CEA and Institutional Assessment

A Review of International and World Bank Tools

Poonam Pillai
and
Leiv Lunde

February 2006
In 2001, the World Bank completed the comprehensive two-year process of preparing its Environment Strategy, Making Sustainable Commitments: An Environment Strategy for the World Bank. It was endorsed by the Bank’s Board of Directors and published in October 2001. The Environment Strategy Paper series includes revised versions of background papers published during the Strategy preparation phase, as well as new reports prepared to facilitate implementation of the Strategy.

The Environment Strategy emphasizes the need to strengthen the analytical foundation of environmental work at the country level. Country environmental analysis (CEA) has been identified as one of the key environmental diagnostic tools for evaluating systematically the environmental priorities in client countries, the environmental implications of key policies, and countries’ capacity to address their priorities. This report, together with two published papers on issues linked with country environmental analysis, has been prepared to provide guidance on institutional analysis to ongoing CEA concept development efforts.

The recommendations made in this paper represent the views of the authors and not those of the World Bank.
Contents

v Foreword

vii Acknowledgments

ix Abbreviations and Acronyms

1 Executive Summary

3 Chapter 1: Introduction
  3 Country Environmental Analysis
  4 Institutional Analysis: Key Definitions and the WDR 2003 Framework
  7 Importance of Institutional Assessment in CEAs

9 Chapter 2: Institutional and Governance Tools Used by the World Bank
  9 Diagnostic Tools
  10 Country-Level Indicators of Governance and Institutional Quality
     Country policy and institutional assessment
     WBI governance indicators
  12 Tools for Understanding Financial Aspects of Governance
  13 Tools for Assessing Prospects for Reform
  14 Monitoring and Evaluation Tools
  15 Poverty and Social Impact Analysis
  16 Main Lessons

23 Chapter 3: Lessons from International Experience with Assessing Environmental Institutions and Governance
  23 Environmental Performance Reviews
  24 World Economic Forum Environmental Sustainability Index
  26 European Benchmark Study
  28 The Access Initiative (TAI)
  28 Global Public Opinion Polls
  31 Main Lessons
Foreword

This Environment Strategy Paper (ESP) is one in a series of review papers designed to develop guidance on country environmental analysis (CEA). The main purpose of this review is to arrive at key elements of institutional analysis in preparing CEAs (presented in chapter 5). As such, it needs to be seen as a stocktaking exercise rather than as an evaluation of tools for institutional analysis based on pre-determined criteria for institutional analysis within CEAs.

This ESP draws on a background paper on the same topic prepared by a team led by Leiv Lunde in ECON, Norway, in 2002.

Lessons from the review undertaken in this paper do not reflect experience with institutional analysis in completed and ongoing CEAs. Systematic analysis of that issue is planned as a follow-up to this work, which serves as a baseline for future analysis.
Acknowledgments

This paper has been prepared by Poonam Pillai (environmental specialist) as part of the work-program of the Institutions and Governance Team, under the guidance of Kulsum Ahmed (lead environmental specialist and team leader). It is part of a broader effort to learn from experience and develop guidance on a key aspect of CEA, namely institutional capacity analysis. We are grateful to Juan Carlos Belausteguiitia (lead environmental economist) and Anil Markandya (lead economist) for peer-reviewing this paper. We are also grateful to Laura Tlaiye (sector manager, Environment Department) for her comments and suggestions.

An earlier review paper led by Leiv Lunde at the Centre for Economic Analysis (ECON) Norway, provided substantial input in the preparation of this paper. It was prepared under the guidance of Magda Lovei (former Environment Strategy team leader) and benefited from peer review by Gloria Davis, consultant (and former director of the Social Development Department), and Aziz Bouzaher (lead environmental specialist). Sam Bartlett at ECON carried out a review of environmental assessment capacity assessment studies that served as a background note to this paper. We thank them all.

Over the course of the preparation of this paper, the team received comments from a large number of people. In particular, we wish to thank Hans-Olav Ibrekk of the Norwegian Agency for Development Cooperation (Norad) and Ede Jorge Iijasz-Vasquez, former team leader of the Environment Strategy team, for useful comments and suggestions on earlier versions. Thanks are also due to Nancy Levine, Nanako Tsukahara, and Rita Lohani for valuable editorial assistance and Jim Cantrell for design and production.

Finally, we are grateful for the generous financial support provided by the governments of Norway, Finland and Denmark, without which the preparation of this paper would not have been feasible.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>Analytical and advisory activities</td>
</tr>
<tr>
<td>CAS</td>
<td>Country assessment strategy</td>
</tr>
<tr>
<td>CEA</td>
<td>Country environmental analysis</td>
</tr>
<tr>
<td>CESP</td>
<td>Country environment strategy paper</td>
</tr>
<tr>
<td>CFAA</td>
<td>Country financial accountability assessment</td>
</tr>
<tr>
<td>CPIA</td>
<td>Country policy and institutional assessment</td>
</tr>
<tr>
<td>CSA</td>
<td>Country social analysis</td>
</tr>
<tr>
<td>DPL</td>
<td>Development policy lending</td>
</tr>
<tr>
<td>EA</td>
<td>Environmental assessment/ Environmental impact assessment</td>
</tr>
<tr>
<td>EIP</td>
<td>Environment issues paper</td>
</tr>
<tr>
<td>EMS</td>
<td>Environmental management system</td>
</tr>
<tr>
<td>ESN</td>
<td>Environment strategy note</td>
</tr>
<tr>
<td>EPIA</td>
<td>Environmental policy and implementation assessment</td>
</tr>
<tr>
<td>EPR</td>
<td>Environmental performance review</td>
</tr>
<tr>
<td>ESI</td>
<td>Environmental Sustainability Index (World Economic Forum)</td>
</tr>
<tr>
<td>ESP</td>
<td>Environment strategy paper (and similar documents)</td>
</tr>
<tr>
<td>ESSD</td>
<td>Environmentally and Socially Sustainable Development</td>
</tr>
<tr>
<td>ESW</td>
<td>Economic and sector work</td>
</tr>
<tr>
<td>GAC</td>
<td>Governance and anti-corruption</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross national product</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IEM</td>
<td>International Environmental Monitor</td>
</tr>
<tr>
<td>IGR</td>
<td>Institutional and governance review</td>
</tr>
<tr>
<td>NEAP</td>
<td>National environmental action plan</td>
</tr>
<tr>
<td>NGO</td>
<td>Nongovernmental organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OED</td>
<td>Operations Evaluation Department (World Bank)</td>
</tr>
</tbody>
</table>
### CEA and Institutional Assessment: A Review of International and World Bank Tools

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEM</td>
<td>Public expenditure management</td>
</tr>
<tr>
<td>PER</td>
<td>Public expenditure review</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty reduction strategy paper</td>
</tr>
<tr>
<td>PSIA</td>
<td>Poverty and social impact analysis</td>
</tr>
<tr>
<td>TAI</td>
<td>The Access Initiative</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNECE</td>
<td>United Nations Economic Commission for Europe</td>
</tr>
<tr>
<td>WBI</td>
<td>World Bank Institute</td>
</tr>
<tr>
<td>WDR</td>
<td><em>World Development Report</em></td>
</tr>
<tr>
<td>WRI</td>
<td>World Resources Institute</td>
</tr>
</tbody>
</table>
Executive Summary

Institutional Analysis is a key building block of Country Environmental Analysis (CEA), an upstream analytic tool that aims to integrate environmental considerations into Country Assistance Strategies (CASs), Poverty Reduction Strategy Papers (PRSPs), Development Policy Lending operations (DPLs), and country level development assistance strategies and programs. In order to develop a systematic approach to undertaking institutional analysis in CEAs, a review of available governance tools and instruments used both within and outside the Bank was undertaken. This paper is an outcome of this exercise. Its objective is to learn from available tools and identify key elements of institutional analysis within CEAs.

The review shows that there are a wide range of tools used both within and outside the Bank that vary in terms of their objective, scope, type of governance issue addressed, data used, and the context in which they can be used. In the Bank, for instance, they range from quantitative tools such as the WBI country level governance indicators to instruments such as the Institutional and Governance Reviews that tend to combine both quantitative and qualitative analysis and examine political economy issues underlying performance failures. While some address specific governance issues such as the country financial accountability, others aim to assess the prospects of specific reform processes.

Tools that assess environmental governance also tend to vary widely in terms of their objective, focus of analysis, and embedded methodologies. For instance, while the OECD’s Environmental Performance Reviews address a country’s environmental performance with respect to a range of environmental concerns, focusing mainly on public sector policies and institutions, others such as the Access Initiative coordinated by the World Resources Institute, focus on quantitatively assessing access to information, public participation and justice namely, the demand side of governance. In upstream country level environmental analytic work undertaken at the Bank in the past decade, assessment of institutional issues has also been an enduring concern. While they highlight important elements of institutional analysis, they also face a number of shortcomings. For instance, institutional analysis was often not linked to priority environmental concerns; it tended to give relatively little attention to environmental
governance at the regional and local levels. Moreover, little attention was given to the assessment of informal rules shaping performance failures and inter-sectoral coordination. The paper argues that even though many available tools cannot be used in their present form, they have important lessons to offer for institutional analysis within CEAs. In particular, they highlight (i) the complexity of addressing governance issues, requiring analysis of both formal and informal rules and political dynamics underlying management of environmental concerns, (ii) difficulty of developing a standard template for institutional assessments, and (iii) importance of assessing public sector capacity, but also assessing links with private sector and civil society. The review also highlights the importance of assessing both environmental management capacity at a broad level and also linked with priority environmental concerns. Finally it emphasizes the importance of assessing capacity for environmental assessments as part of broader institutional assessments. Based on some of these lessons and drawing upon the WDR 2003 framework, the paper concludes with an outline of what the key elements for institutional analysis within CEAs should be.
Chapter 1

Introduction

The World Bank Environment Strategy was endorsed by the Bank’s Board of Directors in July 2001. The Strategy emphasizes the importance of working with clients on incorporating environmental considerations into the earliest stages of decision making in order to support three interrelated objectives: improving people’s quality of life, improving the prospects for and the quality of growth, and protecting the quality of the regional and global environmental commons (World Bank 2001). Among the available tools used by the Bank are analytical and advisory activities (AAA), which provide the foundation for defining strategic priorities and integrating environmental concerns into policy dialogue, projects, and programs. The Environment Strategy places particular emphasis on systematic, country-level environmental analysis linked to the Bank’s country programming and to its policy dialogue with client countries. A key tool in this context is country environmental analysis (CEA), an upstream analytical tool that aims to integrate environmental considerations into country-level development assistance strategies and programs and to guide institutional reform and capacity-building efforts.

An important aspect of CEA is to assess a country’s institutional capacity to address priority environmental concerns. Earlier efforts to develop a framework for such analysis have often been clouded by uncertainty as to what the main elements of the framework should be, by data deficiencies, and by the complexity of the task. Accordingly, a review of existing institutional and governance tools was undertaken with a view to learning from them in order to develop guidance for institutional assessment in CEAs. This paper is an outcome of that exercise. Its main objective is to examine the available tools and to identify the most important elements for undertaking institutional analysis within CEAs. In this Introduction we give a brief overview of CEAs, clarify key terms associated with institutional analysis, and discuss why this type of analysis is important in the context of CEAs.

Country Environmental Analysis
CEAs are among the main country-level environmental diagnostic tools prepared by the Bank’s Regions as a means of integrating environmental issues into country assistance strategies (CASs), poverty reduction strategy
papers (PRSPs), development policy lending (DPL) operations, and large development programs. CEAs are Bank tools that are prepared in collaboration and consultation with client countries. They build on analytical work carried out by client countries and development agencies and provide a significant opportunity for donor collaboration and harmonization with respect to integrating environment into country-level policy dialogue and programming.

As stated in the CEA concept note (World Bank 2005), CEAs have three main objectives:

- **To facilitate mainstreaming** by providing systematic guidance on integrating information and analysis of key environment, development, and poverty links into the country policy dialogue
- **To guide environmental assistance and capacity building** supported by the Bank or other development partners through assessment of institutional capacity issues, especially in relation to specific environmental priorities
- **To facilitate a strategic approach to the management of environmental issues** by providing information on and analysis of environment-development links at the earliest stages of decision making, thus shaping key lending and programmatic decisions at the country and sectoral levels.

Mainstreaming of environmental issues is more likely to come about when the diagnostic work is carried out in advance of the preparation of PRSPs, CASs, and large operations and programs.

CEAs are flexible tools consisting of three building blocks (see figure 1):

- **State of the environment and priorities for development**, involving systematic evaluation of key environment-development priorities (highlighting trends, the links to poverty, and environmental indicators relevant for development policy and for the achievement of the Millennium Development Goals)
- **Policy analysis**, to identify main development policies that have potential implications for the environment, in particular those linked to the country’s environment-development priorities
- **Institutional capacity assessment**, to evaluate the country’s institutional capacity to address environmental priorities and respond to policy changes that have potential environmental implications.

In this paper we concentrate on the third building block, institutional capacity assessment. We begin by defining institutions and organizations and explaining why institutional analysis is relevant for country-level environmental analytical work.

