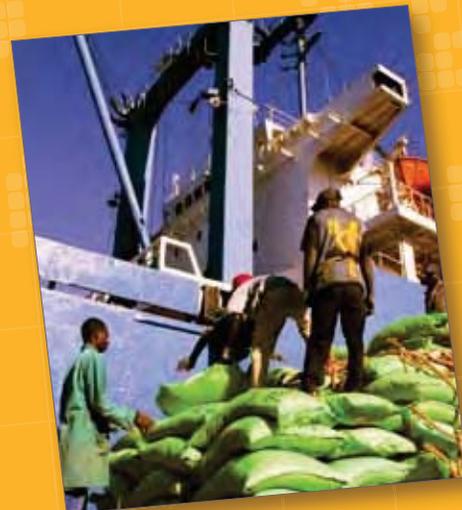
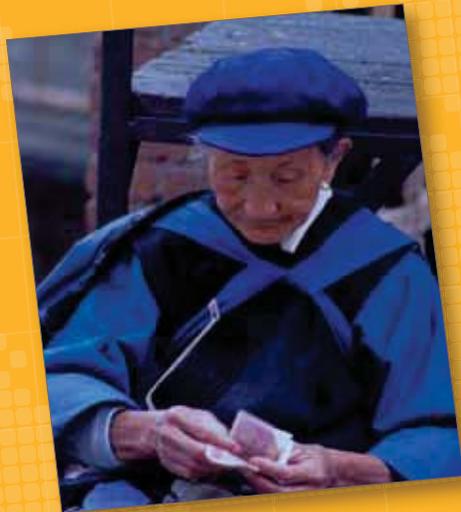


KNOWLEDGE *for* CHANGE

Annual Report 2009



**Responding
to the
Global Economic Crisis**

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MISSION STATEMENT

By undertaking research and data collection in key and emerging themes, the Knowledge for Change Program (KCP) supports the development of effective policies and programs in developing countries to reduce poverty and promote sustainable development.

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FOREWORD

The Knowledge for Change Program (KCP) has had another very successful and productive year. In 2009, we had the watershed Consultative Group (CG) meeting in Helsinki, where the KCP partners endorsed the continuation of the KCP through a second phase, the KCP II. During the year, we set up the new program and received the first contributions. As you can read in this report, we completed 18 important research projects in fiscal year 2009 covering a wide range of topics, made considerable progress in the 42 ongoing projects, and inaugurated the KCP II by allocating resources to 32 new research projects, of which 2 were actually funded out of remaining resources in the first KCP (KCP I).



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

The first phase of the KCP, which is now coming closer to an end, can only be considered a huge success. A total of 102 research projects have received funding from the KCP out of USD 23.6 million in total contributions. The program evaluation report that was discussed in last year's annual report bears testimony to the remarkable achievements and success of the KCP.

As KCP I draws to a close, much remains to be done amid the many challenges that the world is facing. We are experiencing the greatest economic recession since the Great Depression and as we look forward, we can already see the effects on trade and global economic production. The crisis originated in the financial sector but is having a very negative effect in real global economic activity. With the contraction in global GDP, capacity is now underutilized throughout the world, with utilization rates of 40 to 60 percent in some developing countries. This means that even if growth returns in 2010, GDP will remain below potential for many years ahead. Relative to previous trends, we will see an additional 40 to 50 million people in absolute poverty in 2009. The number will rise in 2010 even if recovery begins as expected. From the experience of East Asia and other previous crises, we know that it will take at least five or six years for many countries to get back to pre-crisis economic levels. We also know from previous experience that the current crisis will have a serious impact on certain developmental outcomes such as

nutrition, health, and school attendance. Some impacts tend to be more long-lasting than the crisis itself. For example, very young children seriously affected by poor nutrition may never catch up to their peers who were born in more fortunate times.

For the reasons above, we decided to pay special attention to the crisis in the allocation of resources to new projects by leveraging the KCP, and thus achieving a quick response. As mentioned in previous reports and CG meetings, one of the comparative advantages of the KCP is that it can be mobilized very quickly to respond to unforeseen challenges. Of the 32 newly funded projects in fiscal year 2009, a quarter are in direct response to the crisis and its effects on poor countries.

You will find a more detailed review of the crisis and its impacts on developing countries in this year's note from the Director of the World Bank's Development Research Group, Martin Ravallion, on page 5.

Finally, as we are planning to meet in London on October 12, 2009, we look forward to a very productive and fruitful discussion about the challenges described above. We are very grateful to the government of the United Kingdom for kindly hosting the eighth CG meeting of the KCP. I also want to thank all our KCP partners for generously supporting our research, both intellectually and financially.





MESSAGE FROM THE BANK'S RESEARCH DIRECTOR

What a year! The food, fuel, and finances crises of 2008 naturally dominated attention, including the attention of the World Bank's research department. With the help of the Knowledge for Change Program, our researchers have responded in assessing the causes of the crises, the likely impacts on poverty and human development, and the appropriate policy responses.

The existence of financial crises does not change our assessment that, on balance, financial development and globalization are good for poverty reduction in the long-term. However, this positive long-run relationship can coexist with a negative short-run relationship through financial fragility. This can reflect fundamental distortions that build up for a long time, largely hidden from view, before a macro shock reveals the underlying vulnerabilities. But financial crises can also strike economies with relatively sound institutions and generally good policies.

Greater openness in areas such as trade and migration help countries deal with domestic shocks, but may well increase vulnerability to external shocks. Globalization has probably facilitated contagion of the 2008 financial crisis, although some economies and some people are likely to be more vulnerable than others.

Even an economy-wide crisis can have diverse, heterogeneous impacts that warn against simple generalizations and point to the need for a flexible social policy response. It should not be presumed that the poorest will be hit hardest. Indeed, some of the same (undesirable) factors that have kept a significant share of the developing world's population in deep and persistent poverty—including a lack of connectivity to markets and consequent lack of opportunity for economic advancement—will protect them to some degree from the crisis. However, significant welfare impacts can be expected, notably in countries and regions within countries that have benefited from market-oriented development. Poverty is very likely to be higher as a result of crisis, though by how much will depend on the extent of the aggregate economic contraction and the rise in inequality (if any).

The Development Economics Research Group (DECRG) has been providing regular assessments of the likely poverty impacts, the latest of which suggest that in 2009 alone, the crisis will trap an extra 40 to 50 million people in extreme poverty. However, an aggregate poverty measure cannot tell the whole story. There are likely to be both gainers and losers at any level of living, including among the poor. And there may well be adverse impacts on important non-income dimensions of welfare, including the nutrition and schooling of children. Deficient crisis responses can lay the seeds of longer-term vulnerability to crises. The extent to which these adverse outcomes materialize will depend in part on the policies adopted by developing-country governments.



Martin Ravallion
Director, Development Research Group
The World Bank

The record of past policy responses to crises contains both successes and failures. If there is one lesson that stands out from our research on crises, it is that the short-term responses to a crisis cannot ignore longer-term implications for development in all its dimensions. The macroeconomic stabilization response must be consistent with restoring the growth process and, as a result, the pace of poverty reduction. Financial sector policies need to balance understandable concerns about the fragility of the banking system with the needs for sound longer-term financial institutions. The challenge ahead in financial sector policies is to align private incentives with public interest without taxing or subsidizing private risk-taking, while taking account of the specifics of the country context.

Some broadly similar issues of information and incentives underlie our discussions of social policy responses, which must provide rapid income support to those in most need while preserving the key physical and human assets of poor people and their communities. Difficult

choices will be faced in addressing the inevitable trade-offs between rapid crisis response and these longer-term development goals.

Social protection will figure prominently in the crisis responses of developing countries. Many governments and citizens are asking what can be done to help protect the poorest. There is a compelling case that the composition of public spending and taxation should change in favor of the poor, although the evidence of past performance is not encouraging; too often it is spending on the non-poor that is protected. A recently popular class of transfer programs requires the children of the recipient family to demonstrate adequate school attendance and health care, in some versions. Our research has provided evidence from impact evaluations that such Conditional Cash Transfer (CCT) programs bring non-negligible benefits to poor households in terms of both current and future incomes, through higher investments in child schooling and health care. With KCP support, we completed a Policy Research Report, *Conditional Cash Transfers: Reducing Present and Future Poverty*, which documents the evidence from past evaluative research on CCTs and points to some important lessons for the ongoing efforts to introduce and scale up these programs, as part of the efforts of governments to respond to the crisis. Our past research has covered other important policies for social protection, including workfare programs. DECRG has been active in using research in support of efforts to help protect the poor in a crisis, pointing to both successes and failures and emphasizing the need for care in thinking about incentives in policy design, the role played by political economy, and the importance of flexibility in adapting to the changing conditions.

There are huge information challenges in a crisis—even to know what exactly is happening on the ground in a timely way, let alone to figure out the best policy response in specific circumstances. Since data are at the core of almost everything DECRG's researchers do, we have also been active in exploring new ways of monitoring what is happening and evaluating interventions. New high-frequency data sources are being explored actively—data sources that have only become possible with the huge advances in information technology.

Crisis responses cannot ignore longer-term impacts. The faster the developing world gets back on track toward a sustainable path of poverty reduction the better. Nor can we ignore research on our longer-term development goals at a time of crisis. Research continues on our core areas of long run growth, distributional change and poverty reduction, climate change, pollution, energy, finance for development, private-sector development, trade reform, migration, governance, and delivering better schooling and health care services.

One of the unusual, and possibly unique, features of DECRG is the fact that we span such a wide range of development issues. Research is conducted both within and across the six teams of DECRG, in collaboration with researchers in other parts of the World Bank, with colleagues in universities and research institutions throughout the world, and with collaborators in almost all the developing countries in which the department's work is focused. In 2008, the department's country-specific research spanned over 60 developing countries (on top of cross-country comparative work). The KCP provides crucial financial support to these activities.





THE KCP IN 2009

Fiscal year 2009 was a very productive year for the KCP I with a total of 18 projects completed and an additional 42 research projects showing significant progress. The progress and completion reports of these research projects are available on the KCP website (www.worldbank.org/kcp) and the projects are also listed in Annex I.

Last year, the KCP Consultative Group (CG) meeting was hosted by a KCP partner other than the World Bank for the first time. Finland, a founding member of the KCP, arranged the CG meeting in Helsinki on September 30, 2008. The meeting included several very productive discussions. Below are brief notes on the proceedings.

The following KCP partners and World Bank staff attended this meeting:

- Australia:** Mark McGillivray
- Canada:** Cal MacWilliams
- Finland:** Pekka Hukka
- Japan:** Chihiro Hirasawa
- The Netherlands:** Armand Evers
- Norway:** Therese Evensen
- Sweden:** Mats Hårsmar and Elina Scheja
- Switzerland:** Pradeep Itty
- United Kingdom:** Iain Jones
- ABN/AMRO:** Khalid Sheikh
- World Bank:** Justin Lin (Chairman), Martin Ravallion, Truman Packard, Rosina Bierbaum, Jimmy Olazo, and Ivar Cederholm

Below is a short summary of the topics discussed:

- Truman Packard made a presentation on the *World Development Report 2009: Reshaping Economic Geography*. This landmark report was funded partially by contributions from the KCP and its dissemination in several developing countries is still ongoing. This report has been of particular interest to policy makers in Bank client countries and is expected to help shape better policies in both urban and rural planning.
- There was also a discussion on the outline of the *World Development Report 2010: Development and Climate Change*, which was launched on September 15, 2009. The WDR 2010 has also benefitted from generous intellectual and financial contributions from KCP members.
- The overall positive program evaluation of the KCP by two external professors was discussed and KCP members endorsed the continuation of the KCP in a second phase, the KCP II.
- It was agreed that the KCP II would continue to focus on the suggested sectors and themes in the program's charter. "Finance and Development" was added to the KCP II charter because of the growing importance of providing financing to the poor and the increased role of the private sector in that area.
- It was also confirmed that the KCP II funds will be targeted on activities concerning the International Development Association (IDA) countries and/or the poorest groups in International Bank for Reconstruction and Development (IBRD) countries, with particular priority for Africa and Asia, both of which have large and intractable poverty problems. The discussants confirmed that much more knowledge is needed on both the opportunities and constraints for development in these areas.
- There was a discussion on the suggestion that the KCP II put more emphasis on evaluative research, since there is a clear under-investment in such research.
- At a programmatic level, it was agreed that the KCP II will continue to look at climate change and the environment with a focus on water and land resources as they relate to poverty. In addition, work will continue on the impact of biofuels on food prices. Similarly, research on public service delivery will continue, as well as work on intellectual property rights in the context of access by the poor to life-supporting drugs.

- The meeting also concluded that the ongoing work on fragile states will continue and that new research will be initiated on technology and its role for development.
- Justin Lin concluded the CG meeting by thanking the government of Finland for hosting the event and by saying that it was not an end, but a beginning of a renewed partnership of the KCP.

Following the successful CG meeting in Helsinki, the KCP II became operational in December 2008, with the first trust fund agreement signed by Finland. Since then, both Australia and the United Kingdom have signed similar agreements with contributions spanning the next three years.

KCP II was launched in parallel with the KCP I so that the program would not lose momentum, given that the funds in the first phase were almost depleted. An additional contribution to the KCP I was received from Denmark in December 2008, with a preference to support the *World Development Report 2010: Development and Climate Change*. This was the last contribution made to the KCP I, which put the total amount of contributions at USD 23.6 million.

Thirty new research projects were awarded funding from the KCP II and two research projects were funded out of the remaining funds in KCP I. A quarter of the new projects were initiated as a direct response to the global financial and economic crises. Short abstracts of these new KCP projects are found in Annex III.

Poverty Dynamics and Public Service Delivery

Nine projects were completed in 2009 under the KCP's "Poverty Dynamics and Public Service Delivery" window.¹ Two very successful projects supporting the 2007 and 2008 WDRs were completed, though the dissemination and the operationalization of their findings are ongoing. In addition, there were a broad range of projects covering a variety of topics, including a research project on conflict and fragility titled "Political Institutions, Development, and Domestic Civil Peace." This project, together with other KCP-funded research, is featured in Annex II: KCP Projects in Profile. Other projects under this window covered topics ranging from improving the collection of data in developing countries through new instruments and survey techniques for improving the methodology for aggregating poverty-specific purchasing power parities (PPP). Both these projects are critical to improving the way we collect data, measure poverty, monitor the Millennium Development Goals (MDG), and evaluate Poverty Reduction Strategy Papers (PRSP). Another important project that was completed in 2009 analyzes alternative strategies for eliminating poverty and achieving the MDGs by using economy-wide modeling techniques. This KCP-funded project was key for the successful development of the Maquette for MDG Simulations (MAMS), which is an extended Computable General Equilibrium (CGE) model specifically designed for MDG and development strategy analysis. The model has been successfully launched and used in poverty analysis in 35 developing countries ranging from the poorest to middle-income countries. The project also achieved a significant capacity building effect by funding both workshops and training on the use of the model.

There was also significant progress on the 14 KCP I ongoing projects in the Poverty Dynamics and Basic Service Delivery window. The window covers a broad range of topics, including aid effectiveness, economic geography, Africa's green revolution, women's health in Africa, and much more.

¹ This window was named "Poverty Dynamics and Basic Service Delivery" under KCP I.



Box 1. World Development Report 2007: Development and the Next Generation

WDR 2007: Development and the Next Generation established the World Bank as a key actor and global authority in the youth development field. The report concentrated on the population between the ages of 12 and 24, a group undergoing very important life changes. The management of the complex transition to adulthood by young people, families, and governments, at a time when countries are also undergoing demographic and socio-economic transitions, has enormous consequences for individual welfare and for economic development.

The absolute number of youth is the largest in history, and possibly the largest the world will ever see. A fifth of the world's population is between 15 and 24 years of age; 85 percent of them, or over 1 billion young people, are in developing countries. The present youth cohort is generally healthier, more educated, more mobile, and has better access to technology and information than previous generations. However, they are exposed to more communicable diseases and risky behavior, and face higher competition for social services and jobs.

The report examined life transitions and laid out an evidence-based menu of policies that can be broadly summarized in three basic principles: First, young people need the opportunities to realize their potential. Second, they need the capability to make the right decisions and take advantage of opportunities presented to them. Third, those who make poor decisions, or who were denied opportunities, need a second chance to recover to a healthy path of development.

Strong evidence exists to support actions in some, but not all, aspects of youth development. Among the more robust and well-supported policy recommendations are:

- Improve the quality of education and health and increase access to education beyond primary school.
- Make education more relevant to the job market and teach young people practical skills and life skills while forging stronger bonds between the classroom and the workplace.
- Examine whether rigid labor laws or public sector employment policies shut young people out of jobs.
- Consider using specific tax and price policies to encourage healthier behavior. For example, in Indonesia, smoking among 15 to 24 year old young men has been curbed by tobacco taxes.
- Give young people legal standing and the opportunity to be recognized and heard. For example, Brazil's Ceara State has made it easy for young people to access public services by giving them legal standing.
- Make targeted second chance programs available to those who were denied earlier opportunities, or who took a wrong turn. A program for school dropouts aged 10 to 16 in Bangladesh feeds directly into vocational training programs that service 36,000 students at the cost of USD 20 per year per student.
- Invest in healthier decision-making and targeted health services—lower HIV incidence means more young people attend school.

Investment Climate & Trade and Integration

The KCP window “Investment Climate & Trade and Integration” saw 6 projects completed in 2009, while 22 projects remain in different stages of advancement. The list of projects is found in Annex I. Two of the completed projects examined the impact of the investment climate in developing countries’ projects. Both projects analyzed different indicators at the firm level. One used data from Morocco between 1986 and 2001, looking at firm dynamics and how different productivity levels led to the exit of firms with gaps in productivity. It found that liberalizing markets did not increase net productivity, though technical and allocative efficiency did rise in Morocco. The second project was supposed to examine data from Botswana and India. Instead, the team that was supposed to work with the researchers moved to the region, so the researchers decided to examine Bangladesh instead. This was seen as a good research opportunity, as the country had recently experienced changes in its investment climate and introduced specific policy reforms. A wide range of indicators were studied, but two indicators were particularly problematic to firms—the lack of property rights and the limited access to financing. These two indicators were found to have an adverse effect on growth. Another research project studied the specifics of access to finance. The project, “Access to Finance and Poverty Alleviation,” analyzed cross-country data between 1960 and 2005. One very important finding was that financial development and increase in access to finance disproportionately helped alleviate poverty.

