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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Sixth Session
Rome, 12-13 December 2005

**PROGRESS REPORT ON IMPLEMENTATION OF THE
PERFORMANCE-BASED ALLOCATION SYSTEM**

1. **Introduction.** At its Twenty-Sixth Session in February 2003, the Governing Council approved the establishment in IFAD of a performance-based allocation system (PBAS). Such a system had been previously recommended by the Consultation on the Sixth Replenishment of IFAD's Resources in its report to the Governing Council, *Enabling the Rural Poor to Overcome Their Poverty* (document GC 26/L.4). The Governing Council further decided to delegate authority to the Executive Board to develop the details of the design and implementation of the PBAS. The structure and operation of the PBAS for IFAD were approved by the Executive Board at its Seventy-Ninth Session in September 2003 (document EB 2003/79/R.2/Rev.1).
2. The annual allocation exercises operate in the context of three-year cycles. In the year immediately preceding the first year of a three-year cycle, an assessment exercise determines *ex ante* allocations to be committed over the following three years. Within each cycle, IFAD reviews the *ex ante* allocations annually to reflect the results of the annual country performance assessments, as these capture significant changes in country needs and/or achievements in the sphere of the policy and institutional framework. The first allocation exercise covered the period 2005-2007. 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 (document EB 99/67/R.10).
3. During 2005, the PBAS became fully operational and was extended across the lending programme as a whole, regulating IFAD loan and country-grant allocations to Member States. In the course of this first year of implementation, the feedback from PBAS implementation has identified several positive features of the system. The rural-sector performance assessments have provided the platform and introduction for dialogue at the programming and operational level and have further emphasized the rural and agricultural role and focus of IFAD at the country level. Moreover, following the first Multilateral Development Bank (MDB) Technical Meeting on Performance-Based Allocation Methods, held at the Asian Development Bank headquarters in Manila in January, IFAD has continued to tap this opportunity for learning and sharing with other MDBs implementing the

system. As agreed at the September 2004 session of the Executive Board, projects that had 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. The April 2005 session of the Board also reiterated the three-year allocation period within the framework of replenishments.

4. **September 2005 PBAS review.** The projects approved in September 2005 all conformed to PBAS parameters. As had been requested, the Board also reviewed a report on IFAD's review and recommendations regarding the methodological aspects of the PBAS. This was based on the experience gained in implementing the system for one year and on the lessons learned by other institutions in implementing their own PBASs.

5. The report identified areas where further operational experience and/or some modifications would be advantageous. Given IFAD's mandate, rural population would be a more appropriate indicator of the needs of the rural poor and would represent a broad improvement in line with IFAD's role and focus. At the same time, the large variations in population among IFAD's Member States have resulted in large differences in country scores that have necessitated introducing maximum and minimum allocations for up to 52 countries. A rolling as opposed to fixed allocation period would facilitate changes in countries' performance scores, changes in the list of actual borrowers and changes in loan amounts and scheduling.

6. The report also reviewed the implications of removing regional allocations. In considering the report, the Board requested: further analysis to be undertaken with respect to the issue of regional allocations; further simulations on the weights used in the formula and the use of other components in the formula; and that this be brought to the Board at a future session. This work has progressed as regional divisions have continued to review country-level performance results to update country scores (using the existing formula and methodology) as a basis for revised allocations for those countries in the active lending programme framework. These allocations are based on the fixed allocation period and will be presented to the Executive Board in April 2006.

7. **Reallocation of unused allocations.** In developing the PBAS within IFAD, the Executive Board recognized that there would be situations in which it is not possible to deliver commitments against ex ante country allocations within the allocation period 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 pool¹ for redistribution through the prevailing PBAS allocation system (document EB 2003/79/R.2/Rev.1, paragraph 40). The loans and country grants presented to the December 2005 session of the Board have therefore followed this approach:

- The programme of work (both loans and grants) is identified for each of the regions in the fixed allocation period 2005-2007. This takes into account the absorptive capacity, i.e. how much a borrower can effectively disburse and use each year. The result is a three-year lending programme framework for the actual borrowers corresponding to the programme of work in each of the three years.

¹ The concept of the pool as a source of funds for reallocation was also noted in the section on reallocation of uncommitted resources in document EB 2003/79/C.R.P.3.

- If any country's allocation is in excess of its requirements for the 2005-2007² fixed allocation period (because the country's requirement for funds is less than the initial allocation), IFAD identifies the excess funds and reallocates them. This is done using the PBAS scores, ensuring the integrity of the performance-based allocation process. For instance, if country X has a three-year allocation of USD 11 million and is judged likely to use only USD 7 million, then USD 4 million would be moved to the pool for reallocation.
- The reallocation is made among those countries in the programme of work whose need was not sufficiently met through their initial allocation. This reallocation, as always, is made in proportion to PBAS scores and ensures the use of all funds available for commitment.

8. **Recommendation.** The Executive Board is requested to approve the submission of a progress report to the Twenty-Ninth Session of the Governing Council in 2006 based on this report to the December 2005 session of the Executive Board.

² As the 2005-2007 period runs beyond the period of the Sixth Replenishment, it is noted that the amounts for 2007 are a notional allocation dependent on the outcome of the Seventh Replenishment negotiations (document EB 2003/79/R.2/Rev.1, paragraph 32).