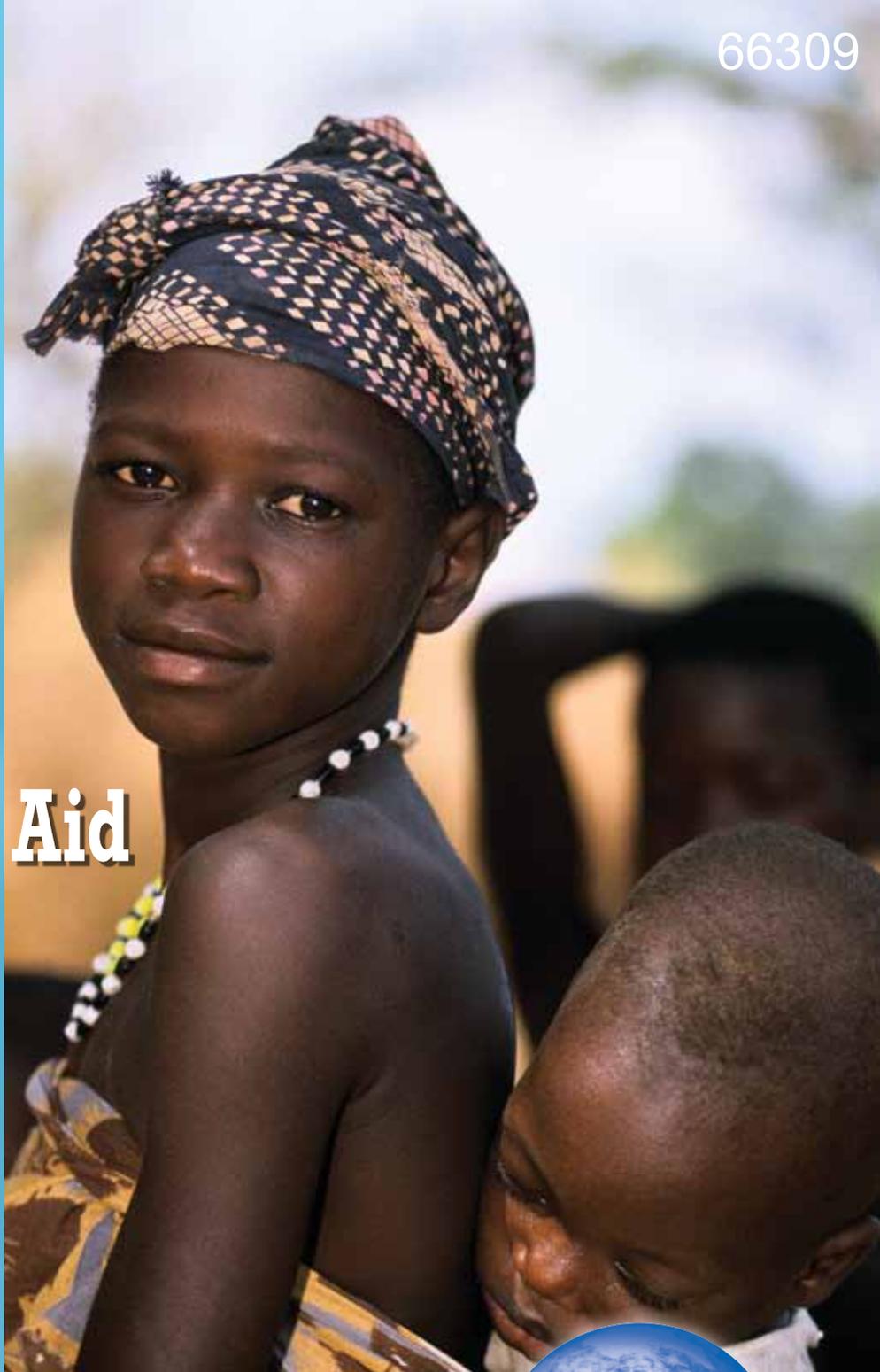


Making Aid Work



KNOWLEDGE *for* CHANGE

Annual Report 2011



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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.



Foreword

We are witnessing a new slowdown in the global economy, with several industrial countries revising downward their respective quarterly growth numbers for past months and for the coming years. This gloomy forecast combined with debt worries in many OECD countries is likely to have direct and indirect negative effects on developing countries.

The financial and economic crisis of 2008 is estimated to have significantly reversed global efforts in poverty reduction by pushing about 50 million people back into extreme poverty by 2009 and 64 million people by the end of 2010. The recent economic developments combined with fiscal constraints in developed countries will likely result in lower aid flows and a reduced capacity to import goods and services from emerging and developing countries.

Given the increased uncertainty and a possible slowdown in the global economy, this year's annual report of the Knowledge for Change Program (KCP) is devoted to "Aid Effectiveness." The reason is that we need to squeeze out as much development impact as possible from every aid dollar in the developing world.

The KCP has been supporting a significant amount of research aimed at finding out what works and what does not work when it comes to development interventions and aid. The KCP has funded a number of individual Impact Evaluations, such as the Malawi research project highlighted in last year's annual report, as well as research on the methodology and development of techniques for Impact Evaluation. The KCP also co-funded the landmark Policy Research Report on Conditional Cash Transfers.

Assessing aid and specific development interventions is a complex and tricky business. As Martin Ravallion points out in his message, Impact Evaluation is anything but simple and straightforward. However, with the help of the KCP, we will continue to develop the methodology and techniques of Impact Evaluation to get a fairer picture of what really works in a broader setting and how individual interventions interact with each other, by building a more holistic picture at the sub-national and national levels.

The KCP has been our most valuable tool for moving resources quickly into emerging areas. The KCP will continue to contribute toward building a better knowledge base on what works and what does not work in the business of development.

I want to extend my sincere gratitude to the Swedish Government and Sida (Swedish International Development Cooperation Agency) for their generous offer to host the 2011 Consultative Group meeting in Stockholm on November 7, 2011. I also want to thank all the KCP partners for their generous financial and intellectual contributions. I look forward to seeing you in Stockholm!



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





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Message from the World Bank's Research Director

How Well Are We Assessing Aid Effectiveness?

Virtually all international development agencies and donors are asking for hard evidence on the impacts of development aid. In response, there has been a huge expansion in “impact evaluations,” which try to answer important questions on the impacts on poverty and human development of specific development projects. While there has been much progress to date, we also need to stop and think about whether this will all “add up” to a useful assessment of the questions aid donors are (naturally) asking about aid effectiveness.

When people ask about “development impact,” they are often referring to the impact of some set of development policies and projects; let’s call it a “development portfolio.” The portfolio of interest might be various things that are (ostensibly) financed by the domestic resources of developing countries. Or it might be a set of externally-financed projects spanning multiple countries—a portfolio held by a donor country or an international organization, such as the World Bank.

Yet the bulk of the new evaluative work going on today is assessing the impact of specific projects, one at a time. Each such project is only one component of the portfolio. (And each project may itself have multiple elements.) As evaluators, we worry mainly about whether we are drawing valid conclusions about the impact of that project in its specific setting, including its policy environment. The fact that each project happens to be in some development portfolio gets surprisingly little attention.

So an important question is begging: *How useful will this evaluative effort be for assessing development portfolios?*

Some Biases We Do Not Talk about Enough

“Impact” must be measured against some counterfactual of interest, such as the situation in the absence of development aid. But a counterfactual is just that: something we cannot directly observe with data. We must infer it from the data available. Avoiding selection bias is often seen as the main challenge in that task. Selection bias exists if there is some reason why the counterfactual outcomes in the absence of the intervention are different on average between the units that one observes with the intervention in place, as compared with those without it. For example, people with certain attributes conducive to higher impact from a development project may be attracted to the project, or purposively assigned it by administrators, and so (without correcting for this fact) what we think of as the impact of the project may well be due to the selection process of who gets the project. There are good reasons why we should take this problem seriously when trying to assess impacts.



Martin Ravallion
Director, Development
Research Group
The World Bank

However, while dealing with this classic source of bias is undeniably important, it is only one of the aspects we have to worry about in trying to draw useful insights about development effectiveness. And we have to be careful that a fixation on removing this one bias does not blind us to the others. This note elaborates on this point, and its implications for evaluative research and the role of the KCP.

Assessing a development portfolio by evaluating its components one-by-one and adding up the results requires some assumptions that are pretty difficult to accept. For one thing, it assumes that there are negligible *interaction effects* among the components. Yet the success of an education or health project may depend crucially on whether infrastructure or public sector reform projects in the same portfolio have also worked. Indeed, the bundling of (often multi-sector) components in one portfolio is often justified by claimed interaction effects. But evaluating each bit separately and adding up the results will not (in general) provide an unbiased estimate of the portfolio's impact. If the components interact positively (more of one yields higher impact of the other), then we will overestimate the portfolio's impact; negative interactions yield the opposite bias.

Further, this type of assessment assumes that we can either evaluate everything in the portfolio or draw a representative sample, such that there is no selection bias in which components we choose to assess. If the components are in fact roughly independent (as implicitly assumed), then ideally we should evaluate a random sample of everything in the portfolio, so as to make a valid overall assessment. (When interaction effects are also present, one might need to sample differently.) But I have never heard of any development project being randomly sampled for an evaluation.

I can suggest a number of reasons why the prevailing approaches to impact evaluation found in the development community risk giving us a biased assessment of the impact of a development

portfolio—even if one has solved the classic problem of selection bias in assessing each project's impact. Evaluations have both a demand side and a supply side. On the demand side, the choices about what gets put up for an evaluation appear to be heavily decentralized and largely uncoordinated. Interaction effects are sometimes studied, but for the most part the components are looked at in isolation. Then we will have little option but to add up the results across multiple evaluations and hope that interaction effects are minimal.

On the supply side, the currently favored tool kit for evaluation relies heavily on methods that are tailored to *assigned programs*, meaning that some units get the intervention and some do not, and it is assumed that there are negligible spillover effects to mess up the evaluation. Within this class of tools, the current fashion is for *randomized control trials* (RCTs) and social experiments more generally. These are thought to be very good at removing one of the potential biases, namely the selection bias stemming from purposive assignment to the treatment and comparison groups. (Although in practice people need not comply with randomized assignments. Then the claim that even this particular bias is removed by an RCT requires some rather strong behavioral assumptions.)

The problem is that the interventions for which currently favored methods are feasible constitute a non-random subset of the efforts of donors and governments in the name of development. It is unlikely that we will be able to randomize road building to any reasonable scale, or dam construction, or poor-area development programs, or public-sector reforms, or trade and industrial policies—all of which are commonly found in development portfolios. One often hears these days that opportunities for evaluation are being turned down by analysts when they find that randomization is not feasible. Similarly, we appear to invest too little in evaluating projects that are likely to have *longer-term* impacts; standard methods are not



well suited to such projects, and (just like everyone else) evaluators discount the future.

Another source of bias is the heterogeneity in the *political acceptability* of evaluations. The (potentially serious) ethical and political concerns about social experiments will have greater salience in some settings than others. The menu of feasible experiments will then look very different in different places, and the menu will probably change over time.

We need improved knowledge in areas where there are *both* significant knowledge gaps and an *a priori* case for government intervention. However, it is not clear that we are focusing enough on evaluating what governments need to be doing. It is not clear that RCTs are well suited to programs involving the types of commodities for which market failures are a concern, such as those with large spillover effects in production or consumption.

For these reasons, I would contend that our evaluative efforts are progressively switching toward analysis for which certain methods are feasible, regardless of whether they are important sources of the knowledge gaps relevant for assessing development impact at the portfolio level. There is a positive “output effect” of the current enthusiasm for impact evaluation, but there is also likely to be a negative “substitution effect.” We appear to be building up our knowledge in a worryingly selective way that is unlikely to compensate for the distortions generating existing, policy-relevant knowledge gaps—stemming from the combination of decentralized decision making about project evaluation and the inevitable externalities in knowledge generation.

What Do We Need to Do Differently?

There are two sorts of things we need to do to address this problem. The first requires some



central planning in terms of what gets evaluated. Nobody much likes central planning, but we often need some form of it in public goods provision, and knowledge is a public good. A degree of planning, with judicious use of incentives, could create a compensating mechanism to ensure that decentralized decision making about evaluation can better address policy-relevant knowledge gaps and achieve development impact. For example, in the early years of the Bank’s *Development Impact Monitoring and Evaluation* (DIME) initiative, a successful effort was made to promote evaluations of conditional cash transfer programs, which led to the 2009 *Policy Research Report* on this topic (supported by the KCP). Maybe this was just the low-lying fruit, since conditional cash transfers are often amenable to currently favored methods, at least at the pilot stage. Nonetheless, this example demonstrates that a degree of planning is possible to ensure that pre-identified and policy-relevant knowledge gaps are addressed. The challenge is to apply this idea to development portfolios, typically involving multiple sectors and diverse projects.

Second, we need to think creatively about how best to go about evaluating the portfolio as a whole, allowing for interaction effects among its components, as well as among economic agents. This is

not going to be easy. Standard tools of impact evaluation will have to be complemented by other tools, such as structural modeling and cross-country and cross-jurisdictional comparative work. We will need to look at public finance issues such as fungibility and flypaper effects. And we will almost certainly be looking at general equilibrium effects—large in some cases—which can readily overturn the partial equilibrium picture that emerges from standard impact evaluations. There is scope for more eclectic approaches, combining multiple methods, spanning both macro and micro tools for economic analysis. The tools needed may not be the ones favored by today's evaluators. But the principle of evaluation is the same, including the key idea of assessing impact against an explicit counterfactual.

If we are serious about assessing development impact and aid effectiveness, then we will have to be more interventionist about what gets evaluated and more pragmatic and eclectic in how that is done. This will require a coordinated effort. The KCP could help with this through its ability to support more coordinated evaluative research efforts at the Bank focusing, in a strategic way, on the forest of aid rather than the trees. This will be a challenge for the future.

A handwritten signature in black ink, appearing to read "M Ravallion". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.



Making Aid Work

The KCP's Project Portfolio on Aid Effectiveness

The aid effectiveness agenda is at the core of the KCP's project portfolio, encompassing most of the key issues facing aid delivery: from the predictability of aid flows to the use of country systems and managing for development results, and ultimately impacting development effectiveness. In the aftermath of the financial crisis, which inflicted permanent damage to both developed and developing countries, effective transfer and use of aid by governments in developing countries is of critical importance. In response to this urgency, the KCP has been funding a broad range of projects that address aid effectiveness. In total, ten projects have been funded with a specific focus on aid effectiveness. The findings of the research projects have stimulated dialogue around the aid reform effort by providing assessment of the current situation and generating knowledge on promoting aid effectiveness.

We Cannot Afford to Ignore Aid Effectiveness

- **This is a time of fiscal stress...** Financial crisis has an impact on aid supply decisions. The KCP-funded study *International Aid and Financial Crises in Donor Countries* estimates how the current financial crisis has affected aid flows.
- **Assistance flows are not predictable...** Aid is predictable if recipients can be confident about the amount and timing of aid disbursements. According to OECD-DAC data, during 1990–2005, on average, annual aid disbursements in Sub-Saharan Africa deviated from aid commitments by 3.4 percent of GDP (according to the KCP-funded study *Aid Effectiveness – How Unpredictable Aid Influences Service*).

KCP Projects Generate Knowledge on the Conditions of Effective Aid

Aid Effectiveness: New Research Directions is a KCP-funded project that addresses the conditions



of effective aid in both qualitative and quantitative terms. The project has resulted in numerous studies whose main findings distill the conditions of effective aid as the following:

- **Lower donor fragmentation.** One of the studies on aid fragmentation, “Can Donor Coordination Solve the Aid Proliferation Problem?” demonstrates theoretically how donor proliferation leads to inefficient aid supply in recipient countries because of the free-riding problem faced by the donors. Another study, “Donor Fragmentation,” presents cross-country evidence suggesting that fragmented aid can reduce the quality of public administration in aid recipients, distort public expenditure allocations, and impair progress on public budgetary management reform efforts.
- **Donors’ trust in country systems.** The paper “Aid and Trust in Country Systems” analyzes the indicators on use of country systems included in the Paris Declaration Monitoring survey. The study shows that a donor’s trust in recipient country systems is positively related to (1) tolerance for risk on the part of the donor’s constituents, as measured by public support for providing aid, and (2) the donor’s ability to internalize more of the benefits of investing in country systems, as measured by the donor’s share of all aid provided to a recipient.
- **Financial stability and aid supply decisions.** The KCP study “International Aid and Financial Crises in Donor Countries” estimates how donor-country banking crises have affected aid flows in the past, using panel data from 24 donor countries between 1977 and 2007. The findings indicate that banking crises in donor countries are associated with a substantial additional fall in aid flows, beyond any income-related effects, perhaps because of the high

fiscal costs of crisis and the debt hangover in post-crisis periods. In most specifications, aid flows from crisis-affected countries fall by an average of 20 to 25 percent (relative to the counterfactual) and bottom out only about a decade after the banking crisis hits. These results suggest that aid could be significantly lower in the coming years than it would have been in the absence of the recent financial crisis.

