



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Consultation on the Sixth Replenishment of IFAD's Resources – Fourth Session**  
Rome, 9-10 October 2002

**CRITERIA AND PRINCIPLES FOR THE DEVELOPMENT AND OPERATION  
OF A PERFORMANCE-BASED ALLOCATION SYSTEM IN IFAD**



## TABLE OF CONTENTS

	<b>Page</b>
<b>I. INTRODUCTION</b>	<b>1</b>
<b>II. THE CURRENT BASIS OF COMMITMENT OF LOAN RESOURCES</b>	<b>1</b>
<b>III. HOW IFAD HAS ADDRESSED ENABLING-FRAMEWORK AND IMPACT ISSUES</b>	<b>3</b>
<b>IV. ISSUES INVOLVED IN FUTURE INTEGRATION OF PERFORMANCE CRITERIA IN DETERMINING <i>EX ANTE</i> THE LEVEL AND TYPE OF IFAD SUPPORT TO COUNTRY POVERTY-REDUCTION PROCESSES</b>	<b>4</b>
<b>V. TOWARDS A PERFORMANCE-BASED RESOURCE ALLOCATION SYSTEM</b>	<b>6</b>
<b>VI. NEXT STEPS</b>	<b>10</b>



## I. INTRODUCTION

1. At the Third Session of the Consultation on the Sixth Replenishment of IFAD's Resources, it was agreed that IFAD management would prepare a paper providing the main criteria and principles for a resource allocation system in IFAD reflecting country performance. Other international financial institutions (IFIs) (including the International Development Association (IDA), the African Development Bank (AfDB) and the Asian Development Bank (AsDB) have developed such systems. The IDA system of country performance ratings and allocation has been evolving since 1998 (in the context of the IDA 12 and IDA 13 negotiations), on the basis of country policy and institutional assessments (CPIAs). AfDB has developed and used an African Development Fund (AfDF) performance-based methodology to determine AfDF resource allocation, also since 1998, the derived results of which are consistent with those of the World Bank. In 2001 AsDB modified the performance-based allocation system adopted in 1998 to a system that is very similar to the one used by the World Bank for allocating IDA resources. These three systems are not identical, but they do share certain common fundamental characteristics with which many countries have become familiar since 1998.

2. In bringing its operations into general alignment with normal IFI practice, IFAD must decide not whether to implement such a system, but how to do so in a way that reflects its specific mandate; respects its operational modalities (e.g. an orientation to catalytic impact for improvement through project/programme operations rather than balance-of-payments support or direct budgetary support); and builds upon existing practices, experience and capacity. Such an adaptation of a common general approach to institutional specificities has been undertaken by all IFIs. During discussions on the need for such a system at the Third Session of the Consultation on the Sixth Replenishment of IFAD's Resources, relevant performance was defined under two headings: (i) *country performance*, in terms of establishing the policy and institutional framework(s) for sustained reduction of rural poverty; and (ii) *portfolio performance*, defined in terms of the past performance of a country in effectively using loan-based resources provided by IFAD to achieve a broad and sustained impact measured in terms of rural poverty reduction. This paper discusses the main criteria and principles that might be used for developing and implementing a resource allocation system in IFAD reflecting country performance as broadly defined above. It also indicates the steps needed to make such a system an operational reality.

## II. THE CURRENT BASIS OF COMMITMENT OF LOAN RESOURCES

3. At present IFAD's lending operations are driven by:

- overall resources available to produce and support operations;
- country needs as measured, *inter alia*, by the depth of rural poverty, numbers of rural poor, availability of national resources and commitments of other development partners;
- opportunities to contribute through individual projects and programmes in areas that are vital to the rural poverty-reduction process as broadly defined in the *Strategic Framework for IFAD 2002-2006* and as further elaborated according to regional conditions in the regional strategies produced for each of IFAD's operating regions;
- the commitment of governments and local development partners to using an approach to addressing key rural poverty-reduction issues consistent with that outlined in IFAD's strategic framework (i.e. by effectively enabling the rural poor to overcome their poverty); and



- the implementation performance history (broad relation between input and output/impact) of IFAD-supported projects/programmes in countries where strategic opportunities are identified – and the capacity of these countries to absorb and use additional resources.

