The "Knowledge" Bank

by Devesh Kapur

Ideas have always been a core trait of the Bank. Indeed, if the Bank was simply a financial intermediary, it would barely need a tenth of its staff.[1] The money was seen as the lubricant to move the main product—ideas on what to do, how to do it, who should do it and for whom. In its early decades, this importance of ideas was implicit. The source of ideas was the knowledge embedded in its experienced personnel and the transmission mechanism was the project mode. Since the 1970s, however, the Bank became more self-conscious about the importance of knowledge, both as an imprimatur institution as well as a producer of knowledge. And in more recent years, the relative decline in the importance of the Bank's financial role (especially in emerging markets), in part the result of the high transactions costs of borrowing from the Bank, has led to a greater stress on its role as a "knowledge" intermediary rather than just (or even primarily) as a financial intermediary. However, lending has been the principal mechanism for knowledge transfer, and any stagnation or decline in lending is likely to adversely impact knowledge transfer as well.

The World Bank's extensive (and expensive) commitment to the production and dissemination of knowledge has led to substantial critical analysis of the Bank's "knowledge" activities. Yet there is an analytical vacuum on key issues that bear on the subject, be it the optimal quantum of budgetary resources allocated to this area, the distribution of those resources among different research activities, between generation and diffusion, or the optimal institutional mechanisms to generate and transmit the research, whether in-house or externally.

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Consider for instance the following hypothetical questions:

1. If the Bank's overall budget was cut by a third and the resulting savings (more than half billion annually) were put into research in those diseases, crops and energy technologies that are sui generis to poor countries, would the global welfare of the poor improve or decline?

2. If the Bank were to cut its "Analytical and Advisory Activities" (AAA) expenditures (from its estimated $600 million in 2005), shifting its focus from the social sciences to funding research in the health sciences, would the global welfare of the poor increase or decline?

3. If the Bank's research activities were more akin to a National Science Foundation (NSF) type funding activity, rather than in-house research, would LDCs gain or lose?

4. If the Bank were to reallocate part of its large transfers from net income (about $600 million annually over the past few years) to create endowments for centers of learning in LDCs, would those countries be better off?

This paper argues that the World Bank should give greater emphasis to financing rather than producing research, in particular, financing developing country research institutions. Despite the modest quality of the latter, such a shift is likely to be more effective in changing national policies and in nurturing implementation. It will also contribute to long-run institution building (at a minimum, by not reinforcing the brain drain).

Although a large array of studies has demonstrated the high rates of social return in publicly funded research, this in itself does not provide any guidance either on which areas to finance investment in, nor the precise mechanism to undertake this task.[2] High average values for publicly funded research are of little use in deciding whether to increase (or decrease) funding for public research, or in choosing the mechanism that would yield the best results (resource allocation decisions require some sense of marginal rather than average rates of return). Moreover, there is no analytical framework that would help answer whether the World Bank should conduct research in-house, outsource it by funding universities or research centers (and if so, create country—or sector-specific centers), promote joint research ventures (including exchange of personnel), or build research networks (such as the Global Development Network).

The dilemmas are compounded by the reality that research capabilities are located in the North while many of the issue areas, with the highest rates of social return to public investments in research, are in resource-poor countries. Furthermore, even if the World Bank were to outsource its research and fund more research, what mechanisms should it follow? For instance, in areas where research is undersupplied because of severe market failures—such as tropical diseases, where pharmaceutical firms do not invest fearing that were they to actually develop a product, they would face severe public pressure to sell the product at a price that would not justify the initial investment—a novel mechanism that has been proposed is for public agencies to finance "tournaments" with a prize guaranteed to any entity that meets predetermined specifications at a certain price.[3] Although such an approach would not build developing countries' own capabilities, it might be warranted in areas where delay has high human costs.

