



Global Environment Facility

GEF/C.25/8/Add.1/Rev.1

May 20, 2005

GEF Council
June 3-8, 2005

Agenda Item 13

GEF RESOURCE ALLOCATION FRAMEWORK

ADDENDUM

BACKGROUND

1. This note supplements Council Document GEF/C.25/8, *GEF Resource Allocation Framework*, prepared for the June 2005 meeting. Paragraph 11 of the document noted that the GEF Secretariat and the World Bank were discussing the conditions under which the World Bank's Country Policy and Institutional Assessment (CPIA) indicators could be made available for the GEF Resource Allocation Framework (RAF). World Bank management has subsequently determined, in light of World Bank policy, that the CPIA data for IBRD countries cannot be disclosed and further, that a GEF Performance Index for IBRD countries which makes use of that data cannot be publicly disclosed. CPIA data for IDA countries will be fully in the public domain by 2006.

2. In light of the above, this note sets out for the Council's consideration options as to the data and indicators that may be employed to measure performance in a GEF RAF.

Option 1: Continue to use CPIA data (in a restricted way)

3. CPIA data for IDA countries will be fully available and disclosable in 2006. Thus, there are no restrictions for IDA countries with respect to the use and disclosure of CPIA data. The restrictions with respect to the disclosure of these data for IBRD countries are noted above: no data disclosure and no disclosure of a performance index constructed from them. The GEF Secretariat has received World Bank confirmation that the GEF can use (but not disclose) the CPIA data to calculate a RAF financial resource allocation amount for IBRD countries.

4. In this option, CPIA data would be used to calculate the GEF Performance Index (GPI), but the index may be publicly disclosed only for IDA countries. For IBRD countries, only the GEF Benefits Index (GBI) and the country financial allocation would be in the public domain. This option is reflected in Table 1 below.

Table 1: Performance Indicators and Public Disclosure under Option 1

Country Category	Performance Indicators used to Construct GPI			Public Disclosure of Indicators		
	Port-folio ¹	Sectoral Policy & Institutions	Broad Framework Policy & Institutions	GEF Performance Index (GPI)	GEF Benefits Index (GBI)	Resource Allocations to Country and Groups
IDA	WBOED/GEFPP	CPIA Environment index	CPIA	YES	YES	YES
IBRD	WBOED/GEFPP	CPIA Environment index	CPIA	NO	YES	YES

¹ Two portfolio indicators are used in constructing the GPI: (i) WBOED – is an index derived from the ratings of Implementation Completion Reports of World Bank environment-related projects done by the Operations Evaluation Department; and (ii) GEFPP – is an index derived from Project Implementation Report ratings of GEF Projects.

OTHER NON-CPIA OPTIONS

5. None of the 4 options summarized in Table 2 use CPIA data. The options below could be applied to all GEF recipient countries. All options entail full public disclosure.

Table 2: Performance Indicators and Public Disclosure in the non-CPIA options

Option	Performance Indicators used to Construct GPI			Public Disclosure of Indicators		
	Port-portfolio	Sectoral Policy & Institutions	Broad Framework Policy & Institutions	GEF Performance Index (GPI)	GEF Benefits Index (GBI)	Resource Allocations to Country and Groups
Option 2	WBOED/GEFPP			YES	YES	YES
Option 3	WBOED/GEFPP		WBI Governance Indicator	YES	YES	YES
Option 4	WBOED/GEFPP	GEF Environment Index		YES	YES	YES
Option 5	WBOED/GEFPP	GEF Environment Index	WBI Governance Indicator	YES	YES	YES

Option 2: Full Public Disclosure using portfolio indicators only

6. The GEF Performance Index in this option is based entirely on the two project portfolio indicators (World Bank OED ratings and GEF PIR ratings).

Option 3: Full Public Disclosure using the WBI Governance Indicator

7. This option builds on Option 2 by adding an additional broad framework indicator. The availability of this data set is a very recent and significant development. The World Bank Institute published on May 9, 2005 a new set of aggregate indicators of governance for 209 countries. These data are publicly available and will be updated on a regular basis. They apply a consistent methodology across all GEF recipient countries. They are a significant alternative to the CPIA broad framework indicators. Annex 1 provides the World Bank press release announcing the publication of this new governance indicator.