4. The IFAD portfolio is a portfolio of projects and programmes. Resource commitments to specific project/programme activities are planned by regional divisions within a flexible and rolling three-year planning framework. Commitments are expressed in the form of project/programme loans justified in terms of opportunities for individual projects/programmes to achieve sustained impact on poverty reduction according to priorities articulated in country strategic opportunities papers (COSOPs) (which explicitly reflect country conditions and anticipate impact, informed by past experience and by an analysis of institutional and policy factors bearing on the planned project/programme activities). Approval of COSOPs is a precondition for project/programme entry into the development pipeline. This system (see Figure 1) reflects the desire to maximize the impact of each project/programme by exploiting the best available current options within each geographic region.

5. Notwithstanding the fact that IFAD has not operated a system of performance-based *ex ante* country allocations, the Fund's understanding of institutional and policy conditions, and its evaluation of past project/programme impact (and the factors contributing to it) do in fact already play a decisive role in the development of country strategies and project/programme design and follow-up. They determine which strategic areas to focus on in a country, and how strategic objectives should be pursued operationally. In elaborating its strategic plans, IFAD draws on the views, insights and experiences of both national stakeholders and international development partners. IFAD's mandate is highly specific, and the Fund seeks to respond to conditions and experiences that bear heavily on the possibility of achieving impact on rural poverty.

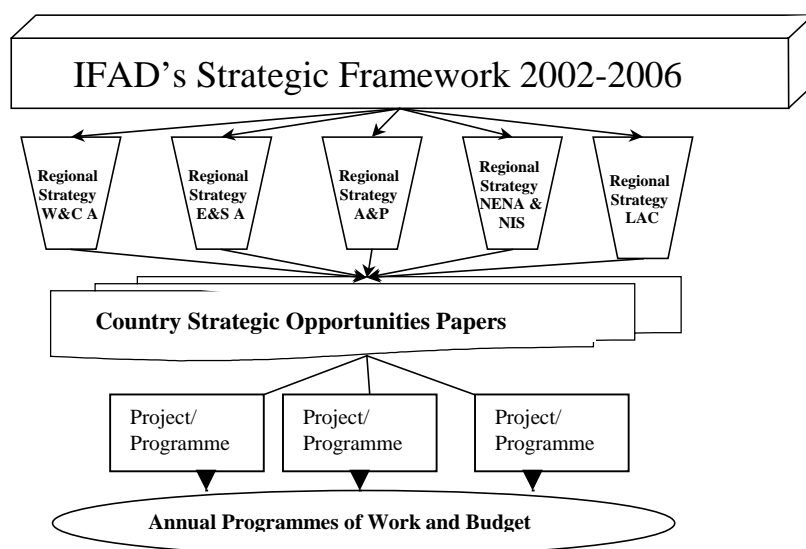
6. *Ex post*, the overall profile (including the country distribution) of IFAD resource commitment does indeed reflect both country institutional and policy conditions, and past experience in achieving impact (i.e. it responds to conditions that have been taken as performance indicators). Countries generally perceived as providing positive policy and institutional conditions for rural poverty reduction, and where projects/programmes have been implemented successfully in the past, do tend to receive more resources. This is to be expected under a system driven by perceived opportunities for sustained and replicable impact, for these are precisely the countries where promising opportunities for project and programme engagement most regularly emerge. Equally, countries with strong institutional and policy frameworks are also the countries in which programme-type lending is more pronounced.

7. This approach has allowed IFAD to achieve and maintain significant impact. While IFAD, like all other development institutions, continues to wrestle with the challenge of a comprehensive, timely and quantified impact reporting system, the findings of two external assessments of IFAD<sup>1</sup> have indicated broad success in terms of direct impact.

---

<sup>1</sup> Attiga, A.A., Head, I.L., Pineiro, M.E., Rovani, Y. and Sene, D. 1994. *The Challenge of Rural Poverty: The Role of IFAD*. Rome: IFAD; and IFAD, "External Review of the Results and Impact of IFAD Operations", document REPL.VI/3/R.2, 19 June 2002.

