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Enabling poor rural people
to overcome poverty

Progress report on implementation of the performance-based allocation system

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

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:

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Recommendation for approval

The Executive Board is invited to approve the submission of a progress report to the thirty-second session of the Governing Council, based on this report and its addendum containing the 2008 country scores and 2009 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 endorsed the view that the Executive Board would henceforth apply the performance-based allocation required under the Lending Policies and Criteria in a more systematic way, along the lines of the approaches found at other international financial institutions (IFIs), and adopt a performance-based allocation system (PBAS). Authority was delegated to the Executive Board to develop the details of the system's design and implementation.
2. Several other development finance institutions use performance-based allocation systems, including the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the Global Environment Facility, the Inter-American Development Bank and the International Development Association (IDA) of the World Bank. All systems assess both performance and need.
3. 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 period 2007-2009, which coincides with the Seventh Replenishment. The report of the Consultation on the Seventh Replenishment of IFAD's Resources¹ confirmed that 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. Adjustments to the PBAS

4. Since these systems were introduced, it has been recognized by all practitioners that adjustments and improvements would be needed. At its April 2006 session, the Executive Board agreed that:
 - (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) 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.
 - (c) There was broad agreement that, given IFAD's specific focus on rural poverty, the use of rural population (rather than total population) would respond better to IFAD's mandate. In this regard it was agreed that the concept of rural population would be applied as of the 2008 work programme.

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

5. The Board further agreed to convene a working group to develop a broader understanding of evolving issues in PBAS implementation.

III. PBAS working group

6. The working group,² chaired by an Executive Board member, met in February and September 2008 to review technical and methodological issues, including those being discussed and reviewed with other IFIs implementing similar systems. The minutes of the meetings are attached as annex I.

IV. Application of the PBAS in 2008

7. The practice introduced for the 2007-2009 allocation period was to include only those countries designated as "active" for new commitments where IFAD expected to have lending or Debt Sustainability Framework (DSF) grant operations in 2007-2009. In this way, 90 countries were identified as potentially requiring financing.³ This has facilitated more reliable and higher country allocations (only nine countries received the minimum allocation), and should reduce the extent of reallocations required when countries do not use their allocations. On this basis, final country scores and allocations for 2007 and provisional figures for 2008 and 2009 were arrived at, 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 an assessment of projects at risk, rural sector performance and the IDA resource allocation index), as well as population and GNI per capita.
8. This process was repeated in September/October 2007 (for the 2007 country scores and 2008 final allocations) as updated data on portfolio and rural sector performance became available. Where appropriate, weighted averages have been used to reduce statistical variance over time. With the move to uniform allocations, the data have been subject to interregional review and benchmarking to ensure consistency in assessments and, as a result, the scoring approach for rural sector performance assessment indicators has been improved.
9. All loans and country-specific grants presented to the Executive Board for approval in 2008 have been within a country's PBAS allocation⁴. In line with DSF implementation, 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. The DSF classification of active countries for 2009 is attached as annex II.

V. Updating of 2008 country scores and 2009 country allocations

10. As noted above, the final country allocations for 2008 were based on the country scores calculated at end-2007. In the fourth quarter of 2008, as data on portfolio and rural sector performance has become available, country scores have been updated. The updated data will be reflected in the final 2008 country scores and 2009 country allocations, which will be tabled at the Executive Board session to be held in December 2008 and subsequently disclosed in accordance with the procedures agreed for disclosure of PBAS information on the IFAD website (www.ifad.org/operations/pbas).

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

³ "Active" refers only to new financing commitments and does not refer to the level or status of ongoing portfolios.

⁴ The loan to be presented for approval at the December Executive Board for the Philippines will include financing in addition to the PBAS allocation, subject to the Board's approval, as response to the food price situation and the effect of the recent cyclone in specific regions.

