

Knowledge for Change Program II (KCP II)

CHARTER

The purpose of the KCP II is to act as an effective, transparent and efficient vehicle for the pooling of intellectual and financial resources and to generate new knowledge in support of the Bank's mission. It will encourage and improve dialogue with partner agencies, developing country clients, and other interested parties. Building on the gains of KCP I and the recommendations of the Program Evaluation (November 2007), the fundamental objective of the KCP II is to promote high quality, cutting edge research (including data collection in the direct context of research) that creates knowledge to support policies for poverty reduction and sustainable development. A subsidiary objective is to assist the development of research capacity in client countries.

Focus of activities to be supported

The KCP II will support innovative research programs sponsored by the Development Economics Vice Presidency (DEC) of the Bank, in conjunction with other parts of the Bank. The focus will be on economic and social knowledge-generation activities, with a multi-disciplinary approach towards the latter.

Geographically, the KCP II funds will be targeted towards activities concerning the IDA countries and/or the poorest groups in IBRD countries, with particular priority for Africa and Asia, both of which have large and intractable poverty problems. However, other regions and countries, including middle income, are not excluded since many of the world's absolutely poor are found in those countries and work in those countries, activities from other regions and countries may be used for comparison purposes, lessons learned, and for other economic links to the priority countries.

There will be four Trust Funds under the KCP II for research related to overarching themes of (i) Poverty Dynamics and Public Service Delivery, (ii) Investment Climate and Trade and Integration, (iii) Global Public Goods, and (iv) Economic Development and Structural Change. The first addresses issues at the heart of poverty reduction, empowerment and sustainable development; the second focuses on the major elements of a business program 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 will analyze the policies and factors that are necessary to make it possible for a developing country to upgrade its industrial structure continuously and develop rapidly.

Indicative programs that will be supported include:

A. Poverty Dynamics and Public Service Delivery

- *Poverty measurement.* Improving the tools used in the Bank for monitoring, describing and forecasting income poverty and inequality, including aggregate poverty measures, sharper poverty profiles, and better household surveys.
- *Pro-poor growth.* To advance understanding of what makes pro-poor growth and the role played by government, including the role of initial conditions, what drives distributional changes in survey data, and churning (the gainers and losers).
- *Social inclusion and empowerment.* How best to mitigate different forms of inequality (for example, gender and ethnicity) and promote social inclusion and empowerment, and civic engagement and participation.
- *Conflict.* An analysis of conflict issues: war, terrorism, crime and violence.
- *Sustainable development.* How to frame poverty reduction strategies which take account of the problems and conflicts caused by socioeconomic inequalities, demographic stresses, the struggle for control of resource rents, and environmental damage and natural resource degradation.
- *Public service delivery for human development.* An evaluation and analysis of delivery options, prioritizing initially education and health sectors, with a focus on provision at the local level, and examining the hypothesis that greater participation by households using the service acts to improve service performance.
- *Social protection.* How to help people manage risk, cope with adverse shocks, avoid variability in incomes, and smooth consumption.

B. Investment Climate and Trade and Integration

- *International migration and development.* This research program aims to advance the understanding of the development impact of migration on sending countries as well as identifying policies, regulations and institutional reforms for improved migration outcomes and a “win-win-win” situation for developing and developed countries and for migrants.
- *Stability and growth.* This research program includes the medium-term prospects for world economic growth and developing country growth; a shift in trade policy analysis from the traditional tariff agenda to services and investment liberalization, product standards and property rights, and competition policies;

more effective deployment of international resource flows (both public and private); and how to make globalization more pro-poor.

- *Governance and institutions.* The role of institutions and governance in creating an attractive climate for private sector development, including anti-corruption programs; the institutional reforms needed to generate private investment and job creation; and the interactions of behavior and social and economic outcomes.
- *Finance and development.* The program is organized around two areas – access to financial services and finance for the poor, which directly addresses the empowerment aspects of poverty.
- *Regulation and infrastructure.* A review of the elements of a regulatory framework and of the provision of infrastructure conducive to a healthy climate for investment.
- *Urban development.* How to enhance the contribution of urban development to poverty reduction and economic growth.
- *Rural development.* Definition and access regulation of rights to key productive resources (e.g. land and water), the functioning of rural markets, the impact of key public goods services on rural livelihoods, rural non-farm employment, the development impact of community-based rural organizations, insurance and risk mitigation in agriculture.

