

Document: EB 2007/92/R.46  
Agenda: 17  
Date: 13 November 2007  
Distribution: Public  
Original: English

**E**



Enabling poor rural people  
to overcome poverty

## **Progress report on implementation of the performance-based allocation system**

Executive Board — Ninety-second Session  
Rome, 11-13 December 2007

---

For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

**Brian Baldwin**

Senior Operations Management Adviser

telephone: +39 06 5459 2377

e-mail: [b.baldwin@ifad.org](mailto:b.baldwin@ifad.org)

Queries regarding the dispatch of documentation for this session should be addressed to:

**Deirdre McGrenra**

Governing Bodies Officer

telephone: +39 06 5459 2374

e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

## **Recommendation for approval**

The Executive Board is invited to approve the submission of a progress report to the thirty-first session of the Governing Council in 2008, based on this report and its addendum containing the 2007 country scores and 2008 allocations.



# Progress report on implementation of the performance-based allocation system

## I. Introduction

1. At its twenty-sixth session, held in February 2003, the Governing Council approved the establishment in IFAD of a performance-based allocation system (PBAS), delegating authority to the Executive Board to develop the details of the system's design and implementation.
2. The PBAS is based on annual allocation exercises that operate in the context of three-year cycles, or "allocation periods". 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 policy and institutional frameworks. The first allocation exercise covered the period 2005-2007. The current exercise covers the 2007-2009 period, the same period as the Seventh Replenishment. The report of the Consultation on the Seventh Replenishment of IFAD's Resources<sup>1</sup> confirmed the uniform system of allocation across the IFAD lending programme as a whole would become effective in the 2007 programme of work (i.e. the first year of the Seventh Replenishment period), and that fixed regional allocations would no longer apply.

## II. Revisions to the PBAS methodology

3. Pursuant to the discussions of the Executive Board at its April 2006 session, the Board agreed as follows:
  - (a) In line with the Agreement Establishing IFAD, the resources of the Fund would continue to be used with "due regard to a fair geographic distribution". Moreover, with the application of a uniform system of allocation as from 2007, IFAD would, in line with the decisions reached during the Seventh Replenishment, "continue to direct at least the current percentage share of resources to sub-Saharan Africa, provided that the performance of individual countries warrants it".
  - (b) IFAD would continue to implement the PBAS on the basis of a three-year lending/allocation framework and plan allocations to the list of active borrowers. This would be done in the light of an expanding programme of work, and the Board would be kept informed of country scores, allocations and the changes that occur as these are updated.
  - (c) The weight of 0.45 was regarded as a "point of balance" where population still carried significant influence as a determinant of "needs" in the formula but at the same time allowed performance and gross national income (GNI) per capita to have a strong role. It was therefore agreed that the formula would be modified accordingly to reflect a revised weight of population at 0.45.
  - (d) There was broad agreement that, given IFAD's specific focus on rural poverty, the use of rural population would respond better to IFAD's mandate. In this regard it was agreed that the concept of rural population would be applied no later than in the 2008 work programme.
  - (e) Having agreed to these principles and decisions, the Board further agreed to the suggestion to convene a working group, as referred to in the Consultation report approved by the Governing Council, to develop a broader understanding of evolving issues in PBAS implementation.

---

<sup>1</sup> IFAD's Contribution to Reaching the Millennium Development Goals: Report of the Consultation on the Seventh Replenishment of IFAD's Resources (2007-2009), document GC 29/L.4.

### III. PBAS working group

4. Under the chairpersonship of an Executive Board member, the terms of reference of the working group<sup>2</sup> were agreed with the aim of:

“Developing a broader understanding of evolving issues in PBAS implementation including:

- modifications of elements of the formula, including performance assessments, and the weights of population and income, while maintaining the overall weight of performance;
- the experience and lessons learned from other agencies implementing PBAS initiatives;
- the data to be used for rural population;
- the implementation of the PBAS for concessional and non-concessional borrowers; and
- other potential indicators of poverty such as nutrition and per capita rural income levels.”

