

IFAD's Performance-based Allocation System

CORPORATE-LEVEL EVALUATION



April 2016

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Front cover: India – Tamil Nadu Women's Development Project. A women's group meeting taking place in Perialangiri. The group leader analyses a problem through group discussion.

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Foreword

The Independent Office of Evaluation of IFAD undertook the first corporate-level evaluation (CLE) on IFAD's Performance-based Allocation System (PBAS) in 2015. Requested by the Executive Board in December 2014, this evaluation reflects IFAD's growing commitment to improving the system it uses to allocate financial resources to its developing Member States for rural poverty reduction. The evaluation is particularly timely, as it coincides with the beginning of the Tenth Replenishment period of the Fund (2016-2018), and will provide knowledge on how to enhance IFAD's overall effectiveness and efficiency.

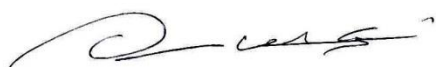
The CLE assesses the PBAS over a ten-year period, from 2005 till 2015, drawing on a wealth of evidence in all aspects of the system, including design, governance, management, operations and reporting. The overall objectives of the evaluation were to: (i) assess the performance of the PBAS in transparently allocating IFAD's financial resources; (ii) analyse the PBAS's approaches and experience in other comparable organizations and identify good practices applicable to IFAD, taking into account the Fund's mandate and financial architecture; and (iii) generate findings and recommendations that will inform the future development of IFAD's PBAS and resource allocation from 2016 onwards.

A key finding of the evaluation is that the PBAS can be considered a major corporate policy instrument that has enhanced the Fund's credibility, transparency and predictability with respect to resource allocation. In addition to the formula upon which the system is based, related characteristics include key policy decisions, such as the allocation of maximum and minimum financial envelopes to selected developing Member States, and decisions related to the number of countries that may receive allocations in any particular three-year funding cycle. The use and nature of the PBAS has evolved considerably over the last decade, adapting itself to continually strike a balance between countries' needs and their performance in creating a conducive national, sectoral and local framework for sustainable rural poverty reduction.

The evaluation highlights several areas for improvement, for instance the need to refine both the formula of the PBAS, as well as its governance and management framework, in order to strengthen transparency of the system's implementation and its capacity to provide adequate incentives to achieve better country performance in the rural sector.

Other recommendations include: enhancing the PBAS design by sharpening its objectives and refining some variables used in the formula; streamlining the process for better effectiveness by systematizing the scoring and quality assurance of variables, in particular in the country performance component; improving the system's efficiency; and promoting better learning, for instance through more explicit monitoring and cross-fertilization of experiences across operational divisions and countries.

With balanced and careful adjustments, IFAD can certainly improve the way it assigns financial resources and reach the rural poor in a more effective and conducive manner. I hope that the important work undertaken in this evaluation will enable the Fund to achieve such a critical role.



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Acknowledgements

This corporate-level evaluation of IFAD's performance-based allocation system (PBAS) was prepared by Ashwani Muthoo, Deputy Director of the Independent Office of Evaluation of IFAD (IOE). He was ably supported by the following consultants: Kenneth Watson (senior consultant), Robin Ritterhoff (governance and management), Jose Pineda (analytical assessment of the PBAS formula), Xiaozhe Zhang (gender and other research), and Adolfo Patron Martinez (PBAS data analysis and other research). Giulia Santarelli, IOE Evaluation Assistant, provided administrative support. Appreciation is also due to Fabrizio Felloni, IOE Lead Evaluation Officer, who contributed a dedicated paper on the PBAS of the African Development Bank and undertook the country visit to Côte D'Ivoire.

The evaluation has benefitted from comments of several IOE staff, who reviewed the draft approach paper and draft final report. Moreover, it is important to underline the excellent inputs by Bruce Murray and Anil Sood, senior independent advisers, who commented on the approach paper and draft final report.

IOE is grateful to IFAD Management and staff for their constructive collaboration throughout the evaluation process. Deep appreciation is also due to current and former IFAD Executive Board members including members of the Board's Working Group on the PBAS for the feedback and information they kindly provided. Last but not least, IOE thanks the nine representatives from IFAD recipient Member States (see annex VIII) who participated in a focus group consultation at IFAD headquarters in October 2015 to discuss key PBAS evaluation questions.

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Technical working papers

(Available upon request - evaluation@ifad.org)

- I. IFAD resource allocation process before the PBAS
- II. PBAS treatment of countries with special situation and emergency flexibility
- III. Climate change and vulnerability and the implication for the PBAS
- IV. Gender and the PBAS
- V. PBAS governance and management
- VI. Comparative review of the PBAS of eight international organizations
- VII. Case studies on the AfDB an Global Fund for AIDS, Tuberculosis and Malaria.
- VIII. Questionnaire results

Abbreviations and acronyms

AfDB	African Development Bank
ADB	Asian Development Bank
CLE	corporate-level evaluation
COSOP	country strategic opportunities programme
CPIA	Country Policy and Institutional Assessment
CPM	country programme manager
DSF	Debt Sustainability Framework
ESA	East and Southern Africa region
GNI pc	per capita gross national income
IDA	International Development Association (World Bank Group)
IFI	international financial institution
LAC	Latin America and the Caribbean region
NEN	Near East, North Africa and Europe region
PAR	project-at-risk
PBAS	performance-based allocation system
PMD	Programme Management Department
PoLG	programme of loans and grants
RSP	rural-sector performance
POP	population
RuralPOP	rural population
WCA	West and Central Africa region

Overview

A. Background

1. Member States first underlined the importance to IFAD of introducing a coherent performance-based allocation system (PBAS) during the Consultation on the Sixth Replenishment of IFAD's Resources (IFAD6) in 2002. Up to that point, IFAD resources were allocated to developing Member States based on country needs as measured, inter alia, by the depth of rural poverty, number of rural poor, availability of national resources and commitments of other development partners.
2. As a result, the Governing Council, during its twenty-fifth anniversary session in 2003, decided that the Fund should design and implement an explicit and transparent PBAS. The PBAS was thereafter developed by IFAD Management with inputs from Member States, and approved by the Board in September 2003. The introduction of the PBAS and its evolution over time have required a number of far-reaching policy decisions that have had important implications for the way IFAD allocates its resources to pursue its mandate.
3. As decided by the IFAD Executive Board in December 2014, the Independent Office of Evaluation of IFAD (IOE) conducted a corporate-level evaluation (CLE) of IFAD's PBAS in 2015, the first such comprehensive evaluation. The evaluation was undertaken within the overall framework of the IFAD Evaluation Policy (2011), and followed the broad methodological fundamentals established in the Evaluation Manual (2009). The overarching purpose of this evaluation was to undertake an independent assessment of the PBAS – a key policy instrument and management tool – to help IFAD further improve the allocation of its resources to developing Member States for rural poverty reduction.

B. Evaluation objectives, methodology and process

4. **Objectives.** The evaluation had three main objectives, which were to: (i) assess the performance of the PBAS in transparently allocating IFAD's financial resources to developing Member States for rural poverty reduction; (ii) analyse the PBAS approaches and experience in comparable organizations and identify good practices applicable to IFAD, taking into account the Fund's mandate and specific financial architecture; and (iii) generate findings and recommendations to inform future development of IFAD's PBAS and resource allocations from 2016 onwards.
5. **Methodology.** The evaluation covers the PBAS from its adoption by the Executive Board in September 2003 to 2015. The main internationally recognized evaluation criteria used in the evaluation are relevance, effectiveness and efficiency. Based on comprehensive data analysis and triangulation, the performance of the PBAS was rated against each of these evaluation criteria on a scale of 1 to 6 (with 1 being the lowest score and 6 the highest).¹ To derive a final rating for each criterion, the CLE first individually rated several sub-criteria using a number of key questions, as contained in the evaluation's approach paper.
6. The evaluation used a mixed-method approach to collecting data and information from a range of sources and informants. "Mixed-method" entails using a combination of qualitative and quantitative techniques for data collection and analysis, and careful attention to triangulating the data and information collected before forming evaluative judgements. This was essential in ensuring an evidence-based and credible evaluation, with robust analytical underpinning.
7. **Process.** The evaluation started with the preparation of an approach paper, which captured the evaluation's objectives, methodology, key questions, process and timelines. It was discussed with IFAD Management and thereafter with the

¹ Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory. IFAD Evaluation Manual (2009).

