policy makers should address the most vulnerable zones within a country first, taking into account their population, income volatility, and the size of the impact.

Another area for policy makers to consider is livestock. Farmers adapt their decisions about livestock based on the climate. As the temperature warms, farmers will raise more livestock and switch species. If rainfall increases, they will own less livestock. Research findings show that:

- As temperature rises, African farmers tend to move away from chickens and beef and dairy cattle toward goats and sheep.
- As rainfall increases, they tend to move away from beef and dairy cattle and sheep toward goats and chickens.
- With climate change, livestock ownership will increase across Africa, except in the deserts.
- In a very hot and dry scenario, the largest increase in livestock adoption will happen in the high elevation zones.

To help African farmers with climate change adaptation and mitigation, policy makers will need to consider changes in global prices for livestock, local changes in population, income, and level of development, as well as the varying adaptation choices by zone.





Box 3: The KCP Evaluation at a Glance

The objective of the evaluation was to assess how the KCP has been meeting its objectives as described in the KCP Charter. It aimed to judge the overall value-added and contribution of the KCP in supporting Bank's research, policy guidance for lending operations, and dissemination of results and involvement of researchers and institutions from the developing countries. It also assessed the efficiency and effectiveness of its processes.

The evaluation concluded that the KCP that has been working well, meeting the criteria set out in the KCP Charter. Results achieved are generally very good and, in some cases, outstanding. Important achievements include data collection, policy analysis tools, and important publications. The evaluation highlighted the efforts made by KCP-funded researchers to disseminate findings, not just by publishing, but by arranging workshops and seminars in client countries. Some of the KCP-funded work was described as both important and influential, even if measuring the impact of research is intrinsically difficult.

Several of the KCP projects are dedicated to the collection of development data to be stored in databases with open access to the public in general. The evaluation found it occasionally difficult to locate a few of the databases on the Bank's web site. It suggested that the databases be consolidated and that access be made easier for the general public. The KCP undertook major efforts during 2008 to improve the availability of data and, as a consequence, accessibility to the Bank's databases has improved significantly.

The evaluation looked at the degree to which KCP-funded projects has been able to build local research capacity in client countries. It found several cases where local researchers were hired to work on KCP projects, and in some cases significant training had been one of the objectives of the projects. However, the evaluation pointed out that while research capacity building is a subsidiary objective of the KCP, according to its Charter, there is a trade off between high-quality research and capacity building.

The evaluation also found that the process of selecting and evaluating projects was seen as both efficient and cost effective. It concluded that the KCP is well suited to play an active role in the delivery of knowledge services, an important role of the Bank, according to a 2007 World Bank report entitled *Meeting the Challenges of Global Development*. The World Bank report proposed an increase in Bank research and analysis on the investment climate, the empowerment of people, and global public goods, which are the three pillars of the KCP.





RESPONDING TO CHALLENGES IN THE GLOBAL ECONOMY

The KCP has enabled the Bank to move quickly into areas of the world confronted with new development challenges. As the KCP program evaluators found, the KCP was particularly useful for rapid deployment of resources in emerging areas. A good example from past projects is the International Migration program, through which the Bank was able, by means of the KCP, to kick start a comprehensive research program that has yielded important results and knowledge on the impact of migration in developing countries. However, there will always be new challenges that pose a threat to development and, in the worst of cases, threaten to reverse development or bring about unexpected events that require immediate attention.

Among the new challenges are the soaring food prices that affect many poor countries. Related, and a probable partial culprit, to rising food prices is the increase in the production of biofuels. Although biofuels may be environmentally sound, some analysts suggest that biofuel production is one of the key reasons for the increase in global food prices. The KCP-funded project *Biofuels and Sustainable Development* aims to address the short-term impacts of biofuel production on food prices and on the poor, and the longer-term prospects for biofuels, with a focus as well on food prices and the poor. The project will also analyze the impact of biofuel production on climate.

On the same theme, the KCP project *An African Green Revolution: Finding Ways to Boost Productivity* aims to understand why farms in Sub-Saharan Africa are generally less productive than farms in other regions and to suggest priority policies and investment to accelerate agricultural growth. In particular, the project will try to distinguish the effects of immutable agro-climate factors from the conditioning effects of markets and household characteristics on technology choice. This distinction is important since basic agricultural research determines the range of feasible technologies available for a particular combination of soils and climate, while economic factors are potentially influenced by a separate set of policies and their interaction with public investments. Agriculture in Sub-Saharan Africa accounted for 70 percent of employment, 40 percent of exports, and about 30 percent of economic growth from 1990 to 2005. Equally important, more than 70 percent of the continent's poor people live in rural areas and depend on agriculture for their livelihood. However, productivity has stalled or declined in many African communities. On average, cultivated land per worker has declined in Sub-Saharan Africa by about 40 percent since the 1960s and value added per worker now averages around 12 percent below 1980 levels. Investment rates for

new technologies have declined in recent years and adoption rates are low when compared to other regions. Closing the productivity gap in Africa is expected to have a significant effect on economic growth in rural areas and is a key component of the Bank's efforts to reduce poverty in Africa.

Another project that has been both timely and constructive as a response to the recent food crisis is the World Development Report (WDR) 2008, *Agriculture for Development*. Since the publication of the report, agriculture has become a global priority, as the impact of soaring food prices has shaken consumers, producers, and governments in both developed and developing countries—in the latter, there have been riots and violent protests against the price hikes. In response to the crisis, the WDR 2008 team decided to intensify an already crowded dissemination plan by holding additional workshops in several countries. The turmoil in agricultural markets has also increased the relevance of the report's main message: *"In the 21st century, agriculture continues to be a fundamental instrument for sustainable development and poverty reduction. It deserves much greater attention from governments and international development agencies than it has received over the last 25 years. Agriculture offers opportunities to do development both differently and with greater success."* The analysis and policy recommendations offered by the report were critical in the preparation of both short- and long-term responses to the food crisis. The report was also forward looking and prophetic in predicting that food prices would rise: *"Models predict that food prices in global markets may reverse their long-term downward trend, creating rising uncertainties about global food security. Climate change, environmental degradation, rising competition for land and water, higher energy prices, and doubts about future adoption rates for new technologies all present huge challenges and risks."*

Some recommendations to policy makers to combat the soaring food prices were largely derived from the WDR 2008 and include the following:

- Seek a better understanding of the role of biofuels in food and energy markets and climate change;
- Make smallholder farming more productive and sustainable;
- Improve price incentives for agricultural production and increase the quality and quantity of public investments in rural infrastructure;
- Improve access to financial services and reduce exposure to uninsured risks;
- Enhance the performance of agricultural producer organizations;
- Create an agriculture-for-development agenda at the local and national levels;
- Expand work on poverty impacts to better identify winners and losers at the global, intra-national and socioeconomic levels;
- Analyze the longer-term impacts of higher food prices (wages, employment);
- Explore the role and impacts of export bans and restrictions/trade barriers regarding agricultural markets and the poor; and
- Continue research on critical knowledge gaps.



Pandemics and the spread of communicable diseases present major challenges to development. Avian influenza (H5N1 strain), for example, continues to pose a threat in many regions of the world. Over the last two to three years, human cases of avian influenza A (H5N1) have been reported in Vietnam, Thailand, Cambodia, China, Indonesia, Turkey, Iraq, Azerbaijan, Egypt, and Djibouti. Most human avian influenza cases have been among patients who had direct contact with poultry or who live in areas where poultry are present. A few cases of person-to-person spread of H5N1 viruses have been reported, with no instances of transmission continuing beyond one person.



Box 4: Improving Malaria Outcomes through Evidence-Based Program Design

Malaria is a leading cause of morbidity and mortality in much of the developing world, especially Africa, with children under five representing a large portion of the population at risk. The World Bank, through its *Booster Program for Malaria Control in Africa*, and the International Development Association (IDA) in the South Asia Region are joining in an aggressive campaign to take control of malaria, committing approximately US\$500 million over the next two years in IDA funds to support countries ready to expand their malaria control efforts. The program is designed to scale up anti-malaria efforts through enhancing the delivery of key disease-control and treatment services, such as long-lasting insecticide-treated nets (LLITNs) and effective antimalaria medication (such as artemisinin-based combination therapies (ACTs)), while contributing to the strengthening of health systems.

While the causal link between use of effective anti-malaria services and improved malaria outcomes is well established, the relative effectiveness of alternative delivery mechanisms and intervention packages to induce a change in people's health behavior is not as well understood. Furthermore, little rigorous evidence has been collected on what works, and in which context, to inform and sustain a process of organizational learning and evidence-based programmatic choices.

This proposed work will support high-quality evaluations of several national Bank-supported programs. A clear focus on rigorous identification strategies will guarantee the internal validity of the individual country studies. In addition, the comparative multi-country nature of the initiative will better inform the potential external validity of the findings in order to improve malaria control programs at the global level.

The careful evaluation of at least five national Bank-supported programs is of direct interest to the workings of the Bank. Moreover, the general lessons learned from a multi-site micro-empirical study in regards to determinants of successful delivery of anti-malaria services clearly provide a global public good relating to the conduct of malaria control programs everywhere. This work covers at least three main research themes of the KCP: Human Development and Service Delivery, Evaluating Impact, and Communicable Diseases and Health Externalities.

In May 2007, the KCP allocated funds to the project *The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them*. The overarching goal of this project is to determine how various policies that are likely to be employed to contain a human influenza pandemic vary in their costs and benefits and in the distribution of these costs and benefits across countries. The research, undertaken from a developing country perspective, is focusing on the following questions: How will policies that may be adopted by a given developed country (either by governments or private individuals), in the event of an outbreak of avian influenza, likely affect the citizens of that country, of other developed countries, and of developing countries? What are the costs and benefits of various control strategies that developing countries could undertake and how are the benefits distributed across countries?

Another KCP project on the same topic, *Understanding Disease Control of Highly Pathogenic Avian Influenza*, has been instrumental in leveraging over US\$1.5 million in additional funding to conduct the first ever population-based, representative seroprevalence survey of the H5N1 virus, currently responsible for at least 227 deaths worldwide. This study, expected to be fielded in the fall 2008, is expected to generate valuable and policy relevant data on the true extent of population exposure to the virus.

The KCP is also funding a project that seeks to evaluate anti-malaria programs entitled *Improving Malaria Outcomes through Evidence-Based Program Design: A Multi-Country Initiative to Support the World Bank's Booster Program for Malaria Control*. Malaria is one of the world's most important public health concerns, causing over a million deaths and up to 500 million clinical cases each year. Most of the 3,000 deaths each day—10 new cases every second—are in Africa and more than a third of the world's total population now lives

in malaria-endemic areas. The disease also takes an important toll on households and health care systems, impeding development. It is estimated that malaria reduces GDP growth by approximately one full percentage point per year. The poor are affected most as they have less access to services, information, and protective measures, and less power to avoid living or working in malaria-affected areas. A vaccine is not on the immediate horizon. Drug resistance to affordable antimalarial drugs, such as chloroquine, is on the rise and while more effective antimalarials are available, they come at a significantly higher cost. The most cost-effective interventions against malaria today are rapid diagnosis and effective treatment, the use of insecticide-treated bednets, intermittent presumptive treatment for pregnant women, and epidemic preparedness. The burden of malaria can be reduced significantly using existing preventive and treatment strategies.