- **Aid and policy reform.** Market-oriented economic policies have been strongly linked to faster rates of economic growth. Foreign aid is often provided in part to encourage market-oriented reforms. The KCP study “Foreign Aid and Market-Liberalizing Reform” analyzes the impact of aid on market-liberalizing policy reform, correcting for the potential endogeneity of aid. The results indicate that greater aid slowed reform over the 1980 to 2000 period, as measured by a broad index of policies. Disaggregating policy into five areas, aid is associated with slower reform in some policy areas but not in others. Disaggregating by decade, the adverse impacts of aid on policy reform are much more pronounced for the 1980s than for the 1990s. A second related study by the same authors, “Aid, Economic Freedom, and Growth,” finds that five distinct dimensions of policies associated with “economic freedom” have differing effects on economic growth. If growth is the ultimate objective of aid, analyses of the impact of aid on economic freedom should differentiate among these five policy dimensions by the strength of their links to growth. Using a hedonic approach, the study finds some evidence that donors have been successful: aid has contributed toward a policy and institutional environment favorable to growth, as the categories of economic freedom improved by aid more than

¹ Working across 18 thematic areas, DIME collaborates with 300 agencies in 72 countries to improve the effectiveness of policies and aid programs and strengthen country capacity for real-time evidence-based policy-making.



offset those that were harmed by aid, in their impact on growth.

The KCP is looking forward to obtaining more evidence of the conditions of effective aid through supporting a Bank-wide program such as the Development Impact Evaluation Initiative (DIME)¹. The DIME initiative has contributed to effectiveness of the Bank's operations and has generated answers to critical development questions in several sectors, from health to investment environment and governance. In particular, the KCP is enabling the introduction of equity analysis into DIME-supported evaluations by funding the project *Measuring Inequality and Inequality of Opportunity*. The findings of this project will enable policy makers to fine-tune interventions and address challenges in targeting so that development resources are spent not only effectively, but also in an equity-enhancing manner.

Initial findings captured in the KCP projects *International Aid and Financial Crises in Donor Countries* and *Aid Effectiveness – How Unpredictable Aid Influences Service Delivery* suggest the following:

- Aid unpredictability is generally large. Analysis of short-term predictability, at the aggregate level and using on-budget aid, finds that aid is less predictable than domestic revenues in all three case studies. As for medium-term predictability, aid unpredictability has no effect on the composition of public expenditure because, for the most part, the countries do not operate on a medium-term budget.
- The experiences of the country case studies do not always provide conclusive evidence that budget support offers greater predictability.
- The quality of public financial management is likely to have a strong influence on predictability, because of the assurance it gives to donors and its influence on whether the finance



ministry needs to resort to cash budgeting as a way of controlling spending.

- Fluctuations in aid receipts at the top feed into uncertain releases at the local level, sometimes harming service delivery; but the quality of service delivery is mainly determined by capacity constraints and other local factors.
- Unpredictability tends to have a negative effect on the share of the development budget in total spending, both overall and at the sector level. (See Box 1.)

All in all, the KCP research points out that we cannot afford to ignore aid effectiveness. At the same

Box 1. Summary of the Main Outputs from Developing Country Fiscal Policy Responses to the Crisis

"How Large Is the Government Spending Multiplier? Evidence from World Bank Lending," by Aart Kraay (2010). Policy Research Working Paper 5500. World Bank, Washington, D.C. Available at: <http://go.worldbank.org/MAC-ZF9XY50>.

Kraay proposes a novel approach to empirically identifying government spending multipliers that relies on two features unique to many low-income countries: (1) borrowing from the World Bank finances a substantial fraction of government spending; and (2) spending on World Bank-financed projects is typically spread over several years following the original approval of the project. The first fact means that fluctuations in spending on World Bank-financed projects are a significant source of fluctuations in overall government spending in these countries. The second fact means that fluctuations in World Bank-financed spending in a given year are largely determined by fluctuations in project approval decisions made in previous years, and so are unlikely to be correlated with shocks to output in the current year.

The paper uses World Bank project-level disbursement data to isolate the component of World Bank-financed government spending in a given year that is associated with past project approval decisions. This is then used as an instrument for total government spending, in order to estimate spending multipliers in a sample of 29 mostly low-income countries where this source of variation in government spending is large relative to the size of the economy. The resulting spending multipliers are small, reasonably precisely estimated, and insignificantly different from zero in most specifications.

"Fiscal Policy and Debt Dynamics in Developing Countries," by Ethan Ilzetzki (2011). Policy Research Working Paper 5666. World Bank, Washington, D.C. Available at: <http://go.worldbank.org/NPQSA1AXQ0>.

Using a new tax database for 28 countries and a variety of econometric methods, this paper contributes to the debate on the effects of fiscal policy on economic activity in a number of ways. The analysis finds that

- Tax cuts have a stimulative effect on economic growth in developing countries.
- Lowering the personal income tax rate by 1 percentage point or cutting revenues by 1 percent of GDP increases GDP by 0.3–0.4 percent on impact and 0.8 percent in the long run.
- Cuts in personal income taxes are more effective in stimulating growth than cuts in corporate or value-added tax rates.

The author incorporates debt dynamics into a fiscal vector auto-regression model for a number of developing countries. Existing estimates of the effects of fiscal policy on growth use linear time-series methods, which may assess the effects of fiscal policy along a debt-path that is unsustainable. Incorporating the non-linear relationship between government expenditure, taxes, and debt alters estimates of the impact of fiscal policy on GDP in several countries. In Brazil, for example, conventional time-series methods may overstate the effects of fiscal policy on GDP by ignoring the detrimental effects of debt accumulation.



time, there is still scope to improve practices and share lessons. Looking forward, the KCP encourages all its partners to seize opportunities for global partnerships for development with ongoing projects and the expected outcomes. Perhaps inspiration can be drawn from the newly approved KCP projects *Implementing a Multi-Disciplinary Tool for Social Capital Measurement*, and *Using Behavioral Methods: The Impact of Community—driven Development on Social Capital*, which capture the role of social capital as a catalyst for a variety of interventions, especially community-driven development initiatives. The research experiences of the above projects will engage stakeholders in a political decision making process based on technical expertise, innovative methods, and network analysis. By providing a platform to openly discuss, monitor, and mutually learn what works and what does not in ensuring aid effectiveness, the KCP is contributing to improve development aid effectiveness to achieve the *Millennium Development Goals* by 2015.







Progress and Achievements in 2011

Program Highlights in 2011

There are four Trust Funds under the KCP II for activities related to the overarching themes of (i) *Poverty Dynamics and Public Service Delivery*, (ii) *Investment Climate & Trade and Integration*, (iii) *Global Public Goods*, and (iv) *Economic Development and Structural Change*. The first theme addresses poverty reduction, empowerment, and sustainable development; the second focuses on the major elements of a business environment conducive to growth, with emphasis on the role of small and medium-scale industries; the third focuses on global issues that require collective action and coordination across countries because lack of action or progress in some countries could undermine benefits for all; and the fourth analyzes the policies and factors that are needed to enable the necessary structural transformation in a country that will lead to increased growth and job creation.

Window I. Poverty Dynamics and Public Service Delivery

The Trust Fund for *Poverty Dynamics and Public Service Delivery* supported research on a broad range of topics, including HIV and Health, *World Development Report 2012: Gender Equality and Development* (featured in Annex 2), *Poverty Mapping & Measurement in China and Africa*, and *The Impact of Land Titles in Ghana*. The KCP funded 19 projects in this first window, of which two have been completed.

In formulating a poverty reduction strategy, poverty analysis is one of the principal steps. The analysis of poverty requires a focus on poverty information

that is geographically disaggregated. While much progress has been made in measuring and analyzing income poverty,² efforts are needed to improve poverty targeting tools and correctly answer the question of “where the poor are.” Two of the KCP projects under the first window, *Correcting the Sampling Bias in China’s Urban Household Survey* and *Poverty Mapping in China*, have demonstrated such effort in poverty analysis.

Similar to other countries, a key problem facing China’s household survey is that of high non-response rates, especially in urban areas. *Correcting the Sampling Bias in China’s Urban Household Survey* looked into this problem, which is increasing for all surveys as urbanization increases in

² The World Bank’s Data and Tools section of Poverty Net provides information on recent trends in poverty indicators and links to sources of data on poverty.



China: the non-response rate in large cities such as Shanghai has been more than 40 percent. To help correct for the biases stemming from such high non-response rates, the urban department of the National Bureau of Statistics (NBS) of China and the project team at the Bank have joined forces to construct the sample for China's regular urban household survey (UHS), covering 56,000 households across all provinces. The results are being weighted against a survey instrument that covers 400,000 urban households nationally to correct for the bias in the UHS stemming from observable covariates of survey compliance. While working closely with the China NBS team, the project has achieved local capacity building with econometric models transferred through five workshops and seminars. Once completed, this project will identify readily measurable predictors of compliance, which might be collected at modest cost in replications elsewhere.

Another research project, *Poverty Mapping in China*, scaled up the traditional household survey to a much broader range to provide nationwide poverty measurement. It overcame the issue of bias and the huge population in China by providing specially designed software called PovMap. The success of this project lies in empowered local researchers as well as the broadened World

Bank knowledge base. In the course of the project, the team has tested and verified the poverty mapping method at the World Bank, where the method originated, by carrying out validations in pilot provinces. At the same time, staff in NBS have learned the methodology and have become proficient in using the software tools and modeling techniques. The findings and experience of the activities will be shared with the consent of the Chinese NBS and will benefit other countries doing poverty mapping.

The KCP has supported a systematic effort evaluating the development impact of new interventions in key areas such as education (e.g., school-based management), infrastructure (slum upgrading), health (HIV/AIDS), and rural development (land reform). The past few years have seen a boost in impact evaluation activities, which have been better coordinated across the Bank through the Development Impact Evaluation (DIME) initiative led by the Chief Economist's office. Among a series of program impact evaluations that are being undertaken with the support of the KCP, *Research on HIV/AIDS Treatment and Prevention* and *The Impact Evaluation (IE) of a Large-scale Home-based HIV Counseling and Testing Program* are highlights of the KCP in 2011.

Research on HIV/AIDS Treatment and Prevention has set up a series of impact evaluations of the scaling-up of antiretroviral treatment (ART) in Burkina Faso, Ghana, Mozambique, Rwanda, South Africa, and India to measure the impact of ART-delivery programs under the Technical Assistance Project (TAP). Beyond lives saved and health results, the evaluation also covered how treatment affects family members, how ART affects HIV transmission and prevention, what determines successful treatment, and how to encourage cost-effectiveness and capacity building to reinforce the sustainability of delivering ART.

The questions addressed by these impact evaluations are:



1. **What are the impacts of treatment on the welfare of patients and family members** over and above lives saved and health outcomes? The program is measuring the impact of treatment on the labor supply of the patient and other family members, the schooling and nutrition of children, and other welfare indicators.
2. **What are the effects of antiretroviral therapy (ART) on HIV transmission and prevention?** Does the scaling-up of treatment encourage safer behaviors among HIV patients and the general population, or does it lead to riskier behaviors?
3. **What are the determinants of treatment success?** That is, what determines patient care-seeking behavior and treatment adherence, and the quantity and quality of ART services?

Preliminary results from health facility surveys in Burkina Faso and Rwanda show a high level of patient satisfaction with HIV/AIDS services. However, getting to the facilities seems to be an impediment, indicating that transportation costs might be a barrier to care. The analysis from household surveys in Burkina Faso, Ghana, and Rwanda also yields interesting early results. In Rwanda, HIV/AIDS patients are more likely to have used a condom during their last sexual intercourse, suggesting that counseling has been efficient. In Burkina Faso and Ghana, people who were better informed about ART availability were more likely to have been tested for HIV. Thus, scaling up treatment should lead to greater demand for voluntary counseling and testing and early detection. The outputs of this impact evaluation, mostly data sets, have been disseminated broadly through the Internet, conferences, and publications while maintaining the confidentiality of the HIV/AIDS patients.



The Impact Evaluation (IE) of a Large-scale Home-based HIV Counseling and Testing Program has collaborated with the Academic Model for the Prevention and Treatment of HIV/AIDS (AMPATH)³ to provide comprehensive evaluation of the biomedical, economic, and sexual behavior effects of providing home-based testing. During the past year, the project team managed to link the medical records with the survey data. In addition, the second round of data collection was designed and launched, and is ongoing. The implementation of

³ AMPATH is a large-scale initiative to bring home-based HIV counseling and testing to people living in the western part of Kenya; it commenced in early 2009.

the testing activities among the treatment group (the first phase) was completed and the second round is scheduled to go to the target communities directly following the survey.

The findings of this impact evaluation of a large-scale home-based HIV counseling and testing program will provide critical input into the World Bank's HIV work program, including evidence on a potentially powerful tool for both prevention and treatment of HIV/AIDS. In addition, the work will be used as an input for government health policy in Kenya. In terms of broader knowledge creation, this work will provide insights into sexual and economic behavioral outcomes as a result of HIV testing.

Another interesting research project completed under the KCP is the *Kagera Health and Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa*. This project studied long-run socioeconomic outcomes of households in rural Tanzania using an innovative survey methodology called Computer Assisted Personal Interviewing (CAPI, featured in Box 2). Among other areas, the project focuses on understanding the intergenerational effects of economic shocks, such as health, weather, and market conditions.

The project entailed a resurvey of panel households in the Kagera Health and Development Survey (KHDS) undertaken between 1991 and 1994 and again in 2004 in the Kagera region of Tanzania. (The KHDS 2004 was partially funded by the KCP.) The major achievement of this project is the high re-contact rate of panel respondents. Of the 5,078 surviving panel respondents, 85 percent (4,336) were re-interviewed. Almost half the re-interviewed respondents no longer lived in their baseline community, meaning they had to be tracked down to be re-interviewed.

The length and depth of the KHDS panel offer a unique set of research opportunities. Building on previous findings of the KHDS and utilizing the long time-span of the panel data, this project will allow not only analysis of the long-run and inter-generational effects of shocks on outcomes, but also of the mechanisms through which households are affected. In this way it will contribute to a more advanced and clear understanding of the causes, mechanisms, and channels of household economic growth and persistence of poverty.

Data collected through this innovative approach will be effectively utilized to address topics of interest for ongoing World Bank poverty analysis.

Window II. Investment Climate & Trade and Integration

The *Trust Fund for Investment Climate & Trade and Integration* supported research on a broad range of topics, including Financial Crisis, Employment, and Impact of Microfinance on Fostering Entrepreneurship in Developing Communities. There are 29 projects funded by the KCP in this second window of which three have been completed.

The *Trust Fund for Investment Climate & Trade and Integration* often supports projects that study the finance and growth nexus organized around two





Box 2. Computer Assisted Personal Interviewing (CAPI): Innovations In Household Surveys

The KCP funded projects have been promoting Evidence-Based Policy making (EBP) in their respective regions by providing a wide breadth of statistical evidence and data as a result of project findings and/or over the course of project implementation. Household surveys are an important source of socio-economic data. Often such surveys derive important indicators to inform and monitor development policies in developing countries. For example, the Government of Tanzania has implemented a process of health service reforms informed by the results of household disease surveys. The reforms contributed to a more than 40 percent reduction in infant mortality between 2000 and 2003 in two pilot districts.

The provisions of accurate and comprehensive data on areas such as health and development have much bearing on available measurement methods and technologies to yield this information. The KHDS is an innovative household survey that demonstrates how properly implemented surveys generate necessary information of sufficient quality and accuracy with speed and at a relatively low cost.

The KHDS was an opportunity to improve the quality of panel data by introducing new techniques for panel surveys. The entire survey was conducted by paperless interviewing using ultra-mobile PCs for computer assisted personal interviewing (CAPI).^a This sped up the data collection process since data entry was embedded into the interview, and improved the quality of the data (the program did consistency checks at the time of the interview).

A novel feature of the KHDS 2010 compared with the earlier waves was that data were collected

using electronic survey questionnaires administered on handheld computers.

The key advantages of electronic questionnaires include:

- *Saving paper.*
- *Identification of errors and missing fields during the interview.* In KHDS 2010, most of these checks were programmed into the questionnaires from the beginning but many were added as the survey progressed based on feedback from the field and the data processing team. Toward the end of the survey, there were more than 1,400 in-built consistency checks in the program. Before leaving the household, interviewers ran the final validation check and resolved any problems directly with the respondent while still in the household.
- *Immediate availability of the data.* In KHDS 2010, data were uploaded from the field to a secure server using GPRS-enabled mobile phone networks.
- *Data from previous waves were carried forward* to the questionnaires providing the opportunity to resolve possible inconsistencies between the waves.
- *Ability to upload data daily provided a range of opportunities to improve tracking practices* involved in finding previous household members. In particular, data files could be sent across teams located in different areas based on the updated tracking information. Furthermore, if the information was not sufficient to track a migrant, the data file was sent back to the teams still located in the baseline village or to another location for additional tracking information.