**Figure 1. The Process for Generating Loan Commitments**



Notes:

W&C A = Western and Central Africa

E&S A = Eastern and Southern Africa

A&P = Asia and the Pacific

NENA = Near East and North Africa

NIS = Newly Independent States

LAC = Latin America and the Caribbean

### III. HOW IFAD HAS ADDRESSED ENABLING-FRAMEWORK AND IMPACT ISSUES

8. Like other development institutions, IFAD has fully recognized the influence of national public institutions and policies on the broad course of future development (including the sustainability and replicability of the initiatives it has supported). It also recognizes the need to take into account the performance of past projects/programmes in achieving sustainable impact when it considers resource allocation. In accordance with the recommendations embedded in the corporate action plan (1999), this has led IFAD to:

#### Policy and Institutional Issues

- raise the level of consultation on and identification of national policy and institutional issues, and increase its participation in relevant policy and institutional dialogues;
- include investment in national capacities to explore and implement policy and institutional change within programmes and projects, placing special emphasis on the capacity of the rural poor to play an effective role by initiating and influencing institutional transformation at the local and national levels; and
- include policy and institutional analysis and assessment as core elements of COSOPs and project/programme design documents.

#### Impact Issues

- establish participatory logical framework (logframe) development at the heart of project/programme planning and monitoring systems;
- initiate improvement in project/programme monitoring systems managed by IFAD's national implementing partners;
- work with cooperating institutions to improve supervision and reporting relative to key impact achievement and reporting issues;



- explore options in strengthening IFAD's direct support to projects/programmes (through direct supervision and various forms of field representation);
- improve the portfolio review process;
- ensure that all projects produce completion performance reports to an agreed format and technical quality; and
- include lessons learned/impact analysis in all COSOPs and project/programme design documents.

9. The need to accomplish still more in the areas of institutional policy analysis and dialogue, replication and impact assessment was highlighted in the External Review of the Results and Impact of IFAD Operations. This recommendation is consistent with IFAD's internal assessment of strategic institutional development needs. Moreover, IFAD's newly launched strategic planning and budgeting process is designed specifically to enter these concerns as priority items in the allocation of IFAD's human and material resources.

#### **IV. ISSUES INVOLVED IN FUTURE INTEGRATION OF PERFORMANCE CRITERIA IN DETERMINING *EX ANTE* THE LEVEL AND TYPE OF IFAD SUPPORT TO COUNTRY POVERTY-REDUCTION PROCESSES**

10. Given the significance of national policy and institutional environments for development and for the sustained success and replicability of project/programme investments, it is becoming standard practice in multilateral development financial institutions for assessment of these factors to be included explicitly and transparently in systems governing the commitment of resources at all levels.

##### **Integrating Assessment of Policy and Institutional Issues**

11. The manner in which policy and institutional environment variables are included within resource planning and commitment systems necessarily varies among institutions according to sectors of engagement, objectives and types of intervention.

12. For example, an institution that focuses on public health (as a contributor to poverty reduction) will and must highlight somewhat different policies and institutional factors than those highlighted by an institution that deals with rural development and the position of the poorest in that process. The variables used may not be contradictory, but many will certainly be different. In this context, it may be useful to consider framework variables in terms of two categories – general and sectoral:

- The *general* variables would relate to certain basic conditions affecting the likely success of any poverty-reduction initiative in a given country. These variables would tend to be common to all development institutions;
- The *sectoral* variables would reflect the specific conditions necessary for successful initiatives in a particular area or type of activity (e.g. rural poverty reduction through the economic and social empowerment of the poor). These variables would differ according to the sectoral focus of the institution involved.

13. While there is a broad understanding that policy and institutional development does influence the pattern and rate of development, and that these issues should be taken into account when allocating resources for development activities, there is no 'exact science' of assessing relations and of weighting probabilities. Institutional and policy factors are extremely heterogeneous and not easily quantifiable, and every development institution is confronted with the challenge of translating these into some sort of index of 'conducive institutional and policy environment'. It does so through a process that must involve assessing a wide range of developments and concluding that, on balance, the situation can be characterized in terms of a set of rather broad categories (see, for example, AfDF



six-level country policy and institutional assessment (CPIA) rating scale running from "good for extended period" to "highly unsatisfactory for extended period".<sup>2</sup>

14. Different institutions bring different experience and analytical capability to the assessment process, reflecting their operational mandates and modalities. IFAD has no comparative advantage in measuring the 'general variables' referred to above, although, because of its mandate, it is required to interpret them in a very specific way. In particular, IFAD must interpret or support interpretation of these general variables from the point of view of their significance for sustained poverty reduction and the social inclusion/participation of the poor (including not only general factors relating to the legal/regulatory framework but also, for example, the extent to which public expenditure is actively targeted to the poor and represents a quantitatively meaningful response to their requirements).

