KNOWLEDGE *for* CHANGE

Annual Report 2013

ENDING EXTREME POVERTY

PROMOTING SHARED PROSPERITY

MISSION STATEMENT

By undertaking research and data collection in key areas and themes, the Knowledge for Change Program supports the development of effective policies and programs in developing countries with an aim to reduce poverty and promote sustainable development.

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Annual Report 2013

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Foreword

In April 2013, the World Bank Group's Board of Governors agreed to establish two measurable goals to guide the strategic focus of the World Bank Group's work. The two goals are:

1. To end extreme poverty by reducing the percentage of the world's population living on less than $1.25 a day to no more than 3 percent by 2030; and
2. To promote shared prosperity by fostering income growth of the bottom 40 percent of the income distribution in every country.

Since these are not posts to be touched and retreated from, these goals must be environmentally, socially, and economically sustainable over time. In other words, achieving these goals through a blend of higher economic growth and improved social programs should not create a liability for later generations—either through excessive fiscal burdens, social strife, or damage to the environment. In brief, prosperity should be shared across both generations and geography.

Of the two targets, the extreme poverty indicator at $1.25 (adjusted for purchasing power parity) is well-known and well-established. It has been integral in the United Nations-led commitment to the Millennium Development Goals. What is new, however, is that the World Bank Group's analysis leads us to conclude that although the target to end extreme poverty as we know it is ambitious, it is feasible. The target is to lower the global extreme poverty rate to 3 percent or less of the world's population. The feasibility is based on the gains that have been made in recent decades, but the ambition is real. High economic growth needs to continue and consolidate in a broader group of poor countries and the gains from economic growth need to be reasonably equitably distributed to achieve the goal. This will require continued attention to pro-growth policies as well as pro-poor economic and social policies over the next two decades.

The crafting of a shared prosperity indicator is clearly more novel. The term "shared prosperity" refers to sharing economic progress—in other words, a notion of equity—and it refers to striving toward overall betterment—something that is unbounded. The rationale behind choosing the growth of incomes of the bottom 40 percent is (a) to develop a simple measure to capture this and (b) to develop a short narrative that captures the idea of shared prosperity beyond a formula and can guide policy and discussion without getting locked into academic debates. Since shared prosperity refers to a multiplicity of ideas covering intergenerational equity, sustainable development, and matters of cross-country equity, a narrative account that specifies the broad contours of the reach of this goal is useful for steering debate and motivating policy.

The Knowledge for Change Program (KCP) is an excellent and valuable tool for research and data collection that can help realize the Bank Group's twin goals. KCP has funded wide-ranging tools, such as PovcalNet, the Living Standards Measurement Study, and other innovative pathbreaking research for the development community. With the donors' generous financial and intellectual contributions, KCP can do a lot more toward achieving the twin goals of ending extreme poverty and promoting shared prosperity.

I look forward to seeing you in Paris for the 2013 Consultative Group Meeting.

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Ending Extreme Poverty and Boosting Shared Prosperity and the Concept of Inclusion

Global poverty rates declined over the past three decades, but about 1.2 billion people still live in extreme poverty. Moreover, rising prosperity in many countries has been accompanied by a rise in inequality and a decline in economic inclusion. Against this background, the World Bank Group's overarching mission of a world free of poverty is as relevant as ever. Earlier this year, to anchor this mission, World Bank Group President Jim Yong Kim set two ambitious goals for the institution:

1. To end extreme poverty by reducing the percentage of people living on less than $1.25 a day to no more than 3 percent by 2030; and
2. To foster shared prosperity—specifically, to achieve income growth of the bottom 40 percent of the population in every country.

To achieve these goals, it is important to measure progress vis-à-vis the goals and to analyze how progress is affected by policies. Although extreme poverty has been widely studied,[1] the measurement of "shared prosperity" is a relatively newer topic. Its indicator—income growth of the bottom 40 percent of the population—is a departure from how economists have typically measured progress. Traditional measurement has focused on growth in gross domestic product (GDP) per capita, based on the (not always correct) assumption that a growing GDP would trickle down to the poor. The new indicator instead directly measures the income growth of the less-well-off.

The measures of extreme poverty and shared prosperity do not cover all the dimensions of poverty and welfare, such as education, health, nutrition, and access to essential infrastructure and services. They do not capture environmental, social, and fiscal sustainability. And they do not reflect the need for participation of all segments of society in economic, social, and political spheres. Nonetheless, the two indicators have the advantage

[1] For a discussion on poverty measurement, see Martin Ravallion, 2012, "Global Poverty: Should the Goalpost Be Moved Up?" *Knowledge for Change Annual Report*, World Bank, Washington, DC.

Asli Demirguc-Kunt

of capturing key elements of welfare in a concise, compelling way.

The KCP can be particularly helpful in improving the data and rigorous analytical work that are essential to achieve these goals. Research must continue to guide thinking about how best to measure progress toward a world free of poverty and to assess how various policies contribute to achieving the two goals.

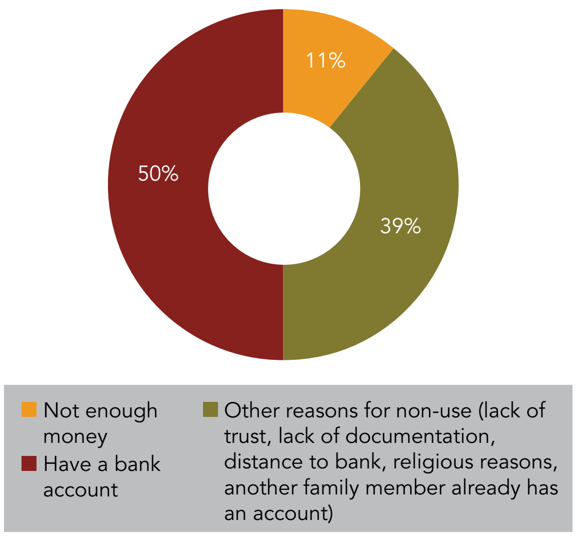
A policy area that can have a particularly important role in achieving the two goals is financial inclusion. Financial development is an important contributor to economic development and, in light of the global financial crisis, the financial sector and its role in the broader economy has attracted increased attention among policy makers, researchers, and other stakeholders. Financial inclusion—typically defined as the share of individuals and firms that use financial services—is an important dimension of financial development that has moved up the reform agenda in international forums, such as the Group of 20. At the country level, about two-thirds of regulation and supervision agencies have been charged with enhancing financial inclusion and, in recent years, some 40 countries have set formal targets and goals for financial inclusion.

Increased interest in financial inclusion reflects a better understanding of the importance of financial inclusion for development. There is increased recognition that access to financial services plays a critical part in sustainable development and the reduction of inequality and poverty. And there is a growing recognition of the large gaps in financial inclusion. Well-functioning and inclusive financial systems serve a vital purpose, offering savings, payment, credit, and risk management services to a wide range of individuals and firms.

Financial inclusion is also one of the topics where data compilation and analysis work funded by KCP can be particularly helpful. Despite the increased interest, policy makers' views on which policies work best vary widely, underscoring the major data and knowledge gaps about the effects of key policies on financial inclusion. Research funded by KCP can continue to provide useful insights.

Until recently, the measurement of financial inclusion around the world has focused on density

Figure 1. Use of Bank Accounts and Self-Reported Barriers to Use



Source: Calculations based on the Global Findex database.
Note: Self-reported barriers to use of formal bank accounts. Respondents could choose more than one reason. "Not enough money" refers to the percentage of all adults who reported only this reason.

indicators—such as the number of bank branches per capita—that were developed with support from KCP.[2] Although density indicators contain basic provider-side information on the use of financial services, they do not shed light on the extent of financial inclusion and the degree to which groups such as the poor and women are excluded from formal financial systems. This gap has recently been addressed with the release of the Global Findex database (www.worldbank.org/globalfindex), which was built by the World Bank in cooperation with the Bill and Melinda Gates Foundation and Gallup, Inc. The database contains "user side" indicators that were compiled by the Gallup World Poll survey. These indicators measure how adults in 148 economies manage their day-to-day finances and plan for the future. The database includes more than 40 indicators related to account ownership, payments, saving, borrowing, and risk management. For now, the Global Findex database covers 2011.[3] Over time, it is envisaged that it will produce time series, with full updates planned for 2014 and 2017.

What are some of the new findings on financial inclusion based on the new data and research? The data show that half the world's adult population—more than 2.5 billion people—do not have a bank account (Figure 1). Not all "unbanked" people demand financial services, but barriers such as cost, travel distance, and the amount of paperwork required to open an account play an important role. For example, 20 percent of the unbanked report distance as a key reason for not having an account.

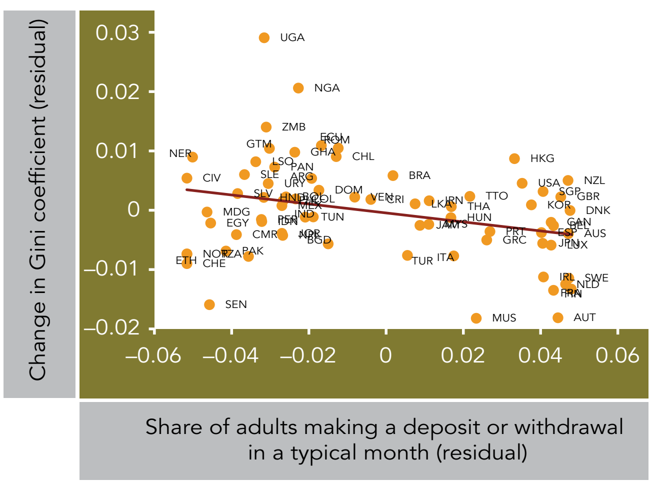
The data show striking disparities in the use of financial services by individuals in developed and developing economies. The share of adults with a bank account in developed economies is more than twice that in developing economies. Account ownership also goes hand in hand with income equality: the more even the distribution of income within a country, the higher its account penetration. What helps is a better enabling environment for accessing financial services, such as lower banking costs, shorter distance

[2] Asli Demirguc-Kunt, Thorsten Beck, and Patrick Honohan, 2008, "Finance for All," World Bank Policy Research Report.
[3] For more on the Global Findex database, see Aslı Demirgüç-Kunt and Leora Klapper, 2012, "Measuring Financial Inclusion: The Global Findex," Policy Research Working Paper 6025, World Bank, Washington, DC.

to financial institutions, and fewer documentation requirements to open an account.

Our research suggests that financial inclusion matters for economic development and poverty reduction. A range of theoretical models demonstrate how the lack of access to finance can lead to poverty traps and inequality. In addition to the direct benefits of enhanced access to financial services, financial inclusion also reduces inequality, particularly through indirect labor market mechanisms. Accumulating evidence shows that financial development accelerates economic growth, intensifies competition, and boosts the demand for labor. Importantly, financial development usually brings relatively larger benefits to those at the lower end of the income distribution.[4] Hence, financial inclusion, with good policies, can be both pro-growth and pro-poverty reduction (Figure 2).

Figure 2. Financial Inclusion and Income Inequality



Source: Calculations based on the Global Findex database and World Development Indicators.
Note: The Gini coefficient measures income inequality on a scale from 0 (total equality) to 1 (maximum inequality). The chart is a partial scatter plot, visually representing the regression of changes in the Gini coefficient between 1960 and 2010 on the share of adults who use financial services (approximated as the percentage of adults who report making a deposit or withdrawal at a formal financial institution in a typical month, according to Global Findex data), controlling for the initial (1960) Gini coefficient. Variables on both axes are residuals.

To benefit fully from financial inclusion, it is important that countries have in place well-designed policies. Indeed, things can and do go wrong. Promoting credit without sufficient regard for financial stability is likely to result in a crisis. A recent example is the sub-prime mortgage crisis that started in 2008 in the United States. The key contributing factors included overextending credit to borrowers who were not creditworthy and relaxing mortgage-underwriting standards. Failures in the microfinance sector in several developing economies also offer examples of the overextension of credit in the name of access. These examples illustrate that deep social issues cannot be resolved purely with an infusion of credit. If not done properly, efforts to promote financial inclusion can lead to defaults and other negative effects.

What does the new research tell us about policies for financial inclusion? Encouragingly, recent research says that most of the barriers to financial access can be reduced by better policies. Enhancing financial inclusion requires addressing the policy and market problems that lead to financial exclusion. The public sector can help in addressing these problems by developing the legal and regulatory framework and supporting the information environment, as well as educating and protecting

[4] See, for instance, Thorsten Beck, Ross Levine, and Alexey Levkov, 2010, "Big Bad Banks? The Winners and Losers from Bank Deregulation in the United States," *Journal of Finance* 65 (5): 1637–67.

the users of financial services. Many public sector interventions are more effective when combined with private sector involvement.

New evidence suggests that policies aimed specifically at increasing account penetration can be effective, especially among the poor, women, youth, and rural residents. In a recent paper, using detailed data from Global Findex, my co-authors and I show that financially-excluded individuals are more likely to report not having enough money as a barrier to having an account in countries with higher banking costs. Focusing only on financially-excluded individuals who report "not having enough money" as their only barrier, we observe that the presence of basic or low-fee accounts, correspondent banking, consumer protection, and accounts for receiving "government-to-person" payments lower the likelihood that these individuals will cite lack of funds as a barrier. Although these results are not causal, we suggest that government policies to enhance inclusion may be related to a higher likelihood that individuals perceive that financial services are within their reach.[5]

By contrast, direct government interventions in credit markets tend to be politicized and less successful, particularly in weak institutional environments. Examples of such direct interventions include bailouts and debt relief for households, directed credit, subsidies, and lending via state-owned financial institutions. The challenges associated with these direct government interventions are discussed in the World Bank's *Global Financial Development Report 2013*.[6] For example, recent in-depth analysis of India's 2008 debt relief for highly-indebted rural households suggests that although the initiative led to the intended reductions in household debt, it was associated with declines in investment and agricultural productivity.[7]

Research also indicates that technological innovations—such as mobile payments, mobile banking, and borrower identification using biometric data (fingerprinting, iris scans, and so on)—make it easier and cheaper for people to use financial services and, at the same time, increase financial security. The impact of new technologies can be amplified by the private sector's adoption of business models that complement technology platforms. To harness the promise of new technologies, regulators need to allow competing financial service providers and consumers to take advantage of technological innovations. Product design that addresses market failures, meets consumers' needs, and overcomes behavioral problems can foster the widespread use of financial services. Innovative financial products, such as index-based insurance, can mitigate weather-related risks in agricultural production and help promote investment and productivity in agricultural firms. Further improvements in lending to micro and small firms can be achieved by leveraging existing relationships. For example, novel mechanisms have increased

[5] Franklin Allen, Aslı Demirgüç-Kunt, Leora Klapper, and Maria Soledad Martínez Pería, 2012, "The Foundations of Financial Inclusion: Understanding Ownership and Use of Formal Accounts," Policy Research Working Paper 6290, World Bank, Washington, DC.

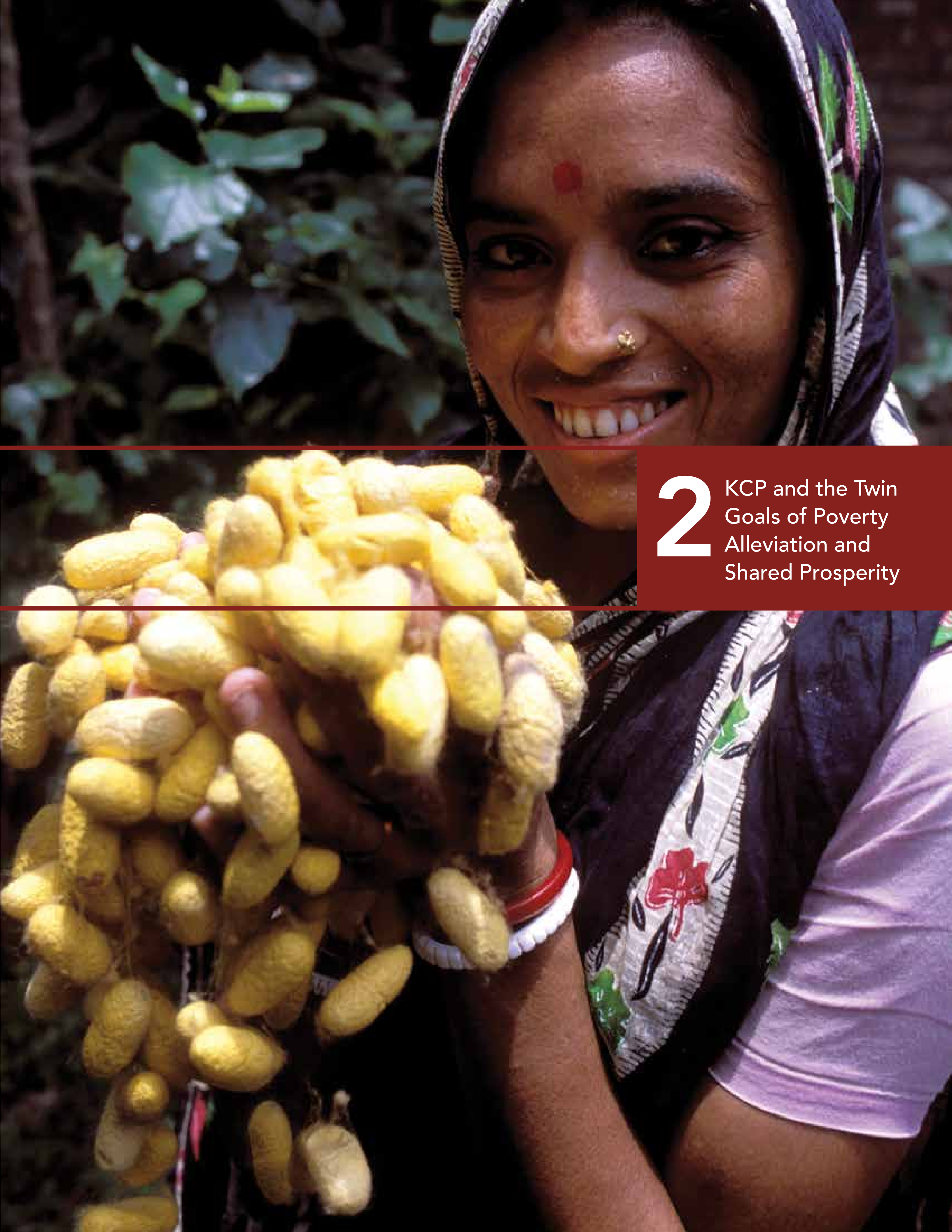
[6] World Bank, 2012, *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*, Washington, DC.

