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THE STRUCTURE AND OPERATION
OF A
PERFORMANCE-BASED ALLOCATION SYSTEM
FOR
IFAD

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ABBREVIATIONS AND ACRONYMS

AsDF	Asian Development Fund
CI	Cooperating Institution
COSOP	Country Strategic Opportunities Paper
CPIA	Country Policy and Institutional Assessment
CPM	Country Portfolio Manager
CSO	Civil-Society Organization
DO	Development Objective
IDA	International Development Association
IFI	International Financial Institution
IP	Implementation Progress
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFI	Multilateral Financial Institution
NGO	Non-Governmental Organization
OSC	Operational Strategy and Policy Guidance Committee
PAR	Project-At-Risk
PBAS	Performance-Based Allocation System
PDP	Project Disbursement Profile
PP	Portfolio Performance
PRSP	Poverty-Reduction Strategy Paper
PSR	Project Status Report
SME	Small- or Medium-Size Enterprise
UNDAF	United Nations Development Assistance Framework
WUA	Water Users' Association

THE STRUCTURE AND OPERATION

OF A

PERFORMANCE-BASED ALLOCATION SYSTEM

FOR

IFAD

EXECUTIVE SUMMARY

1. The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006), adopted by the Governing Council at its 25th Anniversary Session, stipulated that the Fund should design and implement an explicit, transparent Performance-Based Allocation System (PBAS). The system would draw upon the experience of other IFIs, but embody the specificity of IFAD's mandate.
2. The present proposal has been developed by IFAD staff in consultation with Member States, including the Informal Panel of Members specified by the Governing Council.
3. The IFAD PBAS would contribute to further systematization of IFAD's activities by promoting development of the national and local conditions for sustained rural poverty reduction (through lending for specific development initiatives and through policy dialogue). It would initially be applied to the allocation of IFAD lending. Pending Executive Board consideration of the forthcoming policy paper on grant resources, it would involve a consistent IFAD-wide approach to regular review of country accomplishments in establishing the institutional and policy framework for sustainable rural poverty reduction, as well as to the allocation of resources to support country-level lending operations. The objective is to generate three-year (but annually reviewed) loan-commitment envelopes for all borrowers, on a consistent basis involving transparent criteria, that can provide the basis for discussions with countries on the elaboration of IFAD's lending programme within the framework of medium-term national development strategies (including poverty-reduction strategy papers (PRSPs)).
4. The PBAS would be applied to all lending within two parallel subsystems: for highly concessional and non-highly concessional borrowers. The country lending allocations would be developed within the framework of the distribution between highly concessional and non-highly concessional lending as established in IFAD's *Lending Policies and Criteria*. Moreover, the PBAS would be initiated in accordance with the regional lending allocations approved by the Executive Board in 1999. In 2005 the Executive Board would decide whether the framework of regional allocations would continue or would be replaced by some other mechanism to ensure the reflection of regional priorities.
5. In determining allocation of IFAD's lending resources among borrowers, within these overall limits, the following key factors would be taken into account: national per capita income, rural population, and the relative performance of countries in establishing a conducive institutional and policy framework for sustainable rural development. Consideration of the requirements of the lowest-income and smallest countries would be reflected in the allocation formula and through a system of 'floor' and 'ceiling' allocations.
6. Performance criteria would be grouped on three levels: the broad framework for sustainable national poverty reduction; the sectoral framework for rural development (unique to IFAD); and portfolio-level implementation factors (IFAD specific). Criteria and factors unique to the IFAD PBAS would account for 70% of the total. Governance criteria would be included in the performance

assessment at the first two levels. Pending the development of authoritative third-party data sources for broad framework performance among non-highly concessional borrowers, the subsystem for these borrowers would be based on performance relative to the sectoral framework for rural development and portfolio-level implementation factors. The conditions of countries in post-conflict situations would be reflected, and provision might be made for other special circumstances on the basis of policy papers approved by the Executive Board. The proposed IFAD-specific performance criteria have been developed on the basis of the *Strategic Framework for IFAD 2002-2006*, relevant policy papers approved by the Executive Board, and the Fund's developing experience of the critical institutional and policy factors in sustained rural poverty reduction.

7. Performance assessments at sectoral and portfolio levels would be undertaken by IFAD's operational staff, within common guidelines, and supported by training. Oversight of consistency of application of criteria and calculation of country allocations would be provided by an independent group within IFAD; this reflects the procedures and experience of other international financial institutions (IFIs). To the extent possible, PBAS activities would be integrated into ongoing IFAD activities: assessments produced by IFAD would represent a minor extension of project reporting activities currently undertaken to incorporate the project-at-risk methodology for the purpose of portfolio assessment, and would involve an upgrading of the sectoral assessment activities undertaken periodically for COSOP and project-development purposes.

8. The Executive Board would be requested to approve the programme of work for 2005 within the framework of the application of the PBAS and, in 2005, would be requested to review the experience of applying the PBAS and options for reflecting regional priorities in the system. A comparison of the country-level results of the PBAS performance assessment against all criteria would be communicated to the Executive Board annually, and would be made public in accordance with the IFAD policy on the disclosure of documents.

I. INTRODUCTION

1. The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) adopted by the Governing Council at its Twenty-Fifth Anniversary Session, stipulated that the Fund should design and implement an explicit, transparent Performance-Based Allocation System (PBAS). It further directed IFAD to submit for the approval of the Executive Board at its Seventy-Ninth Session a design proposal for a PBAS to be implemented as one of the new internal processes developed and implemented by IFAD to enhance its development effectiveness¹. Approval by the Executive Board would lead to integration of the PBAS into the preparation of IFAD's annual work programme and budget for 2005 and subsequent years.

2. In contributing to the attainment of the Millennium Development Goals (MDGs), IFAD exerts *direct influence* through investment programmes and projects that have an immediate impact on rural poor people's ability to overcome their poverty, and *indirect influence* through dialogue on improving the broad conditions for rural poverty reduction. IFAD's effectiveness is a function of its ability to consistently mobilize and focus this direct and indirect influence on critical issues in rural poverty reduction, in collaboration with, and adding value to, the efforts of other stakeholders in the context of poverty-reduction strategy papers (PRSPs), sectoral development programmes, the United Nations Development Assistance Framework (UNDAF) and other mechanisms of enhanced coordination.

3. Other IFIs, among them the International Development Association (IDA), the African Development Bank, the Asian Development Bank and the Inter-American Bank have developed PBASs to help focus assistance for poverty reduction and growth within their highly concessional financing operations. These PBASs are decision-making tools integrated into ongoing managerial processes. The objective is to improve the effectiveness of development assistance by matching it to the level and extent of poverty and the assessed progress of borrowers in establishing a supportive policy and institutional framework for sustainable poverty reduction. The focus of PBASs with regard to the policy and institutional framework is on the factors – *within the policy and institutional realms that are the responsibility of national governments* – that exercise a major influence over the pace and sustainability of growth and poverty reduction. A government's effective performance is measured by the steps actually taken to establish a conducive policy and institutional framework for growth and poverty reduction².

4. The PBAS of each IFI focuses on progress in the most important policy and institutional framework issues bearing upon achievement of its specific mandate. PBASs do not homogenize the way in which different IFIs operate; they are simply ways of ordering and making explicit the factors

¹ The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) states: "In pursuing the objective of maximizing the impact of its resources on rural poverty, IFAD will further its practice of focusing resources on the best opportunities for accelerated and sustained rural poverty reduction through design and implementation of an explicit, transparent PBAS."

² PBASs do not operate to exclude countries that have achieved less: they allocate relatively fewer resources to them until a more supportive institutional and policy framework is achieved, and they provide a clear basis for identifying the areas in which improvement is essential. The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) states: "In line with systems already in place in other IFIs, the objective of the system should be to ensure that countries that have created or are creating a conducive national, sectoral and local framework for sustainable rural poverty reduction receive *ex ante* allocations of IFAD resources in line with their demonstrated ability to use such resources effectively, with higher-performing countries receiving higher allocations than lower performers. The system should also provide that countries that have had less success in creating such a framework, but which show a clear commitment to reform, receive support at the appropriate level and nature to enable them to confront the challenge."

that each institution considers essential to the success of its work³ – factors that were sometimes only implicit and unsystematically applied prior to the adoption of the PBAS. IFAD has a special position among international lending institutions by virtue of its exclusive focus on poverty reduction through rural development. Other major global and regional IFIs are heavily engaged with borrowers to establish the broad economic management and governance conditions for economic growth and poverty reduction. While necessarily taking into account such factors in its operations, the value-added of IFAD lies in focusing on and promoting, through policy dialogue and its lending operations, the specific policy and institutional factors bearing on rural development and rural poverty reduction – and especially the enabling framework for rural poor people to reduce their own poverty sustainably. This would constitute a vital element of IFAD's PBAS.

5. In line with the practice other IFIs, but maintaining its specificity, IFAD would implement a PBAS as a key strategic management tool with the objective of enhancing the impact of its operations on rural poverty by:

- ensuring that the level and application of lending resources that are made available to borrowers reflect both the level and extent of rural poverty and achievements in putting in place the relevant policy and institutional framework for attaining and sustaining impact on rural poverty;
- contributing to the organization of more systematic and transparent dialogue with borrowing countries on creating a sustaining policy and institutional environment for the rural poor to overcome their poverty; and
- managing resources and operations so as to assist countries with less supportive policy and institutional frameworks for sustainable rural poverty reduction in improving them.

6. The present document describes the proposed design and implementation process of the IFAD PBAS:

- principles involved in the PBAS, in particular (a) the basis for calculating the country-needs element of the system; and (b) the key factors used in policy and institutional performance assessment;
- calculation of country allocations on the basis of country needs and policy and institutional performance assessments;
- the relationship between the PBAS and the development of IFAD's country-level lending programme and linked policy and institutional dialogue;
- processes involved in ensuring the consistency and transparency of the use of the system;
- schedule for the application of the system; and
- IFAD's policy on the disclosure of performance assessments under the PBAS.

7. As practical management tools, the PBASs of all IFIs continue to evolve to reflect operational experience and changing priorities: they are flexible and incremental. The design proposal for the IFAD PBAS seeks to capitalize upon the experience of other IFIs while reflecting IFAD's specificity. As has been the case in other IFIs, the initial design proposed would be a *starting point* for an ongoing process of refinement (e.g. relative to the methodology of assessment and the weighting of the separate factors taken into consideration) that will reflect IFAD's own implementation experience and the ongoing guidance provided by IFAD's Executive Board.

³ The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) states: "The IFAD PBAS should draw upon the experience and general approach of other IFIs (notably the African Development Fund, AsDF and IDA) in developing their PBASs, but it should also clearly reflect the specificity of IFAD's mandate, its mechanisms of assistance, and its financial and governance structure."

II. KEY INDICATORS AND CALCULATIONS

8. The PBAS would be used by IFAD as a transparent instrument to: identify the level and extent of rural poverty, key areas of achievement and outstanding issues in the policy and institutional framework for sustained rural poverty reduction; and, on the basis of these inputs, establish for each borrower a medium-term lending level (*ex ante* allocation) to support IFAD's country-development cooperation programme.

9. In line with the Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006), which refers to allocation of IFAD resources without qualification, the PBAS would apply to all forms of assistance to countries, including highly concessional lending, non-highly concessional lending and grants. Resources available for highly concessional lending would be allocated among borrowers eligible for such lending terms on the basis of their relative needs and achievements in establishing a supportive policy and institutional framework for sustainable rural poverty reduction. Within a separate but parallel system, the resources available for non-highly concessional lending will also be allocated among borrowers eligible for these lending terms on the basis of their relative needs and achievements in establishing a supportive policy and institutional framework for sustainable rural poverty reduction. The allocation of grants will be in accordance with the forthcoming policy on grants to be considered by the Executive Board.