15. IFAD does have a great deal of experience with identifying concretely and circumstantially the institutional and policy factors at the sectoral level that weigh most upon the success of its operations, i.e. policy and institutional factors with a direct bearing on enabling rural poor people to overcome their poverty. IFAD's consistent and focused engagement in this area has given it a special role in identifying the policy and institutional issues influencing rural poverty reduction, especially as these are shifting in the context of globalization, economic liberalization, and political and administrative decentralization. This role includes being the source of its own internal assessments of sectoral performance, but should also include a greater participation in assessments and planning in broad-based consultations on initiatives such as poverty-reduction strategies (PRSs) – a set of operations that is also a specific target being addressed in the strategic planning and budgeting process.

### **Integrating Assessment of Impact Performance**

16. Including 'performance indicators' in resource allocation typically embraces two issues: first, the sort of institutional and policy development 'performance' referred to above; and second, the perceived impact of previous development interventions (used as a basis of assessing the probable impact of future interventions).<sup>3</sup> The latter reflects the common-sense understanding that if interventions have not been successful in the past, then, other things being equal, they might not be in the future – and that this should influence resource allocations. In this context, the most critical factor is not the entire history of a country's performance in achieving impact (IFAD has been operating in some countries for nearly a quarter of a century of major institutional and policy changes), but the most current trends in implementation performance.

17. As in the case of analysis of institutional and policy factors, the challenge to translate this common-sense understanding into a rigorous probabilistic analysis is complex. Nonetheless, identification of national structural, organizational and policy issues influencing project implementation and impact is possible, and IFAD regularly reports on these issues in the process of project supervision and portfolio review.

18. IFAD has invested considerably in its own evaluation activities, and in supporting monitoring and participatory evaluation at the country project/programme level. Nonetheless, further improvement in timely and comprehensive reporting from ongoing projects/programmes supported (but not managed) by IFAD is essential to underpin a transparent system of performance-based resource allocation: linkage of allocations to performance will work better when performance

---

<sup>2</sup> African Development Fund, ADF VIII Country Performance Assessment Methodology and Indicators.

<sup>3</sup> AfDF's country performance assessment combines country policy and institutional assessment with country portfolio performance assessment. The World Bank's country performance assessment combines its country policy and institutional assessment, its portfolio implementation rating, and, where applicable, a poor governance adjustment. The weighting given to these two factors differs between the institutions, as do the criteria of the assessments themselves.



measurement is itself more robust. This is a challenge to the development community as a whole, and IFAD will benefit from joint efforts in this area.

## V. TOWARDS A PERFORMANCE-BASED RESOURCE ALLOCATION SYSTEM

19. Adoption of *ex ante* systems of performance-based resource allocation to countries by International Finance Institutions (and other sources of development financing) reflects both the growing perception of the tremendous significance of the general and sectoral institutional and policy framework for the poverty-reduction process – and the imperative to ensure that what countries receive in terms of assistance for poverty reduction responds, among other things, to the efforts they have made to create an enabling policy and institutional framework *for* poverty reduction. In effect, the objective is for these factors to enter transparently into resource allocation – marking out the terrain not only for investment, but also for policy and institutional dialogue.

20. The challenge for IFAD in developing an *ex ante* system of performance-based resource allocation to countries is twofold:

- there is the *technical* challenge of developing robust and relevant measures of policy and institutional development (both general and sectoral – the latter, in the case of IFAD, being the ‘sector’ of rural poverty reduction rather than agricultural production alone), and of impact performance that may be combined with other considerations guiding allocations (e.g. AfDF’s *indicative allocation* is derived by applying both the population and per capita income factors to available resources – with the country performance assessment acting as a modifier on the indicative allocation), while leaving flexibility for allocations driven by special circumstances – such as support in post-conflict situations or support triggered by calamity; and,
- there is the *strategic-objectives* challenge of ensuring that IFAD’s commitments continue to be driven by the best **opportunities** for replicable and sustainable impact rather than by ‘country quotas’.

21. As in other IFIs, both of these challenges can be overcome in IFAD within acceptable organizational and financial parameters as long as they are addressed concretely and practically – and are linked to ongoing processes, both internal and external.

### The *Technical* Challenge

22. For IFAD, the technical challenge involves assessing performance at three levels, i.e. in generating assessments of:

- the general policy and institutional environment bearing on poverty reduction<sup>4</sup>;
- the sectoral policy and institutional environment bearing specifically on rural poverty reduction; and
- the institutional issues bearing on the capacity of projects and programmes to manage resources for impact on rural poverty reduction effectively.