[7] Martin Kanz, 2012, "What Does Debt Relief Do for Development? Evidence from India's Bailout Program for Highly-Indebted Rural Households," Policy Research Working Paper 6258, World Bank, Washington, DC.

[8] For a comprehensive discussion on the ongoing research on financial inclusion and its policy implications, see the World Bank Group's 2014 *Global Financial Development Report: Financial Inclusion*, to be released in late 2013.

financial inclusion by delivering credit through retail chains or large suppliers, relying on payment histories to make loan decisions, and lowering costs by using existing distribution networks.[8]

In sum, we now have greater clarity on the role of financial inclusion, but there is still much to do in working out how the various policies—including those for increased financial access—contribute to the twin goals of ending extreme poverty and promoting shared prosperity. Improved data and rigorous analytical work are essential to achieve the goals. Research must continue to guide thinking about how best to measure progress and assess how the various policies contribute to achieving the two goals. The KCP can be instrumental in making this happen.



2 KCP and the Twin Goals of Poverty Alleviation and Shared Prosperity

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The Twin Goals

In April 2013, the World Bank Group's Board of Governors agreed to establish two measurable goals to guide the strategic focus of the World Bank Group's work. The two goals are:

1. To end extreme poverty by reducing the percentage of the world's population living on less than $1.25 a day to no more than 3 percent by 2030; and
2. To promote shared prosperity by fostering income growth of the bottom 40 percent of the income distribution in every country.

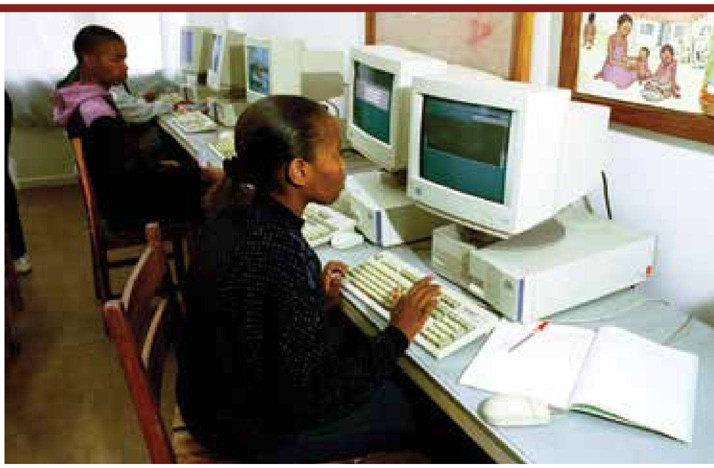
Why is the World Bank Group committed to these goals? And how do these goals relate to the work of the KCP?

Extreme Poverty

Of the two goals, the extreme poverty indicator at $1.25 (adjusted for purchasing power parity) is well-known and well-established. It has been integral in the United Nations-led commitment to the Millennium Development Goals. The World Bank Group's analysis leads us to conclude that the target to end extreme poverty as we know it is ambitious but feasible. Past KCP-supported research was essential to the analysis that led to the design of this goal and ongoing and future research will be crucial to its realization.

The feasibility of the goal is based on the gains that have been realized in recent decades, but the ambition is real. High economic growth needs to continue and consolidate in a broader group of poor countries and the gains from economic growth need to be reasonably equitably distributed to achieve the goal. This will require continued attention to pro-growth policies, as well as pro-poor economic and social policies over the next two decades.

Achieving the goal will require research to understand what policies and practices will work. The KCP's focus on the poorest countries in the world positions the program well for contributing to this research agenda. Better poverty measurement, public service delivery, investment climate, governance, and global public goods are key elements required for the sustainable end of poverty.



Shared Prosperity

The term "shared prosperity" refers to the pace and sharing of economic progress. By focusing on the growth of the incomes of the bottom 40 percent, a simple metric captures both growth and equity dimensions. All four KCP windows are well-suited for supporting the research agenda linked to this goal. Improved service delivery increases the scope for economic growth and improved incomes of the lower segments of society; often structural change is needed to avoid "enclave" growth that only serves to increase the prosperity of the owners of natural resources; the investment climate and trade are well-established drivers of growth; and global public goods are essential for ensuring the sustainability of growth.

In many of the poorest countries, the bottom 40 percent of the population is below the $1.25 (adjusted for purchasing power parity) extreme poverty line. In those cases, the two goals converge: enhancing shared prosperity implies lifting households out of extreme poverty. Many of the poorest countries also suffer from conflict situations. In middle-income countries, improving public service delivery and social protection systems is critical for enhancing shared prosperity—even if extreme poverty has been nearly eliminated in many of those countries. The first KCP window, Poverty Dynamics and Public Service Delivery, addresses these issues related to both goals.

The second window, Investment Climate & Trade and Integration, focuses on the notion that the combination of a vibrant private sector and an open business climate is conducive to growth and job creation in particular through small- and medium-size enterprises (SMEs). This is the "hard" pillar of the strategy that is the foundation for prosperity and wealth creation. Job creation is essential for sustained and rapid reductions in extreme poverty and economic growth is one dimension of the shared prosperity goal.

In 2005, the KCP Partners agreed to launch a third window, Global Public Goods. The rationale was that global issues that require collective action and coordination across countries could not naturally be addressed by the first two windows. The main reason is that any lack of action or progress in some countries could undermine the benefits for all and thus there was a need for supranational cooperation and coordination. Sustainability of the twin goals depends on environmental problems that cross international boundaries. Shared prosperity globally requires international cooperation, given that cross-border differences in incomes is the main factor driving global inequality.

The KCP established a fourth window in 2010, Economic Development and Structural Change. The purpose of this window is to analyze the policies and factors that are necessary to make it possible for a developing country to upgrade its industrial structure continuously and develop rapidly. Structural change is needed in the early stages of development in a poor country's quest to end extreme poverty; however, it is also needed in later stages of development, as countries develop new, more sophisticated industries to create the middle-class jobs needed for enhancing shared prosperity.

3 Progress and Achievements in 2013

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As a result of the KCP evaluation in 2012 and with the endorsement of the donors at the KCP Consultative Group meeting in Copenhagen in November 2012, several recommendations were introduced and implemented, mainly to amplify the importance of policy impact and local capacity-building in KCP-funded projects. An action plan was developed and a number of processes and procedures were put in place in an effort to emphasize policy impact and capacity-building in KCP projects. These new initiatives include developing new and revised templates, namely, the concept note, the Grant Funding Request, and the progress and completion reports. Moreover, in the 2013 call for proposals, 15 percent of the total budget available was reserved for proposals with high capacity-building elements. The objective is to urge researchers to think more on these fronts from the start of project planning.

In FY2013 (July 1, 2012–June 30, 2013), 28 new projects were selected and approved by the KCP Internal Management Committee with total allocations of USD 5,035,000. Of the 28 projects, three proposals with strong capacity-building components and that received high ratings from external reviewers were identified first and funded from the capacity-building budget (about 15 percent of the total budget available). The size of the grants ranges from USD 50,000 to USD 1,485,000, averaging USD 179,821 per grant. These newly approved projects are in the initial phase of operations and do not yet have results.

There are presently 50 projects in various stages of implementation and the progress reports prepared by the respective task team leaders are available on the KCP website. Four of these projects (one in each window) are highlighted in Annex I.

Twenty-six projects were completed in FY2013. A number of high-quality papers, databases, data sets, as well as research tools were produced that covered a wide range of development topics. A few of them have already generated policy implications in the development field. It is anticipated that more potential effects will be achieved as the research results are further disseminated and digested by policy makers. And it is expected that the research results will influence the policy-making process for poverty reduction and sustainable development. Table A.4 provides a full list of the completed projects and the completion reports are available on the KCP website. Highlights of the completed projects are provided below by window. Table 1 (page 21) lists the FY2013 outputs by window, such as number of journal articles, working papers, etc.

Window I Poverty Dynamics and Public Service Delivery

Window I addresses issues at the heart of poverty reduction: empowerment and sustainable development as well as public service delivery for human development. In FY2013, seven projects were completed in this window and 11 projects are ongoing. The seven completed projects are in the areas of improving poverty measurement and service delivery.

Improving Tools for Monitoring, Describing, and Forecasting Income Poverty and Inequality

Two projects focused on developing tools for poverty measurement and analysis. The project Measuring Development Indicators for Pastoralist Populations (TF098893) utilized a Random Geographic Cluster Survey (RGCS) design to sample pastoralist populations in the Afar Region in eastern Ethiopia. The design used Geographic Information Systems information to select a series of points and then created clusters of a given radius around each point. Following a series of pilot tests, hand-held GPS devices were used to implement the survey between June and August 2012. Despite a number of limitations caused by extreme weather and political situations, the methodology provided more-precise estimates than the traditional method, which uses a census-based frame. An RGCS design can be implemented with relatively simple equipment and limited technical capacity; this method provides an important step forward in the application of an RGCS design to household or individual studies. The resulting paper contributes to the literature both specifically related to pastoralist populations as well as generally to other hard-to-reach groups for understanding their well-being.

The project Living Standards Measurement Study (LSMS): Improving the Quality and Comparability of Income Data through Research and Dissemination (TF098797) implemented a methodological household survey experiment on the measurement of non-farm self-employment income in Malawi. The project compared financial and labor-related data collected from household enterprises through a recall-based approach with respect to a diary-based method. The survey data and documentation have been fully processed and checked for consistency. The data set provides an important base for further research on ways to improve the measurement of household income. The survey was implemented by the Malawi National Statistical Office (NSO) in close collaboration with the World Bank team. It was the first time the NSO used a diary component in a survey of non-farm enterprises. The Bank team worked closely with the NSO in the sampling process and the design of fieldwork through in-person and remote meetings, provided field staff training, and developed field staff manuals.

Evaluating Public Service Delivery for Human Development

To improve service delivery, the KCP supports evaluation and analysis of delivery options. Among the five completed projects in this area, three measured the impacts of a nutrition program (TF010642: A 10-Year Follow-up of a Community-level Nutrition Program in Madagascar), a set of social protection interventions (TF098792: Tanzania Social Action Fund R3 Survey Support), and social capital at the level of local communities (TF010644: Implementing a Multi-Disciplinary Tool for Social Capital Measurement); one investigated HIV/AIDS counseling and testing (TF094626: The Effects of Home-Based HIV Counseling and Testing); and one studied the effects of decentralization of administration over health service workers and the private sector's role in health service provision (TF097381: Policy, Governance and the Private Sector in the Provision of Public Services: Evidence from Indonesia's Health Sector).

The project Policy, Governance and the Private Sector in the Provision of Public Services: Evidence

Box 1. KCP Project Strengthens Research-Operations Links in Madagascar

The analytical work of the project A 10-Year Follow-up of a Community level Nutrition Program in Madagascar (TF010642) pointed out the critical role of quality in service delivery (namely, the selection, training, and motivation of the frontline community workers) as well as in the intensity of the intervention for program impacts to accrue. The KCP-funded project was instrumental in interlinking research with the World Bank's operational work in Madagascar. Because of the long-term dialogue and involvement of the research team, the evaluation results, which were shared at the end of 2011, critically influenced the rating of the Implementation Completion Report of the long-term project. The results were disseminated in May 2012 in the country and in a week-long brainstorming session in the fall of 2012 with the research team and the technical counterparts. The analytical work was used as a base for feedback and the design of a new integrated health and nutrition emergency loan, which is critically important for a country with a high incidence of absolute poverty and a prolonged economic and political crisis.

from Indonesia's Health Sector" (TF097381) conducted research in a number of areas related to the delivery of health services, including: the effects of decentralization of administration over recruitment and retention of health service workers; the effects of a growing private sector for health services provision on access to care, quality of care received, and labor allocation decisions of health care providers; and the behavioral impacts on recipients of introducing an insurance program targeted to the poor. One of the components uses evidence from Indonesia to evaluate the impact of health insurance. Preliminary findings suggest that, after controlling for prior experience using health services, the program did not lead to significant increases in health service utilization among the poor. However, expenditures for those using the health insurance program decreased, suggesting that the program lowers the cost of health care for those with access to the health care system. The results from the health insurance study and the nutritional supplement study were presented to the National Task Force for Poverty Alleviation (TNP2K) in the Office of the Vice President of Indonesia. Supporting early childhood nutrition has become one of the main priorities of TNP2K.

Window 2 Investment Climate & Trade and Integration

Window II focuses on the major elements of a business climate conducive to growth, with emphasis on the role of small- and medium-scale industries. There were eight completed projects and 17 ongoing projects in FY2013 in the Investment Climate & Trade and Integration window. The eight completed projects covered a wide range of topics, such as stability and growth (TF099120: Fiscal Multipliers and the State of the Economy; TF010545: Macroeconomic Impacts of Aid and Public Spending; TF095146: FDI and Macroeconomic Stability), trade policies (TF010373: Least Developed Countries and the Externality Impact of WTO Dispute Settlement), governance and institutions (TF097855: Worldwide Governance Indicators), finance (TF097625: Bank Competition and Access to Finance), urban and rural development (TF094568: Labor Markets and Impacts of the Financial Crisis: Evidence from China and India), and firm dynamics (TF094566: Comparable Disaggregated Census Data across Developing Countries).

Exploring the Role of the Composition of Capital Flows on Macroeconomic Stability

There is a growing literature that considers whether financial integration is associated with more overall macroeconomic volatility. The study FDI and Macroeconomic Stability (TF095146) sheds light on the impact of different forms of financial integration on macroeconomic stability in developing as well as developed countries. A usual claim in policy debates is that financial integration through foreign direct investment (FDI) is beneficial for many reasons, one being that FDI capital flows are more stable and less susceptible to sudden stops. Results from the studies in this project suggest that the claim that capital flows are more conducive to less volatility or more consumption risk-sharing should be taken with some reservations, as the claim does not seem to be universally true. The analysis in this project could help the Bank in providing guidance on the costs and benefits of different forms of financial integration. Understanding the impact of different forms of financial integration on the degree of output volatility and consumption risk-sharing is important for developing countries that are contemplating increasing their degree of financial integration.

Examining the Role of the Informal Sector and Migration in Poverty Reduction

As it became evident that China and India adjusted quickly to the global financial crisis, the project Labor Markets and Impacts of the Financial Crisis: Evidence from China and India (TF094568) examined the functioning of labor markets more broadly. Significant work was completed on the effects of rural-to-urban migration in China, characteristics of the informal sector and vulnerability in both China and India, returns in specific labor markets, and firm and worker adjustment to new labor regulations. The project found that migration is important for poverty reduction and the ability to migrate reduces the incidence of poverty. However, migration is not associated with higher levels of investment in home communities and, further, the ability to migrate for gainful employment may even create a disincentive to remain in school (as the opportunity costs of paying for expensive high school education may not outweigh the immediate returns to migrant employment). The project also found that, in response to a higher probability of village-wide land reallocation, farmers reduce their probability of migrating by 4.3 percent, which accounts for 28 percent of the annual migration rate during this period. This finding attests to the importance of secure property rights in facilitating labor market integration and urbanization.

Box 2. World Governance Indicators Generate Wide-Reaching Impacts among Policy Makers, Development Partners, Academia, and the Private Sector

The World Governance Indicators (WGI) project (TF097855) financed research assistance and data acquisition for three annual updates of WGI. WGI has become one of the best-known and most widely-used cross-country data sets on governance. WGI synthesizes perceptions of governance quality from 30 data sources into six broad measures of governance and covers more than 200 countries since 1996. WGI are used by policy makers and civil society groups as a tool for research, analysis, and advocacy regarding governance issues. They are consulted by other aid donors; for example, they are used by the U.S. Millennium Challenge Corporation in determining eligibility for their assistance programs. WGI are also frequently used by researchers, with more than 10,000 citations of WGI-related papers recorded in Google Scholar. The WGI website, www.govindicators.org, has accumulated 1.5 million visits since its launch in 2006 and the ten WGI-related World Bank working papers have been downloaded more than 100,000 times from the Social Science Research Network's working paper archives. WGI are also increasingly used by the private sector. Several of the large commercial risk-rating agencies refer to WGI data in the justifications for their sovereign risk ratings. Another recent example is the use of WGI by the Disney Corporation in the spring of 2013 to identify a set of countries where Disney would no longer permit contract manufacturing, given the concerns about low governance quality impeding the enforcement of workplace safety standards in these countries.

