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Enabling poor rural people
to overcome poverty

Progress report on implementation of the performance-based allocation system

Note to Executive Board representatives

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For: **Approval**

Recommendation for approval

The Executive Board is invited to approve the submission of a progress report on implementation of the performance-based allocation system to the thirty-fifth session of the Governing Council in 2012, based on this report and its addendum containing the 2011 country scores and 2012 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 approach the allocation system required by the Lending Policies and Criteria in a more systematic way and along the lines of the approach 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 a PBAS, including: the African Development Bank (AfDB), the Asian Development Bank (AsDB), the Caribbean Development Bank, the Global Environment Facility, the Inter-American Development Bank (IADB) and the International Development Association (IDA) of the World Bank. All these IFIs implement a system that assesses both performance and need and, together with IFAD, meet annually to review issues and progress.
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 2010-2012, which coincides with the Eighth Replenishment period. 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. After these systems were introduced, it was recognized by all practitioners that adjustments and improvements were 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 GNI per capita to have a strong role.

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

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.

III. PBAS working group

5. After April 2006, a working group was convened to develop a broader understanding of evolving issues in PBAS implementation. In the Report of the Consultation on the Eighth Replenishment of IFAD's Resources approved by the Governing Council in February 2009, the Board was requested to mandate the PBAS working group to continue its functions and, as well, to review the practices of other IFIs and identify ways to improve the system. Possible areas for examination include: the relative weight of different elements of the PBAS formula, the current level of minimum and maximum allocations and the possible need for exceptional allocations for particularly vulnerable countries, in addition to the current support extended to post-conflict countries. The reallocation approaches of other IFIs also needed to be examined. On 23 June 2011, members of the working group were invited to join IFAD staff for a presentation on the IDA PBAS. On that occasion the working group met under the chairmanship of Dr Yaya O. Olaniran of Nigeria, and is due to meet again in November 2011.

IV. Multilateral development bank/IFI PBAS technical meeting

6. The African Development Bank hosted the seventh PBAS technical meeting in June 2011 in Tunis (IFAD hosted the meeting in 2008). In summarizing the status of PBAS implementation, participants noted that the recently concluded IDA 16 Replenishment had agreed that the current PBAS is "generally working well".²
7. Participants discussed the use of country performance criteria appropriate to their mandates and noted that IFAD focuses on rural and agricultural indicators whereas the Caribbean Development Bank assigns greater weight to environmental vulnerability. The World Bank has undertaken a thorough review of the Country Policy and Institutional Assessment (CPIA) rating system pursuant to recommendations by the Independent Evaluation Group. Changes will be made in the criteria for 2011, and staff guidelines will clarify how considerations of a country's stage of development are to be taken into account in the CPIA (which IFAD also uses to assess performance).
8. Disclosure policies at all institutions are broadly similar: country scores on clusters are generally published, while individual write-ups are not. The need to maintain candour in assessments was underscored as the major rationale for non-disclosure. The World Bank and AfDB do not disclose CPIAs for their member countries to prevent adverse impact on private markets and rating agencies.
9. Participants highlighted volatility in portfolio performance ratings and noted that refinements in the criteria for identifying potential problem projects and an effective early warning system could help reduce portfolio-related volatility in allocations. The AsDB is introducing a revised Project Performance Reporting (PPR) system that takes into account the difference between actual and original cumulative values of procurement awards and disbursements. This approach is similar to that of the Progress Monitoring Report (PMR) introduced by the IADB in 2009, which takes into account project scope, cost and schedule. Other participants noted that the

² Report from the IDA Executive Directors to the Board of Governors: Additions to IDA Resources: Sixteenth Replenishment. Washington, D.C., March 2011.

performance measure relates as much to project design or ex ante estimates as to implementation.

10. IADB, IDA, IFAD, AsDB and AfDB all take into consideration GNI per capita and population as measures of needs. However, only IDA and AfDB currently use the same exponents for these factors in their PBA formulas. It was noted that as IFAD's mandate is rural poverty reduction, IFAD uses rural population together with GNI per capita.³ Participants discussed the balance between needs and performance in the PBA formula and agreed that if factors are added to the "needs" component, such modifications should be done in a way that ensures that performance remains a key driver of allocations.
11. Participants highlighted the importance of aid instruments and modalities in tackling countries' main constraints to growth, and discussed the risks of being overly focused on simply aid volume. In this regard, country strategies were recognized as the key determinant to customize interventions to client needs and circumstances rather than aid volume alone. The participants noted that key stakeholders (i.e. parliaments) are ultimately interested in results and value for money, and thus most participants agreed that delivering results should continue to be the focus in seeking a balance between performance and needs in allocation systems.

V. Application of the PBAS in 2011

12. The 2010-2012 allocation period coincides with the Eighth Replenishment period and, with the increase in resources available, it has not been necessary to delineate specific "active" countries. Regional divisions have therefore identified countries based on planned project activities, and allocations under country strategic opportunities programmes (COSOPs) and the PBAS allocations have been made accordingly to 120 member countries. However, in order to continue to manage allocations over the three-year period, countries that are expected to use only part of their potential allocation have been capped at the expected level of financing. This should further reduce the need for reallocations in 2012 and provide better planning parameters for other countries.
13. On this basis, following the PBAS methodology, final country scores and allocations have been assigned annually and combined with the provisional figures for subsequent years in the allocation period to provide an overall country allocation for the three-year allocation period. The scores provided for 2011 were final (as they are based on the 2010 country scores) and the allocations for 2012 are provisional.⁴ 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 of the rural sector performance assessment indicators has been improved. In this regard, the Latin America and the Caribbean Division worked closely with the Regional Unit for Technical Assistance (RUTA) in Costa Rica on the 2011 rural sector performance assessment indicators to assess and compare scores throughout the region.

VI. The updating of the 2011 country scores and 2012 country allocations

14. In the fourth quarter of 2011, updated data on portfolio and rural sector performance became available and the process of updating country scores for 2011 began. The updated data will be reflected in the final 2011 country scores and 2012 country allocations, which will be tabled at the December Executive Board and subsequently disclosed in accordance with the procedures agreed for disclosure of PBAS information on the IFAD website (www.ifad.org/operations/pbas). As in the

³ There is at present no global, reliable source of rural GNI.

⁴ The provisional allocations are by nature indicative and subject to changes in annual performance (based on assessment of projects at risk, rural sector performance and the IDA Resource Allocation Index), population and GNI per capita. Where appropriate, weighted averages have been used to reduce statistical variance over time.

previous allocation period, the allocations provided for 2010, 2011 and 2012 are final, as they are based on the 2009, 2010 and 2011 country scores.

15. In 2010 and 2011, the first two years of the allocation period, no reallocations between countries have been needed. The same is true in other agencies having adopted a PBAS. However, in developing the PBAS for IFAD, the Executive Board recognized that situations could arise in which it would not be possible to deliver commitments against ex ante country allocations within the allocation period – owing, for example, to a lack of demand for IFAD loans or the absence of opportunities to engage in operations in priority activities as identified in results-based COSOPs. In such cases, the unused allocation would be reabsorbed into the allocable resource pool⁵ for redistribution through the prevailing PBAS (document EB 2003/79/R.2/Rev.1, paragraph 40). In 2012, therefore, all unused PBA resources from the 2010-12 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 PBA methodology.

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.