Vellore Anandarajan
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Subject: Comments of Mr. Vasudev on GEF-PBA

Dear Ramesh/Kiran,

Thanks for the bilateral discussions on the 21st June. Attached are the comments of Mr. Vasudev on the PBA. We look forward to fruitful,constructive, and in-depth further discussions on the subject during the Seminar.

Many thanks

Anand

(V. Anandarajan)
Advisor to Executive Director (EDS-12)
World Bank,
Washington DC.-20433

Backup of GEF-PBA Comments sent.\

To: Ramesh Ramankutty
Kiran D. Pandey
cc: Chander Mohan Vasudev
Leonard Good
Patricia A. Bliss-Guest

COMMENTS OF MR. CM VASUDEV, COUNCIL MEMBER FOR BANGLADESH, BHUTAN, INDIA, MALDIVES, NEPAL AND SRI LANKA ON PERFORMANCE-BASED ALLOCATION FRAMEWORK FOR GEF

(29th June 2004)

Main Points Summary

- There should be no place in GEF's PBA for macro-level indicators of broad, over-arching nature, which have no specific relevance to the role and function of GEF. The framework should only include environment-sector performance indicators (including environment-sector governance indicators).

- By their very nature, no performance indicators can be methodologically perfect. As such, performance must be measured in *ranges* (on the lines of the CPIA *quintiles*) rather than in precise numerical numbers.

- The PBA should be seen as a means of sequencing of GEF support, not as a punitive system. Through its IAs and EAs, GEF should do more to build capacities so that the poorer-performing countries are able to improve performance, become eligible for GEF resources in future, and thus contribute to global environmental benefits.

- GEF's PBA must take into account the following:

  a. COUNTRY 'NEED' - including potential to deliver global environmental benefits.

  b. COUNTRY PERFORMANCE - including sectoral and portfolio level performance, *but not macro-level performance*, and

  c. COUNTRY 'DEMAND' - pipeline of projects and implementation-readiness.

- Based on COUNTRY NEED and COUNTRY PERFORMANCE indicators measured in *ranges*, indicative allocations should be made in *bands*. Then, within each band, individual countries should receive allocations based on DEMAND, i.e., project pipeline and implementation-readiness.

Detailed Comments

The 'performance-based' framework devised for allocation of GEF resources should be robust, relevant to the purpose, workable, and above all, it should be consistent with the GEF Instrument and the Conventions. The PBA should be devised keeping in view the following.

I. Macro-level indicators:

The Council's direction the Secretariat, as recorded in the Joint Summary of November 2003 meeting, was "to develop a GEF-wide system based on global environmental priorities and *country-level performance relevant to those priorities*". As such, neither the CPIA nor the KKZ would fit the bill since they are not relevant to "global environmental priorities" per se, but are much broader, extending well beyond environmental governance. ***There should be no place in GEF's PBA for macro-level indicators of a broad, over-arching nature which have no specific relevance to the role and function of GEF. It would be naïve to think that the meager amounts of resources allocated via GEF could ever become a means for countries to improve the quality of their overall governance. Nor is it GEF's mandate to assist countries financially in undertaking overall governance reforms. Further, if the environment sector performance of a member country has been good, GEF project are likely to yield good results, notwithstanding that there may be room for improvement in the country's overall governance. GEF's PBA must, therefore, focus on governance, institutions and other performance indicators pertaining to the environment- sector only.***

Coming to the specific macro-level indicators proposed, the **KKZ** Indicators are a result of independent research work undertaken by Bank's Development Research Group and the World Bank Institute (WBI) which are published with the express disclaimer that "the opinions expressed in this research paper are the authors' and do not necessarily reflect those of the World Bank, its Executive Directors, or the countries they represent". *These indicators have never undergone any independent scrutiny. They have not been endorsed by the Board of the Bank or member governments. Adoption of these untested indicators as criteria for resource allocation by GEF, therefore, does not merit consideration.*

As for the **CPIA**, Secretariat has aptly referred to the practical problems in using the CPIA: neither the aggregate country CPIA score nor its component scores are publicly available and there are no prospects that these will be disclosed at any time for the non-IDA countries, to whom three quarters of GEF resources go. This is because countries, especially, non-IDA countries, raise resources from the market and any adverse judgments attributed to the Bank about their macro-economic performance can adversely affect their capacity to raise resources on reasonable terms. It could also have a severe impact on private flows, including FDI, to such countries. It would, therefore, be patently unfair to pass judgments on their performance based on less than robust criteria, and could do far more damage to countries than the benefits that accrue to them from GEF's meager resources.