11. In 2007 and 2008, the first two years of the allocation period, no reallocations between countries have been required. This is similar to the situation in other agencies that have adopted such systems. However, in developing the PBAS within IFAD, the Executive Board recognized that it might not be possible to deliver commitments against ex ante country allocations within the allocation period. This might occur, for example, owing to a lack of demand for IFAD loans or the absence of opportunities to engage in operations in priority activities as identified in results-based country strategic opportunities programmes. In such cases, the unused allocation would be reabsorbed into the allocable resource pool⁵ for redistribution through the prevailing PBAS allocation system (EB 2003/79/R.2/Rev.1, paragraph 40). In 2009, therefore, all unused resources from the 2007-2009 allocation period will be treated as part of the allocable pool of resources for the final year of the allocation period. The unused resources will be allocated according to the PBAS methodology.
12. The PBAS working group discussed the possibility, which has been further considered by the Consultation on the Eighth Replenishment of IFAD's Resources, that it might be appropriate in the final year of the allocation period to include one or two new countries in the pipeline of projects on the condition that a country or countries with a similar country score or scores are removed from the list, in order to maintain the balance of allocations among the borrowing countries. The allocations for 2009, to be tabled at the Executive Board session to be held in December 2008, will therefore include this possibility.

⁵ 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.

Executive Board PBAS Working Group: Minutes of the fourth and fifth meetings

A. Minutes of the fourth meeting, 28 February 2008, IFAD, Rome

Members:

Present: India – Ramalingam Parasuram, Chairperson; France – Clarisse Paolini; Italy – Augusto Zodda; Mali – Mohammed al Moustapha Cissé; Mexico – Diego Alonso Simancas Gutiérrez; Nigeria – Yaya O. Olaniran; United States – Liza Morris, Andrew Velthaus

Absent: Sweden; Venezuela (Bolivarian Republic of)

Observers: Argentina – María del Carmen Squeeff; Brazil – José Antonio Marcondes De Carvalho, Felipe Haddock Lobo Goulart; Cameroon – Médi MOUNGUI; Ecuador – Geoconda Galán Castelo; Guatemala – Ileana Rivera De Angotti

Secretariat: B. Baldwin; T. Rice; E. Murghia; U. Demirag

1. The Chairperson welcomed both the members of the Working Group (WG) and the observers. The Chair, following agreement on the agenda noted that there had been some good meetings in 2007 following the initiation of the WG by the Board in April 2006 and that these meetings had been reported to the Board in December 2007. The Chair noted that the Board had observed that the WG should continue to meet with the same objectives of improvement of understanding of the issues surrounding the PBAS in IFAD.
2. The Secretariat presented a Power Point presentation outlining the key features of the PBAS in IFAD and the decisions taken since the inception of the approach. The WG then had a discussion concerning the presentation and the PBAs in general.
3. During the course of the discussion, several of the WG reiterated that the mandate of the WG was 'fact finding' and a broader understanding of PBAS, in keeping with the terms of reference given by the Board. Issues concerning evaluation of the PBAS would need to be tabled to the Evaluation committee of the Board and proposals to modify the PBAs would need to be brought by the members themselves to the Board, rather than the WG.
4. The WG discussed the introduction of rural population into the PBAs formula (after the Executive Board of April 2006) and reviewed the effect on allocations at country level. Several members and observers expressed concern that the allocations to countries in Latin America and the Caribbean (LAC) had been reduced since the introduction of rural population. The WG also discussed the issues concerning definition of rural population, income distribution and the data sources used by IFAD. It was discussed that rural population is usually calculated at country level in conjunction with the overall population analysis and the determination of urban populations. The World Bank use their in-country staff to review and where necessary validate total population (as it is central to IDA lending terms) and subsequently publish rural populations. IFAD uses the data as provided by the World Bank. The need for continued study was emphasised and it was explained that the Universidad Nacional de La Plata in Argentina was carrying out a World Bank funded study (World Bank's LAC poverty group) into the issues of rural population and rural income. The Secretariat will follow up with the University.
5. The changes in country allocations in LAC and the overall lending to the region were discussed. Allocations for LAC have varied with the introduction of rural population, some have increased but several have decreased, if only marginally. A review of regional lending, in the context of a growing overall IFAD lending programme, presented by the Secretariat noted the need to continue to develop a strong pipeline of projects & programmes for funding in LAC. The need to consider reallocation within regions was also raised and it was noted that, with the decisions

taken by the Governing Council, regional allocations were no longer applied beginning with the 2007 work programme.