Evaluation Committee at the outset of the process in March 2015. Data analysis, review of documents and bilateral consultations with key stakeholders, including the Board’s working group on the PBAS, took place from April to September. In the same period, an electronic questionnaire and two country visits (to Côte d’Ivoire and the Philippines) were also conducted, whereas the focus group consultation and telephone interviews with representatives of recipient Member States took place in October 2015. The draft final report was shared with IFAD Management for their review and comments in early January 2016. IOE has duly considered their comments in preparing the final version. The report is being discussed by the Evaluation Committee in March 2016 and thereafter with the Board in April 2016, together with the IFAD Management response.



In-house learning event on the CLE-PBAS, 9 March 2016, IFAD headquarters. Photo by Maurizio Navarra.

8. **Limitations.** First, there is no single, easily accessible repository of PBAS allocation and reallocation data. Such data had to be put together in cooperation with IFAD Management and by examining the various PBAS progress reports produced over the years. Second, the turnover of IFAD staff and Executive Board representatives and officials in Member States meant that it was challenging to identify key informants with a full historical perspective of the PBAS and its evolution. Thus, in addition to making special efforts to contact individuals associated with the system at different junctures, IOE conducted an exhaustive review of key documents on the PBAS since its adoption in 2003. The electronic questionnaire given to Board members and IFAD staff helped generate additional qualitative information used in the evaluation’s analysis. Finally, IFAD has a specific financial architecture (e.g. all its loans and country grants are allocated through the PBAS, whereas other international financial institutions (IFIs) only apply their PBAS to channel funds to countries eligible to borrow on concessional terms). This meant that the evaluation had to be extremely careful in drawing lessons and good practices from other IFIs, given their different financial architecture and the implications for IFAD’s resource allocation system.

C. The IFAD PBAS

9. A core feature of the IFAD PBAS is that country allocations are based on a specific multiplicative formula (figure 1).

Figure 1
PBAS formula

$$\underbrace{[\text{RuralPOP}^{0.45} \times \text{GNI pc}^{-0.25}]}_{\text{Country needs component}} \times \underbrace{[0.2\text{IRAI} + 0.35\text{PAR} + 0.45\text{RSP}]^{2.0}}_{\text{Country performance component}}$$

10. The following variables are included in the **country needs component**:
- RuralPOP: rural population of a country, with an exponent of 0.45; and
 - GNI pc: per capita gross national income,² with an exponent of -0.25.
11. The following variables are included in the **country performance component**:
- IRAI: International Development Association (IDA) Resource Allocation Index (general development framework for sustainable poverty reduction),³ with a weight of 0.20. **This is also known as the Country Policy and Institutional Assessment (CPIA);**
 - RSP: rural sector performance score (IFAD's unique sectoral framework to rate a country's performance in establishing a policy and institutional environment favourable to reducing rural poverty), with a weight of 0.45; and
 - PAR: projects-at-risk, with a weight of 0.35.
12. Once the country score is determined, a second formula (figure 2) is applied to determine the annual allocations for the various borrowers for the following year. Each year, after approval of the annual programme of work, the country scores are updated and allocations re-examined to account for possible changes in the values of the variables (e.g. an increase or decrease in rural population).

Figure 2
IFAD country-resource allocation formula

$$(\text{allocation envelope} \div \text{sum of final country scores}) \times \text{country score} = \text{ex ante country allocation}$$

D. Main evaluation findings

13. **Relevance.** The PBAS's objectives and design have broadly ensured transparency, predictability and flexibility in the allocation of IFAD resources. The initial design of the PBAS and changes made over time appropriately reflected the institution's priorities at the time, even though there are opportunities to further sharpen the relevance of the system in light of the organization's current priorities (e.g. nutrition and climate change). Additionally, attention is needed in the allocation system to food production and food security, which are core dimensions of IFAD's work and were prevalent in the allocation system preceding the PBAS.
14. There has been one important change to IFAD's allocation formula over the past 12 years. This relates to the change in 2006 of the 'total population' variable in the country needs component of the formula to 'rural population'. The exponent was also changed from 0.74 to 0.45. In fact, the evaluation finds that rural population

² Using the World Bank Atlas method, converted to United States dollars.

³ Annex III provides an overview of the country policy and institutional assessment criteria of the IDA.

is the one variable in IFAD's PBAS formula that has the strongest correlation with country allocations.

15. This change from total population to rural population was an important move, *inter alia*, to ensure that the formula has a closer fit with IFAD's rural mandate. There are some challenges, however, because some countries define rural population differently, making data less reliable across countries than the data for total population. Also, the evaluation invites reflection on the extent to which rural population actually captures the multidimensional and complex nature of rural poverty. For instance, the evaluation's analysis reveals that the number of rural people in a given country is not correlated with indicators of rural poverty (e.g. in terms of their access to water, sanitation and electricity).
16. The second variable in the country needs component is GNI pc. The exponent of this variable is negative (-0.25), implying that the higher the GNI pc, the lower the allocation to a given country. Though GNI pc has been a reliable variable to help measure country needs, the evaluation questions how appropriate it is for IFAD, in light of the organization's focus on development of smallholder agriculture in rural areas. For instance, GNI pc is a measure of income per capita at the national level and not in rural areas. Also, it does not capture critical dimensions such as income inequality, especially in rural areas, and it only covers the income aspect of economic and social development.
17. In sum, the evaluation found that the country needs component of the PBAS formula has limited rural poverty focus. For instance, it does not consider a country's vulnerability and fragility. In this regard, there are some internationally recognized indices and data covering nearly all IFAD recipient countries, such as the United Nations Human Development Index (HDI) or vulnerability indices, that might prove useful moving forward.
18. With regard to the country performance component, the evaluation finds that its three variables (IRAI, RSP and PAR) are mutually reinforcing, providing a good picture of country performance. That is, the IRAI provides an overview of a country's broader policy and institutional performance at the national level, the RSP provides an appreciation of the performance of rural sector institutions and policies, while the PAR is about performance at the project level.
19. However, the evaluation finds that data for the three variables are not always available for all countries. Thus IFAD adjusts their weights accordingly, to add to 1 point in each case, as follows:

Box 1

Country performance component

$(0.2 \cdot \text{IRAI} + 0.35 \cdot \text{PAR} + 0.45 \cdot \text{RSP})^{2.0}$ – when data are available for all variables

or $(0.3 \cdot \text{IRAI} + 0.7 \cdot \text{RSP})^{2.0}$ – when PAR scores are not available

or $(0.43 \cdot \text{PAR} + 0.57 \cdot \text{RSP})^{2.0}$ – when IRAI scores are not available