The stakes are different, however, in policy research, the core focus of the Bank's AAA. The background of Bank researchers creates strong incentives to give pride of place to *propositional* knowledge—the search for "universal" laws of development from the frontiers of academia—and using that to generate *prescriptive* knowledge. LDC-based researchers are seldom, if ever, represented in the former. Does that matter? There are several good reasons why concerns on this score may not be warranted. For one, there are typically participants from developing countries in conferences focusing on propositional knowledge. It just so happens that their institutional base is in industrialized countries (typically the United States). Second, the idea that one's analytical position is an isomorphic reflection of one's nationality and/or geographical base is rather specious. Third, one could argue that the Bank should only be drawing on the best talent to understand difficult issues, and if it happens that the talent is based in North America, so be it. Fourth, the fears of a lack of diversity are misplaced, given the vigorous debates and differences that are integral to academic and intellectual cultures. And finally, the skewed participation may simply reflect the realities of the global production of knowledge, in which LDCs themselves have played a not insignificant role by running their own universities and knowledge production systems to the ground.

However, there are reasons for unease as well. Intellectual networks can be double-edged. While they reduce selection costs and serve as reputational mechanisms, they can also be prone to a form of "crony intellectualism." This inherent tendency to inbreeding has negative consequences for intellectual advancement. Researchers, like other societal groups, also have interests. And research involvement with the World Bank has substantial payoffs, from research funding to access to data and visibility. Moreover, the very nature of academia means that academic researchers (in the social sciences) are not accountable for the consequence in the sense that their work responds to professional incentives, not to its development payoffs. These professional incentives place a large positive premium in academic papers on the novelty of ideas, methodological innovation, generalizability and parsimonious explanations. Detailed country and sector knowledge, an acknowledgement that the ideas may be sensible but not especially novel, that uncertainty and complexity rather than parsimony are perhaps the ground reality, are all poor country-cousins of research that purports to find universal truths. The mainline prestigious journals usually give short shrift to articles with micro-data painstakingly collected in a LDC. These journals act as gatekeepers of knowledge as well as reputation but are important markers for the Bank on the who, how and what dominates its research agenda. For the most part, this service is positive, given the concentration of talent in these institutions. But the fact is that unless a researcher is part of this circuit, she is marginalized.

This is also an important reason why the Bank's knowledge activities have underemphasized the crucial long-term contributions of its didactic and educational role. The very fact that the vast majority of the Bank's work on poverty is in English, a language understood by almost none of world's poor, indicates the low status assigned to this role, and cannot be understood without reference both to the internal incentives and external networks of

Bank staff which skew the priorities of research staff in these institutions. The professional payoffs of delivering a paper on Africa are substantially greater in Cambridge, Massachusetts, than in Ouagadougou. In turn that means that the questions and methodologies will be geared to the priorities of the former, even though the latter has more at stake. Growth regressions have undoubtedly helped in the growth of researchers, but have they contributed to the growth of poor countries themselves? The search for universality offers little by way of prescriptive knowledge in a particular situation. Yes, institutions matter, but anyone examining the first few decades of the Bank would not view this insight as a Eureka moment. In the end, such prospective knowledge offers little insight into prescriptive knowledge. Of the scores of institutions that matter, which institution is most critical in which country at any specific period of time cannot get around the need for its having a deeply textured knowledge of the circumstances of the country itself. And it offers even less by way of guidance to the most glaring weaknesses of poor countries: *how* to build these institutions and *who* would do so.

The virtual absence of researchers based in developing countries in the more prestigious development conferences cannot be attributed simply to exclusionary networks. Given the outpouring of reports on key global debates involving the World Bank, networks and reputation are critical screening mechanisms. On both counts, a base in a developing country virtually ensures extinction. The developing countries—especially the larger ones—have much to answer for themselves, having failed to develop and maintain reputational institutions in the social sciences.[5] The poor quality of developing country academic institutions in the social sciences has led the Bank to not only draw its research staff from U.S. universities in particular (which then creates research networks between the staff and faculty in those universities), but when these institutions want to train and support developing country students or send their own staff for training, it is invariably again at U.S. universities.[6] Given the outstanding quality of the latter, the short-run compulsions of the Bretton Woods institutions are quite understandable, but their long-term consequences are inimical. These practices have strengthened already strong research institutions in the U.S. while further weakening developing country institutions—creating conditions for perpetuating the practice. The process has generated a vicious circle with results that are in line with models of statistical discrimination. The more the World Bank and the IMF in effect discriminate against researchers from LDCs, the more the incentive of these researchers to migrate out of the countries either to these institutions themselves or to developed countries where their credibility is enhanced by their association with a developed country institution, furthering the decline of LDC research institutions.