FROM KNOWLEDGE TO POLICY

The aim of the KCP is to focus on high-quality research with a view to improving development policies in Bank client countries. It is always a challenge to link changes in policies to specific pieces of knowledge from Bank research. However, there is little doubt that some KCP-funded research has played an important role in influencing development policies in many of the target countries. The most influential projects are undoubtedly the WDRs, which have received substantial funding from the KCP. The following are a few examples of where KCP-funded research has had a positive impact on economic and social policies:

- The WDR 2005, *A Better Investment Climate for Everyone*, along with additional KCP-funded research and Investment Climate Assessments (ICAs), particularly in Africa, has led policy makers in these countries to use other countries as benchmarks in evaluating their own investment climates. The KCP has helped build a database that includes 76,000 firms in 105 countries, with additional countries or repeat surveys being added on a continual basis. The data has been widely used both within the Bank and outside. Every country in the region that conducted a survey has prepared or is in the process of preparing an ICA that draws extensively on this data. These ICAs now constitute a significant product within the Bank's Finance and Private Sector Development Network, with results also feeding into Country Assistance Strategies (CAS), Poverty Reduction and Strategy Papers (PRSPs), and Country Economic Memorandums (CEMs). The results of these reports also inform a number of projects and broader debates about policy priorities for the private sector.
 - A KCP-supported study, the *Private Sector Development Research Program*, found that aid targeted at developing small and medium enterprises (SMEs) would be better used to support overall investment climate improvements, as growth of SMEs is a characteristic of successful economies rather than a consequence of targeted reforms.
 - Another study, *Access to Finance and Poverty Alleviation*, found that privatizing state-owned banks improves their efficiency and profitability; but that gains are greater when the government fully relinquishes control, when banks are privatized to strategic investors (rather than through share issues), when foreign banks are allowed to participate, and when the government does not restrict competition in the banking sector.
 - China's State Environmental Protection Administration has called for nationwide application of the practice adopted by seven provinces to impose information-based
- The WDR 2006, *Equity and Development*, has undoubtedly influenced the shaping of policies in many countries that aim to create inclusion and reduce inequalities. Governments are devoting increased attention to issues of equity, influenced in part by KCP-supported research findings that high levels of inequality and inequity (unequal opportunities) may threaten prospects for growth and development.



levies on polluters, following the KCP-supported study *Climate Mitigation and Sustainable Development: Risks, Benefits, and Institutional Implications*, which tracked emissions at plants owned by over 8,000 manufacturing firms. This information-based levy system has resulted in significantly reduced air pollution emissions by these firms.

- The KCP-funded study *Increasing Access to Land by the Rural Poor in India* has been instrumental in shaping land policies in India. At the *state* level, where actual decisions are made, the project has provided the basis for follow-up activity in all of the areas covered. Regarding restrictions on land rental, a number of states, such as Karnataka and Andhra Pradesh, have commissioned legal drafting to eliminate such restrictions. On land reforms, West Bengal is currently discussing a scheme that would allow tenants to buy out their landlords. On land administration, a number of poor states, such as Uttar Pradesh and Madhya Pradesh, are launching pilots to establish a comprehensive system for land administration that is implemented in partnership with the private sector and does not require external intervention to remain updated. At the *national* level, the impact of the project in getting land on the policy agenda is reflected by the key conclusions adopted in the country's Eleventh Five-Year Plan.
- The KCP-funded Policy Research Report (PRR) *At Loggerheads? Agricultural Expansion, Poverty Reduction, and Environment in the Tropical Forests* is another example of research that has shaped the debate on climate change and development. Although the PRR covers far more than the forest-climate connection, it is arguably on that issue that the report has had the greatest impact to date. Although deforestation accounts for about a fifth of global greenhouse gas emissions, the admissibility of reduced emissions from deforestation and degradation (REDD) as a climate mitigation measure has been contentious for years; REDD



was excluded from the Kyoto Protocol. Proponents have included Latin American nations and NGOs. DEC research has addressed some of the underlying issues over the years, and that research was synthesized and presented in the report. The online dissemination of the draft report in April 2006 and its subsequent publication in October, was one of many factors that may have contributed to a striking shift in public and political opinion towards REDD which occurred over the period 2006-07 and has resulted in the inclusion of REDD in the global climate negotiation process under the UN Framework Convention on Climate Change. Most notably, the report's discussion of REDD

was drawn upon by the Stern Review of climate change, which emphasized the potentially important role of reduced deforestation as part of the global climate regime. The report was also cited in a European Commission paper on "Limiting Global Climate Change to 2 Degrees Celsius" and, as noted in the dissemination section has received wide attention among groups and individuals concerned with forests and climate.

- The WDR 2008, *Agriculture for Development*, mentioned earlier in this report is having an impact on policies to mitigate the worldwide food crisis that is particularly hard on



poor countries that rely on imported foods. The WDR team has launched an intensive dissemination campaign with workshops, presentations and other events in more than 70 countries. At least 300 presentations have been made, including through a network of agricultural producers and by diverse staff in the Bank's Sustainable Development Network (SDN) and via the Consultative Group on International Agricultural Research (CGIAR) and its centers. These presentations and discussions have addressed many specialized meetings of stakeholders—cabinet ministers, parliamentarians, academics, agribusiness representatives, donors, farmer organizations, civil society, public sector agricultural staff, the United Nations and multinational and regional financial organizations, and gender specialists. The WDR 2008 has been cited by Nobel laureate Norman Borlaug, the Gates Foundation, Kofi Annan, several leading economic pundits, at least one head of state, and repeatedly by Mr. Zoellick as a seminal piece of work that highlights the need to put agriculture back at the top of the development agenda. Most gratifying is that support for agriculture is being scaled up significantly by the Bank Group itself as well as by many other donors. We like to think that the WDR 2008 helped build the momentum for agriculture-for-development agendas in several regions, particularly in Africa.



Box 5: Absenteeism of Teachers and Health Workers

The absenteeism study is a component of the Qualitative Service Delivery Survey (QSIDS)—an instrument to collect new types of micro-level data from frontline service providers. This work began as part of the World Development Report 2004, *Making Services Work for the Poor* (also funded by the KCP).

Designed to gather data that will inform policy on service delivery, the absenteeism survey was based on unannounced visits to a nationally representative random sample of primary schools and primary health care centers, mainly to provide data on staff absenteeism, a concern frequently expressed but not before documented. These surveys combine direct verification of the attendance of teachers and medical personnel with detailed data gathering on facility and provider characteristics.

A paper from this study, “Missing in Action: Teacher and Health Worker Absence in Developing Countries,” reports results from surveys in primary schools and health clinics in Bangladesh, Ecuador, India, Indonesia, Peru and Uganda that recorded the presence or absence of teachers and health workers in the facilities. Averaging across the countries, about 19 percent of teachers and 35 percent of health workers were absent. Since many providers who were at their facilities were not working, even these figures may present too favorable a picture. For example, in India, one quarter of government primary school teachers were absent from school, but only about one half of the teachers were actually teaching when enumerators arrived at the schools.

From a policy point of view, the collection of the previously unavailable data will help reform policies designed to improve service delivery in developing countries. Beyond documenting the extent and patterns of teacher absenteeism, the study explores provider and institutional factors that shape absenteeism patterns and the impact of teacher absenteeism on student performance.





EVIDENCE-BASED KNOWLEDGE—IMPACT EVALUATION

As the message from the Bank's Research Director indicates, much of the KCP-funded research on impact evaluation has focused on systematic efforts to evaluate programs and policies. This will complement ongoing efforts to promote results orientation in Bank operational work, providing stronger empirical foundations for both monitoring results and design of country programs. KCP-funded impact evaluations are conducted in a broad range of areas covering development interventions in all sectors relevant to reducing poverty and achieving sustainable development.

Impact evaluations, as performed in the Bank's Research Group, use robust evaluation methods as a means of generating knowledge on effective development interventions. Impact evaluations generate knowledge on which sorts of programs create substantive results and which do not, and under what circumstances. Such information is critical not only for the policy makers directly in charge of the program evaluated, but also for others who may be considering adapting its approach for use in their own circumstances. Particularly when used strategically to test the effectiveness of specific approaches in addressing key development challenges, impact evaluations constitute the preferred approach to assessing results. Furthermore, they can also provide critical inputs (benchmarks) to other monitoring and evaluation activities. Under this scheme, groups of impact evaluations of strategic interventions are conducted in a coordinated fashion across countries in different regions of the world. This facilitates comparative analysis of results in different settings as well as the ability to obtain more robust estimates of program impact to inform policy and program design in the future. Initial efforts have concentrated on social programs (e.g., interventions to improve education service delivery, conditional cash transfers (CCTs), and early childhood development programs). Current efforts are focused on expanding this line of work to other critical areas of development programs.

The KCP has co-funded a Policy Research Report (PRR) on the impact of CCTs (*Measuring and Understanding the Impacts of Development Projects*). The report argues that conditional cash transfers can be an effective way of redistributing income to the poor. They are preferable to unconditional cash transfers when households invest too little in the human capital of their children. There may also be political economy considerations that favor conditional over unconditional transfers—for example, taxpayers may be more likely to support transfers to the poor if they perceive the poor to be doing “something” to help themselves or their children.

The report also shows that there is considerable evidence that CCTs have improved the lives of poor people. Transfers have generally been well targeted to poor households, have raised consumption levels, and have reduced poverty—in some countries, by a substantial amount. CCTs have also led poor households to make more use of health and education services. Nevertheless, the evidence on improvements in final outcomes in health and education is more mixed. Thus, CCTs have increased the likelihood that households take their children for preventive health checkups, but this has not always led to better child nutritional status; school enrollment rates have increased substantially among program beneficiaries, but there is little evidence of improvements in learning outcomes.

The report concludes that CCTs can be an important component of social protection policy. To maximize their potential effects on the accumulation of human capital by poor households, CCTs should be combined with programs to improve the quality of the supply of health and education services. And even the best-designed and managed CCT cannot fulfill all of the needs of a comprehensive social protection system. They therefore need to complement other interventions, such as workfare or employment programs, and social pensions.

A forthcoming PRR will focus on local development projects (community-based and driven development, village decentralization, and community-based livelihoods projects) which are an increasingly popular approach followed in a variety of sectors. By building demand for effective local governance and empowering poor and vulnerable groups, they can make significant contributions in a variety of areas (e.g., creating local livelihoods opportunities, achieving improvements in service delivery, promoting inclusion and equitable access to decent work for vulnerable groups, and improving security for marginalized groups). Building the evidence base on those contributions is critical to sustain and fine-tune the design of these approaches.

Programs to achieve better living conditions of slum dwellers have included a range of urban upgrading activities such as sites and services (including both infrastructure interventions at the community and household level, as well as social interventions such as job training, day care and community development), resettlement to new housing developments, housing subsidies, and land titling. Most programs tend to be multidimensional and include several activities. Last year, we featured a KCP-funded project that evaluated slum upgrading projects

Box 6: Conditional Cash Transfer (CCT) Programs

In recent years, conditional cash transfer (CCT) programs have become one of the most popular interventions seeking to alleviate poverty in the short run, while improving the health and education status of poor children as a means of reducing long-term poverty. The common definition of a conditional cash transfer program is one that transfers cash to poor households conditional upon them making prespecified investments in the human capital of their children.

A growing number of countries has implemented such programs. While the details of program design vary, all of these programs transfer resources to households on condition that they enroll their children in school or take them for regular visits to health care providers.

CCT programs have two clear objectives:

- First, they seek to provide poor households with a minimum consumption floor.
- Second, in making transfers conditional, they seek to encourage the accumulation of human capital, and break a vicious cycle whereby poverty is transmitted across generations.

Interest in and the scope of CCT programs have grown enormously in the last ten years. Today, 24 developing countries already have some type of CCT program in place and many other countries are planning one. The range of countries extends from Argentina to Zimbabwe, though the longest established and most evaluated programs are predominantly found in middle-income countries in Latin America.

CCT programs are expected to fill different niches in social policy. In some countries (Brazil, Jamaica, Mexico), the CCT program offers large-scale social assistance and grew out of the reform and expansion of other social assistance programs. In other countries, such as Chile, they are smaller and are meant to fill the cracks between and tie together a large number of existing social services. In some countries, CCT programs stand very independently (Honduras, Jamaica); in others they provide links to a large and sometimes increasing array of other services (Chile, Colombia, Mexico). In several countries, they are still small pilots (Kenya, Nicaragua). In still other countries, the programs' roots are more in the education sector (Cambodia) or a hybrid of social assistance and education (Bangladesh, Kenya). Some of the nascent programs focus more on the nutrition of young children (Peru's Juntos).