20. IFAD obtains IRAI (CPIA) data from the World Bank, but these are only available for countries that borrow on highly concessional terms. The bank does not disclose them for other countries. As such, the evaluation found that 38 per cent of countries that received an allocation in 2015 did not have an IRAI score.
21. Countries with missing data for the IRAI have a significant advantage, because much more weight falls on PAR and RSP scores. These variables have been rated systematically higher than the IRAI scores (almost by 1.0 point on average on the score scale of 1 to 6; or about 30 per cent higher scores). Giving such a high weight to PAR and RSP destabilizes allocations in undesirable ways. Consequently, using the IRAI as a key variable in the country performance component – especially because an IRAI score is not available for a number of countries – has

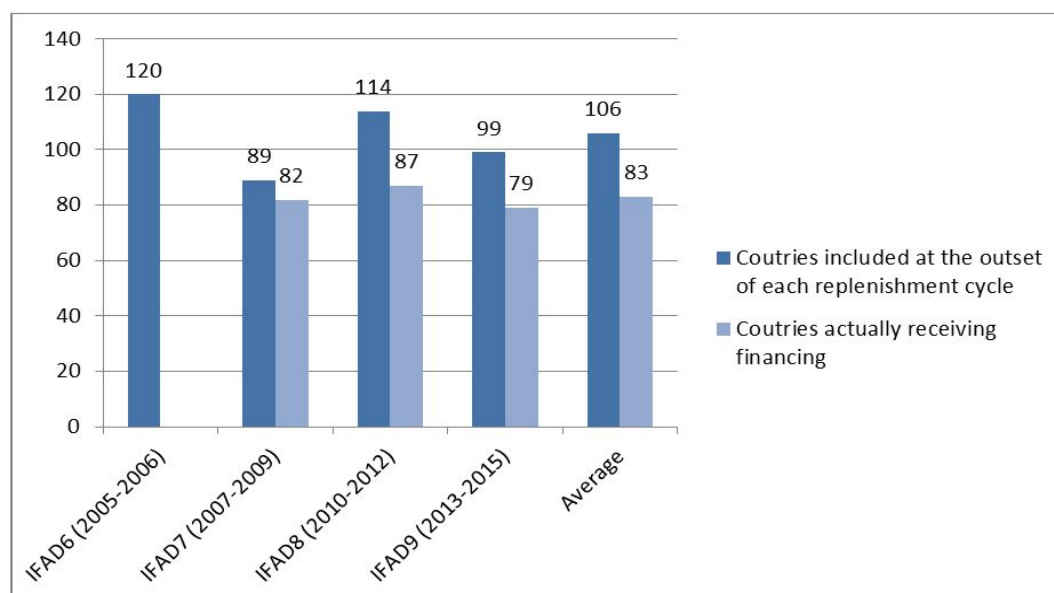
adverse effects on IFAD's country allocation system. In fact, simulations done by IOE show that such reweighting could potentially be allocating about 1 percentage point more resources to the reweighted group relative to the group for which data are not missing.

22. The RSP is a critical variable in the PBAS formula, as it aims to capture IFAD's focus and mandate in the country allocation process. However, since the PBAS was first adopted, the indicators and questions underlying the RSP have not been refined to reflect emerging priorities, opportunities and challenges in the rural sector. Without needed adjustments, there is a risk that the relevance of the RSP variable will diminish further. Thus, while the RSP per se is a highly relevant variable for IFAD's PBAS, there are opportunities to further strengthen its indicators, questions and processes in generating the corresponding ratings.
23. The PAR aims to capture the performance of a country's portfolio of active IFAD projects. In principle, it aims to reward IFAD portfolio performance. However, according to the evaluation, the PAR might be too narrow a variable, as it does not adequately capture the Fund's performance at the country programme level, beyond the project level.
24. Notwithstanding the above, the PAR rating process is good, as it is part of the institution's annual portfolio review. Hence, this is a good example of how existing institutional processes are used in the implementation of the PBAS.
25. Based on the static analysis done by the evaluation, some 65 per cent of a country's allocation is driven by country needs, as compared with 35 per cent by country performance. However, if one looks at changes in allocations over time, the country performance component gains more relevance. The relative weights of the country needs variables are fixed and equal for all countries, while the case is different for the performance variables, particularly for the PAR and RSP. Thus the country performance variables tend to drive changes in allocations over time. This provides an incentive to countries to improve their performance scores.
26. It is worth noting that the African Development Bank (AfDB) uses an exponent of 4.125 on the country performance component, and the World Bank an exponent of 4.0, compared with 2.0 for IFAD. In this regard, the evaluation analysed the amount of resources allocated by these banks by grouping all recipient countries into five quintiles, according to their country performance scores. The finding is that the AfDB allocated 68 per cent of all funds in 2014-2016 to countries in the upper two quintiles of performance and the World Bank allocated over 50 per cent in 2014, whereas IFAD allocated 42 per cent (in 2013-2015) to countries with country performance scores in the upper two quintiles.
27. Finally, the evaluation found that some adjustments have been made to the design of the PBAS since its adoption. In this regard, the principles of maximum and minimum allocations are positive features of the PBAS, enhancing fairness in IFAD's resource allocation by ensuring that poor rural people in different countries and regions can benefit from the Fund's assistance, while also ensuring that small countries, including small island developing states, are not excluded from IFAD assistance.
28. The practice of capping the allocations of some countries in each PBAS cycle below amounts determined by the PBAS formula is also a good feature for maximizing the use of IFAD resources, although the rationale for capping is not explicit nor documented nor available publicly. With regard to minimum allocations, the current ceiling (US\$3 million) in any PBAS cycle is somewhat small, even for small states, especially if one considers that design and supervision costs for projects in minimum-allocation countries is more or less the same as in larger countries.
29. **Effectiveness.** The first allocations based on the PBAS were for the period 2005-2006 (the IFAD6 replenishment period). Since then, the PBAS has been used

to allocate IFAD resources in IFAD7 (2007-2009), IFAD8 (2010-2012) and IFAD9 (2013-2015). It is also being used to allocate resources in the IFAD10 period (2016-2018). From 2005 to 2015 there were four IFAD replenishment cycles and 12 allocation exercises.

30. In principle, 95 per cent of IFAD's programme of loans and grants (PoLG) is allocated through the PBAS. Five per cent is set aside for the Regional and Global Grants programme. For IFAD9, with a target PoLG of US\$3 billion, earmarked funding of US\$380 million for the Adaptation for Smallholder Agriculture Programme (ASAP) was not included in the PBAS run. Hence, the IFAD9 PBAS allocated US\$2.62 billion. By contrast, the PBAS total for IFAD8 was approximately US\$2.8 billion of a target PoLG of US\$3 billion, because IFAD8 contributions were untied.
31. With regard to allocations by region, the Asia and the Pacific region (33 per cent) has the single highest allocation since the PBAS was implemented in 2005, followed by East and Southern Africa (22 per cent), West and Central Africa (19 per cent), Near East, North Africa and Europe (14 per cent), and Latin America and the Caribbean (12 per cent). Although regional lending shares are no longer foreseen in the current PBAS design, 41 per cent of total funds have been allocated to sub-Saharan Africa. And, if one includes the countries in North Africa that are part of the Near East, North Africa and Europe region, then Africa as a whole has received a higher proportion of allocations (close to 50 per cent).
32. The evaluation analysed the types of countries receiving PBAS allocations based on their lending terms. In IFAD9 and IFAD8, 50 per cent of funds went to countries borrowing on "highly concessional" terms. Twenty-three per cent of total allocations went to countries borrowing on "ordinary" terms in IFAD9, as compared with 17 per cent in IFAD8. The remaining funds were provided to countries on "blend" terms, and as grants or a mixture of grants and highly concessional loans (in line with the Debt Sustainability Framework [DSF]). Taking into account IFAD's single window financial architecture, providing lending on ordinary terms is an important feature for the Fund, because reflows from the corresponding loans help promote IFAD's financial sustainability.
33. Figure 3 shows the number of countries included in the PBAS at the outset of the allocation cycle and the number of countries actually receiving financing at the end of the cycle. The figure shows that the number of countries receiving financing has declined over time, especially in the IFAD9 allocation period. However, an important feature to highlight is that 27 countries in IFAD8 and 20 countries in IFAD9 initially included did not receive financing in the end. This merits reflection, because funds allocated and then not disbursed are eventually reallocated to other countries, which can be a rather laborious process.
34. The countries included in the PBAS and those finally receiving financing are normally determined based on dialogue among Member States, regional divisions and the Programme Management Department (PMD) front office. However, the evaluation finds that the management of countries and the rationale for including or excluding countries from the PBAS are not clearly documented, nor is this information made available to the public. Moreover, for most of the period since adoption of the PBAS, the number and nature of countries included or excluded was a decision left largely to PMD, without much discussion at the corporate level (until 2014, see next paragraph).