A. Achievement Indicators

10. Country achievements in the development of a supportive policy and institutional framework would be assessed at two levels:

- the level of factors specifically and especially bearing on rural poverty reduction. This includes two sub-levels, i.e. the rural development-sector framework, and portfolio-level implementation; and
- the level of the broad framework factors that influence all growth and poverty-reduction processes, including rural poverty reduction.

B. Indicators of Achievements Specifically and Especially Bearing on Rural Poverty Reduction

11. The *Rural Poverty Report 2001*, the *Strategic Framework for IFAD 2002-2006* and related IFAD policy papers and action plans (e.g. rural finance policy and guidelines, the gender action plan and rural enterprise policy) identify what are broadly understood to be the key policy and institutional factors for sustainable rural poverty reduction⁴. The assessment of achievement within the PBAS would be a measure of the extent to which these positive factors have been established, and this in turn must be one of the principal foundations for the direction and level of IFAD operations in all countries. There are two clusters of factors specific to rural poverty reduction for which performance assessments would be produced under the aegis of the IFAD PBAS: (a) rural development-sector framework factors⁵; and (b) portfolio-level implementation factors⁶.

⁴ In all PBASs, indicators and measurements are directed towards factors that are considered essential to growth and poverty reduction within a general understanding of their dynamics. The documents referred to provide explicit statements of IFAD's understanding of the dynamics of rural poverty and its reduction, and provide the conceptual underpinnings of IFAD's PBAS.

⁵ This set of factors expresses IFAD's mandate and is unique to IFAD.

⁶ This set of factors reflects performance of the IFAD portfolio.

12. **Rural development-sector framework indicators.** In developing a system to assess the performance of the rural development sector, IFAD has considered its existing practices, experience and capacity. The aim is a system that is as objective, and yet as simple, as possible. Five key areas have been identified in which accomplishments and progress have a critical bearing on progress in achieving sustainable rural poverty reduction, and in which IFAD is to concentrate its investment, research and knowledge management efforts, policy dialogue and advocacy. These are: (a) strengthening the capacity of the rural poor and their organizations; (b) improving equitable access to productive natural resources and technology; (c) increasing access to financial services and markets; (d) promoting equitable gender relations; and (e) improving governance relative to rural development issues and activities. These indicators will reflect consensus areas in general approaches to rural poverty reduction as well as the particular set of issues and best practices in each of IFAD's operating regions (see Annex I).

13. **Portfolio-level implementation indicators.** IFAD's main instrument for reducing rural poverty directly is its support to investment projects and programmes. It is essential, therefore, that these be implemented effectively in order to achieve sustainable impact. The indicators would include assessment of government contributions to effective portfolio performance as a key factor in making *ex ante* loan allocations.

14. At present the performance of every IFAD-supported project or programme is individually assessed annually by the organization's cooperating institutions and by its staff within the project status reporting system, the results of which are presented in summary form to the Executive Board. In order to generate a consolidated *portfolio-level* assessment of performance, IFAD would apply the project-at-risk (PAR) system to data generated within its project status reporting system. The PAR is a methodology for strengthening the common application of project performance criteria and for generating a consolidated performance assessment for multi-project portfolios. The indicators of performance used and the weighting system to translate project performance into portfolio performance are described in Annex II.

C. Indicators of Broad Framework Achievements

15. The larger part of IFAD's strategy development and analytical work has focused on its value-added to attainment of the MDGs, and on identifying key factors bearing specifically on rural poverty reduction. It has not referred extensively to the broad framework factors that bear upon all growth and poverty-reduction processes at the country level. Nonetheless, these latter factors do contribute very significantly to the effectiveness of measures more specifically focusing on rural poverty reduction, and they are regularly taken into account in the development of IFAD's country strategic opportunities papers (COSOPs) and lending programme. In developing its overall country performance assessment to guide lending and participation in policy dialogue under the PBAS, IFAD would seek to combine assessment of achievements relative to these broad framework factors with assessment of achievements relative to key factors bearing specifically and directly on rural poverty reduction⁷.

16. Because of its sectoral mandate, IFAD is not in a position to produce independent performance assessments relative to these broad framework factors. IDA has been the pathfinder in assessment of performance in this area and is the sole IFI with a global operational scope similar to IFAD's. For the application of the PBAS to countries eligible for highly concessional borrowing, IFAD would base this element of its overall assessment on data provided by IDA in its reporting on

⁷ The Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) states: "The country performance assessments within the IFAD PBAS should include three measurements: general performance, sectoral performance and portfolio performance." It also states: "Performance assessments should explicitly include and reflect assessment and appropriate weighting of relevant governance factors."

its country policy and institutional assessments (CPIAs)⁸. The indicators employed by IDA in its CPIA are presented in Annex III. Other IFIs do not apply the PBAS to non-concessional lenders. Consequently there is no equivalent comprehensive and authoritative third-party source of data on the performance of non-highly concessional borrowers that could be mobilized for the purposes of the broad framework assessment of policy and institutional performance in the proposed IFAD PBAS. It would be IFAD's *objective* to integrate broad framework indicators into the performance assessment for non-highly concessional borrowers, and IFAD will continue to identify such data sources in the context of the evolution of data made available by relevant institutions and/or other reliable sources. In line with the incremental and flexible nature of the system, and given that IFAD itself is not equipped to produce this type of assessment independently, it is proposed that the IFAD policy and institutional performance assessment for non-highly concessional borrowers would be based *ad interim* on assessment of performance under the rural development-sector framework and portfolio-level implementation headings pending the development of a suitable third-party source of data relevant to assessments under the broad framework heading.

D. Governance

17. Good governance is a critical factor in the effective and efficient use of development resources, and it has become one of the main planks of regional platforms for economic revival and poverty reduction in developing countries and regions (e.g. the New Partnership for Africa's Development). Correspondingly, and building upon IFAD's long-standing concern with promoting participation, representation and accountability in rural development strategies and activities, it would constitute an important element of IFAD's PBAS.

18. Good governance is associated with promoting the efficiency, consistency, transparency, responsiveness and accountability with which public services are planned, financed and provided. Central and local government – both the legislative and executive branches – should use their powers effectively and efficiently; make decisions in conformity with established and open procedures; and be responsive to their stakeholders in service delivery and operational efficiency. Tackling both the abuse of powers by government and corruption – defined as the abuse of public office for private gain – is vital to promoting good governance. This requires the adoption of policies and procedures that prevent abuse and corruption and that take vigorous action against corruption when it is discovered. The promotion of sound legal institutions that are able to uphold the rule of law, and to hold the other two branches of the state accountable for their decisions, is likely to be an important prerequisite for this.

19. Consistent and efficient management of development resources requires that the government has established a comprehensive and credible budget, and that this is linked to sectoral priorities and policies. It should have in place effective financial management systems so that incurred expenditures are consistent with the approved budget, and that budgeted revenues are achieved and aggregate fiscal control maintained; a timely and accurate fiscal reporting system, including timely and audited public accounts and effective arrangements for follow-up; and clear and balanced assignments of expenditures and revenues to each level of government.

20. One of the ways of promoting local accountability is through decentralization – the transfer of authority and responsibility for public functions from the central government to intermediate and local government. Yet while decentralization is often associated with enhanced accountability, the latter is not always a direct consequence of the former – particularly if administrative and political decentralization is not accompanied by relevant institutional development, other safeguards against

⁸ Under the agreements reached in the negotiation of IDA's Thirteenth Replenishment, IDA will provide more detailed information on the results of its CPIAs for IDA countries. This information will be provided starting in the second half of 2003, and will be sufficient to effectively include the IDA assessment of the broad framework factors in the calculation of *ex ante* allocations for highly concessional borrowers under the IFAD PBAS.

corruption and decentralization of responsibility and accountability for the management of financial resources. Taken together, and properly implemented, administrative, fiscal, market and political decentralization can be important factors contributing to the increased accountability of government to its citizens.

21. A further – and critical – step in ensuring accountability is for governments to be willing to promote participation, encouraging their citizens to influence and share control over development initiatives and the decisions and resources that affect them. For IFAD, with its very specific mandate to enable the rural poor to overcome their poverty, the attitude of governments towards rural organizations in which the poor are active participants is critical. The extent to which the government provides an enabling policy and institutional framework for the rural poor to form groups, associations or other forms of organization, and is willing to enter into a dialogue with those organizations on issues related to rural development policies and investments, thus represents an important element of governance. Building on these principles and understandings, governance indicators would be included in performance assessments at two levels of the PBAS (the broad framework and the rural development-sector framework). Overall, the weight of governance indicators within the combined broad framework and rural development-sector indicators of the PBAS would be approximately 34% (see Annex IV).

E. Consolidated Country Performance Assessments

22. The production of a consolidated performance assessment for use in the establishment of medium-term lending levels for each borrowing country would involve the combination of assessments of achievements at the levels of the *rural development-sector framework*, *portfolio-level implementation* and the *broad framework*.

Table 1: Weighting of Achievements in Consolidated Country Performance Assessments

Performance Factors	Relative Weight
	%
Rural development-sector framework	40
Portfolio-level implementation	30
Broad framework	30

23. Achievements captured in the broad framework ‘box’ itself would have a 30% weighting. Other major IFIs are already heavily directing attention, and committing large volumes of resources, to issues captured under the broad framework heading. IFAD, reflecting its institutional value-added, would seek to focus on achievements with a specific and direct bearing on enabling the rural poor to overcome their poverty. Thus these factors would have an aggregate weight of 70% in the total performance weighting system – divided between rural development-sector framework performance (40%) and portfolio-level implementation performance (30%). These weightings are broadly comparable with the practice of other IFIs, in which portfolio-level implementation performance accounts for 20-30%, and higher-level factors for 70-80%. The slightly greater weight given to the rural development-sector framework compared to portfolio-level implementation reflects the crucial role played by the former in project sustainability and replicability – key IFAD objectives. Pending the development of a basis for adequate assessment of broad framework performance for non-highly concessional borrowers, the weighting of the rural development-sector framework indicators and the portfolio-level implementation indicators would be increased proportionately to 57% and 43% respectively to account for a total of 100%.

F. The Country-Needs Element of the System

24. In all IFIs, country needs are highly influential factors in determining the size of country allocations under the PBAS. IDA, for example, uses allocation per capita as an element of the final allocation calculation, which evidently makes the final country allocation highly responsive to population size. PBASs also include provisions to make allocations responsive to the depth of poverty by ensuring that per capita allocations reflect differences in borrower-country per capita income levels.

25. The IFAD PBAS would similarly include country-needs factors as major determinants of the level of IFAD lending resources available for each country. Optimal indicators would be the size of the rural population below a common poverty line and/or average rural income. However, neither of these indicators is uniformly and comprehensively available. Thus IFAD would employ two basic indicators for which comprehensive data are available in the World Development Report: per capita income and population. With regard to the income factor, the lower the *per capita income* the higher the per capita allocation under the PBAS. By mandate, IFAD pays special attention to the needs of the poorest countries; thus it is proposed that the IFAD PBAS would use the income adjustment of the Asian Development Fund (AsDF)⁹, which is twice as high as the IDA adjustment in favour of poorer countries. This would increase the impact of income on final allocations in the direction of raising per capita allocations for poorer countries. With regard to the influence of *population size* on the final allocation, and reflecting IFAD's mandate to focus on rural poverty reduction, the point of reference would be the size of the *rural* population. The country allocation would thus vary positively with the size of the rural population¹⁰.

