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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Seventy-Ninth Session**

Rome, 10-12 September 2003

**PERFORMANCE-BASED ALLOCATION SYSTEM OF IFAD**

**COMMENTS OF LIST C MEMBERS ON  
THE THIRD DRAFT OF THE PBAS DOCUMENT**

- **Highly and non-highly concessional subsystems:** The highly concessional distribution is exhaustively described; the non-highly concessional distribution lacks rigour and consistency. Every aspect of the analysis in the paper for the non-highly concessional subsystem is a provisional arrangement. Any reference to a PBAS under the non-highly concessional subsystem is inappropriate at this point in time and we suggest that the system be redesigned to prepare a more balanced, systematic, broad and separate proposal for the non-highly concessional subsystem.
- **Resource allocation and indicators:** We are suggesting that a weight of 90% of the total score be given to this set of factors. The broad framework factor will then be left with a 10% relative weight. A 40% and 50% weight shall be given to rural development sector framework factors and portfolio-level implementation factors respectively to show the importance of portfolio management in the system.

- **Governance indicators versus total country scores:** It may be advisable to explore the possibilities of defining a governance factor, outside the broad framework for sustainable poverty reduction and the sectoral framework for rural development to reward good governance. In this last case, governance shall be treated separately. Also, we are suggesting a thorough review of the rural development sector framework indicators and by so doing, any references to issues bearing political or ideological bias shall be removed from the text to avoid misleading judgements. It is therefore suggested that the relative weight for governance indicators should be 10-15% to avoid the higher proportionate negative effect on the final allocation in case of poor score in governance indicators assessment.
- **Total population/rural population versus allocation formula:** The size of the total population is to be considered in replacement of the size of the rural population used in the allocation formula. By so doing, the *ex ante* allocation could be used to determine the per capita allocation. The built-in small-country bias could be revised by using an exponent comprised between 0.60 and 0.75.
- **The “floor allocation”:** The proposed floor amount needs to be justified and related to the cost of preparation, supervision and monitoring and evaluation of projects and programmes to be undertaken by IFAD.
- **In the formula combining all indicators** to generate country score, the exponent assigned to the per capita GNI shall be reduced from -0.25 to -0.50. This could be best captured if a simulation is prepared.
- **The sentence in paragraph 27** making reference to the use *ad interim* of the International Development Association’s (IDA) approach for allocating resources to post-conflict countries shall be accompanied by a box describing or summarizing that approach.
- **Project-at-risk methodology (PAR) in assessing portfolio performance:** It is important to prioritize PAR flags.
- **Role of the Executive Board:** shall be reinforced.
- **The issue of pockets of poverty:** This issue deserves special attention in the PBAS or any other instrument or mechanism.
- **Sharing of assessment scores:** All scores and written justifications shall be shared with all members.
- **Grants:** List C agrees with the proposal to treat grants in a separate instrument and we are prepared to open discussions on the draft to be prepared to this effect.

Finally the List C is not prepared to endorse the proposal before the above comments are incorporated and wishes to request more time to examine a further draft to be prepared. We are therefore prepared to re-examine it in the December session of the Board.