Figure 3
Countries receiving allocation and financing by replenishment period*



Source: PMD data, IFAD.

* For the countries that actually received financing, only the data from IFAD7 – IFAD9 were accessible.

35. Another important aspect of PBAS management is the reallocation of original allocations. Reallocations might be needed – in any three-year cycle – if IFAD determines that a country might not be able to use the full amount allocated. Reallocations are normally carried out in favour of countries with higher absorptive capacity and demand. This is usually formalized in the third year of the PBAS funding cycle, which may be somewhat late in a three-year cycle. The evaluation concludes that reallocations are a good practice to ensure that all IFAD resources are committed to combat rural poverty. However, it finds that the process for reallocation has traditionally been a feature left to PMD’s discretion. It is important to underline that in 2014, for the first time, the proposed reallocations were discussed and approved by IFAD’s Executive Management Committee, chaired by the President, thus instilling a more strategic and institutional approach into the process.
36. The same applies to countries that are capped. Selection of countries to cap is determined by the regional divisions concerned. Total ‘savings’ are restored to the pool of resources available to IFAD for loans and grants and the PBAS is implemented again. This means that countries included in the PBAS could get a slightly higher allocation than originally envisaged. The evaluation concurs that capping is a positive feature of the PBAS. However, the underlying rationale for capping is not recorded in corporate documents, nor is this information made publicly available.
37. Finally, another feature related to PBAS effectiveness is the role of the governing bodies. They were quite engaged and played a broad role in the introduction of the PBAS and for some years thereafter. Moreover, the Board established a dedicated working group on the PBAS in 2006, which is still functional today. Initially, the working group provided useful inputs into debate on the PBAS, but has not been very active in providing oversight or strategic guidance for some time now. The Board at large has also not been proactive in recent years, apart from considering the annual progress reports on the PBAS containing country scores and allocations.
38. **Efficiency.** The evaluation finds the PBAS a relatively efficient system, especially as compared with the resource allocation system in place before the PBAS was introduced. While it is challenging to make a clear-cut comparison given the

different organizational contexts pre-PBAS and under it, the evaluation finds that the PBAS simplified the allocation process through a clear formula for determining country allocations. No information is available on the efficiency of the system that was in place before the PBAS was established. That system did not, however, determine or announce potential allocations to countries for the replenishment period, and funding decisions were neither predictable nor transparent.

39. By contrast, under the PBAS, allocations are more predictable. Indicative country allocations for the replenishment period are announced at the beginning of the period. The predictability allows for better forward planning of investment operations and country grants, and prioritization of the use of IFAD resources. It also enables strengthening of partnership and dialogue with country authorities and enhances the leveraging capacity of IFAD resources, given that recipient countries are able to earmark their own resources earlier as counterpart funding towards IFAD operations. Thus the evaluation finds the PBAS process more efficient than the previous arrangement, which left country allocations and agreed regional lending shares to the discretion of Management.
40. The rules-based PBAS formula has made IFAD's allocation process much more transparent. Nevertheless, the evaluation finds that there are some remaining issues with transparency. For instance, countries capped and reallocations are not made public, nor are the criteria for excluding countries from the PBAS process. And the databases containing PBAS data are internal to the PMD front office and not disclosed.
41. The important change from total population to rural population, with corresponding adjustments in the weight of this variable, had a favourable effect on the efficiency of the PBAS. The evaluation finds that this change has contributed to a reduction in the number of countries that received maximum and minimum allocations. In particular, reducing the number of countries with minimum allocations has increased efficiency in project development, supervision and implementation support, and in country programme management across the regions generally.
42. A further feature contributing to better efficiency was alignment of the three-year PBAS cycles with IFAD replenishment periods. This facilitates better pipeline planning and allows the Fund to develop its programme of loans and grants based on a clearer idea of its total resource availability.
43. Capping of allocations has contributed to better efficiency in managing IFAD resources. Without capping, concerned countries would not, in principle, be able to use the full allocations determined by the PBAS formula, thus requiring the organization to invest time and energy in reallocating the unused resources during the PBAS cycle to meet the agreed lending targets. The reallocation process is not only cumbersome, but it does not contribute to promoting the basic objective of the PBAS to allocate resources transparently based on specific rules.
44. Only one senior operations manager in the PMD front office was assigned the responsibility of "running" the PBAS. This has meant that few direct staff cost resources have been used in managing the PBAS. On the other hand, it has led to an adverse effect of centralizing implementation of the system in PMD.
45. The efficiency of IFAD's resource allocation processes has been strengthened by the decision in 2015 to allocate all borrowed funds through the PBAS. This is important, not least because it increases the organization's efficiency in managing its broader programme resources, rather than having parallel processes and systems for allocating borrowed funds.
46. There are some challenges that constrain the system's efficiency. First, RSP scoring is done every year, but there are only minor changes to the scores within the three-year PBAS cycle. Thus the need to undertake the RSP process and rating annually is questionable, especially given the efficiency implications for both IFAD

and Member States. The evaluation also finds that the underlying processes in determining RSP scoring are not systematic across the board and that the quality assurance of scores varies significantly from division to division.

47. On another issue, data show that fewer loans are committed in the first year of any three-year PBAS cycle. A better spread of total annual commitments across the three years of any allocation cycle would contribute to better institutional efficiency. This would require tightening forward planning processes, in particular by ensuring better linkages among project pipeline development, country allocations and administrative budget earmarking.
48. IFAD does not have a single document that captures the design of the system and how it has evolved over the years, nor is there an operational manual or guidelines to facilitate its implementation. This could pose a problem, particularly when there is turnover in key staff.
49. Another constraint related to efficiency is the lack of a consolidated repository of all historical data, with proper backups. This exposes the organization to risks and makes undertaking analysis on the full range of PBAS data rather challenging. Moreover, in the interests of transparency, the report notes that current databases containing PBAS data are not available outside PMD, and several Excel spreadsheets constitute the PBAS database. Finally, opportunities for learning and cross-fertilization of experiences in the organization and across Member State representatives have been limited, which has also affected efficiency and effectiveness.

