

Document: EB 2010/101/R.45
Agenda: 18
Date: 25 November 2010
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Progress report on implementation of the performance-based allocation system

Note to Executive Board representatives

Focal points:

Technical questions:

Brian Baldwin
Senior Operations Management Adviser
Tel.: +39 06 5459 2377
e-mail: b.baldwin@ifad.org

Dispatch of documentation:

Liam F. Chicca
Governing Bodies Officer
Tel.: +39 06 5459 2462
e-mail: l.chicca@ifad.org

Executive Board — 101st Session
Rome, 14-16 December 2010

For: **Approval**

Recommendation for approval

The Executive Board is invited to approve the submission of a progress report on implementation of the performance-based allocation system to the thirty-fourth session of the Governing Council in 2011, based on this report and its addendum containing the 2010 country scores and 2011 allocations.

Progress report on implementation of the performance-based allocation system

I. Introduction

1. At its twenty-sixth session, held in February 2003, the Governing Council endorsed the view that the Executive Board would henceforth approach the performance-based allocation required by the Lending Policies and Criteria in a more systematic way and along the lines of the approach found at other international financial institutions (IFIs), and adopt a performance-based allocation system (PBAS). Authority was delegated to the Executive Board to develop the details of the system's design and implementation.
2. Several other development finance institutions use a PBAS, including: the African Development Bank (AfDB), the Asian Development Bank, the Caribbean Development Bank, the Global Environment Facility, the Inter-American Development Bank and the International Development Association (IDA) of the World Bank. All these IFIs implement a system that assesses both performance and need, and together with IFAD, meet annually to review issues and progress.
3. The PBAS is based on annual allocation exercises that operate in the context of three-year cycles, or "allocation periods". Within each cycle, IFAD reviews the ex ante allocations annually to reflect the results of the annual country performance assessments, as these capture significant changes in country needs and/or achievements in the sphere of policy and institutional frameworks. The first allocation exercise covered the period 2005-2007. The current exercise covers the 2010-2012 period, which coincides with the Eighth Replenishment period. The Report of the Consultation on the Seventh Replenishment of IFAD's Resources¹ confirmed that the uniform system of allocation across the IFAD lending programme as a whole would become effective in the 2007 programme of work (i.e. the first year of the Seventh Replenishment period), and that fixed regional allocations would no longer apply.

II. Adjustments to the PBAS

4. After these systems were introduced, it was recognized by all practitioners that adjustments and improvements were needed. At its April 2006 session, the Executive Board agreed that:
 - (a) In line with the Agreement Establishing IFAD, the resources of the Fund would continue to be used with "due regard to a fair geographic distribution". Moreover, with the application of a uniform system of allocation as from 2007, IFAD would, in line with the decisions reached during the Seventh Replenishment, "continue to direct at least the current percentage share of resources to sub-Saharan Africa, provided that the performance of individual countries warrants it".

¹ IFAD's Contribution to Reaching the Millennium Development Goals: Report of the Consultation on the Seventh Replenishment of IFAD's Resources (2007-2009) (document GC 29/L.4).

- (b) The weight of 0.45 was regarded as a “point of balance” where population still carried significant influence as a determinant of “needs” in the formula but at the same time allowed performance and GNI per capita to have a strong role. It was therefore agreed that the formula would be modified accordingly to reflect a revised weight of population at 0.45.
- (c) There was broad agreement that, given IFAD’s specific focus on rural poverty, the use of rural population (rather than total population) would respond better to IFAD’s mandate. In this regard, it was agreed that the concept of rural population would be applied as of the 2008 work programme.

III. PBAS working group

5. After April 2006, a working group was convened to develop a broader understanding of evolving issues in PBAS implementation. In the Report of the Consultation on the Eighth Replenishment of IFAD’s Resources approved by the Governing Council in February 2009, the Board was requested to mandate the PBAS working group to continue its functions and, as well, to review the practices of other IFIs and identify ways to improve the system. Possible areas for examination include: the relative weight of different elements of the PBAS formula, the current level of minimum and maximum allocations and the possible need for exceptional allocations for particularly vulnerable countries, in addition to the current support extended to post-conflict countries. The reallocation approaches of other IFIs also needed to be examined. The working group met in March and July 2010 under the new Chairperson, Dr Yaya O. Olaniran, Nigeria, and is due to meet again in November 2010. Minutes of these meetings are attached (see annex).