Another KCP-funded project, “Growth, Innovation, and Reform” analyzed the reasons some developing countries were very slow in adopting new technologies while others, particularly in Asia, were much faster. Again, a set of cross-country data was used to isolate the specific technology indicators. The study concluded that countries with a higher level of regulations and other developmental constraints had a more sluggish adoption of new technologies than countries with a lower levels of government regulation.

Finally, there is a very interesting KCP project completed in 2009 that studied the effects of the United States’ decision to introduce antidumping measures on imported catfish from Vietnam. The study concluded that larger fish farmers suffered significantly larger losses than smaller farmers. Another finding was that the antidumping measures created a significant exit out of catfish farming and that smaller farmers were more likely to exit since they had the opportunity to move into wage labor markets.

The span of the 22 ongoing research projects in the Investment Climate & Trade and Integration window is even wider than in the group of completed projects. As mentioned in earlier reports, a comparative advantage of the KCP is that it allows World Bank research to move quickly into new research areas. An example is the research program on international migration and “brain drain” which has led to significant achievements. When the program was launched, primarily using KCP resources, we knew very little about the effects and impact on poverty that migration causes. Today, we know much more, the research is being disseminated widely, and it should help developing countries introduce relevant and effective policies. A very important output of this research is the creation of the largest database on brain drain. In addition, the KCP was used to fully finance the creation of a database on global stocks of migrants. The project was leveraged by joining forces with the United Nations Population Division, which allowed both the Bank and the UN to create a much larger database. Box 2 provides more information.

Another important project in this window has been using KCP funds to improve the data that underpins the Worldwide Governance Indicators. These indicators are updated and published every year in a partnership between the World Bank Institute (WBI) and the Research Group in DEC. The indicators have been increasingly popular among scholars and development practitioners. The research team continues to have frequent consultations and discussions with government officials around the world.



One project, approved in January 2009 in response to the global financial and economic crises, is studying the pro-cyclical effects of capital requirements on the global finance industry. In a very short time, the project has developed a general equilibrium analytical framework that will help developing countries assess the impact of pro-cyclical financial sector regulations. The framework will allow developing countries to prevent excessive pro-cyclicality in times of financial crisis, and move towards a more prudent regulatory framework.

Another ongoing project focuses on how institutional investors manage their worldwide allocation of assets. The study analyzes the behavior of pension funds, international mutual funds, and risk diversification. The project aims to propose a series of policy recommendations and regulations to improve the allocation of savings within and across countries to foster the development of financial instruments to promote long-term investments and risk diversification.

Box 2. Global Bilateral Migration, 1960–2000

The United Nations estimates that between 1960 and 2005, the number of international migrants more than doubled, reaching three percent of the world’s population. Despite the importance of these labor movements for both developed and developing countries, surprisingly little is known about the bilateral movements of international migrants on which to base policy.

In recognizing these challenges, the KCP fully funded the development of a comprehensive database of global migrant stocks. The database includes bilateral migrant stocks between every country in the world, spans the five census rounds from 1960 to 2000, and includes a breakdown by gender. Existing databases typically rely on information disseminated by developed countries after 1990. The bilateral matrices are unique in capturing all global migrants over a time period that is much longer than any other comparable study. A particular emphasis is placed on both South-South and North-South migrations, of which statistically, we know very little.

After the initial data collection period, it became apparent that the United Nations Population Division had embarked on a project with similar objectives. This served as a perfect opportunity for inter-agency co-operation and a letter of understanding was signed such that the burden of data collection could be shared. In total, before constructing the final matrices of global migrant stocks, some 3,500 separate census records were physically collected from various libraries across the globe.

Aside from the herculean task of data collection and entry, the major contribution of the project is in making the data comparable across countries and over time, and in calculating missing data. Now completed, the five square matrices of bilateral migrant stocks, which span the last half of the twentieth century, should represent the most complete dataset in international migration research. Created under the auspices of two separate KCP grants, the data will benefit researchers and policy makers from a variety of different backgrounds.

Global Public Goods

In fiscal year 2009, there were three KCP projects completed in the “Global Public Goods” window. Two projects are on the control of pandemics and the third project extends a global migration database along several dimensions. The project on the economic impacts of a pandemic influenza is presented in detail in Box 3. The project on understanding disease control was a collaborative effort of the World Bank, the U.S. National Institutes of Health,

Vietnam's Central Statistical Office, Vietnam's National Institute of Hygiene and Epidemiology, and other participating institutions. Much of the study resources were invested in Vietnam's two participating institutions to ensure sufficient capacity to undertake this 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. You can read more about this successful project on the KCP website.

In addition to the three completed projects, there are six research projects with substantive progress in the Global Public Goods window. These projects include the landmark *WDR 2010: Development and Climate Change*. This project is featured in Annex II: KCP Projects in Profile. Complementing the WDR, there are additional climate-related research projects on biofuels, mitigation, clean energy, and modeling global warming.

Box 3. The Economic Impact of Pandemic Influenza and Mitigation Policies

The current H1N1 “swine flu” pandemic has heightened public awareness of the threat posed by influenza pandemics. While the current pandemic has proved relatively mild, it may infect hundreds of millions of people as the northern hemisphere enters the peak season for influenza infection. A more virulent strain (such as a strain of H5N1 “avian flu” that could be transmitted between humans) could prove even more devastating, and spread rapidly around the world through international airline networks.

The “Impact of Pandemic Influenza” project investigates the severity and incidence of a pandemic using a detailed global epidemiological simulation model, and estimates the effectiveness of using antiviral drugs to treat those infected, and of implementing physical distancing measures (such as school closures) on reducing the aggregate number of flu cases. It also examines incentives for countries to undertake these measures.

The project shows that globally and in any given country, developing a stockpile of antiviral drugs and using these to treat people infected with the pandemic strain can be highly effective at reducing the number of people infected over the course of a pandemic. Since the number of people infected with a pandemic strain can be hidden among the much larger number of people with regular seasonal influenza strains, it is very difficult to detect a pandemic strain early enough to prevent an epidemic entirely. Physical distancing measures that reduce contact rates between people can reduce the number of cases for low to moderately severe strains. However, for very infectious strains, these measures only slow the course of the pandemic, with little direct impact on the final number of people infected.

The benefits of policies that mitigate pandemics go largely to the country that undertakes the policy. Consequently, high-income countries will have strong incentives to pay for pandemic mitigation for their domestic populations, but poor countries may not have sufficient incentive to engage in any mitigation. Study results show that for a broad range of assumptions regarding the infectivity of the epidemic and the effectiveness of national antiviral treatment policies, the value of health benefits to high-income countries from donating stockpiles to a poor outbreak country would surpass the costs to the high-income countries. Thus, under circumstances where poor countries do not prepare their own stockpiles, the donation of antiviral stockpiles to influenza outbreak countries can be justified by an economic as well as a humanitarian rationale.



RESPONDING TO THE GLOBAL ECONOMIC CRISIS

We have a reasonable understanding of the factors behind the global financial crisis. Lax macroeconomic policies in a context of weak prudential and regulatory oversight led to excessive leveraging, mispricing of risk, and the build-up of global systemic risk. The global financial crisis exposed a number of previously documented but unresolved fragilities within the increasingly integrated global financial system. The crisis also revealed that financial sector policies need to be applied even-handedly for developed and emerging markets alike.

The current global economic crisis is very different from all previous episodes. First, the crisis started in the financial market of the United States, which is the largest and most globally-integrated economy in the world. The size and interconnectivity of the U.S. economy meant that the financial difficulties spread rapidly throughout the world after the collapse of Lehman Brothers. Second, the financial crisis involved complex finance instruments, such as asset-backed securities, that are difficult to reprice and show up on the balance sheets of a variety of financial institutions around the world, hastening the transmission of the crisis. Third, the pre-crisis global build-up of capacity in the real economy, specifically in housing and manufacturing, will likely result in large excess capacity in the global economy even after the crisis recedes. Fourth, during periods of economic difficulty, developing countries with small, open economies have traditionally used currency depreciation to boost exports and thus buoy their economies. However, this method is not effective in a globally depressed environment. Within this context, coordinating policies and recommendations among developed and developing countries is imperative to easing out of the crisis.

Despite some recent positive signs, there is still much uncertainty about the recovery in developed countries. The on-going transmission of the credit crunch into the real economy might still affect a variety of sectors in the manufacturing and services industries during 2009 and perhaps even later. As pointed out by the 2009 Global Development Finance (GDF) report,² the crisis dramatically altered the world economic outlook. Global output is expected to shrink by 1.8 percent in 2009, the first contraction since World War II. International trade is likely to experience the sharpest drop of the past 80 years. Unemployment will soar in industrial countries,

as high-income countries reel from an unprecedented asset-market bust.

While the prospects for a rapid recovery in developed countries are uncertain, there is unfortunately much certainty about the damage done to development efforts of developing countries. GDP growth in the developing world is likely to slow to 1.6 percent in 2009 from 5.8 percent in 2008. Countries will be affected differently depending on their level of income (middle or low), the structure of their external dependency (export/import concentration, commodity prices, remittances, concessional financing flows) and the quality of their past macroeconomic policies, which includes their capacity to have preserved fiscal space for counter-cyclical interventions.

On the poverty front, the crisis could trap up to 50 million more people in extreme poverty in 2009. The number of chronically hungry people is projected to climb to over one billion this year, reversing gains in the fight against malnutrition and making the need to invest more in agriculture especially urgent. The need to support social safety nets in a period where both external and domestic sources of financing are stretched will put additional pressure on the fiscal position and eventually the debt levels of developing countries.

In response to the financial and economic crises, the KCP Internal Management Committee decided to allocate substantial funding to this research area during the first KCP II meeting. In total, the committee awarded funding to eight very promising research projects with a specific focus on the financial and economic crises. The projects are listed in Annex III with short descriptions and include the following areas of research:

² *Global Development Finance—Charting a Global Recovery*. The World Bank, 2009.

- The Financial Crisis and Foreign Bank Participation in Developing Countries
- Regulation and Bank Stability
- Globalization, Risk, and Crises
- Labor Markets and Impacts of the Financial Crisis: Evidence from China and India
- Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries
- Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty
- Pro-Cyclical Effects of Capital Requirements: Theory, Evidence, and Policy Lessons for Middle-Income Countries
- Employment Creation in Large and Small Firms: Exploring What Works with South Asian Firms

A key question is whether there is a trade-off between globalization and vulnerability. It is widely believed that globalization facilitated the rapid spread of the financial crisis, although it is also recognized that some economies and people are more vulnerable than others. The terms of the trade-off depend on aspects of the financial integration process and related policy choices. Financial regulation and supervision policies pose the possibility of similar trade-offs between short-term crisis resolution and sound longer-term financial sector development. The nature of these trade-offs in developing country settings is not well understood. Nor is it even clear that a significant trade-off exists between globalization and vulnerability. It has been argued that more inward-looking policy stances will expose developing countries to even greater shocks. By this view, trade and migration are forces that help countries deal with shocks, although it will probably be admitted by advocates of this view that openness offers better protection from domestic shocks than external ones, such as the current crisis. Similarly, the volatility of (non-FDI) capital flows to some developing countries may simply reflect changes in their default risks, possibly reflecting deeper institutional problems.

The poverty and human development impacts of the crisis will also vary across countries, depending on the extent of inequality, the extent to which the poor are connected to the market economy, how “pro-poor” existing social spending is, and how these factors change as the crisis unfolds. Here too, some of our long-standing policy positions are in doubt. Our advice to governments to protect those components of social spending that matter to the poor is frequently ignored during a period of fiscal adjustment, for reasons of political economy. More often it seems that the type of public spending that matters more to the non-poor is protected, at a cost to longer-term development goals. For example, public spending on health-care staff costs is protected while the health clinics run out of drugs and equipment deteriorates through lack of maintenance. While we have often advocated finely targeted social spending, those vulnerable to this crisis may not be among the poorest. Some of the types of social protection programs we have supported (such as conditional cash transfers) also appear to be rather inflexible, such that they do not adapt quickly to changing needs as a crisis unfolds.

In addition to the ongoing crisis research already undertaken within the KCP, we plan to focus on:

- Mapping the policy trade-offs (if any) posed by the financial crisis in all areas of policy, and aiming to clarify the key factors that influence the trade-offs faced in specific country contexts.
- Studying specific policy responses in finance, macroeconomics, and social protection, including strategically relevant monitoring and evaluation efforts, so that we can learn about what is and is not working.

As discussed earlier in this report, the KCP has been geared to respond to research gaps and critical questions surrounding the current economic crisis. However, there is a need to continue seeking new knowledge in our traditional areas and aspects of development thinking. The next section outlines the research agenda that has been discussed with various stakeholders of the World Bank. These topics will serve as a starting point for discussing the strategic direction of the KCP.



FUTURE RESEARCH DIRECTIONS IN KCP II

The global financial crisis of 2008 threatens to deeply affect the lives of many people in the developing world. It is also forcing a reassessment of economic thinking about globalization. Some prominent observers are questioning policy orthodoxy about the benefits of openness to international trade and capital flows and the role of states versus markets. Others are arguing instead that this is an exceptional transition period and that prior policy stances will come back to the fore in due course. The crisis raises concerns about our policy dialogue over virtually the whole range of policy: trade, macroeconomic stabilization, financial systems, public finance, human development, and social protection.



Macroeconomics and Growth

Sustained economic growth is a key factor in poverty reduction and human development. Major research objectives looking forward include understanding the drivers of growth, the reasons underlying the aggregate instability of developing economies, the benefits and costs of international financial integration, and the contribution of governance to growth.

Foundations of Growth. Research on economic growth is crucial to understanding the relative merits of government interventions in the areas of international trade, financial markets, health and education, public infrastructure, and governance, to name only a few. This research closely examines country-specific initial conditions and complementarities among different reforms, in order to derive priorities tailored to individual countries' circumstances.

Microeconomic Foundations. Evidence shows that productivity gains account for the bulk of long-term growth in per capita income. Economy-wide productivity growth reflects the allocation of resources across microeconomic units of heterogeneous efficiency. Understanding the incentives and constraints facing individual actors provides insights into the efficacy of different growth strategies and helps explain countries' heterogeneous responses to policies. The research also examines the scope, speed, and efficiency of resource reallocation across the economy and its consequences for aggregate performance.

Innovation and Technological Upgrading. Although technological progress is widely regarded as essential for growth, there has been little research on its determinants for developing countries, where much technological upgrading takes the form of adaptation and adoption of known technologies. Research examines how technological upgrading strategies are affected by the policy environment, and how barriers to firm renewal and turnover influence the pace of technological upgrading and catch-up with advanced countries. This work also investigates the role of innovation in shaping the growth link between developed and developing countries over the short-run and the long-run. The research will also investigate the role of the state in this process (see Box 4 for further information).

Macroeconomic Stability. Macroeconomic instability deters growth and entails major welfare costs—particularly severe for the poor, due to their limited asset buffers and inadequate access to risk diversification and smoothing instruments. Yet many developing countries, and especially the poorest ones, experience high macroeconomic volatility and frequent crises. This research examines the nature of the shocks faced by different types of developing countries, and how countries' micro and macroeconomic policies and structural features mitigate or exacerbate instability.

Capital Flows and International Financial Integration. International financial integration opens the door to external financing and risk diversification for governments, firms, and consumers in developing countries. However, integration also makes them vulnerable to

shocks emanating from international financial markets. Research examines the benefits and challenges of financial globalization and financial development for aggregate performance, the links between international integration and domestic financial market development, and the propagation mechanism of financial shocks across countries.

Box 4. Structure and Change Research Program

Development is a process of continuous industrial upgrading and structural change. Understanding which factors make it possible for one country to be successful in the process of development, while another country languishes, is at the heart of development economics. In order to provide a better theoretical and empirical framework for understanding this process, the Bank will undertake an ambitious new research program, the “Structure and Change Research Program.” This program builds on previous work but emphasizes that government policy, rather than the play of market forces alone, help explain successful industrial upgrading and structural change. The program will draw lessons from the successes and failures of development experiences in many parts of the world and propose a new theoretical framework to identify intelligent policies for countries facing diverse initial conditions. The proposed research program will encompass several research projects, and below are the first four projects:

1. Patterns of Industrialization

This part of the research program will empirically and systematically document some stylized facts about the types of economic transformations that take place as countries develop and how these transformations are reflected in shifts among sectors of the economy. It will develop and test the new model to see how it performs empirically.

2. Country Case Studies: Successes, Failures, and Exit Strategies

The case study portion of the program will identify countries that have been particularly successful or unsuccessful in industrializing and examine the strategies and policies that were most responsible.

3. Optimal Financial Structure

This portion investigates how the optimal financial structure in a developing county depends on its level of industrialization and development.

4. The Process of Industrialization in Sub-Saharan Africa

The research in this area will focus on why so many countries in Sub-Saharan Africa have not industrialized rapidly and what can be done to hasten the development.

Governance and Political Economy. Previous research has highlighted the key role of governance for macroeconomic policy and long-run growth. The research program on governance pursues three themes: (i) The effects of weak governance in various dimensions, still poorly documented and understood, that relate directly to growth. (ii) The political economy of good governance, understood as the social and political circumstances that lead governments to make decisions in the general interests of citizens, rather than the interests of narrow groups in society. (iii) The efficacy of second-best policy responses to poor governance environments, including information provision to citizens and community-driven development. The research involves a considerable data collection



effort to measure governance and its determinants, exemplified by the well-known World Governance Indicators, the Database on Political Institutions, and the Database on Political Parties.

Conflict and Violence. Building on earlier work on the economics of civil war and post-conflict transitions, this line of research assesses policy and institutional strategies for sustained peace in countries emerging from conflict. The upcoming *WDR 2011: Conflict and Development* will take a thorough look at all aspects of conflict and violence. The report will also identify gaps in our knowledge base that will serve as a trampoline for future work. The report is planned to be launched in December 2010.

Trade and International Integration

Research on trade and integration will aim to: (i) better understand the development consequences (in both equity and efficiency) of policies affecting international trade in goods, services, and people (both temporary and longer-term migration); (ii) analyze complementary “behind the border” factors that affect the size and distribution of the costs and benefits of trade—such as service sector performance, logistics costs, the labor market or competition policies; (iii) undertake positive and normative analyses of international trade agreements, both multilateral (WTO) and bilateral or regional; and (iv) enhance the quality and coverage of data on policies affecting international integration.