C. Global Public Goods

- *Climate change – mitigation and adaptation.* Identifying policy and regulatory reforms to mitigate GHG emissions based on improved understanding of the climate threat, its differentiated economic impact across the globe, the effectiveness and cost-benefit of different interventions and responses, the need to address adaptation problems for vulnerable countries and areas (the longer mitigation actions are delayed), and the need to build local capacity to complement international commitments.
- *Deforestation and biodiversity.* There is a need to better understand how local ecosystem destruction can be slowed down in cost-effective ways before global impacts grow as carbon and hydrological cycles, or species mutation rates are affected through the scale and speed of human interventions in natural processes.
- *Communicable diseases.* In order to better assess and manage this global risk in a period of rapid and growing trade and travel, policymakers need analysis of the costs and benefits of reducing the risk of disease emergence; early-warning disease monitoring programs; avoidance of emergence of resistant strains; vaccine

development; alternate programs for vaccine deployment; alternative quarantine systems (and determinants of compliance); etc.

- *Knowledge and intellectual property rights (IPRs)*. This is the next generation of assets that can increase or decrease global inclusiveness with consequences for the evolution of fair and effective global institutions. There is a need to better understand policies and programs to strengthen the capacity of developing countries to develop their own patents, to participate in international discussions, and to analyze the merits inter alia of collaborative efforts at patent examination, standards for the breadth and novelty of patent claims, protection of rights to genetic resources and traditional knowledge, etc.
- *Governance and institutions to provide Global Public Goods (GPGs)*. In a world of sovereign entities, there is no global authority to coordinate and enforce the provision of global public goods. There is a need to identify and evaluate innovative institutions and mechanisms (incentives and burden sharing/compensation arrangements) to encourage fuller participation in addressing Global Public Goods problems and complying with agreements -- including institutions and mechanisms capable of picking up signals early, reconciling conflicting national and international interests, and creating commitment devices that ensure delivery of GPGs over the long term.

D. Economic Development and Structural Change

- *Patterns of industrialization*. As a foundation for this entire research program, it is crucial to understand, systematically, how countries develop economically, what types of economic transformations take place, and how these are reflected in shifts among sectors of the economy. The research will focus on the role of industrialization in development, and when and how does it takes root,
- *Innovation and technological upgrading*. Technological upgrading and innovation are essential ingredients for long-run productivity growth, itself the main driver of long-run income growth. In developing countries, they typically take the form of adaptation and adoption of known technologies rather than introduction of new ones. However, the incentives and obstacles to these processes are still poorly understood. Further, they often involve externalities that may lead to too low a rate of technological upgrading and require some form of policy intervention. The proposed research seeks to shed light on these issues.
- *Country case studies of success and failure*. This research will build on the work on patterns of industrialization. After identifying the countries that have been particularly successful or unsuccessful in industrializing and development, it will use a case-study approach to dig deeply into the strategies and policies that were most responsible

- *The optimal financial structure.* There is a need to better understand what the optimal financial structure is depending on the level of industrialization and development. The nature of productive activity will vary depending on the development level, and so will the nature of risk and the ability to bear different kinds of risks. Since the financial sector's purpose is in large part to finance productive activity and to share risk, it seems logical that the optimal financial structure will also vary with the level of development.
- *The process of industrialization in Sub-Saharan Africa.* The development struggles of Sub-Saharan Africa are well known, but it is perhaps less well appreciated how little progress there has been in industrialization. The industrial share of GDP of African economies hardly grew at all between the early 1970s and the late 1990s, and within industry, manufacturing also grew only slowly, in marked contrast to developments in the high-performing Asian economies. By and large, the region has not yet made the manufacturing transition that, in the historical record so far, has been nearly essential to development. This research will focus on the question of why so many Sub-Saharan Africa countries have not made this transition, and what can be done to hasten it.

Governance structure

The Bank will be responsible for administering the KCP II. However, other development partners will have an important role in its management. The governance structure of the KCP II will include a Consultative Group (CG), an Internal Management Committee (IMC), a Program Administration Unit (PAU), and a Panel of External Technical Experts.

The CG will consist of representatives of the official donors, developing country policy makers, the World Bank and other interested parties, and will be chaired by the Senior Vice President and Chief Economist, DEC (or his nominee). The CG will meet once a year to consider long-term strategies and provide general guidance on the operation of the trust funds in the context of DEC's program as a whole. The CG will also be engaged in the discussion of the annual work program and financial plan and will review the KCP II's performance on the basis of an annual report on the activities financed by the KCP II during the previous twelve months. Decisions will be made by consensus. In conjunction with the annual CG meeting, the Bank may organize a seminar to discuss a specific topic concerning knowledge creation of relevance to the group.

