IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Consultation on the Sixth Replenishment of IFAD’s Resources – Fifth Session
Rome, 12 December 2002

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

1. At the Third Session of the Consultation on the Sixth Replenishment of IFAD’s Resources (the Consultation), it was agreed that IFAD management would prepare a document providing the main criteria and principles for an ex ante resource allocation system in IFAD reflecting country performance and country needs (i.e., a performance-based allocation system (PBAS)). The document was discussed at the Fourth Session of the Consultation, where there was consensus on the advantages to be gained from adoption of a PBAS by IFAD. It was agreed that a revised document, taking into account the discussion during the Fourth Session, would be presented to the Fifth Session of the Consultation.

2. Other international financial institutions (IFIs) – including the International Development Association (IDA), African Development Bank (AfDB) and 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 replenishment negotiations), on the basis of country policy and institutional assessments (CPIAs). Also since 1998, AfDB has developed and used a performance-based methodology to determine African Development Fund (AfDF) resource allocation, the derived results of which are consistent with those of the World Bank. In 2001 AsDB modified the PBAS adopted in 1998 for the Asian Development Fund (ADF) 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.

3. In bringing its operations into general alignment with normal IFI practice, IFAD must develop and implement a PBAS in a way that: reflects its specific mandate; takes into account IFAD’s Lending Policies and Criteria; takes into account other decisions taken by the IFAD Executive Board and Governing Council bearing upon the allocation of resources; respects IFAD’s 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. All IFIs have similarly adapted the common general approach to their institutional specificities. IFAD’s loan operations are ultimately based financially on Member contributions, and it is proposed that – contrary to IFIs that mobilize resources on financial markets, which apply their PBASs only to concessional lending based on official development assistance – IFAD apply the PBAS to all loans. Nonetheless, as stipulated in IFAD’s Lending Policies and Criteria, two thirds of loan resources is to be earmarked for the poorest countries (i.e., countries eligible for borrowing on highly concessional terms). Moreover, IFAD would also adopt the target adopted by IDA, i.e., commitment of at least 50% of highly concessional lending to Africa. IFAD already meets this target and, in fact, has provided 52% of its highly concessional loan commitments to Africa.

4. During discussions on the need for such a system at the Third Session of the Consultation, 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

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1 IFAD’s Lending Policies and Criteria stipulate, under paragraph 31(a)(i), “The total amount of the loans provided each year on highly concessional terms shall amount to approximately two thirds of the total amount lent annually by IFAD”. Sixty per cent of lending on highly concessional terms goes to least-developed countries (LDCs). The current (2002) cut-off point for eligibility for highly concessional terms is a gross national product (GNP) per capita of USD 1 161 per annum.
rural poverty reduction. This paper discusses the main criteria and principles that might be used for developing and implementing a PBAS 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

5. IFAD’s lending operations are currently driven by:

- overall resources available to produce and support operations;
- country needs;
- 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.

6. 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, taking into account the decisions of the IFAD Executive Board relative to regional allocations. 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.

7. IFAD has not operated a system of performance-based ex ante country allocations. Nonetheless, the Fund’s understanding of institutional and policy conditions, and its assessment of past project/programme impact (and the factors contributing to it), 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.

8. Ex post, the overall profile (including the country distribution) of IFAD’s resource commitments does 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, have tended 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.

9. 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\(^2\) have indicated broad success in terms of direct impact.

Figure 1. The Process for Generating Loan Commitments

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

10. 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 development at the heart of project/programme planning and monitoring systems;
• initiate improvements 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.

11. 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’S LENDING IN SUPPORT OF COUNTRY-OWNED POVERTY-REDUCTION PROCESSES**

12. 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**

13. The manner (including the variables employed) in which assessment of country performance in establishing a conducive policy and institutional environment is included within resource planning and commitment systems necessarily varies among institutions according to sectors of engagement, objectives and types of intervention. It is useful to consider variables in policy and institutional frameworks in terms of two categories – general and sectoral:

• the general variables would relate to certain ‘framework 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.

14. Institutional and policy factors are extremely heterogeneous and not easily quantifiable, and all
development institutions are confronted with the challenge of translating these into some sort of index
of ‘conducive institutional and policy environment’. They do 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. One example is the AfDF six-level CPIA
rating scale, running from "good for extended period" to "highly unsatisfactory for extended period".3
Generally, the nature of the data used in performance assessments suggests that such an approach is
preferable to seeking a high level of precision.