26. As an institution with a global sphere of operations, IFAD works with the very largest and the very smallest countries, and there is the risk that the direct and unqualified application of the population factor would lead to a situation in which resources available for lending to the smallest countries, among which least developed countries are strongly represented, would be insufficient to develop a meaningful operational programme. In order to avoid this situation, allocations would be sensitive to population but would not vary in direct proportion to it, and, in line with general practice among IFIs relative to their highly concessional development funds, there would be a 'floor' allocation, i.e. a minimum amount that all borrowers would be allocated, irrespective of size, and a 'ceiling' allocation for countries with very large populations¹¹. These arrangements would apply to both highly concessional and non-highly concessional borrowers.

G. Post-Conflict and Other Crisis Situations

27. A significant number of countries in which IFAD operates have recently suffered the consequences of major internal and external conflicts, and have special reconstruction requirements at a time when the policy and institutional framework may be weak. Under IDA's Thirteenth Replenishment, eligible post-conflict countries¹² will receive larger *per capita* allocations than those

⁹ A negative exponent of 0.25.

¹⁰ Specifically, it is proposed that the IFAD PBAS, like the PBAS applied to the AsDF, would use an exponent of 0.75 with regard to (rural) population size in the allocation formula. This raises the overall influence of performance on allocation by reducing the number of countries operating under capping arrangements.

¹¹ The way in which this is handled varies among IFIs. In IDA, for example, some of the largest countries borrowing from IFAD either do not come under IDA's PBAS or are subject to special arrangements (e.g. 'blend' countries). In effect, a number of (the largest) countries, even within IDA, are subject to exceptional arrangements. A number of cases are subject to further special dispensations reflecting exceptional and temporary circumstances (see paragraph 27). The floor and ceiling arrangements would be as follows: the minimum allocation (floor) would be set at USD 1 million per annum over the relevant allocation period; and the maximum allocation (ceiling) would be 5% of IFAD's lending resources over the relevant allocation period.

¹² For IDA, the term 'post-conflict country' refers to countries emerging from violent and protracted conflict. See Annex 2 to Additions to IDA Resources: Thirteenth Replenishment (Washington, D.C., July 25, 2002).

suggested by performance alone. Pending Executive Board approval of IFAD's forthcoming policy for post-conflict development, IFAD would apply the provisions described in IDA's Approach for Allocating Resources to Post-Conflict Countries. As in the case of regular allocations, these special allocations would be made in the framework of a resource commitment for the improvement of performance.

28. Due consideration to other crisis factors may be introduced into the system of country *ex ante* allocations within the framework of relevant policy papers as may be approved by the Executive Board.

H. Combining the Allocation Factors to Generate Country Allocations

29. Following the general IFI PBAS methodology, but subject to adjustment for IFAD's special requirements, the country allocation score employed as the basis for determining medium-term IFAD lending levels would bring together the country-needs factors and the performance factor. The IFAD adjustments would involve, for example, introducing an important rural development dimension into the policy and institutional assessment, taking rural population as the driving population factor and favouring poorer countries. *Ex ante* allocations for each country would represent its share of available total lending resources according to its share of the total allocation scores – corrected for the 'floor' and 'ceiling' arrangements described in footnote 11 above. The proposed allocation formulae are described in Annex V. Annex VI provides an illustration of the use of the formulae in the calculation of *ex ante* allocations.

30. The number of borrowing Member States in IFAD is large compared to most other institutions operating a PBAS, but the Fund's resources are relatively small. The practical implication of this is that it would not be possible to make commitments against all *ex ante* allocations within one year. Consequently, the *ex ante* allocation received by each country would be the allocation available over a three-year period, as a portion of the estimated total IFAD lending resources over the same period. These allocations would be reviewed and revised on the basis of the annual PBAS exercise. Provisions would be made for carry-over of unused country allocations to successive allocation periods, subject to utilization plans agreed between IFAD and the governments concerned.

I. Reflecting Priorities in the Regional Distribution of Development Assistance

31. The PBAS allocation exercises would operate on the basis of three-year cycles. In the year immediately preceding the first year of the cycle, the allocation exercise would determine *ex ante* allocations to be committed over the following three years (for the timing of the first two cycles, see Table 2). Within each cycle, *ex ante* allocations would be reviewed annually by IFAD to reflect the results of the annual assessments produced under the PBAS, as these capture significant changes in country needs and/or achievements in the sphere of the policy and institutional framework.

Table 2: Three-Year Allocations and Annual Reviews

PBAS Cycles 2005-2010							
	2004	2005	2006	2007	2008	2009	2010
First cycle allocation exercise	■						
Annual review		■	■	■			
Commitment		■	■	■			
Second cycle allocation exercise				■	■	■	
Annual review					■	■	■
Commitment					■	■	■

32. The first allocation exercise would cover the period 2005-2007, and would run beyond the period of the Sixth Replenishment. The tri-annual allocation for 2005-2007 would therefore include a notional allocation for 2007, dependent for its fulfilment upon the outcome of the Seventh Replenishment. Commitments would be made on the basis of annual Programmes of Work approved by the Executive Board within the framework of the PBAS allocations. The programme of work approved in 2004 for activities in 2005 would involve the application of the PBAS within the framework of regional allocations as adopted by the Executive Board in 1999. The proposed programme of work for 2006, presented to the Executive Board in September 2005, would reflect the experience of applying the PBAS within the system of regional allocations and would extend the PBAS as a uniform system of comparison and allocation across the lending programme as a whole, taking into account the need both to reflect priorities with regard to the regional distribution of development assistance and to maintain at least a two-thirds share of highly concessional borrowers in the IFAD lending programme. In considering the programme of work for 2006, the Executive Board would review the proposal to consider whether the system and its resulting allocations effectively satisfy development goals with regard to regional priorities or whether the operation of the PBAS within the framework of regional allocations should be maintained.

III. THE PERFORMANCE-BASED ALLOCATION SYSTEM AND IFAD'S LENDING PROGRAMME

33. The PBAS would provide an essential management link between IFAD's mandate (and strategic framework) and the COSOP in planning country operations. The PBAS would identify the status of key rural development factors and identify the medium-term envelope of IFAD lending resources potentially committable to a country (subject to annual reviews capturing change in all of the areas of the PBAS assessment). The COSOP would assess country opportunities for IFAD in the light, *inter alia*, of PRSPs, UNDAFs and other coordination mechanisms, and would indicate the priority areas of IFAD activity that would help deliver improvement in the areas of weakness identified in the PBAS. Commitments against medium-term lending allocations would be in the form of loans (and/or grants as indicated in paragraph 9) in support of projects and programmes that will be accepted into the IFAD project/programme pipeline on the basis of: orientation to priority issues as identified in the PBAS and COSOP; and financial consistency, individually or as part of a planned series of operations, with the *ex ante* allocations.

34. The path through the PBAS to concrete lending operations is thus a multistep one:

- production of PBAS assessments for all countries in which IFAD has ongoing or prospective lending operations;
- calculation of medium-term lending (*ex ante*) allocations reflecting performance ratings and country needs;
- entry into the pipeline and formulation of projects and programmes within the framework of performance and impact objectives, *ex ante* allocations and COSOP recommendations reflecting PBAS policy and institutional assessments; and
- project appraisal and submission for approval by the Executive Board.

IV. ENSURING CONSISTENCY AND TRANSPARENCY

35. All PBASs depend upon assessments made by the operational staff of the institutions concerned, and staff capacity and informed judgement are vital to their quality. The objectivity of the assessments is based upon the clarity and transparency of the system, the common guidelines given to the staff concerned (including on the use of relevant statistical data and other materials linking assessments to the work of authoritative third parties), and the functioning of mechanisms to review and compare conclusions with a view to improving the consistency of application of common criteria.

In the first PBAS allocation exercise, IFAD would use the performance criteria described in Annexes I and II according to their operational feasibility and practicality. In the presentation of the first programme of work developed under the PBAS (2005), IFAD would describe and explain any modification of these criteria, introduced to improve the relevance, accuracy and cost-effectiveness of the system.

A. Production of Performance Assessments and the *Ex Ante* Allocations

36. The proposed system would be simple and consistent with IFAD's capacities:

- rural population data and country per capita income data would be imported from standard third-party sources;
- data on achievements in the broad framework 'box' of the country performance assessments for highly concessional borrowers would be imported from third-party sources, i.e. IDA;
- assessment of achievements in the rural development-sector framework 'box' would be undertaken by country portfolio managers (CPMs) as an extension of their existing responsibility to monitor relevant policy and institutional issues for the IFAD operations for which they are responsible;
- assessment of performance in the portfolio-level implementation 'box' would be largely based on existing review and assessment activities involved in the production of project status reports. Particular attention would be paid to identifying the influence of the borrower on project achievements; and
- calculation of *ex ante* allocations on the data provided above would involve the use of simple *formulae* well within the capacity of existing staff.

37. In order to ensure the consistency of individual assessments with the basic principles of the PBAS within and among the regional divisions, assessments would be developed within a system that ensures: that the performance criteria are understood in the same way by all staff responsible for reporting on them; and that assessment of performance is uniform with regard to the application of the 'scoring' system at the country level.

38. The element of the system that would require the greatest initial support to ensure transparency and uniformity is assessment of achievements in the rural development-sector framework 'box'. This would be assisted by:

- development of common 'questionnaire' sheets to be used by CPMs in performance rating;¹³
- provision of illustrative guidance as to what might constitute the basis for each level of 'score' with regard to each performance indicator;
- training of CPMs in relevant institutional and policy analysis, as well as in the use of authoritative third party data and analysis;
- review of country ratings at the regional division level in the light of benchmark assessments; and
- monitoring and review of the consistency of results and processes across IFAD's regional divisions on the basis of statistical analysis of differences among regions in the distribution of scores and examination of randomly selected questionnaires.

39. Following the experience of other IFIs with regard to procedures for maximizing the objectivity of the system, the actual calculation of the *ex ante* allocations for each country and the monitoring of consistency in assessing performance would be undertaken by a unit within IFAD independent of the operational groups responsible for producing performance assessments and for

¹³ Drawing on IDA's experience in implementing its PBAS, all assessment scores would be supported by concise written justification.

developing projects and programmes supported by IFAD loans – in consultation with all concerned divisions and units (e.g. with regard to application of the post-conflict factor). Adoption of recommendations relative to *ex ante* allocations made on this basis would be subject to confirmation by senior management.

B. Linkage between the Performance-Based Allocation System, *Ex Ante* Allocations and Operations

40. The Programme Management Department would be responsible for developing and implementing the overall process of programme and project development so that proposed programme and project commitments would respond to the issues identified in the PBAS performance assessments and would deliver an overall lending programme reflecting *ex ante* allocations calculated using the process described in paragraph 39. In situations in which it is not possible to deliver commitments against *ex ante* country allocations within the allocation period (or to plan them within the successive allocation period, see paragraph 30) – arising, for example, from the lack of demand for IFAD loans or the absence of opportunities to engage in operations in priority activities as identified through the PBAS performance assessments – the unused allocation would be reabsorbed into the allocable resource pool for redistribution through the prevailing PBAS allocation system.

41. The IFAD oversight committee for the approval of COSOPs and project/programme lending proposals to be submitted to the Executive Board is the operational strategy and policy guidance committee (OSC), chaired by the President of IFAD. In its review of COSOPs and formulation reports for project/programme lending proposals, the OSC would be provided with the relevant PBAS country performance assessment and *ex ante* allocation. A statement on the relation of proposed strategies and operations to the issues identified in the PBAS, as well as to the *ex ante* allocation, would be a mandatory element of documentation submitted.