There are critical questions about CCT program design, implementation, and context that make it difficult to determine to what extent the results from these evaluations can be generalized to other settings. Fortunately, an important feature of CCT programs is the careful consideration that many have placed on impact evaluation. A number of programs collected pre-intervention baselines; in some instances, interventions were phased in a staggered fashion, and the selection of communities into program phases was done by randomization; in other cases, eligible communities (or households) were matched to ineligible, but similar communities (or households) at baseline. As a result, there are an increasing number of credible impact evaluations for many CCT interventions, including many under way, which can help answer the unanswered questions.



in three Brazilian cities. Lessons from the KCP-funded project will complement other impact evaluations on slum upgrading projects in other Bank client countries.

The ultimate outcome from impact evaluations, funded by the KCP and other sources, is to test development interventions in different countries and settings in order to find out what works and what does not.



Box 7: Impact Evaluations

The ongoing KCP project *Measuring and Understanding the Impacts of Development Projects* is one of the larger KCP-funded projects that will provide new knowledge on the value of impact evaluations.

The World Bank has been in the development business for more than a half-century. It has lent hundreds of millions of dollars to different sectors in its client countries. There is a huge demand to improve the quality of knowledge at the World Bank and the larger development community about how to evaluate what works, what does not, and why in a variety of sectors, and thus to improve the design and effectiveness of similar projects or programs in the future. Understanding these issues is the first step towards increasing the effectiveness of project aid.

The objective of this study is to learn more about the conditions under which aid to developing countries is most likely to achieve its objectives at the national, subnational, sectoral, or project level. Such knowledge constitutes a global public good—valuable to all donor agencies. The conditions examined include characteristics of recipients, including their policies and institutions, as well as how donors design and deliver aid programs and projects. Other related issues in the larger program concern the absorptive capacity of many aid recipient governments, the extent of fungibility of aid across sectors, subsectors and across donors, and the sustainability of political support for increased aid in donor countries.

The current work being undertaken as part of this project includes supporting the research activities within ongoing evaluations in order to better understand the heterogeneity in impacts from development projects. Better knowledge about heterogeneity points to the needs for supplementary policies for better protecting the disadvantaged. A second activity of the project is provide technical assistance to new evaluations at all stages of the evaluation cycle, from design through implementation and analysis.

Findings from the proposed research studies are potentially of relevance to all donor agencies, not only to the Bank.





ENHANCING RESEARCH CAPACITY IN CLIENT COUNTRIES

Given the need to define growth and development strategies and to engage with the international community (trade agreements, investors, international organizations), it is important to bolster the policy research capacity of developing countries. Policy research is needed to inform governments and affected stakeholders regarding the likely efficacy of alternative instruments, as well as their allocative efficiency and distributional effects before decisions are taken. It is also necessary to monitor and evaluate the effects of policies once they have been implemented. Therefore, policy research is an important underpinning of governance as it provides a basis for internal debate and a source of information independent of governments.

The Bank's efforts in this area have been channeled through country-level support to academic and technical institutions via its lending program and associated technical assistance, through training and courses, mainly via the World Bank Institute (WBI), and through the provision of grant support to research networks such as the African Economic Research Consortium (AERC), the Economic Research Forum for the Arab countries, Iran and Turkey (ERF), and the Economic Education and Research Consortium (EERC)—for countries belonging to the Commonwealth of Independent States in Eastern Europe and Central Asia. These networks are in turn now part of the Global Development Network (GDN).

Research capacity building is one of the objectives of the KCP, and is one of the criteria used to select projects. Researchers are encouraged, as early as the proposal creation stage, to include capacity-building components in their



projects when suitable and possible. This section features a few cases where project leaders were able to help build local capacity in a Bank client country. The KCP project *The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them* is a collaborative effort of the Bank, the U.S. National Institutes of Health, Vietnam's Cen-

Box 8: New Technologies for Improved Data: The Case of Brazil, Tanzania, and Vietnam

Collection of household survey data has traditionally relied on the use of paper questionnaires, with data being entered electronically as a separate task. New hardware and software allow these two tasks to be integrated, with the potential to improve the quality of data collected as well as substantially reduce the time between interviewing and data analysis. The KCP and other resources have supported the program of the Living Standards Measurement Study (LSMS) team to explore and develop software for Computer Assisted Personal Interviewing (CAPI). This effort consists of developing new software and improving the existing public domain software—the Census and Survey Processing System (CSPRO). Surveys utilizing these new software technologies on Ultra-Mobile Personal Computers are ongoing in Brazil, Tanzania, and Vietnam. The ultimate objective of this work is to improve the methods of monitoring living standards and measuring poverty in low-income settings. When implementing the new tool, the survey staff (all local) in the target countries—Brazil, Tanzania, and Vietnam—were trained and tested on the new system. The immediate effect is an increased capacity for the recipient countries to replicate the surveys and expand the scope and reach of future survey initiatives with or without the Bank. The second effect is the enhanced quality of future surveys, and ultimately the data, which is used to measure living standards and the improvements in country MDGs.

tral Statistical Office, Vietnam's National Institute of Hygiene and Epidemiology (NIHE), and other participating institutions. Much of the study resources are used to invest in Vietnam's two participating institutions to ensure sufficient capacity to undertake such a challenging study. These investments include laboratory upgrades and personnel training in cutting-edge laboratory assessment techniques as well as the introduction of Personal Digital Assistants (PDAs) for field survey. This project is expected to establish Vietnam's NIHE as a regional leader in epidemiological research.

The research team from the Bank's Research Group was able to leverage substantial additional resources for the project, thanks to the "seed funds" it was awarded from the KCP. Without funding from the KCP, the study would not have been initiated. Even more remarkable, the team was able to mobilize additional resources to help build a partnership with Vietnam's NIHE, and turn it into a major capacity-building success.

The second example of capacity building is from the KCP project *Research for Improving Survey Data*. The objective of this project is to improve the tools for collecting micro-level data and, thus, the quality of household-level data used to inform social and economic policies in client countries, monitor the Millennium Development Goals (MDGs), and evaluate the PRSPs.



The demand for micro-level data and its use has continued to expand rapidly, stemming from, among other things, the development, implementation, and monitoring of Poverty Reduction Strategies (PRS) by developing countries, the international and national commitment to the MDGs, the Heavily Indebted Poor Countries (HIPC) Initiative, and the Multilateral Debt Relief Initiative (MDRI). To meet this demand, several organizations and programs have been put in place, all with strong support and technical inputs from the Bank and DEC (e.g., Paris21, the STATCAP facility, ISLC/MECOVI). The thrust of these efforts

has been to establish survey capabilities, link data users and producers, and improve the quality of existing surveys. The research activities in the KCP project *Research for Improving Survey Data* aim to ensure that the quality and relevance of the data produced are commensurate with the importance of the policy issues in hand. This ranges from improving the content of questionnaires to enhancing the capacity of local institutions to collect timely and relevant data. With regard to the effort to improve capacity for data collection, the project is developing a system for Computer Assisted Personal Interviewing (CAPI). The CAPI program entails using ultra-mobile personal computers to conduct surveys rather than the old system of paper questionnaires. The objective is to improve the capacity to collect reliable household survey data needed to measure poverty, monitor living standards, and evaluate programs.



THE KCP PORTFOLIO

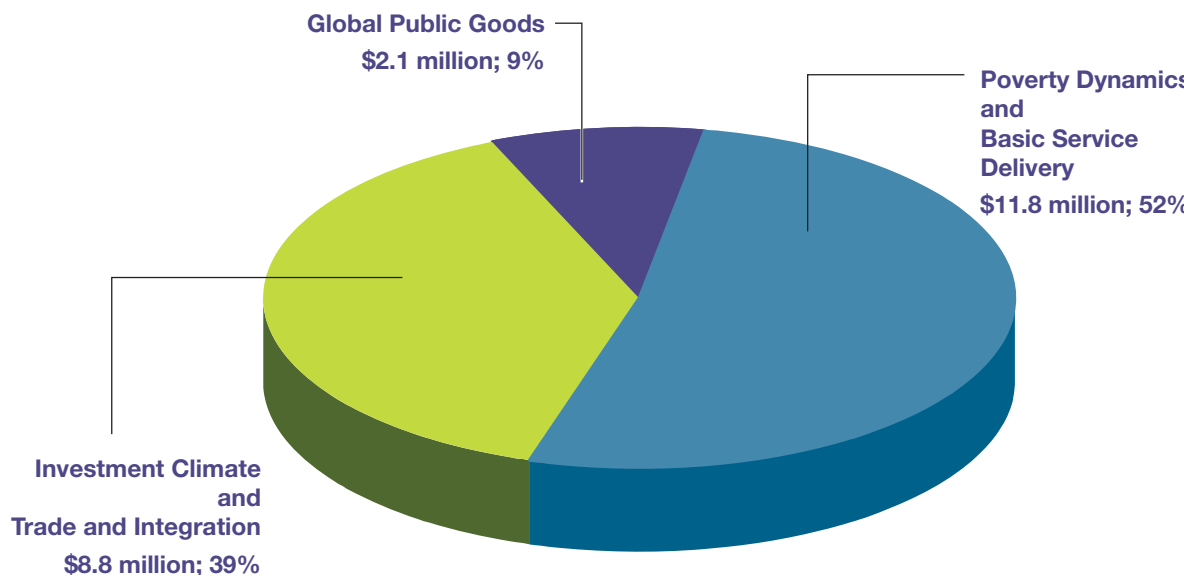
Based on donor preferences and demand for research funds, 52 percent of the contributions have been allocated to the Poverty Dynamics and Basic Service Delivery Trust Fund and 39 percent to the Investment Climate and Trade and Integration Trust Fund, while the third window, the Global Public Goods Trust Fund, launched in 2006, received 9 percent of contributions (see Figure 1).

Annex I details donor contributions, their distribution into the three trust funds, and their allocations and disbursements. The KCP Financial Tables, including contributions received for the three trust funds, aggregate allocations made as of June 30, 2008. These include the following:

- Table 1. Parent Fund Accounts
- Table 2. Allocations and Disbursements
- Table 3. Beneficiary Countries
- Table 4. Projects in 2008

As of this report, the trust fund disbursement rate is 81 percent (see Table 2), excluding the 17 new projects approved in June 2008. Given the KCP's impending closure in July 2010, the pace at which project funds are being disbursed has accelerated. Project leaders have been informed that a program extension is not envisioned, thus, they have to ensure that they adhere to the timeline or risk the loss of funds and/or not completing their research projects. At this rate, we expect full and efficient use of KCP-allocated funds.