Distortions of Agricultural Incentives. Because most of the poor are located in rural areas and heavily dependent on agriculture, large-scale poverty reduction requires increasing profitability in farming in addition to the creation of alternative employment opportunities. Earnings from farming are depressed in many low-income countries partly because national policies have an anti-agricultural bias and/or because richer countries assist their farmers with import barriers and subsidies. This research will measure the changing extent of policy bias against agricultural production, the effects of current and alternative policy regimes, and the political economy forces explaining reforms and resistance to reforms.

Trade and Poverty. Assessing the impacts of trade and trade policy on poverty and inequality in developing countries is another ongoing area of the research program. This research uses a mix of micro econometric techniques and general equilibrium modeling. Much of the current focus is on domestic complementarities to trade policy (the effects of so-called “behind the border” factors such as market structure and competition in distribution services, and access to and quality of infrastructure) and on household-farm-enterprise adjustments to trade shocks.

Trade Agreements. An important component of the research program has traditionally revolved around analysis of trade agreements and trade negotiations, both multilateral (WTO) and regional or bilateral. Often this work is undertaken at the request of other parts of the World Bank or external partners. Current projects under this heading include assessments of the Doha Round and an effort to determine the extent to which regional trade agreements involve implementation of trade policy and regulatory commitments that go beyond the status quo.

Migration. The migration research program is organized from within the Trade and Integration Group, but involves researchers from several units in DEC’s Research Group (DECRG) and Prospects Group (DECPG). Diverging

demographic trends and the large wage gap between developed and developing countries imply that migration forces are likely to strengthen and make it increasingly difficult for government policies to restrain migration pressures and strengthening trends. In the past two years, the program has generated three volumes of research papers and the most complete extant dataset of bilateral migration stocks, broken down by level of education and gender. Ongoing research in this area centers on unraveling the links between trade, FDI, and migration; the determinants and impacts of the brain drain; and additional surveys collecting individual and household micro data.

Finance and Private Sector Development

Research on the financial sector will focus on understanding just how an effective financial system contributes to economic development and identifying which policies work best to improve the efficiency, stability, and the reach of the financial systems in developing countries. The research program on finance is organized around two issues of significant policy interest: access to financial services and risk management.

On private-sector development, the research will focus on the determinants of firm entry, exit, and performance, which are central to understanding the microeconomics of the growth process. With the recent worldwide collection of firm-level data and systematic measurement of the business environment, our research has now begun to explore the role of policies in aiding private sector development at the micro level.

Access to Financial Services. Financial services need to support broad-based, inclusive growth. Recognizing serious data and research gaps and lack of policy guidance on access to finance, DECRG recently completed a Policy Research Report, *Finance for All? Policies and Pitfalls in Expanding Access*, documenting and benchmarking differential access to financial services by small firms and the poor. The report identified underserved groups and barriers to building inclusive financial systems. The ongoing work is evaluating the channels through which access to finance can contribute to the growth process, such as by promoting entrepreneurship, innovation, and the process of technology adoption. The role of financial literacy and gender differences in this process will also receive significant attention.

Risk Management. Deepening finance and expanding access are not enough, given the fragility of finance. Most countries, even including those that have experienced rapid development success underpinned by financial deepening, have suffered from financial crises that interrupt the growth process and sometimes set back progress for a decade or more. In addition, heightened risks at the level of individual firms and households have reinforced the role of financial instruments and markets for hedging and managing risk at the micro level. This is why risk management, including crisis prevention, remains a central part of the financial development agenda and of our research program.

Entrepreneurship and Innovation. An area that has not received enough attention is the study of entrepreneurship and the environment that motivates and supports the creation of new firms, including self-employment. Many economists consider innovation and technological progress essential for economic growth and development. Hence, it is important to study the determinants of entrepreneurship as well as the rate at which firms across developing countries innovate and adapt their organizations to meet market conditions.

Informality. Informal firms account for roughly one-third of production and one-half to three-quarters of the non-agricultural labor force in developing countries. The informal sector is particularly important as a source of employment for the poor. However, limited data and a bias toward formal-sector firms mean that relatively little



is known about the productivity of informal-sector firms, the barriers they face for growth, and their spillover effects on the formal economy.

Corporate Governance. Corporate governance covers a broad range of issues concerning the allocation of control rights within a firm and thus defines how the authority is exercised and the quasi-rents generated by firms are allocated among different classes of stakeholders. A more narrow definition of governance covers the mechanisms by which suppliers of finance to corporations assure an adequate return on their investment. Research on this topic investigates the impact of institutional development and the business environment on firms' governance structures, as well as how internal and external governance affects firm performance.

Human Development and Public Services

The ongoing research focuses on the delivery of education, health, and social protection services, and the political economy issues related to these sectors. The program includes a number of impact evaluations of specific interventions and policies that are meant to influence household demand and individual behaviors and those that improve the supply and quality of services. New research is also being developed on work and labor markets. Looking forward, another growing area of research is aid effectiveness. Since the Policy Research Report, *Assessing Aid*, was published 10 years ago, donors have committed to a substantial increase in aid under the Monterrey Consensus. As they begin to deliver on these commitments, new research approaches can help inform donor agencies and their constituencies on the effectiveness of alternative aid strategies.

Measuring Inequalities and Understanding the Determinants of Human Development. This research documents the trends and patterns in human development, and explores the association between human development and various dimensions of inequality, including gender, ethnicity, race, and religion. The greater availability of household survey data has made it easier to measure and monitor aspects of human development and related services. The research will also examine the role of access to service facilities and the impact of large social and economic changes—such as economic crises, violent political conflicts, and droughts—on measures of human development.

A new Policy Research Report on conditional cash transfer programs (published in February 2009) develops a framework for assessing the impact of these programs and reviews the empirical evidence across the developing world. The report will help inform policy discussions about these popular programs to improve their design and implementation.

Improving Service Delivery and Reforming Institutions in Support of Human Development. This research aims to understand how to make public and private services work better for the poor. A key challenge is to identify the factors that affect what goes on inside schools and health clinics, assess how resources are being used, and identify how performance can be improved. In the past few years, especially in connection with the 2004 World Development Report, DECRG researchers have contributed to global knowledge by collecting data on providers at both the facility level and the provider level. The most useful data of this sort are those that link facility or provider information to household data. Similar data are still being collected, although mainly in relation to impact evaluations of programs.

This research also looks at a country's larger political context and the extent to which governments, donors, and other actors have the incentives and the ability to pursue policies credibly in the broad public interest. Donors have tended to equate governance with the avoidance of corruption, but research has viewed governance through a broader political economy lens in which political accountability, public sector management, formal oversight,

citizen participation, donor practices, and private and civil society activities jointly determine outcomes. Research has shown that narrow steps designed to counter corruption may have little effect on country characteristics that undermine governance, and policy measures to improve governance broadly may have significant advantages in the specific fight against corruption. For example, ongoing research is examining the impact of the decentralization of public services, changes in compensation systems, and enforcement of social and economic rights by courts on the delivery of basic social services in developing countries.

Workers and Labor Markets. Labor is typically the most important resource possessed by poor people and income from labor remains the most promising means by which the poor may raise their standard of living. A new research agenda is focusing on how labor markets function in different institutional settings and developing knowledge about which policy interventions and social protection mechanisms promise better and more secure employment opportunities for the poor. Employment decisions by firms, the job search and labor choice of individuals, and the longer-term planning decisions of households are all likely to be influenced by these public and private mechanisms supporting social protection and by labor market institutions. Regulation of labor markets is intended to protect workers but can also hamper job creation, leaving more workers unemployed or unprotected in the informal sector. This disproportionately affects young workers, women, and unskilled workers.

Aid Effectiveness. Another component of this research focuses on the effectiveness of aid, especially as it impacts the attainment of development outcomes. The quality of aid can matter for development outcomes at least as much as the quantity of aid. A dataset on a wide range of aid quality indicators, measured by donor and by recipient, is being developed to supplement or adjust traditional measures of aid quantity. In addition, the quality of aid is being investigated in several dimensions. Regarding education, various dimensions are being explored, including the predictability of aid flows and the degree to which they are fragmented among donors. That aid is likely to work better in a good policy environment at the country level continues to have the appeal of common sense (despite controversy over the existing cross-country evidence). Therefore, new research is examining aid effectiveness at lower levels of aggregation within selected countries and also at the project level. Research is also investigating the impact of donor fragmentation on aid effectiveness, the impact of performance-based systems on aid allocations, and the impact of donor characteristics—not just recipient-country institutional quality—on project outcomes. Last, recognizing that the aid community uses instruments besides funding to affect development outcomes, research will also examine the diffusion of development ideas and their impacts.

Poverty and Inequality

The ongoing research program in this area is organized around two main themes: better data to describe poverty and inequality, and research to better understand and break poverty and inequality traps.

Better Data on Poverty and Inequality. Compilations of distributional data at the country level lie at the heart of much of our current knowledge about both the extent of inequality in the world and the implications for aggregate economic growth. There is a pressing need to improve the quality of existing data and DECRG researchers have identified a number of specific areas that need attention. The data are also being asked to shed light on new questions.

Phase IV of the Living Standards Measurement Study. Research at the World Bank has always been closely linked to efforts in the design and implementation of household surveys, notably through the Living Standards Measurement Study (LSMS) based in DECRG. In 2006, a major new research program was launched that is validating and experimenting in the area of money-metric welfare measures, developing and testing new topical modules for the



LSMS, and investigating methods to exploit new technologies to improve data production. The development of new modules has been tailored in part to the issues addressed in the aforementioned 2006 WDR (including measuring inequalities of opportunity and inequalities associated with gender and ethnicity). The LSMS IV agenda also aims to ensure the dissemination of results.

Computational Tools for Poverty and Inequality Analysis. Alongside a focus on data and data quality, the Research Group has an ongoing effort underway to develop computational tools for the analysis of poverty. The Group has produced software, called ADEPT (Automated DEC Poverty Tables), that offers a platform for users to speed up the production of tabulations and graphs for poverty assessments. This tool is currently being extended to perform similar functions for the analysis of labor markets, gender differences, education, and social protection.

Investing in Equity. In this area, the main challenge for future research is to identify the most important specific dimensions of inequity that impinge on economic performance and are amenable to policy intervention. There are three topics under study: First, inequalities in education and health that can severely impede people’s prospects for participating in the opportunities of a growing economy and contributing to that growth. Second, inequalities in opportunities stemming from location and impediments to mobility. Persistently poor areas have been a concern in many developing countries, including those undergoing sustained aggregate economic growth. Third, inequalities in voice and power—such as those stemming from political institutions, judicial inequalities and constraints on access to social networks—that can be crucial to abilities to seize new opportunities.



In all these areas, there is a continuing need to assess the distributional impacts of development programs and policy reforms. All policies affect inequalities in income and other dimensions, even when that is not their primary aim. The focus of the research is on a narrower set of policies that have improving distribution as their primary aim. The specific policies include transfer schemes (workfare and conditional cash transfers), programs for the extreme poor, poor-area development programs, disaster relief, land reforms, judicial reforms, community-driven development, and institutional reforms for promoting local democracy.

Environment and Energy

This research program covers many aspects of and interactions within the rural-urban space. Poverty is a rural phenomenon in many countries (75 percent of the world’s poor live in rural areas), but in fast urbanizing countries, poverty is increasingly becoming a predominantly urban phenomenon. With climate change becoming a focus of international policy debates, the research on this topic has expanded significantly.

Energy Resources and Markets. Energy is both a key factor in economic development and a central focus in addressing the environment and climate change. Current research topics include the economics of renewable energy and energy efficiency, energy and urban transportation, possibilities for “green stimulus” investment in the energy sector, and improved efficiency in public utility regulation. These projects include work in Latin America, Africa,

and Asia, as well as support to World Bank Operations. New research projects are being developed to address the political economy of energy subsidy reform, and to continue work on the economics of access to renewable energy in rural areas.

Climate Change. Research in this area explores the major aspects of the climate change agenda. These include assessing the impacts of climate change and the implications for adaptation, mitigation of greenhouse gas emissions including the rapidly-growing carbon finance business, and strengthening international approaches to meeting climate change challenges, in which the Bank plays a key role through the provision of information support and resource management to its clients and other stakeholders.

The effects of climate change on sea level, agriculture, water, and ecosystems have direct and significant implications for a wide range of investment and expenditure decisions that are being made now in developing countries. Specific topics in this area include impacts of storm surges and changes in river flows on affected populations, and adaptation to climate change impacts in agriculture. Other research addresses the impacts on international river basin management treaties of changed water resource availability and options for international measures to reduce the risk of “catastrophic” climate change.

In the area of greenhouse gas mitigation, the research team has built on related energy research to initiate a new project based on country case studies to examine prospects for more rapid economic growth in developing countries while also reducing total emissions. Other research explores the functioning of current international markets for greenhouse gas emission credits through low-carbon investments in developing countries and the extension of these market mechanisms to increase incentives for reducing deforestation. Connected with these projects is study of the macroeconomic consequences of revenue inflows from the sale of carbon credits. These projects also provide insights for exploring how incentives for international cooperation in greenhouse gas emissions can be further strengthened.

Other Environmental Issues. Other research focuses on two specific topics: First, health damages from indoor air pollution from smoky fuels and how these serious hazards can be reduced. Second, hazards to the environment and workers from stocks of expired pesticides. In addition, the team continues to carry out research on the economic valuation of a variety of environmental goods. Another continuing line of work explores how approaches to environmental improvement based on disclosure of information on environmental performance of enterprises, and community-based processes for establishing norms, can supplement more conventional policy designs. This portfolio of research has yielded concrete measures for improving environmental outcomes in a number of countries including Bangladesh, China, and Tunisia.

Water. In addition to research on water and climate change, a continued focus of work is on integrated river basin management. A recently initiated project will review the performance of this approach in a number of African basins, with the goal to identify barriers to improved outcomes and to suggest means for overcoming these barriers. Other work has explored how the microeconomics of improved irrigation water management relates to improved country-wide macroeconomic performance. In addition, research is being developed on the factors influencing government policies and strategies in the context of shared international responsibility for water bodies, in order to improve the management of these important water resources.

Urban and Regional Development. DECRG is engaged in a multi-year research program to provide empirical evidence on the role of infrastructure in stimulating economic development, and how that role can be strengthened for accomplishing more rapid and inclusive economic progress. As part of that broader initiative, new research in the Environment and Energy team aims to develop methods to assess the impacts of inter-regional transport



improvements on trade flows and economic performance. These methods will build on models from the new economic geography which are at the center of the WDR 2009.

Agriculture and Rural Development

The food crisis of 2008 and the evidence of slowing productivity growth in agriculture have focused attention on the need for action to promote rural development. The key question is how best to achieve this. In particular, how might agricultural productivity be increased, especially in Africa? How much might improvements in land tenure, irrigation, and access to finance contribute? By how much might improvements in rural infrastructure promote development? What can be done to help facilitate the movement of labor out of agriculture? Finally, what might be the consequences of moving towards greater local self-sufficiency and away from trade? These are the key questions to be addressed by this group.

Agricultural Productivity. Poor households and lagging regions often depend heavily on agriculture, especially in Africa where more than 70 percent of the poor depend on agriculture for their livelihood. African productivity per worker has fallen since 1980, and it seems likely that adoption of new technologies could boost incomes and reduce poverty. This research aims to understand productivity differences between farms and to identify policies for broad-based agricultural growth.

Related work examines the implications of productivity growth in low-income countries for poverty, using models and household survey data to compare improvements in agricultural productivity with price policies as means of increasing food output. More work is needed to deal with key operational challenges in the allocation and assessment of research resources.

Land Policy. Land policy has become a significant component of the World Bank's rural development agenda. The current work program focuses on three main areas: (i) gender impacts of land tenure; (ii) efficiency and equity impacts of restrictions on, or absence of, land markets; (iii) impacts of land reforms on households in Brazil, Colombia, South Africa, Malawi, and India.

Rural Infrastructure. Rural infrastructure is a major area of Bank lending and a major focus of research. The objectives are to assess the contribution of infrastructure projects to agricultural performance, economic growth, and poverty reduction, as well as to understand the complementary factors influencing returns to infrastructure investments. Irrigation and drainage are a major focus of World Bank lending to the rural sector, and policies for efficient water use are increasingly important. This work would also investigate how global warming and increased rainfall variability affect the demand for irrigation.

Community Based Development (CBD). This research includes qualitative studies, and evaluations of decentralization and CBD programs. It is yielding insights on key questions including the impact of CBD programs on the quality or quantity of public services; on the targeting of beneficiaries; and on participation by the most disadvantaged. A Policy Research Report will be released in March 2010. New initiatives focus on impacts on opportunities for the poor, including better access to markets and information, transparency in government budgets, and prospects for scaling-up.

Finance for Rural Economies. Better access to finance can ease producers' credit constraints and facilitate economic growth and poverty reduction. Unfortunately, barriers to access are particularly serious for rural households. This research assesses the impacts of programs to reduce these barriers on poverty, income inequality, nutrition, and

gender disparity. It considers constraints to access, strategies for financial system development, the role of micro-finance, and lessons from innovative microfinance projects.

Structural Transformation Under Economic Development. Rapid shifts of workers out of agriculture are virtually always associated with problems of inequality and inefficiency. The adjustment costs are substantial, and inevitably lead to large income differentials as some households remain because of sector-specific investments and attachments to rural areas. These problems can also lead to the implementation of policies, such as agricultural protection, that may temporarily reduce income disparities, but are distorting and ineffective in the long-run. Better-targeted policies, such as improvements in education, land tenure, and infrastructure may be more effective.

Agriculture, Trade, and the Environment. Increasingly, local livelihood choices are tied to global markets for agricultural products. These strengthening ties are controversial, the outcomes from trade reforms are varied, and practical lessons are elusive. This research uses case studies from Africa, Asia, and Latin America, where the poor live close to natural resources on which they depend for their livelihood. The studies illustrate the significance of global markets for important ecologies and the poor and provide insights into how people can act collectively as stewards of natural resources. Also, rising atmospheric greenhouse gas concentrations are likely to increase temperature and precipitation extremes, increase crop damage from extreme weather events, reduce food security, and increase poverty. One project will examine climate volatility and adaptation in eastern Africa, to see how climate volatility affects vulnerability to poverty in Tanzania, and the effectiveness of policy responses. Training workshops will help build capacity for analysis of climate impact and adaptation.