Option 4: Full Public Disclosure using a new GEF Environment Sector Indicator

8. This option incorporates a new environment sector index, the construction of which would be the responsibility of the GEF Secretariat. In the past this option of creating new country performance indicators has been resisted because of the high cost of generating them and potential credibility issues. This reluctance diminishes if the new data set is limited to the environment sector only, given the GEF's experience in this domain. A lower bound estimate of the recurring costs of periodically generating this new indicator based on the direct cost of such assessments at other IFIs is \$1.5 million.

Option 5: Full Public Disclosure using the WBI Governance Indicator and the new Environment Sector Indicator

9. This option includes both the new WBI Governance Indicator and the (potential) new GEF-developed Environment Sector Indicator. Like option 4 this is a higher cost option. However, it is the only option that has indicators at the broad framework, sectoral and project portfolio levels, and is fully publicly disclosable.

Hybrid options: CPIA data for IDA countries; non-CPIA data for IBRD countries

10. It would be possible to construct hybrid, but compatible and fully publicly disclosable, performance indicators for IDA and IBRD countries by using CPIA data for IDA countries and any of options 2 through 5 above for IBRD countries. The costs of developing a new sectoral index (as in options 4 and 5 above) would be somewhat lower given that it would be developed only for non-IDA countries. Indicator comparability across all GEF countries could be ensured if the GEF-developed Environment Sector Indicator is benchmarked against the World Bank's CPIA environment index for IDA countries.

WORLD BANK RELEASES NEW GOVERNANCE INDICATORS FOR 209 COUNTRIES

Also available in: [French](#) , [Spanish](#)

Press Release No:2005/454/WBI

Contacts:

Sunetra, Puri (202) 473-2049

Spuri1@worldbank.org

Damian Milverton (202) 473-6735

Dmilverton@worldbank.org

WASHINGTON, May 9th, 2005 — Good governance can deliver significant improvements in living standards for people in developing countries, and although a number of countries have improved rapidly in recent times, too often there has been inaction, and leaders face the challenge of setting clear targets of good governance standards and tracking their progress.

Government reformers, citizens, domestic enterprises and foreign investors see governance as the key ingredient for sustainable development and a sound investment climate, and around the world demand data and analysis to monitor the quality of governance over time. Aid donors, too, know that aid flows are most effective in countries with good institutional quality.

The World Bank is helping these countries, and their development allies in civil society and the donor community, by providing a set of governance indicators that can help depoliticize efforts to track the quality of institutions, support capacity building, improve governance and address corruption.

In a new research report issued today, **Daniel Kaufmann, Director of Global Governance at the World Bank Institute**, and **Aart Kraay, Lead Economist in the Bank's Research Group**, unveil an expanded and updated set of worldwide governance indicators, which cover 209 countries between 1996-2004.

Beginning in the late nineties they began to develop and analyze measures for six components of good governance:

1. ***Voice and Accountability*** - measuring political, civil and human rights
2. ***Political Instability and Violence*** - measuring the likelihood of violent threats to, or changes in, government, including terrorism
3. ***Government Effectiveness*** - measuring the competence of the bureaucracy and the quality of public service delivery
4. ***Regulatory Burden*** - measuring the incidence of market-unfriendly policies
5. ***Rule of Law*** - measuring the quality of contract enforcement, the police, and the courts, including judiciary independence, and the incidence of crime

6. **Control of Corruption** - measuring the abuse of public power for private gain, including petty and grand corruption (and state capture by elites)

Using a state-of-the-art methodology, these indicators are constructed on the basis of hundreds of variables measuring a wide range of governance issues, drawn from over thirty separate data sources from different institutions worldwide. A key finding is that a realistic (one standard deviation) improvement in, for example, the quality of rule of law (or in other dimensions of governance, such as Voice or Accountability, or in Control of Corruption) in a country can be expected to result, on average, in about a 300 percent increase in per capita incomes in the longer term.