C. The Role of the Executive Board

42. The Executive Board currently reviews COSOPs, approves all loans and receives annual reports on the implementation status of all projects financed with the proceeds of IFAD loans. The Executive Board would approve the design of the IFAD PBAS in September 2003. The Governing Council has mandated the Executive Board to consider the Fund's experience, in September 2005, in implementing the system and options for its further development and application.

V. SCHEDULE FOR THE APPLICATION OF THE SYSTEM

43. Subject to approval by the Executive Board of the proposed design of the IFAD PBAS, the PBAS operational procedures would be finalized during the fourth quarter of 2003. An intensive training programme for the staff concerned would be executed in the first quarter of 2004. The first PBAS performance assessments would be produced by the end of the second quarter of 2004. The calculation of *ex ante* allocations would take place in the third quarter of 2004, allowing for presentation to the Board in September 2004 of a programme of work for 2005 within the framework of the PBAS approved by the Executive Board in September 2003.

VI. IFAD'S POLICY ON THE DISCLOSURE OF PERFORMANCE ASSESSMENTS UNDER THE PERFORMANCE-BASED ALLOCATION SYSTEM

44. A comparison of the country-level results (scores) of the PBAS performance assessment against the criteria described in Annexes I, II and III would be communicated to the Executive Board annually. These results would be made public in accordance with IFAD's policy on disclosure of documents submitted to the Executive Board.

VII. RECOMMENDATION

45. The Executive Board is invited to consider the proposed design of the IFAD PBAS and to approve its application to IFAD lending from 1 January 2005. The President is requested to submit a report to the Executive Board in September 2005 detailing IFAD's experience in implementing the PBAS and to propose options for the further development of the PBAS in IFAD.

RURAL DEVELOPMENT-SECTOR FRAMEWORK: SALIENT FACTORS AND PRINCIPAL INDICATORS

I. INTRODUCTION

1. Within the PBAS, country allocations would be significantly affected by assessments of country performance in establishing a policy and institutional framework conducive to sustained rural poverty reduction. The objective of the system is to respond to differences in performance and, therefore, it is the *relative* performance of countries that would shape allocations. In order for the system to operate uniformly and transparently these assessments would be based on clear and common criteria.

2. On the basis of existing policy papers, emerging international norms on best practices for sustainable rural development and existing practices within IFAD, the Fund has elaborated the following criteria as points of departure for detailed guidelines to IFAD staff in performing sectoral performance assessments. They would be reviewed on a regular basis to assess their relevance (including to the particular set of issues and best practices in each of IFAD's operating regions) and practical feasibility. The table below summarizes the areas of policy and institutional assessment that would be included in the rural development-sector framework 'box' of the Fund's PBAS.

Sectoral Policy and Institutional Assessment Scoring

Cluster	Potential Indicator/Sub-Indicator	
A. Strengthening the capacity of the rural poor and their organizations		
(i)	Policy and legal framework for rural organizations	
(ii)	Dialogue between government and rural organizations	
B. Improving equitable access to productive natural resources and technology		
(i)	Access to land	
(ii)	Access to water for agriculture	
(iii)	Access to agricultural research and extension services	
C. Increasing access to financial services and markets		
(i)	Enabling conditions for rural financial services development	
(ii)	Investment climate for rural businesses	
(iii)	Access to agricultural input and produce markets	
D. Gender issues		
(i)	Access to education in rural areas	
(ii)	Representation	
E. Public resource management and accountability		
(i)	Allocation and management of public resources for rural development	
(ii)	Accountability, transparency and corruption in rural areas	

3. Strengthening the capacity of the rural poor and their organizations is central to all efforts aimed at enabling the poor to overcome their poverty. Two indicators are considered: the policy and legal framework for rural organizations; and, dialogue between government and rural organizations.

4. One of the most important factors leading to entrenched poverty is poor access to natural resources and technology; improving the equitable access of rural poor people to land, water for agriculture, and to agricultural research and extension services are thus identified as three principal indicators of the sector framework. Efforts to increase productivity can be effective only if they are linked to improved access to markets and financial services; indicators in this area relate to enabling conditions for rural financial service development, the investment climate for rural businesses and the government's policies relative to access to agricultural input and produce markets. Gender is a cross-cutting issue, considered under each of the three indicators relative to access to productive natural resources and technology; however, two other gender-specific indicators have also been included: access to education in rural areas, which is considered a critical pre-condition for the empowerment of women; and women's representation. Public resource management and accountability issues are considered under the headings of allocation and management of public resources for rural development, and accountability, transparency and corruption in rural areas.

II. DETAILED INDICATORS

A. Strengthening the Capacity of the Rural Poor and their Organizations

(i) Policy and Legal Framework for Rural Organizations

This principal indicator assesses the extent to which an enabling policy and legal environment is present for the rural poor to organize into autonomous groups, associations or other forms of collective action. If they are able to organize themselves in groups that can represent their concerns, the rural poor are more likely to be empowered, more able to engage in equitable commercial relations with private-sector market intermediaries, and to access and benefit from available government services. They are also more likely to be able to hold public institutions accountable for the way in which they apply laws and regulations, for the expenditures they incur at the local level, and for the services they provide to the rural population.. The extent to which the government supports the creation of the conditions under which the poor can develop their own rural organizations is considered an indicator of its commitment to good governance.

Score = 2. The government opposes efforts of the rural poor to organize or to strengthen their representation. As a result, there is very limited opportunity for the formation or operation of independent and accountable rural non-governmental organizations (NGOs), civil-society organizations (CSOs), farmers' associations, cooperatives, unions and the like. If rural groupings exist, they may have been formed by the government and exist only to play a passive role as recipients of government-provided services.

Score = 3. While the government may not be officially opposed to the existence of organizations of the rural poor, it makes no effort to create the conditions that facilitate their development. The process for registering a rural organization tends to be difficult (slow, bureaucratic and costly). Some rural organizations exist, but they are weak and represent only a minority of the rural population. This score could also be given in situations in which the registration process is easy and cheap, but political interference does not allow organizations to work independently.

Score = 4. Government may make efforts to create the conditions conducive to the establishment of organizations of rural poor people and is supportive of efforts by NGOs and others to do so. However, more efforts could be made, as various segments of the rural population are still not able to organize or the existing organizations are still weak because of lack of access to opportunities for further capacity-building. The process for registering a rural organization is relatively simple but takes time

and is not automatic. In certain areas or activities, there may be political interference in the autonomous workings of the organizations, but in general, organizations are well-established entities recognized by law and able to function quasi-independently.

Score = 5. Government is pro-active in its political and legal support for the establishment of conditions conducive to the development of organizations of the rural poor. The process for registering a rural organization is quick and simple. The government does not interfere in the workings of the organizations. As a result, the rural population is well organized (through associations, unions, cooperatives, etc.) and these organizations represent well the economic needs of the rural poor.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(ii) Dialogue between Government and Rural Organizations

This principal indicator assesses whether the rural poor are able to enter into dialogue with government or to lobby government representatives and express their concerns and priorities with regard to issues crucial to their livelihoods. It looks at whether the government is responsive to rural poor people, whether it takes into consideration their views in developing the policy, strategic and investment framework for the sector, and whether it provides a conducive environment for such exchange.

Score = 2. There is no process or opportunity for rural organizations to enter into dialogue with government. Rural organizations are not able to lobby government; representatives from the rural sector are not able to represent themselves in policy-making or developmental bodies; and there are no processes permitting regular exchanges between government and representatives of the rural sector.

Score = 3. There is no direct or transparent process for rural organizations to enter into dialogue with government: to the extent that there is opportunity for dialogue, it is occasional and formalistic, and the substantive influence of the organizations on the issues under discussion is limited or non-existent. Although organizations of the poor may be able to participate in local-level development committees, they are not able to play any role in national-level policy-making bodies. Opportunities for rural representation in government are very limited; there is a general bias against rural organizations and they have little political power.

Score = 4. There is a process for rural organizations to enter into dialogue with government or to lobby government and influence processes relative to policy-making and programme development; but the process is unstable (for example, it varies according to election cycle, degree of donor scrutiny or changes in government), and the opportunities for engagement and influence by rural organizations can vary from year to year or from one state to another.

Score = 5. There are well-established political processes for rural organizations to enter into dialogue with government at all levels, and, through that dialogue, the views of these organizations are taken into account by the government and frequently acted upon. Rural organizations are able to lobby government; representatives of the rural sector are able to participate in relevant government bodies (both executive and advisory); and, there are opportunities for regular exchanges between government and representatives of the rural sector.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

B. Improving Equitable Access to Productive Natural Resources and Technology

(i) Access to Land

This principal indicator assesses whether the legal, institutional and market frameworks provide the basis for the rural poor to have secure access to land – both individually held and common property resources – and whether the poor are able to benefit from these.

Score = 2. Rural poor households typically have either no access, or at best insecure access, to land. Their property rights are not formally recognized by law (or if they are, the laws are not applied), or are subject to easy termination or diminution; and they are unlikely to have a registered title for their land (where applicable). Formal land markets are inaccessible to the rural poor and informal markets are either absent or limited in scope. Equal rights for women and men are not a stated principle of the law and the law does not make illegal any customary action that deprives women of their rights. The majority of common property resources are open access, meaning that access is neither controlled by nor restricted to rural communities, with the consequence that the resources may be over-exploited and/or used mainly by powerful interest groups. Government has no active pro-poor land policies or programmes.

Score = 3. A majority of rural poor households have access to some land, though this access is often insecure. Frequently, vulnerable groups such as women and indigenous populations do not enjoy the same access to land as other poor groups. Where applicable, owned land is sometimes registered; leased and rented land is mainly unregistered and/or leases are out-of-date. Government policy on common property resources is vague, unclear and largely unimplemented: a majority of the rural poor do not enjoy sufficient user-rights and powerful groups often dominate their use. Civil society is not involved in key land policy and decision-making processes, and while some pro-poor land policies and/or programmes may have been formulated these are largely unimplemented at the local level.

Score = 4. A majority of rural poor households, including women, indigenous populations and other vulnerable groups, have access to land. This access is generally secure. Where appropriate, land titling and/or registration is common. Land markets function to some degree and are used by some rural poor men and women. Government is making concrete efforts to improve the management and allocation of common property resources, and to place some management responsibility in the hands of local users who are usually able to control access to the resources and restrict access to certain groups. Civil society is to some extent involved in land policy and decision-making processes; and government land policies and programmes are both pro-poor and, to a degree, implemented at the local level.

Score = 5. A range of land access mechanisms is available to rural poor households, including women, indigenous populations and other vulnerable groups, and their land access is generally secure. The law guarantees secure, equal and enforceable land rights to poor men and women. Where applicable, the majority of land holdings are titled and/or registered. Land markets function effectively and are used by the rural poor. Government has a clear and equitable policy for the allocation and management of common property resources: the rural poor have equal user-rights over these resources and locally owned users' institutions play an important role in managing them. Civil-society organizations are actively involved in land policy and decision-making processes. Government land policies and programmes are thus both pro-poor and implemented at the local level.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(ii) Access to Water for Agriculture

This principal indicator assesses whether the policy and institutional framework provides for the rural poor, on the one hand, to have equitable user-rights over water resources for agriculture, and, on the other hand, to effectively manage those resources.