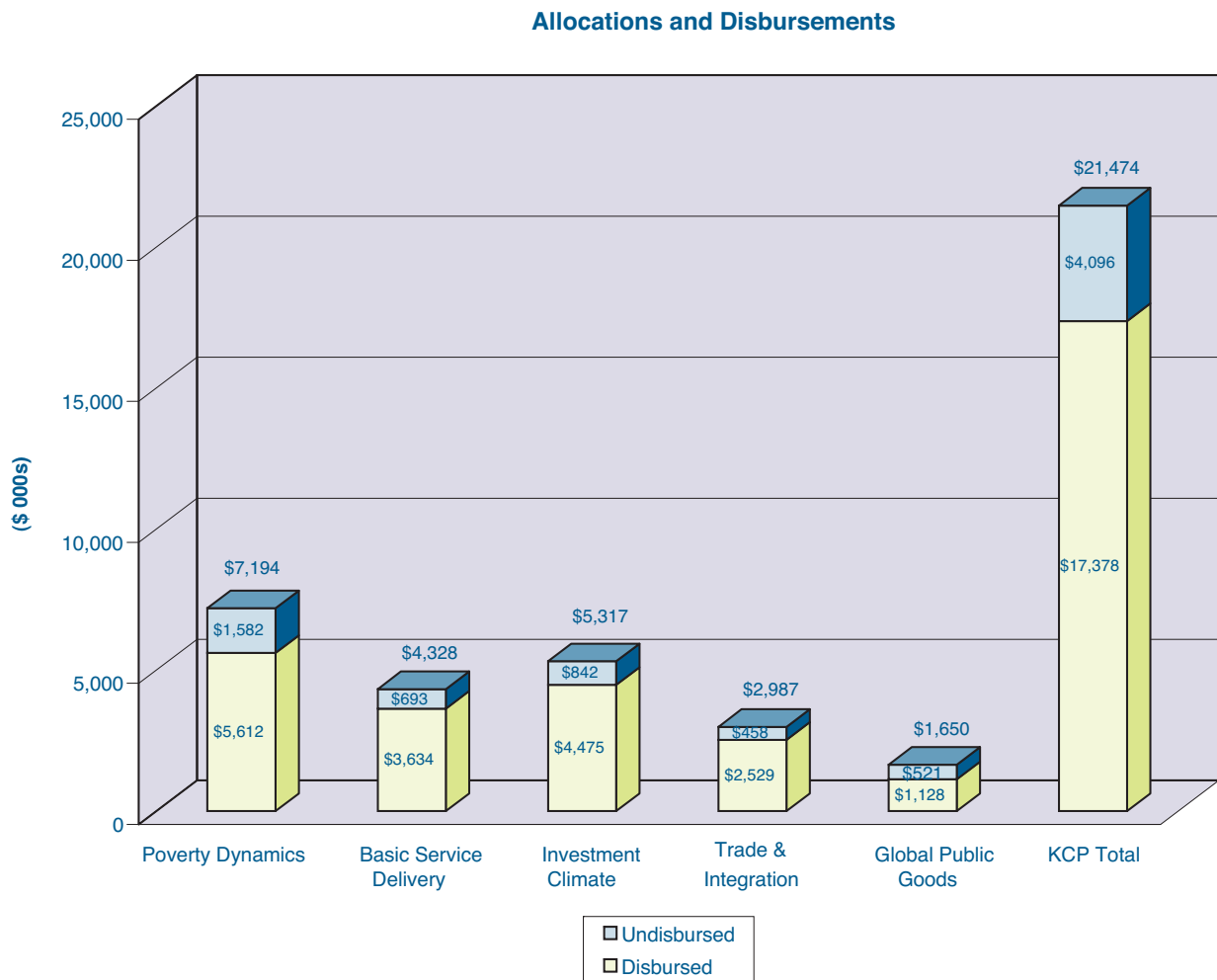
Figure 1: Allocation of KCP Donor Contributions by Theme



Source: Program Administration Unit, KCP

Figure 2: Allocations and Disbursements

Donor contributions are received by the Bank's Treasury Department and accounts are managed by the Bank's Accounting Trust Funds unit. Trust fund monies are invested with income accruing to each parent trust fund, supplementing amounts available for allocation. From inception through June 30, 2008, the three KCP trust funds have earned \$1,012,583 of investment income.





FUTURE RESEARCH DIRECTIONS IN KCP II

During the last CG meeting in November 2007, following the presentation of the program evaluation, there was a discussion of the future of the KCP and a successor to the current program, which is set to close in July 2010. There was consensus among major KCP partners that there was a need to continue the program, building on the successes achieved by the KCP. The recent poverty numbers, released in August 2008, suggest that poverty is more pervasive than earlier data indicated, especially in Sub-Saharan Africa. Hence, significant challenges remain where data and knowledge, including impact evaluations, are needed to guide development practitioners both at the Bank and in government agencies and other development institutions worldwide. Below is a wish list that does not claim to be complete, but includes areas where important knowledge gaps remain and where future KCP resources would be well invested.

Global public data for development. The Bank is the leading producer of development data, which is the foundation of development knowledge (creating that knowledge as well as sharing and applying it). Yet, there are many important holes in this knowledge base. The global development community chronically underinvests in certain types of data, notably data with strong public good attributes. These are data for which there are large external benefits, well beyond the individual development practitioner (country government or country team within the Bank). Such data span the entire range of development policy making: governance data, poverty data, health and education data, macroeconomic data, finance data, and trade data. There are a number of “holes” in the current fabric of development data; examples include inconsistent international comparisons of subnational poverty data (e.g., “Are China’s poorest regions as poor as the poorest countries in Africa?”), numerous weaknesses in our data on governance, flawed geographic databases (including GIS), weaknesses in household survey data (including income under-reporting and selective compliance), lack of adequate data on access to financial services in low-income countries, and the poor quality of our data on non-tariff barriers to trade (which have emerged as the main form of restrictions on trade given the lowering of tariffs, but on which our data are incomplete and out of date). Research has long been the starting point for addressing these global data needs; for example, global poverty monitoring (“\$1.25 a day”) started as a research project and continues to be hosted in DEC. We propose to undertake a comprehensive three-year research program to identify and address the main deficiencies in current development data. The data program would also provide new knowledge and guidance on key protocols and methods for future data collection efforts. This will culminate in a Policy Research Report on *Development Data*, which will cover all areas of development data

(poverty and inequality, macroeconomic data, trade data, finance data) and will provide a major synthesis of why data matters (the policy mistakes that can be made, as well as success stories); the strengths and weaknesses of existing data instruments; data quality; the uses of data; and the user community.

Agriculture and pro-poor growth in Africa. Plausible lists can be drawn up of what needs to be done to bridge the huge and widening gap in Africa’s agricultural productivity and that of Asia. The list would include innovative technologies suitable to African conditions—water resource development, better land management, agricultural trade, and rural infrastructure (including access to markets). But there would be little benefit to such a list without a deeper understanding of *why* agricultural productivity is lagging so much. We propose a two-year program of research on the issues involved in achieving pro-poor agricultural and rural development in Africa. The program would build on some of the themes of the WDR 2008, *Agriculture for Development*; however, the focus would be on Africa and on the problems and policies needed for a sustained increase in agricultural productivity. The central theme would be to understand the causes of low



farm productivity in the region, taking a broad approach to the economic, social, and political impediments to productivity growth. That understanding would be developed through a genuinely multidisciplinary approach, bringing together insights from economics, political science, sociology, agronomy, and other disciplines. The policy focus would be equally broad, covering physical and human infrastructure development in rural areas; the support systems for the adaptation and diffusion of known and improved farming technologies; finance for farm inputs; marketing systems and trade policies; and the role of farmers' organizations.

Capital flows, debt, and financial crises. This area represents a widening gap in the Bank's research coverage of core open-economy macro issues. At present, these areas account for just a fraction of the research agenda of a few staff. These are not purely cyclical issues—they influence long-term growth and therefore fall under the Bank's mandate regarding growth and poverty reduction. While there has been a lull in the past five years in major macroeconomic crises in developing countries, the situation cannot be expected to last indefinitely—perhaps changing much sooner than we expect, given the ongoing turbulence in world financial markets—and when a major disturbance occurs, client countries will turn to the Bank for advice. Even absent any major crises, issues such as optimal borrowing and reserve hoarding have become part of the Bank's engagement with middle-income borrowers in particular. Research in this area would extend over two years and focus on two key areas: (i) *Understanding international portfolio allocation and capital flows and establishing principles for their management and crisis prevention.* This component will also cover the related area of growth-oriented exchange rate policy, which has become newly controversial in academic and policy circles and is viewed by many as being closely related to the question of capital flow management. It will also build on, and extend, past work on optimal debt management and debt relief; and (ii) *Risk management/capital market development.* Risk management, including an analysis of vulnerabilities and crisis prevention, needs to become a more central part of the financial development agenda. This component will focus on some key areas that have been neglected in the past. Research will seek to investigate the impact of supervision strategies as well as the impact of compliance with Basel Core Principles on bank stability, the interaction of bank insolvency resolution and deposit insurance policies, and the impact of financial globalization on bank competition and stability. Given that many developing countries are still struggling with the right model for capital market development and a lack of policy guidance on this issue, we will also initiate work in the area of capital market development, particularly in the areas of venture capital and private equity.



Employment and labor markets. We would like to expand further our research agenda on labor markets to understand how to make labor markets work better for poor people, taking into account the important links to job creation, informality, migration, and human capital. The focus on poorer countries is appropriate because many of the labor market regulations and interventions that have emerged in developed and middle-income countries have limited relevance to low-income countries (especially rural labor markets in Africa and South Asia). Informality is pervasive in most low-income countries, labor mar-



ket regulations apply only to a small proportion of workers in urban areas, and the non-farm sector in the rural economy is little understood. The research agenda will include the development of appropriate measures of labor market outcomes, the construction of new databases, and analyses of these databases.

Strengthening of health systems. This agenda deals with scaling up our analytical work related to the new Health, Nutrition, and Population (HNP) strategy of the Bank. The strategy aims to sharpen the Bank’s focus on strengthening health systems in an environment in which priority diseases are receiving the bulk of new global funding and are also imposing heavy burdens on the capacity of local health systems. Over the next three years, the priority topics for research relate to understanding the policy alternatives regarding health care financing, insurance, and management of health service workers. Analyses of these alternatives should consider the impact of policy choices on health outcomes and other welfare measures, and also under different country settings. Household- and community-level data will be used together with public and private provider data to examine the factors that explain access to and the quality of health care services as well as the demand for those services, and to understand the sources of vulnerability for different groups of individuals and households with respect to health, as well as the demands faced by and resources available to the health system. A holistic approach to studying the health sector is consistent with the Bank’s strategy. In addition, this work program will include evaluative research which will be launched in the first year and will be well under way by the second and third year.

Conflict and fragile states. In light of past research and consultations within the Bank, partially funded by the KCP, the following issues have been identified as meriting further research: (i) the dynamics and escalation of violence from low-level violent protests, such as post-election riots, to coups or full-blown civil wars; (ii) why some countries experience transitions from political to criminal violence, which prove to be a serious drag on their development (El Salvador, South Africa, for example); (iii) the dynamics of the transition from conflict to fragility, where countries emerge out of conflict, but remain in a low-level institutional equilibrium trap, with both fragile peace and poor development outcomes; (iv) the impact of conflicts on social welfare (especially health and displacement) and the environment; (v) the link between climate change—ecological degradation and conflict (for example, did climate change influence the Sahelian drought in the 1980s, which is linked to the Darfur conflict); (vi) the regional dimension of civil wars and its implications for conflict resolution (relevant for Bank operational instruments in conflict/fragile states); (vii) the relative roles in sustainable peace of peace keeping, development aid, and development policy. It proposes to undertake a series of in-depth case studies that will reflect sufficiently varied and rich post-conflict experiences. The proposed set of countries includes Colombia, Lebanon, Mozambique, Rwanda, Sri Lanka, and Sudan (and possibly Cambodia and El Salvador). The approach will be multidisciplinary with regard to both the analysis of thematic papers as well as the selection of the country studies research teams, the members of which will all be drawn from Part II countries.



G. Impact evaluation of poverty reduction policies (ex ante and ex post). This work aims to add to the stock of knowledge and understanding of the potential impact of various types of interventions aimed explicitly at poverty reduction.

- Direct interventions in the rural sector; major evaluation of the Indian National Rural Employment Guarantee Act (NREGA).
- Several evaluation efforts are being launched or are under way to assess the impacts of education, health, and nutrition interventions, focusing mostly on incentives to change the performance of providers and behavior of users, as well as the impact of social protection programs.
- New research on evaluating the impact of policy interventions aimed at improving access to financial services.

New work on *Private Sector Development (PSD)*, including new datasets, analysis of micro datasets, as well as impact evaluation of PSD interventions.

New work on *Policies to Advance Economic Opportunities*, with an emphasis on options to enhance economic opportunities among segments of the population that are disadvantaged in this respect (including women, minority groups, the disabled).

Local governance and development. In response to the serious knowledge gap in this area, including on Community Driven Development (CDD), a series of research tasks is planned, culminating in a PRR on *Local Governance and Local Development*. Also on governance, research will improve the set of actionable governance indicators that can be used in support of the Bank's Governance and Anti-Corruption (GAC) strategy and will undertake analytical work using these indicators.

Growth of exports. We are planning to launch a new project to synthesize recent research and evidence on what makes exports grow. This will tie into one of the core priorities that have been identified by the Bank's Trade Department and the regions—identifying the determinants of export competitiveness at the firm, industry, and country level, including in particular low-income countries.

