

Knowledge for Change Program

Notes from the Consultative Group Meeting

**September 30, 2008
Helsinki**

Participants:

KCP Members

Australia - Mr. Mark McGillivray, **Canada** - Mr. Cal MacWilliams, **Finland** - Mr. Pekka Hukka, **Japan** - Ms. Chihiro Hirasawa, **Netherlands** - Mr. Armand Evers, **ABN/AMRO** - Mr. Khalid Sheikh, **Norway** - Ms. Therese Evensen, **Sweden** - Mr. Mats Hårsmar, and Ms. Elina Scheja, **Switzerland** - Mr. Pradeep Itty, **United Kingdom** - Mr. Iain Jones

World Bank

Mr. Justin Lin, Chairman, Mr. Martin Ravallion, Mr. Truman Packard, Ms. Rosina Bierbaum, Mr. Jimmy Olazo, Mr. Ivar Cederholm

1. Welcome

The host, Mr. Pekka Hukka, welcomed the participants to Helsinki and the Seventh Consultative Group (CG) meeting of the Knowledge for Change Program (KCP). He mentioned that the meeting was timely, since the first phase of the KCP was about to end. He noticed that there were a large numbers of new representatives among the KCP partners, and for that reason he asked each attendant to make a brief introduction of themselves. After his introductory remarks he gave the word to the Chairman of the meeting, Mr. Justin Lin.

2. Chairman's remarks

The Chairman thanked Finland for hosting the meeting, and declared the Seventh CG meeting of the KCP formally open. He thanked all participants for taking their time to come to Helsinki for a discussion of the KCP and for their help and support in making the KCP a great success.

Mr. Lin went on to talk about the new poverty numbers that indicated that the world still had a lot to do in fighting poverty, and that 25% of the world's population, or 1.4 billion, are still living on less than \$1.25 a day, the new poverty line. Considering the current financial crisis, the most severe since the great depression, and the high food and commodity prices, the vulnerable and the poor in low and middle income countries would be most affected by the crises.

To understand the effects of the crisis on the poor, it was necessary to have good and solid knowledge to make a correct analysis. He mentioned that the Development Economics Vice Presidency (DEC) of the World Bank had the largest concentration of development researchers focusing on applied research, and the support of the KCP had been essential in many areas of research, as reported in the 2008 Annual Report. Looking

forward, a continuation of the program was of great importance considering the challenges ahead.

The Chairman concluded by going through the agenda of the day. He then gave the floor to the Director of the Research Group in DEC.

3. Key research findings financed by the KCP

Martin Ravallion, Director of the Research Group, started by explaining how the research in DEC had benefited from the KCP. He mentioned that the research selected for KCP funding was aligned with the Bank's research strategy. Then, he gave examples of research programs that had benefitted from the KCP in 2008. He gave several examples of research that had benefitted from KCP funding such as access to finance, investment climate analysis, LSMS survey work, fragile states, climate change, trade agenda, and others. He added that researchers had to compete for the KCP resources through a selection process that included external reviews, and the scrutiny of the research managers. He continued by explaining how research topics were selected. He said that the Banks' researchers were obliged to sell one third of their time to the Bank's operational departments based on supply and demand. This cross fertilization and the search for finding answers to important questions was what sparked many research ideas and gave fruit to some of the specific research topics selected for KCP funding. In addition, the longer perspective and the focus on new and emerging issues was another feature of the selection of research topics. He mentioned the important work on land policies, which started out from DEC researchers involved in operational work in both India and China. Another example that he mentioned was the research program on international migration that would not have been possible to jump start without the help of the KCP.

4. Discussion

Several participants had comments and questions on the specifics of KCP-funded research. Here are some of the comments/questions:

- What is the difference between research in DEC and research in regions?
- When selecting research topics, how does DEC handle the long term versus the short term issues?
- How can the Bank make sure that research findings are being used by client countries and other Bank stakeholders?
- What is the difference between Bank research and KCP-funded research?
- How can the Bank increase its efforts in building research capacity in client countries?
- How does DEC link to other research networks outside the Bank?
- What is the importance of KCP funds relative to DEC's research budget?
- What is the impact of Bank research on the Bank's operations and policy makers?