Investigating How Competition in the Banking Sector Affects Access to Financial Services

In examining multi-year firm-level surveys with country-level panel data on bank competition for 53 countries, the project Bank Competition and Access to Finance (TF097625) found that greater bank competition, as measured by lower levels of the Lerner index, increases firms' access to finance, while commonly used concentration measures are not reliable or robust predictors of financial access. In addition, the findings show that the effect of competition on access to finance depends on the environment in which banks operate and some features of the environment. For example, higher levels of financial development and better credit information can mitigate the damaging effects of low bank competition, while other characteristics, such as high government bank ownership, can exacerbate the negative effects. Overall, the results show that competition is beneficial for access. This has implications for countries that have excessive restrictions on bank entry.

Window 3 Global Public Goods

Window III focuses on global issues, such as climate change, that require collective action and coordination across countries. In FY2013, five projects were completed in this window and there are 11 ongoing projects. The completed projects covered climate change (TF098661: Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions; TF094963: Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries), governance and institutions to provide global public goods (TF010600: International Cooperation and Conflict over Water), and data and tools for development research (TF010291: Data Resource Center for Structural Economic Analysis; TF097836: Survey Data Repository and Management Toolkit).

Measuring Climate Change and the Impacts of Policy Responses

Two projects study different measures and options to reduce greenhouse gas (GHG) emissions. The project Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions (TF098661) analyzes energy efficiency measures that help reduce GHG emissions. The project differentiates and explains basic technology-related costs and transactions and adjustment costs. The project Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries (TF094963) explores the tradeoffs between economic growth and the risks from climate change and thereby helps elucidate long-term strategies that address climate change and sustainable development. One of the interesting findings of the project shows that by 2040, the business-as-usual CO_2 emissions from energy use and industrial processes in Brazil would be almost three times as high as those in 2010 and would account for more than half the total national CO_2 emissions. However, if the current policy aiming to reduce deforestation by 70 percent is fully implemented, there would be no need to cut CO_2 emissions from energy use and industrial processes until 2035, as emissions reduction through controlling deforestation would be enough to meet Brazil's voluntary carbon mitigation target. This would provide valuable time for Brazil to adjust its energy system for lower than business-as-usual emissions.

Facilitating Data Access and Data Sharing among Researchers and across Institutions

The project Data Resource Center for Structural Economic Analysis (TF010291) documented more than 60 comprehensive international databases on the structure of the global economy and standardized metadata for each, covering both technical characteristics of the data and detailed access information. Areas represented in the collection include output and value added by industrial sector, labor force data, social and demographic data, productivity data, and measures of economic endowments. About three-quarters of the data sets are maintained by international organizations, most with global coverage and a few specific to geographical regions. This project has served as a catalyst for expanding the scope of the World Bank's Open Data Initiative to include external data resources and to initiate a program within the Data Group to improve data for the analysis of structural change.

To take advantage of the World Bank's substantial investments in survey micro-data collection and its global public goods nature, another project, Survey Data Repository and Management Toolkit (TF097836), developed a specialized micro-data library for impact evaluation and research data sets. Several micro-data catalogs have been developed, including impact evaluation surveys supported by the Development Impact Evaluation Initiative (DIME) and the Strategic Impact Evaluation Fund (SIEF) initiative, as well as Investment Climate Surveys. Several hundred surveys have been documented in compliance with international standards. These data sets are accessible to the research community at http://microdata.worldbank.org.

Window 4 Economic Development and Structural Change

The fourth window analyzes the policies and factors that are necessary to make it possible for a developing country to upgrade its industrial structure continuously and develop rapidly. Six projects were completed and 11 projects are ongoing in this window. The completed projects discussed patterns and processes of industrialization (TF010795: Structural Transformation, Macroeconomic Behaviors and Industrial Policies), factors related to technological upgrading and productivity (TF099128: Upgrading the Networking and Technological Capacity of Suppliers in South Africa; TF099203: Testing the Robustness of the Energy Intensity Kuznets Curve), evaluations of programs that promote structural transformation and technological upgrading (TF097645: Stimulating Industrial Upgrading in Sub-Saharan Africa), as well as the consequences and impacts of structural transformation (TF010228: WDR 2013: *Jobs*; TF099604: Commodity Prices, Household Adjustments, and Structural Transformation).

The project Testing the Robustness of the Energy Intensity Kuznets Curve (TF099203) uncovered and explained differences in national growth and energy use trajectories and explored whether reductions in energy intensity—whether market or policy driven—are growth-enhancing. The project undertook a microeconomic analysis of the impacts of the European Emissions Trading System (ETS) on the material costs, employment, and revenue of 5,873 firms in three industries in ten countries. The analysis shows no impact in the cement, iron, and steel industry and an increase in material costs and revenue in the power sector, most likely because of fuel switching (which is an alternative compliance strategy in addition to energy efficiency). These findings do not substantiate concerns over job loss and industry competitiveness because of the ETS, at least during the study period. The macroeconomic analysis did not confirm that there is an inverse U-shaped pattern of energy intensity over time. These are issues of relevance to the Bank's participation in policy dialogue on energy and climate change. The initial results of the research have been incorporated in two chapters of the regional report "Growing Green: The Benefits of Climate Action."

Box 3. KCP Project Builds Local Capacities on the Ground in South Africa

The project Upgrading the Networking and Technological Capacity of Suppliers in South Africa (TF099128) evaluated the effectiveness of industrial policy tools in alleviating informational, coordination, and credit constraints to promote the development of small firms. The project team worked closely with a local partner—South African Department of Trade and Industry (DTI)—and the Durban Chamber of Commerce and Industry during the design and implementation of the project. A field coordinator was placed in-country for all impact evaluations conducted for the duration of the studies. The coordinator was responsible for overseeing the implementation of impact evaluation and for sharing knowledge and training counterparts in impact evaluation design and the use of evidence-based policy. In particular, multiple workshops were held for DTI to participate in the technical aspects of the impact evaluations. This was supported by a structured "learning-by-doing" approach in the impact evaluation, keeping partners fully engaged throughout the process. This coordination was further enhanced through global workshops in 2011 and 2012, where DTI counterparts were invited to present and work on their impact evaluations together with other project teams from multiple countries; the teams were provided with hands-on training and guidance through research clinic sessions with impact evaluation experts. More details on the project can be found in Annex 2 – Projects in Profile.

Table 1. KCP II: Key Indicators in FY2013

	Journal Articles	Working Papers	Book Chapters	Data Sets	Research Tools	Surveys
Window I	5	5	1	22	—	14
Window II	12	19	12	14	5	8
Window III	1	22	12	110	9	2
Window IV	1	65	17	17	3	7
Total	19	111	42	163	17	31
Conferences/events organized			Developing country partners substantively engaged			
45			Researchers	134	Institutions	88

Box 4. Putting Knowledge to Work through the KCP Perspectives

In 2012, the KCP launched the *KCP Perspectives: Putting Knowledge to Work*, a newsletter that highlights two completed KCP projects that have had a positive impact on development policies. For most research findings, it may take years after the research is completed to reveal the impact on development policies. Dissemination is an important element of KCP-funded research; hence, it is taken seriously by the task team leaders. Outputs, best practices, and lessons learned from completed projects are disseminated extensively and published in various formats, such as journals, books, databases, and web-based publications.

Volume 1 (three issues) and Volume 2 (two issues) can be found on the KCP website at http://go.worldbank.org/3V2AT6DND0.


KCP
PERSPECTIVES
Putting Knowledge to Work

KNOWLEDGE for CHANGE
APRIL 2013 • VOL. 2 • ISSUE 2

When do Participatory Development Projects Work?

Involving local communities in decisions that affect their lives is central to making development more effective, and it has the potential to transform the role that poor people play in development by giving them voice and agency. Promoting participation through community development projects and local decentralization has become a central tenet of development policy. Over the past decade, the World Bank itself invested almost $85 billion on local participatory development related projects, with other donors adding billions more. But can participation be induced through the type of large-scale government and donor-funded participatory programs? A recently published Policy Research Report— *Localizing Development: Does Participation Work?*—looks closely at this question.

In this issue
1 When do Participatory Development Projects Work?
2 Message from the Editor
3 How Much Do Management Practices Matter?

The report develops a conceptual framework that is centered on the concept of a potential 'civil society failure'. While market and government failures are now reasonably well understood, the possibility of civil society failure—a situation in which groups that live in geographic proximity are unable to act collectively to reach a feasible and preferable outcome—is rarely given much thought. However, civil society failure, the report argues, is likely to occur for much the same reasons as those which give rise to market and government failures: i.e., problems of coordination, asymmetric information, and pervasive inequality. Local development policy therefore, is usually made in a context where there are simultaneous market, government, and civil society failures rather than in situations where civil society can be costlessly harnessed to solve market and government failures.

This partially KCP funded project[1] reviews almost 500 studies on participatory development projects, and looks at the evidence on the impact of such efforts. There are some common features among community-based programs that have done

Localizing Development

1


KCP
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KNOWLEDGE for CHANGE
NOVEMBER 2012 • VOL. 2 • ISSUE 1

Can New Methods Help in Tracking Poverty When Data Are Problematic?

How has poverty evolved?

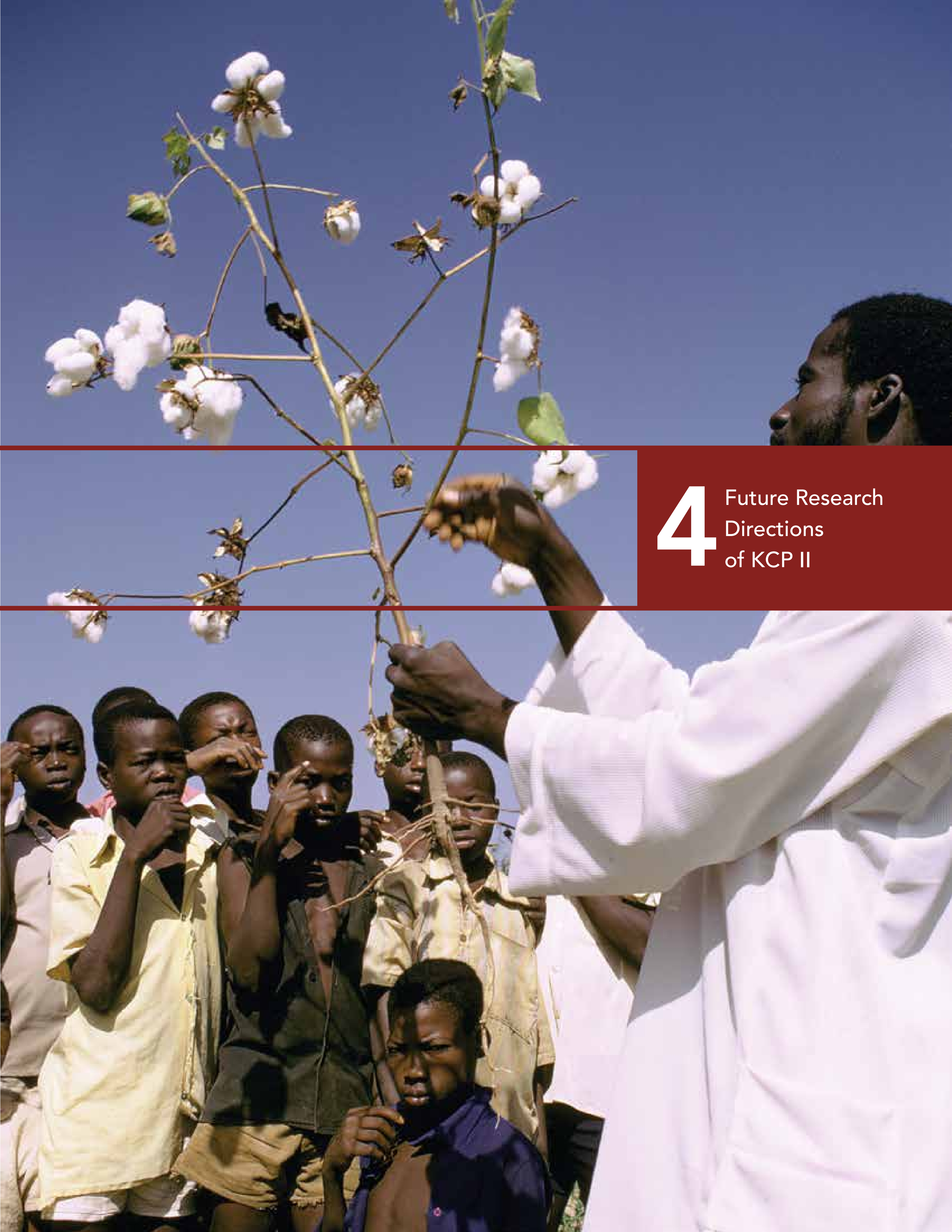
Is poverty increasing and, if so, by how much? Are the changes significant and unambiguous? Answers to these questions depend crucially on whether we can accurately track the progress of poverty reduction over time. This is a complicated business, however, because all too often data are missing, incomplete, or non-comparable. If data limitations prevent us from obtaining precise measures, are there imputation methods that can help us to fill the data gaps?

In this issue
1 Can New Methods Help in Tracking Poverty When Data Are Problematic?
2 Message from the Editor
3 World Bank's Enterprise Surveys Open Window onto Firm Performance and the Investment Climate in over 135 Economies

A KCP-funded project entitled **Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty** examined different methods of imputing data and advanced practical experience in dealing with imputed data aimed at filling data gaps and producing timely poverty estimates. The tools developed under this research project assist with the tracking of poverty over time—one of the "bread and butter" activities of Bank poverty economists—and are already in high demand. The basic idea is to allow the modeler to impute household consumption data from the occasional consumption survey into more regularly fielded non-consumption surveys.

A good example of the kind of challenges faced when tracking poverty over time is found in this project's research for Malawi. There had been a controversy—stemming from inconsistencies between different data sources on prices—about whether poverty was falling. Using different price indices not only resulted in different assessments of progress, but also the direction of change was overturned.

In light of the strikingly different assessments of progress in poverty reduction arising from the different approaches, the World Bank and the National Statistical Office of Malawi launched a careful assessment and evaluation of the data and methods that underpin Malawi's Consumer Price Index. In the meantime, survey-to-survey imputation techniques developed under this project were applied in order to gain a sense of how Malawi's poverty evolved during the 2000s, absent agreement as to the precise evolution of the general price level. The methodology builds on the insight that when the econometric model underpinning the imputations does not include



4 Future Research Directions of KCP II

4 Future Research Directions of KCP II

Research plays a crucial role in helping us learn from past policies and thinking about the future. Without independent research, conceptual and empirical foundations for policy making would be weak, "best practices" would be emulated without sufficient evidence, and new fads would get more attention and traction than they deserve.

To have an impact on development policy, research must address relevant questions and answer them in a rigorous and persuasive manner. The Development Research Group, the World Bank's research department, undertakes and stimulates such catalytic research, aiming to generate new knowledge to inform development and policy making. Although research activities are found throughout the Bank, the research department is the only group with an explicit mandate to conduct research.

By generating policy-relevant, high-quality research, we seek to shape development thinking. Our audiences include Bank senior management and operational colleagues, other researchers, national policy makers, the broader development community, and the general public. We seek to reach this wide audience through our academic publications, books, and conferences as well as traditional and social media. With about 1 percent of the administrative budget of the Bank, our researchers produce a large volume of high-quality and influential academic work, with greater focus on development issues and developing countries than other institutions.

We work closely with our operational colleagues. Every researcher spends 30 percent of his or her time per year in the form of "cross support" to operational units of the Bank. That means they disseminate research findings firsthand and gain insight into the challenges facing development in client countries, hence informing and shaping the department's research agenda. This direct exchange and knowledge creation, along with the more formal publication and dissemination channels, allows researchers to reach broad audiences inside and outside the Bank.

The discipline of policy analysis is increasingly sophisticated. In addition to research, new data and tools are required to address emerging challenges. The research and data work in the Bank has a long tradition of openness, with much of the research conducted jointly with outside academics and developing-country partners. Findings are debated publicly in various external forums and Bank-generated data sets are widely used and scrutinized in the broader development community. This openness is integral to ensuring quality and

rigor in research and data outputs and underlies the Bank's broader emphasis on an "Open Data and Open Knowledge" policy.

In addition, as analytical and computational tools used in development policy analysis become more sophisticated, Bank researchers have been at the forefront of capacity-building, facilitating high-quality, policy-oriented analytical work by researchers in developing countries.

The work developed by the research department spans multiple sectors. We aim to maintain core expertise in all sectors in which the Bank is involved and strive to address the most important research issues within each sector. We also tackle research themes that cut across sectors. One of the challenges of research is to anticipate topics sufficiently early, creating space for researchers to explore areas before demand for them is evident. Research management pays close attention to how the whole program fits together and exploits knowledge overlaps and synergies across sectors. Given limited resources, prioritization and selectivity are keys to ensuring that the research agenda is focused on strategic policy priorities for the Bank and its clients.