**Institutional Analysis: Key Definitions and the WDR 2003 Framework**

Broadly speaking, *institutions* are the “rules of the game” in a society or the “humanly devised constraints that shape human interaction” (North 1990). They are sets of rules that enable people to solve a variety of collective action problems, allocate benefits arising from an organized activity, and assign responsibility for paying costs (Ostrom 1998). Institutions help structure everyday activity and reduce uncertainty (North 1990). They influence incentives and expectations about the rights
Institutions can be formal or informal. Laws, constitutions, and regulations are examples of formal rules. Informal rules exist as norms of behavior, tradition, and custom and are often harder to change than formal rules. Informal rules are not in themselves impediments to the effective functioning of institutions. They become a problem when contradictions between formal and informal rules are resolved in a manner that contributes to poor performance (World Bank, 2000).

Organizations are groups of individuals bound by a common purpose (North 1990). The main difference between institutions and organizations can be seen as analogous to the difference between the rules of a game and those playing the game. Rules define how the game is played; the skills, strategies, and coordination mechanisms that players devise to play the game constitute the organization. Thus, analysis of an organization involves delving into its governance structures, management style, skills, and relations with other groups and organizations and observing how learning by doing affects its performance over time (Hilderbrand and Grindle 1997). Like institutions, organizations can be formal—for example, a firm, or a nongovernmental organization—or informal, such as a community. There are no pure formal and informal organizations, and in real life these distinctions are often blurred. In order to create, maintain, and enforce institutions and organizations, resources are required. These are typically referred to as transaction costs. For instance, costs are involved in enforcing property rights or contractual relations and in administrative coordination within and between organizations.
Environmental governance is defined here as the formal and informal institutions and organizations through which public authority is exercised for the management of the environment and natural resources and poverty reduction. Economic growth and development are frequently accompanied by environmental externalities such as pollution, soil erosion, depletion of the ozone layer, and deforestation—challenges that are often attributed to market failures. Public sector policies, legislation, regulations, and organizations have a key role to play in addressing these environmental challenges by mobilizing resources, adjusting markets, protecting property rights, and regulating individual and community behavior. As noted in World Development Report 1997, environmental protection is now widely recognized as a core responsibility of modern governments (World Bank 1997). Similarly, the role of institutions, more broadly defined, in sustainably managing natural resource assets and improving well-being is being increasingly acknowledged (World Bank 2003b).

For states to govern well, capacity and accountability are critical (Engberg-Pederson 2003). In managing environmental and natural resources, states must have the capacity to set the course for the sustainable use of these resources, and they must be accountable, internally and also externally, to the public (see boxes 1 and 2 for definitions).

It is apparent that although public sector institutions have a key role in environmental governance, the private sector and civil society organizations also exert critical influence in diverse ways. There are numerous instances of nongovernmental organizations (NGOs) and community organizations

**BOX 1**

**What is capacity?**

The term capacity has been used in a wide variety of ways—narrowly, in terms of the staffing and skills needed to improve organizational performance, and broadly, to refer to the process of development itself. A number of definitions of capacity are in use. Polidano (2000) defines capacity as “the ability of an organization to act effectively on a sustained basis in the pursuit of its objectives.” The United Nations Development Programme defines it as the ability of individuals and organizations to perform effectively and sustainably (UNDP 1998). In this paper we use the term in a similar way to refer to the ability of public sector organizations to act effectively, either singly or in cooperation with other organizations, in the pursuit of their objectives (Hilderbrand and Grindle 1997).

**BOX 2**

**What is accountability?**

In the context of public sector performance, the main idea underlying the issue of accountability is for people to be able to hold public officials responsible for how government actions affect them. Like the term capacity, the term accountability has been understood in a number of ways. Schedler (1999) defines accountability as having two important dimensions: answerability, or the obligation of public officials to inform the public about what they are doing, and enforcement, the capacity of accounting agencies to impose sanctions on those who have violated rules. A wide range of mechanisms—elections, the existence of multiple political parties, the media, formal grievance procedures, and so on, serve as means of accountability. Each has its strengths and weaknesses. For instance, elections are one of the most powerful pro-accountability mechanisms, but they only hold elected officials accountable (Ackermann 2004). Accountability initiatives undertaken by all societal actors help increase transparency and contribute to a broader context of civil engagement (Malena, Forster and Singh 2005).
acting as pressure groups to make government more accountable, participating in the delivery of environmental services, and spearheading community mobilization. An important program in this context is the Access Initiative (TAI)–coordinated by the World Resources Institute (WRI)–that helps civil society organizations in developing countries monitor their government performance with respect to public access to information, participation and justice. To facilitate this process, coalitions of civil society organizations prepare national level assessments through the use of an indicator toolkit. In the Bank-supported Good Environmental Governance Program in Indonesia, designed to improve the performance of local governments in environmental management, public disclosure and public participation are key tools for generating demand for a cleaner environment and pressuring local governments to improve their performance (Leitmann and Dore 2005). Another example is community-driven regulation in Vietnam, where communities have been actively involved in monitoring factory performance, targeting problems, demanding results, extending the capacity of the state, and thus contributing to the implementation of environmental regulations that are formally in place (see O’Rourke 2002).

Institutional analysis in the context of CEAs therefore takes a broad perspective that focuses on the role of the public sector in environmental management but also recognizes the critical role of other relevant stakeholders such as private sector participants, NGOs, and civil society in environmental governance. The broader objective of such analysis is to identify underlying strengths and weaknesses in governance so as to improve environmental performance.

World Development Report 2003 provides an important framework for the roles institutions must play in order to promote human well-being. These include picking up signals about needs and problems, particularly from those who live on the fringes of society; balancing the interests of different stakeholders; and executing and implementing solutions by forging credible commitments (World Bank 2003b: 37). Applying these points to environmental issues, the ability of public sector institutions to pick up signals depends on gathering information about environmental trends, disclosing information, giving citizens a voice, and responding to feedback. To balance interests, the perspectives and incentives facing different stakeholders (the public sector, the private sector, and civil society actors) need to be negotiated in order to reach consensus on various issues. Finally, executing and implementing solutions means that public institutions must follow through on mandates and commitments to improve environmental outcomes.

As World Development Report 2003 recognizes, institutions face numerous constraints in serving these functions: concentration of power and interests, weaknesses in formal rules intended to protect access to assets and property rights, and so forth. These constraints can be overcome in a number of ways—by facilitating access to information, improving social equity, pursuing social and economic development, and promoting broader structural changes such as the redistribution of power.

**Importance of Institutional Assessment in CEAs**

Institutional analysis is important in undertaking CEAs, for a number of reasons. First, it can
help identify broad governance issues that underlie major environmental concerns in a country. Second, by examining the formal and informal rules that shape the performance of environmental and relevant sectoral ministries and agencies, it can help explain performance issues and difficulties facing the implementation of environmental policies and regulations in a given country. Third, because of its upstream nature, institutional analysis within CEAs can potentially identify capacity-building interventions and related political-economy issues that can then be discussed and supported in future Bank dialogue and programs.

The next chapter focuses on Bank experience with governance tools and addresses relevance to CEAs. Chapter 3 then reviews select institutional and governance tools developed outside the Bank; chapter 4 outlines approaches to institutional analysis in World Bank country-level environmental analytical tools, and chapter 5 concludes by proposing key elements of institutional analysis within CEAs.
In order to monitor and provide guidance on various aspects of governance, many tools have been developed by different sectors at the Bank. In this chapter we briefly review some of these tools and the lessons they offer for assessing institutional capacity. In reviewing each tool, the main questions we ask are, What is the objective of the tool? What are its key features? What is its potential relevance for CEAs? The goal is not to be comprehensive but to indicate the types of tools and resources that are available.

**Diagnostic Tools**

Among the wide range of diagnostic tools used by the World Bank—such as public expenditure reviews (PERs), poverty and gender assessments, investment climate assessments, and the recently initiated country social analyses (CSAs)—institutional and governance reviews (IGRs) are of particular relevance to CEAs. As with CEAs, IGRs are upstream analytical tools and aim to inform country assistance strategies, major lending operations, and other country-level processes.

Among the main features of an IGR is that they focus on how political actors, institutions and dynamics shape government performance and public service delivery. They often begin with a governance problem (eg. service delivery, accountability, corruption) and aim to explain the institutional issues underlying them. This is done through the use of a range of empirical methods including surveys, qualitative approaches such as sociological studies, focus group discussions, and in-depth one-on-one interviews with key informants. The resulting analysis is used as a basis of proposing practical alternatives for operational design and country strategy (Levy and Manning 2002).

Despite the above common features, there is no standard template for IGRs. They are country-specific, and their content varies according to the nature of the performance problems being addressed, the stage of the country dialogue, and the resources available to the country team. For example, while some IGRs focus on the country level (as do those for Bangladesh, Bolivia, and Peru), others (as in Nigeria) focus on the state and local
levels. There are also sector-specific IGRs such as the one focusing on health and education reforms in Argentina. Because IGRs vary with respect to country context and analytical needs, their costs vary as well; comprehensive IGRs cost about $200,000, while scoping notes cost about $50,000.5

Although IGRs typically do not address governance problems relating to the use of environmental and natural resources, they offer important lessons for CEAs. First, they highlight that governance issues linked with public sector performance vary across countries and over time, making it difficult to construct a standard framework that can be used by all IGRs. Second, they highlight the importance of analyzing political economy issues in explaining government performance. For instance, the Bolivia IGR shows how informality (defined in the Bolivia IGR in terms of the divergence between formal and informal rules) resulted in significant implementation failures in public sector modernization and in carrying out key government functions such as personnel management and the execution of the annual budget. In a context where formal institutional processes for holding bureaucrats accountable was weak, politicians often resorted to informal methods of political control—by using patronage appointments to reward supportive bureaucrats with public posts, regardless of their qualifications for the job, or by seeking their support by assigning them to positions that enjoy rents such as licenses, inspections, and procurement—thereby undermining public sector efficiency and accountability (World Bank 2000). Third, IGRs highlight the usefulness of combining both quantitative and qualitative methods in carrying out institutional assessments. For instance, surveys undertaken in 38 municipalities as part of the Bolivia IGR supplemented field studies and provided a broader perspective on the challenges facing municipalities in the country. These surveys showed that institutional turnover of mayors initially understood to be a characteristic of a few municipalities, was in reality a much more widespread problem in the period between 1996 and 2000 where more than a quarter of the sample had a new mayor every year of the four year term.

COUNTRY-LEVEL INDICATORS OF GOVERNANCE AND INSTITUTIONAL QUALITY

The increasing recognition of good governance to economic growth and poverty reduction, has correspondingly increased the interest in monitoring the quality of governance in a country over time. Several tools discussed in this section help address this issue through the development of measureable indicators.

Country policy and institutional assessment

The International Development Association (IDA) of the World Bank uses performance-based allocation to channel its resources on the basis of countries’ commitment to reform. This system includes country policy and institutional assessment—a method for annual assessment of the quality of a country’s policy and institutional framework. Four areas are covered: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. The CPIA exercise is undertaken annually for all IDA and IBRD countries.6 Currently, country performance is assessed on 16 indicators or criteria and is rated on a scale
ranging from 1 (low) to 6 (high). For each item, the rating scale specifies what the ratings mean in that context. Quality is measured by how conducive a framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance. The category most relevant to this paper—public sector management and institutions—contains five items:

1. *Property rights and rule-based governance*—the extent to which private economic activity is facilitated by an effective legal system and a rule-based governance structure in which property and contract rights are reliably respected and enforced.

2. *Quality of budgetary and financial management*—the extent to which the country has a comprehensive and credible budget, timely and accurate fiscal reporting, and so on.

3. *Efficiency of revenue mobilization*—the pattern of revenue mobilization from taxes and other sources.

4. *Quality of public administration*—the extent to which civilian central government workers (including the central executive, administrative departments and agencies, teachers, police, and health workers) implement policies and deliver services effectively. Four dimensions are considered: policy coordination and responsiveness, service delivery and operational efficiency, merit and ethics, and adequacy of pay and management of the wage bill.

5. *Transparency and accountability in allocation of funds and absence of corruption in the public sector*—the extent to which the executive can be held accountable for its use of funds and public employees are required to account for the use of resources.

For each item, an evaluation is provided explaining why the country received a certain rating and describing how its ratings have evolved compared with previous years. The evaluator is instructed to rate countries “in relation to the guidelines and to the benchmark countries in each region.” The ratings for the 16 items are averaged to yield an overall score. One of the 16 questions in the CPIA relates specifically to policies and institutions for environmental sustainability. (This item is discussed in detail in chapter 4.) The CPIA exercise draws on existing analytical work and professional judgment and should benefit from drawing on institutional assessments carried out in CEAs.

**WBI governance indicators**

An important instrument for understanding links between good governance and economic outcomes is the set of cross-country governance indicators developed by the World Bank Institute. Countries are rated according to six measures of governance. These include the following:

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, as well as the likelihood of crime and violence
6. **Control of corruption**—measuring the exercise of public power for private gain, including both petty and grand corruption and state capture

These indicators are based on several hundred individual variables measuring perceptions of governance, drawn from 37 separate data sources constructed by 31 different organizations. These individual measures of governance are assigned to six categories capturing key dimensions of governance, using an unobserved component model—a statistical procedure to perform the aggregation. This is done for each of the following periods — 1996, 1998, 2000, 2002 and 2004. The main idea underlying aggregating indicators is that individual data sources provide signals of certain core concepts of governance. Thus for instance, freedom of press is included in the broader indicator of voice and accountability; similarly, trust in police is grouped under the indicator rule of law. Aggregate indicators the authors argue, are more informative about broad governance issues and also provide greater country coverage than some of the individual indicators (see Kaufmann et al, 2005).