Score = 2. Government policy (or PRSP where it exists) does not highlight the need for an equitable allocation of water resources for agriculture. There is no policy on participatory irrigation development and management, and government does not support farmer-managed schemes. Water user associations (WUAs) and/or participatory catchment authorities either do not exist or – where they do – they do not have legal recognition. Furthermore, they do not adequately provide for representation of the rural poor in catchment planning, water allocation and management. A water resources management policy/strategy either does not exist or it does not adequately recognize the importance of agricultural water. There is no pricing policy for the supply of agricultural water to the rural poor. As a result, the rural poor do not have equitable access to water for agriculture. Women are particularly discriminated against in terms of access to irrigation water and are rarely represented in agricultural water user institutions.

Score = 3. Government may have a water resources management strategy, but does not use it effectively to manage the allocation of water resources. Policy on participatory approaches to irrigation development and management, representative agricultural water institutions, and the equitable allocation of water resources is vague and non-transparent. Some water institutions exist – though women are under-represented in them; and while they may have legal recognition, they do not function effectively because of inappropriate regulation. A pricing system for the supply of agricultural water to the rural poor may exist, but it is either inequitable or inadequate to cover the costs of operation and maintenance. Although government has invested in providing water for agriculture to rural poor areas, the majority of the rural poor do not have equitable access to water resources.

Score = 4. Government has a water resources management strategy that provides an integrated framework for equitable water resources allocation, and has made major efforts to improve the management and allocation of water resources for rural poverty reduction. It has designed and adopted clear and transparent policies for participatory irrigation development and management, and it supports farmer-managed systems. Representative agricultural water user institutions have been established, but not all function well owing to management or local governance problems. There is a high percentage of women representation in the institutions, although still proportionately less than men. An equitable pricing system exists for the supply of agricultural water to the rural poor that covers the costs of operation and maintenance. The majority of the rural poor therefore have equitable and secure access to water resources for agricultural use, although some groups are still marginalized.

Score = 5. Government is actively pursuing a clear and equitable strategy for water resources management that recognizes the imperatives of agricultural water use, as well as for participatory irrigation development and management, and it actively supports farmer-managed schemes. An appropriate legal framework is in place governing the establishment, mandate and operations of representative agricultural water user institutions, and is being actively promoted and applied by government. Rural women's representation in such institutions is proportional to men's. A clear and equitable pricing system for agricultural water use by the rural poor is in place. The collection of fees is conducted in a fair and transparent manner, and the fees collected are directly reinvested in the sector. Most irrigation water is managed through representative water user institutions that are well established, functional and adequately responsive to the rural poor and small agricultural water users.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(iii) Access to Agricultural Research and Extension Services

This principal indicator assesses to what extent the agricultural research and extension system is accessible to poor farmers, including women farmers, and is responsive to their needs and priorities.

Score = 2. Extension services are the exclusive preserve of government, and poor farmers have no say in setting priorities or in controlling funds for agricultural research and extension; the agricultural research system is biased towards richer farmers' crops and does not work in the field of poor farmers. The agricultural extension system is not accountable to poor farmers, and poor farmers do not interact much with extension agents. There is little or no coordination between the research and extension services. Furthermore, government has no strategy, policy, or mechanisms, to address gender gaps in access to extension services (either public or private). Women are rarely visited by extension agents.

Score = 3. The agricultural research and extension system is weak and does not address the needs of poor farmers. Although some efforts have been made to improve the participation of poor farmers in setting priorities and allocating funds for agricultural research and extension, it is far from being appropriate for the current needs of poor farmers. As a consequence, most poor farmers do not interact much with extension agents. Coordination mechanisms between research and extension exist, but they are weak and have little influence on the agendas of the separate services. Furthermore, while government's stated policy is that women farmers should have equal access to extension services (either public or private), there are no strategies or mechanisms to ensure this.

Score = 4. Public agricultural research and extension have made major efforts to improve the participation of poor farmers in setting priorities and allocating funds, and government supports direct demand-led approaches (including the contracting out or privatization of some agricultural research and extension activities); some agricultural programmes are working in the fields of poor farmers or focus on pro-poor crops or technologies; and, the extension system has been improved and is trying to extend its outreach to poor farmers. Coordination between research and extension is considered adequate. Government has some policies, strategies and mechanisms to ensure that women farmers have equal access to extension services (either public or private); and, as a result, some of the concerns of women are reflected in the services or topics covered by extension agents.

Score = 5. Government encourages the development of complementary pluralistic research and extension services, in which different non-governmental players have a significant role, both in service delivery and in contributing to policy development for research and extension. Local farmer organizations are involved in setting priorities and control at least part of the budget for agricultural research and extension; a significant proportion of agricultural programmes are working in the fields of poor farmers or focus on pro-poor crops or technologies; and the extension system is effective and is properly reaching out to poor farmers. Research and extension services are closely coordinated, and have a common and appropriate focus. Government has specific policies, strategies and mechanisms to ensure that women farmers have equal access to extension services (either public or private). As a result, women and men participate equally in extension-related activities and the concerns of women are reflected in the services or topics covered by extension agents.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

C. Increasing Access to Financial Services and Markets

(i) Enabling Conditions for Rural Financial Services Development

This principal indicator assesses to what extent the policy and institutional framework supports the development of a commercially based rural finance market that is rooted in the private sector and is efficient, equitable and accessible to low-income populations in rural areas.

Score = 2. The role of rural finance (including but not restricted to credit) is not adequately recognized in government policies (including PRSPs) that aim at rural development. Government has made no effort to liberalize the rural financial market. Government support to rural finance is based on subsidized interest rates and credit provided by publicly owned rural development banks. The crucial role of cooperatives, multilateral financial institutions (MFIs) and community-based service providers (including self-help groups) in rural financial intermediation reaching the poor is ignored.

Score = 3. Government development plans make general supportive comments on the importance of rural finance – or more often, of agricultural credit; but these are not operationalized into practical policies and guidelines. Financial-sector liberalization has advanced, but the government still stresses a significant role for publicly owned rural banks and credit schemes. The role of member-owned and locally based financial institutions' savings and credit operations is increasingly acknowledged as an essential element of a sustainable and relevant rural finance system accessible to the poor, but an appropriate legal framework for their registration, regulation and supervision is missing.

Score = 4. Development plans recognize the important role of financial services in the rural development process and provide appropriate and practical policy direction to improve the environment for rural finance activities. The government is steadily reducing its direct participation in rural finance operations with the stated goal of withdrawal. The government, central bank and stakeholders representing rural finance operators actively cooperate to establish a relevant and encouraging legal framework for semi-formal and informal rural finance operations covering both savings and credit activities. The central bank is developing its own capacity to regulate and supervise the larger non-bank financial institutions and to support the establishment of alternative regulatory arrangements for smaller local financial service providers.

Score = 5. Government development plans (including PRSPs) fully recognize the importance of a well-functioning rural finance subsector, including private-sector operators. The government has effectively withdrawn from direct participation in rural finance operations. An appropriate legal framework is in place to promote and regulate rural savings and credit cooperatives, MFIs and other community-based operators. Effective inspection and supervision arrangements covering rural non-bank financial operators are becoming operational. Government is continuously taking steps to modernize and simplify such legal procedures and practices that constrain and complicate the rural operations of both bank and non-bank financial institutions.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(ii) Investment Climate for Rural Businesses

This principal indicator assesses whether government has adopted an appropriate policy, legal and regulatory framework to support the emergence and development of private rural businesses.

Score = 2. The policy and institutional framework effectively discourages the emergence of rural private businesses with legal status. In particular, the procedures for registering a small or medium-size enterprise (SME) or private trading business are extremely slow, bureaucratic and costly. Applications for registering a business are frequently turned down, and people are forced to bribe government officials to ensure that their business is registered. Many of the laws and regulations necessary for the proper and efficient development of private-sector-led markets are not in place: laws to enforce contracts between one or more parties either do not exist, or are not enforced; and the legal framework does not protect consumers against fraud. There are no laws (or no effective laws) regulating market conduct or behaviour, such as competition laws, anti-trust laws to fight monopolies and price fixing, labelling laws, etc. There are no standards (or no enforcement of standards) to ensure the quality and safety of food products, processed food items or chemical inputs.

Score = 3. Government efforts to encourage private traders to open a business, to support the development of SMEs, or to encourage the development of private-sector-led markets, are weak. The procedures for registering a SME or private trading business are slow, complicated and costly. People applying to register a business often have to bribe government officials. Many of the laws and regulations necessary for the proper and efficient development of private-sector-led markets (see Score = 2 for a list of those) do not exist, and where they do exist they are often not applied.

Score = 4. Government is making efforts to encourage private traders to open a business, support the development of SMEs, or encourage the development of private-sector-led markets, but more needs to be done, as private-sector markets are still not well developed and the procedures for registering a SME or private trading business are not very quick, simple or transparent. People applying to register a business occasionally have to bribe government officials. Most of the laws and regulations necessary for the proper and efficient development of private-sector-led markets have been adopted, but some are not properly enforced and commercial courts are slow and bureaucratic.

Score = 5. Government has made major efforts to encourage private traders to open a business, to support the development of SMEs, or to encourage the development of private-sector-led markets. The procedures for registering a SME or private trading business are fast, simple and transparent, and it is not necessary to bribe government officials in order to register a business. The laws and regulations necessary for the proper and efficient development of private-sector-led markets have been adopted and most are properly enforced.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(iii) Access to Agricultural Input and Produce Markets

This principal indicator assesses whether the policy and institutional framework supports the development of commercially based agricultural markets that are rooted in the private sector and are efficient, equitable and accessible to small farmers.

Score = 2. Government has not made efforts to liberalize agricultural markets. It monopolizes most or all agricultural input and produce markets, especially for cash/export crops; small farmers are able to buy agricultural inputs only in state-controlled warehouses/shops at fixed prices, and sell most of their produce at fixed prices to the government through state buying agencies. Government's roads programme places little emphasis on the construction and rehabilitation of market access roads, and its policies do not seek to promote the emergence of private-sector-led markets. In such a market environment, the government does not support the capacity of poor rural producers to organize for improved market access (development of skills, organization of farmers' groups, making available market information, supporting market intermediation between farmers and traders, etc.).

Score = 3. Government has made efforts to liberalize agricultural inputs and produce markets and trading systems, but to a limited extent. The private sector plays a role in them, but the government also intervenes as a monopsonistic buyer of certain products and through excessive subsidies, taxes, price bands or quotas. Government is not investing sufficiently (relative to its capacity to do so) in constructing and rehabilitating market access roads, and it is doing little or nothing to support the capacity of poor rural producers to access markets more easily and on more equitable terms.

Score = 4. Government has made significant efforts to liberalize markets and has removed market-distorting monopsonies, subsidies, taxes and quotas for most crops. Markets are now mainly in private-sector hands. Government is investing in the development and rehabilitation of market access roads, and it is making some efforts (directly or indirectly) to support the capacity of poor rural producers to access markets more easily and on more equitable terms.

Score = 5. Government has substantially liberalized markets and removed market-distorting monopsonies, subsidies, taxes and quotas. Agricultural input and produce markets are free of government control, and there is a wide diversity of capable market service providers. Government has a major programme to develop and rehabilitate market access roads, as well as a well-defined and adequately financed programme to support the capacity of poor rural producers to access markets more easily and on more equitable terms.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

D. Gender Issues

(i) Access to Education in Rural Areas

This principal indicator assesses the extent to which the country has created laws, policies, institutions and practices that promote equal access for boys and girls to education in rural areas.

Score = 2. Government has no policy to address the issue of gender-equal access to education in rural areas. There are no strategies, mechanisms and incentives to ensure that boys and girls participate equally in primary and secondary education. Nor is there any public campaign on the education of the girl child. The female-to-male ratio of net primary school enrolment is less than 70%¹⁴.