The working group met in February, April and September 2007 to review the PBAS issues, both technical and methodological, including the amendments being introduced as a result of the approval of the Debt Sustainability Framework by the Executive Board; the introduction of rural population in place of total population; and the issues being discussed and reviewed with other international financial institutions (IFIs) implementing the PBAS. The minutes of the meetings are attached as an annex.

### IV. Application of the PBAS in 2007

5. During 2006, the regional divisions identified the “active”<sup>3</sup> countries for 2007-2009. On this basis, final country scores and allocations were made for 2007 and provisional figures for 2008 and 2009, giving an overall country allocation for the three-year allocation period. The figures for 2008 and 2009 were indicative and subject to changes in annual performance (based on assessment of projects at risk, rural sector performance, and the resource allocation index of the International Development Association [IDA]), population and GNI per capita. All loans and country-specific grants presented to the Executive Board for approval in 2007 are within a country’s PBAS allocation. In terms of the overall programme of work in 2007, it is projected that about 96 per cent of the resources available for commitment would be allocated according to PBAS guidelines. The share of IFAD resources for sub-Saharan Africa is estimated to be 43 per cent (subject to the final list of projects to be submitted to the Executive Board). Countries that have minimum allocations have been able to utilize their share from two allocation periods up to a maximum of US\$6.0 million per country. In line with the implementation of the Debt Sustainability Framework, those countries assessed as **not** at risk of future debt distress (classified as “green”) and therefore continuing to be eligible to receive loans from IFAD, have received slightly higher allocations.
6. In 2007, there has been no requirement for reallocations between countries. However, in developing the PBAS within IFAD, the Executive Board recognized that there would be situations in which it would not be possible to deliver commitments

<sup>2</sup> List A: France, Italy, Sweden and the United States of America  
List B: Nigeria, Venezuela (Bolivarian Republic of)  
sub-List C1: Mali  
sub-List C2: India  
sub-List C3: Mexico

<sup>3</sup> “Active” countries are those Member States where IFAD expects to have lending or country-grant operations in the 2007-2009 allocation period.

against ex ante country allocations within the allocation period owing, for example, to a lack of demand for IFAD loans or the absence of opportunities to engage in operations in priority activities as identified in the results-based country strategic opportunities programmes. In such cases, the unused allocation would be reabsorbed into the allocable resource pool<sup>4</sup> for redistribution through the prevailing PBAS allocation system (document EB 2003/79/R.2/Rev.1, paragraph 40). As the implementation of the PBAS continues in the next two years of the allocation period, this will continue to be monitored to ensure the integrity of performance-based allocation throughout the process.

## **V. The updating of the 2007 country scores and 2008 country allocations**

7. As noted above, the “firm” country allocations for 2007 were based on the country scores calculated at end-2006. This, together with the indicative scores for 2008 and 2009, allowed the country allocations for the 2007-2009 allocation period to be determined. Similarly, as updated data on performance (both portfolio and rural sector performance) has become available the process of updating country scores has been undertaken. With the move to uniform allocations, the data has been subject to interregional review and benchmarking to ensure consistency in assessments. Where appropriate, weighted averages have been used to reduce statistical variance over time. In line with the decision of the Executive Board in April 2006, as reflected in the minutes,<sup>5</sup> given IFAD’s specific focus on rural poverty, it was agreed that the concept of rural population would be applied. Therefore, the latest rural population figures, as available through the World Bank, have been used for 2008 and 2009 (indicative) country scores. A further refinement introduced in 2006 is the use of individual country policy and institutional assessment scores as disclosed by the World Bank, rather than average scores based on quintiles of countries.
8. The updated data will be reflected in the final 2007 country scores and 2008 country allocations, which will be tabled at the December Executive Board and subsequently disclosed in accordance with the procedures agreed for disclosure of PBAS information on the IFAD website ([www.ifad.org/operations/pbas](http://www.ifad.org/operations/pbas)).

---

<sup>4</sup> 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.

<sup>5</sup> Document EB/87 Minutes.