The following is a brief summary of the responses that were given by the Bank's representatives at the meeting:

- Research is being done throughout the Bank, and in the regions the research has both a country and sector focus usually linked to operational activities, which is

- called ESW (Economic Sector Work). The research in DEC has more of a global focus and is generally applicable in more than one setting and country. It is also linked to operational work through the cross support system mentioned in the earlier presentation, but it is not only linked to the Bank's lending.
- The long term focus of research is not as straight forward as the short term due to different externalities. However, the long term research is closely linked to the Bank's long term strategy and is therefore aligned with the priorities of the Bank.
 - The Bank has a very extensive dissemination strategy for its research outputs. Different kinds of dissemination tools are used, such as web, conferences, video, media, and in country workshops with policy makers and other stakeholders. KCP-funded research is being disseminated in the same vigorous way.
 - Researchers are using different sources of funding for their work. The KCP funding is complementary to other sources of funding, and in some cases due to inflexibility in budget resources being tied up in longer term research projects, the KCP has been used to kick-start new programs. The best example is the international migration research program mentioned earlier. The KCP funds make a great difference and allow researchers to increase the quality of the research by increasing the depth and scope of a research project.
 - Building local research capacity is one of the objectives of the KCP. DEC is doing research in over 70 countries. Each project leader is asked to use local experts and researchers when possible. Local experts and researchers are often used to collect data using different sampling techniques. The training and experience obtained can be used in other projects. However, serious research capacity building is very costly and time consuming, and would not fit within the financial framework of the KCP.
 - The Bank is actively involved in many research networks in developing countries. The GDN (Global Development Network) with substantial Bank funding was started by the Bank and is now linked to a large number of national and regional research institutes and networks. Both AERC (African Economic Research Consortium) and ERF (Economic Research Forum) have received financial and intellectual support from DEC over the past years, just to mention a few. DEC is also closely linked to academic institutions in both developing and developed countries. Another example is the UNU WIDER institute in Helsinki where Martin Ravallion was a keynote speaker at a conference preceding the KCP CG meeting.
 - KCP funds represent roughly about 10-15% of the research funds used by the Bank, but are very important at the margin. It is the largest non-budgetary source of funds available to researchers
 - The cross fertilization that exists in the Bank through the cross support system is a unique way for research findings and new knowledge to have a direct impact on Bank operations. In-house and joint workshops with Bank regions and networks are other ways to strengthen the direct links that exist between research and operations. As part of their performance evaluation, research staff is also assessed on how well they disseminate their work to policy makers in Bank client countries.

5. WDR 2009 Reshaping Economic Geography

Mr. Truman Packard, a leading team member of the WDR team made a presentation on the key messages from the 2009 WDR Reshaping Economic Geography:

- The ***concentration of economic activity*** is inevitable and usually desirable for growth but the large *spatial disparities in welfare levels* accompanying it are not.
- ***Rural-urban transformation***: Scale economies, falling transport costs and factor mobility accelerate the rural-urban transformation. To avoid an “urban bias” that can generate high costs through congestion, slums, and pollution, policies should aim for deeper integration with rural areas.
- ***Territorial development***. Many developing countries are seeing widening welfare gaps between leading and lagging regions. Labor mobility serves to mitigate, but not eliminate these disparities. While policies should aim to improve market links other spatially targeted policies may also be needed.
- ***Regional integration***. International boundaries still matter, although scale economies and lower transport and communication costs have increased trade opportunities. Scale economies and lower transport costs can best be leveraged through greater regional integration.

6. Discussion

A discussion on the WDR 2009 included both very useful comments and some questions on the next steps and the follow up of the messages from the report.