23. **The general policy and institutional environment bearing on poverty reduction.** In this area, IFAD should not seek either to develop or to use criteria that are substantially outside of those that are already part of the development consensus. Fortunately, there are already ongoing processes

---

<sup>4</sup> In addition to taking into account national policy and institutional criteria in resource allocations, IFAD also increasingly addresses international and regional policy and institutional issues in its policy and dialogue work, e.g. with regard to the impact of the international trade regime on opportunities for smallholder development, and in the technical assistance grant programme.





that define – on a participatory and consultative basis – basic criteria relative to the existence of general policy and institutional conditions conducive to the effective use of resources for poverty reduction. One set of these criteria are those used for country eligibility for the Debt Initiative for Heavily Indebted Poor Countries (HIPC) (and for determining eligibility for the poverty-reduction growth facility (PRGF) of the International Monetary Fund (IMF)) and specifically the criteria involved in determining the acceptability of poverty-reduction strategy papers as triggers of debt-reduction packages. Under the guidance of its governing bodies, IFAD is already participating fully in the Debt Initiative, subscribes to the consensus conditions (indeed, is instructed by its governing bodies not to seek the satisfaction of additional conditions specific to itself) and extends debt relief on that basis.

24. For the purpose of assessing the general policy and institutional environment bearing on poverty reduction in the context of IFAD's performance-based resource allocation system, the existence of an agreed PRS and associated decision-point criteria could in itself constitute certification of suitable country conditions, in line with the consensus finding of the international community. IFAD is taking active steps to increase its participation in the PRS process (including implementation), but would produce an independent assessment only for countries where there is no PRS (defined in terms of an agreed instrument for triggering international assistance such as the Debt Initiative and the PRGF). To handle such cases, IFAD would identify the common 'conducive policy' and 'institutional environment' elements agreed to in existing PRSs (and associated decision-point criteria) elsewhere and use these as criteria for assessing the existence of suitable policy (e.g. the existence of an appropriate set of poverty-reduction and rural development plans and commitments) and institutional conditions for the 'broad environment' input into the determination of allocations in countries in which there is no PRS. The assessment would be expressed (for the purpose of allocation decisions) as an agreed aggregate 'score'.

25. An alternative approach would be for IFAD to adopt IDA 'scores' as presented in its country policy and institutional assessments as the basis for 'scoring' the general policy and institutional environment bearing on poverty reduction, taking into account the possible need to review the scoring scale in the context of the overall system of weighting to be employed by IFAD in generating the basis for calculation of resource allocations.

26. **The sectoral policy and institutional environment bearing specifically on rural poverty reduction.** This is an area in which IFAD has a comparative advantage in assessing performance as a result of its special experience with dealing with these issues both strategically and operationally. It is also an area in which IFAD has already implicitly articulated performance criteria in the Strategic Framework (see box) and is systematically assessing country situations in the light of these criteria – as well as identifying the relative importance of these criteria at the level of each country in COSOPs. In addition, it is an area that is subject to detailed attention in preparing the key file that represents the analytic and information backbone of the project cycle. COSOPs are subject to approval of IFAD senior management, and a selection of them are presented annually to the Executive Board.

27. It is suggested that (i) the performance criteria relative to the sectoral policy and institutional environment bearing specifically on rural poverty reduction articulated in the strategic framework form the basis – subsequent to the development of common indicators of performance in each strategic objective area (drawing as much as possible upon generally available data) – of a country assessment table; (ii) this table be a mandatory part of all COSOPs; (iii) the contents be the basis of an agreed aggregate 'score'; and (iv) this 'score' be used as a factor in the determination of resource allocations to a country. Given IFAD's objective of playing a strong catalytic role, the assessment would not be restricted to performance in terms of achievement to date, but would include the willingness and commitment of governments to engage in a significant change process in the context of a partnership with the rural poor, IFAD and other stakeholders.



28. **The institutional issues bearing on the capacity of projects and programmes to manage resources for impact on rural poverty reduction effectively.** Project/programme-level institutional issues in implementation, together with some project impact data, are currently captured in project status reports. In collaboration with the cooperating institution, IFAD will upgrade the reporting on institutional issues to clarify the influence of national institutional conditions, and it will make even greater efforts to capture timely impact data. Subsequent to review and further development of the performance indicators currently used in IFAD project status reports (generated in collaboration with cooperating institutions), the country issues sheet attached to the annual review of the portfolio in each country would contain an agreed aggregate ‘score’ reflecting assessment of institutional issues and impact performance.