Sources of poverty reduction. The Research Department is planning two sets of initiatives that will ultimately provide the Bank and the development community with a deeper understanding of why some countries have been so much more successful in the fight against poverty than others, and what transferable policy lessons might be drawn. The program will have two components:





- (i) *Growth and poverty reduction from an historical perspective.* The potential for drawing lessons from comparative perspectives is one of the Bank’s strengths, and the Research Department has produced a number of definitive economic histories of the success stories in poverty reduction, such as China. However, there is scope for further work along these lines and for case studies to draw out lessons for less successful countries.

How did countries like China and Malaysia achieve such dramatic poverty reduction? Why is poverty decline so much slower in India, despite impressive overall growth rates?

Empirically, there is a well-known association between poverty reduction and economic growth—on average, across countries—but still much is to be learned about how growth affects poverty and what kind of growth path is most effective. How important to success in poverty reduction is having a good understanding of the poverty problem? Does poverty reduction depend on carefully tailored government policy?

- This research effort will focus on historical and within-country analysis, as opposed to cross-country studies (e.g., micro-simulation, panel poverty maps, time series of cross-section surveys)



- (ii) *Microeconomic impediments to growth.* The work program will build on the results of existing work on firm-level performance in order to examine the consequences of microeconomic distortions for aggregate performance in terms of growth and stability. This requires shifting attention from the firm-level perspective of the Investment Climate (IC) surveys to the economy-wide implications of microeconomic policies, as dictated by the “non-aggregative theory of growth” underlying much of the recent literature on growth and productivity. Doing so requires building datasets and models amenable to exploring the micro-macro connection. On the data front, one way to proceed is by linking standard microeconomic databases (e.g., industrial census and/or surveys) with IC surveys to exploit the detailed production-related information offered by the former with the business environment information of the latter. This and similar data sources would be used to examine firm dynamics (entry, exit, extent of resource reallocation) and the role of the business environment and agglomeration effects in growth, employment, and stability.

Climate change. The ongoing work on climate change funded by the KCP is focused on both mitigation and adaptation. Additional work is foreseen in relation to the upcoming WDR 2010 on *Climate Change and Development*, which will complement the reports of both Stern and the *Intergovernmental Panel on Climate Change* (IPCC) by building upon the Bank’s comparative advantage in development; its country and regional presence; its record in pioneering carbon finance; and its project management experience in virtually all sectors where adaptation to climate change will be required.

Developing countries simply cannot afford to ignore climate change, nor can they simply focus on adaptation. A rethinking of development policy is needed to achieve development that is responsive to the challenges of adaptation and mitigation and that exploits the new competitive landscape created by climate change. However, reaching a solution to climate change that is adequate and achievable as well as acceptable (efficient and equitable) will also require the reworking of climate policy, especially as it relates to finance and innovation, to address the substantial needs and concerns of developing countries.

The report is expected to deliver the following key messages: climate change, mismanaged, will hamper or reverse development progress; the impacts of unabated climate change will fall disproportionately on developing countries, and particularly on their poorest citizens who are least able to adapt; and above a certain degree of warming, around 2°C, adaptation is no substitute for mitigation regardless of a country's wealth. No country can simply grow itself out of harm's way: there is a limit to what physical, ecological, and human systems can adapt to. Poorly designed mitigation policy, even if successful at limiting adverse warming, could not only be costly, but also threaten development progress and harm the poor.

Cooperation is needed to tackle climate change. Industrialized countries are responsible for about 70 percent of the greenhouse gases currently in the atmosphere. However, developing countries are now emitting more than half of the world's annual emissions, and this share is increasing. Rich countries alone cannot keep the carbon sink from filling to above its safety level. The question, then, is not whether developing countries contribute to the abatement effort, but how they can do so while maintaining space to grow and develop.

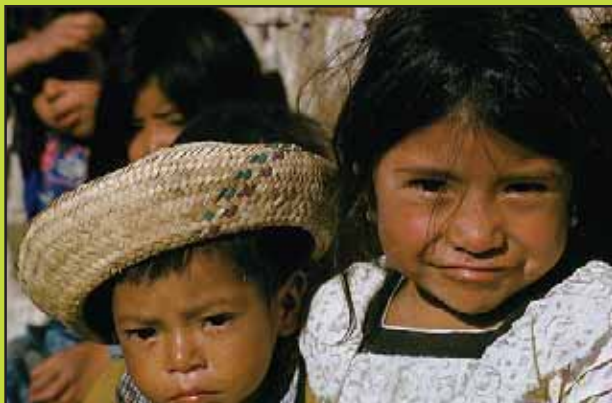
"Climate-smart" development policy is needed to manage the changing physical and competitive landscape and to seize the opportunities presented by a climate of political innovation. Development policy now needs to take into account the conflicting demands that adaptation and mitigation place upon limited or costly resources such as land, water, and energy. Policy actions are also needed to protect people from shocks or help them adjust to changing circumstances. But even as it has made development more complex, climate change has also created much-needed momentum for reforms to achieve long-pursued, critical policy goals such as sustainable water resource management and other health and environmental interventions.

Well-managed climate change policy could offer new economic opportunities for developing countries. A consensus is emerging that rich countries need to take the first steps in mitigation because of their historical contribution to today's problem, their much higher per capita footprint, and because of their greater capacity to take on the financial and policy burden. However, abatement options are considerably cheaper in developing countries for a variety of reasons: untapped renewable energy sources, potential efficiency gains, opportunities offered by rapid expansion of supply. This implies that the world could be better off with the development of a carbon market that transfers resources to low- and middle-income economies to tap their abatement options and compensate them for creating the globally shared benefit of reduced carbon emissions. A global climate policy that takes into account the priorities and needs of developing countries, but also their comparative advantage in a number of renewable technologies, could in fact create opportunities for the developing world.



To seize the opportunities and manage the challenges, it will be necessary to create a supportive financial framework that will realize the promise of innovation and technology diffusion and create the conditions for climate-savvy decision making. A supportive financial framework will also be critical to the emergence of an efficient yet fair solution to the climate change challenge. Furthermore, innovation and technology diffusion are essential for achieving an adequate solution; however, the political economy of climate change is at the heart of our ability to address the matter of collective action. Adapting behaviors and engaging public opinion will be fundamental building blocks for achieving needed decisions at the local, national, and international levels.

The WDR 2010 will be organized into four parts. The introductory section will review the evidence on climate risk and development and discuss how climate change is threatening sustainable development by affecting growth, equity, and environmental sustainability. Part two will discuss what climate-smart development policy could look like, taking an integrated look at mitigation and adaptation challenges and opportunities confronting developing countries. While adaptation and mitigation will be analyzed jointly, the report will emphasize adaptation as this issue has been much less extensively discussed in a developing country context. Part three will analyze options for a supporting international architecture for mitigation, adaptation, and innovation—the foundations for the development-smart climate policies mentioned above. The final chapter of the report will look at the political economy of climate-smart decision making.





ANNEX I: KCP FINANCIALS

TABLE 1. KCP PARENT FUND ACCOUNTS

Unaudited

<i>As of June 30, 2008 (In US dollars)</i>				
	TF050263	TF050264	TF054852	TOTAL
	Poverty Dynamics & Delivery of Basic Services	Investment Climate & Trade and Integration	Global Public Goods	
Contributions				
Finland	3,294,491	2,367,314		5,661,804
United Kingdom	2,886,043	2,498,625	172,980	5,557,648
Japan	700,000	300,000	1,000,000	2,000,000
Norway	1,903,919	250,000		2,153,919
European Commission		1,578,063		1,578,063
Australia	1,600,000	400,000		2,000,000
Canada	169,133	703,166		872,299
Sweden	590,714	275,653		866,367
France			787,040	787,040
Switzerland	314,975			314,975
ABN AMRO		249,990		249,990
IFAD	200,000			200,000
Denmark	148,171			148,171
Netherlands ¹	299,910	403,970	96,000	799,880
Total Contributions Received	12,107,356	9,026,781	2,056,020	23,190,156
Administrative fee (5%)	(605,368)	(451,339)	(102,801)	(1,159,508)
Net Contributions Received	11,501,988	8,575,442	1,953,219	22,030,649
Investment income	474,045	382,504	156,034	1,012,583
Less:				
Allocations	(11,887,347)	(8,885,378)	(2,100,069)	(22,872,794)
Reserve for Developing Country Participants				
Expenses in Consultative Group Meetings	(50,000)	(50,000)		(100,000)
Funds available	38,686	22,568	9,184	70,437

Notes:

(1) Netherlands—includes outstanding pledges of \$400,000 due 11/2008 (\$200,000) and 11/2009 (\$200,000). Allocation among the three parent funds is at the discretion of the Bank. These are distributed at 76% and 24% respectively in TF050264.

Source: Program Administration Unit, KCP.

TABLE 2. KCP ALLOCATIONS AND DISBURSEMENTS*As of June 30, 2008 (In US dollars)*

Project Name	Allocation	Disbursements	% Disbursed of Allocation
POVERTY DYNAMICS (TF050263)			
The Economics of Civil War, Crime, and Violence	254,580	254,580	100%
Increasing Access to Land by the Rural Poor in India	78,730	78,730	100%
The Long-Run Impacts of Health Shocks in Africa	196,959	196,959	100%
China: Enhancing the Poverty Impact of the New Land Law	92,999	92,999	100%
The Human Cost of Indoor Air Pollution: New Estimates for Africa and Southern Asia	191,352	191,352	100%
M&E Capacity Building in National Statistical Offices, Accountability and Governance in Africa	80,846	80,846	100%
Country Case Study for PARIS21 Task Team on Improved Support for Monitoring Development Goals	0	0	0%
Evaluating Long-Run Welfare Impacts: Two Case Studies for East Asia	134,090	134,090	100%
World Development Report 2006: Equity and Development	1,030,045	1,030,045	100%
Climate Mitigation and Sustainable Development: Risks, Benefits, and Institutional Implications	335,000	312,351	93%
Poverty Reduction and Human Development: Analysis of Alternative Strategies Within an Economy-Wide Framework	210,000	184,591	88%
Dynamics of Slum Formation and Strategies to Improve Lives of Slum Dwellers	81,349	81,349	100%
Research on Methodology for Aggregating Poverty-Specific PPPs	147,864	147,864	100%
WDR 2007 Development and the Next Generation	642,500	543,889	85%
WDR 2008 Agriculture, Poverty and Development	1,450,000	1,420,738	98%
Research for Improving Survey Data	302,000	237,029	78%
Building on the Methodology Developed for Aggregating Poverty-Specific PPPs and Building a Household Expenditure	81,000	77,632	96%
Determinants of Low-Income Countries' Access to Private Debt Markets	70,000	27,364	39%
World Development Report 2009—Part 1: Spatial Disparity and Development	775,000	316,822	41%
Measuring and Understanding the Impacts of Development Projects	690,000	140,623	20%
An African Green Revolution: Finding Ways to Boost Productivity	350,000	62,360	18%
TOTAL—POVERTY DYNAMICS	7,194,314	5,612,214	78%
DELIVERY OF BASIC SERVICES (TF050263)			
Micro-Survey Approach to Health Care Provisions in Poor Countries	288,185	288,185	100%
Background Studies for WDR 2004	736,024	736,024	100%
Perspectives on Making Services Work for Poor People	188,878	188,878	100%
User Fees in Health Care: An Evaluation of Two Near Natural Experiments of Abolition of User Fees in Africa	99,667	99,667	100%
Incentives, Choice, and Accountability in Basic Education Services: Piloting a Micro-Survey Approach	180,317	180,317	100%
Evaluating Frontline Service Delivery: Management and Analysis	79,945	79,945	100%
Evaluating the Impact of AIDS Prevention and Treatment Services	134,916	134,916	100%
Political Institutions, Development, and a Domestic Civil Peace	650,000	644,748	99%
Identifying Policy Interventions to Overcome Political Obstacles to Serving the Poor	310,000	279,274	90%
Impact Evaluations of Interventions Aiming to Improve Education Outcomes of Vulnerable Children	60,000	60,000	100%
Improving Educational Outcomes through Choice and Decentralized Management	134,100	134,100	100%
AID Effectiveness: New Research Directions	150,000	79,500	53%