## **PBAS Executive Board Working Group Minutes of 2007 meetings**

### **1. Executive Board PBAS Working Group: Minutes of Meeting, 27 February 2007, IFAD Rome**

Members: India - Ramalingam Parasuram, Chairperson; Mexico - Vladimir Lara; Sweden - Ann Uustalu; France - Vincent Perrin; United States - Carol Kramer-LeBlanc. Absent: Italy, Nigeria, Mali and Venezuela.

1. The members were welcomed by the Chairman who outlined the purpose of the meeting, to discuss and understand the basics of the PBAS, to identify outstanding issues and to establish a timeframe for the group's work and meeting modalities.
2. Members agreed that they would use the group to understand and inform themselves (and colleagues) on PBAS issues, both technical and political and to straighten out concerns. Some issues may need referring back to the Executive Board, others may remain within the group and, finally, some issues may have a longer time frame and be linked to issues being discussed by other IFIs. It was discussed and agreed that if there were issues to be raised to the EB it would be likely that this would initially be reviewed in September for discussion in December when it could be considered as part of the PBAS annual review, which the Secretariat is required to present annually.
3. The Secretariat (represented by Mr Baldwin) presented an overview of the PBAS implementation to date, the current status, the issues being discussed and reviewed with other PBAS practitioners and the current IFAD issues that needed to be further examined. In particular, this concerned the issue of the adoption of rural population where initial discussions with the World Bank indicate that the comparability and definition of rural population data may pose issues for its inclusion in the formula as previously recommended. It was also pointed out that ongoing Replenishment discussions at IDA and AfDB will raise issues of simplification of the system, reducing excessive variability in portfolio assessments and how to address fragile states.
4. In the subsequent discussion it was confirmed that none of the other IFIs intend to use rural population in the formula and that, as a technical issue, this topic would need the technical support of the Secretariat for the working group to have a substantive discussion. The Secretariat will continue its investigation on this and keep the group informed. Several technical questions were raised and answered by the Secretariat. The members agreed that the group could not deal with all questions and that the issues should be categorised into issues that were technical and which required technical support from the Secretariat (including the use of other indicators) and those issues which would have a slightly longer time frame & be linked to the discussions in other IFIs.
5. In conclusion the Chairperson requested that members engage with their Lists to identify other issues that the group should consider. As a next step, the group would meet in the morning of Thursday, 19 April, after the Executive Board, to review all issues received from Lists, categorise them and establish a time frame for action, where needed, by the group. To the extent possible, the Secretariat would provide further feedback on the issue of rural population.



## **2. Executive Board PBAS Working Group: Minutes of Second Meeting, 19 April 2007, IFAD Rome**

Members: India – Ramalingam Parasuram, Chairperson; Mexico – Vladimir Hernandez Lara, Víctor Daniel Flores Fuentes; Sweden – Ann Uustalu; United States – Liza Morris, Carol Kramer-LeBlanc; Brazil – Felipe Haddock Lobo Goulart; Guatemala – Ileana Rivera De Angotti; Italy – Augusto Zodda; Nigeria – Yaya O. Olaniran; Mali – Modibo Mahamane Touré; and Venezuela – Mariella Mancini. Absent: France (Vincent Perrin).