^a Computer Assisted Personal Interviewing (CAPI) involves an interviewer going to the respondent with the questionnaire residing on a computer (generally a laptop) and recording all responses onto the computer. Improved timeliness of the data, reduced data entry costs, and improved data quality are several benefits experienced by those implementing CAPI.



areas—access to financial services, which is a crucial part of the investment climate facing firms and households; and finance for the poor, addressing the empowerment aspects of poverty. In the wake of the recent global financial crisis, the KCP has funded several projects focusing on policy prescriptions for developing countries responding to the current crisis, among which two have been completed.

The KCP project *Developing Country Fiscal Policy Responses to the Crisis*, completed this year, answered two central questions in the design of fiscal policy responses of developing countries. First, how large should the country's fiscal policy be to have the desired short-term impact? Second, will they be sustainable in the long run?

The project found that in a sample of 29 aid-dependent low-income countries, the short-run effects of government spending on output are small, and generally statistically insignificant. It is estimated that an additional dollar of government spending raises output on average by about 50 cents, indicating a substantial degree of crowding out of private economic activity by increases in government spending.

Another finding from this project answers the second question of long-run sustainability. Taking evidence from Brazil, it stresses that the failure to take debt accumulation, and resulting interest rate changes, into account can significantly overstate the short-run stimulating effects of spending increases and tax cuts.

In addition to providing answers to the central questions regarding fiscal policy responses in financial crisis, the research project has led to the creation of a new data set of marginal tax rates in developing countries, and two new papers deploying innovative approaches to understanding the short and long-run effects of fiscal policy on output (see Box 1). The papers have been disseminated through the Bank's working paper series, seminars, and submission for journal publication.

Another project completed under this research theme, *Financial Crisis & Foreign Bank Participation in Developing Countries*, put together a comprehensive country-level bilateral data set, from lender country to borrower country, on foreign bank claims across developing countries before and during the 2007–2008 crisis. It also investigated how the 2007–2008 crisis affected the behavior of foreign bank lending to developing countries, i.e., changes in foreign bank claims across developing countries during the recent crisis. Although it is still early to measure the impact of this research, it is expected that the project findings (see Box 3) will help inform World Bank clients about the behavior of foreign banks during crises and about the type of foreign bank engagement (local versus cross-border, foreign currency or local currency lending, etc.) that seems less prone to retrenchment during periods of financial turmoil.

Meanwhile, *Labor Markets and Impacts of the Financial Crisis: Evidence from China and India*, a KCP project in progress under the same theme, points to the impact of the financial crisis on individuals and families. The project is examining



Box 3. Results and Outcomes from the Study *Financial Crisis & Foreign Bank Participation in Developing Countries*

- **During 2005–2008, total foreign claims to developing countries grew** by 81 percent in real terms and the growth rates for cross-border and local claims were similar.
- **There were sizeable differences in the growth rate of foreign bank claims across regions.** Growth of foreign bank claims was fastest in South Asia and Eastern Europe, where they grew by 131 and 110 percent, respectively. By contrast, foreign claims grew by 80 percent in East Asia, 50 percent in Latin America, 36 percent in the Middle East, and 78 percent in Sub-Saharan Africa.
- **Foreign bank lending to developing countries was curtailed as a result of the recent global financial turmoil.** Overall, foreign claims fell by almost 5 percent between June 2008 and March 2009. But there were notable differences in the patterns for cross-border and local claims: while cross-border claims fell by 9 percent in real terms, local claims in all currencies fell by only about 1.5 percent. Across regions, large differences in the size of the contraction in claims were observed during the crisis: claims fell by approximately 16 percent in the case of East Asia, 8 percent in Eastern Europe, 9 percent in the Middle East and North Africa, 3 percent in Sub-Saharan Africa and South Asia, and only 1 percent in Latin America.
- **The aftermath of the crisis was also very different across types of claims and regions.** Overall, total foreign claims grew by 1.7 percent in the aftermath of the crisis through December 2009. The recovery in the growth of claims was driven by the increase in local claims, which grew by 2.3 percent, while cross-border claims grew by only 0.8 percent. Across regions, East Asia exhibited a significant recovery, with claims growing by almost 14 percent. Claims to South Asia grew by 8 percent and those to Latin America and the Middle East grew by almost 7 percent. Claims to Eastern Europe and Africa continued to decline at 2 and 3 percent, respectively, in the aftermath of the crisis.

Overall, the study concludes that heavy reliance on direct, cross-border lending resulted in steeper contractions in total foreign claims during the crisis. In addition, contractions were more severe and recovery was slower in regions that relied heavily on lending in foreign currency.

how shocks associated with the financial crisis affect households in rural and urban areas of China and India by studying how shocks filter through labor markets to influence the earnings, time allocation, and investment decisions of households. The project is still in progress, but data collection

and data acquisition were completed during fiscal year 2010. As a result, two papers⁴ examining the impact of the financial crisis on off-farm labor markets and exposure of the rural elderly to low income have appeared in print along with five other papers⁵ under revision.

⁴ The two papers are: “Can China’s Rural Elderly Count on Support from Adult Children? Implications of Rural-to-Urban Migration,” by Dewen Wang and Changbao Zhao, *Journal of Population Ageing* 3(3) (December 2010): 183–204. Also available as: Policy Research Working Paper 5510, World Bank, Washington, D.C. “The Impact of the Global Financial Crisis on Off-Farm Employment and Earnings in Rural China,” by Jikun Huang, Huayong Zhi, Zhurong Huang, and Scott Rozelle, *World Development* 39(5) (May 2011): 797–807. Also available as: Policy Research Working Paper 5439, World Bank, Washington, D.C.

⁵ The five papers under revision include:

a. Impact of the Financial Crisis on Firm Employment and the Interaction between the Crisis and Implementation of China’s 2008 Labor Contract Law



Interest in understanding the impact of crises has also been redirected to understanding the processes leading up to the current crisis with the KCP project *Comparable Disaggregated Census Data across Developing Countries*. This project is in the process of collecting, analyzing, and making available disaggregated statistics on firm dynamics (entry, exit, growth, etc.), labor flows, productivity, and the reallocation of resources across and between firms. It aims to transform the raw data into a format that can be shared with a wider group of researchers and eventually allow for an improved understanding and in-depth analysis of employment dynamics during crisis periods.

So far, the project has extended the analysis of the impact of the East Asian crisis on the process of creative destruction. Using Indonesian manufacturing census data from 1991–2001 to examine the impact of the East Asian crisis on the efficiency of resource allocation, the project tested (and rejected) the hypothesis that crises may have a silver lining by improving resource allocation. There

was large excess churning; gross job creation and destruction far exceeded the amount required to achieve net employment reallocation and the correlation between productivity and employment growth weakened. Moreover, firm productivity became a less important determinant of survival, contradicting the idea that crises accelerate creative destruction by “cleansing” less productive firms. The remaining work and its resulting outcomes will be significant inputs into the World Development Report 2013 on Jobs, a new Latin America and the Caribbean flagship on entrepreneurship, and work in Europe and Central Asia on jobs and productivity.

Window III. Global Public Goods

The *Trust Fund for Global Public Goods* supported research on climate change and alternative energy, including biofuels and low carbon generation technologies, among others. There are 14 projects funded by the KCP in this third window, all of which are ongoing.

The *Trust Fund for Global Public Goods*, as its name suggests, selects research topics of global concerns, such as global environmental challenges. The central issue facing developing countries and the global community is how growth in greenhouse gas (GHG) emissions and its climate change impact can be reduced without sacrificing the economic growth needed to raise living standards and reduce poverty in developing countries. In this context, the KCP has supported research topics that seek to provide information and analysis that gives added insight into the conditions under which developing countries' GHG emissions can be reduced without unduly burdening their expected economic growth. Four KCP projects among 14 projects under this

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- b. Effects of the Labor Contract Law and Financial Crisis on China's Urban Households
 - c. Understanding Social Insurance Coverage in Urban China and India
 - d. Labor Mobility between the Formal and Informal Sector in China and India
 - e. Land Tenure Security and Labor Mobility in China.



window have been contributing to the debate with several preliminary findings.

Curbing GHGs in developing countries is central in dealing with mitigating the risks of global climate change. How, when, and by whom this will be done is at the heart of ongoing international negotiations on emissions abatement. The KCP project *Economic Impacts of Low Carbon Growth in Developing Countries* has a strong interest in answering those questions by identifying possible implementation opportunities for low carbon growth—that is, development paths that can meet goals for improved living standards without locking in high GHG emissions that could threaten the sustainability of development for all. The project involves two country case studies, in China and Brazil, where the team is examining how various growth and development policies affecting capital allocation, infrastructure, innovation, trade, and industrial development have affected the “greenness” of development, and how environmental policies have interacted with these growth policies. Preliminary findings of this project are highlighted in Box 4.

Green Growth Opportunities in Developing Countries is linked to ongoing KCP supported work on low-carbon growth in which prospects for technological innovation to lower cost of reducing



Box 4. Brazil Case Study

The Brazilian government has introduced a voluntary national GHG reduction target of 36.1 to 38.9 percent of projected emissions by 2020. The government also plans a 70 percent reduction in the scale of deforestation by 2017. The project *Economic Impacts of Low Carbon Growth in Developing Countries* simulates various scenarios to meet the GHG mitigation targets. The Brazilian case study shows that if Brazil’s plan for 70 percent reduction of deforestation is implemented effectively, the voluntary emissions reduction

target will be automatically met by 2020 without implementing GHG mitigation from the energy sector. If only half of the deforestation reduction plan is achieved, GHG mitigation should be reduced through cuts in fossil energy consumption, and it would cost around 1.3 percent of GDP loss in 2020. If part of the carbon tax revenue is recycled to subsidize renewable energy—such as wind power and biomass power plants—such a subsidy would significantly increase outputs from renewable energy industries.

GHGs is an important component. This project is ongoing and on track to identify conditions under which different combinations of policies can accelerate growth and reduce poverty, while also reducing long-term environmental degradation. Mainly the project is successfully addressing two important objectives: (1) understanding empirically links between industrial energy efficiency and overall sector modernization, (2) taking stock of the overall knowledge base on environment-development synergies and trade-offs. A major breakthrough of this project has been achieved through building a connection from the project to the Bank's new Green Growth Knowledge Platform, with which there are strong synergies.

Another ongoing KCP project, *Improving Efficiency and Climate Change Mitigation*, is providing a revised focus on technological innovation that will play a critical role in facilitating the transition to a cleaner and more efficient energy economy. Facilitating the transition to a cleaner and more efficient energy economy could prove challenging because of the modest energy density of the alternative fuels, the low conversion efficiency and power density of renewable energy extraction, and problems of intermittency (which lead to low load factors). This transition is often further complicated by the frequent location of renewable resources away from major population centers, the uneven geographic distribution of these resources around the globe, and the massive scale of the prospective shift. Indeed, there is still considerable variance in the estimates of the basic performance metrics of renewable technologies. This KCP project is trying to provide a reality check on the promises of various substitute technologies in the transition toward increased de-carbonization by employing the dynamic energy analysis framework which focuses on the innate physical energy balance and dynamic response limits of alternative electricity supply technologies. The dynamic energy analysis will also provide a deeper understanding of the powerful physical constraints that the alternative generating

technologies must respect. These constraints cannot be relaxed through economic policy measures. As such, the findings of this project are expected to facilitate a technical reality check on the potential of these technologies to have an impact on the scale required by the global energy problem.

Biofuel technologies, among other substitute technologies, merit special attention as a large number of biofuel technologies are available around the world. For example, India plans to meet 20 percent of its total transportation fuel demand through biofuels by 2017, and Brazil is planning to expand its biofuel exports. However, the 2007–2008 food crisis generated some concerns regarding such expansion of biofuels. Existing studies suggest focusing on biofuel feedstock that do not directly compete with food supply (e.g., jatropha, switchgrass, etc.). But large-scale production of these feedstock would still compete with food crops through inputs needed for production, such as land, water, fertilizers, etc. Moreover, the environmental benefits of biofuels, particularly climate change mitigation through replacing fossil fuel, have been questioned. The KCP-funded project *Economics of Biofuels* is assessing such issues related to biofuels, including the impacts on food supply, energy markets, climate change mitigation, and poverty. The Bank does not have any policy on whether to support client countries to initiate or expand biofuel production capacity. Results of the study would be helpful in defining Bank policy on the development of biofuels. Likewise, client countries currently are in a wait and see stage regarding the development of biofuels, and the results of this study could be valuable to them in designing biofuel development strategies. The results of this ongoing study are expected by the end of this year.

Window IV. Economic Development and Structural Change

In the second phase of the KCP (KCP II), the KCP partners decided to establish a fourth window on



Economic Development and Structural Change, addressing the elusive question of what triggers growth and the mechanics and determinants of economic growth. The research topics under the fourth window include Industrial Upgrading, Industrial Policy, Structural Transformation, and Rural-Urban Transformation in developing countries. Research projects on Industrial Policy, a tool that policy makers may use to tilt a country's productive structure in a particular direction, are highlighted in this section. In total, there are 12 projects funded by the KCP in this fourth window. Most of these projects are in the initial stage, as the window was established relatively recently.

In an environment with perfect information, the optimal design of industrial policy is, at least in theory, a simple matter. In reality, however, even well-intentioned policy makers face an array of constraints (informational, political, or both) that make the process of identifying both distortions and successful policy interventions substantially difficult and subject to great uncertainty. *Industrial Policy in an Uncertain Environment* was one of two KCP projects that were set up to develop an analytical framework that captures the informational problems and trade-offs that policy makers face when choosing policies and implementing them.

Three country case studies in this project assess industrial policies and their outcomes. They are frequently cited in the recent policy literature as cases of successful policies: Chile for fisheries, Peru for agricultural business, and Thailand for the automotive sector. Each case study evaluates the impact and outcome of the industrial policy in which the "success" case occurred. Therefore, it will not only study how or why the particular intervention was successful. Rather, it will study the successful intervention in comparison with two groups: the set of all interventions undertaken, and the set of successful cases where no policy intervention occurred.



In the process of undertaking the three case studies, the project team has sharpened the specific and detailed questions to be addressed and identified and collected the corresponding databases for the empirical investigation. For the Chile study, the focus is on new successful export activities based on Feenstra's CID database and a set of policy interventions introduced in work by Agosin and Bravo-Ortega (2009). For the Peru study, the database merges of data from the Ministry of Agriculture on sanitary certification with data from the Tax Collection Agency on agricultural exports. Finally, the Thailand case study is using a panel data of automotive and electronic industries constructed from the Thai Manufacturing Industry Survey, collected by National Statistical Office, combined with data on interventions by the Board of Investment under the Thai Ministry of Industry.

Although this project has not been completed yet, the beneficial role that the government can play was identified in the Peruvian case study, which highlights the importance that one particular government institution has had for the remarkable success of the agricultural export sector. This institution, whose Spanish acronym is SENASA, has served to certify that agricultural products to be exported meet proper standards of sanitation,



conservation, and production. This certification has been key in opening competitive international markets for Peruvian agricultural products.

Another important research project that is analyzing the effectiveness of industrial policy tools is Upgrading the Networking and Technological Capacity of Suppliers in South Africa. This project is looking into industrial policy tools, namely, the

Business Networking Marketplace and the Black Business Supplier Development Program (see Box 5), in alleviating informational, coordination, and credit constraints on promoting small-firm development. In particular, the project is focusing on the potential for these tools to improve the networking capacity, business management skills, and technological know-how of small firms, with important implications for their growth and development. The impact of these programs on emerging suppliers of medium-to-large businesses in South Africa, particularly among black and female-owned enterprises, will be better understood as a result.

The project has completed the initial steps in the development of impact evaluations and has achieved the grant activities objectives. The initial tasks included for the networking marketplace and BBSDP, respectively are: a) establishing a partnership with the Durban Chamber of Commerce of Industry (DCCI) for the development of the intervention, developing a detailed work plan of activities, identifying a sponsor partner for the marketplace, identifying an IT partner, identifying lists

Box 5. Two Interventions under Analysis

The development of a business-to-business networking marketplace. Implemented under the auspices of the Government of South Africa by the Durban Chamber of Commerce and Industry (DCCI), this marketplace (accessible online and with mobile phone linkages to business owners) aims to reduce informational asymmetries across firms by connecting real-time buyers to smaller suppliers. The goal of this marketplace is to reduce both search and screening costs for potential business partners across diverse networks with imperfect information on business type.

The Black Business Supplier Development Program (BBSDP). Implemented by South Af-

rica's Department of Trade and Industry (DTI), this program focuses on enhancing the competitiveness of majority black-owned enterprises. It consists of a matching grant scheme with three areas of intervention: (1) business development services, including training in management, sales, and tendering; (2) introduction of business tools and quality assurance certificates such as business plans, marketing strategies, or ISO certification; and (3) the acquisition of machinery, equipment, and IT systems. The goal of the program is to enhance the productivity of firms in their development process, by mitigating credit constraints and assisting firms in the identification of valuable investment opportunities.



of enterprises in South Africa, preparing a marketing plan for the product being tested, benchmarking from other online and cell phone marketplaces, conducting focus groups with firms of all sizes, and preparing draft versions of questionnaires; and b) revising the details of the design of the impact evaluation, developing a detailed work plan of activities, identifying lists of enterprises in South Africa, and supporting the government in the final

details of the design of the intervention. The research conducted under this project will help pave the way for the private sector and the government to undertake more innovative and ambitious approaches to industrial policy, network growth, and firm development in the country. It will also help in learning about gender discrimination in business interactions and contribute towards understanding ways of overcoming it.