6. The WG noted the continued collaboration with other IFIs, in the spirit of the Paris Declaration, in the implementation of PBAS and the proposal for IFAD to host the MDB/IFI annual technical meeting in early April; to which the members of the WG would be invited as observers. The WG noted the use by the Millennium Challenge Corporation (MCC) of indicators that were part of the rural sector performance assessment. Much of the analysis done in relation to the rural sector performance assessment in Central America is done by the Regional Unit for Technical Assistance (RUTA), based in Costa Rica. In this regard the Secretariat informed the WG that it intended to hold a 2-3 day workshop with RUTA to review how RUTA had been operationalising the surveys in –country and discuss the findings and issues arising. It was also proposed to use such a workshop to give an overview of the design and implementation of the PBAS in the region, in Spanish, to a wider, operational audience. It was intended to include both Central American countries but also other countries from LAC. The Secretariat would give further details of the workshop (proposed for late June 2008) at a later date.
7. The WG agreed that the next meeting of the WG would be after that workshop and would include a report of the event and the issues raised.
8. The WG discussed the request by the Executive Board in December 2007 for a progress report by the WG to be tabled to the April 2008 Executive Board. This would be an ‘information’ item and will give a report on the meetings of the WG in 2007 and 2008 (to date), the issues raised and the views expressed. This will also include a summary of the MDB/IFI technical meeting.
9. In closing the meeting the Chair confirmed that the next meeting would be after the Costa Rica workshop. He also expressed the intent for moving ahead in the discussions. This can be achieved by reducing the need to ask and review some of the basic issues which have been deliberated upon in earlier meetings. From the next meeting onwards it would be desirable to discuss specific issues. The chair also requested members to notify him & the Secretariat of issues they wish to be tabled for discussion by the WG.
10. 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

B. Minutes of fifth meeting, 12 September 2008, IFAD, Rome

Members:

Present: India – Ramalingam Parasuram, Chairperson; Italy – Augusto Zodda; Mexico – Diego Alonso Simancas Gutiérrez; Sweden – Amalia Garcia-Tharn; United States – Liza Morris

Absent: France; Mali; Nigeria; Venezuela (Bolivarian Republic of)

Observers: Argentina - María del Carmen Squeff; Brazil – José Antonio Marcondes De Carvalho, Felipe Haddock Lobo Goulart; Cameroon – Médi MOUNGUI; Denmark – Christina Wix Wagner

Secretariat: K. Nwanze; K. Cleaver; B. Baldwin; T. Rice

1. The Chairperson welcomed both the members of the Working Group (WG) and the observers. The Chair indicated that the meeting's objectives were to: review PBAS in other institutions, exchange views on issues of concern, and establish topics for future work of the group. The discussion might also provide perspectives for the forthcoming paper which the Management will present to the next session of the Replenishment Consultation in October.
2. After the introductions, the meeting requested a point of clarification on the use of a term: active countries. The Secretariat explained that, with about 130 eligible borrowing countries and some 33 loans and DSF grants being approved by the Executive Board each year, there have always been countries that have not received new loans every year, or even over a longer period. With the introduction of PBAS in 2005, 119 countries were identified as potentially requiring financing during the 2005-2007 allocation period. Given their number, many of those countries subsequently received low allocations, including 36 that received the minimum allocation of US\$1.0 million per year. Moreover, unused allocations subsequently needed to be reallocated. Given the number and amounts of such reallocations, this made country-level programming difficult. Therefore, the practice introduced for the 2007-2009 allocation period included only those countries designated as active, for new commitments where IFAD expected to have lending or DSF grant operations in 2007-2009. This identified 90 countries as potentially requiring financing² and has facilitated more reliable and higher allocations at country level (only nine countries received the minimum allocation). The Secretariat also informed the meeting that as we are now approaching the third and final year of the allocation period one of the topics that the Secretariat is examining is how, without upsetting the balance of the allocations of all the other countries, introduce potentially one or two specific countries into the allocation period 2007-2009 to be part of the pipeline of projects for Board approval in 2009.
3. The Secretariat began the meeting with a short presentation of the PBAS system in IFAD and included the distribution of a comparative table of how different institutions have developed and implemented PBAS approaches. This was followed by two further presentations, Mr Ken Watson, a PBAS consultant for the Asian Development Bank, the Caribbean Development Bank, the Inter-American Development Bank and most recently, part of the team carrying out an evaluation of the PBAS system in GEF. He presented an overview of the features of the PBAS systems of all the agencies. This was followed by Mr Philip Quarcoo, recently retired from the African Development Bank to describe some of the specific features of the PBAS system in the African Development Bank. Following the presentations there were a series of questions and responses which focussed on the balance, or trade-off, between how adaptable and 'flexible' the PBA systems were to dealing with changing circumstances of recipient countries and the need for predictable and rules-based approach. The following topics were discussed:
4. **The formula:** While the IDA formula is one which most organisations have harmonised around the formulas have evolved over recent years to reflect specific institutional issues. The case of the weight given to population in IFAD was one