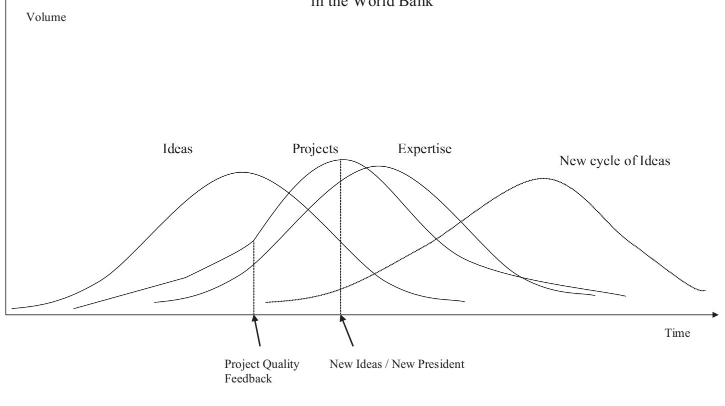
It is not that there are no universal "truths" about development, but rather that they make the Bank a prisoner as often as they liberate the institution from past mistakes. Consequently, the Bank's knowledge activities have been more captive to the fads and fashions of academia, moving from one big idea to the next, rather than knowledge activities that might be most helpful to its borrowers. Fig. 1 is a schematic representation of these cycles, where new ideas lead to new projects and programs, with recruitment and expertise usually lagging. As time passes, evaluations and feedback usually paint a more somber picture, requiring course correction. But even as the knowledge resulting from learning-by-doing begins to get accumulated, a form of intellectual *ennui* sets in and a new set of ideas (often precipitated by a change in guard at the top), begins a new cycle. From rural development in the 1970s to structural adjustment in the 1980s to institutional changes such as judicial reforms in the 1990s, much new knowledge has been learnt in the Bank—and forgotten as it is crowded out by new ideas and agendas.

Consequently, the substantial resources devoted by the Bank to self-evaluation have had limited effects—the sum being considerably less than its parts. The evaluation methodology has been questioned, in particular, on whether in the absence of randomized trials, lessons from these evaluations can be meaningfully extrapolated. While a valid criticism, the growing fashion for randomized trials glosses over the reality that while providing valuable insights for a particular context, they too have weaknesses in the lessons they provide for similar projects but in different contexts. The more troubling weaknesses are that the tacit knowledge born of experience has become a premium in the institution as the average experience of Bank staff has fallen sharply. While new blood is always critical, periodic reorganizations and perennial transfers have ensured that loud displays of innovation are often old wine (if not old vinegar) in new bottles, born more of inexperience than perspicacity. But in the end, even the best of evaluation techniques and self-knowledge are at the mercy of the willingness and ability of the Bank's top echelons to be open-minded and guided by empirical knowledge. That in turn is a function of the Bank's governance.

As a result, a half century into "development," developing countries still seem incapable of thinking for themselves on issues (to put it crudely) critical to their own welfare, at least as measured by the lack of meaningful contributions that would find a place at the high seats of social science research. What has the Bank done in the last half-century to build institutions in developing countries that could help them think for themselves?