IV. Multilateral development bank/IFI PBAS technical meeting

6. The Asian Development Bank hosted the sixth PBAS technical meeting in August 2010 (IFAD hosted the meeting in 2008). In summarizing the status of PBAS implementation, participants agreed that the current PBAS is generally working well. Representatives of AfDB reported that during recent replenishment discussions, the AfDB deputies noted that the PBAS is “the bedrock of concessional resource allocations” with 90 per cent of the Bank’s allocations directly or indirectly linked to the PBAS. Other institutions noted that exceptions account for less than 20 per cent of the allocation of concessional resources and that measures are being considered to strengthen assistance to fragile and small states. While such systems support strong performers, they also take into account the important needs aspect of borrowing countries that, despite poor performance, require assistance.
7. IDA representatives indicated that the IDA Independent Evaluation Group (IEG) recently conducted an evaluation of the country policy and institutional assessment (CPIA) and confirmed its usefulness as a broad indicator of aid effectiveness. According to the evaluation, the CPIA ratings generally are reliable and the review process helps guard against potential bias. At the same time, IEG recommended that some of the indicators should be revised. IDA management is currently undertaking a thorough review of the CPIA, cognizant of the need to reflect new developments while at the same time maintaining stability and taking into consideration its potential impact on aid volatility. IFAD, together with the other multilateral development banks (MDBs), will be consulted on the CPIA revision.
8. The IEG also discussed approaches used in country eligibility classification and the way in which the policy on graduation from one lending term to another varies across institutions. Some MDBs have adopted distinctive graduation policies while others (such as AfDB) rely on their normal credit policies in differentiating assistance treatment across different country groups. Along with the graduation policy, some institutions have suggested imposing a country-specific cap on the amount of concessional resources for blend countries and applying lending terms that are less

concessional to such countries. In relation to the key issue of graduation from concessional resources eligibility, some MDBs phase out concessional resource allocations while phasing in non-concessional resources over a prescribed period of time. With regard to cessation of lending, in general, countries "self-graduate" from MDB financing, i.e. they no longer apply for financing from either concessional or market windows, and in some cases have reapplied for financing after a number of dormant years.

V. Application of the PBAS in 2010

9. The first year of the 2010-2012 allocation period, 2010, also coincides with the Eighth Replenishment period and, with the increase in resources available, it has not been necessary to delineate specific "active" countries. Regional divisions have therefore identified countries based on planned project activities, and allocations under country strategic opportunities programmes (COSOPs) and the PBAS have been made accordingly. However, in order to continue to manage allocations over the three-year period, countries that are expected to use only part of their potential allocation have been capped at the expected level of financing. This should further reduce the need for reallocations and provide better planning parameters for other countries.
10. On this basis, following the PBAS methodology, final country scores and allocations have been assigned annually and combined with the provisional figures for subsequent years in the allocation period to provide an overall country allocation for the three-year allocation period. The scores provided for 2010 were final (as they are based on the 2009 country scores) and the allocations for 2011 and 2012 were provisional.² With the move to uniform allocations, the data have been subject to interregional review and benchmarking to ensure consistency in assessments and, as a result, the scoring approach of the rural sector performance assessment indicators has been improved. In this regard, the Latin America and the Caribbean Division worked closely with the Regional Unit for Technical Assistance on the 2009 rural sector performance assessment indicators to assess and compare scores throughout the region.

VI. The updating of the 2010 country scores and 2011 country allocations

11. In the fourth quarter of 2010, updated data on performance (both portfolio and rural sector performance) became available and the process of updating country scores for 2010 began. The updated data will be reflected in the final 2010 country scores and 2011 country allocations, which will be tabled at the December Executive Board and subsequently disclosed in accordance with the procedures agreed for disclosure of PBAS information on the IFAD website (www.ifad.org/operations/pbas). As in the previous allocation period, the allocations provided for 2010 and 2011 are final, as they are based on the 2009 and 2010 country scores. The allocations for 2012 remain provisional, and subject to change in line with changes in the annual country scores.

² The provisional allocations are by nature indicative and subject to changes in annual performance (based on assessment of projects at risk, rural sector performance and the IDA Resource Allocation Index), population and GNI per capita. Where appropriate, weighted averages have been used to reduce statistical variance over time.

Executive Board PBAS Working Group: Minutes of 2010 meetings

A. Minutes of the fifth meeting, 19 March 2010, IFAD, Rome

Members:

Present: Nigeria – Dr Yaya O. Olaniran, Chairperson (audio-link); United States – Liza Morris and Prya Ghandi (video-link); Mexico – Diego Alonso Simancas Gutierrez; Burkina Faso – Jacques Zida; France – Claude Torre; Sweden – Amalia Garcia-Tharn; Venezuela (Bolivarian Republic of) – Gladys Francisca Urbaneja Durán
Absent: Italy; Pakistan