Project Name	Allocation	Disbursements	% Disbursed of Allocation
Evaluating the Role of Participation in Poverty Reduction	150,000	147,321	98%
Labor Issues in Service Delivery for Human Development: Incentives and Performance	152,000	57,149	38%
Micro Simulations of Poverty Reduction and Service Delivery in a User-Friendly, Economy-Wide Framework	384,000	198,524	52%
Peace and Development	100,000	60,958	61%
Improving Women's Health in Africa	180,000	131,647	73%
Information and Life Transitions Among Youths: Evaluating the Impact of ICT in Two Developing Countries	150,000	61,709	41%
Background Work on the Policy Research Report on Local Governance and Local Development.	200,000	72,134	36%
TOTAL—DELIVERY OF BASIC SERVICES	4,328,033	3,634,998	84%
TOTAL—POVERTY DYNAMICS & DELIVERY OF BASIC SERVICES	11,522,347	9,247,212	80%
INVESTMENT CLIMATE (TF050264)			
Surveys and Assessments in Low-Income Countries and Regions	294,652	294,652	100%
Investment Climate Surveys	615,226	615,226	100%
Emerging Trends in Industrial Competitiveness in East Asia	34,573	34,573	100%
Micro Indicators of Financial Development	119,821	119,821	100%
Ramping Up Investment Climate Surveys	313,565	313,565	100%
World Development Report 2005: Investment Climate, Growth, and Poverty	708,764	708,764	100%
Investment Climate Extension	136,227	136,227	100%
Access to Finance and Poverty Alleviation	90,000	89,680	100%
Investment Climate Analysis	1,250,000	1,185,045	95%
Decentralization, Community Organizations and Elite Capture	99,876	99,876	100%
Evaluating Investment Climate Improvements and Growth at the Firm Level	180,000	172,357	96%
Barriers to Banking	250,000	166,827	67%
Growth, Innovation, and Reform	65,000	49,690	76%
Household Surveys of Access to Financial Services	300,000	198,319	66%
Investment Climate's Contribution to Growth through Firm Dynamics and Allocative Efficiency	80,000	76,090	95%
New Research on Firm Informality	225,000	151,150	67%
Private Sector Development Research Program	300,000	35,564	12%
Worldwide Governance Indicators	90,000	0	0%
Growth Effects of Public Investment	80,000	0	0%
Macroeconomic Effects of Allocative Efficiency	85,000	27,689	33%
TOTAL—INVESTMENT CLIMATE	5,317,705	4,475,115	84%
TRADE and INTEGRATION (TF050264)			
Agricultural Trade Policy	248,746	248,746	100%
Impact of Liberalization in Textiles and Apparel on Developing Countries	24,720	24,720	100%
Migration: Development Problems and Opportunities	34,638	34,638	100%
Developing Countries and WTO Dispute Settlement: Assessment and Lessons from the Experience to Date	87,650	87,650	100%
Caribbean Growth and Competitiveness Study	137,407	137,407	100%
Agricultural WTO Trade Reform & Their Impact on Poverty: Consumption & Income Effects	88,535	88,535	100%
Kenya - Diagnostic Trade Integration Study	126,444	126,443	100%

KCP ALLOCATIONS AND DISBURSEMENTS *(continued)*

As of June 30, 2008 (In US dollars)

Project Name	Allocation	Disbursements	% Disbursed of Allocation
Household Surveys of International Migration and Remittances	1,150,000	932,576	81%
Migration Policies and their Impact on Development	110,000	110,000	100%
Facilitating Trade and Tariff Data Access and Analysis	199,533	199,533	100%
International Migration, Remittances and Development	425,000	221,868	52%
Migration, Remittances and Development in Africa: Household Survey with Existing Sampling Frame	50,000	17,625	35%
How Do Institutional Investors Manage World Savings?	70,000	65,691	94%
Expansion of Global Retail Chains: Implication for Technology Transfer and Pro-Competitive Effects in Developing Countries	60,000	60,000	100%
The WTO and Economic Development	95,000	95,000	100%
U.S. Antidumping on Vietnamese Catfish: Impacts on Mekong Farmers	80,000	78,916	99%
TOTAL—TRADE and INTEGRATION	2,987,673	2,529,349	85%
TOTAL—INVESTMENT CLIMATE & TRADE AND INTEGRATION	8,305,377	7,004,463	84%
GLOBAL PUBLIC GOODS (TF054852)			
Policy Research Report: Forests, Livelihoods, and the Environment	140,069	140,069	100%
Averting a Global Influenza Pandemic by Preventing Virus Reassortment	150,000	95,105	63%
Mitigating Climate Change by Avoiding Lock-Ins to High Carbon Energy Systems	395,000	234,026	59%
Global Warming and Developing Countries: An Economy-Wide Perspective	150,000	48,797	33%
Improving Malaria Outcomes through Evidence-Based Program Design: A Multi-Country Initiative to Support the World Bank's Booster Program for Malaria Control	100,000	35,299	35%
The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them	200,000	195,440	98%
Options for Cleaner Energy in Developing Countries and Overcoming Barriers to their Adoption and Sustainability	450,000	316,956	70%
Global Migration Database Extensions - A Global Public Good	65,000	62,497	96%
TOTAL—GLOBAL PUBLIC GOODS	1,650,069	1,128,188	68%
KCP Allocations and Disbursements	21,477,793 ¹	17,379,863	81%
<i>Notes:</i>			
(1) Excludes projects approved in June 2008 (\$1,395,000).			
(2) Commitment balances are as of August 5, 2008 (report run date).			

Source: Program Administration Unit, KCP.



TABLE 3. BENEFICIARY COUNTRIES

IDA/IDA Blend	Non-IDA
Angola	Argentina
Azerbaijan	Botswana
Bangladesh	Brazil
Benin	China
Bolivia	Colombia
Burkina Faso	Czech Republic
Cambodia	Ecuador
Cameroon	Guatemala
Chad	Lebanon
Dominica	Malaysia
East Timor	Mexico
Ethiopia	Morocco
Ghana	Peru
Grenada	Philippines
Guyana	South Africa
Haiti	Syria
Honduras	Thailand
India	Venezuela
Indonesia	
Kenya	
Laos	
Lesotho	
Madagascar	
Malawi	
Mozambique	
Nicaragua	
Nigeria	
Pakistan	
Republic of Yemen	
Senegal	
Serbia and Montenegro	
Sri Lanka	
St. Lucia	
St. Vincent	
Sudan	
Swaziland	
Tanzania	
Uganda	
Vietnam	
Western Samoa	
Zambia	

Source: Program Administration Unit, KCP.

TABLE 4. PROJECTS IN 2008

COMPLETED PROJECTS

As of June 30, 2008

Five KCP projects have been completed during the Bank's fiscal year 2008. The full completion reports are available on the KCP web site: <http://worldbank.org/kcp>.

POVERTY DYNAMICS & DELIVERY OF BASIC SERVICES			
	Project Name	Allocation	Team Leader
1.	Climate Mitigation and Sustainable Development: Risks, Benefits and Institutional Implications	\$335,000	Ariel Dinar

INVESTMENT CLIMATE & TRADE AND INTEGRATION			
	Project Name	TF No.	Team Leader
2.	Investment Climate Analysis	\$1,250,000	Mary Hallward-Driemeier
3.	Decentralization, Community Organizations and Elite Capture	\$100,000	Ghazala Mansuri
4.	Migration Policies and their Impact on Development	\$110,000	Dilip Ratha
5.	The WTO and Economic Development	\$95,000	Bernard Hoekman



ONGOING PROJECTS

As of June 30, 2008

The Knowledge for Change Program is financing 43 active projects. The table below lists these projects by trust fund.

POVERTY DYNAMICS & DELIVERY OF BASIC SERVICES			
	Project Name	Allocation	Team Leader
1.	WDR 2007 Development and the Next Generation	\$642,000	Mamta Murthi
2.	Poverty Reduction and Human Development: Analysis of Alternative Strategies Within an Economy-Wide Framework	\$210,000	Hans Lofgren
3.	Political Institutions, Development and a Domestic Civil Peace	\$650,000	Ibrahim Elbadawi
4.	Identifying Policy Interventions to Overcome Political Obstacles to Serving the Poor	\$310,000	Stuti Khemani
5.	WDR 2008 Agriculture, Poverty and Development	\$1,450,000	Derek Byerlee
6.	Aid Effectiveness: New Research Directions	\$150,000	Stephen Knack
7.	Labor Issues in Service Delivery for Human Development: Incentives and Performance	\$152,000	Elizabeth King
8.	Research for Improving Household Survey Data	\$302,000	Katherine Scott
9.	Micro Simulations of Poverty Reduction and Service	\$384,000	Maurizio Bussolo
10.	Evaluating the Role of Participation in Poverty Reduction	\$150,000	Ghazala Mansuri
11.	African Green Revolution: Finding Ways to Boost Productivity	\$350,000	Donald Larson
12.	World Development Report 2009 - Reshaping Economic Geography	\$775,000	Chorching Goh
13.	Measuring and Understanding the Impacts of Development Projects	\$690,000	Elizabeth King
14.	Determinants of Low-Income Countries' Access to Private Debt Markets	\$70,000	Douglas Hostland
15.	Methodology for Aggregating Poverty-Specific PPPs	\$81,000	Yonas Biru
16.	Policy Research Report on Local Governance and Local Development	\$200,000	Ghazala Mansuri
17.	Peace and Development, Post-Conflict Transitions	\$100,000	Ibrahim Elbadawi
18.	Information and Life Transitions Among Youths: Evaluating the Impact of ICT in Two Developing Countries	\$150,000	Elizabeth King
19.	Improving Women's Health in Africa	\$180,000	Berk Ozler

ONGOING PROJECTS *(continued)*

INVESTMENT CLIMATE & TRADE AND INTEGRATION			
	Project Name	Allocation	Team Leader
20.	Access to Finance and Poverty Alleviation	\$90,000	Asli Demirguc-Kunt
21.	Evaluating Investment Climate Improvements and Growth at the Firm Level	\$180,000	Mary Hallward-Driemeier
22.	Barriers to Banking	\$250,000	Asli Demirguc-Kunt
23.	Household Surveys of Access to Financial Services	\$300,000	Asli Demirguc-Kunt
24.	International Migration, Remittances and Development	\$425,000	Maurice Schiff
25.	Growth, Innovation, and Reform	\$65,000	Norman Loayza
26.	New Research on Firm Informality	\$225,000	David McKenzie
27.	Household Surveys of International Migration and Remittances	\$1,150,000	Maurice Schiff
28.	Investment Climate's Contribution to Growth Through Firm Dynamics and Allocative Efficiency	\$80,000	Mary Hallward-Driemeier
29.	Private Sector Development Research Program	\$300,000	Asli Demirguc-Kunt
30.	Worldwide Governance Indicators	\$90,000	Aart Kraay
31.	Growth Effects of Public Investment	\$80,000	Luis Serven
32.	Expansion of Global Retail Chains: Implication for Technology Transfer and Pro-Competitive Effects in Developing Countries	\$60,000	Ana Fernandes
33.	U.S. Antidumping on Vietnamese Catfish: Impacts on Mekong Farmers	\$80,000	Guido Porto
34.	Migration, Remittances and Development in Africa: Household Survey with Existing Sampling Frame	\$50,000	Dilip Ratha
35.	Macroeconomic Effects of Allocative Efficiency	\$85,000	Mary Hallward-Driemeier
36.	How do Institutional Investors Manage World Savings?	\$70,000	Sergio Schmukler

GLOBAL PUBLIC GOODS			
	Project Name	Allocation	Team Leader
37.	Mitigating Climate Change by Avoiding Lock-Ins to High Carbon Energy Systems	\$395,000	Ariel Dinar
38.	Understanding Disease Control of Highly Pathogenic Avian Influence	\$150,000	Jed Friedman
39.	Global Migration Database Extensions – A Global Public Good	\$65,000	Caglar Ozden
40.	Options for Cleaner Energy in Developing Countries and Overcoming Barriers to Their Adoption and Sustainability	\$450,000	Ariel Dinar
41.	Global Warming and Developing Countries: An Economy-Wide Perspective	\$150,000	Dominique van der Mensbrugge
42.	The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them	\$200,000	Jed Friedman
43.	Improving Malaria Outcomes Through Evidence-Based Program Design: A Multi-Country Initiative to Support the World Bank's Booster Program for Malaria Control	\$100,000	Jed Friedman



NEW PROJECTS

As of June 30, 2008

There are 17 new projects that are being financed by the KCP. The table below lists the projects by trust fund.