Agricultural Price Incentives, Volatility, and Trade. Agricultural trade policies have undergone an unheralded sea-change in recent years, with taxation of traditional products diminishing sharply and protection of import competing goods rising. These changes are documented in five books and a publicly-available online database. Two additional books examine impacts on poverty and inequality, and the political economy determinants of policy. More work is needed on changes in policies in recent years, particularly in 2007-08. Another strand of work focuses on the agricultural negotiations at the WTO. It considers the implications of proposed reforms such as the Special-Safeguard Mechanism (SSM), and other changes in rules. It also offers detailed assessments of proposals for cutting tariffs and domestic support. These assessments are then used to quantify impacts on real incomes, poverty, and instability.



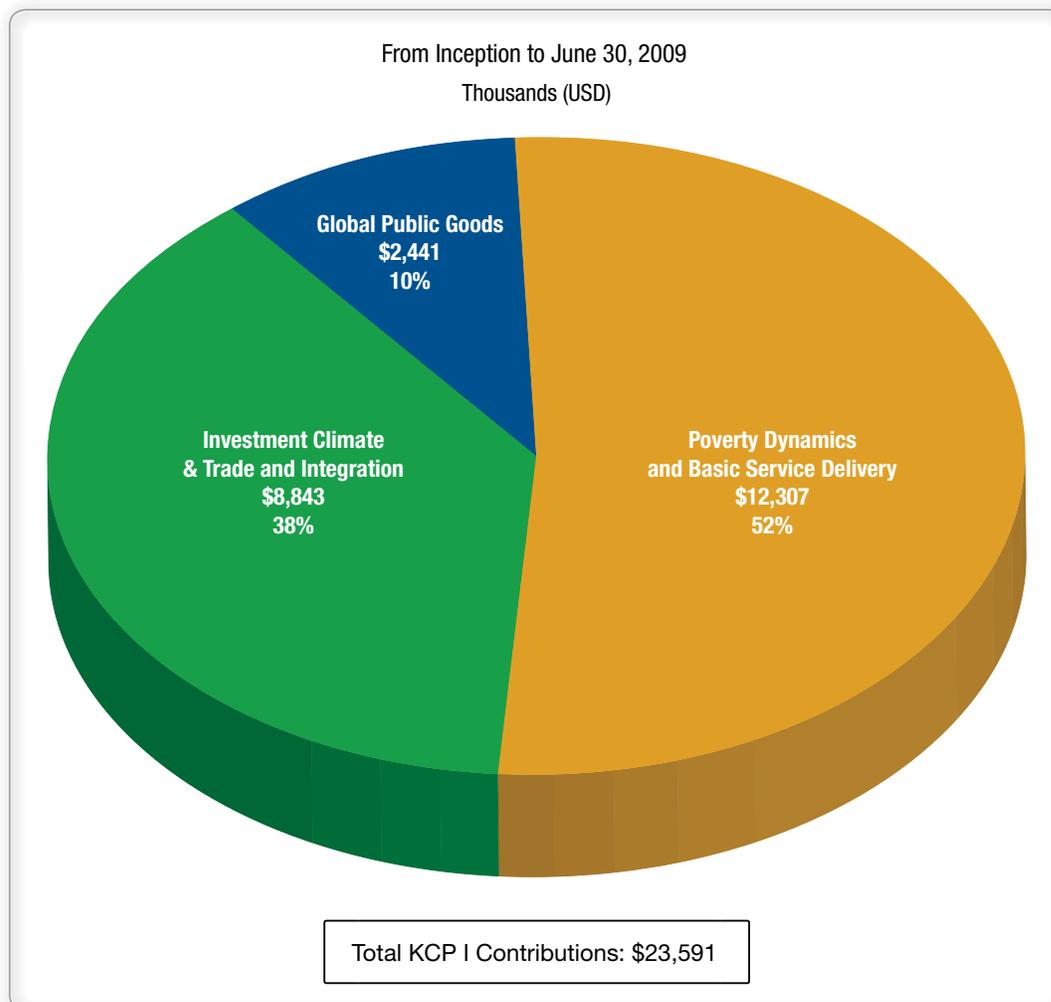
THE KCP FINANCES

KCP I

Donor Contributions. As the KCP I draws to a close with a program end date of July 31, 2010, total donor contributions for the KCP I amount to USD 23.6 million, with 52 percent allocated to the Poverty Dynamics and Basic Service Delivery Trust Fund, 38 percent to the Investment Climate & Trade and Integration Trust Fund, and 10 percent to the Global Public Goods Trust Fund. These allocations are applied mainly in accordance with donor preferences as indicated in the trust fund administration agreement, with the exception of a few pledges that give discretion to the World Bank for their distribution among the three windows. These

flexible contributions are allocated as needed, based on the demand for research funds following the decisions made by the KCP Internal Management Committee. Finland and the United Kingdom, the KCP I's founding donors, are its biggest contributors with donations of USD 5.7 million and USD 5.6 million, respectively. There are substantial contributions as well from Norway, Australia, Japan, the European Commission, and others. Cumulative investment income of USD 1.2 million, earned from available funds, is credited to the program for project allocations. Residual funds for completed and cancelled projects are returned to their specific windows and added to the available funds for new proposals.

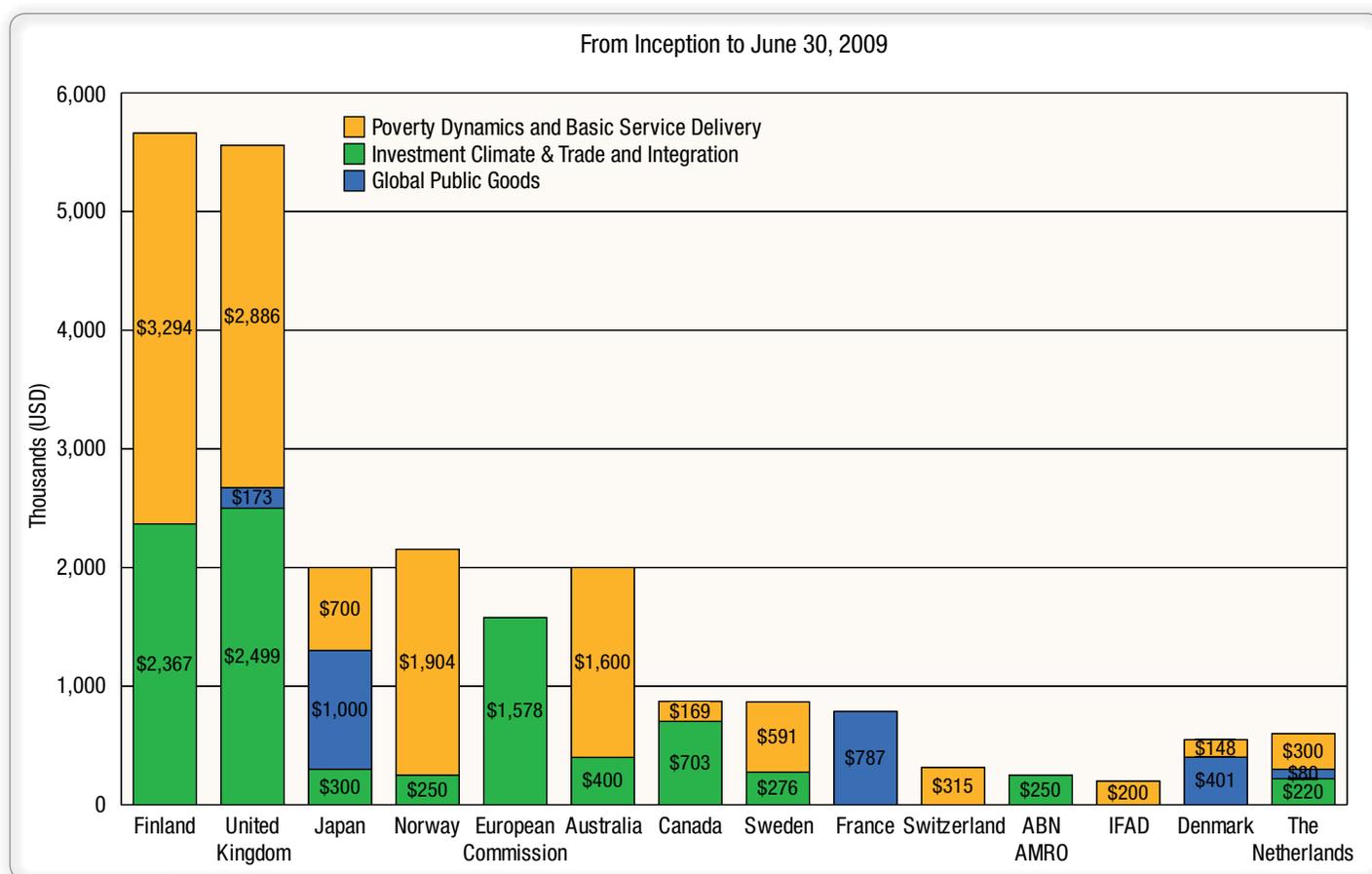
Figure 1. KCP I Donor Contributions by Window



Project Allocations. Of the USD 23.6 million available to fund projects, USD 23.4 million has been awarded to 102 research projects. The Poverty Dynamics and Basic Service Delivery Trust Fund has 45 projects with total net allocations of USD 12 million (51 percent); the Investment Climate & Trade and Integration Trust Fund has 47 projects with USD 8.9 million (38 percent); and the Global Public Goods Trust Fund has 10 projects with USD 2.5 million (11 percent). Details of these projects are covered in this report. The progress and completion reports are also available on the KCP website (www.worldbank.org/kcp).

Expenditures. From program inception through June 30, 2009, actual project expenditures amount to USD 19.2 million with 79 percent spent for Consultant Fees and Contractual Services. These are the costs of hiring experts with specialized skills and knowledge in specific fields. About 8 percent was disbursed for co-terminous staff who worked full time for activities such as the WDR. Another 8 percent was utilized for Media & Workshop costs including printing, publishing, and conferences. Lastly, 5 percent was spent for the travel-related expenses of the consultants hired for project activities. Overall, USD 20.5 million or 88 percent of net allocations were utilized as of June 30, 2009. More funds are expected to be utilized for projects until the program’s closing date of July 31, 2010. Significant residual funds are not anticipated. Unused funds, if any, will be returned on a pro-rata basis to contributing donors.

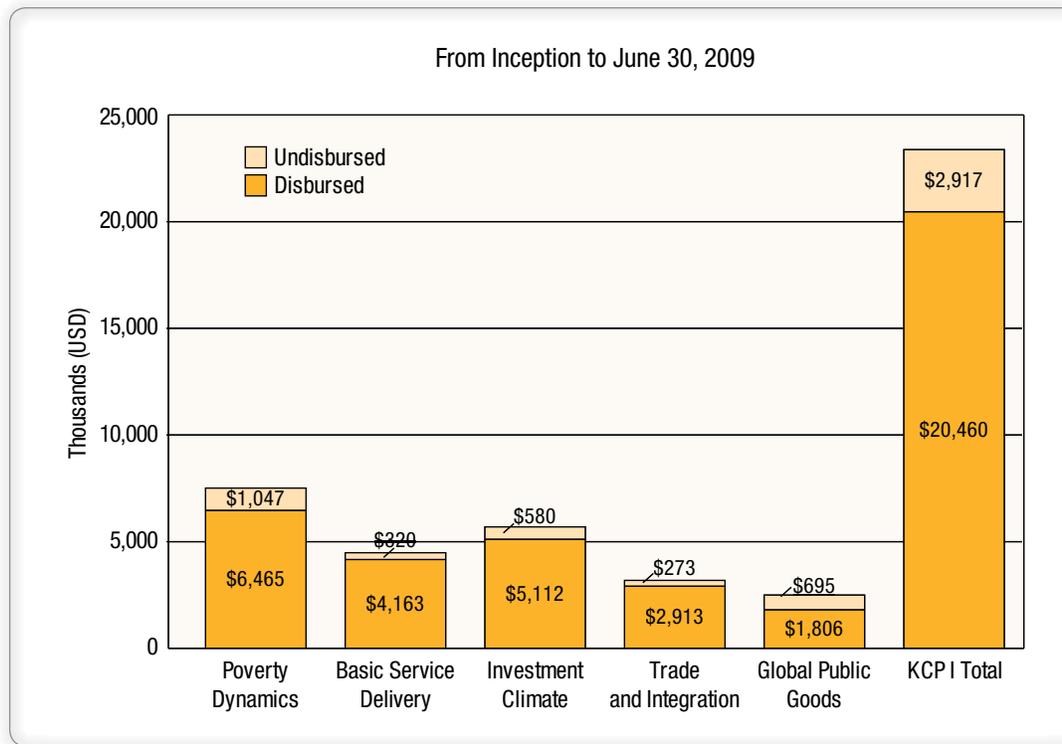
Figure 2. KCP I Donor Contributions Received by Country



Source: Program Administration Unit, KCP

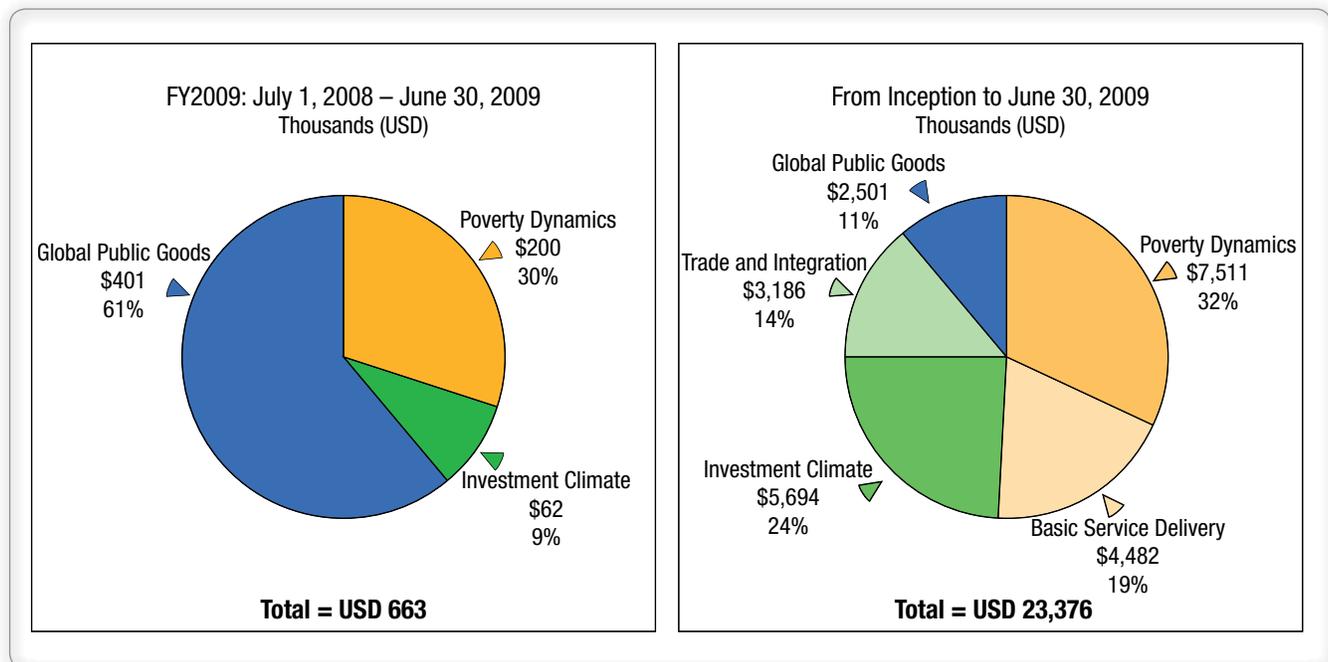


Figure 3. KCP I Allocations and Disbursements



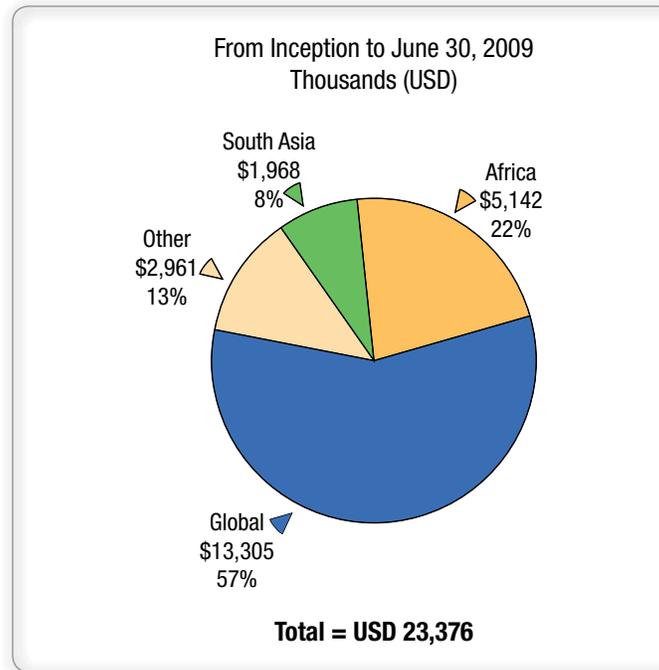
Source: Program Administration Unit, KCP