Data sources include cross country surveys of firms (e.g. Global Competitiveness Survey, World Business Survey), commercial risk rating agencies (e.g. World Markets Online), cross country surveys of individuals (e.g. Gallup International Voice of the People, Latinobarometro), government agencies, think tanks (e.g. Reporters without Borders, Heritage Foundation), and also international organizations (e.g. World Bank CPIA, Human Rights Reports, country assessments prepared by economists at the African Development Bank, and so forth.). These data sources reflect perceptions of a very diverse group of respondents.

The WBI indicators have been tracked in more than two hundred countries (209 in 2004) and provide important information about a country’s governance over time (Kaufmann et. al., 2005). From the perspective of undertaking institutional assessments in the context of CEAs, the WBI indicators are very useful at a broad level of aggregation and therefore should serve as an important reference point. However, they need to be complemented with country-specific analysis about governance issues at more disaggregated levels in particular, analysis focusing on links between governance and management of environmental and natural resources.

**Tools for Understanding Financial Aspects of Governance**

A number of tools are available that help assess governance issues linked with financial accounting and public expenditures. These include public expenditure reviews, country financial accountability assessments (CFAAs), country procurement assessment reports, and a diagnostic framework for revenue administration. The last-named tool is used to assess institutional and organizational deficiencies in revenue administration and to lay an analytical basis for suggesting strategies for reform. It provides guidance for detailed analysis of revenue administration through understanding of the history of relevant organizations, the broader context in which the organizations function (for example, the legal framework, the economic environment, fiscal policy, and the role of the judiciary), and the resources available for revenue administration.
CFAAs are upstream diagnostic tools for enhancing the Bank’s knowledge of public financial management and accountability arrangements in client countries (Brar 2003). Their main objective is to identify the strengths and weaknesses in country public financial management systems. CFAAs can be used for several purposes: as an input to the design of the Bank’s overall country assistance strategy (CAS); to help dialogue with borrowers and partners on financial management and accountability matters; as a basis for designing lending operations to strengthen financial management and accountability; as a reference point in assessing financial management arrangements in individual projects; or for benchmarks in adjustment lending. They focus on issues such as public sector budgeting, accounting, and financial reporting; public sector internal control systems and records management; auditing; legislative scrutiny of the management of public finances; and public access to information on public finances.

CFAAs help identify risks associated with the use of Bank funds and inform development objectives by assisting in the design of capacity-building programs. The scope of a CFAA is determined by the country’s development priorities and conditions, the nature and level of Bank resource transfers, and the availability of information. Although, as noted above, CFAAs typically address certain key areas, their content varies from country to country. For example, if the bulk of Bank lending is concentrated in specific sectors, the CFAA focuses on those sectors; if resource transfers are planned in one or more states, the CFAA focuses on those states. As CFAAs have evolved, greater attention is being given to stronger country ownership and to collaboration and harmonization with donors. In addition, increasing emphasis is being placed on subnational issues. Although CFAAs focus specifically on country financial accountability and management, they offer important lessons for institutional analysis in CEAs. First, they provide important contextual financial information for CEAs. Second, they emphasize the need to tailor the analysis to the country context, its development priorities and the nature of Bank intervention in the country. CFAAs also point out how the scope of the analysis needs to be tailored depending on the availability of information.

**TOOLS FOR ASSESSING PROSPECTS FOR REFORM**

A number of tools assess the scope and risks of a reform process. Interview-based surveys of public officials, for example, help assess how the performance of public officials is influenced by the incentives and constraints arising from their institutional environment. The results can help map the strengths and weaknesses of the public sector and identify potential payoffs from reform interventions. Such surveys have been carried out in a number of EU accession countries, Albania, Bolivia, Mozambique, Romania, Jordan and Indonesia. The Civil Service Institutional Assessment toolkit helps assess both formal and informal institutional arrangements for public sector employment, including the impact of pay policy and the relations between national and sub-national civil services. It helps examine the coherence of formal rules and compliance with them in relation to civil service policy and strategy, legislation and regulations, structure and career management, pay and employment, and performance management. It comprises
of a structured set of questions in five broad areas: (i) size of the public sector, (ii) architecture of the public sector, (iii) personnel rules (e.g., career paths, pensions, recruitment), (iv) agency and sector issues (e.g., organizational culture, accountability) and (v) common problems (e.g., employment and wage concerns, corruption). Even though the tool focuses on strengths and weaknesses in civil service arrangements, in terms of methodology for institutional assessments in CEAs, it highlights the importance of considering both formal and informal rules in undertaking institutional assessments. Further, it also highlights that differences in organizational and administrative structures can result in variations in development outcomes and shape the sustainability of reform processes. Analyses generated from the use of this tool can also provide useful contextual information regarding constraints facing civil service in a country.

Another instrument is the governance and anti-corruption (GAC) survey, which uses in-depth surveys of thousands of households, firms, and public officials to determine the degree of corruption and the factors contributing to it. Although the cost of conducting these surveys can be high (depending on costs of local consultants and the size of the sample), the surveys yield quantitative data on sensitive and difficult issues such as perceptions of corruption. They thus have the potential to enable open discussion about key institutional constraints and help institutionalize participatory methods as a way of bringing about public sector reform. This tool has been used in a wide range of countries including Indonesia, Sierra Leone, Nigeria, Peru, Guatemala, Benin, Romania, Latvia, and Albania. Thirty one GACs were completed or underway especially in ECA, AFR and LAC regions between FY 1999-03.

Tools have also been developed to help analyze the political stakes involved in reform and assess the likelihood of it being sustained. One such tool is stakeholder analysis, which facilitates analysis of the potential of a reform process to succeed and be sustained by documenting the interests of groups who have something to gain or lose from reform. Once the stakes are identified, actions can be proposed that balance and accommodate these interests. Depending on the scope and level of the analysis, stakeholders can be individuals or groups, organized or unorganized. A number of issues are key to stakeholder analysis—for instance, the stakeholders’ position on the reform issue, the amount of influence (power) they exert, their level of interest in the specific reform, and the group or coalition to which they belong. Data on these issues can be collected in a number of ways, including interviews with country experts or with the actual stakeholders. Recently, more quantitative techniques for conducting stakeholder analysis have been piloted in East Asia to understand the behaviors of key stakeholders in civil service and corruption reforms (see World Bank 2004b). A tool such as stakeholder analysis can be particularly useful for understanding the political stakes involved and thus determining the feasibility of specific reforms being proposed in a CEA. Use of this tool can help design, change, or rule out specific suggestions for reforms.

**Monitoring and Evaluation Tools**

A number of monitoring and evaluation tools have been developed within the Bank. Citizen report cards, for instance, provide information
Institutional and Governance Tools Used by the World Bank

Poonam Pillai and Leiv Lunde

on user satisfaction with the delivery of public services and offer demand-side clues that can guide service delivery agencies in specific reform areas (Wagle, Shah, and Singh 2004). Other tools, such as public expenditure tracking surveys, trace the flow of resources between levels of government. They help identify the location and extent of impediments to resource flows and evaluate the mechanisms and incentives responsible for public expenditure leakages and delays. Key steps include consulting with stakeholders to determine the objective of the survey, designing the survey, implementing it, and analyzing the data.

The diagnostic guide prepared by the World Bank’s Operations Evaluation Department (OED) aims to assist governments and development agencies in developing a national or sectoral monitoring and evaluation system. It consists of nine separate but related steps to help identify options for development of evaluation capacity and for the preparation of an action plan (see box 3).

Some of the monitoring tools discussed here are more relevant for CEA than others. For instance, survey tools such as citizen report cards can be designed to elicit citizen satisfaction with delivery of environment-related services and so can be useful in the context of CEAs. The OED tool’s main objective is to help clients develop monitoring and evaluation capacity. If environmental monitoring and evaluation capacity is considered, the tool can feed into institutional analysis within CEAs.

POVERTY AND SOCIAL IMPACT ANALYSIS

Poverty and social impact analysis (PSIA) is a tool developed by the Bank and other development partners to analyze the distributional consequences of specific reform processes for the well-being of various social groups, with particular attention to the vulnerable and the poor. Both the income and the nonincome dimensions of poverty are taken into account.

---

**BOX 3**

**Checklist for development of evaluation capacity**

The following guideline from the World Bank’s Operations Evaluation Department (OED) lists the issues to be considered in developing a country’s monitoring and evaluation systems:

- Identification of the ministries and other bodies that are key stakeholders in the government’s approach to performance management
- Diagnosis of the public sector environment in which individual ministries and public servants work
- Development of an understanding of the factors that influence budget decision making and line management decisions at the level of individual ministries
- Determination of the extent of existing demand within government for measuring the performance of government activities
- Assessment of the evaluation activities and capabilities of central and line ministries and of such actors as universities, research institutes, and the private sector
- Consideration of the evaluation activities of multilateral and bilateral development assistance agencies in the country
- Identification of major public sector reforms in the government in recent years and of prospective reforms, especially those that might affect performance management and measurement
- Mapping of options for developing evaluation capacity
- Preparation of a realistic evaluation capacity development action plan.
in understanding well-being. At the Bank, the focus of PSIA efforts has been to develop a conceptual approach to underpin the analysis, to share examples, and to develop guidance on tools and methods appropriate for carrying out PSIAs. Unlike CEAs, PSIAs focus on specific reform processes such as tariff reform and tax reform.

The PSIA User’s Guide presents a conceptual framework that includes a 10-step process: (1) asking the right questions, (2) analyzing stakeholders, (3) understanding transmission channels, (4) assessing institutions, (5) gathering data and information, (6) analyzing impacts, (7) contemplating enhancement and compensation measures, (8) assessing risks, (9) monitoring and evaluating impacts, and (10) fostering policy debate and feeding back into policy choice. For each of these steps, the User’s Guide provides guidance on the types of tool that can be used. For instance, for analyzing impacts (step 6), a number of tools can be used, including partial equilibrium models, general equilibrium models, social tools such as social impact analysis, beneficiary assessment, participatory poverty assessment, social capital assessment, and so forth. The choice of tool depends on the reform being analyzed, the information available, and capacity constraints.

A key element of the PSIA approach is to analyze institutions and organizations. Institutional analysis involves understanding how institutions, defined as formal and informal rules, mediate the impact of specific reform processes; which institutions need to be changed; and which players need to be brought on board for the reform to succeed. Organizational analysis in PSIA includes understanding the main organizational stakeholders, the underlying interests, and the formal and informal practices that link organizations at the national, regional, and local policy levels.

Even though both PSIAs and CEAs include institutional analysis, their objectives are quite distinct. Whereas CEAs are broad, country-level diagnostic tools, PSIAs focus specifically on the distributional implications of specific reform process. They are relevant to CEAs in that they demonstrate the importance of considering political-economy issues (by, for example, analyzing stakeholder interests, the potential support for and opposition to a proposed reform, and the nature of conflict surrounding a reform process). PSIAs also emphasize the importance of using multiple quantitative and qualitative methods to feed into analysis.