**Salient Performance Criteria Elaborated in  
the *Strategic Framework for IFAD 2002-2006***

IFAD’s Strategic Framework is conceived as part of the broad global commitment to achieving the Millennium Development Goals. IFAD will continue to work towards *enabling the rural poor to overcome their poverty* – as perceived by the poor themselves – by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability and good governance. Concretely, this implies: developing and strengthening the organizations of the poor to confront the issues they define as critical; increasing access to knowledge so that poor people can grasp opportunities and overcome obstacles; expanding the influence that the poor exert over public policy and institutions; and enhancing their bargaining power in the marketplace. *All IFAD’s strategic choices (as reflected in regional, country and thematic strategies; loan and grant activities; involvement in poverty-reduction strategy papers; policy dialogue; and choice of development partners) will be made with these principles in mind* (p. 8, italics added).

IFAD will concentrate its investments, research and knowledge management efforts, policy dialogue and advocacy on the attainment of three strategic objectives: *strengthening the capacity of the rural poor and their organizations; improving equitable access to productive natural resources and technology; and increasing access to financial services and markets*. Attention to the differing opportunities and constraints of women and men, and to sources of vulnerability and ways of increasing resilience will be overarching concerns (p. 9, italics added).

Implicitly, the performance criterion vis-à-vis the sectoral institutional policy and environment is the extent to which countries have already established, or show concrete commitment to establishing, the policy and institutional conditions conducive to the attainment of these objectives. Country-level performance in each of these areas should bear on overall sectoral performance assessment to the extent that each particular area is relevant to the issue of rural poverty reduction. This will vary from case to case – as reflected in IFAD’s decision to elaborate the strategic framework according to regional specificity in regional strategies and in the detailed contextualization work in COSOPs.

29. The point of the above is to draw upon, and where necessary improve, existing practices in country, sectoral and project/programme analysis – with the objective of deriving simple aggregate performance ‘scores’ that would be entered into the formula for determining resource allocations to countries. Because of the qualitative nature of much of the information, these ‘scores’ would be synthesized and expressed, where appropriate, in terms of a few broad performance categories (e.g. superior, good, normal, to-be-improved and not viable). The scores would be combined with scores reflecting country needs. The development and operation of such a mechanism would also require the

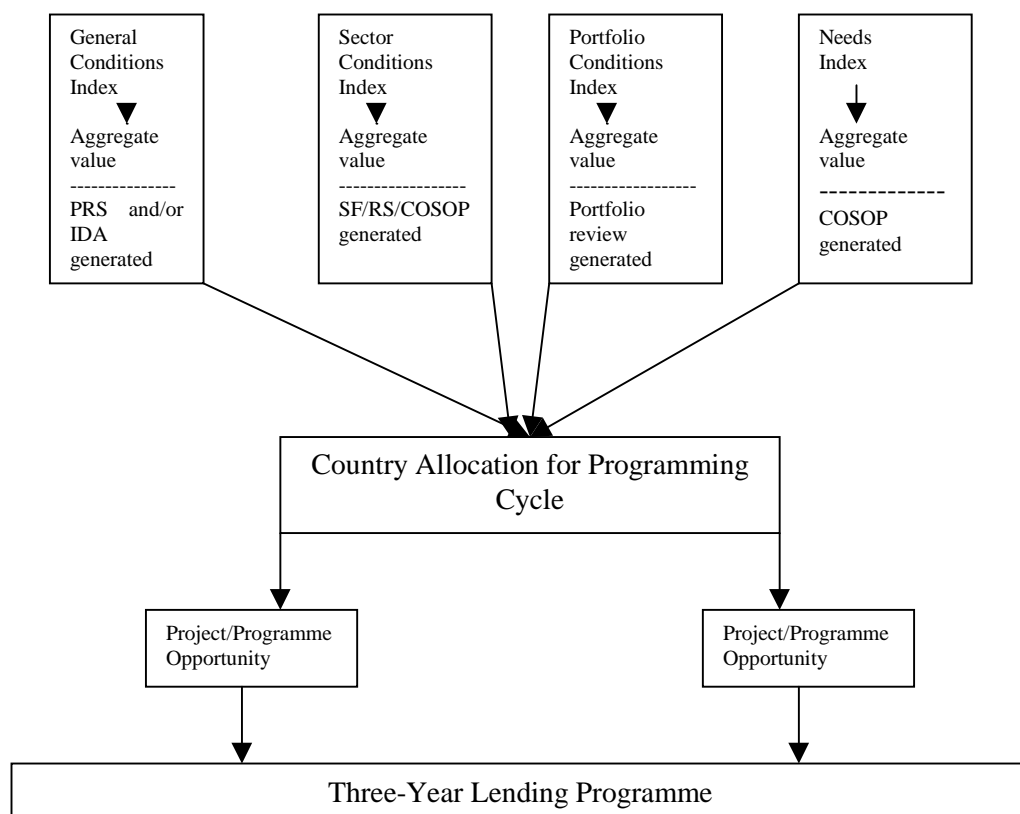
explicit development and applications of rules for the assessment and weighting of ‘needs’ factors in calculating resource allocations to countries, e.g. the extent and depth of rural poverty, the national resource level, etc. Such a ‘needs-based’ analysis lies behind existing regional allocations, which might be integrated into a more comprehensive system for resource allocation combining both need and performance.