Figure 4. KCP I Allocations by Theme



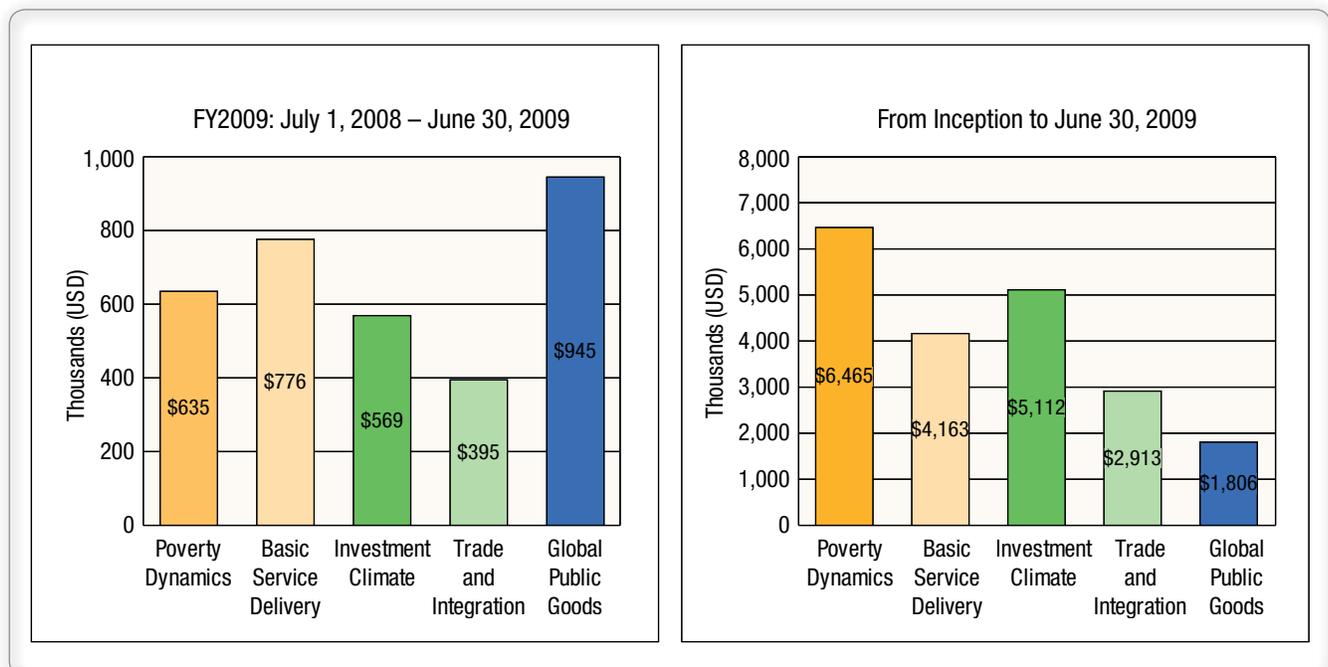
Source: Program Administration Unit, KCP

Figure 5. KCP I Allocations by Region



Source: Program Administration Unit, KCP

Figure 6. KCP I Expenditures by Theme



Source: Program Administration Unit, KCP

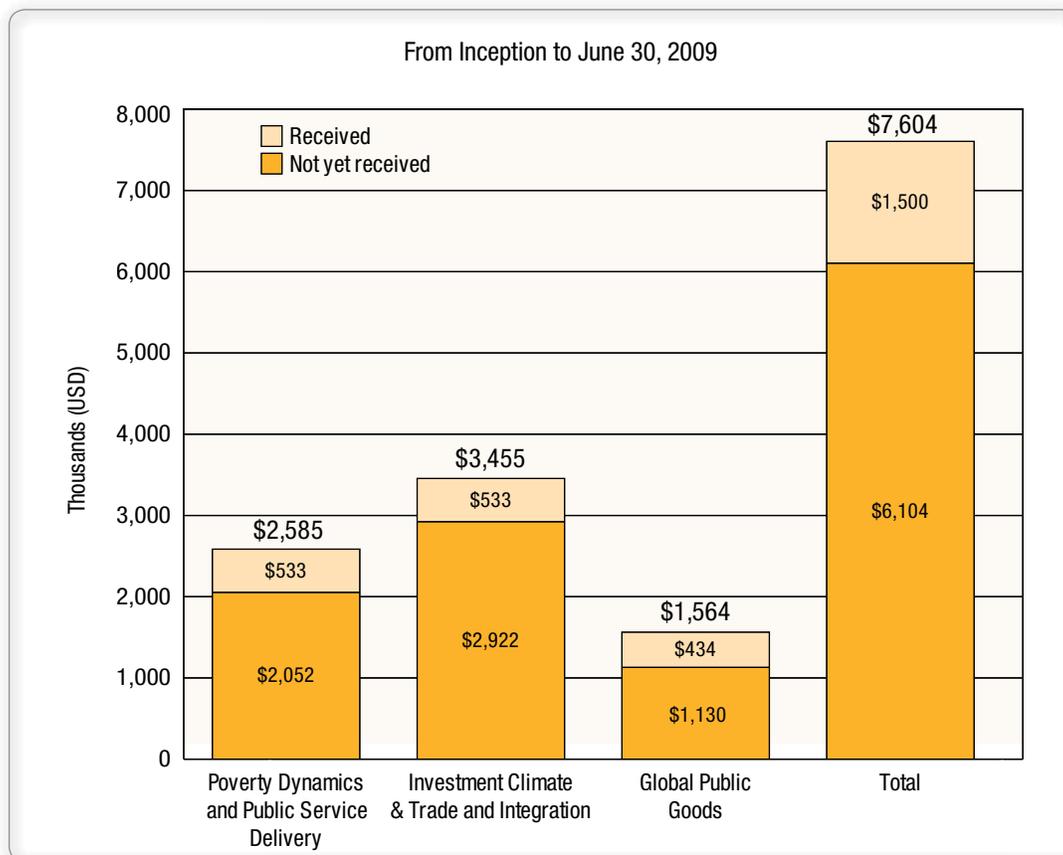


KCP II

Donor Pledges. Following the full endorsement of the KCP I by donors at the 2008 Consultative Group meeting, the KCP II became active and operational in December 2008. KCP II's first signing donor is Finland with a pledge of EUR 2.25 million payable in three tranches and allocated equally among the three windows. The second contributor is the United Kingdom with a pledge of GBP 1.5 million also payable in three tranches and with allocation among the three windows at the discretion of the Bank. The third signatory is Australia with its pledge of USD 2 million payable in three tranches with allocations as follows: 40 percent to the Poverty Dynamics and Public Service Delivery Trust Fund, 40 percent to the Investment Climate & Trade and Integration Trust Fund, and 20 percent to the Global Public Goods Trust Fund. Discussions are ongoing with other prospective donors.

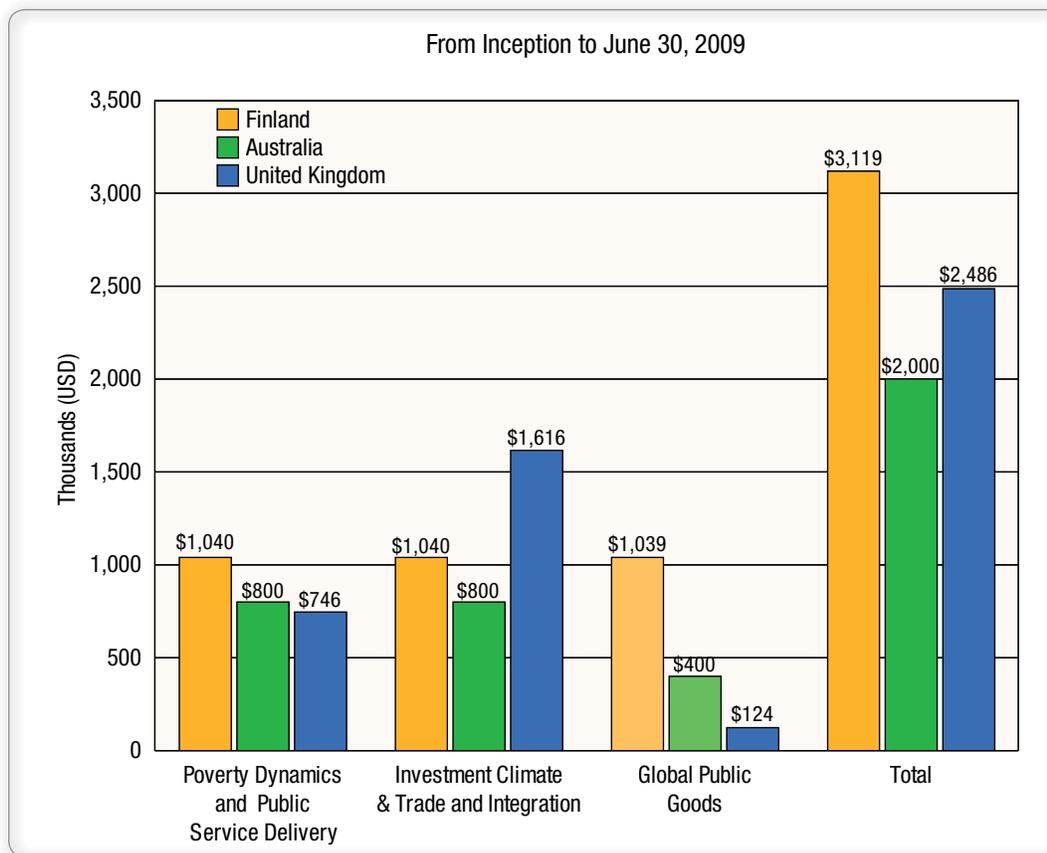
Donor Contributions Received. As of June 30, 2009, the KCP II received the initial contributions of EUR 750,000 from Finland, and USD 500,000 from Australia. The United Kingdom's first payment of GBP 500,000 was received on July 17, 2009 and allocated as follows: 30 percent to the Poverty Dynamics and Public Service Delivery Trust Fund, 65 percent to the Investment Climate & Trade and Integration Trust Fund, and 5 percent to the Global Public Goods Trust Fund. This allocation is in line with the proposals awarded in the first call for proposals under KCP II, where most requests were for funding of crisis-related projects.

Figure 7. KCP II Donor Contributions Received and Pledged



Source: Program Administration Unit, KCP

Figure 8. KCP II Pledges by Donor

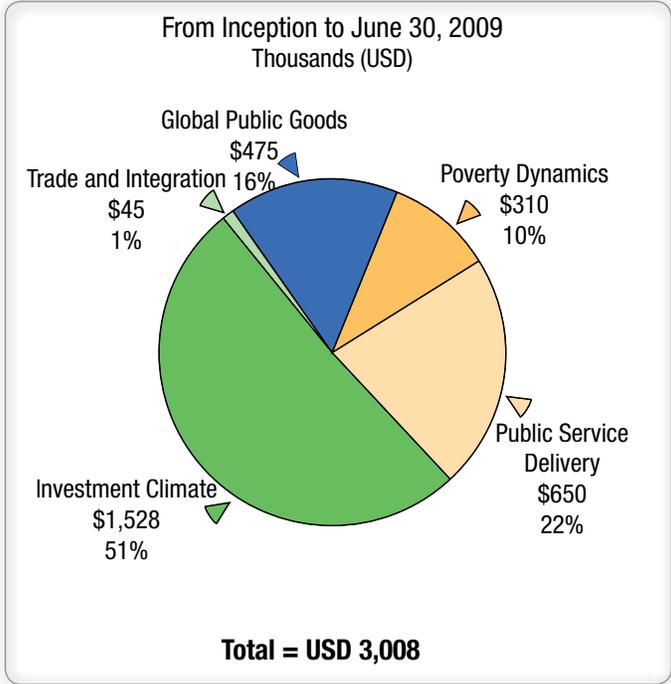


Source: Program Administration Unit, KCP

Project Allocations. As with KCP I, demand for KCP II funds was overwhelming. Many potential requests for funding were not encouraged due to the limited funding availability at this time. In the first call for proposals under the KCP II, USD 3 million was approved by the Internal Management Committee for 30 projects ranging from USD 40,000 to USD 250,000. The Poverty Dynamics and Public Service Delivery Trust Fund awarded USD 960,000 (32 percent) to nine projects; the Investment Climate & Trade and Integration Trust Fund awarded USD 1,573,000 (52 percent) to seventeen projects; and the Global Public Goods Trust Fund awarded USD 475,000 (16 percent) to four projects.

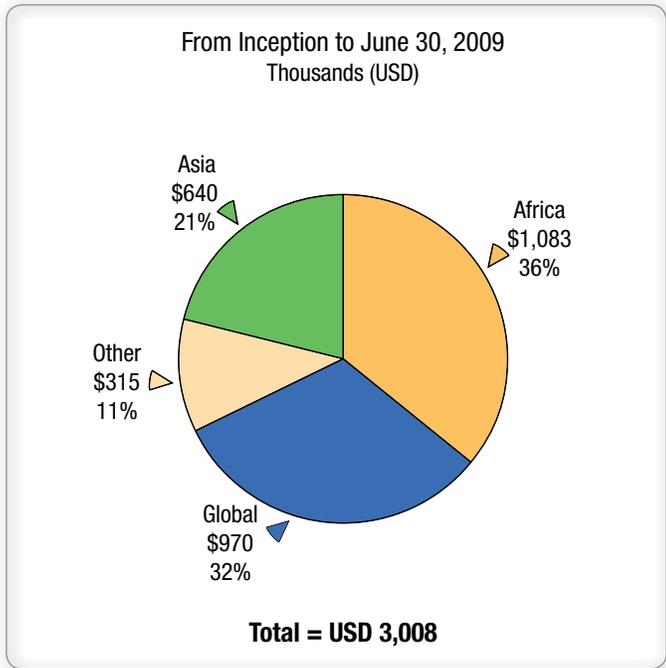


Figure 9. KCP II Allocations by Theme



Source: Program Administration Unit, KCP

Figure 10. KCP II Allocations by Region



Source: Program Administration Unit, KCP





ANNEX I: THE KCP PORTFOLIO

Unaudited

TABLE 1. KCP I PARENT FUND ACCOUNTS

From Inception to June 30, 2009
(USD)

	Poverty Dynamics and Basic Service Delivery	Investment Climate & Trade and Integration	Global Public Goods	TOTAL
Contributions				
Finland	3,294,491	2,367,314		5,661,804
United Kingdom	2,886,043	2,498,625	172,980	5,557,647
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		401,365	549,535
The Netherlands ^{1/}	499,910	219,970	80,000	799,880
<i>Total Contributions</i>	12,307,356	8,842,781	2,441,385	23,591,521
Administrative fee (5%)	(615,368)	(442,139)	(122,069)	(1,179,576)
<i>Net Contributions</i>	11,691,988	8,400,642	2,319,315	22,441,945
Investment income	581,372	446,756	200,584	1,228,711
Less:				
Allocations	(11,994,334)	(8,881,175)	(2,501,312)	(23,376,822)
Reserve for Developing Country Participants				
Expenses in Consultative Group Meetings	(50,000)	(50,000)		(100,000)
Funds available	229,026	(83,778)	18,587	163,835

Notes: The Netherlands—includes outstanding pledges of USD 200,000 due 11/2009. Allocation among the three parent funds is at the discretion of the Bank. The USD 200,000 outstanding pledge is fully allocated to the Poverty Dynamics and Basic Service Delivery Trust Fund in this report.





Unaudited

TABLE 2. KCP II PARENT FUND ACCOUNTS

From Inception to June 30, 2009

(USD)

	Poverty Dynamics and Public Service Delivery	Investment Climate & Trade and Integration	Global Public Goods	Total
Contributions Received				
Finland	333,350	333,350	333,350	1,000,050
Australia	200,000	200,000	100,000	500,000
<i>Total Contributions Received</i>	533,350	533,350	433,350	1,500,050
Administrative fee (1%)	(5,334)	(5,334)	(4,334)	(15,001)
<i>Net Contributions Received</i>	528,017	528,017	429,017	1,485,050
Outstanding Pledges				
Finland / ¹	706,150	706,150	706,150	2,118,450
Australia / ²	600,000	600,000	300,000	1,500,000
United Kingdom / ³	745,740	1,615,770	124,290	2,485,800
<i>Total Outstanding Pledges</i>	2,051,890	2,921,920	1,130,440	6,104,250
Administrative fee (1%)	(20,519)	(29,219)	(11,304)	(61,043)
<i>Net Outstanding Pledges</i>	2,031,371	2,892,701	1,119,136	6,043,208
Investment income	2,552	2,551	2,859	7,963
Less:				
Allocations	(960,000)	(1,573,000)	(475,000)	(3,008,000)
Estimated funds available	1,601,940	1,850,269	1,076,011	4,528,220

Notes:

¹ Finland—total pledge is EUR 2,250,000 with contributions allocated equally among the three parent funds. Outstanding pledges of EUR 750,000 due 12/31/2009 and EUR 750,000 due 12/31/2010.

² Australia—total pledge is USD 2,000,000 with contributions allocated as follows: 40% to the Poverty Dynamics and Public Service Delivery Trust Fund, 40% to the Investment Climate & Trade and Integration Trust Fund and 20% to the Global Public Goods Trust Funds. Outstanding pledges of USD 750,000 due 03/31/2010 and USD 750,000 due 03/31/2011.

³ United Kingdom—total pledge is GBP 1,500,000 with contributions allocated among the three parent funds at the discretion of the Bank. Initial contribution of GBP 500,000 was received on July 17, 2009 and allocated 30% to the Poverty Dynamics and Public Service Delivery Trust Fund 65% to the Investment Climate & Trade and Integration Trust Fund and 5% to the Global Public Goods Trust Fund. Outstanding pledges of GBP 500,000 due 12/31/2010 and GBP 500,000 due 03/31/2011; allocation also at 30/65/05 for this statement but future actual allocations may differ.