The department sets its research agenda to reflect the needs and priorities of Bank operations and the development community at large. Our research managers are members of sector boards and network councils and the research director is part of the council of regional and network chief economists. Discussions take place continuously in these forums, as well as at periodic meetings with regional and network management teams to discuss research priorities. Identifying the agenda at the team level is also a bottom-up exercise. Research management and staff work together and topics often grow out of our work and consultations with operational colleagues, as well as interactions with policy makers and researchers outside the Bank. Finally, strategic research priorities are defined collectively by the director and research managers, under the overall guidance of the Senior Vice President and Chief Economist.

Organization

The research department has seven research teams that cover fundamental policy areas and development outcomes: agriculture and rural development, environment and energy, finance and private

sector development, human development and public services, trade and international integration, macroeconomics and growth, and poverty and inequality. Our research agenda spans the gamut of development policy; it focuses on understanding diverse development outcomes across the world and how outcomes respond to policy and institutional changes under different country circumstances. This knowledge will help inform the design of policies and reform of strategies conducive to sustained high growth, shared prosperity, and reduced poverty.

In addition, two other teams at the research department are dedicated to data and computational tools and impact evaluation. They interact with the research teams and provide important links to the rest of the Bank and the development community. Through its computational tools team, the research department plays a valuable role in expanding and improving the tool kits routinely employed by policy makers and analysts, including the data collected and methods used to analyze those data. Through its impact evaluation team, the Bank learns from its evaluative research, rigorously assessing whether development policies are effective, addressing design challenges when they are not, and disseminating knowledge on success and failure. Our researchers have the training and skills to inform the Bank's practitioners and the development community as they search for operational solutions to pressing development problems. These two teams facilitate this interaction.

Five Research Priorities

The research department has an integrated research agenda that covers multiple sectors and reflects—and helps shape—the strategic priorities of the Bank. The agenda allows us to make the most of our talent and resources and avoid silos that could lead to overlap, duplication, and inefficiency. It enables us to think of development challenges in a truly integrated fashion, exploiting synergies and resulting in an economy-wide perspective. It also reveals strategic skill gaps and the staffing needs required to deliver our research agenda. These priority themes are flexible and are expected to change over time to reflect new areas of strategic focus for the organization and its clients.

Table 2 provides a visual illustration of our research teams and how they come together to focus on the

five priority themes that will be stressed over the next three years. These priority areas are (a) Science of Delivery; (b) Risk Management and Vulnerability; (c) Productivity, Competitiveness, and Job Creation; (d) Shared Prosperity and Inclusion; and (e) International Cooperation and Global Public Goods. Permeating all of the department's work is an emphasis on novel data collection, rigorous empirical work, and innovative solutions. Much of the work also involves "wholesaling," which enables others outside the Bank (especially researchers in developing countries) to do the work themselves.

Science of Delivery research focuses on how to deliver "development" across multiple sectors. The department's work covers the public sector (e.g., courts, customs, and land registers), the private sector (e.g., financial services), and mixed sectors (e.g., education and health). It covers labor-intensive human development sectors as well as capital-intensive infrastructure sectors. The department's research in this area spans all aspects of the field: (a) measuring outcomes and aspects of the delivery process; (b) explaining why variations in delivery exist; (c) assessing the impacts of government reforms; and (d) designing and piloting innovative schemes to improve delivery.

Risk Management and Vulnerability research recognizes that risk management can be a powerful tool for development. In recent years, the occurrence of significant economic crises and natural disasters has underscored countries' vulnerability to systemic risks and the need to manage them. At the household or individual level, idiosyncratic risks, such as losing a job, falling ill, or being the victim of a crime, can have serious adverse effects and also need to be managed. Household and individual risks could also become systemic in certain circumstances, such as in the case of health epidemics. The department's research at the aggregate or macro level focuses on understanding the mechanisms that shape vulnerabilities (exposure to shocks and their propagation) and on identifying appropriate risk-management policies. At the micro level, individuals and firms confront many shocks and the department has an extensive research agenda on specific kinds of risks and policies (such as social protection programs) and financial products to address them. We distinguish between different sources of risks and potential policy responses.

Productivity, Competitiveness, and Job Creation research focuses on understanding the dynamics of economic growth and job creation and does this through four interrelated approaches. (a) Determinants and diagnosis analysis is devoted to better measuring and understanding elements of productivity and job dynamics, examining their correlates with internal and external factors within and across countries, and identifying potential areas where policy efforts could be used. (b) General facilitation and (c) Active catalyst research examines the two main avenues through which government policy actions influence private sector development and the productivity and growth prospects of a country through establishing an enabling environment and more direct interventions, respectively. (d) Work on the political economy of productivity policy seeks to understand the conditions under which successful reform policies are undertaken.

Shared Prosperity and Inclusion research continues the Bank's leading role in measuring and monitoring poverty and addresses new areas of shared prosperity and environmental sustainability. The goal is to provide the international research community, civil society, and policy makers with a better informational basis to guide poverty reduction efforts. A three-pronged approach is being pursued: (a) define and refine methods for measuring and tracking well-being and its distribution (including poverty and inequality) over time and space; (b) promote, generate, and disseminate improved data and methodological guidelines to foster the effective use of information and countries' capacity to monitor poverty and inequality; and (c) continue research on longstanding and fundamental questions concerning the drivers and consequences of poverty and the impact of policies in combatting poverty and inequality.

International Cooperation and Global Public Goods research addresses the political economy, policy design, and evaluation challenges that arise in international cooperation. Spillover benefits across boundaries are varied and widespread. The department's research analyzes a wide range of attempts at international cooperation. These include the following: (a) regional and multilateral trade; (b) climate change and environmental security; and (c) international coordination of macroeconomic and financial policies.

** Development Research Group is the World Bank's research department, which conducts research on development economics and disseminates results inside and outside the Bank. The department's management team includes the research director, Asli Demirguc-Kunt, and nine managers, Aaditya Mattoo, Adam Wagstaff, Arianna Legovini, Luis Serven, Michael Lokshin, Mike Toman, Peter Lanjouw, Sole Martinez Peria, and Will Martin. For more information, see: http://econ.worldbank.org/research.*

Table 2. Research Program FY2014–FY2016

DECRG Team	Agriculture and Rural Development	Environment and Energy	Finance and Private Sector Development	Human Development and Public Services	Trade and International Integration	Poverty and Inequality	Macroeconomics and Growth
Strategic Priority/Themes			**Cross Cutting: Computational Tools; Impact Evaluation**				
Science of Delivery	Rural infrastructure; land policy; community-based development	Delivery of infrastructure services (energy, water, transport)	Delivery of financial services (competition, financial structure, etc.), microfinance; "active" interventions to support sectors, special zones, innovation	Schools, health providers, political economy	Impact evaluation of customs services; services trade restrictiveness; exporter dynamics database; migration of heath care professionals	CDD; governance	Governance, political economy and growth; aid effectiveness; social norms
Risk Management & Vulnerability	Agricultural volatility; food security	Environmental and climatic risks	Financial volatility (regulation and supervision, micro equity, micro insurance); policy uncertainty and uneven enforcement; microenterprises	Social protection; health insurance	Labor market adjustment to trade shocks; temporary trade barriers and non-tariff measures; exporter firm dynamics and survival; global skilled migration dynamics	Social protection	Aggregate risk management; capital flows and propagation of turbulence; countercyclical / macroprudential policies

Continued on next page.

Table 2. Research Program FY2014–FY2016 *(continued)*

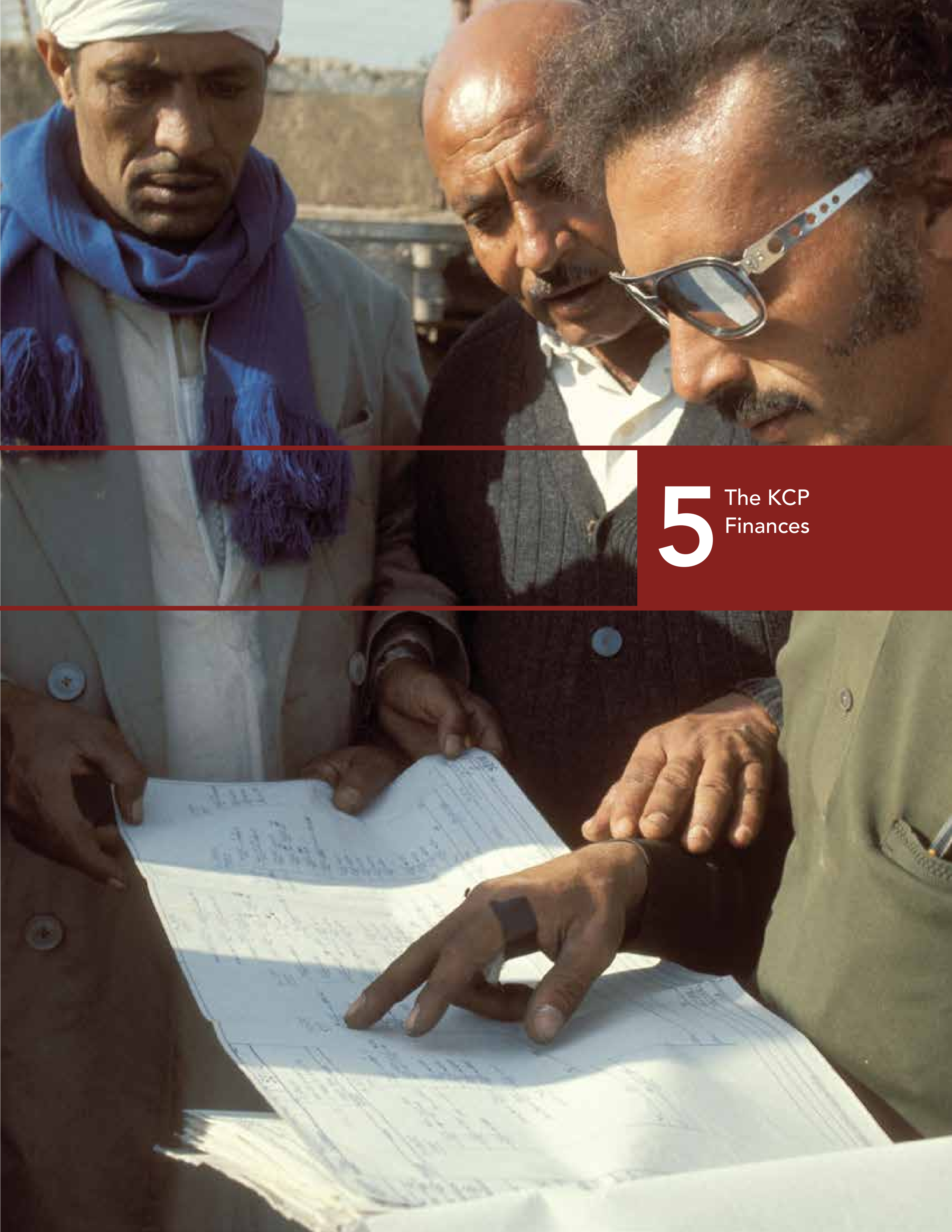
DECRG Team	Agriculture and Rural Development	Environment and Energy	Finance and Private Sector Development	Human Development and Public Services	Trade and International Integration	Poverty and Inequality	Macroeconomics and Growth
Productivity, Competitiveness and Job Creation	Agricultural productivity; rural infrastructure; land policy; labor market dynamics; informality	Energy costs and low-carbon/ green growth; natural capital valuation	Business training, innovation, informality, access to credit; business and labor regulations, inter-firm linkages, firm dynamics	Internal migration; labor supply; informal labor markets	Exporter dynamics, superstars and productivity; sector mobility, informality and trade adjustment; global fragmentation of production; barriers to trade in goods and services; exchange rate policies and competitiveness; labor market effects of migration in OECD	Rural transformation; rural/urban	Micro and macro drivers of aggregate productivity; innovation; competitiveness and growth
Shared Prosperity & Inclusion	Agricultural labor; small-scale farming; land and gender	Poverty-environment nexus	Financial inclusion; job creation, informality, SMEs, entrepreneurship, women's economic empowerment	Access to health & education; social protection	Labor market frictions, trade shocks, and distribution; garment sector FDI, productivity, and poverty; commodity price shocks, port distance and local income in Brazil	Poverty & inequality; data measurement; targets	Growth incidence; measuring welfare; income mobility and risk

Continued on next page.

Table 2. Research Program FY2014–FY2016 *(continued)*

DECRG Team	Agriculture and Rural Development	Environment and Energy	Finance and Private Sector Development	Human Development and Public Services	Trade and International Integration	Poverty and Inequality	Macroeconomics and Growth
International Cooperation and Global Public Goods	Agricultural subsidies; protection; export restrictions; agricultural R&D	Climate change; transboundary spillovers	Regulation; cross-border activity	Global aid architecture; global pandemics	Multilateral cooperation beyond Doha; WTO dispute settlement; international air services agreements; border reforms and customs management; regional labor mobility agreements	Global poverty monitoring; MDGs	Global imbalances; currency wars; international financial architecture

5 The KCP Finances



5 The KCP Finances

Donor Contributions and Pledges

The KCP II, which has been operational since December 2008, has received more than USD 22 million in cash contributions from eleven donors, namely, the United Kingdom, Finland, Sweden, Australia, Korea, Canada, Japan, Denmark, Switzerland, China, and Singapore (see Table A.1, page 36; Annex 3, Figure A.2, page 52).

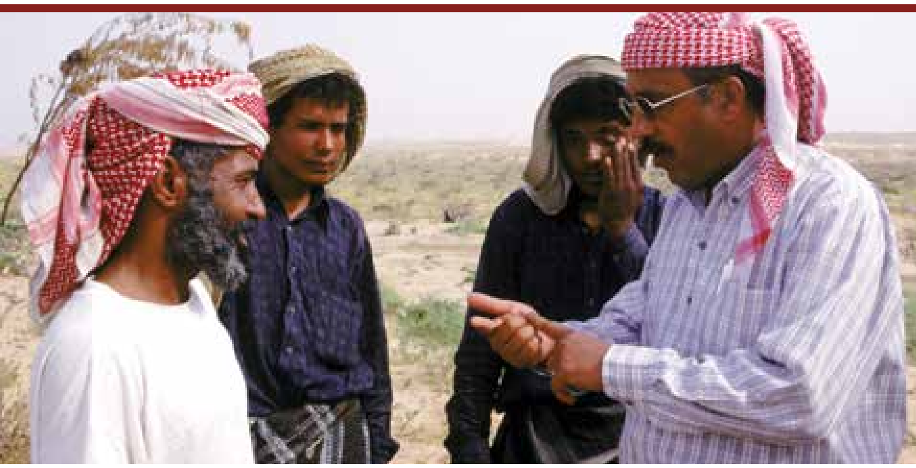
The **United Kingdom** (UK), as a founding donor together with Finland, has contributed USD 6.3 million across all four program windows. The UK's Department for International Development and Sweden are the two donors that allow the Bank discretion in deciding the allocation of its contributions among the four windows based on demand.

Finland, the KCP II's first signing donor, has paid in almost USD 5 million in support of the four windows, with an outstanding tranche of EUR 750,000 due in November 2013. Finland has indicated that it will renew its pledge for another three years at EUR 750,000 annually.

Sweden made an initial pledge of SEK 8.5 million to the Poverty Dynamics and Public Service Delivery Trust Fund, with a preference that it be used to support WDR 2011: *Conflict, Security and Development*. Sweden made subsequent contributions of SEK 6 million to the four windows and USD 150,000 to the Poverty Dynamics and Public Service Delivery Trust Fund to be used to finance WDR 2012: *Gender Equality and Development*.

Australia contributed USD 2 million initially, with 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. In May 2013, Australia re-pledged AUD 1.5 million, with 60 percent to the Poverty Dynamics and Public Service Delivery Trust Fund, 20 percent to the Investment Climate & Trade and Integration Trust Fund, and 20 percent to the Global Public Goods Trust Fund.

Korea initially contributed KRW 1,150 million and re-pledged KRW 1,070 million in December 2012 to the Economic Development and Structural Change Trust Fund.



Canada's initial pledge of CAD 1.2 million was allocated as follows: CAD 400,000 to the Poverty Dynamics and Public Service Delivery Trust Fund (of which CAD 200,000 was for WDR 2011: *Conflict, Security and Development*); CAD 300,000 to the Investment Climate & Trade and Integration Trust Fund; CAD 200,000 to the Global Public Goods Trust Fund; and CAD 300,000 to the Economic Development and Structural Change Trust Fund. The Canadian International Development Agency (CIDA) continues to support the WDR series with subsequent contributions of CAD 200,000 to the Poverty Dynamics and Public Service Delivery Trust Fund for WDR 2012: *Gender, Equality and Development*, CAD 200,000 to the Economic Development and Structural Change Trust Fund for WDR 2013: *Jobs*, and CAD 200,000 to the Investment Climate & Trade and Integration Trust Fund for WDR 2014: *Risk and Opportunity: Managing Risk for Development.*

Japan contributed USD 1.5 million in February 2013 to the Economic Development and Structural Change Trust Fund for the study "Job Creation, Structural Change and Economic Development in MENA: Lessons from East Asia."