**Main Lessons**

The tools reviewed here vary widely in their objectives and in the type of governance issue they address (see table 1). Some focus on particular governance issues such as public expenditure or the sustainability of a reform process; while others, such as IGRs, are much broader in scope. Some (for example, GAC) are survey techniques, while others, such as IGRs and PSIA, draw on a range of methodologies. Moreover, the tools discussed here do not specifically address environmental concerns. For all these reasons, they are not immediately usable in the context of CEAs. They do, however, yield important lessons for carrying out institutional analysis within CEAs, which can be summed up as follows:
Table 1 Key features of selected World Bank institutional assessment tools

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objectives</th>
<th>Key features</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional and governance reviews (IGRs)</strong></td>
<td>1. Identify institutional roots of poor government performance. 2. Provide upstream input to CASs and other country-level processes.</td>
<td>1. No standard template or structure; content varies depending on nature of performance problem being addressed. 2. May be at the country or subnational level, or may be sector-specific. 3. Various methods used, such as interviews with public officials, household surveys, and surveys of public officials. 4. Focus is typically on public sector institutions.</td>
<td>1. IGRs highlight the importance of understanding political dynamics if analytical work is to be operationally relevant. 2. When available, IGRs provide extremely useful contextual information regarding broader governance issues (corruption, patronage, informality, and so on) that cut across public sector institutions. 3. Public sector environment institutions are not addressed.</td>
</tr>
<tr>
<td><strong>Country policy and institutional assessment (CPIA)</strong></td>
<td>1. Support performance-based resource allocation system based on client commitment to reform. 2. Assess the quality of a country’s policy and institutional framework.</td>
<td>1. Policy and institutional framework is broken down into four areas—economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions—which are assessed through 16 indicators. 2. One of the indicators relates to environmental policies and institutions. 3. Rating is done by experts in relation to benchmark countries in the region. 4. Undertaken annually for all IDA and IBRD countries.</td>
<td>Major recent change is to move toward full disclosure for IDA countries; better linkage between CPIA and other assessments will be needed.</td>
</tr>
</tbody>
</table>

(continued on next page)
<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objectives</th>
<th>Key features</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>WBI cross-country governance indicators</td>
<td>1. Identify links between governance and economic outcomes. 2. Study causes and consequences of quality of governance for a large sample of countries and make cross-country comparisons.</td>
<td>Six aggregate governance indicators are considered: voice and accountability, control of corruption, rule of law, regulatory quality, government effectiveness, and political stability.</td>
<td>The indicators are extremely relevant for identifying relative strengths and weaknesses in governance at the country level, but they do not address environmental issues.</td>
</tr>
<tr>
<td>Country financial accountability assessment (CFAA)</td>
<td>1. Identify strengths and weaknesses in country public financial management systems. 2. Can be used for several purposes: as an input to the design of the Bank’s overall country assistance strategy (CAS); to facilitate dialogue with borrowers and partners on financial management and accountability matters; as a basis for designing lending operations to strengthen financial management and accountability; as a reference point in assessing financial management arrangements in individual projects; or for benchmarks in adjustment lending.</td>
<td>1. CFAAs typically focus on issues such as public sector budgeting, accounting, and financial reporting; public sector internal control systems and records management; auditing; legislative scrutiny of the management of public finances; and public access to information on public finances. 2. While specific modules of content areas have been identified, content varies depending on a number of factors, including the sectors or states in which Bank lending is focused.</td>
<td>1. CFAAs focus specifically on country financial accountability and management and can provide important contextual financial information. Can be immediately useful if CFAA for a country focuses on the same sectors as a CEA. 2. A broader lesson for institutional analysis in CEAs is the need to tailor analysis to the country context and development priorities. 3. Experience with CFAA suggests that the scope of analysis is shaped by availability of information.</td>
</tr>
</tbody>
</table>
Table 1 Key features of selected World Bank institutional assessment tools (continued)

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objectives</th>
<th>Key features</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil service institutional assessment</td>
<td>Assess both formal and informal institutional arrangements for public sector employment, including the impact of pay policy and the relations between national and subnational civil services. The toolkit examines the coherence of formal rules and compliance with them in relation to civil service policy and strategy, legislation and regulations, structure and career management, pay and employment, and performance management.</td>
<td>Survey questions focus on five areas: 1. Size of the public sector 2. Architecture of the public sector 3. Personnel rules (career paths, pensions, recruitment, and promotion) 4. Agency and sector issues (organizational culture, accountability, and participation) 5. Common problems (e.g., government employment and wage concerns, corruption, staffing in countries with low wages).</td>
<td>1. Highlights importance of considering both formal and informal rules in undertaking institutional assessments. 2. Highlights that differences in organizational and administrative structures can result in variations in development outcomes and shape the sustainability of reform processes. 3. Can provide important contextual information regarding the broader constraints facing the civil service in a given country.</td>
</tr>
<tr>
<td>Stakeholder analysis</td>
<td>1. Facilitate analysis of the potential of a reform process to be sustained.</td>
<td>1. Focus is on understanding the interests of various groups that have something to gain or lose from a reform process. 2. Stakeholders can be groups or individuals. 3. Data can be collected in a number of ways, including interviews with key stakeholders.</td>
<td>1. Can be extremely useful in the context of CEAs to explain incentives facing different stakeholders. 2. Helpful in assessing feasibility of reforms being proposed in a CEA.</td>
</tr>
<tr>
<td>Governance and anti-corruption (GAC) survey</td>
<td>1. Provide information on corruption and institutional weaknesses within a country and the contributing factors.</td>
<td>Relies on surveys of thousands of public service users, firms, and public officials. The surveys are undertaken by local consultants and</td>
<td>Provide quantitative data on sensitive and difficult issues such as perceptions of corruption.</td>
</tr>
</tbody>
</table>

(continued on next page)
### Table 1 Key features of selected World Bank institutional assessment tools (continued)

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objectives</th>
<th>Key features</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Citizen report cards</strong></td>
<td>1. Provide feedback from actual users of services regarding availability of and satisfaction with services, reliability and quality of services, responsiveness of service providers, hidden costs, willingness to pay, and quality of life. 2. Use this information to improve public services.</td>
<td>1. Combine quantitative methods such as surveys and qualitative methods such as focus group discussions. 2. Participation of stakeholders is important in design of survey questionnaires and in survey execution and dissemination.</td>
<td>1. Particularly useful when demand-side information is missing. 2. Cost approximately $75-$100,000 and take three to six months to complete. 3. Survey questions can be adapted to monitor satisfaction with environmental services and responsiveness of service providers.</td>
</tr>
</tbody>
</table>


- **Complexity of assessing governance issues.** IGRs illustrate that the assessment of governance issues is extremely complex, requiring analysis of both formal and informal rules and organizations.
- **Difficulty of developing a standard template.** The review showed that governance issues underlying the performance of public sector institutions are contextual and vary across countries. As the experience with IGRs and CFAs illustrates, it is therefore difficult to develop a standard template for carrying out institutional assessments.
- **Potential for adaptation to address environmental issues.** Some tools, even though they do not address environmental issues, can be adapted to this purpose in the context of CEAs. For example, citizen report cards can be tailored to assess demand for environmental services, and surveys of public officials can be designed to shed light on constraints on good performance as perceived by public officials working in environment-related
ministries and agencies. Tools such as stakeholder analysis have already been employed in many sectors and can be used in the context of CEAs to assess the feasibility of specific reform recommendations.

- **Importance of understanding the political dynamics underlying governance issues.** A lesson highlighted by tools such as the IGRs and the PSIA is the importance of understanding political dynamics in explaining governance failures. IGRs, for example, highlight the limitations of solely technical interventions for addressing governance issues with deep political moorings.

- **Benefits of combining qualitative and quantitative analysis.** Several tools, such as the PSIA, demonstrate these benefits. For instance, qualitative analysis of rent seeking or corruption can shed light on the institutional context and incentives facing public officials, while surveys to address this issue can generate quantitative data on a broader scale.

- **Need to work with limited data.** In many countries scarcity of available data is a significant problem. As the experience with CFAAs suggests, the scope of institutional analysis needs to be determined taking into account the availability of data and the time frame for undertaking the analysis.

- **Importance of considering demand-side issues.** Several tools (for example, GAC surveys and citizen report cards) employ participatory approaches in which users are consulted about their views on the performance of public sector institutions. This experience will be particularly important if questionnaire-based surveys are used in the context of CEAs. Indeed, surveys when properly designed, implemented and repeated over time, can provide valuable comparative data with tremendous public awareness potential, hence helping to not only gauge demand side issues, but also help to build the demand-side of environmental governance.

Finally, in addition to these lessons for CEAs, it is important to note that the tools described above provide useful contextual information on institutional history and practice and therefore are useful in informing CEA design.
This chapter reviews international experience with institutional assessment tools. It describes the objectives of the tools, discusses how each tool addresses institutional issues, and draws potential lessons for CEAs. The point of the review is not to evaluate the tools according to a predetermined set of criteria for institutional analysis. Rather, it is to understand which aspects of institutional issues the tools address and to identify important elements of institutional analysis that can be applied in preparing CEAs. The survey-type tools discussed here typically gather data relating to a specific set of institutions and governance indicators. Some of the more detailed diagnostic tools, however, do not have an explicit methodology that is consistently applied. Yet the use of these tools does offer important lessons for institutional analysis in CEAs.

**Environmental Performance Reviews**

The environment performance reviews (EPRs) conducted by the Organisation for Economic Co-operation and Development (OECD) are regarded as one of the most notable examples of country-level environmental analytical tools. EPRs assess a country’s environmental performance with respect to a range of relevant environmental issues. Their objectives, as outlined in OECD (2001) are:

- to help individual governments assess progress by establishing baseline conditions, trends, policy commitments, institutional arrangements, and routine capabilities for carrying out national evaluations
- to promote environmental improvements and a continuous policy dialogue among member countries through a peer review process and by the transfer of information on the policies, approaches, and experiences of reviewed countries
- to stimulate greater accountability on the part of member countries’ governments toward public opinion within developed countries and beyond.

A first cycle of 32 OECD reviews, covering all member countries and 3 nonmember coun-
tries, was completed in 2000, and a new cycle began in 2001.

EPRs cover a range of environmental issues, namely—air, water, biodiversity, and nature conservation. They typically use a pressure-state-response framework. That is, for each environmental issue, key environmental indicators or trends are documented, pressures contributing to environmental stress or degradation are analyzed, and institutional and policy responses are discussed. General institutional aspects analyzed in EPRs include a description of the broader context, the administrative and legal framework, environmental policy, the regulatory and economic instruments being used, expenditures, and monitoring. Some also cover implementation. In addition to addressing these issues with respect to environmental concerns, EPRs also look at environmental issues in key sectors. For example, the Poland EPR (1995) focused on air, water, waste, and nature conservation and on the energy and industry sectors and the country’s performance with respect to international conventions. The emphasis tends to be on how sector policies address environmental issues rather than on intersectoral coordination at an organizational or administrative level. While EPRs have a fairly standard template for the document agreed to by member countries, they do not have a specific methodology for institutional analysis that is consistently applied. Much more emphasis is placed on establishing baseline conditions, environmental trends, and indicators than on explaining the political economy of institutions.

While not an aspect of the EPR methodology for institutional analysis, an interesting aspect of the OECD EPRs is their use of the peer review mechanism to put pressure on member countries to improve their performance. Following a request from a member country, an EPR is prepared in consultation with the relevant ministries in the country. Once the document is completed, representatives from other countries are invited to comment in a peer review session, and representatives from the country being reviewed are invited to respond. This process is a powerful mechanism for gaining better information and putting pressure on each country to improve its environmental performance.

The United Nations Economic Commission for Europe (UNECE) undertakes EPRs similar to the OECD’s, but the target group consists of non-OECD European countries. The peer review process is similar to that for the OECD EPRs. Both the UNECE and the OECD prepare a second review three to five years after the first review for follow-up and monitoring purposes.

From the perspective of undertaking institutional analysis in CEAs, what we can take away from the EPRs is their focus on formal rules and organizations. EPRs typically do not analyze informal rules or accountability structures in the context of implementation issues.

World Economic Forum Environmental Sustainability Index

The Environmental Sustainability Index (ESI), developed by the Center for International Earth Science Information Network, Colombia University and Yale Center for Environmental Law and Policy in collaboration with the World Economic Forum (WEF), is a quantitative tool for measuring a country’s progress.
and performance with respect to environmentally sustainable development. The Index was launched in 2000 and also provides a basis for cross country comparison with respect to environmental sustainability. The 2005 version of the ESI is constructed using 76 variables organized in 21 indicators covering natural resource endowments, past and present pollution levels, environmental management efforts, efforts to protect global commons and capacity to improve performance over time. These 21 indicators constitute the fundamental building blocks of the ESI score and are weighted equally and aggregated to yield an overall ESI score for each country. Each of the 21 indicators draws upon 2-12 data sets for a total of 76 underlying variables and is grouped under the following five umbrellas:

1. **Environmental systems**—the degree to which a country has a vital environmental system, as measured by such indicators as air quality, water quality, and biodiversity.

2. **Environmental stresses and risks**—the levels of anthropogenic stress affecting a country’s environmental systems. This component is measured using many of the same variables as for (1), but the emphasis is on the potential for future damage.

3. **Human vulnerability to environmental impacts**, as measured by health impacts and economic losses. Variables include the percentage of the population with access to safe drinking water and historical data on the number of deaths caused by natural disasters.

4. **Social and institutional capacity**—the degree to which a country has political institutions and underlying social patterns of skills and networks able to foster effective responses to environmental challenges.

5. **Global stewardship**—the degree to which a country cooperates with the international community in tackling global environmental challenges.

These five broad categories include focus on the state of environmental systems, both natural and managed and closely follow the well known pressure-state-response (PSR) indicator model. Of particular relevance to the CEA is the fourth area, social and institutional capacity. This is based on four subcategories, each measured through a range of variables:

1. **Environmental governance**, measured using twelve variables, namely ratio of gasoline price to world average; government effectiveness; percentage of land area under protected status; corruption measure; World Economic forum Survey on environmental governance; Rule of Law; Local agenda 21 initiatives per million people; civil and political liberties; percentage of variables mission from the CSGDI “Rio to Joburg dashboard”; World Conservation Union (IUCN) member organizations per million population; knowledge creation in environmental science, technology and policy; and democracy measure.

2. **Ecoefficiency**, based on two variables namely, energy efficiency (billions of kilowatt-hours per unit GDP) and hydropower and renewable energy production as a percentage of a country’s total energy consumption.

3. **Private sector responsiveness**, measured using five variables namely, the number of companies included in the Dow Jones Sustainability Group Index in relation to the Global Index; average Innovest EcoValue rating of firms headquartered in a country;
the number of ISO 14001-certified companies per unit billion dollars (GDP); World Economic Forum Survey on private sector environmental innovation; participation in the responsible care program of the Chemical Manufacturers Association.

4. Scientific and technical capacity, measured using five variables namely, innovation index; digital access index; female primary education completion rate; gross tertiary enrollment rate; and number of researchers per million inhabitants.