Future Research Directions of the KCP II

Knowledge is at the heart of the World Bank’s comparative advantage as a development institution, and the KCP remains its most useful tool in allowing it to move quickly into emerging research areas and to close critical and urgent knowledge gaps. Research and data collection for research purposes remain the essential focus of the KCP, and continue to give the Bank a leading edge in its contribution to the global public goods agenda. To maintain its usefulness, however, knowledge must grow as new challenges arise and as new findings confirm or call into question previous ideas, and that is where the KCP has been of particular use.

Last year we reported on the need to rethink development. The World Bank went through an important and comprehensive discussion on its research agenda that culminated with a speech by the Bank’s President on the research direction of the Bank, “Democratizing Development.” The key message was to make our research more inclusive and open to our stakeholders by shifting our research agenda from a retail model (where we make the research and disseminate the results) into a wholesale model (where the individual researcher anywhere in the world has access to the same research tools and data that the Bank is using in order to draw his/her own conclusions).

We believe that this is a more powerful way to generate and disseminate knowledge as it will be locally generated. The “side effect” is that we will be building research capacity at the local and individual researcher level, which is the second objective of the KCP. After all, development is about people and how knowledge can be used by an individual as well as a group to advance living standards and the quality of life. We are not going to

repeat the entire discussion again in this annual report. However, to refresh the reader on the four strategic priorities of the research agenda, we are re-publishing a table with the key components. The table contains some additional research topics that have emerged since last year. The “research directions” of the KCP were discussed in the Consultative Group meeting of the KCP in Oslo last year. Finally, our suggestion is to increase our efforts in the fourth area (Results) in order to better understand what works and what does not work when it comes to development assistance.



Table 1. Research Agenda: Looking Forward

	ANALYSIS	DATA
1. Transformations	<ul style="list-style-type: none"> ■ Understanding the relationship between change in an economy's structure and broader development goals, including poverty reduction ■ Roles of states, markets, and the private sector in promoting economic transformation (Hard vs. soft industrial policy) ■ Appropriate policies at each stage of development & comparative advantage* ■ Governance issues for industrial upgrading and structural change ■ Role of agriculture versus other sectors; sector priorities and trade-offs ■ Green growth* ■ Growth identification and facilitation* ■ Light manufacturing study in Africa* ■ Structural transformation in Africa* 	<ul style="list-style-type: none"> ■ Macro data, especially on the sector composition of output ■ Better data on infrastructure investments ■ Better data on policy interventions over time ■ Firm-level data, especially to study productivity growth and firm-industry dynamics ■ Informal sector data to analyze the factors behind entry into and exit from informality ■ Household-level data (archival + new) to link to welfare outcomes and integrate with macroeconomic/sector/public finance data, including sub-national
<p>Relevant country types: Low-income predominantly agrarian or resource-rich economies seeking to move into middle-income status; and middle-income economies seeking to upgrade industries and diversify from manufacturing into services.</p>		
2. Opportunities	<ul style="list-style-type: none"> ■ Better understanding why some countries and places attain faster poverty reduction and more inclusive development than others at a given rate of economic growth ■ Governance challenges in ensuring better education, health, and social protection ■ Information to strengthen provider incentives ■ Better social protection* ■ Policies to enhance access to finance ■ More inclusive global integration and/or regional integration, linked to global markets ■ Local governance and citizen participation* ■ Rural development and sound natural resource management* ■ "Clean energy" technologies: effects on the economy and access to energy; speed and composition of investment matter* 	<ul style="list-style-type: none"> ■ Household, facility-level, public expenditure tracking, service delivery data ■ Data disaggregated by gender ■ Financial services data* ■ New measures of inequality of opportunity*
<p>Relevant country types: High levels of inequality and/or slow rates of poverty reduction, poor performance in moving toward MDGs, and regions with low levels of educational attainment and high infant mortality rates.</p>		
3. Risks	<ul style="list-style-type: none"> ■ More effective and cost-efficient social protection, including more automatic stabilizers in poor countries ■ Understanding the global financial crisis* ■ Fragile and conflict-ridden states ■ Managing new and existing* environmental risks ■ Addressing financial-sector vulnerabilities in light of the crisis* ■ Global governance reform and policies to support new multi-polar growth and interconnected risk ■ Managing macro-financial risks posed by globalization 	<ul style="list-style-type: none"> ■ Panel data sets tracking the same households or firms over time ■ Addressing core data weaknesses in fragile states ■ Better data on environmental and natural resource risk factors, their consequences, and the costs of amelioration* ■ Data on trade flows and trade policies; made available at no cost*

Continued on next page



Table 1. Research Agenda: Looking Forward *(continued)*

	ANALYSIS	DATA
	<ul style="list-style-type: none"> ■ Major clean energy scale-up to limit global warming* ■ Food price volatility: causes and impacts* ■ More effective and cost-efficient social protection* ■ Dynamics of poverty; everyday “micro risks”* ■ Recovering from crises* ■ Post-crisis perspectives on macroeconomic management* 	
<p>Relevant country types: Fragile states; resource-rich economies; regions exposed to extreme weather conditions such as floods or drought; and regions highly integrated with global trade, financial markets, or movement of people.</p>		
4. Results	<ul style="list-style-type: none"> ■ Developing reliable measures of country performance, including benchmarking and identifying comparators ■ Monitoring impacts of crises, including on poverty and human development* ■ Broader approach to “evaluation,” drawing on richer economic modeling, more diverse types of data, multiple disciplines, and tailored to strategic knowledge gaps in these areas 	<ul style="list-style-type: none"> ■ New types of data (mixed qualitative-quantitative methods). ■ New modeling tools suitable for “non-assigned” interventions ■ Different types of results measures (rates of return, poverty, and other human development indicators) ■ Better data on poor people (poverty mapping and improving data quality)*
<p>Relevant country types: All developing countries, countries with a high share of aid-to-GDP, and regions where aid results are weak.</p>		

* Additional research topics compared with last year.







The KCP II Finances

Donor Contributions and Pledges

The KCP II, which commenced operations in December 2008, has received USD 15 million in cash contributions from nine donors, namely, the United Kingdom, Finland, Australia, Sweden, Canada, Denmark, Switzerland, China, and Singapore (see Annex 1, Table A.1, page 35).

The **United Kingdom**, supporting the KCP II with USD 4.8 million in cash contributions received and USD 1.6 million in outstanding pledges, or a total of USD 6.4 million, is the KCP II's leading contributor and the first donor to contribute to the fourth window on Economic Development and Structural Change, which was created in February 2010. The United Kingdom's Department for International Development (DfID) and Sweden are the two donors that allow the Bank discretion in deciding the allocation of its pledges among the four windows based on demand for funding. **Finland**, the KCP II's first signing donor, contributed EUR 2.25 million over three tranches allocated equally among the first three windows. **Australia** contributed USD 2 million 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. **Sweden** initially contributed SEK 8.5 million to the Poverty Dynamics and Public Service Delivery Trust Fund, with a preference that it be used to finance the *World Development Report 2011: Conflict, Security, and Development*. Sweden made a supplemental contribution of SEK 6 million to be allocated to the four windows at the discretion of the Bank, and an additional pledge of USD 150,000 to the Poverty Dynamics and Public Service Delivery Trust Fund to be used to finance the *World Development Report 2012: Gender Equality and Development*. **Canada** pledged

CAD 1.2 million in April 2010 allocated as follows: CAD 400,000 to the Poverty Dynamics and Public Service Delivery Trust Fund (of which CAD 200,000 is for the *World Development Report 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. Canada contributed an additional CAD 200,000 to the Poverty Dynamics and Public Service Delivery Trust Fund for the *World Development Report 2012: Gender Equality and Development*. **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, CHF 60,000 to the Global Public Goods Trust Fund, and CHF 320,000 to the Economic Development and Structural Change Trust Fund. **China** joined in October 2010 with a pledge of USD 500,000 to the Economic Development and Structural Change Trust Fund. **Singapore** came on board in October 2010 with a contribution of USD 300,000 to the Economic Development and Structural Change Trust Fund.

The KCP II's newest donor is Korea with its pledge of about USD 1 million equivalent (signed on August 26, 2011) to the Economic Development and Structural Change Trust Fund. Negotiations are also in the works with other potential partners.

KCP II Project Portfolio

The KCP II typically has an annual call for proposals. However, in FY2011, there were two rounds of proposals—in fall 2010 and spring 2011—due in part to strong donor interest in the Economic Development and Structural Adjustment Trust

Fund. In FY2011, 38 proposals (58 percent) were approved of 66 applications; project awards ranged from USD 30,000 to USD 500,000.

Table 2 summarizes the KCP II applications processed from inception to June 30, 2011. Demand is high, and there is fierce competition to receive much-coveted KCP II funds. Applicants are strongly advised to submit proposals with well-defined development objectives and clear methodology to enhance their chances of a positive decision by the KC PII Internal Management Committee (IMC). Each proposal is reviewed by two external technical referees who evaluate it based on nine criteria, with an overall score and comprehensive feedback.

Figure 1. KCP II Donor Contributions Received by Window
From Inception to June 30, 2011 (USD, thousands)

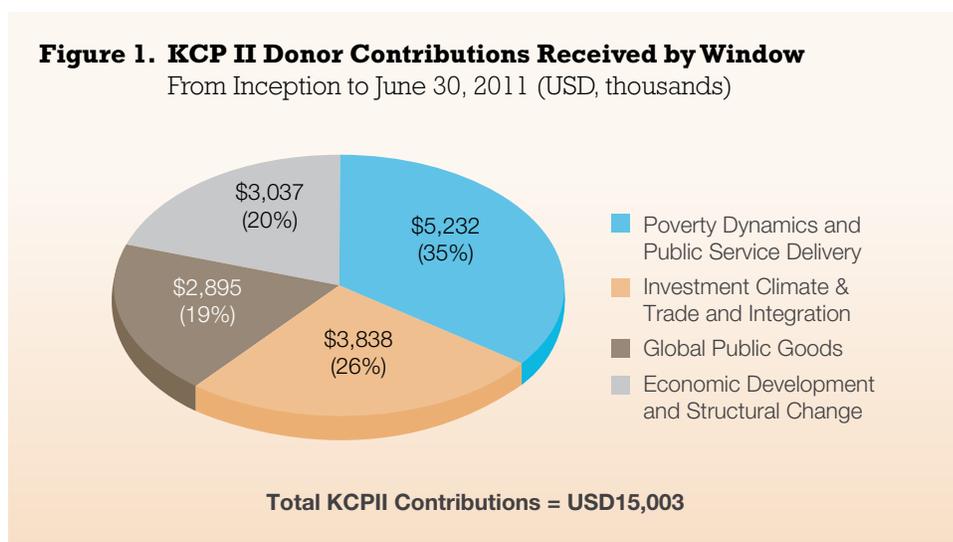


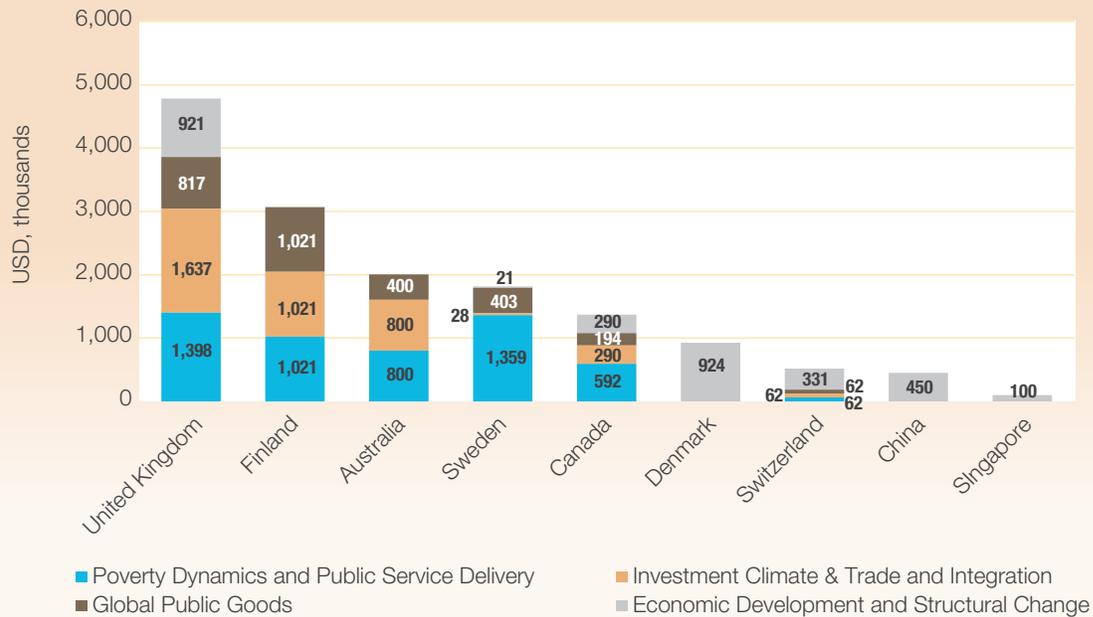
Table 2. KCP II Applications (in USD)

STATUS	FY2009		FY2010		FY2011	
	COUNT	AMOUNT	COUNT	AMOUNT	COUNT	AMOUNT
Approved in full	28	2,808,000	17	2,887,667	29	4,638,906
Approved with reduced award	2	200,000	13	2,185,000	9	1,425,000
Reduction in award		100,000		1,065,000		549,403
Declined	4	260,000	21	2,220,000	28	3,172,602
Withdrawn	1	50,000				
Total applications	35	3,418,000	51	8,357,667	66	9,785,911



Figure 2. KCP II Contributions Received by Donor

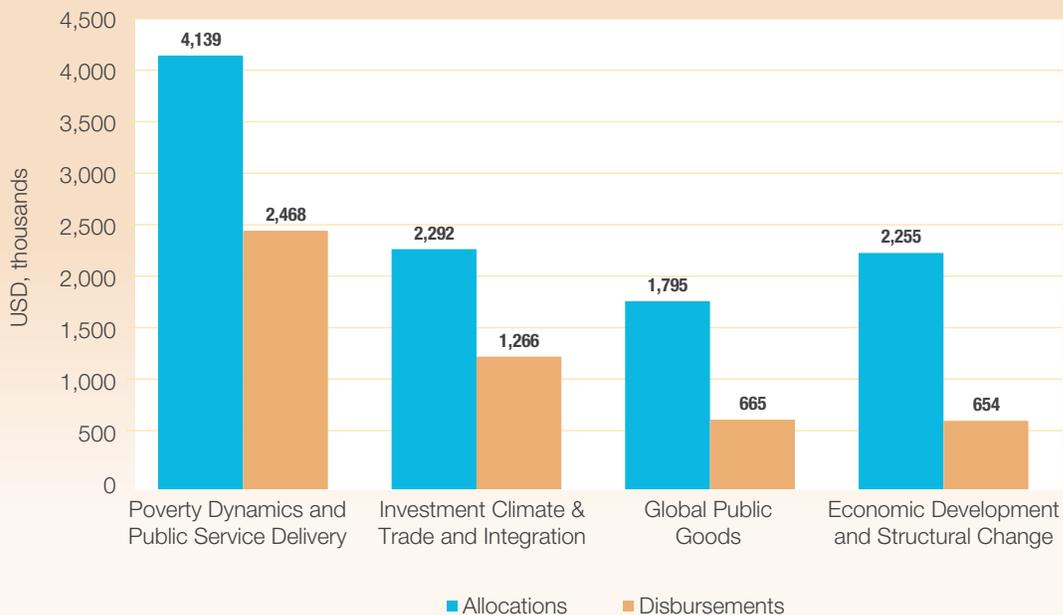
From Inception to June 30, 2011 (USD, thousands)



Source: Program Administration Unit.

Figure 3. KCP II Allocations and Disbursements

From Inception to June 30, 2011 (USD, thousands)

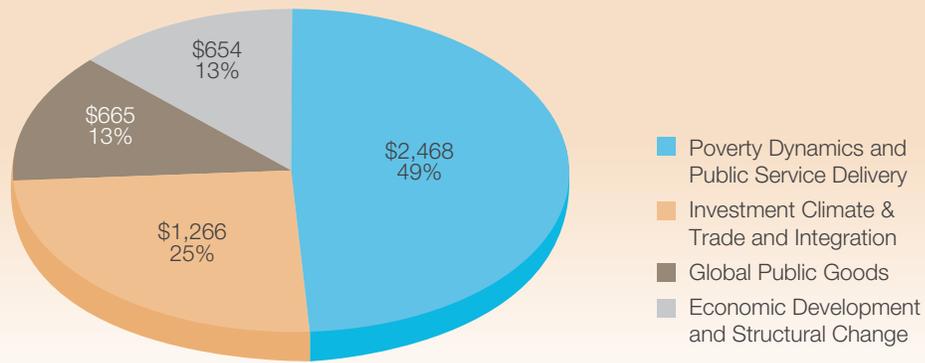


Source: Program Administration Unit.