Denmark pledged DKK 5 million to the Economic Development and Structural Change Trust Fund, with a preference that it be used in support of research and data collection that focuses on or is of direct relevance to job creation and promoting economic growth in Africa.

Switzerland contributed CHF 500,000, allocated as follows: CHF 60,000 to the Poverty Dynamics and Public Service Delivery Trust Fund, CHF 60,000 to the Investment Climate & Trade and Integration Trust Fund, CHF 60,000 to the Global Public Goods Trust Fund, and CHF 320,000 to the Economic Development and Structural Change Trust Fund.

China pledged USD 500,000 to the Economic Development and Structural Change Trust Fund.

Singapore contributed USD 300,000 to the Economic Development and Structural Change Trust Fund.

Negotiations are ongoing with current and prospective partners.

Table A.1. KCP II – Parent Fund Accounts As of June 30, 2013 (USD)

	TF071173 Poverty Dynamics & Public Service Delivery	TF071177 Investment Climate & Trade and Integration	TF071178 Global Public Goods	TF071393 Economic Development & Structural Change	UNAUDITED TOTAL
Contributions Received					
United Kingdom	2,079,992	1,636,728	1,684,441	920,740	6,321,900
Finland	1,503,813	1,503,813	1,503,813	483,188	4,994,625
Sweden	1,472,393	28,099	696,118	21,074	2,217,684
Australia	800,000	800,000	400,000		2,000,000
Korea				1,968,064	1,968,064
Canada	591,964	486,942	193,517	492,536	1,764,960
Japan				1,000,000	1,000,000
Denmark				924,351	924,351
Switzerland	62,028	62,029	62,028	330,818	516,903
China				500,000	500,000
Singapore				300,000	300,000
Total Contributions Received	**6,510,189**	**4,517,609**	**4,539,917**	**6,940,771**	**22,508,487**
Administrative fee (1%)	(65,102)	(45,176)	(45,399)	(69,408)	(225,085)
Net Contributions Received	**6,445,087**	**4,472,433**	**4,494,518**	**6,871,363**	**22,283,402**
Outstanding Pledges (Signed)					
Australia	831,105	277,035	277,035		1,385,175
Japan				500,000	500,000
Finland	245,016	245,016	245,016	245,016	980,063
Total Outstanding Pledges	**1,076,121**	**522,051**	**522,051**	**745,016**	**2,865,238**
Administrative fee (1%)	(10,761)	(5,221)	(5,221)	(7,450)	(28,652)
Net Outstanding Pledges	**1,065,359**	**516,830**	**516,830**	**737,565**	**2,836,585**
Investment income	66,969	56,082	46,941	43,043	213,035
Less					
Project Allocations	(6,862,971)	(4,663,040)	(4,651,212)	(6,215,005)	(22,392,228)
Program Management and Administration	(106,159)	(111,918)	(131,353)	(149,051)	(498,480)
Technical Reviewers' Fees	(58,642)	(60,342)	(55,642)	(68,067)	(242,693)
ESTIMATED FUNDS AVAILABLE	**549,644**	**210,046**	**220,083**	**1,219,849**	**2,199,621**

ANNEX 1 KCP II Ongoing Research: Project Highlights

Window I: Poverty Dynamics and Public Service Delivery
TF010746: Quality of Care in Health Markets: Supply- and Demand-Side Perspectives
Task Team Leader: Jishnu Das
KCP II Funding: USD 335,000
Region/Country: World
Timeline: 07/15/2011 to 07/15/2014

Objective

The project conducts a set of studies to measure the quality of clinical interactions in primary health care settings in diverse contexts and to assess the extent to which quality is determined by explicit contractual incentives and health market attributes, such as the degree of competition, the demand for quality, and the social identities of patients. In addition, the project provides systematic support to the Africa region's scale-up on measures of quality in several Sub-Saharan African countries. The objectives of the project are to (a) expand quality of care work to additional settings; (b) test innovative methods to measure quality, discrimination against patients from marginalized groups, and demand for quality; and (c) build capacity within the Bank and within client countries to conduct similar studies in the future.

Progress and Early Findings

In the past fiscal year, the study has progressed satisfactorily on several fronts. In Tanzania, it has fully completed implementation and currently is in the analysis stage. The analysis shows that the peer monitoring method has effects that persist for a long duration. Peer monitoring has led to a systematic increase in quality of care, even a long time after the intervention itself had stopped. This will have direct policy implications that will be discussed in a working paper this fiscal year. In India, on the structure of health markets, the project published and disseminated a key paper showing how standardized patients can be used in field settings in a large study. The paper was published in the journal *Health Affairs* in 2012 and was widely covered in India. It received broad attention from doctors, various health policy bodies, and the media and is being cited as the "first systematic evidence on the quality of care in India." A second paper on public-private differences in the quality of care is in the final stages of preparation. The early findings have been presented in several academic and policy forums and have been well received. Works on Lebanon and China's Service Delivery Indicators are also progressing.

Over the past year, there has been an organic emergence of several groups in various organizations that have begun to use the methodologies developed in the project to work on the quality of care. Among the examples are groups at Brown University, in China, and in the Bank's Africa Region.

Window II: Investment Climate & Trade and Integration

TF010688: Understanding Capital Flows to Developing Countries

Task Team Leader: Sergio Schmukler

KCP II Funding: USD 90,000

Region/Country: World

Timeline: 07/15/2011 to 07/30/2014

Objective

The project aims to understand the nature of capital flows (mainly portfolio bond and equity flows) to all developing countries, based on a novel micro-level data set on portfolio flows by institutional investors. A key question for policy makers is how to deal with large and volatile capital flows. The goal of this study is to shed light on how financial institutions behave during good times and before, during, and after crises and shocks. The study will also provide a macro and descriptive analysis on how countries have been dealing with capital flows.

Progress and Early Findings

During the past year, substantial progress has been made in achieving the grant objectives. The team has finished an academic paper that has been issued as a working paper in two series and accepted at a top field journal (*Journal of Monetary Economics* 60 (1): 113–133). Outputs were also produced for two Bank reports.

The paper analyzes the behavior of international capital flows by foreign and domestic agents, dubbed gross capital flows, over the business cycle and during financial crises. It shows that gross capital flows are large and volatile, especially relative to net capital flows. When foreigners invest in a country, domestic agents invest abroad and vice versa. Gross capital flows are also pro-cyclical. During expansions, foreigners invest more domestically and domestic agents invest more abroad. During crises, total gross flows collapse and there is a retrenchment in both inflows by foreigners and outflows by domestic agents. These patterns hold for different types of capital flows and crises. This evidence sheds light on the sources of fluctuations driving capital flows and helps discriminate among existing theories. The new stylized facts have important policy implications. In particular, policy makers have traditionally focused on net capital flows or their counterpart, the current account, to understand why crises occur and, more generally, how countries are integrating in international capital markets. The results from this study show that the reduction in net capital inflows during crises is in fact substantially smaller than the reduction in gross capital flows. Thus, during crises countries face a reduction in their ability not only to finance domestic investments with foreign savings, but also to share domestic idiosyncratic risks with foreigners. Therefore, the policy discussion would benefit from a shift in focus from net capital flows toward gross capital flows.

Window III: Global Public Goods

TF010218: Mobilizing Spatial Economics and Information for Tiger Habitat Conservation

Task Team Leader: Susmita Dasgupta

KCP II Funding: USD 300,000

Region/Country: Asian tropical forest countries

Timeline: 07/15/2011 to 12/31/2013

Objective

As the wild tiger population plummets, the global community is mobilizing through the Save the Tiger program to conserve the tiger's remaining habitat. Using a new source of near-real-time forest monitoring information, the research carried out through this grant seeks to support implementation of cost-effective strategies by testing the effectiveness of alternative approaches to habitat conservation in Asian tropical forest countries, in order to guide the allocation of program resources.

Progress and Early Findings

The project has been implemented satisfactorily. By the end of last fiscal year, a spatially-formatted ten-country panel database that integrates high-resolution monthly forest-clearing information and potential determinants of forest clearing had been constructed. Spatial econometric analysis has been carried out and principal habitat threats for Bengal, Indochinese, Malayan, and Sumatran tigers have been identified. A rapidly-updatable model for cost-effective resource allocation has been developed; the model incorporates the need to conserve specific habitats large enough to accommodate tigers, differential threats to important subspecies that must be preserved (Bengal, Siberian, South China, Indochinese, Malayan, and Sumatran tigers), differences in the institutional capabilities of habitat countries as well as willingness to pay for conservation, and widely-differing conversion opportunity costs in remaining habitat areas.

The Forestry Department at the Planning Commission of India showed great interest in the project. The task team leader of the project was invited to meet with key policy makers in the area of environment and forests in India and discuss the research on Forestry and Habitat in detail. In general, the current research on Mobilizing Spatial Economics and Information for Tiger Habitat Conservation was very well received. The Planning Commission expressed keen interest in receiving the research papers and underlying data to facilitate the midcourse review and amendment to their programs and schemes in the 12th Five Year Plan of India. They also expressed interest in receiving examples of biodiversity management plans. The project papers have also been included in the reading list of Duke University's Forest Economics and Management program.

Window IV: Economic Development and Structural Change
TF010008: Industrial Structure, Productivity, Growth, and Welfare
Task Team Leader: Mary Hallward-Driemeier
KCP II Funding: USD 150,000
Region/Country: World
Timeline: 07/01/2011 to 12/31/2013

Rationale and Objective

Structural transformation and technological upgrading play a key role in the development process. The shift of resources out of traditional agriculture and other low-productivity primary activities and the expansion of "modern" sectors have been at the core of the sustained productivity gains that characterize economic development. Moreover, rising productivity accounts for a large, if not the major, fraction of long-term growth. While these facts have long been widely recognized, over the past two decades mainstream development economics has paid only limited attention to the role of structural transformation. The research uses both sector- and firm-level data to examine key dimensions of structural transformation and technological upgrading.

Progress and Early Findings

The project is progressing smoothly. Longer time-series data at the sector level are being collected as are panels of firm-level data. Academic partners are collaborating on this work and several research papers are underway. Further progress has been made in expanding the set of countries being examined and in deepening the analysis of gazelles and their contributions to productivity and job creation. Findings from the research are being disseminated in conferences (e.g., IZA in India and AEA meetings) as well as within the World Bank and work with country counterparts is being discussed in the context of the Bank's dialogue on job creation and competitiveness.

One of the findings from the latest analysis is the importance of firms' initial size on subsequent performance. This work shows that among new entrants, the largest contribution to job creation comes from large entrants, that is, new firms that start up with 100 or 200 or more employees. These large entrants do grow subsequently, but often not at as high a rate as more-dynamic smaller firms. But it is extremely rare that firms that begin as small firms ever catch up to the large entrants. And looking at the pool of large firms, often 90 percent have begun in that same large category. Transitions are higher in the middle of the distribution, but not at the top end. Large entrants are also relatively more productive than other firms and are less likely to exit than firms that entered on a smaller scale. This work has implications for the importance of functioning credit markets to facilitate the ability of high-potential firms to enter at an efficient scale.

ANNEX 2 KCP II Research Projects in Profile

1. World Development Report 2014: Risk and Opportunity: Managing Risk for Development

Task Team Leader: Norman Loayza
KCP II Funding: USD 596,667
Timeline: 07/01/2012 to 12/31/2014
Partners: Other World Bank departments

The past 25 years have witnessed unprecedented changes around the world, including many changes for the better. Across the continents, many countries have embarked on a path of international integration, economic reform, technological modernization, and democratic participation. Economies that had been stagnant for decades are growing, people whose families had suffered deprivation for generations are escaping poverty, and hundreds of millions are enjoying the benefits of improved living standards and scientific and cultural sharing across nations.

As the world changes, a host of opportunities constantly arise. With opportunities, however, appear old and new risks, from the possibility of job loss and disease to the potential for social unrest and environmental damage. If ignored, these risks can turn into crises that reverse hard-won gains and endanger the social and economic reforms that produced these gains. The KCP-supported World Development Report (WDR) 2014: *Risk and Opportunity: Managing Risk for Development*, contends that the solution is not to reject change in order to avoid risk, but to prepare for the opportunities and risks that change entails. Managing risks responsibly and effectively has the potential to bring about security and means of progress to people in developing countries and beyond (Box 5).

Risk management can be a powerful instrument for development

Why worry about risk? In recent years, many systemic crises have disrupted the world economy and set back development, ranging from financial crises to natural disasters to food price spikes. Idiosyncratic risks, which are specific to individuals or households, such as losing a job or falling victim to crime, also harm people's welfare. Whether adverse consequences stem from systemic or idiosyncratic risks, they may destroy lives, assets, trust, and social stability. And it is often the poor who are hit the hardest. Mounting evidence shows that adverse shocks—above all, health and weather shocks and economic crises—play a major role in pushing households below the poverty line and keeping them there. Moreover, poor people may stick with technologies and livelihoods that appear relatively safe but are also stagnant.

Whether risks are systemic or idiosyncratic, imposed or taken on voluntarily, development can occur only by successfully confronting risk and pursuing opportunity. Many crises and development losses are the result of mismanaged risks. No less important, many opportunities are missed because preparation for risk is insufficient and necessary risks are not taken. It is thus essential to shift from unplanned and ad hoc responses when crises occur to proactive, systematic, and integrated risk management. This can save lives, avert economic damages, prevent development setbacks, and unleash opportunities.

What does effective risk management entail?

Risk management is the process of taking risks, preparing for them, and coping with their effects. Its goals are resilience and prosperity. Resilience is characterized by the ability of people, societies, and countries to recover from negative shocks. Prosperity derives from successfully managing positive shocks that open opportunities for development. Resilience and prosperity depend on each other, and so do the abilities to manage negative and positive shocks. For example, a farmer's ability to withstand a drought may be substantially influenced by how the yields from years of good rainfall were administered. In turn, the farmer's ability to adopt new technologies may be determined by whether the farm's physical and human capital was not too depleted in the aftermath of the drought.

To achieve its goals, risk management needs to combine the capacity to prepare for risk with the ability to cope afterward. Preparation includes a combination of three actions that can be taken in advance: acquiring knowledge, building protection, and obtaining insurance. Once a risk (or an opportunity) materializes, people take action to deal with what has occurred through coping. A strong risk management strategy would include all four of these components. They interact with each other, potentially improving each other's quality. For instance, better knowledge can lead to more efficient decisions regarding the allocation of resources between insurance and protection. Likewise, better insurance and protection can make coping less difficult and costly.

Box 5. Five Key Insights from World Development Report 2014 on the Process of Risk Management

1. Taking on risks is necessary to pursue opportunities for development. The risk of inaction may well be the worst option of all.

2. To confront risk successfully, it is essential to shift from unplanned and ad hoc responses when crises occur to proactive, systematic, and integrated risk management.

3. Identifying risks is not enough. The tradeoffs and obstacles to risk management must also be identified, prioritized, and addressed through private and public action.

4. For risks beyond the means of individuals to handle alone, risk management requires shared action and responsibility at different levels of society, from the household to the international community.

5. Governments have a critical role in managing systemic risks, providing an enabling environment for shared action and responsibility, and channeling direct support to vulnerable people.

Source: WDR 2014 team.

The benefits of risk preparation outweigh its costs

Crises and losses from mismanaged risks are costly, but so are the measures required to better prepare for risks. So, does preparation pay off? Benefit-cost analyses suggest that the benefits can outweigh the costs—sometimes overwhelmingly so. For example, mineral supplements designed to reduce malnutrition and related health risks may yield benefits at least 15 times greater than the costs.

Risk management also requires considering different risks and the relative need to prepare for each of them. Given limited resources, setting priorities and making choices are both unavoidable and necessary. For instance, a small country prone to torrential rains and also exposed to international financial shocks must decide how much to spend on flood prevention and how much to save to cushion against financial volatility.

Not only tradeoffs must be considered, but also synergies. "Win-win" situations can make both preparation for and the consequences of risk less costly, while diminishing risks and increasing expected benefits. Prime examples are investments in nutrition and preventive health; improvements in the business environment, such as streamlining regulations; and disciplined monetary and fiscal policies. Such synergies are widespread and should be emphasized—which is not to say that they are costless or always easy to implement.

People and societies struggle to manage risk

If risk management can have positive development impacts and is cost-effective, then why is it that people and societies are not better at managing risk? Although the specific answer varies from case to case, it is always related to the obstacles and constraints that face individuals and societies, including lack of resources and information, cognitive and behavioral failures, missing markets and public goods, and social and economic externalities. This realization leads to an important message. Identifying risks is not enough: the obstacles to risk management must also be identified, prioritized, and addressed through private and public action.

The way forward: A holistic approach to managing risk

Although individuals' own efforts, initiative, and responsibility are essential for managing risk, their success will be limited without a supportive external environment. Most individuals are inherently ill-equipped to confront large shocks (such as the head of a household falling ill), systemic shocks (such as a natural hazard or an international financial crisis), or multiple shocks (such as a drought followed by a food price shock and food insecurity). For risks beyond the means of individuals to handle alone, risk management requires shared action and responsibility at different levels of society, from the household to the international community. These social and economic systems have the potential to support people's risk management in different yet complementary ways.