The data for the ESI variables is drawn from a wide range of sources including international organizations such as the United Nations systems and the World Bank, from indices such as the Dow Jones Sustainability Index that rank firms based on various measures of sustainability. Data is also collected from various national sources (eg. line Ministries, national Environmental Agencies) including the National statistical office or Ministry in different countries. In the 2005 ESI survey, which ranked 146 countries, the top five spots were held by Finland, Norway, Uruguay, Sweden and Iceland. Countries such as North Korea, Iraq, Turkmenistan, Taiwan and Uzbekistan were amongst the least well performing ones. In the middle were Mongolia, Gambia, Thailand, Malawi and Indonesia.

ESI rankings facilitate benchmarking by enabling comparisons between peer group countries (for instance, countries grouped according to population density, desert countries, newly independent states, EU member countries, and so forth). An important difficulty with the index is lack of adequate data, especially in developing countries. To deal with data deficiencies, any country with fewer than 45 of the 76 reported variables is excluded from the analysis. For the same reason, some issues such as quality of waste management and wetland destruction are left out of the index. Countries’ environment ministry and statistical offices are also contacted to check initial data indices, obtain missing data and verify information.

From the perspective of usefulness for CEAs, the aggregate ESI indicator is a useful reference point and should be referenced where appropriate, in CEA reports. However, some of the variables (eg. percentage of land area under protected status, number of researchers per million inhabitants) on which the category “social and institutional capacity” is based are questionable and have also been subject to critique. For instance, if the percentage of area under protected status is high, the countries obtain a higher score for environmental governance without considering numerous other issues such as subsidies with respect to commercial fishing or agricultural subsidies and so forth. As such, the category social and institutional capacity as defined in the ESI Index is of limited usefulness as a guide to methodology development for institutional analysis in CEAs.

European Benchmark Study\textsuperscript{19}

The Swiss Agency for the Environment, Forests and Landscape recently commissioned a benchmark study to compare its performance and efficiency with those of the environmental agencies of four European Union member countries—Denmark, Germany, the Netherlands, and the United Kingdom (SAEFL 2002). These countries were chosen based on the assumption that they were comparable in terms of quality of
Lessons from International Experience with Assessing Environmental Institutions and Governance

The following aspects were considered for comparison:

- The density of regulations (understood in the study in terms of number of environmental laws, ordinances, and regulations) in each country
- The quality of the environment, including measures of air and water quality and indicators of biodiversity
- The organization, responsibilities, and powers (implying mandate) of the environmental agency
- Personnel figures and financial resources of the environmental agency.

The comparison was done on the basis of absolute numbers and ratios (e.g. number of employees per 10,000 inhabitants, financial resources per head of population, funding for environmental issues as percentage of GDP, and so forth). With respect to environmental quality, the five countries were ranked on various indicators to reveal an overall score for environmental quality. Information for this study was collected through phone interviews as well as through review of relevant literature.

The comparison highlighted many of the difficulties underlying a benchmarking exercise. Agency expenditures could not be compared directly or in their entirety because the agencies were structured differently and were subject to different degrees of decentralization. It was particularly difficult to compare countries with a federal political structure (such as Germany) with more centralized ones (such as Denmark) because of the differing arrangements for delivering environmental services. For instance, in the United Kingdom enforcement is often left to local authorities, while in the Netherlands and Denmark the national environmental authorities largely cover this area. Detailed budget figures were not always available or directly comparable, especially where executing agencies were not comparable.

The authors also had problems finding data for what they wished to measure. This is a common problem in the environmental field but was particularly worrisome given that the countries under scrutiny were developed countries and should have a relative advantage in this respect. For instance, one area of interest was the density of regulations, which measures the number of laws, ordinances, and decrees governing environmental protection and which was regarded as an indicator of the ponderousness or complexity of the regulatory system. The authors found that it was difficult to find usable information in this area, probably because of the complexity of the task, as well as the controversial nature of the subject. It was relatively easy to find information on primary environmental law but harder to unearth environment-related clauses in other legal texts. It also proved difficult to trace regulations at all administrative levels, hampering cross-country comparison.

In conclusion, the study limited its inferences to the following issues:

- **Personnel and workplace costs per inhabitant.** Here, Denmark and the Netherlands came out favorably.
- **Quality of the environment.** Germany and the United Kingdom performed poorly compared with Denmark and Switzerland.
- **Expenditures on the environment per inhabitant.** Denmark and the Netherlands spent relatively more than the other three countries.
As with the other tools and approaches reviewed so far, the benchmark study highlights that environmental governance issues are country-specific and are linked to a country's broader political and administrative structure. It also points up the difficulties in developing standard sets of indicators for environmental institutions and governance that can be used for cross-country comparison.

**The Access Initiative (TAI)**

The Access Initiative (TAI) is a global coalition of civil society groups that promote national level implementation of commitments relating to access to information, participation and justice. While the World Resources Institute (WRI) serves as the secretariat for TAI, the latter is supported by numerous organizations such as the Thailand Environment Institute (Thailand), Environmental Management and Law association (Hungary), and so forth.

To guide the process of monitoring government performance on access to information and participation, a comprehensive toolkit comprising of more than 140 indicators has been developed by TAI and is publicly available on the web. The indicator set includes numerous questions relating to policy, legal and implementation aspects of access to information. While the focus of the indicator set is on environmental concerns, it inevitably also includes questions related to broader social accountability and civic governance.

National level NGO coalitions and/or other civil society groups interested in monitoring their government performance, complete the toolkit/indicator set based on their own expertise and also on information that they might collect. Since it is a coalition of civil society groups that fills out the questionnaire, expertise on different issues can be pooled together. In 2004-2005, TAI successfully completed 22 national level assessments. While the TAI questionnaire is currently being refined, in several countries such as Uganda and in Chile, monitoring government performance in this way has provided a mechanism for highlighting measures such as need for training in particular areas, or need to revise a national law and promoted broader discussion with the Government on access to information and participation.

Tools such as TAI are extremely valuable in the context of CEAs. Methodologically, they highlight the importance of having adequate laws and implementation mechanisms underlying access to information regarding environmental issues, recourse to justice in the context of environmental disputes and porosity of governmental institutions and decision-making to citizen voice and participation. In countries where there is more than one assessment, the TAI indicators can also help track government performance over time. When available, results of the national level TAI assessments should be included in institutional capacity assessments undertaken as part of CEAs.

**Global Public Opinion Polls**

An example of an annual tracking survey of public opinion on environmental issues is the International Environmental Monitor (IEM) undertaken by Environics International, Toronto. Surveys are undertaken either by phone or face to face using a random sample, typically consisting of 1,000 adults. These surveys, initiated in 1997, have been under-
Lessons from International Experience with Assessing Environmental Institutions and Governance

taken in about 30 countries creating a database of global public opinion. IEMs investigate such topics as threats to future generations; perceptions and concern about specific environmental issues; effects of environmental problems on human health; energy and

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objective</th>
<th>Key features of institutional analysis</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental performance reviews</td>
<td>1. Assess environmental performance and monitor progress over time by establishing baseline conditions, trends, and institutional arrangements. 2. Promote environmental improvements through a rigorous peer review process.</td>
<td>1. Policy, regulatory, and market-based instruments; importance of monitoring and data collection; some focus on implementation. 2. Variation in institutional aspects covered. 3. Focus on range of environmental concerns and also on integration of environmental issues in specific sectors.</td>
<td>1. EPRs focus on formal rules; they do not focus on informal rules. 2. EPRs highlight the importance of periodic reviews to monitor progress in environmental performance over a period of time.</td>
</tr>
<tr>
<td>Environmental Sustainability Index (ESI)</td>
<td>1. Benchmark the ability of countries to protect the environment. 2. The ESI ranks countries on the basis on 21 indicators of environmental sustainability drawn from 76 data sets. 3. Five categories of indicators are used: environmental systems, reduction of environmental stresses, human vulnerability to environmental stresses, societal and institutional responsibility to respond to environmental challenges, and global stewardship.</td>
<td>Five subcategories for societal and institutional capacity: scientific and technical capacity, capacity for debate, environmental governance, private sector responsiveness, and ecoefficiency.</td>
<td>ESI indicators for social and institutional capacity highlight important aspects of governance (such as capacity for debate) that can be addressed as part of institutional capacity assessment. Like any such index, the ESI is limited in that it allows cross country comparison across a set of indicators but does not provide a contextual analysis of institutional weaknesses.</td>
</tr>
</tbody>
</table>

(continued on next page)
Table 2 International experience with institutional assessment tools outside the World Bank

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objective</th>
<th>Key features of institutional analysis</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Benchmark Study</td>
<td>Compare the performance and efficiency of Swiss environmental agencies with those of four European Union member countries: Denmark, Germany, the Netherlands, and the United Kingdom.</td>
<td>Four aspects of institutions were considered: density of regulations (number of environmental laws, ordinances, and regulations); quality of the environment, including measures of air and water quality and indicators of biodiversity; the organization, responsibilities, and powers of the environmental agency; and personnel figures and financial resources of the environmental agency.</td>
<td>Illustrates that environmental governance issues are country-specific and vary with political structure and degree of decentralization. Difficult to develop a standard set of indicators for environmental institutional analysis that can be used for cross-country comparison, in part because of lack of adequate data.</td>
</tr>
<tr>
<td>The Access Initiative (TAI)</td>
<td>To monitor and enhance government performance with respect to access to information, participation and justice</td>
<td>1. Indicator set includes more than 140 questions relating to legal, administrative and implementation issues linked with access to information and participation. 2. Coalitions of civil society organizations in a specific country fill out the indicator set and use it as a basis of opening up a process of dialogue with the government and identifying areas of reform.</td>
<td>Country level indicators should be included in Institutional Capacity Assessments undertaken as part of CEAs. Methodologically, the TAI indicator set highlights important areas of institutional capacity assessment, namely, government performance with respect to access to information and participation with respect to environmental issues.</td>
</tr>
<tr>
<td>Global public opinion polls</td>
<td>Track key trends in public opinion regarding such issues as environment, links to economy and human health, and performance of industry. Undertaken each year in about 30 countries. Random samples used for surveys.</td>
<td>No specific framework for institutional analysis. However, institutional issues such as severity of environmental regulations are addressed.</td>
<td>Highlight importance of including public views on specific environmental issues in undertaking institutional assessments.</td>
</tr>
</tbody>
</table>
climate change; feelings about empowerment and personal action; and the environmental performance of government and of various industries (e.g., the chemical and automobile industries). Of the 30 countries sampled, 10 (including China, India, Kazakhstan, and Nigeria) are classified as low income, 12 (Argentina, Czech Republic, South Africa, and Thailand) as middle income, and 8 (the Group of 8 countries) as high income.

Some interesting findings emerge from the survey. One is that people increasingly see the impact of environmental degradation on human health as a serious concern worldwide, especially in developing countries. For example, two-thirds of the people surveyed in the large, economically important Group of 20 countries expect that environment will have a severe impact on the health of future generations— an increase of 8 points since 1999. Survey findings have been used to draw the attention of policy makers to environmental matters.

Global public opinion polls such as this play a crucial role in documenting and tracking public views regarding environmental concerns. From the perspective of developing a framework for institutional analysis in CEAs, the key issue emphasized by the IEM survey is the importance of including demand-side considerations in institutional capacity assessment.

**Main Lessons**

A review of international experience offers several lessons for institutional capacity assessment in CEAs (table 2). Whereas survey-type tools such as ESI gather data relating to a specific set of institutions and governance indicators, some of the more detailed analytical tools such as the EPRs do not have an explicit methodology that is consistently applied.

Key issues highlighted in this chapter are:

- **Areas of analysis.** EPRs point to formal environmental policies and institutions, monitoring and data collection, and implementation as important areas of assessment. They do not, however, analyze informal rules in explaining implementation issues. Other key areas highlighted for instance by the TAI toolkit include access to information, participation and justice.

- **Monitoring through periodic assessments.** Experience with ESI, public opinion polls, TAI and EPRs shows that the assessments, if done periodically, can help monitor changes in environmental performance over time.

- **Country-specificity of environmental governance.** As noted in the European Benchmark Study, environmental governance varies with country context. This, in addition to lack of adequate data, makes cross-country comparison of institutional structures and performance difficult.

- **Limitations of aggregate indicators.** Indicators such as those used in the ESI facilitate understanding of governance issues at an aggregate level, but it is also important to have contextual information on environmental governance.

- **Data availability.** Several of the tools reviewed here highlight difficulties with data availability that are likely to have significant implications for defining the scope of institutional assessments.

- **Importance of understanding demand for environmental improvement.** The experience with international environmental
opinion polls underlines the importance of including demand by civil society and citizens for improved environmental management as an important part of institutional capacity analysis.
Assessment of institutional capacity to manage environmental concerns at the country level is an enduring concern at the World Bank. In this chapter we summarize how the issue has been addressed in past country-level environmental analytical work, the CPIA, and other relevant tools.