Note: Excludes new proposals approved in June 2011 because they had not started during the reporting period.

Figure 4. KCP II Disbursements by Window

From Inception to June 30, 2011 (USD, thousands)

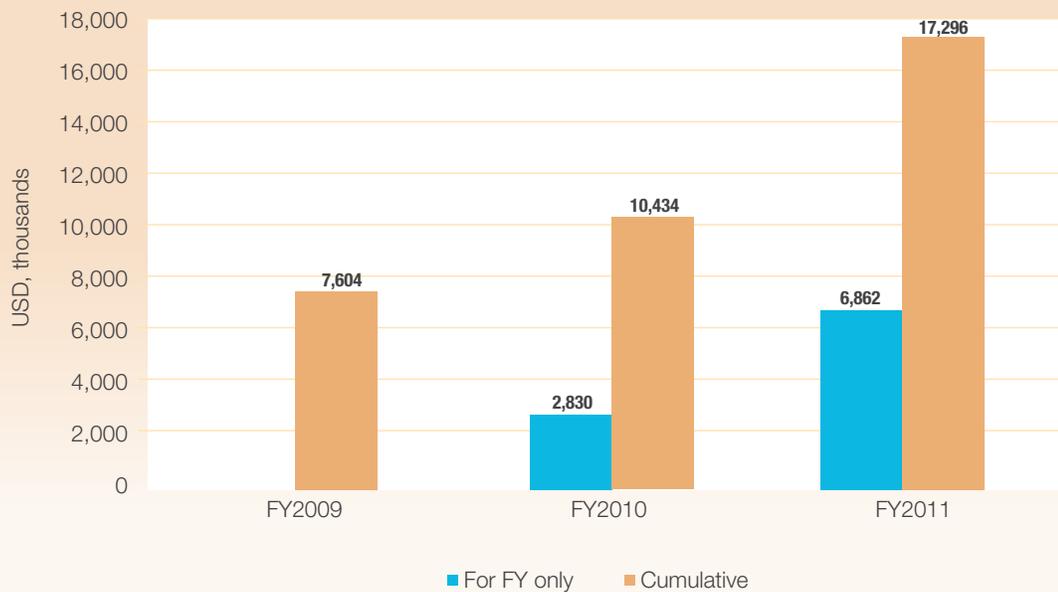


Total = USD 5,053

Source: Program Administration Unit.

Figure 5. KCP II Donor Contributions and Pledges by Fiscal Year

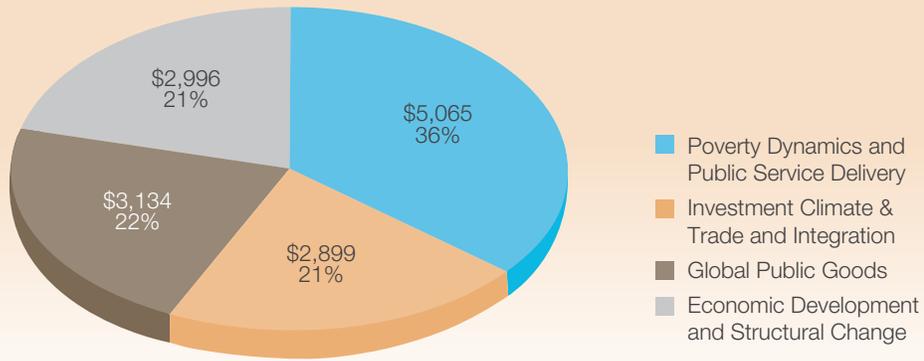
From Inception to June 30, 2011 (USD, thousands)



Source: Program Administration Unit.



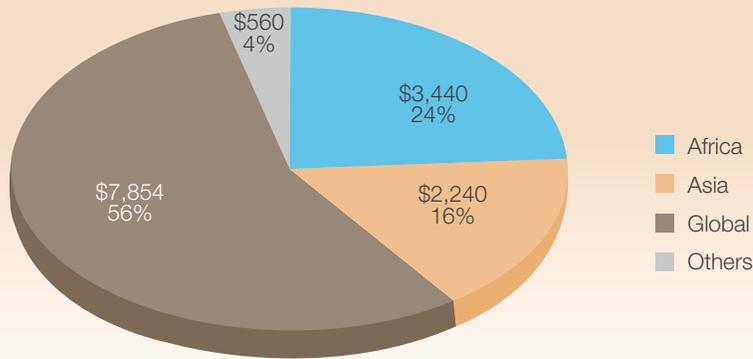
Figure 6. KCP II Allocations by Window
From Inception to June 30, 2011 (USD, thousands)



Total = USD 14,094

Source: Program Administration Unit.

Figure 7. KCP II Allocations by Region
From Inception to June 30, 2011 (USD, thousands)



Total: USD 14,094

Source: Program Administration Unit.





Annex 1: The KCP II Portfolio

Table A.1. KCP II – Parent Fund Accounts As of June 30, 2011 (USD)

	TF071173	TF071177	TF071178	TF071393	UNAUDITED
	POVERTY DYNAMICS & PUBLIC SERVICE DELIVERY	INVESTMENT CLIMATE & TRADE AND INTEGRATION	GLOBAL PUBLIC GOODS	ECONOMIC DEVELOPMENT & STRUCTURAL CHANGE	TOTAL
Contributions Received					
United Kingdom ¹	1,398,080	1,636,728	816,553	920,740	4,772,100
Finland ²	1,020,625	1,020,625	1,020,625		3,061,875
Australia ³	800,000	800,000	400,000		2,000,000
Sweden ⁴	1,359,407	28,099	402,745	21,074	1,811,325
Canada ⁵	591,964	290,276	193,517	290,276	1,366,033
Denmark ⁶				924,351	924,351
Switzerland ⁷	62,028	62,029	62,028	330,818	516,903
China ⁸				450,000	450,000
Singapore ⁹				100,000	100,000
Total Contributions Received	5,232,104	3,837,755	2,895,469	3,037,258	15,002,586
Administrative Fee (1%)	(52,321)	(38,378)	(28,955)	(30,373)	(150,026)
Net Contributions Received	5,179,783	3,799,378	2,866,514	3,006,886	14,852,560
Outstanding Pledges (Signed)					
United Kingdom ¹	704,352		896,448		1,600,800
Sweden ⁴	123,855		318,483		442,338
China ⁸				50,000	50,000
Singapore ⁹				200,000	200,000
Total Outstanding Pledges	828,207		1,214,931	250,000	2,293,138
Administrative Fee (1%)	(8,282)		(12,149)	(2,500)	(22,931)
Net Outstanding Pledges	819,925		1,202,782	247,500	2,270,207
Investment Income	40,335	32,672	20,433	12,639	106,078

Continued on next page

Table A.1. KCP II – Parent Fund Accounts As of June 30, 2011 (USD) (continued)

	TF071173	TF071177	TF071178	TF071393	UNAUDITED
	POVERTY DYNAMICS & PUBLIC SERVICE DELIVERY	INVESTMENT CLIMATE & TRADE AND INTEGRATION	GLOBAL PUBLIC GOODS	ECONOMIC DEVELOPMENT & STRUCTURAL CHANGE	TOTAL
Less:					
Project Allocations	(5,065,167)	(2,899,367)	(3,133,406)	(2,996,000)	(14,093,940)
Program Management and Administration	(48,136)	(46,660)	(44,744)	(46,948)	(186,488)
Technical Reviewers' Fees	(31,642)	(25,142)	(28,142)	(27,567)	(112,492)
ESTIMATED FUNDS AVAILABLE	895,097	860,881	883,438	196,510	2,835,926
Pledges in Pipeline (signed August 26, 2011)					
Korea ¹⁰				1,063,190	1,063,190

Notes:

(1) United Kingdom – total pledge is GBP 4,000,000. Of this amount, GBP 3,500,000 will be allocated among the four parent funds at the discretion of the World Bank, and GBP 500,000 is for TF071393 “Economic Development & Structural Change” (window 4). DfID has paid in GBP 3,000,000, with the outstanding pledge of GBP 1,000,000 due on or before March 31, 2012.

(2) Finland – total pledge is EUR 2,250,000 with contributions allocated equally among the three parent funds. Donor has no outstanding pledges.

(3) Australia – total pledge is USD 2,000,000 with contributions allocated as follows: 40% to TF071173, 40% to TF071177 and 20% to TF071178. Donor has no outstanding pledges.

(4) Sweden – initial pledge from SIDA is SEK 8,500,000 allocated entirely to TF071173 with preference to the WDR2011: Conflict, Security and Development. Additional pledge of SEK 6,000,000 for all windows with allocation at the discretion of the World Bank, of which SEK 3,200,000 has been received. The Ministry for Foreign Affairs contributed USD 150,000 to TF071173 for the WDR2012 (Gender Equality and Development).

(5) Canada – initial pledge is CAD 1,200,000 allocated as follows: CAD 400,000 to TF071173 with 50% to the WDR2011: Conflict, Security and Development, CAD 300,000 to TF071177, CAD 200,000 to TF071178 and CAD 300,000 to TF071393. Additional contribution of CAD 200,000 made to TF071173 for WDR2012: Gender Equality and Development.

(6) Denmark – total pledge of DKK 5,000,000 to TF071393 “Economic Development & Structural Change” (window 4) 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.

(7) Switzerland – total pledge of CHF 500,000 with CHF 60,000 each for TF071173, TF071177, TF071178, and CHF 320,000 to TF071393.

(8) China – total pledge of USD 500,000 to TF071393 “Economic Development & Structural Change” (window 4) to be paid in three installments.

(9) Singapore – total pledge of USD 300,000 to TF071393 “Economic Development & Structural Change” (window 4) to be paid in three installments.

(10) Korea – total pledge of KRW 1,150,000,000 to TF071393 “Economic Development & Structural Change” (window 4) to be paid in full in USD equivalent.

(11) Exchange rates at June 30, 2011: GBP = 1.6008; SEK = 6.33; KRW = 1081.65.



Table A.2. KCP II Allocations and Disbursements As of June 30, 2011 (USD)

	TRUST FUND	PROJECT NAME	TEAM LEADER	ALLOCATIONS	DISBURSEMENTS	AVAILABLE
POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY (TF071173)						
1.	TF094629	Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty	Lanjouw	120,000	70,388	49,612
2.	TF095034	Poverty Mapping in China	Zhao	50,000	24,078	25,922
3.	TF094650	The Impact of Providing Land Titles in Ghana	Goldstein	70,000	69,991	9
4.	TF094652	Impact of Urban Land Titling: Evidence from Land Lottery in Burkina Faso	Goldstein	70,000	3,010	66,990
5.	TF094628	Kagera Health and Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa	Beegle	175,000	152,766	22,234
6.	TF094626	The Effects of Home Based HIV Counseling & Testing: Impact Evaluation of a Program in Kenya	Goldstein	100,000	60,270	39,730
7.	TF094627	HIV/AIDS Treatment and Prevention	de Walque	100,000	49,976	50,024
8.	TF094625	Learning and Educational Achievements in Pakistan (LEAPS): Continuation	Das	175,000	96,153	78,847
9.	TF094157	Impact Evaluation of Youth-Friendly Services on Voluntary Counseling and Testing among the Youth Aged 15–24 Years in Kenya	Legovini	100,000	64,315	35,685
10.	TF096467	World Development Report 2011: Conflict, Security and Development	Milante	1,472,667	1,141,531	331,136
11.	TF098362	Correcting the Sampling Bias of China's Urban Household Survey	Chen	55,000	12,823	42,177
12.	TF097370	World Development Report 2012: Gender Equality and Development	Revengea, Shetty	821,500	448,051	373,449
13.	TF099270	Implications for Poverty of Productivity Growth in Agriculture & Non-Agriculture	Martin	100,000	—	100,000
14.	TF098797	Living Standards Measurement Study (LSMS): Improving the Quality and Comparability of Income Data through Research and Dissemination	Beegle/Scott	150,000	—	150,000
15.	TF097381	Policy, Governance and the Private Sector in the Provision of Public Services: Evidence from Indonesia's Health Sector	Giles	225,000	46,151	178,849
16.	TF098792	Tanzania Social Action Fund (TASAF) Round 3 Survey Support	Ozler	130,000	130,000	—
17.	TF098893	Measuring Development Indicators for Pastoralist Populations	Beegle/ Carletto	95,000	4,800	90,200

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Table A.2. KCP II Allocations and Disbursements As of June 30, 2011 (USD) *(continued)*

	TRUST FUND	PROJECT NAME	TEAM LEADER	ALLOCATIONS	DISBURSEMENTS	AVAILABLE
18.	TF099007	Measuring Inequality and Inequality of Opportunity Using Development Impact Evaluation (DIME) Microdata	Kondylis	50,000	22,081	27,919
19.	TF098991	Learning from Interventions to Improve Parenting Skills in Chile	Galasso	80,000	71,440	8,560
TOTAL – POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY				4,139,167	2,467,824	1,671,343
INVESTMENT CLIMATE & TRADE AND INTEGRATION (TF071177)						
20.	TF094784	The Financial Crisis and Foreign Bank Participation in Developing Countries	Peria	40,000	39,930	70
21.	TF094563	Employment Creation in Large and Small firms	McKenzie	44,368	44,368	—
22.	TF094551	How Much Do Management Practices Matter? A Randomized Experiment in India	McKenzie	49,999	49,999	—
23.	TF094573	Regulation and Bank Stability	Demirguc-Kunt	250,000	85,347	164,653
24.	TF094565	Globalization, Risk, and Crises	Schmukler	70,000	37,440	32,560
25.	TF095860	Reticent Respondents and Cross-Country Survey Data on Corruption	Kraay	75,000	34,040	40,960
26.	TF094566	Comparable Disaggregated Census Data across Developing Countries	Hall-Driemeier	70,000	67,244	2,756
27.	TF095859	The Growth Effects of Fiscal Policy in Developing Countries	Kraay	50,000	44,940	5,060
28.	TF095146	FDI and Macroeconomic Stability	Hevia	40,000	5,600	34,400
29.	TF094567	An Experimental Study Of 'Poverty Traps' Among Micro-Entrepreneur Groups	Ozler	128,000	128,000	—
30.	TF094568	Labor Markets and Impacts of the Financial Crisis: Evidence from China and India	Giles	225,000	161,249	63,751
31.	TF094600	Transport Costs and Development: Evidence from China's Infrastructure Boom	Jacoby	40,000	40,000	—
32.	TF094947	Services, FDI and Endogenous Productivity Effects in the European Neighborhood Policy—A Quantitative Assessment for Georgia	Fernandes	90,000	89,273	727
33.	TF094570	Modeling and Analysis of Consumption Patterns	Dupriez	150,000	87,907	62,093
34.	TF095266	Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries	Dailami	100,000	49,805	50,195

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Table A.2. KCP II Allocations and Disbursements As of June 30, 2011 (USD) *(continued)*

	TRUST FUND	PROJECT NAME	TEAM LEADER	ALLOCATIONS	DISBURSEMENTS	AVAILABLE
35.	TF094158	Strengthening Agricultural Production Systems and Facilitating Access to Markets: Impact Evaluation of Nigeria's Commercial Agriculture Development	Legovini	100,000	95,673	4,327
36.	TF095040	Migration of Turkey's Top Students - Brain Drain and Brain Gain	Ozden	—	—	—
37.	TF097641	Can Microfinance Foster Entrepreneurship in Poor Communities?	McKenzie	75,000	24,200	50,800
38.	TF097838	Reducing Informality among Firms in Minas Gerais, Brazil	Legovini	80,000	7,589	72,411
39.	TF010373	Least Developed Countries and the Externality Impact of WTO Dispute Settlement	Bown	80,000	—	80,000
40.	TF097976	Will There be a Phoenix Miracle? Firm-Level Evidence from Financial Crises	Demirguc-Kunt	50,000	20,060	29,940
41.	TF098652	On FDI Spillovers	Kee	35,000	17,710	17,290
42.	TF097855	Worldwide Governance Indicators	Keefer/Kraay	100,000	36,716	63,284
43.	TF097841	Private Sector Dynamics in Cote D'Ivoire	Klapper	40,000	29,982	10,018
44.	TF097808	Innovation and Growth	Maloney	70,000	4,600	65,400
45.	TF097625	Bank Competition and Access to Finance	Peria	60,000	26,705	33,295
46.	TF098583	On the Use of Domestic and International Debt Markets	Schmukler	100,000	29,024	70,976
47.	TF099249	Bank Bailouts & Moral Hazard	Anginer	50,000	8,750	41,250
48.	TF099120	Fiscal Multipliers and the State of the Economy	Loayza/Hevia	30,000	—	30,000
TOTAL – INVESTMENT CLIMATE & TRADE and INTEGRATION				2,292,367	1,266,151	1,026,216
GLOBAL PUBLIC GOODS (TF071178)						
49.	TF094965	Economics of Biofuels and Potential Impacts on Biodiversity	Timilsina	125,000	69,250	55,750
50.	TF094962	Water Governance Decentralization in Africa	Toman	120,000	120,000	—
51.	TF094964	Improving Efficiency and Climate Change Mitigation – Electricity Market Competition and Low-Carbon Generation Technologies	Kessides	50,000	28,000	22,000
52.	TF094963	Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries	Toman	180,000	75,714	104,286