**For the members of List C**  
**Médi Mougui**  
**Cameroon Country Director**  
**Convenor of List C**

## COMMENTS OF LIST C MEMBERS ON THE THIRD DRAFT OF THE PBAS DOCUMENT

1. The debate on the IFAD PBAS has resulted in the production of the third draft prepared by the secretariat for examination at the seventy-ninth session of the Executive Board in September 2003. The following preliminary comments by the members of List C are thus submitted for discussion.
2. Unlike the previous comments on the early issues of the PBAS paper, we will put very little emphasis on the legal framework under which the policy shall be adopted as well as the political, social and economic implications of the application of the system within a country. Though it was specifically underscored that the system shall reflect IFAD specificity and mandate, be explicit, transparent and approved by member states, the feasibility and adaptability of the system to the existing environment in developing countries remain questionable. Owing to the guidelines given above, the adoption of the system deserves a broad consensus.
3. Our comments will be mostly based on the subsystem within which the PBAS will operate and the components of the PBAS, notably the key indicators, the basis for the calculation of the country-needs assessment, the allocation formula, the special situations in which some eligible countries can find themselves and the relationship between the performance rating and the Country Strategic Opportunities Paper (COSOP).
4. Highly and non-highly concessional: It is said in paragraph 4 of the executive summary: “the PBAS, would be applied to all lending within two parallel subsystems: for highly concessional and non-highly concessional borrowers”. IFAD would be attempting to design simultaneously two distinct subsystems (countries which receive lending under highly concessional terms and others which do not). This could lead to serious inconsistencies in the theoretical approach, possible discrimination in future application under IFAD’s lending operations and even be confusing for management when the time comes to set priorities and allocation levels (paragraphs 10, 11, 12, 17 and 41). This was not the original objective of introducing the design of a single and uniform concept for a performance-based allocation system. The consideration of the two subsystems within the PBAS does not show balance in terms of analysis and proposal between them. While the highly concessional distribution is exhaustively described, the non-highly concessional lacks rigour and consistency. Every aspect of the analysis in the paper for the non-highly concessional subsystem is a provisional arrangement.
5. The main reason for this is that there is no experience of any international financial institution (IFI) executing a PBAS under the non-highly concessional subsystem. Information and data relating to this subsystem do not exist. Furthermore there is virtually no or very little competition for non-highly concessional loans. Instead IFIs shall compete among themselves to allocate these funds to the eligible countries. It is therefore not a problem at the borrower level but at the IFI level.
6. The PBAS is developed primarily for the allocation of scarce highly concessional resources to the many eligible countries, with the understanding that the share of each country depends on its ability to develop a policy and institutional framework that are conducive to a sustainable development and for the specific case of IFAD, to the fight against poverty.
7. As a consequence of points 5 and 6 above, any reference to a PBAS under the non-highly concessional subsystem is inappropriate at this point in time and we suggest that the system be redesigned to prepare a more balanced, systematic, broad and separate proposal for the non-highly concessional subsystem. To conform to the prerequisites and recommendations of the sixth replenishment, the non-highly concessional resources shall be given separate attention as is the case for grants. In the meantime, it shall continue to operate as established in IFAD *lending policies and criteria* and we believe that the proposed allocations will be based exclusively on performance. Furthermore, List C would like to have at its disposal a mechanism to verify and assess beforehand the proposed system designed to replace the one now in existence. As a consequence and in order to conduct an objective analysis of the proposal, it is essential that a number of alternatives be presented

by a simulated application of the parameters of the new system which includes all possible lending scenarios (e.g. the PBAS of the Inter-American Development Bank – IDB or other IFIs). The illustration provided in Annex VI of the PBAS document of June 12 does not accommodate this request.

8. **Resource allocation and indicators:** In reviewing the indicators pertaining to country achievement in the development of a supportive policy and institutional framework, it should be recalled that allocation of the resources shall be done predominantly according to factors relating to performance and recent progress made in making the policy and institutional framework more conducive to poverty reduction.

9. The recognition of indicators of achievement specifically and especially bearing on poverty reduction as key for assessing performance is paramount with regard to IFAD's mandate. This shall thus be reflected in the relative scores assigned to rural development sector framework factors and portfolio-level implementation factors. We are therefore suggesting that a weight of 90% of the total score be given to this set of factors. The broad framework factor will then be left with a 10% relative weight. A 40% and 50% weight shall be given to rural development sector framework factors and portfolio-level implementation factors respectively to show the importance of portfolio management in the system.

10. **Governance indicators versus total country scores:** The governance indicator which is de facto included in the criteria of performance assessment at the broad framework for sustainable poverty reduction and the sectoral framework for rural development is regarded as the most important factor with a rating of 34%. This high weight may make it a determinant and critical indicator for resource allocation. Because it is essentially based on judgement and may originate some political and ideological bias, governance assessment tends to be very subjective. For this reason good governance shall be treated as an emulative factor and not a penalizing one. It may also be advisable to explore the possibilities of defining a governance factor, outside the broad framework for sustainable poverty reduction and the sectoral framework for rural development to reward good governance. In this last case, governance shall be treated separately. Also, we are suggesting a thorough review of the rural development sector framework indicators and by so doing, any references to issues bearing political or ideological bias shall be removed from the text to avoid misleading judgements.