- One of the participants mentioned Tanzania where the difference between leading and lagging regions had caused a lot of friction. The conclusions from the report suggest that it is not worth fighting agglomeration, but instead focus on a more equitable way of distributing the rents from the benefits of concentration.
- Another participant asked about the next steps following the launch of the report in November 2008. The speaker explained that the launch of the report would be followed by a very extensive dissemination tour around the globe. A video had been produced to assist in the dissemination of the findings. Several in country workshops were scheduled, and the report had already preempted the operational implications of the report by having included three separate chapters on operational implications. The report would also be followed by so called ‘regional companion reports’ that were ready to be launched directly after the WDR was presented.
- Another participant asked about what policy recommendations were suggested for fragile states. The answer was that each country would have to be assessed individually, and that fragile states usually would have all spatial issues that make policy recommendations difficult, such as low density, far from markets, poor infrastructure, and sharp regional differences in economic wealth.
- On the question of incentive systems it was concluded that the tax system with redistribution of resources was the most efficient tool compared to any other incentive system.
- Finally, there was a question on whether an economic center was needed in a country in order to create growth, and what the chain of causation was? The

speaker responded that there was no straight answer, but that growth centers were needed to create economies of scale.

7. WDR 2010 Climate Change and Development

Ms. Rosina Bierbaum, Co-Director WDR 2010 Climate Change and Development made a presentation on the outline of the report and likely messages. These are the main messages:

- *Climate change is only one of many challenges facing developing countries—but, if mismanaged, it will reverse development progress.* Developing countries are faced with immediate needs and limited resources, continued poverty, and social and environmental challenges. Unfortunately, the consequences of unchecked climate change will fall disproportionately on developing countries.
- *The magnitude and certainty of the risks associated with climate change justify a strongly precautionary approach.* This is not only due to ethical concerns about saddling future generations with a potentially catastrophic and irreversible situation.
- *Tackling climate change requires pricing carbon, but also addressing other critical market failures.* Carbon must be priced since it is the only way for the costs of carbon emissions to be reflected in investment and consumption decisions.
- *Developed countries must take the lead on mitigation, but all countries have a stake in solving the problems of climate change.* Industrialized countries are already obligated to provide financial and technical support to less developed countries. Analyses of mitigation paths show that it is also in the economic interest of industrialized countries to assist developing countries in accelerating their abatement efforts.
- *“Climate - wise” development policies are needed to manage the conflicting demands that adaptation and mitigation place upon limited or costly resources such as land, water, and energy.* Policy actions are also needed to protect people from shocks or help them adjust to changing circumstances. But even as climate change makes development more complex, it also creates a much needed momentum for reforms to achieve long - pursued, critical policy goals such as sustainable land and water resource management.

8. Discussion

The discussion that followed was very active and supportive of the suggested outline and possible messages emerging from the report. There was a consensus that climate change demanded immediate action and would have serious consequences for many developing countries. Several participants suggested that the report should also put a focus on the possible opportunities of climate change, since these could benefit many developing countries. The WDR team was also asked to discuss the connection between climate change and conflict. Water scarcity, sea level rise, and forced migration could increase the risk of conflict.

9. KCP II

Jimmy Olazo, the KCP Program Manager made a presentation on the financial status of the KCP I and the features of the new KCP II that were agreed at the last CG meeting. He mentioned that the KCP I had received a total of \$ 23 million in contributions from the 14 KCP partners, and that all the funds had been allocated to 99 research projects with a remaining balance of just \$ 70,000. He continued by mentioning the program evaluation of KCP I that concluded that the KCP had produced added-value as well as very good results, and in some cases even outstanding research. He also pointed out some areas for improvement such as better communication with the KCP partners, a better access to data sets, and additional time during CG meetings for discussions. He then discussed the new features of the KCP II, which include a new sub-theme, finance and development, as well as an inclusion of regions other than the Africa and South Asia. He added that the KCP II will also be using an external technical panel of experts for ex-ante reviews of research proposals. He concluded by mentioning two additional eligible expense categories; up to 15% of the project award to cover staff travel for supervision and dissemination, as well as 50% of the program costs of \$ 175,000 per year.