E. Conclusions and ratings

50. The PBAS was introduced following broad-based consultation between IFAD Management and its Member States. Compared with the allocation system in place before 2003, the PBAS has allowed the organization to have a more transparent, flexible and predictable resource allocation system. It has also ensured greater fairness in the allocation of IFAD's resources across developing Member States. The PBAS is generally well tailored to IFAD, has enhanced the Fund's credibility as an IFI, and has aligned its resource allocation system with those found in similar organizations.
51. At the same time, the evaluation finds that some limitations have constrained the design and implementation of the system. First, the PBAS formula does not factor in a key dimension of IFAD's mandate, which is to promote food security and agricultural production, and it also does not consider some central aspects of IFAD's current priorities, such as nutrition and climate change. The country needs component of the PBAS formula has only a limited focus on rural poverty, as it does not take into account some key emerging challenges related to climate change, fragility and vulnerability.
52. Second, taken together, the variables in the country performance component of the PBAS formula provide a good picture of country performance. However, based on the evidence collected and its analysis, the evaluation concludes that the PBAS has not sufficiently promoted incentives to achieve better country performance in the rural sector, which is a core principle of IFAD's allocation system.
53. Third, there are some implementation issues that invite attention. For instance, while the evaluation considers that the PBAS features of minimum and maximum allocations, reallocations and capping enhance the system's flexibility, these processes need to be strengthened and made more transparent. Moreover, though some recent measures have been taken in the right direction, management of the allocation system has largely been "PMD-centric", without a sufficiently corporate approach. Finally, the governing bodies played a useful role in the introduction of the system and for some years thereafter, but have not provided the required oversight and strategic direction in recent years.

54. Based on the triangulation of all evidence collected throughout the process, the consolidated average evaluation ratings of the performance of the PBAS on a six-point scale (see footnote 1) are as follows: relevance: 4.6; effectiveness: 4.2; and efficiency: 4.1. All ratings show that the performance of the PBAS is between moderately satisfactory and satisfactory, with relevance being close to satisfactory, and effectiveness and efficiency closer to moderately satisfactory. Thus there is room for improvement in the design and implementation of the PBAS in the future.

F. Recommendations

55. The evaluation makes the following five overarching recommendations for the future. Their implementation would be reported through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA).
56. **Recommendation 1: Enhance PBAS design.** IFAD Management should propose necessary enhancements to the PBAS design for approval by the Executive Board. In doing so, specific attention should be devoted to:
- (a) Strengthening the rural poverty focus of the country needs component of the formula, in particular by assessing how measures of vulnerability and fragility, income inequality and non-income poverty can be included;
 - (b) Further sharpening the PBAS objectives and overall specifications, ensuring that IFAD's core mandate of promoting food production and food security is adequately reflected;
 - (c) Refining the RSP variable by revisiting the underlying indicators and questions; and
 - (d) Reassessing the balance between the country needs and country performance components of the PBAS formula.
57. **Recommendation 2: Streamline processes for better effectiveness.** Given the unavailability of the IRAI score for numerous countries, Management and the Board should reflect on whether to retain the IRAI variable in the country performance component of the PBAS formula. With regard to the RSP, due attention should be devoted to systematizing and strengthening the RSP scoring and quality assurance processes and viewing them as an opportunity to strengthen partnerships at the national level, knowledge management and policy dialogue. Moreover, ways should be explored to capture IFAD's performance at the country programme level, beyond the PAR.
58. **Recommendation 3: Improve efficiency.** Based on a more robust and participatory process, it is recommended that the RSP score be done less frequently, rather than annually as is current practice. Moreover, specific measures should be introduced to formally collect feedback on the proposed RSP and PAR scores from in-country authorities before the scores are confirmed and fed into the PBAS.
59. Reallocations should be done earlier in any three-year allocation cycle. And, finally, efforts are needed to ensure a better spread of total annual commitments across the three years of any allocation cycle. This will require tightening forward planning processes, in particular by ensuring better linkages among project pipeline development, country allocations and administrative budget earmarking.
60. **Recommendation 4: Adjust management and governance.** IFAD should take a more corporate approach to the PBAS in general. In this regard, one measure is to establish a standing interdepartmental committee on the PBAS, inter alia, to discuss RSP scores, the list of countries to be capped, reallocations and lessons in implementation of the PBAS. This committee would make recommendations to the Executive Management Committee for any adjustments deemed necessary. Moreover, to enhance the transparency of the system, progress reports should be

more comprehensive and should include information on reallocations, capping and any strategic and systemic issues warranting guidance from the Executive Board.

61. **Recommendation 5: Generate learning.** Implementation of the system should receive more explicit monitoring and should generate continuous learning and cross-fertilization of experiences across country programme managers (CPMs), regional divisions and countries. A consolidated review or evaluation of the PBAS should be planned for six years after the revised PBAS design document is adopted by the Board, and the introduction of a periodic review process should also be considered.

IFAD's Performance-based Allocation System

Corporate-level Evaluation

I. Introduction

A. Background

1. Member States first underlined the importance for IFAD to introduce a coherent performance-based allocation system (PBAS) during the Consultation on the Sixth Replenishment of IFAD's Resources (IFAD6) in 2002. Up to that point, on the whole, IFAD resources were allocated to developing Member States based on country needs as measured, inter alia, by the depth of rural poverty, number of rural poor, availability of national resources and commitments of other development partners.⁴
2. As a result, the Governing Council, during its twenty-fifth session in 2003, decided that the Fund should design and implement an explicit and transparent PBAS. The PBAS was thereafter developed by IFAD Management with inputs from Member States, and approved by the Board in September 2003 (see The Structure and Operation of a Performance-based Allocation System for IFAD).⁵ The introduction of the PBAS and its evolution over time have required a number of far-reaching policy decisions that have had important implications in the way IFAD allocates its resources to pursue its mandate.
3. **The evaluation.** As decided by the IFAD Executive Board in December 2014, the Independent Office of Evaluation of IFAD (IOE) conducted a corporate-level evaluation (CLE) of IFAD's PBAS in 2015, the first evaluation by IOE of the PBAS. The evaluation was undertaken within the overall framework of the IFAD Evaluation Policy (2011),⁶ and followed the broad methodological fundamentals enshrined in the Evaluation Manual (2009).⁷ The overarching purpose of this evaluation is to undertake an independent assessment of the PBAS – a key policy instrument and management tool – to help IFAD further improve the allocation of its resources to developing Member States for rural poverty reduction.
4. This is a challenging evaluation, also because few independent evaluations of PBASs have been undertaken by other multilateral development organizations. As such, IOE was required to develop a tailored methodology and process to ensure a high quality assessment of IFAD's PBAS (see evaluation approach paper).⁸ This evaluation is particularly timely, given that it coincides with the beginning of the Tenth Replenishment period of IFAD (2016-2018) and will provide knowledge to fine-tune the Fund's resource allocation system to enhance its overall effectiveness and efficiency.
5. The PBAS evaluation was carried out in record time by IOE, as compared to other CLEs done in the past, which have generally taken around 18 months to 2 years to complete. The PBAS evaluation took about one year from start to finish, considering the draft PBAS evaluation approach paper was presented to the Evaluation Committee at end-March 2015 and the final CLE report was transmitted to the Office of the Secretary in mid-February 2016 for presentation to the April 2016 Executive Board session.

⁴ REPL.VI/4/R.3, p.1.

⁵ EB 2003/79/R.2/Rev.1.

⁶ <http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-2.pdf>.

⁷ http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf.

⁸ See <https://webapps.ifad.org/members/ec/87/docs/EC-2015-87-W-P-4-Rev-1.pdf>.

B. Evaluation objectives, methodology and process

6. **Objectives.** As agreed with the Evaluation Committee, the evaluation of the PBAS had three main objectives:

1. Assess the performance* of the PBAS in transparently allocating IFAD's financial resources to developing Member States for rural poverty reduction.
2. Analyse the PBAS's approaches and experience in other comparable organizations and identify good practices applicable to IFAD, taking into account the Fund's mandate and specific financial architecture.
3. Generate findings and recommendations that will inform the future development of IFAD's PBAS and resource allocation from 2016 onwards.