> The *household* is the primary instance of support, pooling resources, protecting its members—especially the vulnerable—and allowing them to invest in their future.
>
> *Communities* provide informal networks of insurance and protection, helping people

deal with idiosyncratic risks and pooling resources to confront common risks.

Enterprises can help absorb shocks and exploit the opportunity side of risk, contributing to more stable employment, growing income, and greater innovation and productivity.

The financial system can facilitate useful risk management tools such as savings, insurance, and credit, while managing its own risks responsibly.

The state has the scale and tools to manage systemic risks at the national and regional levels, to provide an enabling environment for the other systems to function, and to provide direct support to vulnerable people. These roles can be achieved through the provision of social protection (social insurance and assistance), public goods (national defense, infrastructure, law and order), and public policy (sound regulation, economic management).

The international community can offer expertise, facilitate international policy coordination, and pool resources when risks exceed national capacity or cross national and generational boundaries.

The state has an important potential role to play by complementing and supporting the functions that households, communities, and the private sector may serve. It would be naïve, however, to ignore the fact that the state often falls short in fulfilling its potential role. This is all too vividly evident in the case of fragile and conflict-affected countries. Civil society, the private sector, and the international community can serve to provide badly needed public goods and services—albeit imperfectly. They can also help improve governments by generating mechanisms to make them responsive to the needs of the population and accountable for their actions.

Mainstreaming risk management into development programs

The *World Development Report 2014* offers dozens of specific policy recommendations to improve risk management at different and complementary levels of society. Its overarching advice, however, is that these recommendations should be implemented in a proactive, systematic, and integrated way to optimize their effectiveness. For this purpose, it advocates establishing a national risk board, which can contribute to mainstreaming risk management into the development agenda. This could be a new agency or the reform of existing bodies. What is most important is a change in approach—one that moves toward a coordinated and systematic assessment of risks at the national and even international levels. Implementing this recommendation may require a substantial change in the way governments develop and implement their general plans, moving from planning under certainty to considering change and uncertainty as fundamental characteristics of modern economies.

Five principles of public action for better risk management

The analysis throughout WDR 2014 suggests that, to improve the quality and delivery of social protection, public goods, and public policy that are essential to supporting people's risk management, public action can usefully be guided by some key principles.

1. Do not generate uncertainty or unnecessary risks.

The state should strive to lessen uncertainty and reduce risks—or, at a minimum, not worsen them. Why or how would a government worsen risks? First, it may perpetuate social norms that discriminate against certain groups and make them more vulnerable through policies that, for instance, promote gender inequality or ethnic favoritism. Second, the government may favor the group that supports it politically against the legitimate interests of others, for instance, through expropriation. Third, if a government is internally fragmented and disorganized, its policies may be ambivalent or implementation may be ineffective. Finally, the government may be guided by ideology, wishful thinking, or simple desperation when confronting difficult problems, instead of relying on measures based on good evidence and analysis.

2. Provide the right incentives for people and institutions to do their own planning and preparation, while avoiding imposing risks or losses on others.

The right incentives are critical to avoid cases in which benefits are privately appropriated but losses are imposed on others. Consider financial bailouts. Bailouts should be avoided, but if they occur, they should be designed to prevent providing the wrong incentives. Turkey's experience after the 2000–01 banking crisis (and especially the unwavering stance of the country's bank regulatory and resolution agencies) offers a prime example. Social protection can be criticized for not encouraging personal self-reliance and posing an unsustainable burden on the state. These problems can be avoided by a design that takes people's incentives directly into account. Well-designed safety nets—such as the conditional cash transfers and workfare programs in Bangladesh, Brazil, India, and Mexico—have promoted better household practices in education, health, and entrepreneurship, while remaining fiscally sustainable. Two changes in people's mindset related to individual and social responsibility are critical for effective risk management: moving from dependency to self-reliance and moving from isolation to cooperation. Providing the right incentives can contribute in both regards.

3. Keep a long-run perspective for risk management by building institutional mechanisms that transcend political cycles.

Institutional mechanisms are needed that induce the state to keep a long-run perspective that outlasts volatile shifts in public opinion or political alliances. For instance, the state's provision of health services must be funded on a continuous and sustainable basis to succeed. Thailand and Turkey offer successful examples with their recent shift to universal health insurance programs. The financial system must strike the right balance between inclusion and stability. In Malaysia, the central bank, the finance ministry, and the private sector are preparing a long-run strategy for the financial sector. Countercyclical monetary and fiscal policies also require a long-run perspective. Chile, Colombia, and Norway have been targeting long-run budget balance. Institutional mechanisms that transcend the political cycle—such as a national risk board and an independent fiscal council—can help maintain a long-run focus on risk management.

4. Promote flexibility within a clear and predictable institutional framework.

Flexibility in adjusting to new circumstances is essential for promoting resilience and maximizing opportunities. Prime examples include household migration in response to shifting economic trends and innovation by enterprises in the face of technological and demand shocks. Flexibility should not imply arbitrary discretion or haphazard responses, however. A challenge for the state is to promote flexibility while preserving a sensible, transparent, and predictable institutional structure. For enterprises, the Danish model of "flexicurity" offers such balance, combining labor market flexibility alongside a strong social safety net and reemployment policies. For the macroeconomy, inflation targeting regimes with floating exchange rates offer a good model of flexible yet institutionally sound monetary policy. By 2012, 27 countries had adopted such regimes.

5. Protect the vulnerable while encouraging self-reliance and preserving fiscal sustainability.

For households that remain highly vulnerable to shocks, the state can provide safety nets. These are possible even in low-income countries, provided the support is clearly targeted to vulnerable populations and designed to incentivize work effort. Ethiopia's Productive Safety Net System protects millions of households from food insecurity while investing in community assets. The international community can also provide resources and expertise to vulnerable populations. Although it has been much criticized, foreign aid has been successful when it has been provided in coordination with accountable local institutions, as occurred in Indonesia after the 2004 tsunami. Effective risk management, by promoting sustained growth, can lessen vulnerability and help eliminate extreme poverty.

2. Upgrading the Networking and Technological Capacity of Suppliers in South Africa

Task Team Leader: Ana Margarida Fernandes
KCP II Funding: USD 175,000
Timeline: 12/15/2010 to 06/30/2013
Partners: Department of Trade and Industry, Durban Chamber of Commerce and Industry, Nedbank, MarketSqr

Rationale

Emerging small and medium firms in Sub-Saharan Africa are believed to play a pivotal role in reducing poverty, particularly because of their potential for job creation. In South Africa, where unemployment rates are as high as 25 percent, small, micro, and medium enterprises (SMMEs) represent more than 95 percent of the total number of firms and employ more than 50 percent of the workforce (World Bank 2007[9]). Despite their relative importance, emerging SMMEs often face substantial constraints to development, including limited access to markets, technology upgrading, business services, and skills development opportunities. The KCP grant supported the impact evaluations of two distinct interventions in South Africa aimed at identifying the importance of SMMEs and ways to overcome constraints on their growth. The first explored the use of an online business-to-business networking platform to link buyers and suppliers. The second was a matching-grant program administered by the South African government with the aim of incentivizing business investment and, in so doing, spurring growth.

[9] World Bank. 2007. *South Africa: Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprise*. Washington, DC, USA.

The Power of "Networking Capital"

Networking capital can be understood as the ability of a firm to draw on social and professional networks to gain access to information and business opportunities that can improve the productivity of the firm. With limited networking capital, small firms often struggle to become known to a broader customer base and to earn the trust of new buyers. Leveraging a network of more-established and experienced firms is critical, particularly in the early stages of development of a small supplier, since such a network can lead to invaluable transfers of technology and business know-how. However, businesses often avoid partnering with unknown businesses because of the associated risks linked to the uncertainty of business quality and reliability. But what if businesses could observe the quality of another business with the click of a button? Could reducing information asymmetries help to foster a better environment for business partnerships and allow quality businesses, which otherwise lack the opportunity to show their value, to access more markets and grow?

Together with government and private sector partners, the team supported the development and impact evaluation of an online and SMS-based marketplace for small- and medium-size businesses to generate, aggregate, and disseminate valuable information on small suppliers and their performance, so as to reduce buyers' search-and-screening costs as they try to identify viable and trustworthy business partners. The goal of this evaluation was to rigorously measure the impact of the marketplace on the networking capacity of small firms and the role played by this networking capital on core economic outcomes, such as small firms' business opportunities, survival rates, productivity, and growth. The evaluation was designed to detect differential effects of the marketplace among groups of entrepreneurs that have traditionally exhibited lower networking capital, such as female and black entrepreneurs.

A baseline survey was conducted with KCP support and interventions are currently underway to help answer important policy questions, such as: What level of discrimination exists in the market and can information on the quality of businesses be used as a tool to overcome this discrimination?

Incentivizing Business Investment

Small firms tend to invest little in their business, which, in turn, reduces opportunities for growth and the potential positive spillovers that may come from such investments. This is especially true when there are higher public than private benefits to investment or where credit and risk-sharing markets are lacking. Matching grants are a way to overcome this misalignment of incentives for business investment by shouldering some of the cost (and risk) for business, making these investments more attractive. At least this is how the theory goes. Drawing from these hypotheses, the Black Business Supplier Development Programme (BBSDP), which was implemented by South Africa's Department of Trade and Industry (DTI), focuses on enhancing the competitiveness of majority-black-owned enterprises. It consists of a matching-grant scheme with three areas of intervention: (a) business development services; (b) introduction of business tools and quality assurance certificates; and (c) the acquisition of machinery, equipment, and information technology systems. It was believed that, by providing this matching grant, businesses would become more willing to make investments and realize more opportunities for growth.

However, the experience with the impact evaluation of BBSDP was not quite so straightforward. Work on the matching-grant scheme in South Africa met similar challenges to those experienced in other matching-grant programs in Africa, in which multiple design issues related to the intervention itself reduced the grant's ability to meet its disbursement objectives and made it impossible to begin to measure longer-term impacts. What value does an impact evaluation bring to a faulty program?

The Role of Impact Evaluation in Achieving, Not Just Measuring, Impact

The experience of the BBSDP matching-grants impact evaluation, among others across Africa, provides a wealth of information on the missing links in improving the effectiveness of matching grants. The three main proximate reasons identified for the inability to complete this impact evaluation (common to other similar projects across Africa) were: continued project delays, politicians not willing to allow random assignment of the program, and low program take-up. The underlying causes of the occurrence of these reasons include (a) political economy issues, (b) overly stringent eligibility criteria that do not take into account where value-added may be highest, (c) lack of attention to detail in "last mile" issues, (d) the incentives facing project implementation staff, and (e) the way impact evaluations are funded. Taken as a single evaluation, the results are not particularly powerful. However, this evidence has now been drawn from seven different impact evaluation attempts across Africa that have shown a consistent story of high expectations and low demand. Matching grants form a substantial component of the World Bank's private sector development portfolio and working out how to do these projects right needs to be a key priority moving forward.

Recommendations for future impact evaluations of matching grants include: (a) having more realistic expectations about the time it takes to implement the projects; (b) changing the mindset from picking winners to picking positive treatment effects; (c) focusing more on eligibility criteria and on making it easier for firms to apply; (d) using evaluation techniques that can obtain more power from relatively small samples; (e) practicing "small impact evaluations" as well as "large impact evaluations," where "small impact evaluations" describes experiments embedded in the overall broader project that can help determine not whether matching grants have an impact overall, but the potential effects of changing design features in an attempt to achieve greater impact.

Promoting Sustainable Impact Evaluations

Conducting impact evaluations is as much about strengthening and empowering institutions to internalize and implement rigorous research for evidence-based policy as it is about generating results to help improve policy design and implementation. This requires a hands-on partnership between the impact evaluation team and the implementing partners throughout the life cycle of the project. To achieve this, local field coordinators were hired through KCP funds to provide continued support and offer a structured "learning-by-doing" approach to the impact evaluation and keep partners fully engaged in the process. This process of capacity-building was further enhanced through global impact evaluation workshops in 2011 and 2012, in which project counterparts were given the opportunity to present ongoing work on their impact evaluations together with other project teams from multiple countries. Hands-on training and guidance were provided through clinic sessions with impact evaluation experts. Bringing partners into a broader community of practice has helped to ensure that good ideas are not left in a corner and that building evidence through rigorous impact evaluations becomes a natural process of learning for partnering organizations.

ANNEX 3 KCP II Projects Portfolio

The annual KCP call for proposals is open to the Bank's Development Economics (DEC) staff and other Bank staff in collaboration with DEC. The process commences in the spring and leads to a decision meeting by the Internal Management Committee chaired by the DEC Senior Vice President and Chief Economist or his designee.

In FY2013, there were 49 proposals totaling more than USD 10 million, with 28 grants approved for USD 5 million. Awarded grant amounts ranged from USD 50,000 to USD 1,485,000.

Table A.2 provides a summary of KCP II applications received from inception to June 30, 2013. Demand for research funds continues to be high and much more than the available funding, resulting in award rejections and reductions of USD 5.2 million (half the proposals received). Applicants have always been aware that research funds are scarce and very competitive and even more so with the additional rigor added to the process in FY2013. KCP proposals are required to be comprehensive (especially on methodology and data) to allow proper assessment by the external technical review panel and the Internal Management Committee.

Table A.2. KCP II Applications (in USD)

	FY2009		FY2010		FY2011		FY2012		FY2013	
STATISTICS:	COUNT	AMOUNT	COUNT	AMOUNT	COUNT	AMOUNT	COUNT	AMOUNT	COUNT	AMOUNT
Approved in full	28	2,808,000	17	2,887,667	29	4,638,906	4	592,261	4	1,906,667
Approved with reduced award	2	200,000	13	2,185,000	9	1,425,000	17	3,060,000	24	3,325,000
Reduction in award		100,000		1,065,000		549,403		2,026,616		2,035,000
Declined	4	260,000	21	2,220,000	28	3,172,602	21	3,169,100	21	3,194,300
Withdrawn	1	50,000								
Total Applications	35	3,418,000	51	8,357,667	66	9,785,911	42	8,847,977	49	10,460,967

Figure A.1. KCP II Donor Contributions Received by Window
From Inception to June 30, 2013 (USD, thousands)

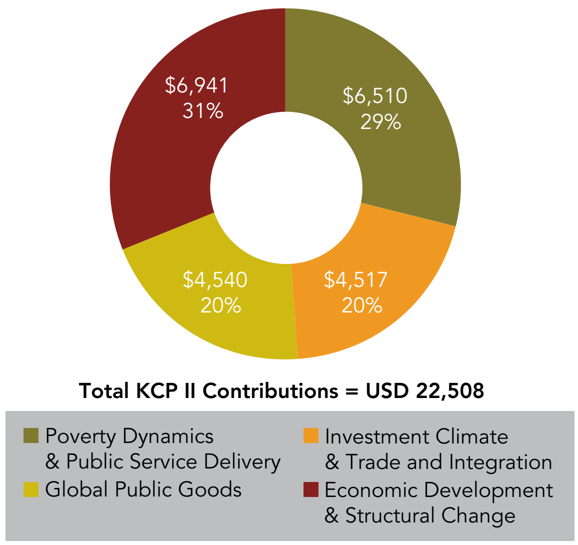


Figure A.2. KCP II Contributions Received by Donor
From Inception to June 30, 2013 (USD, thousands)