⁴ Exchange rate at June 30, 2009: EUR = 1.4123; GBP = 1.6572

Source: Program Administration Unit, KCP

TABLE 3. KCP I ALLOCATIONS AND DISBURSEMENTS

From Inception to June 30, 2009

(USD)

Project Name	Allocation	Disbursements	% Disbursed of Allocation
POVERTY DYNAMICS			
The Economics of Civil War, Crime, and Violence	220,236	220,236	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%
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	312,351	312,351	100%
Poverty Reduction and Human Development: Analysis of Alternative Strategies within an Economywide Framework	183,983	183,983	100%
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%
World Development Report 2007: Development and the Next Generation	642,500	607,240	95%
World Development Report 2008: Agriculture, Poverty and Development	1,445,908	1,445,908	100%
Research for Improving Survey Data	302,000	291,302	98%
Measuring and Understanding the Impacts of Development Projects	690,000	432,337	85%
World Development Report 2009: Spatial Disparity and Development	775,000	337,317	48%
Determinants of Low-Income Countries' Access to Private Debt Markets	70,000	21,764	31%
An African Green Revolution: Finding ways to boost productivity	350,000	64,490	62%
Building on the Methodology Developed for Aggregating Poverty-Specific PPPs and Building a Household Expenditure	75,232	75,232	100%
Are Opportunity Profiles Useful to Inform Policy Decisions?	75,000	51,396	69%
Evaluating the Effectiveness of Sustainable Land Management Interventions in Ethiopia	75,000	2,146	3%
China Urban Dibao Study	60,000	4,700	65%
The International Income Distribution Database (I2D2)	200,000		0%
TOTAL—POVERTY DYNAMICS	7,511,445	6,084,636	86%



Project Name	Allocation	Disbursements	% Disbursed of Allocation
BASIC SERVICE DELIVERY			
Micro-Survey Approach to Health Care Provisions in Poor Countries	288,185	288,185	100%
Background Studies for the World Development Report 2004: Making Services Work for Poor People	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	649,948	100%
Identifying Policy Interventions to Overcome Political Obstacles to Serving the Poor	310,000	252,274	99%
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	90,160	72%
Evaluating the Role of Participation in Poverty Reduction	149,856	149,856	100%
Labor Issues in Service Delivery for Human Development: Incentives and Performance	152,000	145,781	98%
Micro Simulations of Poverty Reduction and Service Delivery in a User-Friendly, Economy-Wide Framework	384,000	193,022	54%
Information and Life Transitions among Youths: Evaluating the Impact of ICT in Two Developing Countries	150,000	110,931	97%
Background Work on the Policy Research Report on Local Governance and Local Development.	200,000	101,877	70%
Peace and Development	100,000	64,392	98%
Improving Women's Health in Africa	260,000	190,200	91%
How Unpredictable Aid Influences Service Delivery: Results from Country Case Studies	75,000	6,000	93%
TOTAL—BASIC SERVICE DELIVERY	4,482,889	3,856,475	93%
TOTAL—POVERTY DYNAMICS and BASIC SERVICE DELIVERY	11,994,334	9,941,111	89%

Project Name	Allocation	Disbursement	% Disbursed of Allocation
INVESTMENT CLIMATE			
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	89,680	89,680	100%
Investment Climate Analysis	1,185,365	1,185,365	100%
Decentralization, Community Organizations and Elite Capture	99,876	99,876	100%
Evaluating Investment Climate Improvements and Growth at the Firm Level	180,000	159,589	89%
Barriers to Banking	250,000	174,121	81%
Household Surveys of Access to Financial Services	300,000	233,764	81%
Growth, Innovation, and Reform	64,578	64,578	100%
New Research on Firm Informality	225,000	225,000	100%
Investment Climate's Contribution to Growth through Firm Dynamics and Allocative Efficiency	80,000	79,161	99%
Private Sector Development Research Program	300,000	154,300	57%
Worldwide Governance Indicators	90,000	52,300	94%
Growth Effects of Public Investments	80,000		0%
Macroeconomic Effects of Allocative Efficiency	85,000	17,527	67%
Impact Evaluation of Structural Shift in Supply of Banking Services in Mexico	50,000	32,387	95%
Credit Bureau Reform: Testing the Impact of Competition and Private Ownership on Firm Credit	50,000		0%
Innovation and Informality Across the Firm Size Spectrum in Sri Lanka	50,000	50,000	100%
Capital Raising Activity in Domestic and International Markets	50,000		15%
Role of Private Equity in Emerging Markets	60,000		67%
Labor Markets, Structural Transformation and the Informal Sector	70,000		0%
Macroeconomic Volatility: Causes and Consequences	50,000	13,477	90%
Pro-Cyclical Effects of Capital Requirements: Theory, Evidence, and Policy Lessons for Middle-Income Countries	62,043	36,852	59%
TOTAL—INVESTMENT CLIMATE	5,694,369	4,890,805	90%
TRADE and INTEGRATION			
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%



Project Name	Allocation	Disbursement	% Disbursed of Allocation
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%
Household Surveys of International Migration and Remittances	1,150,000	1,035,355	100%
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	257,831	67%
The WTO and Economic Development	95,000	95,000	100%
U.S. Antidumping on Vietnamese Catfish: Impacts on Mekong Farmers	79,132	79,132	100%
Expansion of Global Retail Chains: Implication for Technology Transfer and Pro-Competitive Effects in Developing Countries	60,000	60,000	100%
Migration, Remittances and Development in Africa: Household Survey with Existing Sampling Frame	50,000	23,900	80%
How Do Institutional Investors Manage World Savings?	70,000	69,891	100%
Brain Drain and Brain Gain of Ghana's Best and Brightest	50,000		0%
Commodity Prices, Policies, and Poverty	50,000	49,609	99%
Migration and its Impacts on Households and Individuals in Migrant-Sending Communities	100,000	2,608	34%
TOTAL—TRADE and INTEGRATION	3,186,805	2,730,999	91%
TOTAL—INVESTMENT CLIMATE and TRADE AND INTEGRATION	8,881,174	7,621,804	90%

GLOBAL PUBLIC GOODS

Policy Research Report: Forests, Livelihoods, and the Environment	140,069	140,069	100%
Averting a Global Influenza Pandemic by Preventing Virus Reassortment	150,000	149,456	100%
Mitigating Climate Change by Avoiding Lock-Ins to High Carbon Energy Systems	395,000	364,774	98%
Global Migration Database Extensions—A Global Public Good	64,927	64,927	100%
Options for Cleaner Energy in Developing Countries and Overcoming Barriers to their Adoption and Sustainability	450,000	364,873	98%
Global Warming & Developing Countries: An Economy-Wide Perspective	150,000	62,401	44%
The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them	199,952	199,952	100%
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	49,181	49%
Biofuels and Sustainable Development	250,000	57,825	67%
World Development Report 2010: Development and Climate Change	601,365	139,567	23%
TOTAL—GLOBAL PUBLIC GOODS	2,501,312	1,593,025	72%

KCP I ALLOCATIONS AND DISBURSEMENTS

23,376,821 19,155,940 88%

Notes:

¹ Commitment balances are as of July 27, 2009 (report run date).

Source: Program Administration Unit, KCP

TABLE 4. BENEFICIARY COUNTRIES

IDA/IDA Blend	Non-IDA
Angola	
Azerbaijan	Argentina
Bangladesh	Botswana
Benin	Brazil
Bolivia	China
Burkina Faso	Colombia
Cambodia	Czech Republic
Cameroon	Ecuador
Chad	Guatemala
Dominica	Lebanon
East Timor	Malaysia
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 5. KCP I COMPLETED PROJECTS IN FISCAL YEAR 2009

Eighteen KCP I projects have been completed during the World Bank’s FY2009. The full completion reports are available on the KCP website (www.worldbank.org/kcp).

POVERTY DYNAMICS AND BASIC SERVICE DELIVERY

	Project Name	Allocation (USD)	Team Leader
1.	Building on the Methodology Developed for Aggregating Poverty-Specific PPPs and Building a Household Expenditure	81,000	Yonas Biru
2.	Poverty Reduction and Human Development: Analysis of Alternative Strategies Within an Economy-Wide Framework	210,000	Hans Lofgren
3.	World Development Report 2007: Development and the Next Generation	642,500	Mattias K. A. Lundberg
4.	World Development Report 2008: Agriculture, Poverty and Development	1,450,000	Robert Townsend/ Derek Byerlee
5.	Research for Improving Household Survey Data	302,000	Katherine Scott
6.	Evaluating the Role of Participation in Poverty Reduction	150,000	Ghazala Mansuri
7.	Identifying Policy Interventions to Overcome Political Obstacles to Serving the Poor	310,000	Phil Keefer / Stuti Khemani
8.	Political Institutions, Development, and a Domestic Civil Peace	650,000	Gary Milante
9.	Labor Issues in Service Delivery for Human Development: Incentives and Performance	152,000	John T. Giles

INVESTMENT CLIMATE & TRADE AND INTEGRATION

	Project Name	Allocation (USD)	Team Leader
10.	Growth, Innovation, and Reform	65,000	Norman Loayza
11.	Evaluating Investment Climate Improvements and Growth at the Firm Level	180,000	Mary Hallward-Driemeier
12.	Investment Climate’s Contribution to Growth Through Firm Dynamics and Allocative Efficiency	80,000	Mary Hallward-Driemeier
13.	Access to Finance and Poverty Alleviation	90,000	Asli Demirguc-Kunt
14.	U.S. Antidumping on Vietnamese Catfish: Impacts on Mekong Farmers	80,000	Caroline Freund
15.	Expansion of Global Retail Chains: Implication for Technology Transfer and Pro-Competitive Effects in Developing Countries	60,000	Ana Fernandes

GLOBAL PUBLIC GOODS

	Project Name	Allocation (USD)	Team Leader
16.	Understanding Disease Control of Highly Pathogenic Avian Influenza	150,000	Jed Friedman
17.	Global Migration Database Extensions—A Global Public Good	65,000	Caglar Ozden
18.	The Social and Economic Impacts of Influenza Epidemics and Policies to Contain Them	200,000	Jed Friedman

TABLE 6. ONGOING PROJECTS IN FY2009

As of June 30, 2009

The table below lists all active projects financed by KCP I.

POVERTY DYNAMICS AND BASIC SERVICE DELIVERY

	Project Name	Allocation (USD)	Team Leader
1.	Aid Effectiveness: New Research Directions	150,000	Stephen Knack
2.	Micro Simulations of Poverty Reduction and Service	384,000	Hans Lofgren
3.	African Green Revolution: Finding Ways to Boost Productivity	350,000	Donald Larson
4.	World Development Report 2009: Reshaping Economic Geography	775,000	Indermit Gill
5.	Measuring and Understanding the Impacts of Development Projects	690,000	Elizabeth King
6.	Determinants of Low-Income Countries' Access to Private Debt Markets	70,000	Mansoor Dailami
7.	Policy Research Report on Local Governance and Local Development	200,000	Ghazala Mansuri
8.	Peace and Development, Post-Conflict Transitions	100,000	Gary Milante
9.	Information and Life Transitions Among Youths: Evaluating the Impact of ICT in Two Developing Countries	150,000	Elizabeth King
10.	Improving Women's Health in Africa	260,000	Berk Ozler
11.	Evaluating the Effectiveness of Sustainable Land Management Interventions in Ethiopia	75,000	Klaus Deininger
12.	Are Opportunity Profiles Useful to Inform Policy Decisions?	75,000	Francisco Ferreira
13.	Aid Effectiveness—How Unpredictable Aid Influences Service Delivery: Results from Case Studies	75,000	Punam Chuhan-Pole
14.	China Urban Di Bao Study	60,000	Shaohua Chen

INVESTMENT CLIMATE & TRADE AND INTEGRATION

	Project Name	Allocation (USD)	Team Leader
15.	Barriers to Banking	250,000	Asli Demirguc-Kunt
16.	Household Surveys of Access to Financial Services	300,000	Asli Demirguc-Kunt
17.	International Migration, Remittances and Development	425,000	Maurice Schiff
18.	New Research on Firm Informality	225,000	David McKenzie
19.	Household Surveys of International Migration and Remittances	1,150,000	Maurice Schiff
20.	Private Sector Development Research Program	300,000	Asli Demirguc-Kunt
21.	Worldwide Governance Indicators	90,000	Aart Kraay
22.	Growth Effects of Public Investment	80,000	Luis Serven
23.	Migration, Remittances and Development in Africa: Household Survey with Existing Sampling Frame	50,000	Dilip Ratha
24.	Macroeconomic Effects of Allocative Efficiency	85,000	Mary Hallward-Driemeier
25.	How do Institutional Investors Manage World Savings?	70,000	Sergio Schmukler



	Project Name	Allocation (USD)	Team Leader
26.	Brain Drain and Brain Gain of Ghana's Best and Brightest	50,000	Caglar Ozden
27.	Impact Evaluation of Structural Shift in Supply of Banking Services in Mexico	50,000	Miriam Bruhn
28.	Commodity Prices, Policies, and Poverty	50,000	Caglar Ozden
29.	Innovation and Informality Across the Firm Size Spectrum in Sri Lanka	50,000	David McKenzie
30.	Capital Raising Activity in Domestic and International Markets	50,000	Sergio Schmukler
31.	New Research on Private Equity in Developing Countries	60,000	Leora Klapper
32.	Migration and its Impact on Households and Individuals in Migrant-Sending Communities	100,000	Kathleen Beegle/John Giles
33.	Credit Bureau Reform: Does Greater Credit Bureau Coverage Improve Borrower and Lender Outcomes?	50,000	Leora Klapper
34.	Labor Markets, Structural Transformations, and the Informal Sector	70,000	John Giles/ Markus Goldstein
35.	Macroeconomic Volatility: Causes and Consequences	50,000	Claudio Raddatz
36.	Pro-Cyclical Effects of Capital Requirements: Theory, Evidence, and Policy Lessons for Middle-Income Countries	62,043	Luiz Pereira da Silva

GLOBAL PUBLIC GOODS

	Project Name	Allocation (USD)	Team Leader
37.	Mitigating Climate Change by Avoiding Lock-Ins to High Carbon Energy Systems	395,000	Michael Toman
38.	Options for Cleaner Energy in Developing Countries and Overcoming Barriers to Their Adoption and Sustainability	450,000	Michael Toman
39.	Global Warming and Developing Countries: An Economy-Wide Perspective	150,000	Dominique van der Mensbrugge / Govinda Timilsina
40.	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
41.	World Development Report 2010: Development and Climate Change	601,365	Marianne Fay
42.	Biofuels and Sustainable Development	250,000	Dominique van der Mensbrugge / Govinda Timilsina

TABLE 7. NEW PROJECTS IN FY2009

There are two new projects financed by the KCP I and approved in FY2009. The table below lists the new KCP I projects.

POVERTY DYNAMICS AND BASIC SERVICE DELIVERY

	Project Name	Approved Amount (USD)	Team Leader
1.	The International Income Distribution Database (I2D2)	200,000	Dominique van der Mensbrugge/ Francisco Ferreira

INVESTMENT CLIMATE & TRADE AND INTEGRATION

	Project Name	Approved Amount (USD)	Team Leader
2.	Pro-Cyclical Effects of Capital Requirements: Theory, Evidence, and Policy Lessons for Middle-Income Countries	62,043	Luiz Pereira da Silva

There are 30 new projects financed by the KCP II and approved in FY2009. The table below lists all the new KCP II projects.

POVERTY DYNAMICS AND PUBLIC SERVICE DELIVERY

	Project Name	Approved Amount (USD)	Team Leader
1.	Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty	120,000	Peter Lanjouw
2.	Poverty Mapping in China	50,000	Qinghua Zhao
3.	The Impact of Providing Land Titles in Ghana	70,000	Markus Goldstein
4.	Impact of Urban Land Titling: Evidence from Land Lottery in Burkina Faso	70,000	Markus Goldstein
5.	Kagera Health and Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa	175,000	Kathleen Beegle
6.	The Effects of Home Based HIV Testing	100,000	Markus Goldstein
7.	HIV/AIDS Treatment and Prevention	100,00	Damien de Walque
8.	Learning and Educational Achievements in Pakistan (LEAPS): Continuation	175,000	Jishnu Das
9.	Impact Evaluation of Youth-Friendly Services on Voluntary Counseling and Testing Among the Youth Aged 15-24 years in Kenya	100,000	Arianna Legovini



INVESTMENT CLIMATE & TRADE AND INTEGRATION

	Project Name	Approved Amount (USD)	Team Leader
10.	The Financial Crisis and Foreign Bank Participation in Developing Countries	40,000	Maria Soledad Martinez Peria
11.	Employment Creation in Large and Small Firms	50,000	David McKenzie
12.	How Much do Management Practices Matter? A Randomized Experiment in India	50,000	David McKenzie
13.	Regulation and Bank Stability	250,000	Asli Demirguc-Kunt
14.	Globalization, Risk, and Crises	70,000	Sergio Schmukler
15.	Reticent Respondents and Cross-Country Survey Data on Corruption	75,000	Aart Kraay
16.	Comparable Disaggregated Census Data Across Developing Countries	70,000	Mary Hallward-Driemeier
17.	The Growth Effects of Fiscal Policy in Developing Countries	50,000	Aart Kraay
18.	FDI and Macroeconomic Stability	40,000	Constantino Hevia
19.	An Experimental Study of Poverty Traps' Among Micro-Entrepreneur Groups	128,000	Berk Ozler
20.	Labor Markets and Impacts of the Financial Crisis: Evidence from China and India	225,000	John Giles
21.	Transport Costs and Development: Evidence from China's Infrastructure Boom	40,000	Hanan Jacoby
22.	Services, FDI, and Endogenous Productivity Effects in the European Neighborhood Policy—A Quantitative Assessment for Georgia	90,000	Ana Fernandes
23.	Modeling and Analysis of Consumption Patterns	150,000	Olivier Dupriez
24.	Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries	100,000	Mansoor Dailami
25.	Strengthening Agricultural Production Systems and Facilitating Access to Markets: Impact Evaluation of Nigeria's Commercial Agriculture Development	100,000	Arianna Legovini
26.	Migration of Turkey's Top Students—Brain Drain and Brain Gain	45,000	Caglar Ozden

GLOBAL PUBLIC GOODS

	Project Name	Approved Amount (USD)	Team Leader
27.	Economics of Biofuels and Potential Impacts on Biodiversity	125,000	Govinda Timilsina
28.	Improving Governance of African River Basins—Determinants of Successes and Failures in Past Reforms	120,000	Michael Toman
29.	Improving Efficiency and Climate Change Mitigation—Electricity Market Competition and Low-Carbon Generation Technologies	50,000	Ioannis Kessides
30.	Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries	180,000	Dominique van der Mensbrugge / Michael Toman





ANNEX II: KCP PROJECTS IN PROFILE

1. World Development Report 2010: Development and Climate Change

The impacts of a changing climate are already being felt. More droughts, more floods, more strong storms, and more heat waves are taxing individuals, firms, and governments, and drawing resources away from development. If climate change continues at current rates, it will pose increasingly severe challenges to development. By the end of the century it could lead to temperatures 5°C or more warmer than in preindustrial times and a vastly different world from today, with more extreme events, many fewer species, unmanageable pressures on natural resources, and whole island nations submerged. Even our best efforts are unlikely to stabilize temperatures at anything less than 2°C above preindustrial temperatures, warming that will require substantial adaptation efforts, particularly for the poorer, more vulnerable countries.

The development challenge posed by climate change and analyzed in the WDR 2010 is not just how to make development more resilient in the face of climate change, but also how to pursue growth and poverty alleviation while stabilizing temperatures. High-income countries can and must reduce their disproportionately high carbon footprint. At the same time, developing countries have massive needs for energy, transport, urban systems, agricultural production, and industrial expansion, all producing more greenhouse gases—and more climate change—if pursued using traditional means.