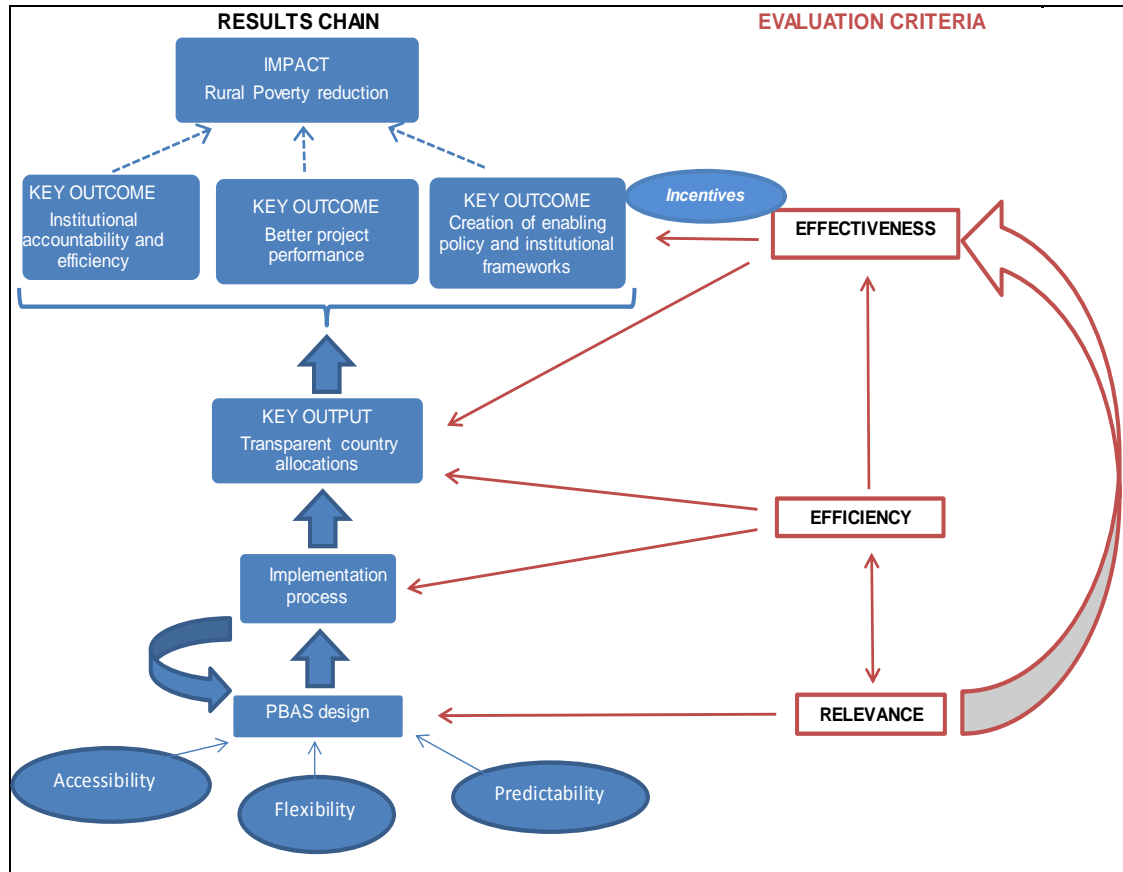
* In terms of relevance, effectiveness and efficiency.

7. **Methodology.** The evaluation covers the PBAS from when it was adopted by the Executive Board in September 2003 to 2015, including the Sixth, Seventh, Eighth and Ninth IFAD Replenishments. It covers all aspects of the PBAS, including design, governance, management, operations and reporting. The resource allocation approach applied by IFAD prior to the PBAS was also reviewed on the basis of available data and information.
8. The PBAS is a management tool for the allocation of IFAD resources to its developing member states. Moreover, though the PBAS is not a classical corporate policy on a specific theme (e.g. rural finance or gender) or a project/programme intervention, it can be considered a major corporate policy instrument⁹ that has transformed the way in which IFAD allocates its resources. To clarify, the PBAS can be also considered a corporate policy given its formula and related characteristics include key policy decisions, such as for example, the explicit intention to reward better country performance in resource allocation, the allocation of maximum and minimum financial envelopes to selected developing member states, and decisions related to the number of countries that may receive allocations in any particular three-year funding cycle.
9. Therefore, in line with international good practice to enhance the transparency and clarity of the subject being evaluated, figure 1 presents a simplified version of the PBAS results chain. The figure maps the results chain to the evaluation criteria that will be used to assess the performance of the PBAS in this CLE; however, it does not illustrate explicitly how other associated corporate policies (e.g. the grants or the debt sustainability framework policies) and processes (e.g. country presence or direct supervision and implementation support) contribute to fulfilling the PBAS's objectives.

⁹ The design of the PBAS was approved by the Executive Board, as other IFAD corporate policies and strategies.

Figure 1

A simplified results chain of the PBAS, together with the evaluation criteria used to assess its performance



Source: CLE PBAS approach paper, IOE, March 2015.

10. On the basis of the above results chain and a review of key PBAS documents, IOE constructed an evaluation framework at the outset of the evaluation process. The evaluation framework explicitly links the evaluation criteria (see next paragraph) used in the CLE, with key questions and sources of data and information to assess the PBAS's performance. The full evaluation framework inclusive of the main evaluation questions may be seen in the CLE PBAS approach paper.
11. As agreed with IFAD Management and the Evaluation Committee during the development of the approach paper, the main criteria used in this evaluation are relevance, effectiveness and efficiency (see annex I for the definition of each criteria). As explained later in this chapter, the use of these three evaluation criteria allowed for a comprehensive assessment of the PBAS including in terms of the appropriateness of its design, attainment of objectives and costs in implementing the system.
12. Based on comprehensive data analysis and triangulation, the performance of the PBAS was rated against each of the aforementioned three evaluation criteria on a scale of 1 to 6 (with 1 being the lowest score and 6 the highest).¹⁰ To derive a final rating for each of these three criteria, the CLE first individually rated several sub-criteria using a number of key questions, as contained in the evaluation's approach paper. Based on the individual ratings (see annex II) for each sub-criteria applied, IOE generated the average rating for each of the three main evaluation criteria used in this CLE.

¹⁰ Rating scale: 1= highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory. IFAD Evaluation Manual (2009).