15. 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. It does, however, 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 the rural poor 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.

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 (impact performance) of previous development interventions (used as a basis of
assessing the probable impact of future interventions).4 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.

V. TOWARDS A PERFORMANCE-BASED ALLOCATION SYSTEM

18. Adoption of ex ante systems of performance-based allocation by IFIs (and other sources of
development financing) reflects both the growing perception of the great significance of the general
and sectoral institutional and policy framework for the poverty-reduction process – and the imperative

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3 AfDF, ADF VIII Country Performance Assessment Methodology and Indicators.
4 AfDF’s country performance assessment combines CPIA with country portfolio performance assessment. The World Bank’s country performance assessment combines its CPIA, 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.
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.

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

- there is the *technical* challenge of developing robust and relevant measures of policy and institutional performance, and of portfolio management and impact performance that may be combined with country needs assessments (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’.

**The Technical Challenge**

20. For IFAD, the development of a PBAS would involve assessing performance of countries at the three levels of:

- performance in developing the general policy and institutional environment bearing on poverty reduction;
- performance in developing the sectoral policy and institutional environment bearing specifically on rural poverty reduction; and
- performance in managing and implementing the IFAD portfolio for impact.

21. **Performance in developing the general policy and institutional environment.** In this area, IFAD should not seek either to develop or to use criteria that are substantially different from those that are already part of the development consensus. IFAD could adopt the CPIA-based IDA quintile ranking of country performance as the basis for ‘scoring’ performance in developing the general policy and institutional environment bearing on poverty reduction. The IDA rankings, however, do not generally include countries receiving IFAD loans on intermediate and ordinary terms. The development of a comprehensive PBAS simultaneously applied to concessional and non-concessional borrowers would, therefore, involve significant technical, operational and staff resource issues. How to handle these issues in terms of the modality and basis of inclusion of non-concessional borrowers in IFAD’s PBAS would be a priority item for resolution within the consultative process described in paragraph 38.

22. **Performance in developing the sectoral policy and institutional environment.** This is an area in which IFAD has a comparative advantage in assessing performance as a result of its direct and prolonged experience with dealing with these issues both strategically and operationally. It is also an

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5 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.
area in which IFAD has already implicitly articulated performance criteria in its strategic framework (see Box) and is systematically assessing country situations in the light of these criteria.

23. The performance criteria relative to key issues in sectoral policy and institutional environment bearing specifically on rural poverty reduction as articulated in the strategic framework would form the basis of a country assessment table, and this table would be a mandatory part of all COSOPs. 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. Within the context of ensuring both transparency and country ownership, the assessment of country performance in developing the sectoral policy and institutional environment would be made in consultation with the governments of the countries concerned.

24. Given that IFAD’s strategy is oriented to enabling and empowering the rural poor to develop sustainable paths out of poverty, sectoral assessment would need to include an assessment of governance factors in rural areas – including the level of participation of the rural poor in public decision-making and opportunities for development of independent representative organizations. Criteria of sectoral performance would capture gender issues and performance in addressing them.

25. **Performance in managing and implementing the IFAD portfolio for impact.** Project/programme-level institutional issues in implementation, together with some project impact data, are currently captured in project status reports (PSRs). 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 PSRs (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 management and implementation of IFAD-funded projects for impact. IFAD’s assessment of country performance in managing and implementing the IFAD portfolio for impact would be made in consultation with the governments of the countries concerned.

26. 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) with a correspondingly simple system of numerical scores.

27. The scores would be combined with scores reflecting country needs to generate resource allocations. To render the system of country allocations more transparent and susceptible to revision in the light of developments, the development of the PBAS would require the elaboration of a new country needs index, principally based upon the number of the rural living population living below the poverty line of USD 1 per day – and subject to floors and caps to ensure that the large countries do not crowd out smaller countries on the basis of the needs index.
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.

28. Overall, the system of allocation of resources to countries would be based on a country allocation weight that combines an aggregate performance index (bringing together the assessments of performance in developing the general policy and institutional environment bearing on poverty reduction; performance in developing the sectoral policy and institutional environment bearing specifically on rural poverty reduction; and performance in managing and implementing the IFAD portfolio for impact) with a country needs index (see Figure 2). This system would not exclude countries providing a relatively poor framework for poverty reduction and rural development. It would, however, allocate fewer resources to them than it would to countries providing a better framework. It is likely that the type of programmes and projects supported would also be different, as identified in relevant COSOPs.