INSTITUTIONAL ANALYSIS IN COUNTRY-LEVEL ENVIRONMENTAL ANALYTICAL TOOLS

For over a decade, the World Bank’s regional departments have produced a variety of country-level environmental diagnostic tools. These include country environment strategy papers (CESPs) in the Africa Region; environment issues papers (EIPs) in the Latin America and the Caribbean Region; environment strategy papers, studies, overviews, and reports (collectively referred to here as ESPs) in Europe and Central Asia, East Asia and Pacific, Middle East and North Africa, South Asia, and Latin America and the Caribbean; the cross-sectoral policy notes in Latin America and the Caribbean; and environment monitors in East Asia and Pacific (see box 4). There is much variation between and within these tools as to whether they have carried out institutional capacity analysis, as well as in their scope, level of detail, and links to priority environmental concerns (Pillai 2002). Some tools, such as some of the earlier environment monitors, provide no analysis of institutions. Many tools (including some of the recent environment monitors), however, do include analysis of institutional and environmental management issues and are an important guide to key areas that should be included in institutional analysis within CEAs. For instance, like the OECD EPRs, they highlight the importance of monitoring environmental quality, formal environmental policies and institutions, and implementation, as key areas of analysis.

Several shortcomings in the institutional analysis in these tools need to be addressed.

1. In many cases, analysis of environmental institutions and organizations is not linked to specific environmental concerns but has tended to assess capacity issues at a more general level. Given that capacity for
BOX 4
Country-level environmental diagnostic tools in the World Bank: Summary of a review

National environmental action plans (NEAPs) address the environmental priorities of a given country and are prepared by client countries, often with technical and financial assistance from the Bank and other donors. Information from NEAPs is often used in the country assistance strategy (CAS) to ensure that environmental issues are incorporated into the development of programs and projects. The World Bank has assisted countries in preparing NEAPs in all regions since the late 1980s, often in the form of environmental profiles, sectoral analyses with environmental components, and national conservation strategies (Lampietti and Subramanian 1995). The Madagascar NEAP (1987) was the first one initiated; Mauritius was the first country to officially approve its NEAP.

Country environment strategy papers (CESPs) are country-level environmental diagnostic tools prepared by the Bank’s Africa Region. In many cases CESPs provided the first comprehensive assessment of the country’s environmental problems (Bojö 1995). The main objective of CESPs was to strengthen the country dialogue with respect to environment policy and assess the environmental impacts of the Bank’s country portfolio. In many cases the Bank proposed drafting CESPs as an intermediate measure to facilitate preparation of NEAPs, especially when IDA countries were not able to prepare NEAPs quickly. Among the countries for which CESPs have been done are Chad, Mauritania, and Nigeria.

Environment strategy papers, environment strategy studies, and the like (ESPs) were prepared by environment units in various Bank regions, especially East Asia and Pacific, Europe and Central Asia, Middle East and North Africa, and South Asia. In some cases ESPs provided input to countries’ sustainable development strategies. In general, their objective has been to help governments develop their environmental policies and to assist donors in targeting assistance and avoiding duplication of effort. Only a few countries have ESPs; they include Bulgaria, China, Indonesia, the Islamic Republic of Iran, and Pakistan.

Environment monitors (EMs) have been prepared for most countries in East Asia and Pacific except China. They seek to provide a snapshot of key environmental trends in each country, tracking indicators for “brown,” “green,” “blue,” and global issues. EMs started out as a Bank initiative but are increasingly jointly owned by the Bank and client countries. The EM for Thailand carries the logos of both the Bank and the Thai Environment Ministry, suggesting government buy-in and support for the contents of the document. For each country, it is expected that an EM will be published once every five years. In the intervening years, additional EMs will highlight emerging problems by focusing on specific themes. Some earlier EMs did not look at institutional issues, but these topics are increasingly being addressed in more recent ones.

Environment issues papers (EIPs) were prepared by the Environment Unit of the Latin America and the Caribbean Region in the late 1980s and the 1990s. They were expected to provide input to country strategy papers (equivalent to the current CASs) and thus influence the country dialogue on environmental issues. EIPs highlighted environment priorities and management issues facing client countries and showed how environmental concerns could be incorporated into sectoral lending and inform economic and sector work. As in the case of the CESPs in the Africa Region, the EIPs were often the first systematic attempt to chart a coherent environment strategy for the countries. EIPs are Bank-owned documents prepared with input from client countries. Some countries for which EIPs have been prepared are Colombia, the Dominican Republic, Paraguay, Peru, and República Bolivariana de Venezuela.

Policy notes (PNs), like the EIPs, are products of the Latin America and the Caribbean Region. They are designed to provide each incoming presidential administration with a comprehensive account of the Bank’s diagnoses and policy recommendations for the country’s key sectors, especially those in which

(continued on next page)
managing environmental issues differs with respect to different environmental concerns (for instance, land degradation or water pollution), this broad analysis is important but not sufficient.

2. In many cases where institutional analysis was linked to specific issues, these were not necessarily priority environmental concerns.

3. For the most part, the focus of institutional analysis was mainly on formal rules, laws, and legislation, and very little attention was given to informal rules and practices that shape environmental governance.

4. Along the same lines, the tools tended to focus on environmental ministries and agencies without placing the analysis in the context of broader political-economic issues or broader public sector governance.

5. Capacity has often tended to be defined narrowly in terms of staff capacity and training and technical capacity, whereas it needs to be understood more broadly in the sense of human resource capacity, institutional capacity, organizational strengthening, and strengthening of intersectoral coordination—key factors that help organizations accomplish their goals and mandates.

6. The analysis of environmental institutions has tended to focus on the national level, with relatively sporadic attention to analysis of public sector capacity to manage environmental issues at the regional and local government levels. Given that tasks such as implementation, monitoring, and enforcement are often delegated to subnational levels, the limited analysis of local-level issues also implies that difficulties in implementation have often been explained in terms of national-level policies and institutional dynamics.

**ASSESSMENT OF ENVIRONMENTAL ASSESSMENT (EA) CAPACITY**

As part of the preparation of this paper, a review of studies and tools for assessing EA capacity was undertaken (Bartlett, 2003). The review identified the Russia EA capacity assessment study (World Bank 2003a) as a good-practice example. That study was initiated to gain a better understanding of the implementation capacity of Russia’s EA system. It assumed four performance criteria for the EA system: *proportionality*—the scope of the EA should be commensurate with the environmental impact of development ac-
tions; equity—the process should be transparent and applied equitably without bias toward any party; efficiency—the process should be undertaken within a minimum time and resources consistent with the required scope of assessment; and effectiveness—the process should meet its mandated requirements and objectives, consistent with accepted international principles.

The study examined five aspects of the EA system: its context, meaning the constitutional, institutional and economic system within which the EA system has developed; the legal and regulatory framework within which EA operates; the implementation of the EA system and the extent to which the processes follow the country’s laws and regulations, impact, referring to the value added of the EA system and the extent to which the system influences decision making; and the institutional capacity of responsible agencies to maintain and improve the EA system.

For each aspect, an assessment tool was developed that highlighted purpose, provided lead questions, and set guidelines for ranking and benchmarking, on a scale of one to five. A number of instruments were used to collect data, including interviews with EA stakeholders, surveys, focus group discussions, analysis of the legal and regulatory framework, and a desk review of environmental impact analysis (EA) cases. The study was carried out at the federal level and included three regional studies. Consultant costs and consultations amounted to about $80,000. The study took 25 staff-weeks and approximately 6 months to complete.

The Russia study provides important lessons for undertaking institutional capacity analysis in CEAs. First, the five aspects of EA systems are very useful in highlighting aspects of institutional capacity that should be considered. Second, the use of numeric rankings for various aspects of the EA system and of checklists to show how they were arrived at can be very helpful in enabling transparency as to the procedure and in forcing debate between stakeholders—government, international experts, NGOs, and businesses—as was the case when the findings from the Russia study were disseminated at a national workshop in December 2002.

An important lesson from the Russia EA study was that the EA system in a country does not operate effectively in isolation but needs to be embedded in a well-functioning environmental management system (EMS) that includes operating procedures, incentives, and disincentives with respect to improving and managing major environmental concerns facing the country. Accordingly, following the preparation of the Russia EA study, a broader study assessing the environmental management system in Russia was undertaken (World Bank 2004a). It included an analysis of key environmental trends and indicators over a period of 5 to 10 years, both at the federal level and at the regional level, in four regions, Yaroslavl, St. Petersburg, Tomsk, and Perm. In addition, the study assessed administrative changes in the country’s environmental management system and included an analysis of environmental expenditures at the federal level and in selected regions. Although a detailed analysis of this study is outside the scope of this review, the study highlights the importance of a broader assessment of a country’s policies, regulations and administrative capacity for providing strategic guidance to countries on environmental development issues.
Since the preparation of the Russia studies, a number of studies have been initiated that build upon the lessons from the earlier work and assess EA capacity in the broader context of a country’s environmental policies and institutions. One such good practice example is the EA assessment being undertaken as part of the Peru CEA.

**CPIA Framework for Understanding Environmental Policies and Institutions**

As described earlier, one of the 16 criteria used in the CPIA exercise refers to policies and institutions for environmental sustainability; it assesses the extent to which broader public and environmental policies contribute to the income and health status of the poor by promoting sustainable use of natural resources and managing pollution. The structure of the scoring process for this indicator has been revised in the past year and will likely receive further refinements over the coming months. Country experts/specialists are asked to score each country according to the overall institutional context and with respect to sector-specific policies and institutions (see figure 2). Assessment of institutional context is organized according to four issues: adequacy of prioritization, quality of environmental assessment, cross-sectoral coordination, and public information and participation. Sector-specific policies and institutions are understood in terms of two governance criteria—adequacy of policy mix, and implementation and enforcement capacity—but are unbundled with respect to various environmental concerns. Each question is associated with a numerical value. The answers are used to obtain a score for each heading or environmental theme on a scale from 1 (low) to 6 (high) as is the case with the broader CPIA framework. Issue specific scores are then combined into a weighted average to obtain an overall CPIA/environment score. Unbundling of the scoring according to environmental issues is an advance over past approaches to measuring this indicator, since each country can now be scored and assessed on environmental concerns relevant to that country, potentially

---

**Figure 2**
Framework for the CPIA scoring process

<table>
<thead>
<tr>
<th><strong>Institutional context</strong></th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequacy of prioritization 10%</td>
<td></td>
</tr>
<tr>
<td>Quality of environmental assessment 10%</td>
<td></td>
</tr>
<tr>
<td>Cross-sectoral coordination 10%</td>
<td></td>
</tr>
<tr>
<td>Public information and participation 10%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Sector-specific policies and institutions (60%)</strong></th>
<th><strong>Adequacy of policy mix</strong></th>
<th><strong>Enforcement and implementation capacity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solid and hazardous waste management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freshwater resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marine and coastal resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecosystems and biodiversity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial natural resources</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Percentages indicate weights given to specific environmental issues in the scoring process.
enabling greater cross-country equity in the scoring process.

General guidelines about what should be considered in each case are as follows:

Adequacy of the policy mix

- Adequacy of use of regulations and standards, economic instruments, voluntary agreements, and information instruments
- Whether policies permit financial sustainability (for example, extent of cost recovery in water management)
- Extent to which the level of authority (national, local) over environmental decisions is appropriate
- Extent to which pricing of natural resources allows sustainable use
- Inclusion of environmental considerations in sector policies (mining, transport, agriculture, infrastructure, and so on)
- Existence of perverse subsidies

Implementation and enforcement capacity

- Adequacy of financial resources
- Adequacy of staff resources
- EA capacity (availability of information; adequacy of human resources)
- Existence of mechanisms for cross-sectoral coordination
- Quality of monitoring and enforcement
- Adequacy of resources for monitoring and enforcement
- Extent of policy capture

In unbundling and assessing environmental policies and institutions with respect to specific environmental concerns, the CPIA framework links institutional capacity assessment with specific environmental issues. But although the analysis is unbundled, it is not necessarily linked to priority environmental issues, which are emphasized in CEAs. Furthermore, while the CPIA indicators help rank country performance with reference to a benchmark country, they do not provide detailed explanations or diagnose the strengths and weaknesses of environmental institutional capacity. Finally, political-economy issues and assessments of informal relations are not easily captured by the CPIA framework.

The major change with respect to the CPIA, however, is the plan for full disclosure for IDA countries, which will make the indicators much more a matter of public debate and scrutiny. CPIA indicators are also now being used as an input for the GEF resource allocation framework. Bearing this in mind, perhaps more attention needs to be given to ensuring how other assessments such as the CEA will feed into the CPIA scores.

Surveys for Assessing Environmental Policy and Institutional Capacity

Environment policy and implementation assessment (EPIA) is a rapid-assessment tool that has been developed by the Africa Region. It consists of a survey that is meant to be completed by Bank staff and country experts. The EPIA includes a set of general questions with respect to a country’s environmental policies and institutions. For example, is there an environmental institution or an environmental assessment process? Is there a national environmental action plan (NEAP) or an up-to-date state-of-environment report? Other questions focus on understanding environmental mainstreaming with respect to
sector policies such as land management and use, natural resource management and ecosystems, and environmental health. Even though the questions are general, they can afford an initial indication of major gaps in environmental policies and institutions and provide a stepping-stone for more detailed analysis.