1. The members were welcomed by the Chairman to the second meeting of the Working Group (minutes of first meeting attached) and requested the Secretariat to give a short overview of the PBAS in IFAD as there were several members of the Group who had not seen the presentation that was made at the first meeting. The Chairman also noted that, while lists had been requested to identify specific issues, none had been received so the meeting was an opportunity to consider suggestions and ideas for further review.
2. The Secretariat (represented by Mr Baldwin) presented a PowerPoint/overview of the:
  - PBAS implementation to date;
  - the current status;
  - the amendments being introduced as a result of the approval of the Debt Sustainability Framework (DSF) by the Executive Board;
  - the issues being discussed and reviewed with other PBAS practitioners; and
  - the current IFAD issues that needed to be further examined.
3. The working group initiated a discussion during the presentation concerning the methodology used for the DSF and the classification of red, yellow and green countries, and the alignment of approaches with the other practitioners of the DSF. The Secretariat confirmed that IFAD was in regular contact with both the World Bank and African Development Bank concerning alignment of country classifications and the approaches used. The Working Group also discussed how the change in the weight of population (approved by the Board in December 2006) had the intention to reduce the variations in country allocations due to size of population but, nevertheless, still retain the importance of this criteria as a 'need' factor. The Secretariat also gave a résumé of how the 'post-conflict' countries were treated under the PBAS and explained that IFAD followed the World Bank guidelines in this respect and provided increased allocations to such countries. The examples of Eritrea at the December 2006 Board and Sierra Leone at the April 2007 Board were given of how this approach was being applied by IFAD.
4. To further aid the working group in the understanding of the PBAS methodology, as reviewed in the initial presentation, the analysis of country level applications, based on the information already provided to the Executive Board (and subsequently disclosed), is attached for information.
5. The Working Group had a substantive discussion concerning the issues raised on the possible adoption of rural population rather than the, current, total population. The Secretariat had summarised discussions with the World Bank which indicated that the comparability and definition of rural population data may pose issues for its inclusion in the formula as previously recommended. The Working Group acknowledged the validity of using rural population (and if possible rural income) but also recognised the potential limitations imposed by data availability, accuracy and comparability.

6. The Working Group agreed together with the Secretariat that the Secretariat would further review the issues concerning rural population, including:
  - discussions with the World Bank and the UN regarding definitional terms;
  - actual sources of rural population and the issues of available censuses to see whether or not those censuses give the sort of information required; and
  - Provide various scenarios concerning rural population (and also the overall weight of total population and per capita income and the impact of the ceilings on several Asian countries).
7. The Working Group would, on the basis of information to be provided by the Secretariat, would next meet (possibly late June or July) to take this issue further with a view to presenting the Group's conclusions as part of the Annual Report on PBAS to be presented to the EB in December.

### **3. Executive Board PBAS Working Group: Minutes of Second Meeting, 13 September 2007, IFAD Rome**

Members: Present: India – Ramalingam Parasuram, Chairperson; France – Marc Trouyet; United States – Liza Morris, Andrew Velthaus; Brazil – Felipe Haddock Lobo Goulart; Nigeria – Yaya O. Olaniran; and Mali – Modibo Mahamane Touré. Absent: Mexico; Italy; Sweden; Venezuela

1. The members were welcomed by the Chairman to the third meeting of the Working Group. The Chair raised the issues of the intended duration of the Working Group and at what point the Group would report back to the Executive Board. He then introduced the agenda item: the discussion and review of the use of rural population in the formula.
2. The Secretariat (represented by Mr Baldwin and Ms Rice PMD/PD) presented a Power Point presentation: "Review of the use of Rural Population in the PBAS formula". This included a review of data sources: their comprehensiveness, timeliness and comparability; the methodological issues concerning the definition of 'rural'; and, the effect of application on country scores & allocation.
3. The group then discussed the issues surrounding the use of rural population in the PBAS formula, its importance in the mandate of IFAD. While there was an appreciation of the methodological issues and concerns there was nevertheless sufficient data, available from the World Bank, to apply rural population to the formula.
4. It was also noted that the Executive Board had agreed at its April 2007 session to apply rural population to the formula and that the role of the Working Group had been to review the data sources and methodological implications. The Secretariat informed the Working Group that the 2007 revision of scores and 2008 allocations (and 2009 indicative allocations) would be based on the use of rural population. The Working Group agreed that it would not be appropriate to apply this to the 2007 allocations or for projects already approved by the Board or to be approved in December 2007.
5. It was agreed that a Report on the meetings of the Working Group would be contained in the regular annual report to be presented to the December Executive Board. The Secretariat informed the Working Group that the minutes and presentations provided to the Group would be available on a restricted access part of the PBAS section of IFAD's website: [www.ifad.org/operations/pbas](http://www.ifad.org/operations/pbas).