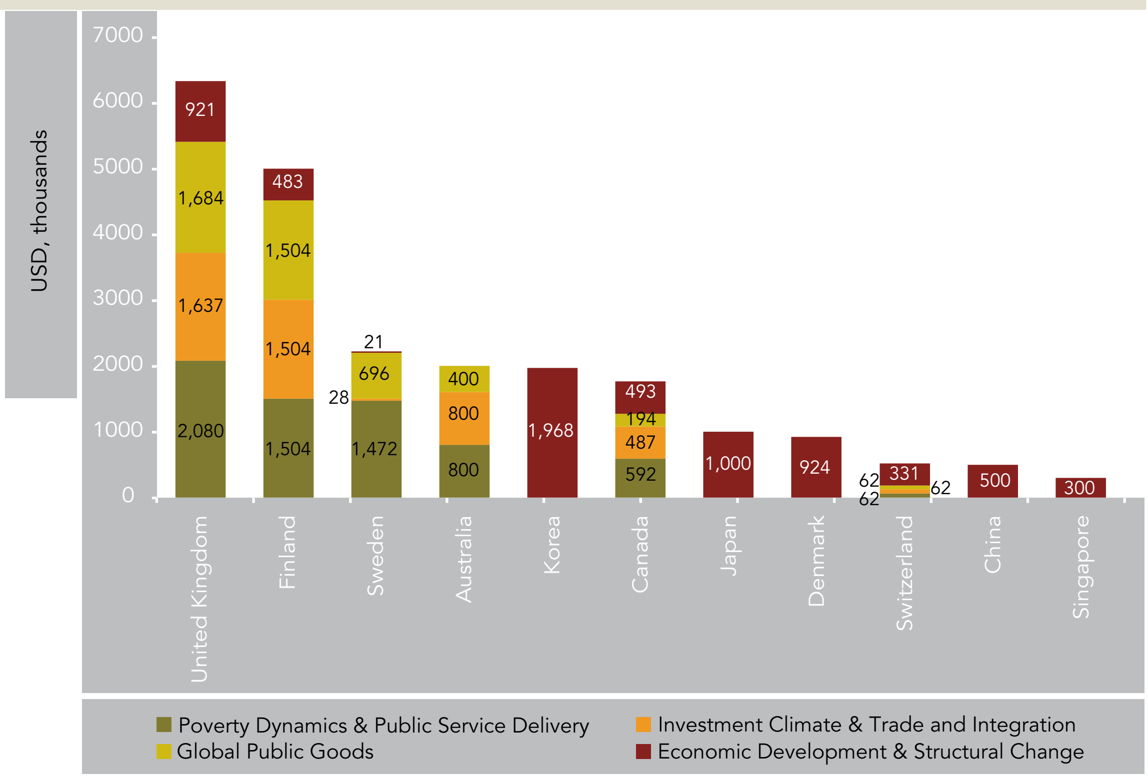
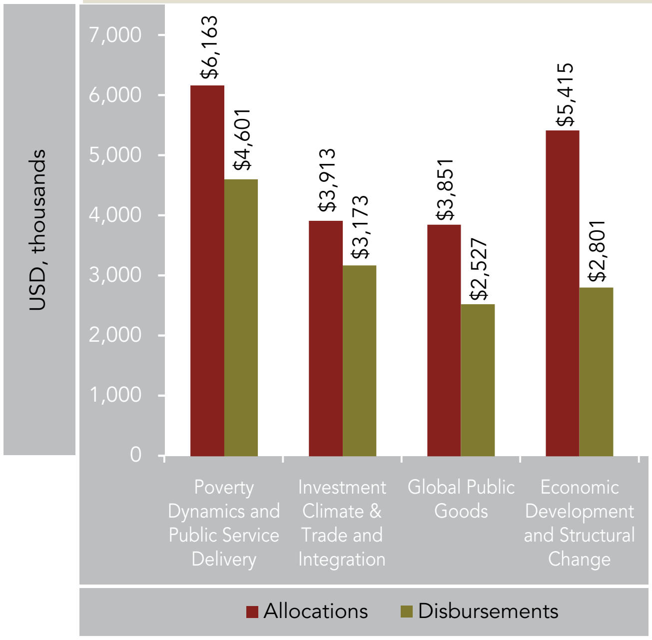
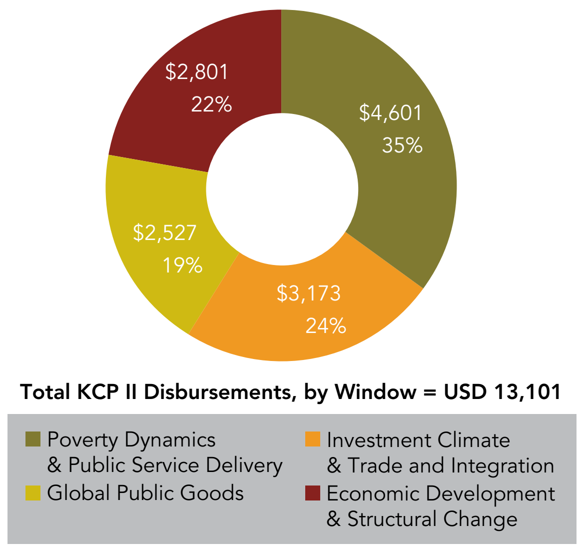


Figure A.3. KCP II Allocations and Disbursements
From Inception to June 30, 2013
(USD, thousands)



Note: Excludes new proposals approved in June 2013 because project activities have not commenced.

Figure A.4. KCP II Disbursements by Window
From Inception to June 30, 2013
(USD, thousands)



Note: Excludes new proposals approved in June 2013 because project activities have not commenced.

Figure A.5. KCP II Allocations by Window
From Inception to June 30, 2013
(USD, thousands)

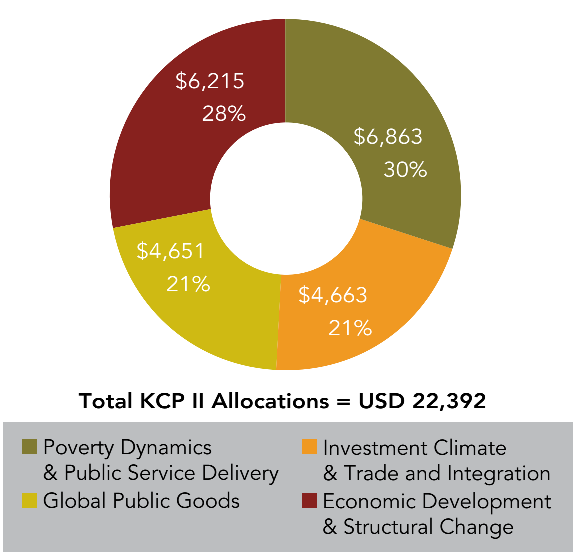


Figure A.6. KCP II Allocations by Region
From Inception to June 30, 2013
(USD, Thousands)

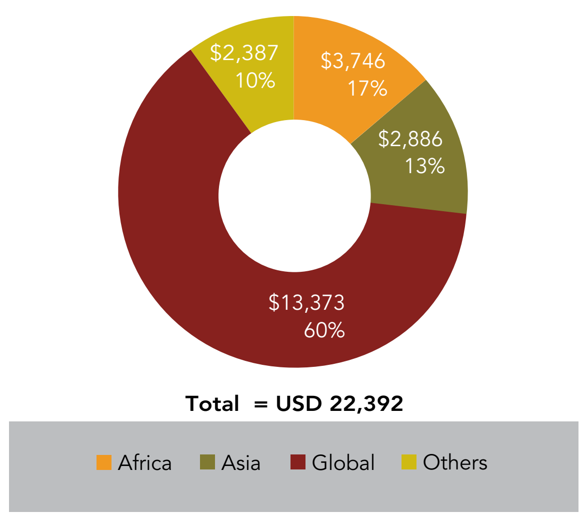


Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY (TF071173)				
1	TF094157	Impact Evaluation of Youth-Friendly Services on Voluntary Counseling and Testing among the Youth Aged 15–24 Years in Kenya	Legovini	99,659	99,659	—
2	TF094625	Learning and Educational Achievements in Pakistan (LEAPS): Continuation	Das	173,220	173,220	—
3	TF094626	The Effects of Home Based HIV Counseling & Testing: IE of a Program in Kenya	Goldstein	83,010	83,010	—
4	TF094627	HIV/AIDS Treatment and Prevention	de Walque	99,999	99,999	—
5	TF094628	Kagera Health and Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa	Beegle	162,386	162,386	—
6	TF094629	Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty	Lanjouw	119,956	119,956	—
7	TF094650	The Impact of Providing Land Titles in Ghana	Goldstein	69,991	69,991	—
8	TF094652	Impact of Urban Land Titling: Evidence from Land Lottery in Burkina Faso	Goldstein	—	—	—
9	TF095034	Poverty Mapping in China	Chen	24,078	24,078	—
10	TF096467	WDR 2011: Conflict and Development	Milante	1,276,492	1,276,492	—
11	TF097370	World Development Report 2012: Gender Equity and Development	Revenga, Shetty	817,388	817,388	—
12	TF097381	Policy, Governance and the Private Sector in the Provision of Public Services: Evidence from Indonesia's Health Sector	Giles	225,000	224,507	493
13	TF098362	Correcting the Sampling Bias of China's Urban Household Survey	Chen	54,968	54,968	—
14	TF098792	Tanzania Social Action Fund (TASAF) R3 Survey Support	Ozler	130,000	130,000	—
15	TF098797	LSMS: Improving the Quality and Comparability of Income Data through Research and Dissemination	Beegle	147,977	147,977	(1)

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Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)*(continued)*

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY (TF071173) (continued)				
16	TF098893	Measuring Development Indicators for Pastoralist Populations	Beegle	94,999	94,999	—
17	TF098991	Learning from Interventions to Improve Parenting Skills in Chile	Galasso	80,000	80,000	—
18	TF099007	Measuring Inequality and Inequality of Opportunity Using DIME Microdata	Legovini	27,848	27,848	—
19	TF099270	Implications for Poverty of Productivity Growth in Agriculture & Non-Agriculture	Martin	100,000	48,737	51,263
20	TF010642	A 10-Year Follow-up of a Community-Level Nutrition Program in Madagascar	Galasso	91,000	82,107	8,893
21	TF010644	Implementing a Multi-Disciplinary Tool for Social Capital Measurement	Kondylis	100,000	94,639	5,361
22	TF010746	Quality of Care in Health Markets: Supply- and Demand-Side Perspectives	Das	335,000	76,540	258,460
23	TF010841	Gendered Impacts of Low-cost Land Titling in a Post-Conflict Environment: The Case of Rwanda	Deininger	150,000	112,420	37,580
24	TF010842	Economic and Gender Impacts of Peri-Urban Land Titling: The Case of Dar es Salaam	Deininger	100,000	22,932	77,068
25	TF010972	Governing Water for Agriculture: What Institutions for Which Contexts?	Kondylis	150,000	103,656	46,344
26	TF012967	How to Improve the World Bank's Global Poverty Monitoring	Chen	150,000	19,724	130,276
27	TF012968	Changeable Inequalities: Facts, Perceptions and Policies	Ferreira	230,000	68,224	161,776
28	TF012991	Early Childhood Nutrition, Availability of Health Service Providers and Life Outcomes as Young Adults: Evidence from Indonesia	Giles	160,000	26,825	133,175
29	TF013050	Welfare Impacts of Marital Status Shocks in Senegal and the Implications for Social Protection Policy	van de Walle	90,000	13,920	76,080

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Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY (TF071173) (continued)				
30	TF013078	Can a Formal Address Do the Job? Favela Pacification in Rio de Janeiro	Kondylis	100,000	—	100,000
31	TF013079	The Role of Public Works Programs in Enhancing Food Security: The Malawi Social Action Fund	Beegle/ Galasso	220,000	121,711	98,290
32	TF014986	WDR 2015: The Behavioral and Social Foundations of Economic Development	Hoff/Gauri	500,000	122,730	377,270
TOTAL – POVERTY DYNAMICS AND PUBLIC SERVICE DELIVERY				**6,162,971**	**4,600,644**	**1,562,327**
		INVESTMENT CLIMATE & TRADE AND INTEGRATION (TF071177)				
33	TF094158	Strengthening Agricultural Production Systems and facilitating Access to Markets: Impact Evaluation of Nigeria's Commercial Agriculture Development	Legovini	91,519	91,519	—
34	TF094551	How Much Do Management Practices Matter? A Randomized Experiment in India	McKenzie	49,999	49,999	—
35	TF094563	Employment Creation in Large and Small Firms	McKenzie	44,368	44,368	—
36	TF094565	Globalization, Risk, and Crises	Schmukler	69,795	69,795	—
37	TF094566	Comparable Disaggregated Census Data across Developing Countries	Hall-Driemeier	69,828	69,828	—
38	TF094567	An Experimental Study of 'Poverty Traps' among Micro-Entrepreneur Groups	Ozler	128,000	128,000	—
39	TF094568	Labor Markets and Impacts of the Financial Crisis: Evidence from China and India	Giles	225,000	225,000	—
40	TF094570	Modeling and Analysis of Consumption Patterns	Dupriez	148,830	148,830	—
41	TF094573	Regulation and Bank Stability	Demirguc-Kunt	250,000	205,959	44,041
42	TF094600	Transport Costs and Development: Evidence from China's Infrastructure Boom	Jacoby	40,000	40,000	—

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Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		INVESTMENT CLIMATE & TRADE AND INTEGRATION (TF071177) (continued)				
43	TF094784	The Financial Crisis and Foreign Bank Participation in Developing Countries	Peria	39,930	39,930	—
44	TF094947	Services, FDI and Endogenous Productivity Effects in the European Neighborhood Policy—A Quantitative Assessment for Georgia	Fernandes	89,826	89,826	—
45	TF095040	Migration of Turkey's Top Students – Brain Drain and Brain Gain	Ozden	—	—	—
46	TF095146	FDI and Macroeconomic Stability	Hevia	39,910	39,910	—
47	TF095266	Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries	Dailami	98,530	98,530	—
48	TF095859	The Growth Effects of Fiscal Policy in Developing Countries	Kraay	44,940	44,940	—
49	TF095860	Reticent Respondents and Cross-Country Survey Data on Corruption	Kraay	75,000	64,640	10,360
50	TF097625	Bank Competition and Access to Finance	Peria	56,215	56,215	—
51	TF097641	Can Microfinance Foster Entrepreneurship in Poor Communities?	McKenzie	73,119	73,119	—
52	TF097808	Innovation and Growth	Loayza/ Maloney	70,000	28,756	41,244
53	TF097838	Reducing Informality among Firms in Minas Gerais, Brazil	Legovini	79,464	79,464	—
54	TF097841	Private Sector Dynamics in Côte d'Ivoire	Klapper	30,489	30,489	—
55	TF097855	Worldwide Governance Indicators	Keefer/ Kraay	100,000	97,980	2,020
56	TF097976	Will There Be a Phoenix Miracle? Firm-level Evidence from Financial Crises	Demirguc-Kunt	49,912	49,912	—
57	TF098583	On the Use of Domestic and International Debt Markets	Schmukler	100,000	27,073	72,927
58	TF098652	On FDI Spillovers	Kee	35,000	34,974	26
59	TF099120	Fiscal Multipliers and the State of the Economy	Hevia	30,000	30,000	—

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Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		INVESTMENT CLIMATE & TRADE AND INTEGRATION (TF071177) (continued)				
60	TF099249	Bank Bailouts & Moral Hazard	Anginer	49,700	49,700	—
61	TF010230	Storage and Trade Policies for Improving Food Security	Martin	130,000	34,994	95,006
62	TF010373	Least Developed Countries and the Externality Impact of WTO Dispute Settlement	Bown	80,000	75,472	4,528
63	TF010545	Macroeconomic Impacts of Aid and Public Spending	Kraay	50,000	50,000	—
64	TF010688	Understanding Capital Flows to Developing Countries	Schmukler	90,000	20,064	69,936
65	TF010695	Database of Emigration Laws and Policies in Developing Countries	Ozden	40,000	34,625	5,375
66	TF010705	Global Financial Inclusion Indicators	Klapper	40,000	40,000	—
67	TF010706	Food Prices, Middlemen, and Marketing Institutions: Evidence from Bangladesh	Shilpi	125,000	113,872	11,128
68	TF010782	How Does the Speed of Justice Affect Firms? Experimental Evidence from Senegal	Kondylis	100,000	47,719	52,281
69	TF011089	Currency Wars	Nguyen	32,000	30,750	1,250
70	TF012954	WDR 2014: Risk and Opportunity: Managing Risk for Development	Loayza	596,667	548,282	48,384
71	TF012955	Land Tenure Regularization in Nigeria: Potential Benefits and Implementation Modalities	Deininger	110,000	—	110,000
72	TF012976	Macro and Micro Lessons from Project Data	Kraay	50,000	13,300	36,700
73	TF013049	Generating Job Matches between Firms and Young Women in Jordan	McKenzie	115,000	115,000	—
74	TF014284	Bank Capital and Systemic Stability: A Cross-country Analysis	Anginer	40,000	39,783	217
75	TF014313	Enhanced Global Macro/Financial Model for Developing Countries	van Rensburg	135,000	—	135,000
TOTAL – INVESTMENT CLIMATE & TRADE and INTEGRATION				**3,913,040**	**3,172,618**	**740,422**

Continued on next page.

Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		GLOBAL PUBLIC GOODS (TF071178)				
76	TF094962	Improving Governance of African River Basins – Determinants of Successes and Failures in Past Reforms	Toman	120,000	120,000	—
77	TF094963	Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries	Toman	178,800	178,800	—
78	TF094964	Improving Efficiency and Climate Change Mitigation – Electricity Market Competition and Low-Carbon Generation Technologies	Kessides	49,508	49,508	—
79	TF094965	Economics of Biofuels and Potential Impacts on Biodiversity	Timilsina	120,546	120,546	—
80	TF097048	Research on HIV/AIDS Prevention and Treatment	de Walque	51,734	51,734	—
81	TF097696	Green Growth Opportunities in Developing Countries	Toman	400,000	247,483	152,517
82	TF097836	Survey Data Repository and Management Toolkit	Dupriez/ Mistiaen	218,464	218,464	—
83	TF098661	Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions	Timilsina	74,030	74,030	—
84	TF099394	Enhanced Global Macro/Financial Model for Developing Countries	Lofgren	81,939	81,939	—
85	TF099603	International Survey on Intellectual Property Enforcement Agencies	Lederman	60,000	17,724	42,276
86	TF099762	The Electricity/Groundwater Nexus for Indian Farmers: Implications of Electricity Subsidy Reform for Efficiency and Distribution	Toman	—	—	—
87	TF010218	Mobilizing Spatial Economics and Information for Tiger Habitat Conservation	Dasgupta	300,000	230,116	69,884
88	TF010291	Data Resource Center for Structural Economic Analysis	Swanson	159,837	159,837	—
89	TF010390	Economic Valuation of Losses Due to "Amazon Dieback"	Toman	280,000	185,819	94,181

Continued on next page.

Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
		GLOBAL PUBLIC GOODS (TF071178) (continued)				
90	TF010467	Community Forestry and Pro-Poor Carbon Sequestration in Nepal	Toman	393,406	259,841	133,565
91	TF010503	Global Demand System for Consumer Behavior	Bussolo/Go	100,000	43,570	56,430
92	TF010600	International Cooperation and Conflict over Water	Toman	47,949	47,949	—
93	TF010730	Open Metadata and Methods Application	Farivari	365,000	222,572	142,428
94	TF012673	Visualization and Analysis Application	Veerappan	200,000	150,884	49,116
95	TF012675	The Economics of Adaptation to Salinity Intrusion: The Case of Coastal Bangladesh	Dasgupta	140,000	46,074	93,926
96	TF012996	Linking Bottom-up and Top-down Models for Assessing Economy-wide Impacts of Discrete Climate Change Mitigation Measures	Timilsina	70,000	20,000	50,000
97	TF013210	Online Data Analysis Toolkit (ODAT)	Zhao	140,000	—	140,000
98	TF014304	Development of Innovative Tools and Technologies for the Global Research Community	Lokshin	300,000	—	300,000
TOTAL – GLOBAL PUBLIC GOODS				**3,851,212**	**2,526,890**	**1,324,323**
		ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE (TF071393)				
99	TF097645	Stimulating Industrial Upgrading in Sub-Saharan Africa	Goldstein	192,992	192,992	—
100	TF097765	Research Agenda in New Structural Economics	Sepulveda	144,553	144,553	—
101	TF097766	Structural Transformation, Enterprise Policies, and Economic Growth	Sepulveda	150,000	118,156	31,844
102	TF097767	Country Case Studies on Structural Change and Industrial Policies	Sepulveda	350,000	289,872	60,128
103	TF098053	Industrial Policy in an Uncertain Environment	Loayza	75,000	46,077	28,923
104	TF098106	Export Transaction Database	Fernandes/ Freund	148,794	148,794	—

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Table A.3. KCP II Allocations and Disbursements as of June 30, 2013 (USD)

	Fund	Project Name	Team Leader	Allocations	Disbursements	Available
ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE (TF071393) (continued)						
105	TF098764	Structural Transformation and Rural Social Protection Policies: Evidence from China	Giles	250,000	234,296	15,704
106	TF099128	Upgrading the Networking and Technological Capacity of suppliers in South Africa	Fernandes	180,000	172,830	7,170
107	TF099198	Moving to Density: A Research Program on the Rural-Urban Transformation in Developing Countries	Deichmann	500,000	323,520	176,480
108	TF099203	Testing the Robustness of the Energy Intensity Kuznets Curve	Deichmann	29,996	29,996	—
109	TF099604	Commodity Prices, Household Adjustments, and Structural Transformation	Lederman	50,000	42,146	7,854
110	TF010008	Industrial Structure, Productivity, Growth and Welfare	Hallward-Driemeier	150,000	131,417	18,583
111	TF010181	Early Work Experiences and the Skills of Young Adults: Evidence from Senegal	Giles	141,000	48,846	92,154
112	TF010228	WDR 2013: Jobs	Rama/ Beegle	702,261	701,927	334
113	TF010795	Structural Transformation, Macroeconomic Behaviors and Industrial Policies	Hon	65,410	65,410	—
114	TF012590	Exporter Dynamics Database	Fernandes	160,000	13,712	146,288
115	TF013183	Structural Change in a Dynamic World	Go	200,000	45,889	154,111
116	TF013506	Understanding the Broader Impacts of Transport Infrastructure Investments	Deichmann	300,000	50,741	249,259
117	TF014272	Structural Transformation Analysis with MAMS	Lofgren	140,000	—	140,000
118	TF014655	MENA Job Creation, Structural Change and Economic Development	Hallward-Driemeier	1,485,000	—	1,485,000
TOTAL – ECONOMIC DEV'T. AND STRUCTURAL CHANGE				**5,415,005**	**2,801,174**	**2,613,831**
KCP II TOTAL ALLOCATIONS & DISBURSEMENTS, June 30, 2013				**19,342,228**	**13,101,325**	**6,240,903**

Note: This report does not include projects approved in June 2013.

Table A.4. Completed KCP II Projects in FY2013 (USD)

	Project Name	Trust Fund	Team Leader	Disbursements
	POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY (TF071173)			
1	A 10-Year Follow-up of a Community-Level Nutrition Program in Madagascar	TF010642	Galasso	82,107
2	Implementing a Multi-Disciplinary Tool for Social Capital Measurement	TF010644	Di Maro	99,789
3	The Effects of Home Based HIV Counseling & Testing: IE of a Program in Kenya	TF094626	Goldstein	83,010
4	Policy, Governance and the Private Sector in the Provision of Public Services: Evidence from Indonesia's Health Sector	TF097381	Giles	224,507
5	Tanzania Social Action Fund (TASAF) R3 Survey Support	TF098792	Ozler	130,000
6	LSMS: Improving the Quality and Comparability of Income Data through Research and Dissemination	TF098797	Carletto	147,977
7	Measuring Development Indicators for Pastoralist Populations	TF098893	Carletto	94,999
TOTAL – POVERTY DYNAMICS AND PUBLIC SERVICE DELIVERY				**862,389**
	INVESTMENT CLIMATE & TRADE AND INTEGRATION (TF071177)			
8	Least Developed Countries and the Externality Impact of WTO Dispute Settlement	TF010373	Bown	75,472
9	Macroeconomic Impacts of Aid and Public Spending	TF010545	Kraay	50,000
10	Comparable Disaggregated Census Data across Developing Countries	TF094566	Hall-Driemeier	69,828
11	Labor Markets and Impacts of the Financial Crisis: Evidence from China and India	TF094568	Giles	225,000
12	FDI and Macroeconomic Stability	TF095146	Nguyen	39,910
13	Bank Competition and Access to Finance	TF097625	Peria	56,215
14	Worldwide Governance Indicators	TF097855	Keefer/ Kraay	97,980
15	Fiscal Multipliers and the State of the Economy	TF099120	Serven	30,000
TOTAL – INVESTMENT CLIMATE & TRADE and INTEGRATION				**644,405**
	GLOBAL PUBLIC GOODS (TF071178)			
16	Data Resource Center for Structural Economic Analysis	TF010291	Fantom	159,837
17	International Cooperation and Conflict over Water	TF010600	Toman	47,949
18	Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries	TF094963	Toman	178,800
19	Survey Data Repository and Management Toolkit	TF097836	Mistiaen	218,464
20	Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions	TF098661	Timilsina	74,030
TOTAL – GLOBAL PUBLIC GOODS				**679,079**

Continued on next page.

Table A.4. Completed KCP II Projects in FY2013 (USD) *(continued)*

	Project Name	Trust Fund	Team Leader	Disbursements
	ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE (TF071393)			
21	WDR 2013: Jobs	TF010228	Rama/ Beegle	701,927
22	Structural Transformation, Macroeconomic Behaviors and Industrial Policies	TF010795	Hon	65,410
23	Stimulating Industrial Upgrading in Sub-Saharan Africa	TF097645	Goldstein	192,992
24	Upgrading the Networking and Technological Capacity of Suppliers in South Africa	TF099128	Fernandes	172,830
25	Testing the Robustness of the Energy Intensity Kuznets Curve	TF099203	Deichmann	29,996
26	Commodity Prices, Household Adjustments, and Structural Transformation	TF099604	Lederman	42,146
TOTAL – ECONOMIC DEV'T. AND STRUCTURAL CHANGE				**1,205,300**
Total				**3,391,175**

Table A.5. Ongoing KCP II Projects in FY2013

	Project Name	Trust Fund	Allocation (USD)	Team Leader
	POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY			
1.	Gendered Impacts of Low-cost Land Titling in a Post-conflict Environment: The Case of Rwanda	TF010841	150,000	Klaus Deininger
2.	Governing Water for Agriculture: What Institutions for Which Contexts?	TF010972	150,000	Florence Kondylis
3.	Economic and Gender Impacts of Peri-urban Land Titling: The Case of Dar es Salaam	TF010842	100,000	Klaus Deininger
4.	Quality of Care in Health Markets: Supply- and Demand-Side Perspectives	TF010746	335,000	Jishnu Das
5.	Implications for Poverty of Productivity Growth in Agriculture & Non-Agriculture	TF099270	100,000	Will Martin
6.	How to Improve the World Bank's Global Poverty Monitoring	TF012967	150,000	Shaohua Chen
7.	Changeable Inequalities: Facts, Perceptions and Policies	TF012968	230,000	Peter Lanjouw
8.	The Role of Public Works Programs in Enhancing Food Security: The Malawi Social Action Fund	TF013079	220,000	Kathleen Beegle/ Emanuela Galasso
9.	Can a Formal Address Do the Job? Favela Pacification in Rio de Janeiro	TF013078	100,000	Florence Kondylis
10.	Early Childhood Nutrition, Availability of Health Service Providers and Life Outcomes as Young Adults: Evidence from Indonesia	TF012991	160,000	John Giles
11.	Welfare Impacts of Marital Status Shocks in Senegal and the Implications for Social Protection Policy	TF013050	90,000	Dominique van de Walle
	INVESTMENT CLIMATE & TRADE AND INTEGRATION			
12.	Food Prices, Middlemen, and Marketing Institutions: Evidence from Bangladesh	TF010706	125,000	Forhad Shilpi
13.	Database of Emigration Laws and Policies in Developing Countries	TF010695	40,000	Caglar Ozden
14.	Storage and Trade Policies for Improving Food Security	TF010230	130,000	Will Martin
15.	Understanding Capital Flows to Developing Countries	TF010688	90,000	Sergio Schmukler
16.	Currency Wars	TF011089	32,000	Ha Minh Nguyen
17.	How Does the Speed of Justice Affect Firms? Experimental Evidence from Senegal	TF010782	100,000	Florence Kondylis
18.	Regulation and Bank Stability	TF094573	250,000	Asli Demirguc-Kunt
19.	Reticent Respondents and Cross-Country Survey Data on Corruption	TF095860	75,000	Aart Kraay

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Table A.5. Ongoing KCP II Projects in FY2013 *(continued)*

	Project Name	Trust Fund	Allocation (USD)	Team Leader
20.	On FDI Spillovers	TF098652	35,000	Hiau Looi Kee
21.	Innovation and Growth	TF097808	70,000	Norman Loayza/ William Maloney
22.	On the Use of Domestic and International Debt Markets	TF098583	100,000	Sergio Schmukler
23.	Land Tenure Regularization in Nigeria: Potential Benefits and Implementation Modalities	TF012955	110,000	Klaus Deininger
24.	Generating Job Matches between Firms and Young Women in Jordan	TF013049	115,000	David McKenzie
25.	Bank Capital and Systemic Stability: A Cross-country Analysis	TF014284	40,000	Maria Soledad Martinez Peria / Deniz Anginer
26.	Macro and Micro Lessons from Project Data	TF012976	50,000	Aart Kraay
27.	WDR 2014: Risk, Uncertainty, and Crisis	TF012954	400,000	Norman Loayza
28.	Enhanced Global Macro/Financial Model for Developing Countries	TF014313	135,000	Theo Nortje Janse Van Rensburg
	GLOBAL PUBLIC GOODS			
29.	Community Forestry and Pro-Poor Carbon Sequestration in Nepal	TF010467	393,406	Michael Toman
30.	Mobilizing Spatial Economics and Information for Tiger Habitat Conservation	TF010218	300,000	Susmita Dasgupta
31.	Economic Valuation of Losses Due to "Amazon Dieback"	TF010390	280,000	Michael Toman
32.	Open Metadata and Methods Application	TF010730	365,000	Malarvizhi Veerappan
33.	Green Growth Opportunities in Developing Countries	TF097696	400,000	Michael Toman
34.	Global Demand System for Consumer Behavior	TF010503	100,000	Maurizio Bussolo
35.	The Economics of Adaptation to Salinity Intrusion: The Case of Coastal Bangladesh	TF012675	140,000	Susmita Dasgupta
36.	Linking Bottom-up and Top-down Models for Assessing Economy-wide Impacts of Discrete Climate Change Mitigation Measures	TF012996	70,000	Govinda Timilsina
37.	Development of Innovative Tools and Technologies for the Global Research Community	TF014304	300,000	Michael Lokshin
38.	Online Data Analysis Toolkit (ODAT)	TF013210	140,000	Qinghua Zhao
39.	Visualization and Analysis Application	TF012673	200,000	Malarvizhi Veerappan

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Table A.5. Ongoing KCP II Projects in FY2013 *(continued)*

	Project Name	Trust Fund	Allocation (USD)	Team Leader
	ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE			
40.	Early Work Experiences and the Skills of Young Adults: Evidence from Senegal	TF010181	141,000	John Giles
41.	Structural Transformation and Rural Social Protection Policies: Evidence from China	TF098764	250,000	John Giles
42.	Moving to Density: A Research Program on the Rural-Urban Transformation in Developing Countries	TF099198	500,000	Uwe Deichmann
43.	Industrial Structure, Productivity, Growth and Welfare	TF010008	150,000	Mary Hallward-Driemeier
44.	Structural Transformation, Enterprise Policies, and Economic Growth	TF097766	150,000	Claudia Paz Sepulveda
45.	Country Case Studies on Structural Change and Industrial Policies	TF097767	350,000	Claudia Paz Sepulveda
46.	Industrial Policy in an Uncertain Environment	TF098053	75,000	Norman Loayza
47.	Exporter Dynamics Database	TF012590	160,000	Ana Margarida Fernandes
48.	Structural Transformation Analysis with MAMS	TF014272	140,000	Hans Lofgren
49.	Structural Change in a Dynamic World	TF013183	200,000	Delfin Sia Go
50.	Understanding the Broader Impacts of Transport Infrastructure Investments	TF013506	300,000	Uwe Deichmann

Table A.6. New KCP II Projects in FY2013

	Project Name	Approved Amount (USD)	Team Leader
	POVERTY DYNAMICS AND PUBLIC SERVICE DELIVERY		
1	Uganda: Building Institutions for Government Accountability	200,000	Stuti Khemani
2	An Evaluation of Long-Term Impacts of an Integrated Early Childhood Intervention for Low-Income Families in Rio de Janeiro, Brazil	125,000	Damien de Walque
3	Behavioral Economics for Better Public Service Management	125,000	Vincenzo di Maro
4	How Do We Motivate Public Sector Workers in Developing Countries?	150,000	Philip Keefer
5	Using Behavioral Economics to Measure and Improve CDD Operations	100,000	Vijayendra Rao
6	World Development Report 2015: The Behavioral and Social Foundations of Economic Development	500,000	Karla Hoff
	INVESTMENT CLIMATE & TRADE AND INTEGRATION		
7.	Salary Susu Plus: The Impact of Formal Savings on Spending and Borrowing	50,000	Leora Klapper
8.	Improving the Management and Profits of Small Businesses and Their Measurement	150,000	David McKenzie
9.	Worldwide Governance Indicators 2014–15	50,000	Philip Keefer/ Aart Kraay
10.	Global Financial Development Report	200,000	Maria Soledad Martinez Peria/ Martin Cihak
11.	Behaviorally Informed Mystery Shopping Tools for Consumer Protection Policymakers	100,000	Xavier Gine
12.	Firm Financing from Capital Markets	75,000	Sergio Schmukler
13.	The Gains from International Migration Revisited	125,000	Delfin Go
	GLOBAL PUBLIC GOODS		
14.	A Microdata Dissemination Challenge: Balancing Data Protection and Data Utility	100,000	Olivier Dupriez
15.	Improving PPP Time Series"	100,000	Nada Hamadeh
16.	Supporting Ethiopia's Push for 9 Million Improved Cooking Stoves to Improve Health and Combat Climate Change	125,000	Michael Toman
17.	Hands-On *Capacity Building* in Environmental Economics: A Proposed Collaboration with the Environment for Development Initiative	175,000	Michael Toman
18.	Improving and Expanding PovcalNet	100,000	Shaohua Chen
19.	Data Version Management and Linked Data	100,000	Malarvizhi Veerappan

Continued on next page.

Table A.6. New KCP II Projects in FY2013 *(continued)*

	Project Name	Approved Amount (USD)	Team Leader
20.	Economy-wide Valuation of Local/Regional Ecosystem Services from Amazon Forest Area	100,000	Michael Toman/ Jon Strand
	ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE		
21.	Simple Global Analysis with R23 Model and Database for 200+ Countries	100,000	Delfin Go
22.	Promoting Rural-Urban Integration in China	100,000	Klaus Deininger
23.	Community, Family and Household Support for the Elderly in the Wake of Rapid Urbanization: Evidence from Rural China	200,000	John Giles
24.	Aging: The Changing Nature of Intergenerational Flows in Developing Countries	150,000	Maurizio Bussolo
25.	The Coming Wave of Educated Workers: Size and Impact on Global Inequality and Poverty	150,000	Maurizio Bussolo
26.	Corporate Governance and Systemic Risk	50,000	Maria Soledad Martinez Peria / Deniz Anginer
27.	Institutional Investors	50,000	Sergio Schmukler
28.	MENA Job Creation, Structural Change and Economic Development	1,485,000	Mary Hallward-Driemeier

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