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Table A.2. KCP II Allocations and Disbursements As of June 30, 2011 (USD) *(continued)*

	TRUST FUND	PROJECT NAME	TEAM LEADER	ALLOCATIONS	DISBURSEMENTS	AVAILABLE
53.	TF097696	Green Growth Opportunities in Developing Countries	Toman	400,000	156,350	243,650
54.	TF097836	Survey Data Repository and Management Toolkit	Mistiaen	220,000	150,375	69,625
55.	TF010503	Global Demand System for Consumer Behaviour	Go	100,000	—	100,000
56.	TF097048	Research on HIV/AIDS Prevention and Treatment	de Walque	55,000	6,020	48,980
57.	TF099394	Enhanced Global Macro/Financial Model for Developing Countries	Van Rensburg	100,000	30,530	69,470
58.	TF098661	Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions	Timilsina	75,000	23,400	51,600
59.	TF010291	Data Resource Center for Structural Economic Analysis	Fantom	160,000	—	160,000
60.	TF099762	The Electricity/Groundwater Nexus for Indian Farmers: Implications of Electricity Subsidy Reform for Efficiency and Distribution	Toman	100,000	5,000	95,000
61.	TF099603	International Survey on Intellectual Property Enforcement Agencies	Lederman	60,000	—	60,000
62.	TF010600	International Cooperation and Conflict Over Water	Toman	50,000	—	50,000
TOTAL – GLOBAL PUBLIC GOODS				1,795,000	664,638	1,130,362
ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE (TF071393)						
63.	TF097645	Stimulating Industrial Upgrading in Sub-Saharan Africa	Goldstein	200,000	—	200,000
64.	TF097765	Research Agenda in New Structural Economics	Sepulveda	150,000	120,163	29,837
65.	TF010008	Industrial Structure, Productivity, Growth and Welfare	Hallward-Driemeier	150,000	—	150,000
66.	TF097766	Structural Transformation, Enterprise Policies, and Economic Growth	Sepulveda	150,000	111,037	38,963
67.	TF098106	Export Transaction Database	Freund	150,000	17,868	132,132
68.	TF097767	Country Case Studies on Structural Change and Industrial Policies	Sepulveda	350,000	—	350,000
69.	TF098053	Industrial Policy in an Uncertain Environment	Loayza	75,000	40,881	34,119
70.	TF098764	Structural Transformation and Rural Social Protection Policies: Evidence from China	Giles	250,000	200,000	50,000

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Table A.2. KCP II Allocations and Disbursements As of June 30, 2011 (USD) *(continued)*

	TRUST FUND	PROJECT NAME	TEAM LEADER	ALLOCATIONS	DISBURSEMENTS	AVAILABLE
71.	TF099198	Moving to Density: A Research Program on the Rural-Urban Transformation in Developing Countries	Deichmann	500,000	143,211	356,789
72.	TF099128	Upgrading the Networking and Technological Capacity of Suppliers in South Africa	Fernandes	180,000	—	180,000
73.	TF099604	Commodity Prices, Household Adjustments, and Structural Transformation	Lederman	50,000	—	50,000
74.	TF099203	Testing the Robustness of the Energy Intensity Kuznets Curve	Deichmann	50,000	21,150	28,850
TOTAL – ECONOMIC DEVELOPMENT & STRUCTURAL CHANGE				2,255,000	654,311	1,600,689
KCP II ALLOCATIONS & DISBURSEMENTS, June 30, 2011				10,481,534	5,052,923	5,428,611

Note: This report does not include new projects approved in June 2011.

Table A.3. Beneficiary Countries

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



TABLE A.4. COMPLETED KCP II PROJECTS IN FY2011 (USD)

	PROJECT NAME	TRUST FUND	TEAM LEADER	DISBURSEMENTS
POVERTY DYNAMICS AND PUBLIC SERVICE DELIVERY				
1.	Poverty Mapping in China	TF095034	Qinghao Zhao	24,078
2.	Kagera Health and Development Survey 2010: Long-Run Patterns of Growth and Poverty in Africa	TF094628	Kathleen Beegle	152,766
INVESTMENT CLIMATE & TRADE AND INTEGRATION				
3.	The Financial Crisis and Foreign Bank Participation in Developing Countries	TF094784	Maria Soledad Martinez Peria	39,930
4.	Employment Creation in Large and Small Firms	TF094563	David McKenzie	44,368
5.	The Growth Effects of Fiscal Policy in Developing Countries	TF095859	Aart Kraay	44,940

TABLE A.5. ONGOING KCP II PROJECTS IN FY2011

	PROJECT NAME	TRUST FUND	ALLOCATION (USD)	TEAM LEADER
POVERTY DYNAMICS and PUBLIC SERVICE DELIVERY				
1.	Economic Growth and Crisis in Africa: Improving Methods for Measuring Poverty	TF094629	120,000	Peter Lanjouw
2.	The Impact of Providing Land Titles in Ghana	TF094650	70,000	Markus Goldstein
3.	Impact of Urban Land Titling: Evidence from Land Lottery in Burkina Faso	TF094652	70,000	Markus Goldstein
4.	The Effects of Home Based HIV Counseling & Testing: Impact Evaluation (IE) of a Program in Kenya	TF094626	100,000	Markus Goldstein
5.	HIV/AIDS Treatment and Prevention	TF094627	100,000	Damien de Walque
6.	Learning and Educational Achievements in Pakistan (LEAPS): Continuation	TF094625	175,000	Jishnu Das
7.	Impact Evaluation of Youth-Friendly Services on Voluntary Counseling and Testing among the Youth Aged 15–24 Years in Kenya	TF094157	100,000	Arianna Legovini
8.	World Development Report 2011: Conflict, Security and Development	TF096467	1,472,667	Gary Milante
9.	Correcting the Sampling Bias of China Urban Household Survey	TF098362	55,000	Shaohua Chen
10.	Implications for Poverty of Productivity Growth in Agriculture & Non-Agriculture	TF099270	100,000	William Martin
11.	Living Standards Measurement Study (LSMS): Improving the Quality and Comparability of Income Data Through Research and Dissemination	TF098797	150,000	Kathleen Beegle
12.	World Development Report 2012: Gender Equality and Development	TF097370	821,500	Ana Revenga/Sudhir Shetty
13.	Policy, Governance and the Private Sector in the Provision of Public Services: Evidence from Indonesia's Health Sector	TF097381	225,000	John Giles
INVESTMENT CLIMATE & TRADE AND INTEGRATION				
14.	Regulation and Bank Stability	TF094573	250,000	Asli Demirguc-Kunt
15.	Globalization, Risk, and Crises	TF094565	70,000	Sergio Schmukler
16.	Reticent Respondents and Cross-Country Survey Data on Corruption	TF095860	75,000	Aart Kraay
17.	Comparable Disaggregated Census Data Across Developing Countries	TF094566	70,000	Mary Hallward-Driemeier
18.	FDI and Macroeconomic Stability	TF095146	40,000	Constantino Hevia
19.	An Experimental Study Of 'Poverty Traps' Among Micro-Entrepreneur Groups	TF094567	128,000	Berk Ozler
20.	Labor Markets and Impacts of the Financial Crisis: Evidence from China and India	TF094568	225,000	John Giles
21.	Transport Costs and Development: Evidence from China's Infrastructure Boom	TF094600	40,000	Hanan Jacoby

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TABLE A.5. ONGOING KCP II PROJECTS IN FY2011 *(continued)*

	PROJECT NAME	TRUST FUND	ALLOCATION (USD)	TEAM LEADER
22.	Services, FDI and Endogenous Productivity Effects in the European Neighborhood Policy-A Quantitative Assessment for Georgia	TF094947	90,000	Ana Fernandes
23.	Modeling and Analysis of Consumption Patterns	TF094570	150,000	Olivier Dupriez
24.	Analyzing the Impact of Financial Crisis on International Bank Lending to Developing Countries	TF095266	100,000	Mansoor Dailami
25.	Strengthening Agricultural Production Systems and Facilitating Access to Markets: Impact Evaluation of Nigeria's Commercial Agriculture Development	TF094158	100,000	Arianna Legovini
26.	Can Microfinance Foster Entrepreneurship in Poor Communities?	TF097641	75,000	David McKenzie
27.	Reducing Informality among Firms in Minas Gerais, Brazil	TF097838	80,000	Arianna Legovini
28.	Least Developed Countries and the Externality Impact of WTO Dispute Settlement	TF010373	80,000	Chad Bown
29.	Will There be a Phoenix Miracle? Firm-Level Evidence from Financial Crises	TF097976	50,000	Asli Demirguc-Kunt
30.	On FDI Spillovers	TF098652	35,000	Hiau Looi Kee
31.	Worldwide Governance Indicators	TF097855	100,000	Philip Keefer/Aart Kraay
32.	Private Sector Dynamics in Cote D'Ivoire	TF097841	40,000	Leora Klapper
33.	Innovation and Growth	TF097808	70,000	William Maloney
34.	Bank Competition and Access to Finance	TF097625	60,000	Maria Soledad Martinez Peria
35.	On the Use of Domestic and International Debt Markets	TF098583	100,000	Sergio Schmukler
GLOBAL PUBLIC GOODS				
36.	Economics of Biofuels and Potential Impacts on Biodiversity	TF094965	125,000	Govinda Timilsina
37.	Improving Governance of African River Basins – Determinants of Successes and Failures in Past Reforms	TF094962	120,000	Michael Toman
38.	Improving Efficiency and Climate Change Mitigation – Electricity Market Competition and Low-Carbon Generation Technologies	TF094964	50,000	Ioannis Kessides
39.	Economic Impacts of Low Carbon Growth Scenarios in Selected Developing Countries	TF094963	180,000	Michael Toman
40.	Green Growth Opportunities in Developing Countries	TF097696	400,000	Michael Toman
41.	Survey Data Repository and Management Toolkit	TF097836	220,000	Johan Mistiaen
42.	Global Demand System for Consumer Behaviour	TF010503	100,000	Delfin Go
43.	Research on HIV/AIDS Prevention and Treatment	TF097048	55,000	Damien de Walque
44.	Enhanced Global Macro/Financial Model for Developing Countries	TF099394	100,000	Theo Nortje Janse Van Rensburg

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TABLE A.5. ONGOING KCP II PROJECTS IN FY2011 *(continued)*

	PROJECT NAME	TRUST FUND	ALLOCATION (USD)	TEAM LEADER
45.	Quantifying the Transaction Costs of Selected Energy Efficiency Measures to Reduce GHG Emissions	TF098661	75,000	Govinda Timilsina
46.	Data Resource Center for Structural Economic Analysis	TF010291	160,000	Neil James Fantom
ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE				
47.	Stimulating Industrial Upgrading in Sub-Saharan Africa	TF097645	200,000	Markus Goldstein
48.	Research Agenda in New Structural Economics	TF097765	150,000	Claudia Paz Sepulveda
49.	Industrial Structure, Productivity, Growth and Welfare	TF010008	150,000	Mary Hallward-Driemeier
50.	Structural Transformation, Enterprise Policies, and Economic Growth	TF097766	150,000	Claudia Paz Sepulveda
51.	Industrial Policy in an Uncertain Environment	TF098053	75,000	Norman Loayza
52.	Export Transaction Data	TF098106	150,000	Caroline Freund/Ana Fernandes
53.	Country Case Studies on Structural Change and Industrial Policies	TF097767	350,000	Claudia Paz Sepulveda



TABLE A.6. New KCP II Projects in FY2011

	PROJECT NAME	APPROVED AMOUNT (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	150,000	Klaus Deininger
2.	Implementing a Multi-Disciplinary Tool for Social Capital Measurement	100,000	Florence Kondylis
3.	Governing Water for Agriculture: What Institutions for Which Contexts?	150,000	Florence Kondylis
4.	Economic and Gender Impacts of Peri-Urban Land Titling: The Case of Dar es Salaam	100,000	Klaus Deininger
5.	A 10-Year Follow-up of a Community-Level Nutrition Program in Madagascar	91,000	Emanuela Galasso
6.	Quality of Care in Health Markets: Supply- and Demand-Side Perspectives	335,000	Jishnu Das
7.	Tanzania Social Action Fund (TASAF) R3 Survey Support	130,000	Berk Ozler
8.	Measuring Development Indicators for Pastoralist Populations	95,000	Kathleen Beegle
9.	Measuring Inequality and Inequality of Opportunity using Development Impact Evaluation (DIME) Microdata	50,000	Arianna Legovini
10.	Learning from Interventions to Improve Parenting Skills in Chile	80,000	Emanuela Galasso
INVESTMENT CLIMATE & TRADE AND INTEGRATION			
11.	Food Prices, Middlemen, and Marketing Institutions: Evidence from Bangladesh	125,000	Forhad Shilpi
12.	Global Financial Inclusion Indicators	40,000	Leora Klapper
13.	Database of Emigration Laws and Policies in Developing Countries	40,000	Caglar Ozden
14.	Storage and Trade Policies for Improving Food Security	130,000	William Martin
15.	Understanding Capital Flows to Developing Countries	90,000	Sergio Schmukler
16.	Currency Wars	32,000	Ha Minh Nguyen
17.	Macroeconomic Impacts of Aid and Public Spending	50,000	Aart Kraay
18.	How does the Speed of Justice Affect Firms? Experimental Evidence from Senegal	100,000	Florence Kondylis
19.	Bank Bailouts & Moral Hazard	50,000	Deniz Anginer
20.	Fiscal Multipliers and the State of the Economy	30,000	Constantino Hevia
GLOBAL PUBLIC GOODS			
21.	Community Forestry and Pro-Poor Carbon Sequestration in Nepal	393,406	Michael Toman
22.	Mobilizing Spatial Economics and Information for Tiger Habitat Conservation	300,000	Susmita Dasgupta
23.	Economic Valuation of Losses due to "Amazon Dieback"	280,000	Michael Toman
24.	Open Metadata and Methods Application	365,000	Abdolreza Farivari
25.	The Electricity/Groundwater Nexus for Indian Farmers: Implications of Electricity Subsidy Reform for Efficiency and Distribution	100,000	Michael Toman
26.	International Survey on Intellectual Property Enforcement Agencies	60,000	Daniel Lederman
27.	International Cooperation and Conflict Over Water	50,000	Michael Toman

Continued on next page

TABLE A.6. New KCP II Projects in FY2011 *(continued)*

	PROJECT NAME	APPROVED AMOUNT (USD)	TEAM LEADER
ECONOMIC DEVELOPMENT AND STRUCTURAL CHANGE			
28.	WDR 2013: Jobs	500,000	Martin Rama/ Kathleen Beegle
29.	Early Work Experiences and the Skills of Young Adults: Evidence from Senegal	141,000	John Giles
30.	Structural Transformation, Macroeconomic Behaviors and Industrial Policies	100,000	Vivian Hon
31.	Structural Transformation and Rural Social Protection Policies: Evidence from China	250,000	John Giles
32.	Moving to Density: A Research Program on the Rural-Urban Transformation in Developing Countries	500,000	Uwe Deichmann
33.	Upgrading the Networking and Technological Capacity of Suppliers in South Africa	180,000	Ana Fernandes
34.	Commodity Prices, Household Adjustments, and Structural Transformation	50,000	Daniel Lederman
35.	Testing the Robustness of the Energy Intensity Kuznets Curve	50,000	Uwe Deichmann



Annex 2: KCP II Projects in Profile

1. Gender Equality Matters for Development (WDR 2012)

Gender equality is smart economics—it can enhance economic efficiency and improve other development outcomes in key ways. First, removing barriers that prevent women from having the same access as men to education, economic opportunities, and productive inputs can generate broad productivity gains—gains that matter immensely in today’s competitive and globalized world. Second, improving women’s absolute and relative status feeds many other development outcomes, including those for their children. Third, leveling the playing field—where women and men have equal chances to become socially and politically active, make decisions, and shape policies—is likely to lead over time to more representative institutions and policy choices, and thus to a better development path.

Although the past quarter century has seen unprecedented narrowing of many gender gaps in education, health, and labor market opportunities, not all gender disparities shrink with economic development. Therefore, corrective policies are needed to focus on gaps that persist even as countries get richer. Bringing a gender perspective to development policy making can also help make other policies more effective. The international community can promote efforts in these four priority areas, by providing evidence-based public action through better data, impact evaluation, and learning.