### The Strategic-Objectives Challenge

30. The objective is not to create pre-determined entitlements, but to support the maximization of impact in the exploitation of particular local opportunities as they arise – *by ensuring that particular importance is given to the exploitation of opportunities in those countries in which the general, sectoral and project/ programme management and implementation conditions suggest the probability of a higher level of sustained and replicable impact per monetary investment unit.*

31. Calculated allocations should not take the form of obligatory lending levels. Rather, the allocation should be in the form of a figure that might be committed to any given country within a programming period (a three-year period is suggested), on the understanding that the actual committed figure to a country would be subject to the emergence of opportunities for local investment in significant and sustained poverty reduction (within the areas specified in the current strategic framework) – through a number of loans corresponding to the nature of the opportunities (see Figure 2). For practical purposes, country allocations might be better expressed not in terms of a precise figure but in terms of agreed target ranges constructed around the calculated figure.

**Figure 2. Translation of Country Resource Allocations into the Three-Year Programming Cycle**



Notes: SF = Strategic Framework  
RS = Regional Strategy



32. In other words, it is suggested that the system of country resource allocations not be in the form of a 'share' of IFAD's committable resources (for loans) over a programming period, but should take the form of an indicative allocation to each country that reflects performance and other criteria and that *might* be committed in the programming period. The scheduled lending programme would represent a combination of loans for projects/programmes, the total value of which would fall within the global committable resource envelope for the programming period, with the sum of commitments for any country being within the target range for that country within the programming period.

33. The implication of the above is that not all countries would receive loans during every programming cycle, and that not all countries receiving loans would receive loans whose total value equalled their individual allocation.<sup>5</sup> The Executive Board would have the opportunity to review detailed loan commitment proposals within this system through the integration of the indicative three-year lending programme within the IFAD annual workplan and budget submitted for the Executive Board's approval. Entry of a country into the indicative three-year lending programme would reflect the results of a comprehensive country-performance ranking exercise as well as special provisions for directed support to relatively poor performers to improve the general and sectoral policy and institutional context for rural poverty reduction (in response to clearly defined opportunities, as in, for example, post-conflict situations – for which IDA also makes special provision).

## VI. NEXT STEPS

34. IFAD proposes to develop and implement a transparent and *ex ante* system of performance-based resource allocation on the basis of the principles articulated above. The system can be implemented when it is ready to operate consistently and accurately.

35. This would require:

- *either* a sub-system for recording country PRS status, extracting basic PRS principles, evaluating the performance of non-HIPC/PRGF countries in the light of those principles, 'scoring' performance, and training relevant staff in the use of the same *or* the adaptation of IDA's country policy and institutional assessments for use as the basis for 'scoring' the general country policy and institutional environment bearing on poverty reduction;
- the development of a strategic framework/regional strategy-based country assessment table, and the development of a method for (i) assessing country performance (in the pro-poor rural development 'sector') on the basis of the table, (ii) 'scoring' performance, and (iii) training relevant staff in the use of the same;
- the development of criteria for 'scoring' performance at the level of country portfolio implementation and impact, the development of a method of synthesizing scores into a single measure, and training of relevant staff in the use of the same;
- the development of a set of broadly comparable 'weights' for each of the aggregate performance measures reflecting their relative significance for achieving impact in the field of rural poverty reduction, and explicit weighting of the 'needs' index and its sub-components;
- the development of a transparent and simple procedure for translating a country 'points' system for country allocations (as defined above) into monetary values;