- **Improved governance leads to higher standards of living and poverty alleviation.** The research finds that improved standards of living are in fact the result of improved governance - and not the other way around. Improving governance in poor countries, such as in Sub-Saharan Africa, for example, would yield significant results. Yet good governance is not a luxury that only wealthy countries can afford. Examples include the cases of Botswana, Chile, Slovenia and the Baltics, for instance - emerging economies that have already attained high quality governance.
- **Such improvements in governance are realistic.** For example, for improvements in the rule of law, a one standard deviation difference would constitute the realistic improvement from the low levels of a country such as Somalia to that of Laos, or from the level of Laos to Lebanon, or from that of Lebanon to Italy, or from Italy to Canada. For Voice and Accountability it would constitute the improvement in the levels of a country like Myanmar to that of Kazakhstan, or from the level of Kazakhstan to that of Georgia, or from the level of Georgia to that of Botswana, while for Control of Corruption it is the improvement from the levels of Equatorial Guinea to those of Cuba, Honduras or Uganda, or from those of Uganda to those of Lithuania or Mauritius, or from those of Mauritius to those of Portugal, or from those of Portugal to the stellar standards of Finland, Iceland or New Zealand.
- **Measuring governance changes over time: significant improvements are feasible.** The study presents a new methodology to assess changes in governance over time, finding that over a short 6-to-8 year period significant improvements (and deteriorations) have taken place in a number of countries. This suggests there is little truth to the common perception that improvements in governance only occur over the long-term while deterioration can occur very quickly. For instance, since 1996 there has been significant improvement in Voice and Accountability in a number of countries, such as in Bosnia, Croatia, Serbia, Ghana, Indonesia, Sierra Leone, Slovak Republic and Peru, yet deterioration has also taken place in a similar number of countries. With these aggregate indicators it is also possible to ascertain that some countries have experienced significant changes in briefer time spans, such as the case of the major improvement in the 'Voice' variable for Senegal, Turkey, Chile, Mexico and Nigeria during the 1998-2004 period, or the improvements over the same period in Government Effectiveness in South Africa, Latvia, Madagascar, South Korea, Estonia and Bulgaria.
- **Yet the worldwide reality is sobering: limited progress on average.** In spite of improvements in some countries, there have been at least as many countries where deterioration has taken place in many dimensions of governance, and many more where no significant change is apparent yet. Thus, on average the quality of governance around the world has remained stagnant, highlighting the urgent need for more determined progress in this area in order to accelerate poverty reduction.
- **Demand for rigorously monitoring progress: the power of data.** The United States has recognized this by drawing heavily upon this research and set of governance indicators for the Millennium Challenge Account. The Millennium Challenge Account (MCA), which allocates some new US aid to poor countries based on their performance in three policy areas: governing justly, investing in people, and promoting economic freedom, uses these indicators to rank countries' corruption levels. Madagascar recently received the first MCA grant after competing for funds with similarly ranked countries. Other governments as well as civil society groups are increasingly

utilizing these indicators for monitoring performance, analysis and policy input, while reform-minded policy-makers are using the indicators to promote change within their countries.

While the latest study containing the updated governance indicators represents a significant step forward in helping countries measure and monitor their performance on aspects of governance with a higher degree of precision than before, Kaufmann and Kraay stress that the remaining margins of error still require caution in interpretation for this and any other type of governance indicator, and caution against precise rankings.

"In spite of a number of shining examples, the fact is that, on average, neither the rich nor the poor worlds have improved in their standards on governance over the past eight years. This sobering reality ought to motivate collective action in the next stage," says Kaufmann.

He stresses that in looking ahead, we ought to frankly distill the lessons of success and failures, abandon interventions that do not work, such as single-minded anti-corruption campaigns, and focus on voice and transparency reforms instead.

The user-friendly governance indicators interactive web page allows the user to compare a single country's performance across all six governance indicators, or to compare several countries against one of the six measures, and to instantly produce any chart, table or governance map of their choosing.

The full paper, the synthesis of the main findings, and the new indicators dataset itself are available at:
<http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>

For more information on the Bank's work in governance and corruption please visit:
<http://www.worldbank.org/wbi/governance/>