Secretariat: P. Ciocca; B. Baldwin; T. Rice

1. IFAD welcomed the members of the Working Group and confirmed the membership. The WG unanimously elected Dr Yaya O. Olaniran as Chair.
2. After the introductions, the meeting began with an overview of the PBAS by Mr Baldwin, together with a PowerPoint presentation. Participants raised questions about the formula concerning the weights associated with the needs variables of GNI and rural population, and the proportions associated with performance variables such as the IDA Resource Allocation Index (IRAI) and IFAD's rural sector performance assessment. Further background information was requested. A comparative table of PBAS approaches used by other MDBs was provided.
3. Areas for further work and analysis included:
 - A more diagrammatic approach to data analysis that would include a distribution curve of performance/needs against allocations and show, where possible, change over time;
 - Variations in GNI per capita and effects on allocations;
 - The analysis and inclusion of IFAD portfolio data.
4. The meeting also began discussion on the approach and methodology of the rural sector performance assessment, scoring and influence on final allocations, etc. It was agreed that these issues would be examined further at the next meeting.
5. In closing the meeting and thanking the participants and presenters, the Chair indicated that the issues raised, and the role of the Working Group, would constitute a substantial part of the forthcoming Replenishment paper. The Chair also noted that it may be necessary to have another meeting in December before the Executive Board.

B. Minutes of the sixth meeting, 19 July 2010, IFAD, Rome

Members:

Present: Nigeria – Dr Yaya O. Olaniran, Chairperson; United States – Liza Morris (video-link); Mexico – Diego Alonso Simancas Gutierrez; Burkina Faso – Jacques Zida and Lompo Jamano; Italy – Stefano Marguccio; Venezuela – Gladys Francisca Urbaneja Durán

Absent: France; Sweden; Pakistan

Secretariat: P. Ciocca; B. Baldwin; T. Rice

Observers: Argentina – María del Carmen Squeff; Guatemala – Ileana Rivera De Angotti; Brazil – Bruna Magalhães Da Motta.

1. The Chair welcomed the members of the Working Group and confirmed the agenda, noting a change in the order.
2. The meeting began with a presentation, as requested by the Group, of the diagrammatic analysis of the various components of the formula and their relationship to one another. The analysis included rural population related to allocations, the effect of GNI per capita, the Rural Sector Assessment Programme and the portfolio indices, and projects at risk. A final slide, not directly related to the PBAS, centred on the Millennium Development Goals (MDGs), in particular MDG 1, eradicate extreme poverty and hunger, and an assessment by the United Nations MDG monitoring group of the progress towards achieving the MDGs. Participants welcomed the analysis, but suggested further analyses and indices and raised several issues as to the use of national GNI figures, why there were clear 'outliers' and, importantly, how to support countries that were not performing well but still needed IFAD assistance. In further discussion, the importance was raised of IFAD supporting the development effectiveness agenda, and how this strikes a balance between the needs and performance variables of the PBAS. The performance of individual countries was reviewed and the reallocation process explained. It was clarified that contributions by Member States to IFAD through Replenishment do not enter into the PBAS calculation. Further discussions reflected on the variation in the formula attributable to GNI and the analyses of allocations per capita.
3. The second agenda item focused on the update of PBAS discussions at the IDA and AfDB ongoing replenishments. From the AfDB perspective, at their most recent meeting in Côte d'Ivoire, the PBAS was described by the chairman as the bedrock of the allocation system within the AfDB. The AfDB has developed a special window in its allocation framework for support to arrears clearance and to fragile states. At the IDA meeting in Bamako last month delegates confirmed their support for the PBAS in its current form and several emphasized that they did not wish to see any changes in the system as it was being implemented, with the exception of a more flexible approach to how IDA dealt with post-conflict countries. The WG noted the status in other IFIs and particularly the development of processes to assist fragile states. The Secretariat responded that they would further review how the other IFIs were addressing this and report back. A further discussion clarified how reallocations and supplementary financing could provide additional funding when needed in particular country cases.
4. The final agenda item was an update on the use and application of the rural sector performance assessment in 2009 in the Latin America and Caribbean region. The presentation showed how the rural sector performance has been carried out and its implications for work beyond the PBAS. It included the various scores on the rural sector performance in the Latin America region, and how it has been used to promote policy dialogue.

5. The Chair asked the Secretariat if any of the topics would be further investigated before the next meeting, possibly in November, before the December Executive Board. The Secretariat noted three areas that have been discussed that can be followed up on: (i) a series of analyses and graphs/tables illustrating per capita scenarios; (ii) the conclusions of the IDA and AfDB replenishments with particular regard to fragile states; and (iii) how other indices can be used in PBAS systems. The Chair, in closing the meeting, thanked the participants and presenters, and noted that the PBAS can improve the lot of our clientele. He also observed that in the last three and a half years a lot of work has gone into improving the PBAS and, therefore, its integrity. He noted that in achieving the diversities that bring us to consensus, we will not satisfy everybody every time but, as we improve on the PBAS and work hard on it, we will make progress.