---

<sup>5</sup> The bulk of IFAD's commitments take the form of individual loans to projects. Not all countries may wish to take a project-linked loan from IFAD, particularly countries eligible only for non-concessional lending. In addition, for some countries the indicative allocation for a three-year period may be insufficient to fund an optimal project. Finally, IFAD's budget cannot sustain preparing and supervising projects for all eligible Members in any given three-year period. All this suggests that the role of a performance-linked system of indicative allocations should not be to *share* resources, but to *prioritize*.



- the development of a set of conditions for variance (to give flexibility to respond to exceptional circumstances);
- the establishment of intra-IFAD processes ensuring consistency and transparency in assessment and ranking;
- the elaboration of a form of presentation of three-year rolling lending programmes reflecting and respecting the above; and
- a comprehensive review and mobilization of human and financial requirements to support the installation and regular operation of the system.

36. One of the critical processes beyond defining and measuring and giving ‘weight’ to performance is deriving monetary values from weights. The main objective is to ensure that, other things being equal, good performers as defined above have access to more resources – and worse performers receive relatively less (in different sorts of programmes and projects). There are many ways in which this can be done. One general approach, reflecting IFAD’s sectoral focus and cooperation mechanisms, but consistent with the approach already adopted and implemented in the AfDF and IDA, would be to identify for all relevant countries their total individual scores (generated from the needs and performance scores). For any given three-year period, the country allocations would take the form of a division of the resources estimated to be available in a three-year period *among the countries included in the three-year programme* (see paragraph 32) according to their relative score.

37. The table below presents one among many possible ways of calculating allocations on this basis, and serves to demonstrate the powerful impact that performance indices can have upon country allocations. Apparently minor variations in methodologies of scaling and aggregation can have significant computational consequences. Consequently, this table (which includes many fewer countries and resources than would be included in a ‘full’ allocation calculation) is included for illustrative purposes only and is not intended to represent the Secretariat’s recommendation – which will be developed only after full consultation. As indicated above, ultimately, and for operational purposes, this approach might be reflected in target ranges for countries within a given programming period.

### Hypothetical Resource Allocation Scenario for Countries To Be Included in a Divisional Three-Year Programme

Country	Need Index	General Performance	Sectoral Performance	Portfolio Performance	Cumulative Index	USD Value Per Point (million)	Indicative Resource Commitment
A	2.00	0.75	1.00	1.25	1.88	27.76	52.05
B	2.50	1.00	0.75	0.75	1.41	27.76	39.04
C	2.50	1.00	0.50	0.75	0.94	27.76	26.03
D	2.00	1.00	1.50	1.25	3.75	27.76	104.11
E	1.80	0.50	0.50	1.00	0.45	27.76	12.49
F	1.00	0.50	1.50	1.00	0.75	27.76	20.82
G	2.00	1.00	0.75	0.75	1.13	27.76	31.23
H	1.00	0.75	0.70	0.50	0.26	27.76	7.29
I	2.00	0.50	0.50	0.50	0.25	27.76	6.94
							<b>300.00</b>
Total scores					10.81		
Loan resource availability							300.00

Note: Loan resource availability is estimated *a priori* (on the basis of the regional share of the estimated global loan resource availability); a country cumulative index is calculated by cross-multiplying the need index (which itself is generated under 'caps' and 'floors' rules), general performance index, sectoral performance index and portfolio performance index; the maximum value of the general performance index is set here at 1; the 'normal' value of the sectoral and portfolio performance indices is also set here at 1; the USD value per point is calculated by dividing total loan resource availability by the sum total of the country cumulative index scores.

38. The operation of this system would be closely linked to the presentation of an indicative three-year rolling lending programme as part of the IFAD workplan. This would normally be first submitted to the Executive Board for review in September of each year. Given the time required for preparation of the system, it is proposed that it would first be introduced in support of the document on the strategic priorities and programme of work presented to the Executive Board in September 2003. Full implementation of the system, including general access to information on the ranking process and its methodology, would be achieved in 2004.