Another useful tool has been developed by the Europe and Central Asia Region as part of its environment and natural resource management strategy. It includes a set of six indicators for the state of environmental management—the legal basis for environmental management, the knowledge and information base, institutions, the regulatory framework, financing of environmental investments, and public participation and awareness. These are ranked on a scale of 1 (low) to 10 (high) and serve as performance indicators for ranking countries in the region. Countries are also ranked on the basis of scores on indicators for economy-wide policies that influence the environment, such as macroeconomic stability, removal of price distortions, restructuring and privatization, and governance. In addition, the survey includes indicators for assessing environmental policies and institutions with respect to specific environmental concerns—for example, forest management, ecosystems and biodiversity management, water resources

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objective</th>
<th>Key features of institutional analysis</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country-level environmental analytical tools</td>
<td>Objective varies within and between tools.</td>
<td>1. Focus is on formal rules. 2. Institutional capacity assessment is often limited to broad analysis of environmental policies and administrative capacity. 3. Institutional analysis is often not linked to priority environmental concerns.</td>
<td>1. Highlight important areas to be included in institutional capacity assessment. 2. Little attention to informal rules.</td>
</tr>
<tr>
<td>EA capacity assessment study</td>
<td>Assess implementation of EA system</td>
<td>Five aspects of EA system are studied: context, legal and regulatory framework, implementation of EA system, impact, and institutional capacity of responsible agencies.</td>
<td>1. Highlights important areas to be included in institutional capacity assessment. 2. Numeric ranking of different aspects of EA capacity enables transparency as to how the assessment was made.</td>
</tr>
</tbody>
</table>

(continued on next page)
<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objective</th>
<th>Key features of institutional analysis</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPIA framework for understanding environmental policies and institutions</td>
<td>Help measure one of the 16 CPIA indicators discussed in chapter 2—policies and institutions for environmental sustainability.</td>
<td>1. Each country is scored according to (a) institutional context (adequacy of prioritization, quality of environmental assessment, cross-sectoral coordination, and public information and participation) and (b) sector-specific policies and institutions (adequacy of policy mix, and implementation and enforcement capacity). 2. Scores are unbundled with respect to environmental concerns.</td>
<td>1. Links institutional capacity assessment with specific environmental issues. Institutional assessment is not linked to priority environmental issues. 2. CPIA indicators help rank country performance with reference to a benchmark country but do not provide detailed explanation or diagnosis of strengths and weaknesses of environmental institutional capacity. 3. Informal relations are not easily captured by the CPIA framework. 4. Internal processes within organizations (leadership, organizational culture) are not considered.</td>
</tr>
<tr>
<td>Surveys for institutional capacity assessment developed by ECA Region</td>
<td>Enable cross-country comparisons in ECA Region with respect to policy and institutional capacity for managing environment and natural resources.</td>
<td>1. Assess capacity according to six indicators: legal basis of environmental management, knowledge and information base, institutions, regulatory framework, financing of environmental awareness, and public participation and awareness. These are ranked on a scale of 1 (low) to 10 (high) and serve as performance indicators for ranking countries in the region.</td>
<td>Indicators provide assessment at an aggregate level but do not help elicit information about environmental governance at subnational levels.</td>
</tr>
</tbody>
</table>

(continued on next page)
management, and land management. These indicators provide relevant information at an aggregate level, but they do not help elicit information about environmental governance at subnational levels.

**Main Lessons**

The review of Bank tools for assessing policies and institutions with respect to environmental issues offers valuable lessons (see table 3):

- A number of tools emphasize the importance of assessing policies and institutions with respect to specific environmental concerns and not limiting analysis to the broad level. This suggests that CEAs should go a step further and also link institutional assessments to priority environmental concerns.

- Most tools reviewed in this chapter point up important areas that should be included in institutional capacity assessment, including monitoring and information disclosure policies, the legal and regulatory framework, administrative capacity, and implementation.

- Past tools have primarily focused on formal rules and organizations. Much more effort needs to be made to understand informal rules and practices that underlie outcomes linked with environmental governance.

### Table 3 Institutional assessment in Bank environmental tools (continued)

<table>
<thead>
<tr>
<th>Name of tool or diagnostic product</th>
<th>Objective</th>
<th>Key features of institutional analysis</th>
<th>Relevance to CEAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2. Countries are also ranked on the basis of scores on indicators for economy-wide policies that influence the environment, such as macroeconomic stability, removal of price distortions, restructuring and privatization, and governance.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Indicators are unbundled with respect to specific environmental concerns (e.g., forest management, ecosystems and biodiversity management, water resources management, and land management).</td>
<td></td>
</tr>
</tbody>
</table>
An important lesson from the Russia EA study is that the development of criteria for assessing various aspects of institutional capacity that can be shared with country counterparts can be useful in generating discussion between stakeholders and promoting ownership of the analysis.

The Russia EA study also highlights that a country’s EA system cannot operate effectively in isolation but needs to be embedded in a well-functioning environmental management system—thus, emphasizing the importance of assessing EA capacity in the context of a broader assessment of a country’s environmental management capacity.
Chapter 5

Assessing Environmental Policy, Regulatory, and Institutional Capacity

The review of governance tools undertaken in this paper shows that assessment of governance issues is an extremely complex issue requiring analysis of both formal and informal rules and organizations. Furthermore, since the governance issues underlying the performance of public sector institutions—including those responsible for environmental management—vary across countries, there is a need for context-specific assessment of institutional capacity. Tools such as IGRs and PSIA also highlight the importance of understanding political-economy relations underlying specific governance problems.

Although much can be learned from experience with the tools reviewed in chapter 2, most of them cannot be used in their present form in the context of CEAs, for two main reasons. First, they do not address institutional issues specific to environmental management. Second, their objectives and scope are different. For instance, the objective of PSIA is to analyze the distributional consequences of a reform process. This is very different from the objective of institutional analysis in CEA, which is to highlight the strengths and weaknesses in governance with a view to improving environmental performance more broadly. Similarly, the purpose of civil service institutional assessment is to assess formal and informal civil service arrangements, which is only a subset of the issues in CEAs. Nevertheless, several of the available tools can be modified and used. For instance, citizen report cards, which ask questions relating to various public services, can be adapted to assess demand for and satisfaction with environmental services. Furthermore, a number of existing tools provide important contextual information and, when available, should be referred to during preparation of a CEA. These include, in particular, IGRs, CFAAs, studies based on GAC surveys, and civil service institutional assessments.

The review of environmental tools used internationally and within the Bank provides valuable insights. Interestingly, many of the environmental institutional tools reviewed in chapters 3 and 4 (for example, EPRs, past World Bank country-level environmental analytical work, the CPIA framework, and the
Russia EA study) highlight many similar categories for assessment: the degree of information disclosure, the adequacy of formal rules (policies, the legislative framework, and regulations), administrative capacity and implementation. EPRs provide valuable information regarding a country’s environmental trends and environmental management framework and should be consulted in preparing CEAs. CEAs should also build on past environmental analytical work done by the Bank. In many of these environmental analytical tools, however, the analysis of informal rules has been neglected, limiting their ability to explain difficulties facing implementation.

In this chapter we build on some of these lessons to highlight key elements of institutional analysis within CEAs. In doing so, we draw on the framework for institutional analysis proposed in World Development Report 2003 as a useful way to link and organize these elements.

**Steps Prior to Undertaking Institutional Analysis**

Before undertaking institutional analysis, some preparatory steps are necessary.

**Linking institutional analysis to the objectives of the CEA**

CEAs can have several possible objectives, including:

- informing the PRSP process, the CAS process, or a development policy lending (DPL) program
- reengaging a client government on environmental issues after a period of disengagement (examples include Ethiopia and Serbia and Montenegro)
- providing an analytical basis for lending and nonlending operations in a country
- providing an analytic basis for strengthening environmental governance at sub-national levels
- providing environmental input into broader public sector decentralization reforms.

In designing institutional capacity assessments in the context of CEAs, it is important to keep in view the broader objectives of the CEA, as they will shape what we eventually want to gain from the institutional analysis.

**Determining priority environment-development issues**

For CEAs, we suggest that institutional capacity analysis be undertaken both in a broad sense, to understand the formal and informal rules that shape environmental ministries and agencies; it should also be linked to priority environmental concerns. Environmental priorities in a country can be determined in a number of ways—for example, through priority-setting exercises by client countries, analysis of the costs of environmental degradation, surveys of stakeholder groups, or agreement with the client country. Regardless of which approach is taken, it is important to establish environment-development priorities as subjects for institutional capacity assessment. In the case of a DPL program, for instance, the identification of priority environmental issues will be influenced by the sectors that are likely to be supported through that program.

**Determining the scope of the analysis**

Once the environment-development priorities have been established, the team needs to
review the work that has already been done by the client country, the Bank, and other donors to identify key institutional issues that have not been analyzed and what the gaps are.

- define the scope, depending on budget and time frame.
- determine whether the analysis will be at the national, state, regional, or local level, or a combination of the above.
- decide whether the focus will be on the public sector or whether civil society and private sector will also be examined.
- determine broad contextual issues such as decentralization and social conflict that might reflect pressures or changes facing public sector institutions.

Each of these choices will affect what can be accomplished in the institutional assessment. For instance, if, for a given country, available environmental analytical work has focused primarily on the national level, CEA can focus on institutional capacity assessment at sub-national levels.

**KEY ELEMENTS OF INSTITUTIONAL ASSESSMENT**

Factors underlying the performance of institutions vary across countries. As such, it is difficult to suggest a blueprint methodology or a standard template that can be applied to all country contexts. Accordingly, what is suggested here are key elements of institutional assessment that will need to be tailored to the objectives of the CEA and the country context.

As mentioned earlier, institutional analysis in CEAs should focus on

- a broad assessment of the capacity of environmental management institutions and relevant sector agencies at different administrative levels and
- institutional capacity for managing environmental priorities determined in the CEA.

The purpose of the assessment would be to identify institutional strengths and weaknesses, link them to environmental outcomes where possible, and identify areas of intervention and reform that can be discussed with client country counterparts. At the heart of this lies assessment of institutional capacity and mechanisms of accountability.

There are several ways to frame institutional assessments. One approach is elaborated in Environment Strategy Note # 7 (Lovei & Pillai, 2003). The note emphasizes the importance of contextualizing institutional analysis in the context of broader political economic context and highlights three areas of analysis. These include:

1. **Policy making**—assessment of the policy, legislative and regulatory framework for protecting and managing environmental resources. This includes assessment of availability of data to inform policy making processes, public disclosure of information, and rules and processes for involving the public in policy making processes. In addition to identifying gaps in key environmental policies and legislations, this part of the assessment includes analysis of gaps in the policy and legislative framework for undertaking EA.

2. **Administrative efficiency**—the historical evolution of environmental agencies and organizations, administrative structure including mandate, key functions (includ-
ing those relating to EA), budget, human resource, and technical capacity. In addition, the analysis includes assessment of mechanisms of cross-sectoral coordination between environment and key sector ministries (horizontal), links between national and sub-national public sector agencies (vertical), and administrative capacity at sub-national levels.

3. Implementation and impact—explanation of what works well and why, and analysis of constraints faced in implementing environmental policies and regulations. The analysis here would include insights into the process of environmental decision-making, the extent of informality within public sector institutions, power relations between key stakeholders, and ways of accommodating competing interests.

An alternate way of framing the assessment based upon the World Development Report 2003 framework for institutional analysis is suggested below. The main difference in the approach suggested in ESN #7 and the one suggested below is that the latter highlights the ability of public sector institutions to “pick up signals” from society as a critical factor that influences how well they perform and deliver on key functions and mandates. The latter approach also highlights the ability of institutions to sustain and follow through on mandates and commitments over a long period of time. Here also, a discussion of the broader political economic context and governance trends within which environmental agencies function is a crucial starting point.

In CEAs, the following issues should be addressed to assess capacity of environmental institutions more broadly and institutional capacity with respect to priority environmental concerns. It is important to point out here that since responsibilities linked with environmental assessment are one of several mandates of environmental agencies, assessment of EA capacity (including adequacy of EA laws and regulations, public disclosure of information and public participation in EA, staff and budget for EA review and clearance functions, incentives of different actors (including private sector and public sector agencies) in the EA process, formal and informal rules shaping the implementation of EA process, should very much take place as a key element of the broader institutional review elaborated below.

**Political, economic and historical context**

As has been illustrated by this review, it is important to consider the broader political, economic and historical context within which public sector environmental institutions and organizations function. This is in part because factors influencing their performance are shaped by historical events and often lie outside the organizations themselves. Important contextual factors include the rate and structure of economic growth, the nature of political institutions, the degree of political stability, the role of the private and nongovernmental sectors, corruption in public sector institutions, the importance accorded to environmental issues by past administrations, and so forth. Much of his contextual information can be pulled together from existing literature. Country level indicators such as the WBI governance indicators can shed light on trends in broad governance issues such as rule of law, political stability, voice and accountability as discussed earlier. Embedded within this broader context, the analysis should focus on three main areas:
**Picking up signals**

One of the main functions of organizations is to pick up signals. Public sector agencies (themselves, or in coordination with the private sector and civil society) must be able to monitor and collect data bearing on environmental issues, synthesize environmental data, and present it periodically to citizens. The importance of information collection and dissemination has been highlighted by many of the tools reviewed—for example, CPIA, TAI, ESI, Bank environmental analytical tools, EPRs, citizen report cards, and public opinion polls. It is indispensable for (i) planning and prioritizing environment development concerns and (ii) helping people become aware of environmental issues, understand links between environmental conditions and their own well-being, and potentially take action to improve environmental conditions. Examining the political economy of information collection and dissemination regarding environmental concerns is therefore a crucial area of institutional assessments in CEAs. Here, three issues are particularly salient:

- **Monitoring environmental quality and priority setting.** This includes assessment of how systematically data on key environmental indicators is collected and the extent to which it informs priority setting and integration of environmental concerns in sectoral policies.