11. Furthermore, in squaring the performance score in the allocation formula, the effect of poor governance rating on the country's allocation will be to cut it by half by drastically reducing the country's score. It is therefore suggested that the relative weight for governance indicators should be 10-15% to avoid the higher proportionate negative effect on the final allocation in case of poor score in governance indicators assessment. Also, the PBAS which is not intended to set implicit targets for policy change should use a reasonable level of governance indicators that may not overstrain a country's policy delivery capacity.

12. **Total population/rural population versus allocation formula:** The country needs assessment is a bit confusing. The document agrees that the optimal indicators would be the size of the rural population living below a common poverty line and/or average rural income. This is not reflected in the allocation formula.

13. By using the rural population in the formula, the document presents an extra bias in rural development which is not justifiable. Indicators bearing especially and specifically on rural poverty reduction are considered in rural development sector framework factors and portfolio-level implementation factors.

14. The allocation formula is not consistent with all elements of calculation as it considers the target group to be the rural population but does not take into consideration the average per capita income of that target group. Using the national per capita income to compute the rural per capita allocation is misleading. In this case, once the country allocation is calculated, it becomes difficult to

determine the per capita allocation (even for the rural sector), which shall constitute an element of the final allocation calculation, bearing in mind that there is a very close correlation between the per capita income and the *ex ante* per capita allocation.

15. The size of the total population is therefore to be considered in replacement of the size of the rural population used in the allocation formula. By so doing, the *ex ante* allocation could be used to determine the per capita allocation. The built-in small-country bias could be revised by using an exponent comprised between 0.60 and 0.75.

16. The “**floor allocation**” is also an important point of concern. How effective and efficient will follow-up be in a country where the average *ex ante* allocation is only USD 1 million in three years? This amount needs to be justified and related to the cost of preparation, supervision and monitoring and evaluation of projects and programmes to be undertaken by IFAD.

17. **The formula combining all indicators** to generate country score brings up an overall undesired effect and bias on the allocation between poor countries. The poorest will not systematically receive higher per capita allocations. In order to ensure that the poorest countries receive proportionately higher per capita allocations, the exponent assigned to the per capita GNI shall be reduced from -0.25 to -0.50. This could be best captured if a simulation is prepared.

18. The application of the allocation formula shall not be very rigid but shall bear a small degree of flexibility to adjust to exceptional circumstances such as post-conflict countries, disaster-prone countries and, more systematically, countries undergoing very profound reforms. The sentence in paragraph 27 making reference to the use *ad interim* of the IDA’s approach for allocating resources to post-conflict countries shall be accompanied by a box describing or summarizing that approach.

19. **Project-at-risk methodology (PAR) in assessing portfolio performance:** It is important to prioritize PAR flags so as to reflect the areas that IFAD regards as crucial for effective project implementation bearing in mind that IFAD projects operate in a risky sector, which in most developing countries is at its early developmental stages.

20. **Role of the Executive Board:** The role of the Executive Board defined in paragraph 42 shall be reinforced and go beyond solely approval of the PBAS in September.

21. **The issue of pockets of poverty:** This issue is a very peculiar one since it concerns essentially medium-income countries eligible for non-highly concessional loans. It deserves special attention in the PBAS or any other instrument or mechanism.

22. **Sharing of assessment scores:** The List C proposes that all scores and written justifications be shared with all members. They shall be communicated to the Executive Board along with all detailed information.

23. **Grants:** List C agrees with the proposal to treat grants in a separate instrument and we are prepared to open discussions on the draft to be prepared to this effect.

24. Finally the List C is not prepared to endorse the proposal before the above comments are incorporated and wishes to request more time to examine a further draft to be prepared. We are therefore prepared to re-examine it in the December session of the Board.

**For the members of List C**  
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