such example and while the basic coefficients of the formula have remained unchanged, changes in weights and implanting methodology has been relatively frequent in order to emphasis usefulness and accuracy in implementation.

5. **Fragile States and Emergency Response:** The meeting reviewed the different approaches to dealing with post-conflict, fragile states, emergencies and countries in especially vulnerable situations. Institutions had a variety of responses ranging from the post-conflict facility at the World Bank to the small island facility at Asian Development Bank and the fragile state facility at African Development Bank. The disaster relief ('vulnerability') support offered by the Caribbean Development Bank was also highlighted. This was identified as an area of further research and analysis.
6. **Allocations and Re-allocations:** The meeting reviewed how the different institutions carry out re-allocations of funds, usually in the third, and last, year of the Allocation Period. While IFAD's operational guidelines allow for such reallocations there was a useful exchange of views on different approaches used, principally by the World Bank and African Development Bank, and this was also identified as an area of further research and analysis.
7. In closing the meeting and thanking the participants & presenters the Chair indicated that the issues raised, and the role of the Working Group, would constitute a substantial part of the forthcoming Replenishment paper. The chair also considered that it may be appropriate to have a further meeting in December, before the Executive Board.

Debt sustainability analysis for 2009 programme of work (“active” countries only)

<i>Region</i>	<i>Green (100% loan)</i>		<i>Yellow(50%loan/50%grant)</i>	<i>Red (100% grant)</i>	
Western and Central Africa	Cameroon Cape Verde Gabon Ghana	Mali Nigeria Senegal	Benin Burkina Faso Mauritania Niger Sierra Leone	Chad Congo (Republic of the) Côte d'Ivoire Democratic Republic of the Congo Gambia (The)	Guinea Guinea-Bissau Liberia Togo
Eastern and Southern Africa	Angola Botswana Kenya Madagascar Mauritius Mozambique	Swaziland Uganda United Republic of Tanzania Zambia	Ethiopia Lesotho Malawi	Burundi Comoros Rwanda Zimbabwe	
Asia and the Pacific	Bangladesh China India Indonesia Maldives Mongolia	Pakistan Papua New Guinea Philippines Sri Lanka Viet Nam	Bhutan Cambodia Kyrgyzstan Nepal	Afghanistan Lao People's Democratic Republic Solomon Islands Tajikistan	
Latin America and the Caribbean	Belize Bolivia Brazil Colombia Costa Rica Dominican Republic Ecuador El Salvador	Grenada Honduras Mexico Panama Paraguay Peru Venezuela (Bolivarian Republic of)	Guyana Nicaragua	Haiti	
Near East and North Africa	Albania Armenia Azerbaijan Bosnia and Herzegovina Egypt Georgia Iraq Jordan	Lebanon Republic of Moldova Morocco Syrian Arab Republic The former Yugoslav Republic of Macedonia Tunisia Turkey		Djibouti Sudan Yemen	