- **Public disclosure of information, mechanisms for public participation, and the effectiveness with which these mechanisms inform policymaking.** Arrangements for public consultation and inclusion of citizen voice in broader policy-making process and also in the context of environmental assessments, open up these processes to public scrutiny thus increasing the potential for accountability by public officials with respect to environment-development issues. 

- **Assessment of demand for effective management of environmental priorities.** The extent to which public sector organizations take action with respect to environmental sustainability is often linked to public awareness and demand for environmental concerns—an issue highlighted by a number of the tools reviewed, such as the International Environmental Monitor. Thus, evidence for presence or absence of demand-side pressures can be helpful in providing explanations for strengths/weaknesses in public sector performance. Such information can be drawn from available surveys or studies or can be undertaken by designing surveys or adapting tools such as citizen report cards. Conducting such surveys at the national level can be very expensive, but it can be done selectively for priority environmental issues.

**Balancing alternatives and interests**

Management of environmental concerns involves balancing interests and reaching agreement among multiple stakeholders regarding the formal and informal rules and mechanisms needed to address them. Analysis of the actions of specific organizations is needed and should cover the following:

- **Key stakeholders, their mandates and incentives.** Identification of key organizations, their mandates, and incentives with respect to managing the environmental priority is an important step. Mandates
could include such tasks as monitoring environmental quality, monitoring and controlling industrial pollution, policymaking and oversight of forests and other natural resources, reviewing environmental assessments and managing the environmental clearance process, and so forth. Organizational mapping techniques (used, for instance, in PSIA) that link key agencies and their environmental functions can help highlight gaps or overlaps in functions served by different agencies. Stakeholders can include public sector institutions at different administrative levels, private sector institutions, and civil society groups.

- **Internal processes within key organizations and impact on performance.** The performance of organizations is influenced not only by their nominal roles and responsibilities but also by organizational cultures and the motivations of the people who work within them (Hilderbrand and Grindle 1997). It is important therefore to assess how performance of key agencies with respect to delivery of environmental services/functions, in shaped by a range of factors such as staff capacity, the nature of leadership (for example, the knowledge-ability of top-level and senior decision makers about environmental issues, how long they stay in office, and so on), the formal and informal rules that govern the accomplishment of tasks, the sense of mission, worker dedication, and the existence of rule-bound shared bureaucratic norms that affect organizational effectiveness. In addition to undertaking field-based research on these issues, tools such as surveys of public officials can be adapted to assess constraints perceived by public officials in environmental ministries and in relevant sector ministries.

- **Allocation and execution of financial resources.** Resource constraints are a significant limitation on the effective management of environmental concerns. It is therefore important to assess the financial resources that are being allocated for managing the environmental priority by relevant agencies, the source of funds, how realistic allocations are given the magnitude of the environmental problem and how resources are executed and monitored (e.g., centralization or decentralization of allocations, accountability mechanisms relating to the management of financial resources, predictability in flow of resources and implications for management of the environmental concern).

- **Formal and informal rules shaping coordination between Sector Ministries and key stakeholders.** Environmental issues cut across many sectors and agencies and are not the sole responsibility of ministries of environment. Typically, they involve a large number of public sector agencies, in addition to the private sector, NGOs, and other stakeholders. In India, for instance, water resources management falls within the purview of at least seven, different ministries (TERI 2002). Experience suggests that coordination between sector ministries and agencies is often limited and that it exacerbates difficulties arising from limited resources and staff capacity of environmental ministries and agencies. Valuable insights for reform and change can be arrived at by (a) analyzing the constraints underlying coordination between ministries, (b) learning from good-practice examples of such coordination,
and (c) identifying how “healthy antagonism” (Tendler 1997) between agencies or levels of government can contribute to improved agency performance.

- **Environmental management at sub-national levels and links between national and sub-national institutions.** Sub-national environmental management has been relatively neglected in many Bank country-level environmental analytical tools. Given that implementation of environmental policies and regulations is often delegated to or shared with state and local levels, how sub-national governments address the environmental priority, staff and resources that are allocated to them, and the broader social and political factors shaping relations between central, state, and local governments need to be analyzed. As research in developing countries shows (Tendler 1997), strong performance by local governments is often contingent upon a strong central government and a well informed civil society rather than merely shifting the responsibility for service delivery to lower levels of government.

**Executing decisions**

In addition to coordination and balancing interests, public sector institutions must follow through on mandates and commitments to improve environmental outcomes. Analyzing how they do this involves, focusing on the following:

- **Adequacy of formal rules.** As the review presented in this paper has shown, many tools, such as EPRs, CPIA, and Bank country-level analytical work, identify formal rules (for example, constitutional mandates, and the policy and legislative framework that addresses the environmental priority, EA legislations and regulations) as an important area of analysis. In some cases the formal laws and regulations governing an environmental concern are adequate, but the difficulty lies in implementing them. In other cases the formal rules may themselves need to be updated or revised. For example, in some countries the constitution does not give specific sectors and tiers of government a clear-cut mandate to address an environmental priority. Such ambiguities in formal rules can result in long-term confusion about the responsibilities of various agencies and ministries at different administrative levels and need to be examined.

- **Extent to which informal rules and institutional and cultural norms inhibit the functioning of formal rules.** Although formal rules (policy and legal frameworks) are important to the functioning of public agencies, their effectiveness hinges on the informal behaviors of public officials within the public sector (an issue highlighted by the IGRs) and on the informal rules shaping the linkages between the public sector, the private sector, and NGOs. While informal behaviors are in themselves not a problem, they become a source of institutional weakness when they inhibit the expected functioning of formal rules. Evidence regarding informal behaviors such as corruption, rent seeking, excessive politicization of an agency, and the influence of politics in shaping center-state relations can be difficult to gather and is often anecdotal. Corroborating this information, when possible, through surveys (such as GACs) and quantitative data can be especially helpful in discussing these issues with country stakeholders.
- **Role of the judiciary in addressing environmental priorities.** The judiciary has traditionally been the primary accountability mechanism for the actions of government, the private sector, and civil society. An effective judiciary applies and enforces laws and regulations impartially and efficiently. Assessment of the role of the judiciary in enforcing environmental laws and imposing fines and penalties with respect to the environmental priority is important in explaining constraints faced in implementation.

- **Independence of oversight institutions.** Experience suggests that although integrating environmental oversight into sectoral development goals is crucial from the perspective of mainstreaming, conflicts of interest may develop when environmental oversight and resource management functions are combined within the same agency. Assessment of available account-

---

**Table 4 Checklist for institutional capacity assessment**

<table>
<thead>
<tr>
<th>Picking up signals</th>
<th>Balancing interests and reaching agreements</th>
<th>Executing and implementing decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring environ-</td>
<td>Identification of key agencies and stake-</td>
<td>Gaps in formal rules (e.g., con-</td>
</tr>
<tr>
<td>mental quality for</td>
<td>holders and linking them with their mandat-</td>
<td>stitutional framework, legal and</td>
</tr>
<tr>
<td>priority-setting and</td>
<td>es (including those relating to EA), inter-</td>
<td>regulatory framework, EA</td>
</tr>
<tr>
<td>informing public pol-</td>
<td>ests and incentives facing them (Organiza-</td>
<td>legislation) shaping the incen-</td>
</tr>
<tr>
<td>icies</td>
<td>tional mapping very useful here)</td>
<td>tives of key actors</td>
</tr>
<tr>
<td>Public disclosure of</td>
<td>Processes within key organizations (for</td>
<td>Divergence between formal and</td>
</tr>
<tr>
<td>information; presence</td>
<td>example, leadership, organizational</td>
<td>informal rules (e.g., respect for</td>
</tr>
<tr>
<td>of an effective mecha-</td>
<td>culture, quality and quantity of personnel,</td>
<td>rule of law and property rights,</td>
</tr>
<tr>
<td>nism for responding to</td>
<td>conflicts of interest)</td>
<td>presence of internal and external</td>
</tr>
<tr>
<td>citizen concerns</td>
<td></td>
<td>accountability mechanisms)</td>
</tr>
<tr>
<td>Assessment of demand</td>
<td>Adequacy and transparency in allocation</td>
<td>Independence of oversight</td>
</tr>
<tr>
<td>for specific environ-</td>
<td>and execution of financial resources for</td>
<td>institutions</td>
</tr>
<tr>
<td>mental priorities</td>
<td>managing environmental priorities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Formal and informal rules shaping</td>
<td>Role of the judiciary</td>
</tr>
<tr>
<td></td>
<td>coordination between Sector Ministries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and key stakeholders; horizontal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>accountability mechanisms; capacity for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EA in sector ministries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental management at sub-national</td>
<td></td>
</tr>
<tr>
<td></td>
<td>levels and accountability mechanisms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>between different administrative levels;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>mandate and capacity for EA at sub-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>national levels</td>
<td></td>
</tr>
</tbody>
</table>
ability mechanisms and how effectively they function is therefore crucial.

Actual implementation and enforcement is often a matter of local politics and negotiation rather than of strict adherence to national policies (World Bank 2000; O’Rourke 2002). Accordingly, case studies, especially those drawing on good-practice examples, can be helpful in explaining the micro politics and processes underlying policy implementation issues in specific contexts or in comparing implementation successes and difficulties across selected states or local governments. Learning from both good-practice and bad-practice examples also highlights variations in national experience.

The analysis of the ability of key public sector institutions to pick up signals, balance interests, and execute and implement decisions, as suggested here, can help identify institutional strengths and weaknesses, explain links between governance and environment-development outcomes, and identify reform areas on the basis of what is practical and feasible given political realities in client countries. (See the checklist in table 4.) As a follow-up to this assessment, when feasible from the perspective of budget and time frame, stakeholder analysis can be conducted to identify the stakes and options relating to specific reform recommendations. The framework suggested above has the advantage of providing detailed contextual information about management of key environmental priorities. As is typical of institutional assessments, however, doing such assessments well is likely to be time- and resource-intensive.
Notes

1. For a good discussion of transaction costs, see Furubotn and Richter (2005).
2. This is discussed in detail later. For more information see  http://governance.wri.org/project_text.cfm?ProjectID=47
3. See http://www1.worldbank.org/publicsector/igrs.htm for the complete Bolivia IGR.
5. All dollar amounts are U.S. dollars.
6. The International Bank for Reconstruction and Development (IBRD) and IDA together make up the World Bank. IDA is the Bank’s concessional lending facility.
7. For further information on the WBI indicators, see http://www.worldbank.org/wbi/governance/pubs/govmatters4.html
11. For a list of countries where this tool has been used, see http://info.worldbank.org/etools/docs/library/18464/govfromdiagnostics.pdf
17. http://www.yale.edu/envirocenter/faq.htm
19. This study is available at http://www.environnement-suisse.ch/imperia/md/content/buwalcontent/folder/02-01-21benchmark/3.pdf
20. Countries in which the quality of the environment was comparable were selected for comparison. In the view of the authors of the study, this was important for meaningful comparison of the countries’ financial efficiency.
21. The assessments were arrived at by calculating an average score for the five countries for each variable and then indicating whether the country in question was above, at, or below that average.
23. For a list of countries with completed, ongoing and upcoming TAI assessments, see http://www.accessinitiative.org/tai_countries.html
25. For further details, see background material for CPIA (Environment Department 2004).
26. As noted earlier, sub-national environmental management has been relatively neglected in past Bank country-level environmental analytical work.
27. A brief summary is provided here. For details, please see Lovei and Pillai, 2003.
28. To see how these ideas have been developed in the context of a CEA, see the terms of reference for the Colombia CEA at http://www.worldbank.org/environmentstrategy
29. For a longer discussion of public environmental expenditure reviews see (Swanson, P & Lunde, L, 2003)
30. In India the Ministry of Water Resources deals with surface and groundwater resources and interbasin transfers; the Ministry of Environment and Forests, with water quality and environment matters through its pollution monitoring network; the Ministry of Power, with hydroelectric power generation; the Ministry of Rural Development, with watershed management programs, including water and soil conservation; and the Ministry of Urban Development and Poverty Alleviation, with urban drinking water and sanitation. In addition, the Ministry of Agriculture has a mandate for irrigation, and the Ministry of Health and Family Welfare is concerned with health impacts associated with water.
31. See Braadbaart and Braadbart (1997). Understanding the difficulties underlying implementation is also the focus of ongoing CEAs in India and Nigeria.
Acknowledgments

Acknowledgments

References

References

Bibliography


INTRANETENVIRONMENT/0,,contentMDK:20448470~pagePK:210082~piPK:254376~theSitePK:244352,00.html.


INTRANETENVIRONMENT/0,,contentMDK:20448470~pagePK:210082~piPK:254376~theSitePK:244352,00.html.


Grindle, Merilee S., and John W. Thomas. 1991. Public Choices and Policy Change: The Political Economy of Reform in...