POVERTY DYNAMICS & DELIVERY OF BASIC SERVICES			
	Project Name	Allocation	Team Leader
1.	Evaluating the Effectiveness of Sustainable Land Management Interventions in Ethiopia	\$75,000	Klaus Deininger
2.	Are Opportunity Profiles Useful to Inform Policy Decisions?	\$75,000	Francisco Ferreira
3.	China Urban Dibao Study	\$60,000	Shaohua Chen
4.	Schooling, Income and HIV Risk	\$80,000	Berk Ozler
5.	Aid Effectiveness—How Unpredictable Aid Influences Service Delivery: Results from Country Case Studies	\$75,000	Punam Chuhan-Pole

INVESTMENT CLIMATE & TRADE AND INTEGRATION			
	Project Name	Allocation	Team Leader
6.	Brain Drain and Brain Gain of Ghana's Best and Brightest	\$50,000	Caglar Ozden
7.	Access to Banking Services in Mexico	\$50,000	Miriam Bruhn/ Inessa Love
8.	Food Prices, and Poverty	\$50,000	Caglar Ozden
9.	Innovation and Informality Across the Firm Size Spectrum in Sri Lanka	\$50,000	David McKenzie
10.	Capital Raising Activity in Domestic and International Markets	\$50,000	Sergio Schmukler
11.	New Research on Private Equity in Developing Countries	\$60,000	Leora Klapper
12.	Migration and its Impact on Households and Individuals in Migrant-Sending Communities	\$100,000	Kathleen Beegle/ John Giles
13.	Credit Bureau Reform: Does Greater Credit Bureau Coverage Improve Borrower and Lender Outcomes?	\$50,000	Leora Klapper Bilal Zia
14.	Labor Markets, Structural Transformations, and the Informal Sector	\$70,000	John Giles/ Markus Goldstein
15.	Causes and Consequences of Macroeconomic Volatility:	\$50,000	Claudio Raddatz

GLOBAL PUBLIC GOODS			
	Project Name	Allocation	Team Leader
16.	World Development Report 2010—Part 1 Climate Change and Development	\$200,000	Marianne Fay
17.	Economic and Environmental Impacts of Biofuels	\$250,000	Dominique van der Mensbrugge / Govinda Timilsina





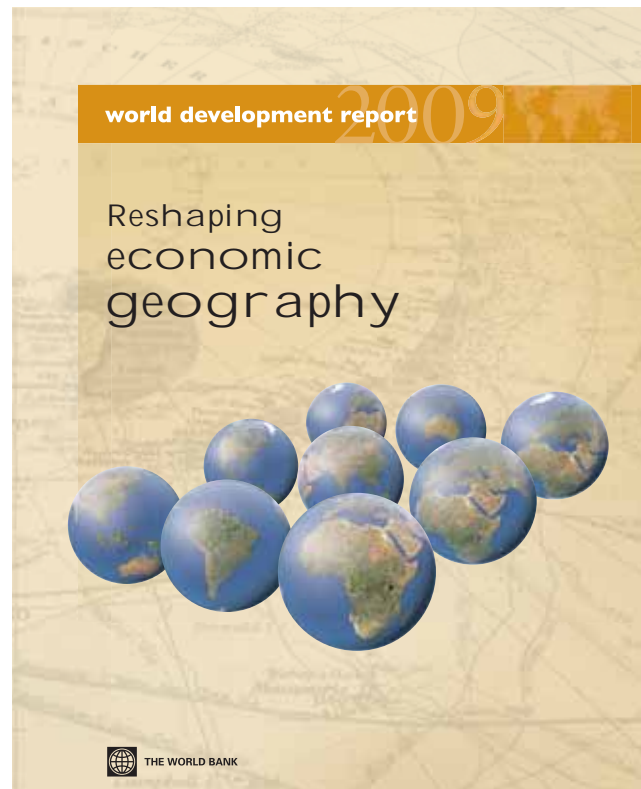
ANNEX II: KCP PROJECT IN PROFILE

WORLD DEVELOPMENT REPORT 2009: RESHAPING ECONOMIC GEOGRAPHY

Economic growth will be unbalanced, but development can still be inclusive—that is the message of this year’s World Development Report, the 31st in the series. As economies grow from low to high income, production becomes more concentrated spatially. Some places—cities, coastal areas, and connected countries—are favored by producers. As countries develop, the most successful ones also institute policies that make living standards more uniform across space. The principle for a successful spatial transformation—getting the immediate benefits of concentration of production, and the long-term benefits of a convergence in living standards—is economic integration.

The Report first describes the spatial transformations needed for development. It analyzes these changes using the insights from economic history and recent research. It then revisits the policy debates on urbanization, regional development, and international integration.

- *Stylized facts.* Economic progress involves noticeable changes in how societies are organized: rising density, as economic activities agglomerate in cities and leading areas of countries, and firms seek to exploit the gains from proximity to each other and to markets; declining distance, as people move to improve access to these dynamic places, and countries invest in transport and communications; and dissipating divisions, as countries thin their economic borders, reduce the costs of international trade and capital flows, and specialize. These changes can worry policy makers, but the speed of urbanization and the growth of slums, the concentration of production in leading areas of developing countries and divergence in incomes, and conflict in poor regions all have precedents. The unprecedented challenges are larger populations, globalized markets, and more borders.
- *Market forces.* The forces that drive spatial transformations are agglomeration, migration, and specializa-



tion. Land, labor, and intermediate inputs are the most sensitive markets at the local, national, and international levels. If these markets work well, developing countries can reap the benefits of both concentration of production and convergence in living standards.

- *Policy instruments.* Discussions about spatial disparities in development often start and end with a consideration of spatially focused interventions. The WDR reframes these debates to include all instruments for economic integration—institutions, infrastructure, and incentives. Spatially blind “institutions” include land and labor regulations, trade regimes, and taxes and transfers for social services such as schooling, health, and water and sanitation. Spatially connective “infrastructure” includes investments in transport and communications. Spatially targeted “incentives” include slum upgrading programs, incentives for agriculture and industry in lagging areas, and preferential market access for the least developed countries.

The problems of economic integration defy simple solutions, but the guiding principles do not have to be complex. The policy mix should be calibrated to match the difficulty of



the development challenge, determined by the economic geography of places. The bedrock of integration efforts should be institutions. As the challenges posed by geography become more difficult, the response should include spatially connective infrastructure. Where the task of integration is hardest, the Report recommends that the policy response should be commensurately comprehensive: institutions that unite, infrastructure that connects, and incentives that target.

Several aspects of this year's Report are worth highlighting.

- *Links with the Bank's strategy.* The Report's messages will inform the Bank's efforts in all six strategic themes¹, but its links with three are especially strong.
- *Poorest countries.* Many countries in Africa and Asia are landlocked or otherwise isolated from world markets. The Report discusses effective approaches to regional integration, combining institutional cooperation, regional infrastructure, and special incentives such as preferential access to world markets.
- *Middle-income countries.* Even prospering nations can contain entrenched pockets of poverty in particular areas or among some ethnic groups. The Report discusses effective approaches that combine the reform of policies and institutions essential to domestic and international integration, mobilization of the funds needed to invest in infrastructure, and spatially targeted programs to help the least fortunate places.
- *Knowledge and learning.* The Report analyzes the early experiences of developed countries and draws practical implications for today's developers. The Report can inform Bank projects in urban development, infrastructure, and regional integration, and provide analytical tools to help countries make policy choices and shape programs at all levels of government.

¹ 1. Fragility & Conflict; 2. Global Public Goods; 3. Knowledge Agenda; 4. Middle Income Countries; Poorest Countries; and 6. The Arab World.



Operational impact. The WDR team has participated in the preparation of the Africa Region's (AFR) Regional Integration Assistance Strategy and its Infrastructure Study. The team is collaborating with the Oxford University's Center for the Study of African Economies. It has supported the Bank's Urban Sector Strategy Update and the AFR Urban Strategy. Team members have participated in technical assistance missions for regional development policies in the Bank's Europe and Central Asia (ECA) and South Asia (SAR) Regions. In East Asia and Latin America, the team has supported initiatives to prepare regional companion volumes on reshaping economic geography, which will be disseminated jointly with the WDR. In the Middle East and North Africa Region, with support from the WDR team, work has begun on a flagship report on spatial disparities. To translate the Report's recommendations into results, DEC will continue to work with the Bank's Sustainable Development Network (SDN) and regional task teams.

Consultations. The team has been advised by two panels. An academic panel, chaired by DEC Senior Vice President and Senior Economist, includes the top academics working on the subject. The policy maker panel is chaired by the Vice President for SDN and includes practitioners from the six Regions and the European Commission, all nominated by the regional vice presidents. The team has carried out consultations in East Africa, West Africa, Southern Africa, the Middle East and North Africa, India, Russia, Turkey, Finland, France, Germany, Japan, Norway, Sweden, and the United Kingdom.

Relationship to other WDRs. The WDR 2009 is the second in a sequence of three WDRs examining the policies for inclusive, rapid, and sustainable development. It complements

- WDR 2008, Agriculture for Development, by identifying the prerequisites of an efficient and inclusive rural-urban transformation in each of agriculture's "three worlds"—agriculture-based, transforming, and urbanized.
- WDR 2010, Climate Change and Development, by spotlighting the economic benefits from two contributors to global emissions—transport and cities.

Earlier WDRs have also studied how market forces and public policies can influence the geographic transformations needed for development. This Report advances the influence of geography on economic opportunity by elevating space and place from mere undercurrents in policy to a major focus.

WDR 2009 is expected to stimulate a much-needed discussion in the international community on the desirability of "balanced growth," a goal that has proven elusive; in informing some important policy debates, it will point the way toward more inclusive development.





ANNEX III: NEW KCP PROJECTS IN FY2008

Commodity Prices, Policies, and Poverty

Approved Amount: \$50,000

Task Team Leader: Ozden

Recent increases in food prices have highlighted the importance of measuring the impact of food prices on poor households and low-income countries. The objective of this project is to complete a manuscript finalizing the papers prepared on the impact of food and commodity prices on low-income countries and households that addresses issues including how poor agricultural households compare to non-agricultural households in developing and industrial countries, how global food markets have evolved and what are the implications of food policy, and how the incomes of different groups and their income sources have been impacted by food and agricultural price changes.

Evaluating the Effectiveness of Sustainable Land Management Interventions in Ethiopia

Approved Amount: \$75,000

Task Team Leader: Deininger

With poverty concentrated in marginal areas where households depend disproportionately on agriculture and income from land and natural resources, interventions to foster sustainable land management (SLM)—including funding for erosion control, gully stabilization, or planting of fodder grass—especially in “food insecure” areas, have long been a key element in Ethiopia’s and other countries’ fight against poverty. Although large amounts of funding have been allocated to SLM projects, few projects have been monitored or evaluated rigorously. By using the case of Ethiopia, one of the countries with the largest amount of support of SLM projects globally, to develop tools to evaluate these projects, we will not only provide evidence on the impact of these interventions in the specific case of Ethiopia, but also develop a tool that is of potentially far wider applicability. This is of great importance as existing methods of effectively monitoring the implementation and impact of such projects are very costly and complex.

World Development Report 2010—Part 1 Climate Change and Development

Approved Amount: \$200,000

Task Team Leader: Fay

The WDR will address the impact of climate change on developing countries and of development on global climate change, with an emphasis on national development policy, international policy architecture, and the role of aid. The overall concept of the WDR is itself innovative in that it analyzes both adaptation and mitigation together, through a developing-country lens. It adds value to the existing literature by providing a socioeconomic analysis of the impacts of global warming that (i) focuses on development, (ii) is methodologically consistent, (iii) is comprehensive in sectoral and regional coverage, and (iv) fundamentally integrates adaptation and mitigation under the single rubric of sustainable development. Despite the prominence of the issue, no recent high-quality report brings this focus to the table.