The World Development Report (WDR) points to four policy priority areas going forward:

1. Reducing gender gaps in human capital endowments (addressing excess female mortality and eliminating the gender disadvantage in education where these remain)

2. Closing differences in access to economic opportunities and the ensuing earnings and productivity gaps between women and men
3. Shrinking gender differences in voice and agency
4. Limiting the reproduction of gender inequality across generations.

These are areas where the payoff for development from addressing gender disparities is potentially the largest; where higher incomes by themselves do little to reduce gender gaps; and where a reorientation of policies would yield the greatest benefit.

- **Productivity gains:** Women now represent 40 percent of the global labor force, 43 percent of the world’s agricultural labor force, and more than half the world’s university students. Productivity will be raised if women’s skills and talents are used more fully. For example,

if women farmers were to have the same access as men to fertilizers and other inputs, maize yields would increase by almost a sixth in Malawi and Ghana. And eliminating barriers that discriminate against women working in certain sectors or occupations could increase labor productivity by as much as 25 percent in some countries.

- **Improved outcomes for the next generation:** Greater control over household resources by women would enhance countries' growth prospects by changing spending patterns in ways that benefit children. And improvements in women's education and health have been linked to better outcomes for their children in countries as varied as Brazil, Nepal, Pakistan, and Senegal.
- **More representative decision making:** Gender equality matters for society more broadly. Empowering women as economic, political, and social actors can change policy choices and make institutions more representative of a range of voices. In India, giving power to women at the local level led to increases in the provision of public goods, such as water and sanitation, which mattered more to women.

Development has closed some gender gaps...

Of the disadvantages faced by women and girls, the following have shrunk most rapidly over the past quarter century:

- **Educational enrollment.** Gender gaps in primary education have closed in almost all countries. In secondary education, these gaps are closing rapidly and have reversed in many countries, especially in Latin America, the Caribbean, and East Asia—but it is now boys and young men who are disadvantaged. Among developing countries, girls outnumber boys in secondary schools in 45 countries and

there are more young women than men in universities in 60 countries.

- **Life expectancy.** Since 1980, women are living longer than men in all parts of the world. And, in low-income countries, women live 20 years longer on average than they did in 1960.
- **Labor force participation.** More than half a billion women have joined the world's labor force over the past 30 years as women's participation in paid work has risen in most developing countries. An important reason has been the unprecedented reduction in fertility in developing countries as diverse as Bangladesh, Colombia, and Iran.

...but other gaps persist

Gender disparities still remain in many areas, even in rich countries. The most persistent and egregious gaps include:

- **Excess deaths of girls and women.** Females are more likely to die, relative to males, in many low and middle-income countries than their counterparts in rich countries. These deaths are estimated at about 3.9 million women and girls each year under the age of 60. About two-fifths of them are never born, a sixth die in early childhood, and over a third die in their reproductive years. And this number is growing in Sub-Saharan Africa, especially in childhood and the reproductive years and in the countries hardest hit by the HIV/AIDS epidemic.
- **Disparities in girls' schooling.** Despite the overall progress, primary and secondary school enrollments for girls remain much lower than for boys for disadvantaged populations in many Sub-Saharan countries and some parts of South Asia.
- **Unequal access to economic opportunities.** Women are more likely than men to work as unpaid family laborers or in the informal sector. Women farmers tend to farm smaller plots and less profitable crops than men, and



women entrepreneurs operate in smaller firms and less profitable sectors; as a result, women earn less than men.

- **Differences in voice in households and society.** In many countries, women—especially poor women—have less say over decisions and less control over resources in their households. And in most countries, women participate less in formal politics than men and are under-represented in its upper echelons.

2. Policy Research Report: Localizing Development: Has Participation Worked?

For the past two decades, multilateral and bilateral aid agencies have funneled billions of dollars via a broad strategy of “local development.” Underlying this trend is a widespread belief that “going local” results in better public services, enhanced governance, and improved human welfare, all of which ultimately alleviate poverty.

Unfortunately, arguments against localizing development abound. Critics have challenged the transformational capacity of local participation on a number of grounds. Of notable concern is the costly exercise of “voice” and “choice.” At the most basic level, it can involve real or imputed financial losses for the poor due to the time commitments required for adequate participation. Moreover, problems of coordination, asymmetric information, and pervasive inequity together with attendant problems of capture, free-riding, and low capacity can result in a net reduction in social welfare.

Meanwhile, advocates of local government decentralization and community-based development claim that the local approach will improve development outcomes by:

- Making information more widely available

- Allowing communities to identify projects and beneficiaries
- Letting citizens have a bigger role in decisions that affect their lives
- Expanding the resources available to the poor
- Strengthening the civic capacities of communities by nurturing organizations that represent them, and by enabling them to acquire skills and organizational abilities that strengthen their capacity for collective action.

With an aim to survey these arguments and sift through the evidence on their efficacy to ultimately provide guidance for policy, the KCP-funded Policy Research Report titled “Localizing Development: Has Participation Worked?” assesses the evidence central to the concerns of policy makers and donors. The report examines the evidence on the various debates surrounding community-driven development (CDD) and local governance by drawing on the literature of the same topics in political science, history, anthropology, and sociology, in addition to the economics literature.

Specifically, this research assessed available evidence from (1) rigorously designed evaluations of decentralization efforts and community based/participatory antipoverty programs; (2) broad theoretical and empirical literature in economics, when appropriate; (3) case studies of both small and large-scale local initiatives; (4) ethnographies of local government and community-based development projects conducted by sociologists, anthropologists, and political scientists; and (5) historical work on local governance.

Results: What Makes Participation Work or Fail?

The Inevitable Trade-off

The literature on decentralized development identifies a central trade-off: the advantages of local information versus the hazards of local capture. The

evidence indicates that the latter can overwhelm the former in many cases. Although local actors do have better information about preferences and eligibility, the case for greater local accountability is far more problematic.

The Decisive Role of Pre-existing Community Characteristics

Pre-existing community characteristics, such as inequalities of wealth and political power and ethnic heterogeneity, appear to play a decisive role in shifting the balance between information and capture. Communities that have greater wealth inequality do much worse, as do communities where caste, race, and gender disparities are important and where ethnic heterogeneity is substantial, particularly if it is also embedded in a hierarchical structure that valorizes particular ethnic groups.

Similarly, community capacity matters a great deal. More remote and isolated localities do worse, as do those with low literacy levels and higher levels of poverty. Such localities also tend to be more poorly served by mass media and other sources of information and are less likely to have much central oversight.

Conditions of Successful Participation

Participation occurs and decentralized outcomes flow when:

- Mechanisms for downward accountability have been well thought out.
- There is a strong center capable of setting eligibility criteria, building local capacity as needed, and effectively monitoring local resource allocation decisions.
- Projects emerge from local experimentation and innovation rather than *best practice* implants.

- Efforts are made to activate civic society by creating incentives, such as audits and performance-based rewards, or by building the community's capacity to observe and sanction through the provision of information or training, particularly where inequities are entrenched.

Ghazala Mansuri, the task team leader of this project, admits that it is unreasonable to expect unambiguous, black and white answers about "what works." There are two important reasons for this. First, mechanisms of local governance vary widely across countries, and CDD projects are highly diverse in the policies they oversee and are distinct both in kind and in the number of people they affect (e.g., the size of the community). Second, the socio-political environments in which local governments and communities function vary widely, which means that local development is shaped by the context within which it exists.

Consequently, the Policy Research Report (PRR) aimed to provide clarity on the ways in which the environment and project/intervention aspects (design, implementation, and scale) shape the observable outcomes. The answers offered by the PRR are, in this sense, conditional. The challenge is to uncover how and when these conditions—history, institutions, socio-cultural conditions, and political factors—interact with economic incentives to create the pre-conditions for effective local development, and how project design can be made flexible enough to adjust to unexpected contextual challenges.

The reason to remain hopeful is that this KCP project provided, for the first time, an exhaustive overview of the field of participation and decentralization that categorizes and analyzes the debates in these fields. The insights from this research have now been distilled and presented in further detail in the book *Localizing Development: Does Participation work?*

Annex 3: New KCP II Projects in FY2011

Thirty-five new projects were approved from July 1, 2010 to June 30, 2011, with total allocations of USD 5,287,406 following two calls for proposals. All are in the initial phase of operation and do not yet have results. The new allocations for the reporting period include a range of grants from USD 30,000 to USD 500,000, averaging USD 149,011 per allocation.

Gendered Impacts of Low-Cost Land Titling in a Post-Conflict Environment: The Case of Rwanda
Approved Amount: USD 150,000
Task Team Leader: Klaus Deininger

This project will document and evaluate the Rwandan experience to demonstrate the potential of participatory and cost-effective land titling to enhance investment, increase productivity of land use, reduce conflict, and empower women. The main development objective of this project is to evaluate the impact and cost-effectiveness of the Rwanda program to (i) draw lessons that can be applied in other African countries; (ii) provide inputs into Rwanda's policy dialogue to improve outcomes for vulnerable groups and ensure sustainability of program effects; and (iii) establish an example of how rigorous impact evaluation can be conducted in this sector that could help inform other countries' approaches. Results from the impact analysis will be summarized in at least three research papers to be published in peer-reviewed journals.

Implementing a Multi-Disciplinary Tool for Social Capital Measurement
Approved Amount: USD 100,000
Task Team Leader: Florence Kondylis

Social capital is widely believed to be an important component of economic development. This project will undertake multi-country research for developing and implementing a multi-disciplinary tool to measure social capital at the level of local communities. The tool will include household and community level surveys, behavioral game theory-based methods, and network analysis. By measuring social capital in the context of community-driven-development (CDD) initiatives, this project aims to accurately capture (i) the role of social capital as catalyst for CDD, and (ii) the causal impact of community-driven initiatives on social capital. By carrying out this program in partnership with the Bank, implementing agencies will acquire the means to generate evidence regarding the causal chain between initial levels of social capital, project effectiveness and cost-effectiveness, and changes in the levels of social capital, and to feed this knowledge back into program design decisions.

Governing Water for Agriculture: What Institutions for Which Contexts?

Approved Amount: USD 150,000

Task Team Leader: Florence Kondylis

Irrigation interventions hold tremendous potential to help farmers cope with increasing climate variability and to ensure food security in many poorer regions of the world. This project will undertake empirical research to document which low-level institutional arrangements are best suited to improve water resource management, and, in turn, the expected yield in rural areas of Sub-Saharan Africa and Brazil. The methodology will rely on high-quality primary and secondary tank-level and farm-level data to assess the impact of the project and inform project design in real time. This will formally document which amounts of monitoring, incentives, and commitment can be envisaged for each implemented arrangement in order to reflect the on-the-ground reality.

Economic and Gender Impacts of Peri-Urban Land Titling: The Case of Dar es Salaam

Approved Amount: USD 100,000

Task Team Leader: Klaus Deininger

This project will provide a methodologically rigorous assessment of gender-sensitive and more cost-effective efforts at urban slum upgrading, with or without community-based provision of infrastructure by conducting a randomized-control trial in two low-income sub-wards in Dar es Salaam, Tanzania. One region will receive infrastructure through the Bank's Community Infrastructure Upgrading project, while the other will not receive infrastructure upgrading. In addition to the broader impact on the policy debate, the project will provide valuable services to the residents of two sub-wards of Dar es Salaam in obtaining access to formal land titles. Women and poor households in these informal settlements are expected to benefit from the activities of the project.

A 10-Year Follow-up of a Community-Level Nutrition Program in Madagascar

Approved Amount: USD 91,000

Task Team Leader: Emanuela Galasso

Madagascar stands out as one of the few African countries that sustained its commitment to combating malnutrition through the implementation of a large-scale community-based growth promotion program over a ten-year period. This project aims to provide a long-term evaluation of a community nutrition program in Madagascar by (i) documenting whether nutritional gains are sustained over more than ten years, and (ii) projecting the gains in nutritional outcomes when children are 0–3 years of age in terms of longer-term outcomes on child development. The evaluation will be carried out through a combination of non-experimental impact evaluation methods and a sub-component integrating qualitative and quantitative analysis. The use of innovative measurement methods for child development outcomes will add to our knowledge base on measurement issues in impact evaluation.

Quality of Care in Health Markets: Supply and Demand-Side Perspectives

Approved Amount: USD 335,000

Task Team Leader: Jishnu Das

This project will conduct a set of studies in primary health care settings in three diverse contexts—rural India, Serbia, and rural Cambodia—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. The following are among the objectives of this work: (a) expand quality of care work to additional settings, and (b) test innovative methods to measure quality, discrimination against patients from marginalized groups, and the demand for quality. The findings of this project will open up a broader set of questions on how behavior, economic incentives,



and patient choice interact in the determination of health care.

Food Prices, Middlemen, and Marketing Institutions: Evidence from Bangladesh

Approved Amount: USD 125,000

Task Team Leader: Forhad Shilpi

This research project was conceived in response to the request of Bangladeshi policy makers to provide evidence on the role of different policy-related factors, such as infrastructure and regulation, that may be responsible for erratic price behaviors in the market for essential food commodities. The central goal of the project is thus to provide evidence on the role played by a number of policy-related factors in the observed price responses to demand and supply shocks with a focus on market power and collusion. The research project will develop (i) a methodology for conducting surveys to understand the issues in development of market institutions; and (ii) a set of tools to analyze the market structure and price behaviors in developing countries. The research methodology developed in this project will provide tools for researchers in developing countries, as well as Bank economists to study market institutions in the context of food markets.

Global Financial Inclusion Indicators

Approved Amount: USD 40,000

Task Team Leader: Leora Klapper

This project will examine differences in how individuals around the world trust banks, and how this relationship changes during a financial crisis. The sample will cover about 150 countries over six years (2005–2010), including low-income African countries and high-income money centers; countries with high levels of financial inclusion and countries with low financial penetration; countries with high levels of foreign bank assets and countries with high-levels of state-owned bank assets; and countries that recently experienced other banking crises. The study will make an important

contribution by extending existing literature across regions and levels of economic development, and across time.

Database of Emigration Laws and Policies in Developing Countries

Approved Amount: USD 40,000

Task Team Leader: Caglar Ozden

Migration has become one of the most divisive and fiercely contested issues. Yet the whole policy debate centers around the actions of the destination countries. This project aims to address the absence of systematic and comparable data on policies regarding emigration by designing the parallel methodology for origin developing countries and mapping the policy landscape. Among the countries in the study's data sample are Mexico, Haiti, Egypt, and the Philippines, which have large migrant populations abroad and where migration has a significant impact on economic outcomes from poverty incidence to human capital accumulation incentives. By creating a comprehensive, cross-national database on emigration law and policy, this project will make it possible for scholars to evaluate the effects of different approaches to managing emigration and thereby make critical contributions to ongoing policy debates and assessments of policies.

Storage and Trade Policies for Improving Food Security

Approved Amount: USD 130,000

Task Team Leader: William Martin

This project will address the problems of poverty, hunger, and malnutrition associated with high food prices. In the first stage, the project will develop a modeling framework to analyze questions of international cooperation in trade and storage of key staple grains. The specific deliverables of the project will include: a documented analytical model and publicly-available software for analysis of problems involving international trade and storage of key

staple foods; a set of analytical and policy studies building on the results from the analytical model, and a set of trained users who can apply the modeling framework to the problems they confront.

Understanding Capital Flows to Developing Countries

Approved Amount: USD 90,000

Task Team Leader: Sergio Schmukler

Developing countries have been receiving large capital inflows that are exerting upward pressure on currencies and inflation rates. In some cases, they generate large booms in the domestic financial sector and asset prices. The project will try to understand the nature of capital flows (mainly, portfolio bond and equity flows) to all developing countries by using a novel micro-level data set on portfolio flows by institutional investors. The goal is to shed light on how financial institutions behave during good times and bad times, e.g., after crises and shocks. In addition to this micro work, the project will provide a macro analysis on how countries have been dealing with capital flows. The project findings will provide insight for designing policies that can help countries manage their financial integration, mitigate negative external shocks, and take advantage of the foreign capital they receive.

Currency Wars

Approved Amount: USD 32,000

Task Team Leader: Ha Minh Nguyen

The objective of this project is to develop an analytical and empirical framework to evaluate the relevance of alternative channels through which interventions that affect the level of the exchange rate may impact growth and welfare. The project will first undertake an empirical analysis of the link between exchange rate undervaluation and economic growth. The team will then examine the robustness of these results to different total factor productivity measures, data samples, and controls. The findings of this work will allow academics

and policy makers to understand the effects of a country's reserve accumulation and export promotion policy externality vis-à-vis other countries. In addition, the theoretical model developed through this project will provide a framework for further study on undervaluation in single-country as well as multi-country settings.

Macroeconomic Impacts of Aid and Public Spending

Approved Amount: USD 50,000

Task Team Leader: Aart Kraay

This project aims to identify the short-run effects of government spending and aid-financed spending on macroeconomic outcomes by deploying a novel identification strategy based on disbursement lags in aid projects financed by multilateral lenders. As a result, it will aim to generate policy-relevant research on a series of questions including: i) How much should government spending increase as a counter-cyclical response to economic downturns? ii) What are the short-run stimulating effects of aid inflows on economic activity? iii) Over the medium term, how much will aid raise growth? This project will develop one or more papers that exploit a new, and potentially powerful, approach to isolating plausibly exogenous fluctuations in aid flows and government spending in low-income countries that can be used to identify the short-to-medium run impacts of these variables on macroeconomic outcomes of interest.