For the most part, the answer is "not much." Even as MNCs increasingly have diversified the geographical location of research activities, research is still relatively centralized in the Bretton Woods institutions—and to the extent that ideas shape agendas, centralized control of research is an excellent unobtrusive approach to set the agenda. Large salary differentials offered by these institutions and developing country research institutions

Fig.1. The Life Cycle of Ideas and Output in the World Bank



(with the exception of some Latin American countries) means that they often draw out limited talent in developing countries. Moreover, for nearly two decades the Bank has been chary of supporting institutions of higher learning, directing resources to primary and secondary education and justifying this shift both on equity and efficiency grounds. Foundations have also joined the bandwagon against supporting research institutions in developing countries on the grounds that they were elitist and that instead, "grass-roots" institutions needed more support. In both cases there was more than ample justification for the shift—but in the process, Bank (and the Foundations) have thrown the baby out with the bathwater. It has meant that developing country researchers are by and large restricted to data collection and country-specific applied work, not only incapable of contributing anything meaningful to agenda setting debates ranging from global financial architecture to second generation reforms, but remaining dependent on continuing and often second-rate technical assistance that is also very expensive.

Should the Bank move from a producer to a financier of knowledge?

As an intergovernmental organization, the World Bank's knowledge activities will always be subject to pressures from members. If, in the 1980s, debt and corruption were a no-mans land, in recent years intellectual property rights, capital account liberalization and genetically modified crops are examples of issue areas that the Bank has had to tiptoe around. If the value of the Bank's research as a global public good is undermined by its perceived lack of independence, other factors would appear to strengthen the case of the Bank moving from a producer of research to a financier of research.

First, there are substantial opportunity costs. It should be emphasized that in-house knowledge-related activities at the Bank are expensive, even when compared to U.S. universities, let alone LDCs. Second, there are important strategic benefits of publicly funded research for developing countries, particularly the creation of capabilities, through the vital links between research and the supply of skilled graduates. To put it differently, the process of research creates capabilities that allow for better consumption or use of knowledge. Additionally, public funding of research in different environments plays an important role in the creation of diverse options. The domination of a narrow set of institutions (reflecting in part their outstanding quality) has several undesirable consequences. It skews the questions, methodologies and other priorities of research. As a result, those directly affected by the policies of the institutions are underrepresented in setting the research and policy agenda. Furthermore, it narrows the diversity of views, which, given limited knowledge and the possibility of wrong advice, could amplify risk in the international system. The importance of diversity is particularly important in the context of an uncertain future.[7] Moreover, diversity may matter in and of itself on the grounds that there should be at least a minimum degree of participation by those likely to be affected by the actions resulting from ideas emanating from these institutions. Diversity may also be important for its instrumentality—it diversifies risk, a not unimportant criterion, given limited knowledge and the consequences of misplaced advice.

The rhetoric of the Word Bank and IMF on institutions notwithstanding, they have been tepid in supporting initiatives to develop knowledge-producing institutional capacity in LDCs, although over the last decade the World Bank has made some efforts to support regional research centers.[8] Its support for the Global Development Network (GDN, which has now been spun off as an independent entity) is an interesting innovation aimed at linking researchers and policy institutes involved in the field of development. The network also aims at skill and reputation building. This is a commendable effort, although it is too early to gauge its impact. However, even the GDN is unlikely to address the problem of how developing country researchers can overcome the high reputational barriers that exist on research and policies related to systemic issues. That requires a receptivity and openness in these institutions themselves, which is structurally difficult. Virtually all the links in the research Web sites of the Bank and Fund are to researchers in developed countries, a reflection of the modest quality of research from LDCs but also an indication of the personal networks of research staff in these institutions.

Consequently, it would appear that all factors, from operating costs to opportunity costs (using the resources to build capabilities in LDCs), would seem to support a serious reconsideration of the allocation of AAA-related resources by the World Bank. But not surprisingly, there are countervailing factors as well. First, conducting in-house research has operational externalities for the Bank. The possibility of being able to undertake research at the Bank attracts higher quality personnel (especially economists) who then contribute positively to the operations side of the Bank. Moreover, what is true of developing countries is also true of the Bank: in-house research capabilities increase the ability to sift through the copious volumes of new knowledge and ideas and make better judgments in separating the wheat from the chaff. Second, and contrary to popular impressions, it is easier for the Bank to restructure its internal AAA, than restructure its support to external research institutions.[9]