Biofuels and Sustainable Development

Approved Amount: \$250,000

Task Team Leaders: Timilsina/van der Mensbrughe

The global economy faces two looming challenges—an eventual decline in the availability of crude oil and natural gas and a potential global warming crisis that is in part a result of CO₂ emissions from the use of these same fuels. One solution to both of these challenges is the development of liquid biofuels (e.g., ethanol and bio-diesel) that would simultaneously reduce the dependence on conventional fuels and be environmentally friendly. Although biofuels may be more environmentally sound, some analysts suggest that biofuels production is one of the key reasons for the increase in global food prices. Therefore, this project aims to address the short-term impacts of biofuel production on food prices and the impact on the poor, and the longer-term prospects for biofuels, with a focus as well on food prices and the poor, in addition to an analysis of the

impact on the climate of biofuel production, whether with current first-generation technology or promised second-generation technology.

Innovation and Informality Across the Firm Size Spectrum in Sri Lanka

Approved Amount: \$50,000

Task Team Leader: McKenzie

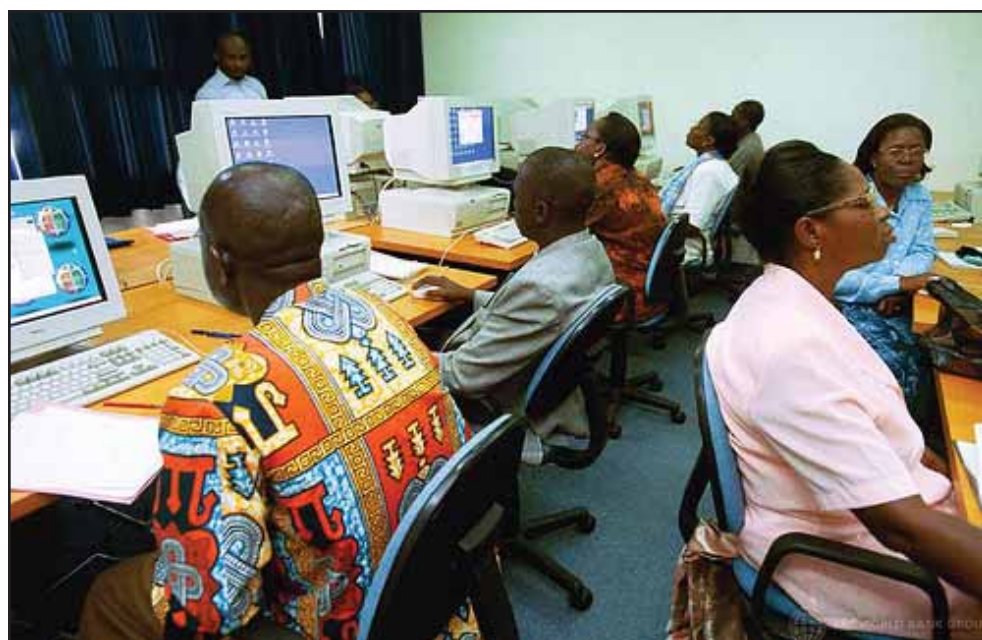
Differences in total factor productivity account for roughly half the differences in income across countries and are generally associated with differences in technological progress. These differences are also large between firms within a single country. Innovation is key to technology adoption and creation; yet, little is known about how innovation varies with firm size, informality status, and access to internal and external finance. A randomized experiment will be conducted to increase access to internal finance among microenterprises through savings incentives. Other firms will be offered business training and incentives for creating employment. This experimental component can be used to assess the links between access to finance, informality, and innovation among microenterprises, while panel data techniques will be used to examine the relationship across the entire firm size distribution.

Brain Drain and Brain Gain of Ghana's Best and Brightest

Approved Amount: \$50,000

Task Team Leader: Ozden

Brain drain is one of the most common concerns African countries have about migration. In order to provide more empirical evidence on the determinants and effects of skilled workers' migration, this project will collect primary data on 1976–2003 cohorts of top high (secondary) school students in Ghana. The main research and policy contributions of this project will include (i) analysis of the determinants of the migration of the highly skilled; (ii) empirical investigation into the channels through which highly skilled migration affects the sending country (such as whether there is any evidence for involvement in trade facilitation, knowledge transfer, the level of remittances sent, etc.); and (iii) new insights into the design of education policy when facing increasingly globalized labor markets.





Are Opportunity Profiles Useful to Inform Policy Decisions?

Approved Amount: \$75,000

Task Team Leader: Ferreira

A recent regional study on measuring inequality of opportunity in Latin America introduced the concept of opportunity profiles, which identify the types that enjoy the least economic advantage in each particular country. Whereas a poverty profile describes the characteristics of the income of the consumption poor in a particular country, an opportunity profile describes the composition of those groups which are most opportunity deprived. This project aims to identify the most opportunity-deprived social groups in a range of countries and to document their defining characteristics and spatial distribution. In addition, this research hopes to assess the overlap between opportunity deprivation and outcome deprivation through the relationship between opportunity and poverty profiles.

Capital Raising Activity in Domestic and International Markets

Approved Amount: \$50,000

Task Team Leader: Schmukler

One aspect of the globalization process that has generated much theoretical and policy debate is why firms raise capital abroad, and more broadly, what roles domestic and international markets play in providing capital for firms to invest and grow in a world where financial integration allows firms to access international markets. This project will focus on capital raising activity and update the data collected thus far, including information from recent years, which have witnessed new developments in local and international financial markets. In particular, these developments are (i) the issuance of international bonds in domestic currencies and (ii) the increase in domestic capital raising in some emerging economies. This type of data would aid in allowing for a more detailed study of the prospects for domestic market development and the ability of countries to reduce currency mismatches and to borrow long term in domestic currency.



Impact Evaluation of Structural Shift in Supply of Banking Services in Mexico

Approved Amount: \$50,000

Task Team Leader: Bruhn

Recent research has suggested that increased access to finance fosters economic growth and poverty alleviation. Most existing studies examine the link between access to finance and development outcomes in a cross-country framework. However, there is a lack of studies that investigate the effects of an expansion of access to finance through the simultaneous opening of a large number of new branches within a particular country. This project proposes to fill this gap by estimating the effect of expanding the supply of banking services in Mexico. The project will study the impact of a shift in the supply of banking services due to the simultaneous opening of over 800 branches of Banco Azteca on the functioning of Mexico's banking sector and on economic outcomes.

China Urban Di Bao Study

Approved Amount: \$60,000

Task Team Leader: Chen

While transitioning from a planning economy to a market economy, the Chinese Government's safety net policies have also changed from guaranteed employment and enterprise-based protection to a common social protection system that more closely resembles that of market economies. The "Minimum Livelihood Guarantee Scheme," popularly known as Di Bao (DB), is an important new urban social protection program formally issued by the State Council in 1999. Di Bao aims to provide a transfer to all registered urban households with incomes below a DB line set at the municipal level. This project will use the Di Bao program as a case study for addressing a number of long-standing concerns about how effective transfer programs are in reducing poverty in developing countries.

New Research on Private Equity in Developing Countries

Approved Amount: \$60,000

Task Team Leader: Klapper

Access to equity finance is increasingly recognized as critically important to firm growth in developing countries. In fact, equity finance is the second most important source of external finance for new investments (after bank finance) for all firms, according to recent bank studies. Therefore, this project aims to carry out innovative research on the role of private equity in improving access to finance for firms in developing countries and its impact on firm performance and corporate governance.

Migration and its Impact on Households and Individuals in Migrant-sending Communities

Approved Amount: \$100,000

Task Team Leaders: Beegle/Giles

A growing body of research on the effects of migration suggests that migration can have many positive benefits, both internationally and internally. Moreover, migration may have similar positive impacts on non-migrant families, due to expanding access to employment; however, migration may also have negative consequences for sending households and communities. For example, children may be left in the care of a single parent when a family member migrates; the absence of a parent may then adversely affect the child, and ultimately the community. Thus the movement of labor across regions within countries is an important feature of the



structural transformation across regions of the developing world. The objective of this research project is to examine the impact of migration on households and individuals in migrant-sending communities by analyzing communities in China, Indonesia, and Tanzania.

Credit Bureau Reform: Does Greater Credit Bureau Coverage Improve Borrower and Lender Outcomes?

Approved Amount: \$50,000

Task Team Leader: Klapper

A recent expansion of coverage by the main public business credit bureau in Pakistan, along with the introduction of a private credit bureau on individual and consumer loans, provides a unique opportunity to test the impact of credit bureaus on corporate and consumer lending. The project will study the impact of a change in credit reporting by public and private credit bureaus in Pakistan to identify the effect of expanding credit history coverage to a wider range of firms and individuals on both borrower and lender outcomes. Overall, this research hopes to identify the real marginal effect of credit bureaus on borrower and lender outcomes.

Labor Markets, Structural Transformations, and the Informal Sector

Approved Amount: \$70,000

Task Team Leaders: Giles/Goldstein

Governments keen to raise tax revenues and groups eager to improve labor standards and formal safety nets frequently view formalization of the informal sector as a laudable goal. The objective of this research project is to examine the roles played by the informal sector in bringing about changes in labor markets and productive activities of individuals and households by examining the role played by the informal and small-scale sectors in the processes by which structural transformations and growth of living standards occur within developing economies. Depending on the economies under consideration, these transformations may be characterized as a movement of labor from agriculture to non-agricultural activities; the movement of labor from manufacturing to service sectors; the transfer of labor from firms operated by the state to the private sector; or by the initial choice of sector by youth entering the labor market.

Macroeconomic Volatility: Causes and Consequences

Approved Amount: \$50,000

Task Team Leader: Raddatz

Developing countries differ from developed ones not only in their level of income per capita, but also in its volatility. In fact, GDP in middle- and low-income countries is about twice and three times more volatile than in industrial countries, respectively. Macroeconomic volatility can lead to significant costs for developing countries. Thus this project will attempt to understand the causes and consequences of macroeconomic activity within developing countries by analyzing three causes of macroeconomic volatility within the developing context: (i) natural disasters, (ii) mechanisms through which sudden stops in capital inflows affect the real economy, and (iii) exchange rate volatility on a country's productive structure.

Schooling, Income and HIV Risk (SIHR)

Approved Amount: \$80,000

Task Team Leader: Ozler

Among young adult females, for whom the incidence and prevalence of HIV is sharply higher than their male counterparts, several recent observational studies have shown a link between increased school attendance and a decreased likelihood of HIV infection in Sub-Saharan Africa. The SIHR project will provide direct conditional/unconditional cash transfers to young women in Malawi in the hope of providing the incentive to current schoolgirls and young women who have recently dropped out of school to stay in or return to school. The objective of this project is to determine whether increases in education among girls in Sub-Saharan Africa can lower their exposure to HIV and other STDs, empower them in their relationships and marriages, increase the age at which they marry and have children, and promote their entry into and success in labor markets.

*Research Proposal on Aid Effectiveness—
How Unpredictable Aid Influences Service
Delivery: Results from Case Studies*

Approved Amount: \$75,000

Task Team Leader: Chuhan-Pole

Donor pledges of a scaling up of aid and a changing aid environment have sharply focused attention on aid effectiveness, especially on the way aid is delivered. Aid predictability is an important dimension of aid quality and is central to the aid effectiveness agenda. This project aims to better understand the problem, that is, aid predictability at the country and sector level as it relates to service delivery in key sectors such as health. Also, little is known about whether the increasing importance of global programs/vertical funds in the aid landscape, especially in health, is contributing to or mitigating unpredictability. The research proposes to examine in depth the problem of aid predictability at the country and sector levels by addressing issues of aid expectations, reliability of aid, permanence of aid, type of aid, and timing (short- and medium-term). The findings would contribute to the wider policy debate regarding predictability of aid, especially how to examine and address issues of predictability.