Score = 3. The government has a stated policy in favour of gender-equal access to education in rural areas, but few strategies, mechanisms and incentives to ensure implementation of that policy. Public campaigning on girls' education is either non-existent or sporadic. The female-to-male ratio of net primary school enrolment is over 70% but less than 90%.

Score = 4. Government has a specific policy, and some accompanying strategies, mechanisms and incentives, to promote equal participation by boys and girls in both primary and secondary education. It has undertaken some information campaigns on the importance of girls' education. The female-to-male ratio of net primary school enrolment is between 90% and 100%, but the female to male ratio for secondary school enrolment is less than 70%.

Score = 5. Government has a specific policy, and accompanying strategies, mechanisms and incentives, to ensure that boys and girls participate equally in both primary and secondary education. It campaigns actively for the education of girls. Primary and secondary school enrolment of boys and girls is equal.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

¹⁴ This indicator is published annually in the United Nations Development Programme's Human Development Report.

(ii) Representation

This principal indicator assesses whether the country has created laws, policies, institutions and practices that promote equal representation of men and women in local decision-making. It also assesses the enabling environment provided for women's representation in rural organizations (e.g. farmers' associations, WUAs, cooperatives), or the existence of de jure or de facto barriers to women's entry (e.g. requirements to own land, literacy requirements, membership fees, etc.).

Score = 2. Legislation does not allow women to vote or be elected. Government has no policy, institutional framework or information campaign to address existing gender gaps in the representation of men and women in local decision-making. Women are either *de jure* or *de facto* excluded from rural organizations. Women's representation in rural organizations is minimal, and most rural organizations are made up of men or are represented by men. Government does not support women's representation in rural organizations.

Score = 3. Legislation allows women to vote and be elected. Government has adopted some policies to address existing gender gaps in the representation of men and women in local decision-making, but it does not have a strong strategy, and there is no institutional framework or enforcement mechanism to address this gender gap. The statutes of rural organizations may not *de jure* discriminate against rural women's representation, but barriers of entry limit women's representation. While government may not be officially opposed to encouraging rural women's representation, it makes no effort to encourage their representation.

Score = 4. Legislation allows women to vote and be elected. Government has some policies and institutional mechanisms to address existing gender gaps in local decision-making, but public awareness-building on women's representation is limited. Rural organizations are non-discriminatory and some attempts have been made to remove barriers of entry for women. Women participate broadly in rural organizations.

Score = 5. Legislation allows women to vote and be elected. Government has policies, institutional mechanisms to address existing gender gaps in local decision-making and campaigns actively to promote it. Rural organizations are non-discriminatory and have mechanisms in place to support rural women's participation. Women participate broadly in rural organizations and often have leadership positions within them.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

E. Public Resource Management and Accountability

(i) Allocation and Management of Public Resources for Rural Development

This principal indicator focuses on government policies, strategies and investment programmes for the agricultural and rural development-sector, and on the efficiency, consistency and transparency with which resources are allocated and managed, and their use is reported on. It assesses whether government: (a) gives adequate emphasis to the sector in its planning and budgeting and has in place policies, strategies and investment programmes that are appropriate and consistent with each other; (b) has in place effective financial management systems to ensure that expenditures are consistent with the approved budget, and to provide for timely and accurate financial reporting and auditing; and (c) allocates and makes available appropriate proportions of the sectoral budget to the different levels of government (national, state, provincial, district and below, as relevant).

Score = 2. The national development plan (or PRSP, where there is one) and budget document give little emphasis to agriculture and rural development; and the sector policy/policies are not appropriate as a basis for reducing rural poverty and promoting broad-based growth. Government budgetary allocations to the sector are insufficient; the funds actually provided to the relevant ministries and agencies are significantly less than the allocations and they are made available too late to be used effectively. The allocations are heavily centralized at the upper levels of government (national/state, rather than district/local), and the few resources allocated to the lower levels do not reach there. Government's financial management is very weak, and its financial reports are of low quality and are prepared irregularly and late, resulting in substantial delays in the preparation of audit reports.

Score = 3. The national development plan (or PRSP) and budget document give some emphasis to agriculture and rural development; but the sectoral policy/policies do not provide a strong basis for reducing rural poverty and promoting broad-based growth. Budgetary allocations to the sector are inadequate, and the funds actually provided to the ministries and agencies do not conform to the allocations, or are subject to significant delays. Even if the allocations envisage an adequate proportion of resources going to the lower levels of government, not all the resources reach these levels. Financial management is weak, and financial and audit reports are prepared late.

Score = 4. The national development plan (or PRSP) and budget document emphasizes the important role that the agricultural and rural development sector must play in poverty reduction and economic growth. However, the sector policy/policies and the budgetary allocations are not always consistent with that analysis. The provision of funds to ministries and agencies may be subject to delays, but once available, they do reach the lower levels. Financial management is broadly adequate, although the preparation of financial and/or audit reports may be delayed.

Score = 5. The national development plan (or PRSP) and budget document emphasize the important role that the agricultural and rural development sector must play in poverty reduction and economic growth; sector policy/policies are consistent with that analysis and advocate an appropriate approach for reducing rural poverty and promoting broad-based growth. Budgetary allocations to the sector are transparent, adequate and consistent with the policy framework. The funds allocated are promptly made available to the relevant ministries and agencies, and they reach the lower levels of government. Financial management is satisfactory, and financial and/or audit reports are prepared regularly and on time.

Ref.: IMF Revised Code of Good Practices on Fiscal Transparency:
<http://www.imf.org/external/np/fad/trans/code.htm>

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

(ii) Accountability, Transparency and Corruption in Rural Areas

This principal indicator assesses the extent to which, at the local level: (a) government (both the executive, e.g. the ministry of agriculture, and the legislative, e.g. the district council) can be held accountable to rural poor people for its use of funds and the results of its actions; and (b) public employees and elected officials are required to account for the use of resources, administrative decisions and results obtained. Both levels of accountability are enhanced by decentralization of authority and responsibility for public functions, and by transparency in decision-making and disclosure of information. A high degree of accountability and transparency is likely to discourage corruption or the abuse of office for public gain.

Score 2: Government has no effective policy for decentralizing administrative or fiscal authority. Local-level rural development services are inadequately staffed and funded. Local elections have not been held or have been held in a manner that offers little or no democratic choice to voters, and the elected officials are unresponsive and unaccountable to their electorate. Overall, rural poor people perceive local government as a barrier to their progress. They do not participate in the planning or implementation of local development activities, and the resources budgeted for those activities are often diverted for private gain by public officials or local elites. Rural poor people are systematically obliged to bribe government officials in order to access services or to seek fair application of laws. Officials are not sanctioned either for receiving bribes or for failures in service delivery.

Score 3: Government has a policy of decentralizing limited administrative authority to the local level, but this is not accompanied by fiscal decentralization or the institutional reforms and safeguards necessary to enhance transparency and accountability and to eliminate local corruption. Local-level rural development services are staffed and funded according to centrally determined priorities. Locally elected government officials are rarely responsive and accountable to their electorate. Local development activities are planned with little participation by rural poor people, some of the resources budgeted for those activities may be diverted for private gain by public officials, and the benefits from the activities accrue almost exclusively to local elites. Rural poor people often have to bribe government officials in order to access services or to seek fair application of laws. Officials are rarely sanctioned, either for receiving bribes or for failures in service delivery.

Score 4: Government has done much to decentralize administrative and fiscal authority to the local level, in combination with the institutional reforms and safeguards necessary to enhance transparency and accountability and to eliminate local corruption. However, some key sectors may be still dominated by central decision-making. Local-level rural development services are staffed and funded according to local as well as central priorities. Locally elected representatives are often responsive and relatively accountable to their electorate, but some representatives may be less responsive than others. Local development activities are planned with some participation by rural poor people, but the resources budgeted for those activities are not always used for these activities, and the benefits from the activities may not always accrue to rural poor people. Rural poor people do not usually have to bribe government officials, either in order to access services or to seek fair application of laws, and officials who demand or accept bribes or fail to deliver services are sometimes sanctioned.

Score 5: Government has fully decentralized administrative and fiscal authority to the local level, with the institutional reforms and safeguards necessary to enhance transparency and accountability and to eliminate local corruption. Local-level rural development services are adequately staffed and funded according to local priorities. Locally elected representatives are responsive and accountable to their electorate. Local development activities are planned with the active participation of rural poor people, the resources budgeted for those activities are used exclusively for the activities, and the benefits from the activities accrue to rural poor people. Rural poor people do not have to bribe government officials, and officials who demand or accept bribes or fail to deliver services are systematically sanctioned.

1 Unsatisfactory for an extended period	3 Moderately unsatisfactory	5 Good
2 Unsatisfactory	4 Moderately satisfactory	6 Good for an extended period

ASSESSING PORTFOLIO PERFORMANCE USING THE PROJECTS-AT-RISK METHODOLOGY

1. The performance of the IFAD project portfolio should be a major factor influencing the level of the medium-term envelope for IFAD's lending commitments in its borrowers, and indicators of performance should enter directly into PBAS *ex ante* allocations. It already exercises an influence over current IFAD planning and engagements, and the adoption of a PBAS in IFAD would be an opportunity to put this influence on a more explicit, transparent and consistent basis.
2. The development of such an explicit, transparent and consistent integration of project performance into the PBAS would:
 - include indicators reflecting the specificity of IFAD's mandate and project/programme objectives;
 - to the extent possible, be integrated in existing procedures for assessing and reporting on project performance, and be based on data already available in IFAD systems;
 - in the interests of harmonization, be as methodologically similar as possible to the approaches of other IFIs; and
 - embody the principle of identifying to the extent possible the influence of the borrower in project performance.
3. The methodology employed to factor project performance into the PBAS would be 'project-at-risk' – adapted for IFAD's use from other IFIs and involving two steps:
 - assessing individual project performance; and
 - generating a measure of portfolio performance on the basis of the proportion of actual and potential problem projects in the country portfolio.

A. Assessing Individual Project Performance

4. 'Project-at-risk' (PAR) assessments are a means of identifying projects at risk of not meeting their objectives. Projects at risk consist of *actual* and *potential* problem projects. An actual problem project is one that does not meet criteria for implementation progress (IP) and/or achievement of development objectives (DO); a potential problem project is one rated satisfactory on implementation progress and achievement of development objectives, but having risk factors historically associated with unsatisfactory outcomes. Potential problem projects are identified using criteria related to implementation experience and past portfolio performance in the country and sector involved.
5. All major IFIs use the PAR concept as a basis for annual assessments of their portfolios. The PAR measure is also used to generate the portfolio performance rating included in their PBAS. Although the name is slightly different in individual IFIs (IDB, for example, uses the term "Problem Projects and Projects on Alert"), and details are adapted to specific operational needs and circumstances, the basic methodology is the same:
 - Projects are assessed on a four-category scale for implementation progress and achievement of development objectives (IDB: achievement of development objectives only). Projects for which DO or IP are rated in one of the two lowest categories are marked as *actual* problem projects.
 - Projects rated in one of the two highest categories on IP/DO, but which exhibit selected risk factors ('flags') historically associated with unsatisfactory outcomes, are marked as *potential* problem projects.

6. **Identifying actual problem projects.** IDA uses a four-category scale for rating: very satisfactory, satisfactory, unsatisfactory, and very unsatisfactory. In IDA's PAR, an actual problem project is defined as:

A project rated unsatisfactory or worse on one or both of the following criteria:

- *likelihood of attaining the development objectives agreed with the borrower;*
- *implementation performance in relation to the benchmarks agreed with the borrower.*

7. The current IFAD system of project status reporting provides an overall assessment of project performance on a four-category scale: (1) problem-free; (2) minor problems; (3) major problems but improving; and (4) major problems and not improving. If rating 3 or 4 is given, the CPM must provide a written justification in the form of an analysis of implementation progress and progress in attainment of project development objectives. This assessment is for all practical purposes a combined IP/DO rating as defined in the PAR methodology, and would be used as such in a PBAS-related PAR analysis – with a splitting of the IP and DO ratings as done by other IFIs.