It may be mentioned that, the robustness of the CPIA methodology has also been in question, and is currently under a high-level review. For instance, there is, very little agreement among economists and practitioners of development on what constitutes good 'fiscal policy', which is one of the indicators used. Even the best performing economies vary in their approach. These are some of the aspects which are undergoing detailed scrutiny.

Therefore, even if macro-level indicators were relevant to the GEF PBA –which they are not—neither of the suggested macro-level indicators (KKZ or CPIA) would fit the bill. GEF would be well-advised to steer clear of contentious debates on questions of political economy, which belong in other multilateral agencies with a broad-based economic agenda.

II. Sectoral-Level Indicators:

The CPIA environmental sub-index appears somewhat promising as a sectoral indicator. It would be appropriate for the Secretariat to see how best it could work around this option, notwithstanding the difficulties mentioned in the paper. More background technical work needs to be undertaken to gather data and to define benchmarks, which could then be discussed in greater detail in the forthcoming Seminar. However, the final measurement of country performance, once again, should be in ranges rather than precise mathematical values.

Developing an all new **Country Environmental Policy and Institutional Assessment (CEPIA)** index exclusively for GEF is also an alternative. Although, as staff have pointed out, there are severe constraints in terms of resources, staff-time, and data accessibility, it is better to invest a little more and have a robust framework than to adopt a cheap and easy system which is unable to withstand scrutiny.

III. Portfolio Level Indicators:

It is true to say that other things remaining the same, "the best indicator of future GEF project performance is past GEF project performance". By logical extension, given the limited size of GEF's own portfolio, use could be made of OED's ratings of environment sector projects funded by the World Bank. However, considering how substantially the country context could change over time, use of data which goes back to 1990 (as mentioned in Para 28), is best avoided.

A word of caution would be in order. *It needs to be remembered that performance of an individual GEF project is the outcome of the performance of several different actors, including the IAs and the EAs, the Secretariat, and the country authorities.* To the extent possible from the available data, an attempt should be made to identify the real movers behind project performance, and to de-link country performance from the performance of these other actors.

<u>Ceilings and Floors</u>: Although some flexibility may be needed to deal with significant outliers, it is difficult to see a rationale for the imposition of artificial caps or 'ceilings'. Once a PBA framework is in place, there is little justification for arbitrary departures from its criteria. Such artificial caps run counter to the whole "performance-based" allocation argument. However, the issue of caps and floors merits a more detailed discussion at the seminar, keeping in view among other things, the results of the simulations.

<u>'Banking' of Allocations</u>: The interest of optimal use of GEF's meager resources will not be well-served if funds earmarked for particular countries are lying unutilized for want projects ready to take off. Further, encouraging an 'entitlement' mentality would be quite contrary to the character of GEF. Even more importantly, existence of unutilized allocations from the previous replenishment could effect the levels of commitment in the next round of replenishments. ***For these reasons, it is important for the PBA to have a third pillar, namely, COUNTRY 'DEMAND', which takes into account the country's project pipeline and its implementation-readiness.***

<u>Summary:</u> To sum up, the PBA should incorporate three main elements, namely, (i) COUNTRY 'NEED', including country potential to deliver global environmental benefits, (ii) COUNTRY PERFORMANCE, both sectoral and portfolio performance, but not macro-level performance, and (iii) COUNTRY 'DEMAND', including, pipeline of GEF projects, and readiness to implement.

As a FIRST STEP, indicators for '<u>country need</u>' (including country potential to deliver global environmental benefits) and '<u>country performance</u>' (including sectoral and portfolio level performance, but not macro-level) should be measured in ranges (not in precise numerical figures).

As the SECOND STEP, indicative allocations based on 'country need' and 'country performance' ranges as above, should be made in 'bands' of resource allocation(not as specific amounts).

Then, as the THIRD STEP, within of each band, individual countries should receive specific allocations based on 'demand', considering the pipeline of project(s) ready to take off.