10. Discussion

During the subsequent discussion three of the KCP donors, Finland, the UK, and Australia made unspecified financial pledges in support of the KCP II. There were also several comments that the KCP II should continue to be cost effective and that efforts would be made in building research capacity in developing countries when possible and practical. The Chairman concluded that there was a trade off between doing high quality research and research capacity building, and that the KCP was probably not the best suited vehicle for a major effort in building research capacity. Nevertheless, there was a consensus to maintain the status of research capacity building as a subsidiary objective of the KCP, whenever it was practical and possible to combine with the main objective of producing high quality research. It was also agreed that a paper on research capacity building (previously circulated among KCP members) be updated and circulated among the KCP partners. One member suggested that more research be done on small and fragile states, such as small Islands in the Pacific. Even if the Bank does not accept any 'tied' funds, it was concluded that additional research on the specifics of small states would be encouraged, which currently is under-researched. There was also a question on the rationale for the KCP. It was explained that the KCP was born out of the need to reduce transaction costs and being cost effective. The KCP had substituted several smaller trust funds that created too high transaction costs and thus had become cost ineffective. The other main idea with the KCP was to pool both financial and intellectual resources that could be launched in a more strategic way. It was finally agreed that the PAU (Program Administration Unit) would review the proposed Charter and reflect the comments made by the KCP partners on research capacity building.

11. Future Research Directions of the KCP

The Chairman explained that the focus of the KCP II would remain to be poverty reduction and sustainable development. He added that the future research projects funded by the KCP II would be aligned with the six strategic themes of the Bank:

1. Poorest Countries

2. Fragile and Post-Conflict States
3. Middle Income Countries
4. Global Public Goods
5. Knowledge and Learning
6. Arab World

He also summarized a few other points mentioned below.

- The KCP II would continue to focus on the suggested sectors and themes mentioned in the Charter. Finance and Development was added to the charter because of its importance of achieving access to the poor and for a growing private sector.
- He also added that the KCP II would continue to focus on Africa, since it was the last frontier for development economics and that much more knowledge was needed on both the opportunities and constraints for development. He said that 75% of the economic wealth in Africa was generated in the agricultural sector and in small- and medium-sized businesses.
- He confirmed that the KCP would continue to focus on social sectors and public services such as health and education. He concluded by saying that it was also important to investigate how new technologies could be better used and deployed quicker in developing countries.

Martin Ravallion added that the KCP II would put more emphasis on evaluative research, since there was a clear under-investment in such research. He said that the Bank would need to revisit the sources of macro-instability and likely responses for individual countries in response to the current financial crisis. He mentioned a major effort in collecting and building panel data on the agricultural sector in six African countries for research purposes funded by a foundation. He also added that the KCP II would continue to look at climate change and the environment with a focus on water and land resources and the effects on poverty. He mentioned that work would continue on the impact of bio-fuels on food prices. There was also an interest to undertake a study on how to measure the quality of the bureaucracy in developing countries. He mentioned that research on public service delivery would continue, as well as work on intellectual property rights in the context of access by the poor to life supporting drugs.

He concluded his remarks by mentioning that ongoing work on fragile states would continue, and that new research would be initiated on technology and its role for development.

12. Discussion

The discussion that followed included several suggestions for research topics in the new KCP II. For instance, it was suggested that KCP resources be used to follow up research following the successful WDR 2008 Agriculture for Development, with a particular focus on Africa and the role of privatization in agricultural productivity. Climate change was also mentioned as an important topic for the Copenhagen process. All in all, the participants were happy with the suggested research topics for KCP II.

13. Concluding remarks

The Chairman thanked the participants for a fruitful and productive brainstorming discussion on the research directions of the KCP and for pledging support for the new KCP II. He mentioned that it was very timely to continue to build on the successes of KCP I and move on to KCP II. He expressed a special thanks to the government of Finland for hosting the event and closed the CG meeting by saying that it was not an end, but a beginning of a renewed partnership of the KCP.