The IMC will be chaired by the Senior Vice President and Chief Economist, DEC (or his nominee). The IMC will include representatives of DEC and the Bank's operational units. The IMC will invite proposals from DEC and from DEC in conjunction with other parts of the Bank, periodically, and review them against the agreed criteria, selecting proposals for financing in light of the funds available at a particular time, and taking into account the geographical and thematic balance of the KCP portfolio.

The PAU will handle the day-to-day business of the KCP II and will be a point of contact for routine issues. The unit will report to the head of the IMC.

The Panel of External Technical Experts will review and provide ex ante recommendations of the proposals to be submitted to the IMC for review and approval. The Panel of External Technical Experts will consist of several experts selected by the Bank, and who must have substantial experience in research fields relevant to the KCP II. In addition and on a case by case basis the PAU may use Bank Peer Reviewers when suitable.

Procedures and criteria

Proposals should demonstrate relevance to the objectives of the program and details of key aspects such as innovation, partners, country participation, deliverables, and development impact. Consistent with the fundamental objectives of the KCP II as outlined in the first paragraph of the Charter, the necessary criteria for assessing proposals are as follows:

- be innovative and able to provide new knowledge, which can lead to better development policies;
- address the objectives of the Trust Fund (poverty dynamics and basic service delivery, investment climate and trade and integration, and global public goods).
- be results-focused, while remaining cost effective.

The desirable criteria are:

- demonstrate country participation and ownership,
- incorporate developing country capacity building,
- be applicable to a different country or region, and
- demonstrate cooperation among different parts of the Bank and/or between the Bank and other donors/agencies.

Funding

The funding of activities performed or supported by the KCP II requires a well-coordinated partnership involving the World Bank Group, other multilateral institutions and donor organizations, as well as the agreement and active cooperation of governments in which KCP II-financed activities take place.

Donors, if they so desire, may specify the allocation of their contribution among the four Trust Funds under the KCP II. Some donors may also wish to express a preference for a certain program activity or activities, and their views will be taken into consideration when activities are selected for funding from the KCP. However, the

Bank's Trust Fund Policy Guidelines do not guarantee that such preferences may be fulfilled.

Communication with the KCP II Donors

In addition to the annual CG meeting, the Bank will maintain regular communications with donors during the course of the year, including updating the donors during the Call for Proposal stage and providing results of the IMC decision meetings on project proposals. The KCP web site will provide up-to-date information on team composition, activities and new projects approved by the IMC, as well as links to the papers and other publications funded by the KCP II. The Bank, as necessary, will organize an information meeting or workshop in connection with the Bank/IMF's Spring or Annual Meetings on topics and activities relevant to the KCP II to discuss methods, present initial findings, and solicit comments and suggestions from donors, including their chief economists and advisers. Furthermore, the Bank will establish a data portal for easy access to relevant data gathered through projects funded by the KCP II, while abiding by the Bank guidelines on the release and disclosure of such data. Finally, the Bank will maintain and update a contact list of donor representatives for dissemination of periodic information related to the activities of the program. Donors should inform the PAU on a timely manner of any changes in respect of their KCP II representatives.

Eligible expenditures

Eligible expenditures under the KCP II would be Associated Overheads, Short Term Consultant Fees, Contractual Services, Extended Term Consultants, Temporary Staff Costs, Staff Costs without Indirects (Benefits), Travel Expenses, Equipment Costs, Media & Workshops Costs and would include the following:

- compensation, travel expenses and other reimbursable expenditures of consultants and experts (including the members of the technical review panel and evaluators) engaged by the Bank or entities to whom the Bank provides grants of the KCP II funds for activities to be supported by the KCP II. This may include the salaries and benefits of Extended Term Consultants (ETCs) and Coterminous staff;
- Bank staff travel costs up to a maximum of fifteen percent (15%) of each amount awarded to a KCP project;
- Travel expenses incurred by developing country participants in attending the annual CG meeting, up to a ceiling of \$ 20,000 per year;
- Software and data, publication and printing costs associated with the preparation of reports or other materials relating to the KCP II-supported activities;
- costs associated with organizing workshops, seminars or conferences, including costs associated with participation by relevant international experts and developing country participants; and
- Associated Overhead Expenditures related to the fulfillment of the KCP II's mandate.

Dissemination

Information gained from activities financed through the KCP will be widely disseminated both to donors and client countries either in report form, or through the web, complemented where appropriate with workshops and conferences. Such dissemination will be subject to and made in accordance with the Bank's policies on disclosure of information.

Evaluation

The KCP II will be subject to an external evaluation, to be funded from the KCP II trust funds, before the completion date of the program.