But even if the World Bank were to finance knowledge activities in LDCs to a greater degree, a different set of dilemmas arises—should the activities be focused on knowledge activities that are more national or global? While the case for the latter seems evident, in some issue areas the quest for supplying knowledge-related public goods at the global level may be amplifying the deficit at the national level. Agricultural research is a case in point. According to one estimate, even in the 1980s, while nearly a third of the hundreds of agricultural researchers who routinely attended the CGIAR's annual "Centers' Week" meetings at the World Bank were originally from LDCs, more recently only about one in 20 were still actually affiliated with LDC national research institutes or universities. With donors viewing the building of higher education and research capacity in LDCs as "elitist," research as a public good is seen to be better supplied at the global rather than the national level. However, it may well be the case that in areas ranging from agricultural to economics research, LDC researchers faced with rewards that are much greater in international rather than national research organizations, gravitate toward the former. As a result, while the supply of global public goods (in the form of research in agriculture and economics) is reasonably adequate, public goods deficits at the national level, involving the production of country-specific knowledge, may be increasing.

Conclusion

There is no development institution that has devoted as many resources to knowledge-related activities as the

World Bank. It is therefore surprising that the Bank has had little appetite to develop a rigorous framework that at a minimum analyzes the opportunity costs of these substantial knowledge-related expenditures. Admittedly the task would be analytically difficult, but there are few incentives within the institution to do so. Arguably, if even a tenth of this expenditure was instead redirected at creating endowments for knowledge-producing centers in developing countries, it is at least an open question if the welfare of those societies may not be higher. It may help LDCs to think for themselves—and take responsibility for the actions resulting from their ideas—rather than be the perennial objects of received wisdom.

Notes

1. As is the case with the European Investment Bank, whose loan portfolio has been larger than the Bank but which is otherwise a much smaller institution.

2. See, for instance, A.J. Salter and B.R. Martin, "The economic benefits of publicly funded research: a critical review." *Research Policy* 30 (2001): 509–532.

3. Of course the prize must be large enough to be attractive for organizations to undertake the investments. For an application to vaccines, see Michael Kremer, "Creating Markets for New Vaccines—Part I: Rationale, Part II: Design Issues," *Innovation Policy and the Economy*, Vol. 1 (2000): 35–118.

4. Pranab Bardhan, "Journal Publication in Economics: A View from the Periphery," *The Economic Journal* 113 (2003): F332-F337.

5. The case of India is illustrative. In the 1990s, of the 2,312 articles in the top five journals in economics (AER, EJ, JPE, QJE and Review of Economic Studies), 138 were by Indians outside India and just seven were from Indians in India—a factor of 20!

6. At the beginning of the 1990s, 80 percent of the research staff at the World Bank had graduate degrees from U.S. and U.K. institutions (nearly two-thirds from the U.S.). While similar data from the IMF is unavailable,

it is unlikely to be less. Since then, widening quality differences between U.S. and developing country academic institutions are likely to have increased the skewedness. See Nicholas Stern, "The World Bank as Intellectual Actor," Table 18-12-6, in Devesh Kapur, John Lewis and Richard Webb, *The World Bank: Its First Half Century* (Washington, D.C.: The Brookings Institution, 1997).

7. Andrew Stirling, "On the Economics and Analysis of Diversity." SPRU Working Papers, University of Sussex, Brighton (1998).

8. These include the Africa Economic Research Consortium (AERC) and the Joint Vienna Institute (cosponsored with the BIS, the EBRD, the IMF and the OECD). But the output of these institutions is not geared to addressing systemic issues—as attested by the fact that their work is rarely cited by the sponsoring institutions themselves. The IDB has been more creative in this regard. It has been coordinating the Latin American Research Network, created in 1991, and funds leading research centers in the region to conduct research on economic and social issues in Latin America and the Caribbean. The research topics are determined through consultation with IDB and external professionals.

9. This is exemplified by the Bank's large financial support over more than three decades to the CGIAR system. There can be little doubt that certain centers need to be closed down and the limited resources shifted to others, but for political economy reasons this has been stymied, leading to a sub-optimal allocation of resources within the CGIAR system.