13. It is important to recall, as also agreed with the Evaluation Committee at the outset of this evaluation, that the evaluation has not measured the impact of the PBAS on rural poverty. This is primarily because it is methodologically challenging to attribute the impact of IFAD operations on rural poverty reduction to the PBAS.
14. The relevance of the PBAS was assessed both in terms of "relevance of objective" and "relevance of design", both at the time of its introduction in 2003 and in today's context. The evaluation took into account the adjustments made to the PBAS formula over time and IFAD's evolving priorities in the past decade and the introduction of the Sustainable Development Goals (SDGs) in 2015. Specifically, it analysed the relevance of the objectives and design of the PBAS, in relation to IFAD's mandate and corporate policies as well as the needs of rural poor in developing Member States. The evaluation also made comparisons with the resource allocation approach that was in place before the introduction of the PBAS. Therefore, the 'before and after' analysis in the allocation of IFAD resources is an important aspect in assessing the relevance of the PBAS.
15. The assessment of effectiveness focused on whether, at the time of the evaluation, the PBAS objectives had been met or were likely to be met. In particular, the evaluation assessed: (i) the extent to which resources were allocated to countries in a transparent, predictable and accessible manner based on country performance and needs; (ii) whether or not the PBAS served as an incentive to promote better policies and institutions in the rural sectors within developing Member States; and (iii) the intended and unintended consequences of applying the PBAS.
16. In analysing the PBAS's efficiency, the evaluation reviewed the administrative resources used in the design, implementation, monitoring and reporting, and overall management of the system to ensure an appropriate allocation of programme resources. A comparison was also made between the PBAS and the prevailing resource allocation system in place before the PBAS was adopted by the Board. The three key questions addressed include: (i) Is the process of allocating resources more expedient with the PBAS, as compared to the system in place before its introduction? (ii) How has the PBAS affected IFAD's overall institutional efficiency? and (iii) Are the corporate processes underpinning the implementation of the PBAS appropriate?
17. **Instruments for data collection and analysis.** The evaluation used a mixed methods approach to collect data and information from a range of sources and informants. Mixed methods entail using a combination of qualitative and quantitative techniques for data collection and analysis, and careful attention to triangulating the data and information collected before forming evaluative judgements. This was essential to ensure an evidence-based and credible evaluation, with a robust analytical underpinning.
18. The following were the main instruments for data collection and analysis:
 - **Desk review of documents and databases** including the PBAS design documents and subsequent adjustments, progress reports, the Grants and Investment Project System (GRIPS), terms of reference of the PBAS Working Group and minutes of its meetings, Management reviews of the system, and IOE evaluations that have included some assessment of the PBAS – for example, the CLE of IFAD's institutional efficiency and the efficiency of IFAD-funded operations, and selected country programme evaluations. The extensive bibliography reviewed for this evaluation is found in annex XII.
 - **Technical analysis on the structure of the allocation formula.** This part of the analysis consisted of: (i) a technical analysis of the PBAS formula to understand the contribution of each variable; (ii) a correlation analysis between the PBAS formula and the country performance score; and (iii) identification of the average contribution of country needs and country

performance on final PBAS country scores. Simulations were also done by undertaking an elasticity analysis to assess the impact of the variables on the allocation. Finally, a modelling analysis was conducted to see the behaviour of the formula using alternative variables and weights and their implications to the allocations (see annex VI for more information on the nature of the modelling and the results thereof).

- **Analysis of operational data** to assess the allocations and reallocations, the number of countries covered in each PBAS cycle, regional allocations, countries in specific circumstances, capped countries and other aspects in the implementation of the PBAS.
- **IFAD stakeholder consultations.** Structured and semi-structured interviews were held with representatives of IFAD Management and staff, as well as selected members of the Evaluation Committee and the Executive Board. In particular, a dedicated session was held with the Board's Working Group on the PBAS, to collect their feedback on key evaluation questions. The list of persons interviewed in the course of the evaluation is found in annex VIII.
- **Surveys.** Two web-based surveys were conducted to collect the perspectives of current and former Executive Board representatives (Members and alternates from 2009 onwards), and IFAD staff (including CPMs and other staff, both in PMD and other divisions). The questionnaire (see annex VII) included questions on the PBAS formula and underlying processes of the allocation system, the role of the Board's Working Group on the PBAS, reporting by Management to the Executive Board, and other related aspects. The questionnaire was sent to 129 stakeholders and the overall response rate was 63 per cent. More specifically, 25 out of 42 Board representatives responded to the questionnaire (response rate 59.5 per cent), whereas 57 out of 87 IFAD staff responded (response rate 65.5 per cent). Several measures were taken to ensure a good response rate, including: (i) translation of the questionnaire into IFAD's four official languages; (ii) personalization of communications; and (iii) several follow-ups via email and phone calls in the case of IFAD staff. In line with good practice, the statistical reliability analysis of the questionnaire results was also conducted.
- **Focus group consultation of recipient Member States.** In order to allow for an in-depth discussion and limit the costs of the CLE, rather than conducting a series of dedicated country visits, IOE organized a structured focus group consultation at the Fund's headquarters with representatives of nine IFAD recipient Member States.¹¹ Countries and representatives were selected in consultation with IFAD Management, to carefully identify representatives who deal with the IFAD PBAS and are knowledgeable of the resource allocation system in other multilateral development organizations. This one and a half-day consultation allowed IOE to directly collect the views of Member States that benefit from IFAD loans and grants. In addition to the focus group consultation, bilateral consultations were also undertaken with other recipient Member State representatives by teleconference¹² to further augment the extent of feedback received.
- **Country visits.** In addition to the above, two dedicated country visits were undertaken to Côte D'Ivoire and the Philippines as part of the comparative study (see next bullet point). These two countries were automatically included because members of the evaluation team visited the Asian Development Bank (ADB) in Manila (the Philippines) and the African

¹¹ Plurinational State of Bolivia, Bosnia and Herzegovina, Brazil, China, Congo, Ecuador, Nigeria, Sri Lanka and Zambia.

¹² Fiji, Sudan and Uganda.

Development Bank (AfDB) in Abidjan (Côte d'Ivoire) to hold discussion with staff in both banks.

- **Comparative study.** The aim of the comparative study component of the evaluation was to learn from the experiences and lessons of other organizations, keeping in mind IFAD's mandate, governance, and specific organizational and financial architecture. The comparator study covered the following organizations: AfDB, ADB, Caribbean Development Bank, Global Environmental Facility (GEF), Global Fund to Combat AIDS, Tuberculosis and Malaria, the Inter-American Development Bank, and the World Bank. The evaluation team met with staff in these organizations, except for the Caribbean Development Bank, and conducted an extensive literature review of documents in all cases.
19. A combination of data sources were used to respond to the various evaluation questions under each of the evaluation criteria discussed in paragraphs 14-16. For instance, the questionnaire, country visits and focus group consultation were particularly useful in assessing the relevance of the PBAS formula, whereas the analysis of the financial and operational data and technical analysis of the formula helped to determine the effectiveness of the allocation system. Efficiency was assessed based on a combination of data sources, including review of documents and review of administrative records to assess the costs and feedback from staff through the questionnaire. The findings from the comparator study cut across the assessment of all three evaluation criteria.
 20. **Process.** The evaluation started with the preparation of an approach paper, which captured the evaluation's objectives, methodology, key questions, process and timelines. It was discussed with IFAD Management and thereafter with the Evaluation Committee at the outset of the process in March 2015. Data analysis, review of documents and bilateral consultations with key stakeholders, including the Board's Working Group on the PBAS, took place between April and September. In the same period, the electronic questionnaire and the two country visits were also conducted, whereas the focus group consultation and telephone interviews with representatives of recipient Member States took place in October 2015.
 21. The draft final report was shared with IFAD Management for their review and comments in early January 2016. IOE has duly considered their comments in preparing the final report. The final report will be discussed by the Evaluation Committee in March 2016 and thereafter with the Board in April 2016, together with the IFAD Management response.
 22. A key element in the process is the role of the two senior independent advisers who supported IOE in the CLE process, Bruce Murray and Anil Sood.¹³ They reviewed the approach paper and provided invaluable comments on the draft final report, which have been considered in the final report. In line with their terms of reference, their joint final report on the quality of the evaluation will be added in annex X.
 23. **Limitations.** The evaluation faced some limitations. Firstly, there is no single, easily accessible repository of PBAS allocation and reallocation data. Such data had to be put together in cooperation with IFAD Management and by examining the various PBAS progress reports produced over the years. In particular, while the data for allocation exercises was available, data on reallocations and the underlying rationale for the reallocations are not documented. Therefore, to overcome this limitation, IOE interviewed PMD front office staff, regional division directors and other staff to understand why some reallocations took place, and why the

¹³ Bruce Murray was former Director General of the Independent Evaluation Department of the Asian Development Bank, whereas Anil Sood was former Vice -President of the Resource and Strategy Department at the World Bank.

allocations of some countries were “capped” in the different PBAS cycles (the concept of capping will be discussed later in the report).

