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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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PROGRESS REPORT ON THE IMPLEMENTATION
OF THE
PERFORMANCE-BASED ALLOCATION SYSTEM

Introduction

1. The purpose of this paper is to provide the Executive Board with an update on progress made in designing and implementing IFAD's performance-based allocation system (PBAS). This paper was completed in mid-March, at a time when operational design issues were being finalized, and also when the implementation of some of the processes was being initiated.

PBAS Design and Implementation Timeframe

2. The following table describes the process for designing the PBAS in IFAD so far, and flags the upcoming milestones for the implementation of the first allocation cycle. The resource allocation cycles will be pluri-annual (see details below), while the country performance assessments will be updated in annual cycles.

Timeframe for Developing and Implementing the PBAS

	Process	Completed in ... Expected in
PBAS Development		
	Governing Council approval of the Report of the Consultation on the Sixth Replenishment of IFAD's Resources (document GC 26/L.4 and Add.1)	February 2003
	Executive Board approval of the PBAS design paper (document EB 2003/79/R.2/Rev.1 and EB 2003/79/C.R.P.3)	September 2003
	Executive Board approval of the rural development sector framework performance criteria (Annex 1), as recommended by the Executive Board (document EB 2003/80/R.3)	December 2003
	Governing Council Progress Report on the Implementation of the PBAS (document GC 27/L.6)	February 2004
PBAS Design and Implementation		
	Detailed design of the PBAS work system, procedures and guidelines	November 2003-February 2004
	Benchmarking (two countries per regional division)	March-May 2004
	Country performance assessments (first cycle)	May-July 2004
	Resource allocations and management decisions	July 2004
	Executive Board review of first resource allocation cycle outcomes	September 2004
	Executive Board approval of resource allocations for the first allocation cycle (starting 2005)	December 2004
	PBAS progress report to the Governing Council (information)	February 2005
	Second performance assessment cycle (annual update)	January-June 2005
	Executive Board review of second performance assessment cycle outcomes (annual update), with report on progress in implementing PBAS ^a	September 2005
	Executive Board approval of outcome of second performance assessment cycle (annual update)	December 2005

^a Also "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" (EB 2003/79/R.2/Rev.1).

PBAS Design and Implementation

3. Following approval by the Executive Board in September 2003 of the recommendations contained in documents EB 2003/79/R.2/Rev.1 (The Structure and Operation of a Performance-Based Allocation System for IFAD) and EB 2003/79/C.R.P.3, which provide the framework for IFAD's PBAS, the Fund has planned its PBAS work system and processes. The system as a whole remains subject to continuing evolution in the light of experience. In particular, this involves creating an operational system that translates design principles into mechanisms for producing concrete performance assessments and allocations by September and December 2004. IFAD's major concern has been with the definition of structures, processes and guidelines that will support PBAS workability and accuracy – recognizing that a relevant and workable system is something that is achieved only after these processes have been put to work.

4. **PBAS design (November 2003-February 2004).** The PBAS processes and guidelines have been elaborated through a broad-based exercise, involving one staff member plus up to two alternate members per operational division, mainly country programme managers (CPMs), as well as representatives from the Finance and Administration Department and the External Affairs Department. The PBAS development process has also been periodically supported by short-term external consultancy inputs.

5. The outcome of this PBAS design process consists of a detailed description of the steps to be taken in carrying out country performance assessments, country programme performance assessments and consultations¹ with countries. Attention has been paid to synchronization and integration where possible with other corporate processes, such as country programme reviews, the preparation of country strategic opportunities papers or other programme development missions, and the strategic planning and budgeting process of IFAD.
6. For country assessments to be feasible, it was also imperative that CPMs and country teams be provided with clear guidelines on indicators that are within the operational possibilities of CPMs and the type of data available at the country level. These guidelines – for use in rural-development-sector-framework performance assessments – have been produced in collaboration with CPMs.
7. The guidelines and scoring form, as well as the processes, have been tested using a country programme planning process as a context for the test, and lessons learned have been incorporated into the design.
8. **The PBAS implementation (March-December 2004).** Upon conclusion and internalization of this test, the first step in implementing the PBAS consists of developing a set of clear reference points or benchmarks for the subsequent performance assessments for the remaining countries (some 120), through the **benchmarking** exercise. The substantive outcome of the benchmarking is the establishment of assessment standards for the rural development-sector performance assessments of all countries. To this end, ten countries (two per region)² will be made the subject of a rural development-sector framework performance assessment. The results will then be reviewed. Following that, IFAD will apply the PBAS performance criteria and interpret the country ratings consistently across countries and regions against the benchmarks. This activity also promotes the necessary information-sharing and training, and allows the relevant Programme Management Department staff to familiarize themselves with assessment techniques, tool and procedures. This will ensure a common understanding and proficiency with the tools and processes.
9. The **full application of PBAS assessments** to all concerned borrowing countries will be initiated once the benchmarking results are available and internalized. This will eventually be the basis for the calculation of country allocations, to be indicated and communicated to the Executive Board in September and December 2004.
10. In order to obtain information on the World Bank broad framework indicators (country policy and institutional assessment ratings), IFAD has established operational contacts with the World Bank, in the context of a mission in February 2004. During the mission, notes were compared on issues relating to the broad framework indicators for highly concessional as well as non-highly concessional borrowers (as per document EB 2003/79/C.R.P.3 paragraph 2 and EB 2003/79/R.2/Rev.1 paragraph 16). Follow-up discussions are presently envisaged for May 2004.
11. In conclusion, the detailed design of the PBAS system, procedures and guidelines is complete, the benchmarking is making significant progress and work is progressing according to the timeframe shown in the table above.

¹ Involving the ministries of agriculture and finance, other appropriate government agencies, relevant United Nations agencies, bilateral donors involved in the rural poverty reduction sector and qualified national or international non-governmental organizations.

² Benchmarking is envisaged for Azerbaijan, Bangladesh, Brazil, Cambodia, Ghana, Malawi, Paraguay, Sierra Leone, Tunisia and Uganda.