6 The risk of more-developed countries crowding out allocations to the poorest countries because of their more-developed policy and institutional frameworks would be eliminated by maintaining the rule that the share of the poorest countries should be two thirds of the overall lending programme.
The Strategic-Objectives Challenge

29. The objective is not to create predetermined 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.

30. Calculated allocations should not take the form of obligatory lending levels. Rather, the allocation should be in the form of a target figure (or target range) for lending 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 3).

31. As is currently the case, not all countries would receive loans during every programming cycle\(^7\), and not all countries receiving loans would receive loans whose total value equalled their individual allocation. 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). 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.

\(^7\) 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 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.
32. 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 according to their relative score.

33. The following table presents one among many possible ways of calculating allocations on this basis. Different methodologies of scaling and aggregation can have significant computational consequences. Consequently, this table is included for illustrative purposes only and is not intended to represent the Secretariat’s recommendation. As indicated above, ultimately, and for operational purposes, this approach might be reflected in target ranges for countries within a given programming period.
### Table: Hypothetical Resource Allocation Scenario For a Divisional Three-Year Programme

<table>
<thead>
<tr>
<th>Country</th>
<th>Needs Index</th>
<th>General Sectoral Portfolio</th>
<th>Aggregate Performance Score</th>
<th>Allocation Weight</th>
<th>USD Value of Allocation Point</th>
<th>Three-Year Allocation - USD million</th>
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Total scores: 16.9

Loan resource availability: 280

Note: The level of loan resources available to a regional division is estimated *a priori* (on the basis of the regional share of the estimated global loan resource availability); the country aggregate performance index is calculated by cross-multiplying the 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 needs index is generated under ‘caps’ and ‘floors’ rules; allocation weights are calculated by multiplying the needs index by the aggregate performance score; the USD value per allocation point is calculated by dividing total loan resource availability by the sum total of the country cumulative index scores.

34. 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 first be submitted to the Executive Board for review in September of each year.

### VI. NEXT STEPS

35. 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.

36. This would require:

- for the purpose of the sectoral assessment, 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;
• 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;
• adaptation of CPIAs and performance quintile rankings for use as the basis for ‘scoring’ the general country policy and institutional environment bearing on poverty reduction;
• elaboration of a feasible system for assessing performance relative to the general country policy and institutional environment bearing on poverty reduction in borrowing countries that are not included in the IDA CPIA system and the performance quintile rankings;
• 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;
• elaboration of a simple and transparent country needs index including ‘caps’ and ‘floors’;
• development of a transparent and simple procedure for translating a country ‘points’ system for country allocations (as defined above) into monetary values;
• development of a set of conditions for variance (to give flexibility to respond to exceptional circumstances);
• establishment of intra-IFAD processes ensuring consistency and transparency in assessment (in consultation with the countries concerned) and ranking;
• 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.

37. The development and implementation of this system must involve IFAD's Member States – in both the initial formulation and in particular country assessments (which must involve a dialogue between IFAD and the Member States concerned). The objective is to have a system that is agreed by IFAD’s Member States, that generates assessments agreed between IFAD and the Member State concerned, and that is transparent to all Member States.

38. The details of the functioning of the system would be developed in consultation with Member States. An informal panel chaired by the Vice-President of IFAD and including three nominees from each List, as nominated by respective List Convenors, would be formed to consider the further development of this proposal. In consultation with the informal panel, IFAD would present a more detailed set of proposals to a seminar to be held in conjunction with the Twenty-Fifth Anniversary Session of the Governing Council in February 2003. On the basis of discussions at that seminar, as well as inputs from the informal panel, IFAD would prepare a revised and expanded proposal that would be presented to an informal seminar of the Executive Board in April 2003. Subsequent to the informal seminar, IFAD, again in consultation with the informal panel, would further revise and expand its proposals, which would be submitted for the approval of the Executive Board at its Seventy-Ninth Session in September 2003. During the following transitional year, country assessments would be undertaken allowing the full integration of the PBAS into the programme of work considered by the Executive Board in 2004.