How Does the Speed of Justice Affect Firms? Experimental Evidence from Senegal

Approved Amount: USD 100,000

Task Team Leader: Florence Kondylis

The impact of the speed of justice on firms' health and behavior has not been formally documented. Similarly, court-level interventions susceptible to cutting delays have not been rigorously evaluated. This project is a government-led, novel research project taking place in the commercial court of Dakar, Senegal. In the context of Senegal's justice



reform agenda, the research team is working with the Ministry of Justice (1) to test the impact of a court-level intervention to shorten treatment delays, and (2) to exploit these exogenous variations in the speed of justice at the case level to provide a rigorous measure of the impact of variations in delays at the firm level. The two main results of the project will contribute to (1) providing policy recommendations to increase the speed of justice, and (2) measuring the impact of the speed of justice at the firm level, thus building an evidence base for the economic governance policy agenda.

Community Forestry and Pro-Poor Carbon Sequestration in Nepal

Approved Amount: USD 393,406

Task Team Leader: Michael Toman

The overall objective of this study is to gain knowledge and insights that will help the World Bank Group and client countries understand the trade-offs between economic growth and the risks from climate change, thereby helping elucidate long-term strategies that address climate change and sustainable development. The project will undertake this with reference to the set of forestry initiatives being implemented in Nepal. Most of the actual work on the project will be empirical in nature and will focus on testing six hypotheses. The proposed empirical methodology will include state-of-the-art program evaluation techniques and forward-looking choice experiments. This project will contribute to World Bank Forest Law Enforcement and Governance (FLEG) initiatives that are underway in collaboration with bilateral donors, host country governments, and private sector stakeholders.

Mobilizing Spatial Economics and Information for Tiger Habitat

Approved Amount: USD 300,000

Task Team Leader: Susmita Dasgupta

This project will carry out a research to support implementation of cost-effective strategies for tiger

habitat conservation by testing the effectiveness of alternative approaches in Asian tropical forest countries. To support cost-effective resource allocation of the program, the research project will develop two complementary resources: (1) a continually-updated high-resolution database for tracking the status of the remaining forest habitats for tigers in 12 Asian countries (Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Thailand, and Vietnam), and (2) econometric modeling that will identify critical drivers of forest habitat destruction and protection costs in different areas. The project will actively disseminate research findings, databases, tools, and prototype results to the interested policy research community and critical stakeholders in the Save the Tiger program, including World Bank staff, participating governments, and key nongovernmental organizations.

Economic Valuation of Losses Due to “Amazon Dieback”

Approved Amount: USD 280,000

Task Team Leader: Michael Toman

The objective of this project is to form a basis for assessing the loss to the South American region, and to the global community, that will follow from an “Amazon dieback” scenario. Such a scenario is likely to have a huge impact on the region, with dramatic changes in climate, agricultural productivity, and natural environments more generally. Strong policy measures may be necessary to avert such a development. Accordingly, this project will set out to provide such measures to avoid “dieback”, by i) carrying out two types of valuation studies for eliciting non-market values of avoiding Amazon “dieback” in the global population, and ii) using Delphi studies where international experts on environmental valuation are surveyed and requested to state their best assessments of the population values. Together, the two approaches will assess the value of the Amazon rainforest that would be the best achievable today.

Open Metadata and Methods Application

Approved Amount: USD 365,000

Task Team Leader: Abdolreza Farivari

Researchers and economists, especially in developing countries, who produce analysis of development data, often need access to huge quantities of data along with their underlying metadata. This project will develop a system that will allow users to query and access well documented metadata, and create metadata reports by extending the Bank's data system, the Development Data Platform (DDP). The international metadata standard used by the project will be the Statistical Data and Metadata Exchange (SDMX). To help promote research in developing regions such as Africa and Latin America and the Caribbean, access to data and metadata will be made available in multiple languages. As this is available freely to the public, potentially all countries stand to benefit from this project. Subsequently, the robust metadata generated by this project will provide a rich knowledge base on good practices and will be used in training materials and e-learning programs. The project will also develop training and e-learning programs in collaboration with other international organizations.

World Development Report 2013: Jobs

Approved Amount: USD 500,000

Task Team Leaders: Martin Rama and Kathleen Beegle

The global financial crisis resulted in massive job losses in emerging and industrial countries alike. The objective of this project is to produce a World Development Report (WDR) on Jobs with an approach that recognizes the need for an integrated view of the jobs challenge. The report aims to identify fundamental bottlenecks in the creation of more and better jobs, in areas such as infrastructure development, education policies, market competition, and social protection. The report will consist of several sections. The first section will document

the facts and trends, and provide a typology of labor market challenges around the world. The second section will consist of a conceptual framework regarding job and development strategy. The third section will delve into an analysis of creating more and better jobs. The WDR 2013 will set in place a coherent strategy for the World Bank to work cross-sectorally toward actionable solutions.

Early Work Experiences and the Skills of Young Adults: Evidence from Senegal

Approved Amount: USD 141,000

Task Team Leader: John Giles

The objective of this project is to provide empirical and analytical insight into the relationship between accumulation of skills and youth transitions to the work force in Senegal. By using panel household and individual data, this project will allow us to examine the relationship between early employment experiences and stocks of both cognitive and non-cognitive skills. If informal sector employment leads to a measurable deterioration in cognitive skills, or to lower stocks of both cognitive and non-cognitive skills, then this may create a plausible rationale for active labor market policies aiming to promote employment of youth in the formal sector. The analytic work from this exercise will provide evidence useful for an ongoing policy dialogue in Senegal over skills development and school-to-work transitions.

Structural Transformation, Macroeconomic Behaviors and Industrial Policies

Approved Amount: USD 100,000

Task Team Leader: Vivian Hon

The primary objective of this project is to establish a new theoretical dynamic framework to study the endowment-driven structural transformation and explore development issues closely associated with industrial upgrading. A crucial part of the research will focus on constructing the theoretical models to rigorously illustrate the new economic



mechanisms, which also provide a coherent structural framework for subsequent empirical investigations. The direct benefit of the proposed research will be deepening of understanding on (1) the facilitating role of the government in the process of industrial upgrading as capital accumulates; (2) the accurate measure of total factor productivity when industries evolve endogenously; (3) the mechanism through which industrial upgrading may result in amplified macroeconomic fluctuations; and (4) how the optimal financial structures are endogenously different at different levels of economic development and how they evolve over time.

*Tanzania Social Action Funds (TASAF)
Round 3 Survey Support*
Approved Amount: USD 130,000
Task Team Leader: Berk Ozler

A set of social protection interventions that took place in Tanzania as part of the second phase of the Tanzania Social Action Funds (TASAF II) during 2008–2010 has generated a unique group of overlapping randomized interventions for poverty reduction, each evaluating a distinct channel through which long-term poverty and vulnerability may be decreased. This project will round out the last wave of the long-term tracking survey (3–4 years after the original TASAF intervention) to fully exploit the rich experimental variation. In addition to a report for the Bank and the counterpart on the main findings of the evaluation, and several working papers and journal articles, the panel data from this study will be made publicly available as per the guidelines of the research department at the World Bank.

*Measuring Development Indicators for
Pastoralist Populations*
Approved Amount: USD 95,000
Task Team Leader: Kathleen Beegle

This project aims to develop enhanced methods of household survey sampling design in order to

improve socioeconomic and livelihood data collected from pastoralist populations, with a particular emphasis on livestock. Two methodological experiments will be jointly conducted in a pastoralist area of Sub-Saharan Africa to examine the reliability of traditional, dwelling-based, livestock data collection methods. The findings of this project would be beneficial to the policy makers tasked with developing projects for pastoralist communities, and, ultimately, to the pastoralist populations themselves. By providing quality statistics, governments will be able to better assess the vulnerability faced by pastoralist groups, better target public services such as health and education, and better design projects to maximize benefits to expanding demand in the livestock sector.

*Measuring Inequality and Inequality of
Opportunity Using DIME Microdata*
Approved Amount: USD 50,000
Task Team Leader: Florence Kondylis

This project seeks to introduce equity analysis as an additional component of Impact Evaluations to generate more systematic evidence on the distribution of outcomes. The team will explore distributional effects in three country specific cases, selected from a pre-screened set of five cases. The primary objective is to put the distributional questions more on the agenda, demonstrate how high-quality distributional analysis is implemented in applied and operational contexts, and encourage other country/task teams to embark on similar evaluations using PSIA-MDTF or other resources. This initiative is expected to bring two types of benefits; one stems from the information gained from the distributional analysis, and the other from improved understanding of distributional effects, which in turn will strengthen links between research and program/policy decisions, and enhance the capacity to implement distributional analysis in Impact Evaluations.

*Learning from Interventions
to Improve Parenting Skills in Chile*

Approved Amount: USD 80,000

Task Team Leader: Emanuela Galasso

There is evidence that parenting and the home environment account for a significant fraction of preschool cognitive achievements. The main objective of this project is to collect data for a baseline survey of an impact evaluation of a group parenting program called *Nadie es Perfecto*, in Chile, whose aim is to improve the parenting skills of the poor, with special focus on the health, cognitive stimulation, and socio-emotional development of children. To understand whether parenting programs are successful in enhancing child development, this project will analyze the impacts of two levels of intervention: group-based education sessions and direct interaction with children. This will provide solid evidence on different modalities of service delivery in a parenting program.

Bank Bailouts and Moral Hazard

Approved Amount: USD 50,000

Task Team Leader: Deniz Anginer

The primary purpose of this project is to establish empirically whether there is a direct link between bailouts and moral hazard in financial markets. The project will demonstrate whether investors in financial institutions have an expectation of receiving government support by testing whether a robust relationship exists between the yield on debt issued by a financial institution and the likelihood that such financial institution will receive a government bailout. The project will also provide a quantitative measure of government subsidy to measure the cost of such policy. By analyzing data from a number of developed and emerging market economies from several regions—including Asia and Eastern Europe—the project will provide recommendations for financial regulatory and tax policies conducive to financial modernization and economic growth.

*Fiscal Multipliers and the State
of the Economy*

Approved Amount: USD 30,000

*Task Team Leaders: Norman Loayza and
Constantino Hevia*

The purpose of this project is to estimate and quantify the differential impact that government spending has on gross domestic product in booms and recessions, and whether government spending is more effective at stimulating the economy when interest rates are low. The research will use modern time-series econometric techniques to estimate fiscal multipliers that allow the impact of government expenditure to vary with the state of the economy. This approach will allow the project team to formally test whether the impact is indeed higher in low interest rate situations or in cases where the output gap is large. The results from this study should provide important evidence for the design of fiscal policy and its coordination with monetary policy in developing and developed countries alike.

*The Electricity/Groundwater Nexus for
Indian Farmers: Implications of Energy
Subsidy Reform for Efficiency and
Distribution*

Approved Amount: USD 100,000

*Task Team Leaders: Michael Toman and
Jon Strand*

The main objective of this project is to study impacts of excessive groundwater extraction and electricity subsidies in Indian agriculture, which is often called the “electricity-groundwater nexus,” on welfare and efficiency costs in the Indian economy. The project will have both analytical and empirical components, and the two approaches will be merged. The main analytical component will be to formulate suitable models for calculating the combined welfare impacts of electricity subsidies to farmers, and groundwater extraction. The empirical part will seek numerical measures of these impacts, by collecting data for relevant impacts and



specific data that feed into the models for calculating efficiency losses. As under-pricing of electricity is a factor that affects overall electricity output in both the short and long run, this research will have large potential benefit for the Indian economy as a whole, and for the electricity sector and agriculture more specifically.

International Survey of Intellectual Property Enforcement Agencies

Approved Amount: USD 60,000

Task Team Leader: Daniel Lederman

The main objective of this project is to compile a global database on the budgets and institutional practices of Intellectual Property Rights (IPR) agencies to collect currently unavailable information about such institutions in developed and developing countries. A secondary objective is to use the data to estimate the effects of IPR agencies (their budgets and procedures) on knowledge generation and diffusion, both within and across countries. The estimation methods for assessing such effects will follow the large academic literature on knowledge generation functions. The most important capacity building aspect of the project will be the publication of the database itself, which will be announced by email to all participating agencies. The data will allow local experts and policy makers to make their own international comparisons and assessments of best practices.

International Cooperation and Conflict over Water

Approved Amount: USD 50,000

Task Team Leader: Michael Toman

This project examines whether countries consider the welfare of other countries that share water resources when making water development decisions. The project also considers whether international water management institutions mitigate

such conflict and whether some climate conditions exacerbate it. The project involves assembly and analysis of a world-wide database on dammed and undammed watersheds relative to international borders. The team will then merge this data set with information on river management institutions and climate conditions to conduct a variety of econometric analyses of these data. The research will benefit countries sharing international river basins, helping them to understand and identify relationships among the competition for common-pool water resources, expectations of the potential impact of climate change on water supply, and the possible role of international water management institutions in mitigating these problems. Furthermore, the project findings will help draw specific inferences regarding effective institutional structures for international water management as climate policy tools.

Structural Transformation and Rural Social Protection Policies: Evidence from China

Approved Amount: USD 250,000

Task Team Leader: John Giles

This project will examine how providing social insurance affects the continuing process of structural transformation in rural China. Specifically, it will examine how social security policies that reduce the risk of poverty among the rural elderly affect their willingness to reduce labor supply to agriculture and to transfer land, both of which have been cited in the literature as important for raising agricultural productivity and facilitating continued transformation of China's economy. The data collection activities supported by the KCP will generate a public good: the county and community policy modules of the China Health and Retirement Longitudinal Study (CHARLS). This will be shared by the policy research community both inside and outside China. The findings will contribute to our knowledge of the process of structural transformation in a developing country.

Moving to Density: A Research Program on the Rural-Urban Transformation in Developing Countries

Approved Amount: USD 500,000

Task Team Leader: Uwe Deichmann

The main objective of this project is to contribute to a better understanding of the urbanization process in developing countries and thereby improve the evidence on which developing country urbanization policies are based. The research project will focus on Sub-Saharan Africa and South Asia. The research program addresses a broad and diverse set of research questions ranging from traditional urban economics topics, such as the estimation of the strength of agglomeration economies, to issues relating to the dynamics of land markets in peri-urban areas and the analysis of growth and poverty outcomes across the urban hierarchy. Accordingly, a diverse set of methodological tools will be utilized to examine these issues, including Computable General Equilibrium models. The research will generate important policy lessons regarding regulations in urban and peri-urban land and labor markets, the placement and finance of urban infrastructure, and the implications of climate change for urbanization.

Upgrading the Networking and Technological Capacity of Suppliers in South Africa

Approved Amount: USD 180,000

Task Team Leader: Ana Margarida Fernandes

The project's main objective is to analyze the effectiveness of industrial policy tools in alleviating informational, coordination, and credit constraints to promote small-firm development. In particular, the project will focus on the potential for these tools ("Networking Marketplace" and the "Black Business Supplier Development Program") to improve the networking capacity, business management skills, and technological know-how of small firms, with important implications for their growth

and development. To this end, the team will conduct two separate randomized experiments to learn about the effectiveness of the tools, which aim at increasing the growth of firms, notably among businesses owned by disadvantaged gender or racial groups. By studying the impact of these programs on emerging suppliers of medium to large businesses in South Africa, this project will provide an original and important empirical contribution to the literature on the evaluation of the effectiveness of private sector development interventions.

Commodity Prices, Household Adjustments, and Structural Transformation

Approved Amount: USD 50,000

Task Team Leader: Daniel Lederman

The main objective of this project is to understand how economic agents in developing countries adjust their income or employment choices and consumption structure in light of changes in the relative price of agricultural commodities. The analysis will be based on an analytical literature review that would bring together the existing literature into a unified theoretical framework complemented with descriptive micro data from Latin America and Africa. The team will then explore two alternative estimation strategies to identify the effects of changes in relative prices on income and consumption structure at the household level with repeated cross sections of household surveys. The findings of this project will provide better understanding of the extent to which households change their income and consumption structure in response to price signals.

Testing the Robustness of the Energy Intensity Kuznets Curve

Approved Amount: USD 50,000

Task Team Leader: Uwe Deichmann

This project will investigate the role of energy intensity in the structural transformation of national



economies by undertaking both micro and macro analysis. First, a macro level analysis based on a panel of 162 countries from 1980 to 2008 will explore the long-term global pattern of energy intensity and productivity growth, and assess the effect of economic transformation on energy intensity. A micro level analysis will be based on a data set that contains input-output and financial data for 11 million enterprises in 41 European countries from

1999 to 2008. The firm-level data will be used to decompose factors contributing to energy intensity change, including factor prices, production efficiency, technology improvement, and, where possible, policy intervention. The findings of this project will help clarify whether policies promoting energy efficiency also accelerate sector change and productivity increases.







Knowledge for Change Program II

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