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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-Fourth Session**

Rome, 18-20 April 2005

**INFORMATION PAPER ON THE  
PERFORMANCE-BASED ALLOCATION SYSTEM**

1. The purpose of this information paper is to report to the Executive Board on the status of implementation of the performance-based allocation system (PBAS) in IFAD.
2. The structure and operation of a PBAS for IFAD was approved by the Executive Board at its Seventy-Ninth Session in September 2003 by way of document EB 2003/79/R.2/Rev.1. The PBAS introduces an approach to allocate IFAD's loan and country grant resources to country programmes on the basis of country performance (the broad policy framework, rural development policy and portfolio performance), population and per capita gross national income (GNI). These annual allocation exercises operate in the context of three-year cycles, administered within a six-year time frame.
3. The first allocation exercise covers the period 2005-2007, and the first PBAS performance assessments were produced by the end of the second quarter of 2004. The calculation of ex ante allocations was completed in time to allow presentation to the Executive Board in September 2004 of a planned programme of work for 2005 within the framework of the PBAS. The Board subsequently approved the 2005 PBAS-based programme of work at its December 2004 session. This included presentation of the final results of the 2004 cycle of assessments as well as the resulting country allocations. The programme of work approved in 2004 for activities in 2005 involved the application of the PBAS within the framework of regional allocations adopted by the Executive Board in 1999.
4. The December 2004 session of the Executive Board requested IFAD management to notify the responsible authorities of each eligible borrowing Member State of the process undertaken in devising country performance ratings. The ratings were disclosed according to the Executive Board disclosure process on 15 January 2005. Subsequently, the 2005 session of the Governing Council was presented with a detailed paper (document GC 28/L.9) on the progress made in implementing the PBAS in 2004, the process followed and the resulting country scores and annual allocations.

5. The system remains subject to continuing evolution in the light of experience, as it is recognized that the design of the system will be finalized only after these processes have been in operation for some time. The proposed programme of work for 2006, which will be presented to the Executive Board in September 2005, will reflect the experience of applying the PBAS within the system of regional allocations and will extend the PBAS as a uniform system of comparison and allocation across the lending programme as a whole. It will take 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 the Fund's lending programme on highly concessional terms.

6. The September 2005 report to the Executive Board will also reflect IFAD's review and recommendations regarding the methodological aspects of the PBAS, based on the experience in implementing the system for one year and on lessons from other institutions in implementing their PBAS. Relevant issues include factors such as the weight accorded to population, the broad framework ratings for non-highly concessional borrowers, rural performance assessments for post-conflict countries and countries affected by other crises, the minimum and maximum allocations, the volatility in portfolio-at-risk ratings and the management of allocations in a multi-year context. In reviewing the programme of work for 2006, the Executive Board will consider whether the system and its resulting allocations effectively satisfy development goals with regard to regional priorities and whether the operation of the PBAS within the framework of regional allocations should be maintained.

7. As agreed at the September 2004 session of the Executive Board, projects that have reached advanced stages in their project cycle and in government approval and resource planning processes, and for which the loan amount exceeds the PBAS country allocation, would be considered with the current loan amounts by the Board in April 2005. Resources for these loan amounts in excess of the PBAS allocation would be made available without affecting the resources available for higher performing countries. It was also noted in the Closing Statement (document EB 2004/82/INF.10/Rev.1) that the Board supported the view that there should be a six-year perspective – that is, two replenishment cycles – for the application of the PBAS.

8. In January 2005, IFAD attended the first Multilateral Development Bank (MDB) Technical Meeting on Performance-Based Allocation (PBA) Methods at the Asian Development Bank headquarters in Manila. The meeting was jointly planned by the African Development Bank, the Asian Development Bank, and the International Development Association of the World Bank Group. The meeting had three main objectives: first, to survey and record recent changes in PBA systems and associated country performance assessment frameworks; second, to identify opportunities for inter-agency cooperation and alignment on the conduct of PBA and PBA methods; and third, to consider ways in which technical cooperation might best be carried forward within the framework of mandated policies and shareholder agreements.

9. The meeting agreed that a technical working group should be convened annually at the beginning of each calendar year. This would enable technical reports to inform other multilateral mechanisms each year. It was agreed that the current MDB round-table mechanism, which involves regular contact by video-conferencing, would provide a suitable vehicle for the continued exchange of information and views and that this option should be explored. The meeting agreed that an information paper should be prepared for dissemination to governing bodies, at the discretion of the respective institutions' management. An information note was provided by the Asian Development Bank to participants at the Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness in Paris. It will be annexed to the PBAS report to be presented to the Executive Board in September 2005.

