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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Ninth Session
Rome, 10-12 September 2003

THE STRUCTURE AND OPERATION

OF A

PERFORMANCE-BASED ALLOCATION SYSTEM

FOR

IFAD

1. In the light of intensive consultations on the basis of document EB 2003/79/R.2/Rev.1 and the comments on the proposal tabled by List C (document EB 2003/79/C.R.P.2) and others, the following issues were discussed and agreed in meetings of Convenors and Friends with representatives of all lists.

- (a) *Application and development of the PBAS as it refers to non-highly concessional borrowers*

2. It was agreed that the PBAS would apply to highly concessional and non-highly concessional borrowing. Because of the lack of data that would support the application of a broad framework performance assessment to non-highly concessional borrowers, the PBAS applied to non-highly concessional borrowing would differ from that applied to highly concessional borrowing in one particular respect: that the performance assessment for non-highly concessional borrowers would be based on country performance with regard to sectoral and portfolio-level indicators alone. As potentially relevant data for the production of a broad framework assessment for non-highly concessional borrowers become available, IFAD would consult with the members of the Executive Board, and the affected countries, on the design and application of a broad framework assessment for non-highly concessional borrowers, and would subsequently seek the approval of the Executive Board for a change in the PBAS to accommodate the inclusion of the broad framework performance assessment in the PBAS as applied to non-highly concessional borrowers.

(b) *Relative weights of performance factors and size of exponents*

3. It was agreed that the weight of the broad framework factor in the country performance assessment would be 20%. It was also agreed that the proportionality between the rural development sector framework and portfolio-level implementation total weights would be the same for the systems applied to highly concessional and non-highly concessional borrowers. The weight of the rural development sector framework would be in the range of 40-50%, while that for portfolio-level implementation would be in the range of 30-40%. Should no agreement be reached by the December 2003 Executive Board, the President's compromise proposal of rural development sector framework of 45% and portfolio-level implementation of 35% will be applied. It was also agreed that the GNI/capita exponent in the allocation formula would be -0.25, and that the population exponent in the allocation formula would be 0.75.

(c) *Annex I*

4. It was agreed that, in the course of the development of the operational guidelines for performance assessment, IFAD would review, within the proposed indicators, the descriptive text of guidelines for assessment of rural development sector framework performance to ensure that those guidelines are consistent with approved IFAD policies and IFAD's experience with the impact of different institutional and policy factors upon sustainable poverty reduction. A panel of the Executive Board to be agreed with Convenors would work with IFAD in this task, and a report on progress would be provided to the Executive Board in December 2003, along with any possible recommendations for change.

(d) *The population and income elements in the allocation formula*

5. In the absence of comprehensive data on rural population and rural income, the country needs element of the allocation formula would be based on a combination of national per capita income and total national population size. When appropriate data become available, IFAD would propose to the Executive Board for its consideration that rural per capita income and rural population would replace national per capita income and national population in the PBAS allocation formula.

(e) *The amount and use of the floor allocation*

6. The floor lending allocation would amount to USD 1 million per year. It was agreed that the projects supported may be multi-year projects, with an IFAD loan value involving a commitment of the floor annual allocation for up to three years. The purpose of the loans would be agreed with the governments concerned. IFAD would seek cost-effective opportunities for these projects to address institutional and policy issues bearing significantly upon country performance.

(f) *Sensitivity of allocations to natural disaster situations*

7. It was agreed that specific reference to natural disasters will be included within provisions for **Post-Conflict and Other Disaster Situations**. Specifically, the text of paragraph 28 shall read:

“Due consideration to other crisis situations, including natural disasters, shall be introduced into the system of country *ex ante* allocations within the framework of relevant policy papers submitted for the approval of the Executive Board. A policy paper on natural disasters will be discussed by the Executive Board in the course of 2004.”

(g) *Allocations to countries in post-conflict situations*

8. It was agreed that the reference to the application of the Approach for Allocating Resources to Post-Conflict Countries of the International Development Association (IDA) would be expanded by the inclusion of the following text:

“Under IDA’s Thirteenth Replenishment, eligible post-conflict countries will receive larger per capita allocations. Where absorptive capacity allows, allocations are expected to be roughly double for the first three years of re-engagement. In IFAD, a similar special and time-bound adjustment would be made to the *ex ante* allocation generated from the application of the PBAS.”

9. In addition, the proposal as amended would include an annex providing a synopsis of IDA’s Approach for Allocating Resources to Post-Conflict Countries.

(h) *Re-allocation of uncommitted resources*

10. It was agreed that should any portion allocation for a country be uncommittable, the uncommittable balance of a country’s allocation shall be re-allocated to other countries within the same region as defined for the purposes of the regional allocation system.

(i) *Identification of problem projects in projects-at-risk assessment*

11. It was agreed that the number of risk flags required to identify a problem project would be 5 out of a potential maximum of 11. In assessing these, the causes and origins (internal and external) of the problems will be taken into account.

(j) *Reporting to the Executive Board*

12. It was agreed that, in addition to the submission to the Executive Board in September 2004 of a Programme of Work for 2005 within the framework of the PBAS, IFAD would provide to the Executive Board in December 2003 and April 2004 reports on progress in the implementation of the system. IFAD would consult with governments in the production of their respective performance assessments, the scores of which against all individual indicators would be reported to the Executive Board.