Table 1: IDA PAR Risk Flags, Current PSR Indicators and Proposed IFAD PAR Flags

IDA Flag	Existing PSR Indicator	Proposed IFAD PAR Flag
1. Long effectiveness delays	-	-
2. Poor compliance with legal covenants	Compliance with loan covenants	1. Compliance with loan covenants
3. Project management problems	Project management performance	2. Project management performance
4. Shortage of counterpart funds	Availability of counterpart funds	3. Availability of counterpart funds
5. Procurement problems	Compliance with procurement procedures	4. Compliance with procurement procedures
6. Poor financial performance	Quality of audit/accounts	5. Quality and timeliness of audit
7. Environmental/resettlement problems	-	-
8. Significant disbursement delays	Acceptable disbursement rate	6. Disbursement rate
9. Long history of past problems	-	-
10. In risky country	-	-
11. In a risky subsector	-	-
12. Poor macroeconomic setting	-	-
-	Performance of monitoring and evaluation (M&E) system	7. Performance of M&E system
-	Beneficiary participation	8. Beneficiary participation
-	-	9. Responsiveness of service providers
-	-	10. Gender focus in implementation
-	-	11. Poverty focus in implementation

8. An actual problem project in IFAD’s PAR would be defined as:

A project rated 3 or 4 in the latest project status report (PSR) on one or both of the following criteria:

- *progress achieved in meeting the development objectives;*
- *project implementation progress.*

9. **Identifying potential problem projects.** IDA defines a potential problem project as:

A project rated satisfactory or better on IP/DO, but exhibiting three or more of 12 risk ‘flags’.

10. The IFAD PAR would adopt the risk flag approach, but would use a slightly different set of flags than IDA – anchored in the existing PSRs and issues of portfolio-level governance but modified (as indicated in Table 1) to capture key factors relative to objectives articulated in IFAD's strategic framework and to avoid repetition of factors already captured under broad framework and rural development-sector assessments. IFAD would define a potential problem project as:

A project rated 1 or 2 on IP/DO, but rated 3 or 4 on three or more of the 11 risk “flags” in the last PSR.

B. Calculating the Portfolio-at-Risk Assessment from Project-at-Risk Assessments

11. The PAR methodology would generate assessments for every project in the portfolio, largely based on current regular reporting. For the PBAS it is necessary to generate a consolidated assessment for each country portfolio as a whole. The major IFIs apply a methodology of assigning a portfolio performance (PP) rating to specific intervals of PAR proportions as shown in Table 2.

Table 2: Conversion of PAR Proportion to PBAS Portfolio Performance Rating *

Portfolio performance rating	PAR as Proportion of Portfolio of Projects (%)		
	IDA	AsDF	African Development Fund(AfDF)
6	0 for 3 years or more	0 for 2 years or more	0-10 for 2 years or more
5	0	0-10	0-10
4.5	1-5	15-34	10-30
4	6-15		
3.5	16-25	35-40	30-45
3	26-40		
2.5	41-65	41-70	45-100
2	66-100		
1.5	100% for 3 years or more	70-100	100% for 2 years or more
1		100% for 2 years or more	

* IDB does not convert PAR proportions to performance ratings, but to relative weights used in an allocation distribution table.

12. This approach is effective where each borrower has a substantial number of active projects. In a portfolio as dispersed as IFAD’s the approach raises a methodological problem: the PAR proportion (proportion of projects at risk in the total portfolio) would be very lumpy in countries with few projects. In the not unusual case of a country with only one active project the PAR would be either 0% or 100%, generating an extremely high or extremely low PP rating.

13. In the IFAD PAR conversion criteria would depend on the number of active projects held by the borrower in order to generate a sufficiently detailed assessment and rating of the actual situation. For borrowers with one or two projects, the PP rating would depend not only on whether or not the projects are at risk, but also on whether they are *actual* or *potential* problem projects and, in the case of only one project, the actual IP/DO score. The straight conversion of PAR proportion to PP rating will be applied only to borrowers with three or more projects. The suggested conversion methodology is indicated in Table 3.

Table 3: Suggested Conversion of PAR Rating to PBAS Portfolio Performance Rating *

Portfolio performance rating	Number of Active Projects Held by Borrower		
	1	2	3 or more
6	Project rated 'not at risk' For two or more consecutive years	Both projects rated 'not at risk' for two or more consecutive years	PAR proportion 0% for two or more consecutive years
5	Project rated 'not at risk'	Both projects rated 'not at risk' (N+N)	PAR proportion 0%
4	Project rated 'potential problem project' but with a sum of IP/DO scores < 4	One project rated 'not at risk'. One project rated 'potential problem project' (N+P)	PAR proportion 0- 34%
3	Project rated 'potential problem project' and a sum of IP/DO scores = 4 (2+2)	Both projects rated 'potential problem projects' or One project rated 'not at risk' and one project rated 'actual problem project' (P+P or N+A)	PAR proportion 35-67%
2	Project rated 'actual problem project'	One project rated 'potential problem project' and one project rated 'actual problem project' or both projects rated 'actual problem project' (P+A or A+A)	PAR proportion 68-100%
1	Project rated 'actual problem project' for two or more consecutive years	One project rated 'potential problem project' and one project rated 'actual problem project' or both projects rated 'actual problem project' for two or more consecutive years	PAR proportion 100% for two or more consecutive years

*Definitions:

Concept		Rating of implementation progress (IP) and achievement of development objectives (DO)	risk flags raised
Project not at risk (N)		A rating of both IP and DO ≤ 2 in the last PSR	< 3
Project at risk	Potential problem project (P)	A rating of both IP and DO ≤ 2 in the last PSR	≥ 3
	Actual problem project (A)	A rating of IP or DO or both ≥ 3 in the last PSR	Not applicable

C. Guidelines for Assessment

14. The output of the methodology as described above would be the production of country portfolio performance assessments based on a common methodology for producing both individual project assessments and overall country portfolio scores. The system would be almost entirely based on information and assessments already available within the regular IFAD portfolio management and reporting process. Preliminary guidelines for assessment within the existing project status reporting system are presented in Tables 4 and 5.

Table 4: Preliminary Guidelines: IP/DO Indicators

IP/DO Indicator	Rating Guidelines
Progress achieved in meeting the development objectives	<ul style="list-style-type: none"> (1) The project is currently above or on target with respect to meeting the development objectives, and is expected to fully meet the objectives at completion. (2) The project is currently in most important aspects on target with respect to meeting the development objectives, and is expected to meet the objectives satisfactorily at completion. (3) The project is substantially below target with respect to meeting the development objectives. Without corrective measures the project is not likely to meet the objectives satisfactorily at completion. (4) Little or no progress has been made in meeting the development objectives. Serious doubts exist as to whether the project will meet any of the development objectives at completion.
Project implementation progress	<ul style="list-style-type: none"> (1) Project implementation is problem-free. At the current rate the project is expected to achieve all outputs on time. (2) Project implementation is without significant problems. At the current rate, the project is expected to achieve all major outputs without significant delays. (3) There are substantial problems in project implementation. If not solved the problems are likely to cause major delay or cancellation of one or more major outputs. (4) There are severe problems in project implementation. The problems have already caused delay or cancellation of major outputs and, if not solved, will endanger the entire project.

Table 5: Preliminary Guidelines – Early Warning Flags

Flag	Rating Guidelines
Compliance with loan covenants	<ul style="list-style-type: none"> (1) All relevant covenants complied with. (2) Not in full compliance with key legal covenants, but firm expectation of early compliance. Non-compliance does not (a) significantly affect implementation of the project or achievement of its development objectives, or (b) seriously violate IFAD's statutory requirements. (3) Non-compliance seriously affects project implementation or achievement of its development objectives; or seriously violates IFAD's statutory requirements. However, there is a firm expectation of compliance in the near future. (4) As in '3' above, but no firm expectation of compliance in the near term.
Project management performance	<ul style="list-style-type: none"> (1) Project management arrangements in line with appraisal and focused on the development objective. (2) Minor problems associated with project management, but overall satisfactory. (3) Moderate problems in project management resulting in significant delays in project implementation and/or in the achievement of development objectives, but acceptable measures being taken to strengthen managerial capacity. (4) As in '3' above, but no corrective measures taken.
Availability of counterpart funds	<ul style="list-style-type: none"> (1) All funds required under the annual work programme and budget for timely and effective implementation budgeted for in the current fiscal year and being released in a timely fashion. Contributions/funds not part of government administrative budget also available as required. (2) Overall funding likely to face only minor problems. Provision for at least 70% of the required funds has been made, and funds are being released on time. (3) Serious shortcomings (less than 70% of needed funds) in the timeliness and/or amount of funding. Implementation is likely to be negatively affected and the viability of the project may be jeopardized. Acceptable measures being taken to address these issues. (4) As in '3' above, but no corrective action taken.
Compliance with procurement procedures	<ul style="list-style-type: none"> (1) Timely and efficient procurement. The application of procurement procedures is transparent and free of corruption. (2) Some difficulties experienced in managing procurement (minor delays in procurement; documents prepared by borrower/implementing agency require some adjustment; better understanding needed of internal/government procurement requirements). The application of procurement procedures is transparent and free of corruption. (3) Moderate difficulties experienced in carrying out procurement, leading to implementation delays in excess of one year (e.g. protracted discussions and correspondence on bidding documents, repeated and/or extensive revisions). The application of procurement procedures is non-transparent. Corrective action being taken to resolve the issues. (4) As in '3' above, but serious, unresolved issues inhibit further progress.

ANNEX II

Flag	Rating Guidelines
Quality and timeliness of audit	<ol style="list-style-type: none"> (1) Financial statements and audit report submitted on a timely basis, statements are acceptable and audit opinion is unqualified. (2) Financial statements and audit report submitted on a timely basis and, while audit opinion is unqualified the financial statements indicate variance with AWP/B and planned expenditures. (3) Financial statements and audit report submitted on a timely basis, but audit report qualified or adverse and financial statements unclear. (4) Financial statements not available and/or audit report not submitted.
Acceptable disbursement rate	<ol style="list-style-type: none"> (1) Disbursement rate 95% or more of the IFAD project disbursement profile (PDP)* for same type of projects. (2) Disbursement rate 70-94% of the IFAD PDP for same type of projects. (3) Disbursement rate 50-69% of the IFAD PDP for same type of projects. (4) Disbursement rate less than 50% of the IFAD PDP for same type of projects.
Performance of M&E system	<ol style="list-style-type: none"> (1) A well designed M&E system exists and regularly reports on progress at different levels (impact, achievement, reaching physical targets, etc.), with managers regularly making use of M&E *information for implementation decision-making. Information is sex-disaggregated. (2) A well designed M&E system exists and regularly reports on progress at different levels (impact, achievement, reaching physical targets, etc.), and information is sex-disaggregated. Managers make some use of M&E information for implementation decision-making. (3) M&E system regularly reports on progress only at the level of reaching physical targets; limited or no sex-disaggregated information. Managers make little use of M&E information for decision-making. (4) M&E system is non-operational OR sporadically reports progress only at the level of reaching physical targets. Managers make little or no use of M&E information for decision-making.
Beneficiary participation	<ol style="list-style-type: none"> (1) Beneficiaries participate to the degree envisaged in the appraisal report. Participation is gender-equitable overall. (2) Minor problems with beneficiary participation for some project activities, but not likely to affect achievement of the overall development objective of the project. Participation is fairly gender-equitable overall. (3) Moderate problems in relation to beneficiary participation for some or all activities and there is uncertainty as to whether beneficiaries will participate to the extent envisaged at appraisal. Participation is not gender-equitable. Appropriate action being taken to address the problem. (4) As in '3' above, but the no action taken to address the problem.
Responsiveness and selection of service providers	<ol style="list-style-type: none"> (1) Beneficiaries are fully consulted in selection of service providers, in monitoring performance, and in final approval of payments. Both women and men have been consulted. (2) Latitude exists for choosing service providers; evaluation of performance occurs but with limited beneficiary input. (3) Latitude exists for choosing service providers, but no systematic evaluation of performance. (4) Little or no latitude exists for choosing service providers, and there is no systematic evaluation of performance.