This World Development Report, the 32nd in the series, is uniquely focused on the necessity to shape development around climate realities, as well as incorporate reasonable growth strategies in climate policies. It takes an integrated look at adaptation and mitigation and presents new economic and scientific evidence to make the case for strong action on climate change.

The key messages of the WDR are:

- *Climate change threatens all countries, with developing countries the most vulnerable.* They lack the financial and technical capacities and infrastructure to manage increasing climate risks. They also depend more directly on natural resources for income and well-being. Most developing countries are in tropical and subtropical regions already subject to highly variable climate and in dire need of adaptation strategies.
- *Poverty reduction and sustainable development remain core global priorities.* An estimated 1.4 billion people still live on less than USD 1.25 a day. One billion lack clean drinking water and three billion lack adequate sanitation. One quarter of children in developing countries suffer from malnourishment. Addressing these needs must remain the priorities both of developing countries and of development aid—recognizing that development will get harder, not easier, with climate change.
- *Economic growth alone is unlikely to be fast or equitable enough to counter threats from climate change, particularly if it remains carbon-intensive and accelerates global warming.* So, climate policy cannot be framed as making trade-offs between growth and climate change. Instead, it must focus on how to enhance development, reduce vulnerability, and finance the transition to a low-carbon growth path.
- *Low-carbon growth is attainable through mitigation action that is immediate, global, and comprehensive.* Immediate, or options disappear and costs increase as the world commits itself to high-carbon pathways and largely irreversible warming trajectories. Global, or the cost becomes unaffordable. Comprehensive, because energy efficiency and low-carbon technologies must be aggressively pursued across all sectors. While silver bullets remain elusive, several options exist that could both deliver co-benefits for development and allow for time and resources to identify, demonstrate, and disseminate the policy and technological innovations for low-carbon growth.
- *Climate-smart domestic policymaking would benefit all countries.* Robust policy design takes into account increased uncertainty and develops economic and social strategies that can adapt to a variety of climate

futures—not just “optimally” cope with the climate of the past. Effective policy also entails jointly evaluating development, mitigation, and adaptation actions, all of which draw on the same finite resources (human, financial, and natural). Forward-looking risk management across virtually all sectors is paramount to prevent climate impacts from derailing development progress. Other key aspects of climate-smart policymaking include:

- *Significantly improving the management of land and water.* Satisfying increased demands on natural resources for food, bio-energy, and ecosystem services while preserving biodiversity, maintaining carbon stocks in land and forests, and adapting to a harsher climate will require greater investments in productivity, a willingness to tackle tough policy reforms, and integrated management over longer time frames at larger spatial scales.
- *Sustainably providing energy for growth.* Institutional and technological innovations are needed to pursue the elusive energy-efficiency agenda while promoting greater deployment of low-carbon energy technologies and adapting to harsher conditions and changing demand patterns.
- *Expanding social protection.* The human and economic costs of shocks are reduced when people have access to social safety nets—and shocks will become more frequent with a changing climate.
- *A global climate deal that is both equitable and effective would also benefit all countries.* Such a deal would recognize the varying needs and constraints of developing countries, ensure they are not locked into a permanently low share of the global commons, and establish financial mechanisms that decouple where mitigation happens from who pays for it. While emissions per capita are more than twice as high in high-income countries than in developing ones, most emissions growth will occur in developing nations, whose current carbon footprint is disproportionately low and whose economies must grow rapidly to reduce poverty.

High-income countries must provide financial and technical assistance for both adaptation and low-carbon growth in developing countries, while rapidly shrinking their own large carbon footprints—the only way to trigger the needed investments in new technologies. Current financing is less than 10 percent of what may be needed annually by 2030, but the balance can be met through innovative financing mechanisms.

- *Success hinges on changing behavior and shifting public opinion.* Individual citizens and consumers determine the planet’s future. Although more people than ever now know about climate change and believe action is needed, too few make it a priority, and too many fail to act when they have the opportunity. The greatest challenge lies with changing behaviors and institutions. Public policy—local, regional, national, and international—has to make action easier and more attractive for firms, individuals, and societies.

Looking forward, the arguments and analysis in this report will have real implications for the Bank’s operational work. Climate change clearly must be mainstreamed in operations. This entails revisiting project cost-benefit analysis to include scenario-based planning and decision-making that is robust enough to encompass the likely variety of outcomes. Specific priority sectors include agriculture and natural resource management, energy, transport, and urban development, where there is a need for a more integrated look at the competing demands for growth, adaptation, and mitigation.

The WDR augments the World Bank Group’s Strategic Framework on Development and Climate Change by presenting a vision of how mitigation and adaptation needs worldwide can be addressed over the long-term. It aligns with the Bali Action plan and adheres to the principles of the United Nations Framework Convention on Climate Change (UNFCCC) process. The WDR team received input from a panel of advisors, comprising academics and



applied researchers on five continents. The team carried out consultations through the facilities of the Bank's Global Development Learning Network in 39 countries and collaborated with key partners (UNFCCC, UNDP, OECD, UNEP, DFID, European Commission, and the Danish government), contributing to the analytical work underpinning the United Nations Climate Change Conference that will be held in Copenhagen in December 2009.

This report is the third in a sequence of three WDRs examining the policies for inclusive, rapid, and sustainable development, and showing the linkages between geography, agriculture, climate, and growth. *WDR 2008: Agriculture and Development* emphasized the importance of sustainable and productive management of land and water resources for overall growth and targeted poverty reduction in the developing world. *WDR 2009: Reshaping Economic Geography* demonstrated the lasting implications of choices in infrastructure and urban and regional planning for growth patterns and resource productivity. This is also the third WDR to address environmental issues. *WDR 2003: Sustainable Development in a Dynamic World* and *WDR 1992: Development and the Environment* established environmental sustainability as an essential pillar of economic development and human well-being. This WDR argues for the need to understand climate change as the prevailing development challenge of our day.

The global dissemination plan is concentrated in the four months remaining until the Copenhagen talks to renegotiate the Kyoto Protocol governing global climate change. Outreach will target developing and advanced countries with diverse stakes in the negotiations toward the Copenhagen Conference of the Parties in December 2009. The eminent advisors to the WDR and other high-level experts will speak or write about the WDR as a way of ensuring that third party views help amplify and reflect the WDR's main findings. In addition, the WDR team is undertaking a 15-country climate change poll of citizens that will be complete prior to Copenhagen, special TV programming and web-based video clips, a youth essay competition, a Climate Change Development Marketplace event, a climate change poll, and intensive social marketing through our WDR climate change blog.

The WDR's content will be packaged into short, digestible materials targeted at busy constituencies working on the front line of climate change, including top policy makers, country negotiators, activists, and project Task Managers. Several short booklets will be produced, some with a regional focus, while others will focus on adaptation as well as the economics of climate change. The WDR overview as well as the booklets, tailored news releases, video clips, and certain blog entries will be translated into multiple languages. A comprehensive multilingual WDR website, a Google ad campaign, op-eds, displays at book fairs and climate change conferences, and lectures at universities are also planned.

2. Conflict, Civil War, and Political Institutions

A Legacy of Conflict Research

The KCP has been instrumental in developing the World Bank's research and understanding of development in conflict-affected and fragile countries. KCP has supported three groundbreaking research efforts on these topics:

1. The Economics of Civil War, Crime, and Violence
2. Political Institutions, Development, and a Domestic Civil Peace
3. Peace and Development

Together these research projects resulted in more than 40 working papers, a policy research report (“Breaking the Conflict Trap” by Paul Collier and Nicholas Sambanis), two volumes of case studies, three special journal issues, and dozens of published papers by more than 50 researchers from around the world.

Overview

Countries recovering from conflict face unique challenges to development. They frequently have pressing humanitarian concerns. Often infrastructure has been destroyed or, at a minimum, neglected during the conflict. Countries can face changes in demographics due to migration and displacement. Also, citizens of post-conflict countries may face a legacy of conflict in the form of landmines or unexploded ordinance, a high incidence of crime, interrupted education, or continuing negative health effects. In many ways, the years lost to conflict amount to a period in which human and economic development is suspended or, in some cases, even reversed. If the legacy of conflict is so extreme that it destroys the infrastructure and human capital necessary for rebuilding after conflict it can perpetuate the conflict trap, resulting in a continued cycle of war and lagging development. This phenomenon was the main focus of the Economics of Civil War, Crime, and Violence research project.

The Post Conflict Transitions research project spoke to the immediate aftermath of conflict and the challenges of peace building and sustainable development. For governments of post-conflict countries, there are trade-offs between attending to the immediacy of specific problems that can result in “quick wins” and the longer-term policies associated with sustainable development. Additionally, post-conflict countries must address all of the challenges above with limited resources, in corrupt environments, with weak capacity and institutions, and possibly in an environment of distrust or fear. Meanwhile, donors and the international community often rush in to these environments when the peace is secured, overwhelming the recovering country with pledges of aid, thousands of peacekeepers, a plethora of development projects, and lots of advice. In such chaotic situations, it is no wonder that the international community and the people of these countries are often disappointed or frustrated when little changes or conflict resumes.

Our understanding of the effects of civil wars and violence has matured over the course of these two earlier research projects. To push the agenda forward, our latest research project, Peace and Development, focused on a few thematic areas where we have comparative advantage. We partnered with the Institute for the Study of International Development at McGill University to ensure that we pursued a collaborative research process, focusing on what we identified as three pivotal components of post-conflict development:

- Democracy and the provision of public goods
- Powersharing and its effect on sustainable peace
- Lessons for macroeconomic policy

Democracy and Public Goods

Participatory systems like democracy can often lend legitimacy to post-conflict countries and may be a prerequisite for a long and lasting peace. Yet, it is not clear that participatory systems have any natural advantage in

³The Economics of Civil War Project (2002–2005; USD 255,000) was led by Paul Collier, Ibrahim Elbadawi and Nicholas Sambanis. Political Institutions, Development and Domestic Civil Peace (2005–2009; colloquially referred to as “Post-Conflict Transitions Project,” USD 650,000 with USD 100,000 from the Bank’s Post-Conflict Fund) was led by Ibrahim Elbadawi and Gary Milante. The Peace and Development Project (2007–2009; USD 100,000 with USD 300,000 from IDRC) was led by Ibrahim Elbadawi and Gary Milante.



delivering public goods. There is evidence from our Post-Conflict Transitions research that established autocracies with developed bureaucratic institutions are just as capable, if not more capable, than fledgling democracies in the provision of public goods. Also, some literature suggests that while more participatory systems confer legitimacy necessary for peace, such systems might sacrifice accountability as they can increase incentives for patronage and clientelism.

Meanwhile, there is good reason to believe that established democracies are better able to provide voice to the aggrieved, thus reducing the likelihood of civil conflict and securing the civil peace. For example, recent empirical evidence suggests that states of anocracy and autocracy lead to more civil conflict, suggesting that democracies, once consolidated, are more stable. Anocracies that do not extend the franchise are more likely to fall into civil war and revert to autocracy in the future. Still recent work on the timing of elections demonstrates democratization is not a panacea against civil conflict if post-conflict elections simply move the risk of conflict to a future date.

These effects suggest a trade-off for the post-conflict or fragile state, most of which are autocratic. When should countries make the effort to democratize, as an investment in a peaceful future, and when should existing systems of government, autocratic as they might be, be maintained and even reinforced with bureaucracy to provide stability and efficiently provide public goods?

Powersharing for Sustainable Peace

The Economics of Civil War, Crime, and Violence project was instrumental in mapping out where conflicts happen and why. Conventional wisdom holds that a modern state enjoys the monopoly on violence within its borders. However, post-conflict countries, by definition, have had this monopoly challenged by active rebel and criminal groups. Even if the post-conflict state manages to secure a monopoly or near monopoly on the use of force, they may not be able to credibly commit to using that monopoly responsibly, making peace tenuous at best.

It is vital that the state's monopoly on violence be ensured and not abused if peace is to be sustainable. In the immediate post-conflict period, the state must build up the capacity to enforce the rule of law. However, it often must build up legitimacy with its citizens to demonstrate that it can be trusted with this capacity. This suggests that there are again two possibly countervailing effects, strength versus credibility, which must be balanced for sustainable development and a lasting peace in fragile and post-conflict states. In our research we focus this discussion on how peace agreements, intervention strategies, demobilization strategies, and post-conflict justice can help maintain this balance.

Lessons for Post-Conflict Macroeconomic Policy

Previous research produced theoretical and empirical evidence that countries emerging out of conflicts experience certain structural shifts that affect aid effectiveness and fiscal policy, as well as exchange rate and monetary policy. Papers from the Post-Conflict Transitions research project suggested that the post-conflict cycles tend to affect aid absorptive capacity and aid tends to be most effective two to four years after the end of conflicts.

Other research on macroeconomic policy suggests that exchange rates must be competitive for aid effectiveness. In turn, exchange rate competitiveness is likely to be influenced by the extent to which monetary policy and the exchange rate regimes accommodate the structural shifts in the transaction demand for money associated with the end of conflicts, suggesting that our usual prescriptions for monetary policy do not apply for post-conflict states. Indeed, research suggests that demand for money after conflict can justify post-conflict aid as an agent for "monetary reconstruction," by pushing the economy toward a "good" equilibrium of stable inflation as countries

rebuild. The paper on macro-economic policy compares the seven countries in our case studies to other post-conflict states.

An Innovative Research Approach

Research on conflict and development has matured as the network of scholars in this area has grown. Our research approach for the most recent Peace and Development project is multi-disciplinary and draws on expertise in both the North and South. We have commissioned research teams from seven countries—Colombia, Bosnia, Lebanon, Mozambique, Rwanda, Sri Lanka, and Sudan—to challenge the theory papers and test them through case studies based on each of these post-conflict countries. Each paper is written by both an economist and political scientist or other social scientist. These country case studies provide a rigorous forum for testing our models across methodologies, regions, and peace outcomes.

Through our partnership with McGill University we were able to leverage an additional USD 300,000 of funding from the International Development Research Centre to cover the additional seven case studies described above and two workshops. Based on our expanded research agenda, the project will produce a total of five thematic papers and seven case studies on the three themes.

Our first workshop for the Peace and Development research project was held in Montreal in November 2008, at which we presented the main theory papers as a foundation for the research that will follow. Our second workshop was held in Kigali in May 2009 to present the case studies based on the research. At our dissemination conference in Washington, D.C. in November 2009, we hope to “close the loop” by bringing together policymakers, our researchers, and country experts so that this research on peace and development will be useful for both practitioners and the academic community.

World Development Report 2011: Conflict and Development

The World Development Report for 2011 will be on the topic of Conflict and Development. Much of the findings from the WDR will be based on results from earlier KCP-funded research projects described above. The goal of the WDR 2011 is to contribute concrete, practical suggestions to the debate on how to address conflict and fragility.



ANNEX III: NEW KCP PROJECTS IN FY2009

The International Income Distribution Database (I2D2)

Amount Approved: USD 200,000

Task Team Leader: Dominique van der Mensbrugghe/Francisco Ferreira

This study presents a new database of disaggregated labor market indicators derived from a large set of surveys from developing countries. Four subsets of variables are included: (i) demographic variables, (ii) education variables, (iii) labor force variables, and (iv) a welfare variable. The database presently includes more than 200 individual datasets from the period between 1984 and 2007. For some countries, datasets are available for multiple years, while only one year is available for others. A brief analysis of a subset of the labor market indicators is presented to illustrate the potential use of the new database. The analysis highlights the very different structure of labor markets across developing regions, and in particular, the unique characteristics of Sub-Saharan Africa, Eastern Europe, and Central Asia.

Pro-Cyclical Effects of Capital Requirements: Theory, Evidence, and Policy Lessons for Middle-Income Countries

Amount Approved: USD 62,043

Task Team Leader: Luiz Pereira da Silva

This project will undertake a re-assessment of the relationship between financial sector regulations (especially those around Basel II) and pro-cyclicality. This is especially important for the World Bank when many developing countries (i.e. middle-income countries or MICs) have already implemented, or are in the process of implementing, new rules and are asking for policy advice because of the global financial crisis. The innovative value in this project is that the role of regulation has been explored essentially for mature economies. The main focus (and comparative advantage viewpoint) of our analytical/policy paper is the transposition of these issues for MICs.

Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty

Amount Approved: USD 120,000

Task Team Leader: Peter Lanjouw

Analyzing the impact of poverty reduction efforts requires improved methods of measuring poverty and tracking its changes over time. This project aims to improve tools for poverty measurement and analysis in two ways: First, the project will develop survey-to-survey imputation methods that permit the combination of data from different surveys. The second part will advance the knowledge on index numbers such as measures of real income, consumption, price indices, and economic growth. While the tools developed will be applicable worldwide and not restricted to poverty, they will be most critical for analysis in Africa, where these methods are urgently needed to fill in gaps in data availability.

Poverty Mapping in China

Amount Approved: USD 50,000

Task Team Leader: Qinghua Zhao

In cooperation with the Chinese National Bureau of Statistics (NBS), this project will conduct a nationwide poverty mapping in China. A well-conducted poverty mapping will provide policy makers a better poverty targeting tool help set benchmarks for the future. This computational challenge is unprecedented in China due to the country's large population and geographic expanse. The knowledge gained through this undertaking will benefit other countries in their own poverty mapping. The Chinese NBS has agreed to provide detailed results at the conclusion of the project.

The Impact of Providing Land Titles in Ghana

Amount Approved: USD 70,000

Task Team Leader: Markus Goldstein

Understanding the evolution of property rights and the impact of land titling is a key issue for those working in evolving economies. This project will focus on impacts of land titling in Ghana, where the government is planning a land titling exercise. Specifically, the project will look at the effect of land titles on a host of agricultural and welfare outcomes for both men and women. The study will provide policy-relevant evidence on the effects of providing more secure property rights. This evidence comes at a critical time. Progress on titling in Ghana has been slow and the government is seeking a justification to scale up these activities, as well as evidence to inform the design of titling programs (including, for example, the pricing of titles).