ANNEX II

Flag	Rating Guidelines
Gender focus in implementation	<p>(1) Operational measures and procedures for addressing gender issues are in place and fully in accordance with the project documentation. Project regularly reports on and monitors gender-differentiated participation in, and benefits from, the project.</p> <p>(2) Operational measures and procedures for addressing gender issues are in place in all major respects. Project fairly regularly reports on and monitors gender-differentiated participation in and benefits from the project.</p> <p>(3) The focus on gender issues in project implementation is vague and erratic. Some operational measures and procedures for addressing gender issues are in place, but they are inadequate when seen against project documentation. Project seldom reports on and monitors gender-differentiated participation in, and benefits from, the project.</p> <p>(4) There is very limited or no focus on gender issues in project implementation.</p>
Poverty focus in implementation	<p>(1) Concrete and effective targeting mechanisms are in place for ensuring that both poor women and men and vulnerable groups are reached by project interventions. Targeting performance is regularly monitored.</p> <p>(2) Adequate targeting mechanisms in place for ensuring that both poor women and men and vulnerable groups are reached by project interventions. Targeting performance is monitored intermittently.</p> <p>(3) Only rudimentary and inadequate targeting mechanisms are in place for ensuring that both poor women and men and vulnerable groups are reached by project interventions. Little or no evidence that targeting performance is monitored.</p> <p>(4) No targeting mechanisms are in place and there is no monitoring of targeting performance. Serious doubts exist as to whether the project is reaching poor and vulnerable groups.</p>

IDA's COUNTRY POLICY AND INSTITUTIONAL INDICATORS

Country Policy and Institutional Assessment Criteria

A. Economic Management

- Management of inflation and macroeconomic imbalances
- Fiscal policy
- Management of external debt
- Management and sustainability of the development programme

B. Structural Policies

- Trade policy and foreign exchange regime
- Financial stability and depth
- Banking-sector efficiency and resource mobilization
- Competitive environment for the private sector
- Factor and product markets
- Policies and institutions for environmental sustainability

C. Policies for Social Inclusion/Equity

- Gender
- Equity of public resource use
- Building up human resources
- Social protection and labour
- Monitoring and analysis of poverty outcomes and impacts

D. Public-Sector Management and Institutions

- Property rights and rule-based governance
- Quality of budgetary and financial management
- Efficiency of revenue mobilization
- Quality of public administration
- Transparency, accountability and corruption in the public sector

GOVERNANCE INDICATORS IN THE IFAD PBAS

1. The PBAS would give explicit and considerable attention to governance issues: of the total of 32 indicators at the broad framework and rural development-sector levels, 11 deal specifically with governance issues (see table). Taking into account the different weightings of each level, these account for 34% of the total weight of the country performance assessments under these headings.

Governance Indicators

Broad Framework Level	
	Management and sustainability of the development programme
	Property rights and rule-based governance
	Quality of budgetary and financial management
	Efficiency of revenue mobilization
	Quality of public administration
	Transparency, accountability and corruption in the public sector
Rural Development Sector	
	Policy and legal framework for rural organizations
	Degree of dialogue between government and rural organizations
	Investment climate for rural businesses
	Allocation and management of public resources for rural development
	Accountability, transparency and corruption in rural areas

Note: The governance factors at the broad framework level are derived from the governance indicators in the IDA CPIA.

2. At the broad framework level, the six governance indicators of the IDA CPIA are included. IFAD's mandate gives it a particular interest in promoting good governance within the agricultural and rural sector and relative to rural poor people; and at the level of the rural development sector, five out of the total 12 indicators explicitly reflect governance issues. These are related to the legal framework for rural organizations and the processes for rural organizations to enter into dialogue with government; the investment climate for rural businesses; the allocation and management of public resources for the sector; and the broader issues of governments' accountability, transparency and corruption in rural areas.

ALLOCATION FORMULAE

1. The formula applied to generate country score is as follows:

$$\text{Country score} = \text{rural population}^{+0.75} \times \text{performance rating}^{+2.0} \times \text{GNI/capita}^{-0.25}$$

2. The formula employs several exponents (for rural population, for GNI/capita, and for the performance rating itself). These exponents are mobilized to increase the impact of differences in needs and performance on final allocations. The exponent applied to the performance rating is the same as used by IDA, which has been developed against its own considerable experience in seeking to ensure that differences in performance exert a tangible and significant influence over final allocations.

3. The base formula applied for the generation of individual country *ex ante* allocations would be:

In the case of highly concessional borrowers

$$\text{Country allocation} = A \times \text{country score (rural population}^{+0.75} \times \text{performance rating}^{+2.0} \times \text{GNI/capita}^{-0.25})$$

Where

A = Total available funds for highly concessional terms/sum of all highly concessional borrower country scores

In the case of non-highly concessional borrowers

$$\text{Country allocation} = A \times \text{country score (rural population}^{+0.75} \times \text{performance rating}^{+2.0} \times \text{GNI/capita}^{-0.25})$$

Where

A = Total available funds for non-highly concessional terms/(divided by) sum of all non-highly concessional borrower country scores

ILLUSTRATION OF CALCULATION OF COUNTRY ALLOCATIONS

1. Generating *ex ante* allocations by means of the formula involves three separate steps:
 - Generating the country performance ratings;
 - Retrieving data on the size of rural population and per capita income; and
 - Applying the allocation formula to data on performance rating, rural population and income.

A. Generating the Country Performance Rating

2. The country performance rating is a weighted aggregate of performance ratings at three levels: broad framework, rural development-sector and portfolio-level implementation (for non-highly concessional borrowers, the country performance rating is a weighted aggregate of performance ratings of rural development-sector and portfolio-level implementation only).

3. A country's performance rating at the broad framework level is determined by its ranking in the latest published IDA CPIA. IDA does not publish individual country ratings but ranks countries in quintiles for which the average rating is known. In the IFAD PBAS, a country will be assigned a performance rating equivalent to the average rating for the quintile in which it is ranked in the IDA CPIA. Thus, if country X in the 2002 IDA CPIA was ranked in the fourth quintile where the average rating was 3.48, it would be assigned a broad framework level rating of 3.48 in the IFAD PBAS.

4. The rural development-sector rating is the unweighted average of the rating on 12 indicators resulting from the annual performance assessment carried out by IFAD.

5. The portfolio-level implementation rating is generated on the basis of a project-at-risk analysis in IFAD's PSR.

6. For an imaginary "Country X", the country performance rating would be generated as follows:

Rating Level	Source		Rating	Weight	Weighted Rating
Broad framework ^{*)}	IDA CPIA rating of Country X		3.48	30%	1.04
Rural development-sector framework	IFAD performance assessment of Country X	Rating			
	1. Policy and legal framework	3			
	2. Dialogue govt./rural org.	3			
	3. Access to land	5			
	4. Access to water	4			
	5. Access to agric. research/ext.	2			
	6. Rural financial services	2			
	7. Investmt. Climate – rural bus.	3			
	8. Input and produce markets	3			
	9. Access to education	4			
	10. Representation	3			
	11. Mangmt. of public resources	3			
	12. Accountability/transparency	4			
	Average		3.25	40%	1.30
Portfolio-level	IFAD project status report		3	30%	0.87
Total country performance rating					3.21

^{*)} Applicable to highly concessional borrowers only

B. Retrieving Data on the Size of Rural Population and Per Capita Income

7. The data on rural population and income are downloaded from the World Bank database ‘World Development Indicators’. The measure of income used is GNI per capita calculated using the World Bank Atlas method, the same measure of income used by other IFIs in their PBAS. The formal definitions of the two measures are:

Rural population: *Rural population is calculated as the difference between the total population and the urban population. The data on urban population shares used to estimate rural population come from the United Nations, World Urbanization Prospects. Total population figures are World Bank estimates.*

GNI per capita, Atlas method (current USD): *GNI per capita (formerly GNP per capita) is the gross national income, converted into United States dollars using the World Bank Atlas method, divided by the mid-year population. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI, calculated in national currency, is usually converted into United States dollars at official exchange rates for comparisons across economies, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions. To smooth fluctuations in prices and exchange rates, a special Atlas method of conversion is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country, and, through 2000, the G-5 countries (France, Germany, Japan, United Kingdom, and United States). For 2001, these countries include the Euro Zone, Japan, United Kingdom, and United States.*

C. Applying the Allocation Formula to Data on Performance Rating, Rural Population and Income

8. When performance rating and data on rural population and income have been compiled, all the necessary input to the allocation formula is available and the individual country scores can be calculated. Assuming for the imaginary “Country X” above a rural population of 10 million and GNI per capita of USD 500 the country score would be as follows:

$$\text{Country score} = \text{rural population}^{+0.75} \times \text{performance rating}^{+2.0} \times \text{GNI/capita}^{-0.25}$$

$$\text{“Country X” country score} = 10,000,000^{+0.75} \times 3.21^{+2.0} \times 500^{-0.25} = 842,634$$

9. In order to calculate the actual *ex ante* allocation it is, however, necessary to determine the value of the proportionality constant *A* in the allocation formula:

$$\text{Ex ante allocation} = A \times \text{country score}$$

As *A* is defined as: total available funds divided by the *sum of all country scores*, the country scores for all relevant countries must be calculated before *A* can be determined and the actual *ex ante* allocation calculated.

10. For an illustration of how this calculation is performed, consider the following example in which funds of USD 100 million are allocated among “Country X” and two other countries with the following characteristics (for the purposes of illustration using a small universe of countries, the floor and ceiling provisions are not invoked):

Country	Rural Population	Performance Rating	GNI/Capita
X	10 000 000	3.21	500
Y	5 000 000	3.00	700
Z	15 000 000	3.25	300

11. The first step of the calculation is to determine the country score of each country and the sum of all country scores:

Country	Application of Formula	Country Score
X	$10\,000\,000^{+0.75} \times 3.21^{+2.0} \times 500^{-0.25} =$	842 634
Y	$5\,000\,000^{+0.75} \times 3.00^{+2.0} \times 700^{-0.25} =$	419 597
Z	$15\,000\,000^{+0.75} \times 3.25^{+2.0} \times 300^{-0.25} =$	1 247 944
Total		2 510 175

12. With the sum of country scores, it is now possible to determine the proportionality constant *A* (total available funds divided by the sum of country scores):

$$A = 100\,000\,000 / 2,510,175 = 39.84$$

13. The *ex ante* allocations can now be calculated as follows:

Country	<i>A</i>	Country Score	<i>Ex ante</i> Allocation USD
X	39.84 x	842 634 =	33 568 725
Y		419 597 =	16 715 863
Z		1 247 944 =	49 715 412
Total			100 000 000