Impact of Urban Land Titling: Evidence from Land Lottery in Burkina Faso

Amount Approved: USD 70,000

Task Team Leader: Markus Goldstein

Property rights are an important institutional mechanism for advancing economic opportunities and reducing poverty in developing countries. With the support of the government of Burkina Faso, this project will undertake an impact evaluation of a peri-urban land lottery, which offers a unique opportunity to generate experimental evidence on the causal impacts of land titling. There is a fair amount of research being conducted on rural land tenure in Sub-Saharan Africa, yet there is considerably less evaluative research being done on urban and peri-urban land titling programs (particularly in West Africa). In light of rapid African urbanization rates and the development of national land policies throughout Sub-Saharan Africa, this rigorous evaluation will address a particularly salient set of issues for the Bank and its client governments.



Kagera Health & Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa

Amount Approved: USD 175,000

Task Team Leader: Kathleen Beegle

Understanding why and how poverty persists over time is vital for reshaping development methods and strategies. This project will undertake to re-survey households, communities, and service providers in the Kagera region of Tanzania that were surveyed previously between 1991 and 1994 and again in 2004. The length and depth of the Kagera Health & Development Survey panel offer a unique set of research opportunities. Building on previous findings and utilizing the long time-span of the panel data, this project will allow not only analysis of the long-run and intergenerational effects of shocks on outcomes, but also of the mechanisms through which households are affected. In this way it will contribute to a more advanced and clear understanding of the causes, mechanisms, and channels of household economic growth and persistence of poverty.

The Effects of Home-Based HIV Testing

Amount Approved: USD 100,000

Task Team Leader: Markus Goldstein

In January 2009, the Academic Model for the Prevention and Treatment of HIV/AIDS (AMPATH) commenced a large scale initiative to bring home-based HIV counseling and testing to people living in the western part of Kenya. It is anticipated that this program will test approximately 1.3 million individuals over a two year period. Testing will be offered to individuals in a specific area in the privacy of their own home. Working with AMPATH, this KCP project will provide a comprehensive, rigorous evaluation of the effects of providing home-based testing. Pilot implementation of this program in one site garnered testing rates on the order of 90 percent, vastly higher than the rates currently seen at the walk-in voluntary counseling and testing clinics. This evaluation will offer critical evidence on how to inform individuals of their HIV status, reach patients earlier in the disease cycle, and encourage prevention.

HIV/AIDS Treatment and Prevention

Amount Approved: USD 100,000

Task Team Leader: Damien de Walque

It is likely that Goal 6 of the Millennium Development Goals—to halt or reverse the spread of HIV by 2015—will not be met unless innovative programs can be found to scale-up treatment in an effective way and reduce transmission of HIV. This KCP project will add to the body of knowledge on the subject of HIV prevention by undertaking rigorous impact evaluations of different modalities to deliver AIDS treatment and innovative strategies for HIV prevention. The beneficiaries will be HIV/AIDS patients and their families (for AIDS treatment) and individuals at risk of HIV infection (for HIV prevention) as well as the governments, international agencies, and NGOs in charge of scaling-up AIDS treatment and HIV prevention activities.

Learning and Educational Achievements in Pakistan (LEAPS) Continuation

Amount Approved: USD 175,000

Task Team Leader: Jishnu Das

The provision of primary education through private elementary schools in South Asia has exploded in the last decade. The project addresses the critical issue of educational policy in this changed environment. By bringing to bear innovative data collected over a period of time, it enables researchers to examine issues of educational provision in a manner that has until recently not been possible. The study extends a long-term research project on public and private primary education in the province of Punjab, Pakistan that seeks to examine issues of educational provision in this new environment. The research project combines a unique dataset with experimental variation to isolate supply and demand factors in this market.

Impact Evaluation of Youth-Friendly Services on Voluntary Counseling & Testing Among the Youth Aged 15-24 Years in Kenya

Amount Approved: USD 100,000

Task Team Leader: Arianna Legovini

The National Aids Control Council (NACC) of Kenya has identified youth as a vulnerable group in the fight against HIV/AIDS because youth require special interventions and services targeted to them. This study will identify what services/activities deliver the largest increase in Voluntary Counseling and Testing (VCT) use among the youth and the impact of use on sexual behavior. The study will use a randomized control trial to estimate the causal impact of youth-friendly services on VCT centers uptake and behavior change among the youth. Randomizing VCT centers to experimental groups would eliminate all systematic preexisting group differences. As a result, each experimental group will have the same expected values for all characteristics, observable and unobservable before the intervention.

The Financial Crisis and Foreign Bank Participation in Developing Countries

Amount Approved: USD 40,000

Task Team Leader: Maria Soledad Martinez Peria

Since the 1990s, many developing countries witnessed a sharp increase in the participation (direct or cross-border) of foreign banks in their financial sectors. Most of these banks came from developed countries that are now undergoing a deep financial crisis. The objective of this grant is to study how the current crisis is affecting the behavior of foreign bank claims to developing countries and, in turn, how this is affecting credit growth. Using Bank for International Settlements (BIS) data on foreign bank claims vis-à-vis developing countries, the research team will conduct two studies on foreign participation in the banking sector during the on-going financial crisis.



Employment Creation in Large and Small Firms: Exploring What Works with South Asian Firms

Amount Approved: USD 50,000

Task Team Leader: David McKenzie

As the financial crisis has developed and spread, governments across the world are facing increasing demands for action on employment creation. Yet little is known about which private sector development policies work in getting firms to start hiring workers again. This project will use ongoing randomized experiments and survey work in India and Sri Lanka in order to provide answers to these questions. The study will assess which policies work in generating employment creation in micro and large firms in India and Sri Lanka. This project will pay for additional data collection which will allow the team to measure the impact of these employment creation policy experiments in the microenterprises, and to use non-experimental methods to trace out the hiring processes of small and medium sized enterprises.

How Much Do Management Practices Matter? A Randomized Experiment in India

Amount Approved: USD 50,000

Task Team Leader: David McKenzie

Academic economists have traditionally paid little attention to management practices, the factors which shape those practices, and their influence on the productivity of business enterprises. However, recent surveys and diagnostic tools for evaluating management practices have found a strong correlation between firm performance and the quality of management, with firms in developing countries having much worse management practices on average than firms in developed countries. This study will implement a randomized experiment among textile firms in India with the aim of improving the management practices of poorly managed firms, understanding why firms don't improve management on their own, and estimating the causal impact of management on firm performance.

Regulation and Bank Stability

Amount Approved: USD 250,000

Task Team Leader: Asli Demirguc-Kunt

One important implication of the recent crisis is the wide-spread calls for reforms of regulation and supervision. But what exactly is good regulation and supervision? How can countries do it with limited resources? What should reforms focus on? The study will collect information on bank regulation and supervision through a survey of bank regulators around the world, and make use of information gathered through FSAPs (Financial Sector Assessment Programs) to study what characteristics of banking supervision and regulation is associated with sounder banks both on an individual and system-wide basis.

Globalization, Risk, and Crises

Amount Approved: USD 70,000

Task Team Leader: Sergio Schmukler

In light of the global nature of recent crises, a more extensive body of knowledge on the relationship between globalization, risks, and crises is needed to anticipate and address various aspects of crises. In particular, this project will carry out new work on how international investors manage their investments across countries and how they react during crises, transmitting crises from one country to another and affecting many developing nations. It will also study the effects of the use of financial markets on firms and countries in terms of their ability to raise capital, invest, and grow. Importantly, it will study distributional aspects across firms within countries and across countries within regions. Moreover, it will analyze the effects of accessing international financial markets and what happens when markets close and countries and firms are excluded from external financing.

Reticent Respondents and Cross-Country Survey Data on Corruption

Amount Approved: USD 75,000

Task Team Leader: Aart Kraay

Respondent reticence potentially introduces significant biases into survey responses to sensitive questions. In response to this issue, the main objective of this project is to investigate and correct for respondent reticence in the World Bank's Enterprise Survey data, thus improving the quality and reliability of analysis informed by this data. This objective is important because of the considerable policy and popular interest in a number of questions in the survey that deal with corruption and other illegal activities. A subsidiary objective is to understand better the merits of techniques to identify reticent respondents that could be deployed in a wide variety of other survey-based applications of interest to the Bank and the wider development community.

Comparable Disaggregated Census Data Across Developing Countries

Amount Approved: USD 70,000

Task Team Leader: Mary Hallward-Driemeier

Ideally, panel census data would be available to examine issues of firm entry and exit, firm growth, and the reallocation of resources across sectors and firms. However, most countries do not make their firm-level data available to researchers outside the statistical office or selected government agencies. This project provides a way of providing minimally-aggregated statistics based on average values in narrowly defined sector-size-year cells. The aim is to transform the raw data in statistical offices, whose access is restricted, into a format that can be shared with a wider group of researchers. This will allow for an improved understanding of the processes underlying the aggregate figures of countries. Of particular interest is being able to understand the processes leading up to the current crisis and facilitate updating the data as more data is available to continue the analysis of the crisis period.



The Growth Effects of Fiscal Policy in Developing Countries

Amount Approved: USD 50,000

Task Team Leader: Aart Kraay

The global crisis has put under the spotlight the ability of developing countries to resort to fiscal policy to counteract the deepening recession. A major difficulty in designing appropriate fiscal policy responses in developing countries is the near total lack of systematic empirical evidence on the actual effects of fiscal policy changes on output. This KCP project will finance research designed to isolate the causal effects of fiscal policy on growth in the short and long run in developing countries. The outcome of this research will inform two central questions in the design of fiscal policy responses: How large should they be to have the desired short-term impact? Will they be sustainable in the long run?

Foreign Direct Investment and Macroeconomic Stability

Amount Approved: USD 40,000

Task Team Leader: Constantino Hevia

The global crisis has prompted a reassessment of the risks and opportunities posed to developing countries by international financial integration. In this context, foreign direct investment (FDI) has been singled out by numerous observers as the preferred type of capital flow, under the view that it is less prone than others to destabilizing fluctuations. The main objective of this KCP project is to conduct a systematic exploration of the relationship between the composition of capital flows and their stabilizing properties on macroeconomic outcomes, with particular focus on the role of FDI flows. This study will address whether different capital flow compositions have different consequences for the (de)stabilizing effect of international financial integration and for risk sharing across countries.

An Experimental Study of “Poverty Traps” Among Micro-Entrepreneur Groups

Amount Approved: USD 128,000

Task Team Leader: Berk Ozler

Understanding the nature of poverty traps—the obstacles that prevent poor but entrepreneurial individuals from escaping poverty—has direct policy importance, since it tries to get at specific institutions that can promote economic mobility. It is likely that a myriad of hurdles exist and this KCP project will experiment with several cross-cutting layers of intervention modalities to understand how policies can be created through community driven development programs that will assist individuals in their path out of poverty. The overall project will provide rich evidence as to whether, and how, self-perpetuating entrepreneurial activity can be fostered among poor individuals and households.

Labor Markets and Impacts of the Financial Crisis: Evidence from China and India

Amount Approved: USD 225,000

Task Team Leader: John Giles

The shocks experienced as a result of the financial crisis present an important opportunity to learn about the functioning of labor markets and safety nets, and to examine the longer-term impacts of shocks affecting labor markets on individual and household investments. In that light, this project will examine how shocks associated with the financial crisis affect households in rural and urban areas of China and India. The funds will support household survey efforts designed to examine how shocks filter through labor markets to influence the earnings, time allocation, and investment decisions of households.

Transport Costs and Development: Evidence from China's Infrastructure Boom

Amount Approved: USD 40,000

Task Team Leader: Hanan Jacoby

Over the past 15 years, China has undertaken massive investment in transport infrastructure, much of it on expressways. The unprecedented scale of road and rail construction in China over the past decade provides a unique opportunity to analyze the impact of large-scale transportation infrastructure development. The objective of this study is to use detailed firm-level panel data to estimate how and by how much this dramatic expansion of the road and railway network has influenced economic growth and welfare. Also of interest is the extent to which China's infrastructure boom has contributed to (or merely been a consequence of) its overall economic success.

Services, FDI, and Endogenous Productivity Effects in the European Neighborhood Policy

Amount Approved: USD 90,000

Task Team Leader: Ana Fernandes

As of July 2007, 380 preferential trade agreements (PTAs) had been notified to the GATT/WTO, and the number continues to grow. With their proliferation, a growing area of World Bank business in trade policy is responding to client country requests on how to best structure the existing or potential PTAs for growth and poverty reduction. In response to that demand, the key objective of the project is to improve service sector policies in developing countries by developing the analytic capacity to assess service sector policies in free trade agreements. Given the inclusion of services in modern FTA agreements negotiated with the EU and the US, and the growing empirical evidence of the endogenous productivity effects from greater provision of business services, the Bank needs to be able to assess the impact of services commitments as part of its advice to governments. Crucially, preferential versus global liberalization will be assessed as well as a comparison of preferential liberalization with developed versus developing economies.



Modeling and Analysis of Consumption Patterns

Amount Approved: USD 150,000
Task Team Leader: Olivier Dupriez

The main objective of this project is to improve the knowledge and understanding of household consumption patterns and their dynamics in developing countries. A knowledge base and interactive tools will be generated which will provide data on the levels and distribution of household consumption by category of products and services and by income level for a large number of countries. The knowledge base will make extensive use of household survey data from at least 50 countries. Assessing and solving—to the extent possible—the various issues of reliability and quality of these data is a challenge and important part of the project. As these data are frequently used for poverty measurement and for the production of national accounts, improving their comparability and reliability is an important objective. A key parallel objective is developing technical recommendations to national statistical agencies in charge of collecting and processing these data.

Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries

Amount Approved: USD 100,000
Task Team Leader: Mansoor Dailami

In many developing countries, international banks are the primary gateway through which corporations, sovereigns, and banks transfer funds abroad, borrow in the short- and medium-term, and conduct foreign exchange and derivatives operations. Therefore, it is crucial to understand the relative importance of different transmission mechanisms of financial shocks to developing countries. This project will examine the impact of global financial crisis on the lending behavior of international banks to developing-country sovereign and corporate borrowers, focusing on three mechanisms of transmission: funding pressure, balance-sheet problems, and the credit cycle downturn. The knowledge generated will assist policy makers in improving their policy and regulatory structures in line with their degree of financial development and openness to external finance.

Strengthening Agricultural Production Systems and Facilitating Access to Markets: Impact Evaluation of Nigeria's Commercial Agriculture Development

Amount Approved: USD 100,000
Task Team Leader: Arianna Legovini

Very little is known about the causal effect of interventions aimed at developing commercial agriculture by supporting production systems and facilitating access to markets. This impact evaluation of the Commercial Agriculture Development Project (CADP) in Nigeria seeks to fill this gap. The impact evaluation is the first attempt to identify the causal impact of interventions specifically aimed at promoting commercial agriculture using a prospective design. It will provide a rigorous estimate of the efficacy of matching grants as a tool to promote the adoption of new technologies, and assess the impact of alternative interventions aimed at improving market information, linking farmers to markets and increasing the share of marketed output. The evaluation will also be the first to

present evidence on the effectiveness of a program aimed at promoting agricultural profitability and food security in the northern Sahel regions of Nigeria, which are especially vulnerable to climate change.

Migration of Turkey’s Top Students: Brain Drain and Brain Gain

Amount Approved: USD 45,000

Task Team Leader: Caglar Ozden

This proposal aims to add a middle-income developing country from a completely different part of the world to the larger project on brain drain, which includes Ghana, New Zealand, Tonga, and Fiji. Turkey is an important migrant sending country with significant diasporas in several countries. Initially a source of low-skilled workers to rebuild war-damaged European countries, Turkey has been sending some of its top students and highly educated people abroad in recent decades. Adding such a country with quite different characteristics will enable researchers to identify common patterns as well as differences of brain drain flows across the globe, significantly extending knowledge on this subject.

Economics of Biofuels and Potential Impacts on Biodiversity

Amount Approved: USD 125,000

Task Team Leader: Govinda Timilsina

The 2007–08 food crisis generated some concerns regarding the expansion of biofuel use. Existing studies suggest focusing on biofuel feedstock that do not directly compete with food supply (e.g., jatropha, switchgrass etc.), but large scale production of these feedstocks would still compete with food crops through inputs needed for production, such as land, water, and fertilizers. The overall objective of this study is to assess the economic development and environmental quality consequences of large scale expansion of biofuels at the country level. The key issues the study will address include: (i) the economics of selected biofuels feedstock, particularly those not in direct competition with food supply, such as jatropha; and (ii) country specific economic, social, and environmental impacts of biofuels in client countries through country case studies.

Improving Governance of African River Basins—Determinants of Successes & Failures in Past Reform

Amount Approved: USD 120,000

Task Team Leader: Michael Toman

Improved Integrated Water Resource Management (IWRM) is an important element for improving development prospects in many African countries. However, the very different stages of advancement in the African river basins’ policies and practices bears witness to the difficulty of implementing decentralization in practice. This project aims to understand why some African water agencies have succeeded, as well as the key variables involved in reform processes and how these factors could be positively affected by policy interventions.



Improving Efficiency & Climate Change Mitigation—Electricity Market Competition and Low-Carbon Generation Technologies

Amount Approved: USD 50,000

Task Team Leader: Ioannis Kessides

Providing sufficient energy to meet the requirements of a growing world population with rising living standards will be a monumental task. Doing it without substantially exacerbating the risks of climate disruption will be an even more formidable undertaking. It is likely to require a profound shift in the historic pattern of fossil-fuel use and a major transformation of the global energy system. The question that will be addressed by this project relates to the nexus between the governance structure of the electricity markets and efforts to reduce greenhouse gas emissions. The choice of optimal electricity market structures and their future performance could be affected by the requirements of climate mitigation. Given the key role of electricity for sustained economic growth and international competitiveness, this question could have a significant impact on development.

Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries

Amount Approved: USD 180,000

Task Team Leader: Dominique van der Mensbrugge/Michael Toman

The World Bank Group has recognized climate change as both a development challenge and a global environmental challenge. Reducing greenhouse gas (GHG) emissions cannot be accomplished without reducing emissions from both developed and developing countries. The central issue facing developing countries and the global community is how growth in emissions and increases in risk of adverse climate change impacts can be reduced without sacrificing the economic growth needed to raise living standards and reduce poverty. In this context, the main objective of this study is to provide information and analysis that gives added insight into the conditions under which developing countries' GHG emissions can be reduced without unduly burdening their expected economic growth. That information will play an important role in the development strategies and investment plans of the Bank's client countries, and in international efforts for fair and effective burden-sharing among richer and poorer countries.





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