24. Secondly, the turnover of IFAD staff and Executive Board representatives as well as of other key officials in Member States dealing with IFAD matters meant it was challenging to identify key informants who had a full historic perspective of the PBAS and its evolution over time. This was exacerbated by the fact that the PBAS evaluation was the first of its kind for IFAD, covering more than ten years of operation of the system. Therefore, in addition to making special efforts to contact key individuals who were associated with the system at different junctures, IOE conducted a more exhaustive than usual review of key documents related to the PBAS since the adoption of the system in 2003. The electronic questionnaire given to Board members helped generate additional qualitative information that was used in the evaluation’s analysis.
25. Thirdly, unlike the other international financial institutions (IFIs) (e.g. the regional development banks and the World Bank), IFAD has a specific financial architecture (e.g. all its loans and country grants are allocated through the PBAS,¹⁴ whereas in the other IFIs, their PBAS is only applied to channel funds to countries eligible to borrow on concessional terms). This meant that the evaluation had to be extremely careful in drawing lessons and good practices from other IFIs, given their different financial architecture and the implications thereof to IFAD’s resource allocation system.

C. Structure of the report

26. This evaluation is structured in five chapters. Chapter II presents a brief overview of the IFAD’s resource allocation system before 2003 and the main elements of the PBAS and its evolution. Chapters III to V contain the main evaluation findings organized by the PBAS’s relevance, effectiveness and efficiency. Chapter VI contains the evaluation’s conclusions and recommendations. The report also includes a number of annexes providing supplementary information supporting the analysis in the main report.

Key points of the PBAS evaluation

- The PBAS was adopted by the IFAD Executive Board in 2003.
- This is the first independent evaluation of IFAD’s PBAS, covering the time period 2003 to 2015.
- The aim of the evaluation is to: (i) assess the performance of the PBAS in transparently allocating IFAD’s financial resources; (ii) analyse the PBAS’s approaches and experience in other comparable organizations and identify good practices applicable to IFAD; and (iii) generate findings and recommendations that will inform the future development of IFAD’s PBAS and resource allocation from 2016 onwards.
- The evaluation assesses the relevance, effectiveness and efficiency of the PBAS, and covers a wide range of issues including the allocation formula, the reporting system, governance and management as well as a comparative study of practices and experience of other international organizations.
- It used mixed methods of instruments for data and information collection and analysis, including desk review, interviews with stakeholders, electronic questionnaire, focus group consultation, among others.

¹⁴ Except global/regional grants, equivalent to 5% of the PoLG, which are governed by the IFAD Policy on Grant Financing.

II. IFAD's resources allocation system

27. The aim of this chapter is to provide a summary description of: (i) IFAD's resource allocation system in place before the PBAS was adopted by the Board in September 2003; and (ii) the PBAS and its evolution since its adoption.

A. Resource allocation before the PBAS

28. IFAD's global mandate has historically called upon it to support rural poverty reduction in all its developing Member States. However, to make most effective use of its resources, the Fund allocated its resources according to criteria relating to needs in terms of the extent and depth of rural poverty and the opportunity for achieving impact. This process rested on three pillars: (i) IFAD's basic documents, which stipulated country priorities, based on need in terms of rural poverty reduction; (ii) the 1994 and 1999 regional lending shares agreed by IFAD's governing bodies; and (iii) the decision on lending within agreed regional shares.
29. **Country priorities before PBAS.** Two basic IFAD documents guided the allocation of resources until the introduction of the PBAS, including the Agreement Establishing IFAD and the Lending Policies and Criteria. The Lending Policies and Criteria was adopted by the Governing Council at its second session in December 1978. At its 36th session, the Council adopted revised Lending Policies and Criteria, which is now called "Policies and Criteria for IFAD Financing".
30. These documents state, inter alia, that the Fund is mandated to lend only to its "developing Member States". It is expected to give priority in its lending programme to the "poorest developing countries", "countries characterized by low food security and severe poverty in rural areas", "food-priority countries", the "poorest food-deficit countries", "low-income countries", "countries that face a serious aggregate food shortage or have large segments of population that consume food in quantities considered well below the established minimum standards" and "the poorest countries whose food problems require priority attention".¹⁵
31. Criteria in the Lending Policies and Criteria¹⁶ included: (i) low per capita income; (ii) projected cereal deficits; (iii) the degree of protein-calorie malnutrition; (iv) insufficient average increase in food production; (v) the potential for rapid, efficient, equitable and sustainable increases in food production, including availability of underutilized resources; and (vi) balance of payment constraints. The document also noted that each year the majority of IFAD loans are to be provided on highly concessional terms to countries, and the proportion was set at two-thirds of the total amount lent at the time.
32. **The 1994 and 1999 decisions on regional lending shares.** The Consultation for the Fourth Replenishment (1997-2000) established an ad hoc committee to establish a framework for planning future resource allocations in an equitable and transparent manner that took into account the main provisions of the Agreement Establishing IFAD and the Lending Policies and Criteria. The committee sought to integrate the Special Programme for Sub-Saharan African Countries into the Regular Programme, reinforce the emphasis on Africa and include new Member States in IFAD's lending programme.
33. The 1994 methodology for determining regional shares used a framework based on a country needs index derived from about 20 indicators, including the Food Security Index, the Integrated Poverty Index, the Basic Needs Index, and the size of the agricultural population. No formula was specified, but these indices were tallied by country and aggregated into regional lending shares. Thirteen countries became new IFAD members between 1994 and 1999, mainly countries in the North

¹⁵ See Agreement Establishing IFAD at <http://www.ifad.org/pub/basic/agree/e/01agree.pdf>.

¹⁶ See Lending Policies and Criteria at <https://webapps.ifad.org/members/gc/36/docs/GC-36-L-9.pdf>.

Africa and Near East region, hence the 1994 regional allocations required updating.¹⁷

34. Therefore, in the context of the Fifth Replenishment of IFAD Resources in 1999, an Ad Hoc Committee on Regional Allocations was set up to consider how to update the regional allocations. The Ad Hoc Committee chairman reported that “the Committee ... could not recommend a clear-cut set of regional allocations. The credibility of such an approach would be challenged, the allocations being set on too many variables (mix of objective and non-objective criteria, countries with no objective statistical base, historical trends versus methodological approach).”¹⁸
35. The committee asked for clarification in the way the regional allocations were presented, but decided that a sufficiently detailed statistical analysis would not be cost effective. They recommended that “Over and above regional allocations, questions relating to performance and governance in regard to rural poverty, follow-up and consistency with the practices of other IFIs, multilateral cooperation as well as the commitments of the World Food Summit, need to be reviewed in the context of conditions guiding the decision to make a loan.”¹⁹ They adjusted the 1999 regional shares slightly from those adopted in 1994 and recommended a thorough review every few years. Table 1 shows an overview of the changes in regional allocations from 1994 to 1999.

Table 1
The 1994 and 1999 regional allocations

	1994 allocations (percentage)	Revised 1999 allocations (percentage)
Africa I and II Divisions	37.2	36.7
Asia and the Pacific	31.4	31.0
Latin America and the Caribbean	17.9	17.0
Near East and North Africa	13.5	15.2
TOTAL	100.0	100.0

Source: *The Report of the Chairman of the Ad-Hoc Committee on Regional Allocations*. EB 99/67/R.10 4 August 1999.

36. **Country lending within the regional allocations.** In order to translate the 1999 regional lending shares into country lending, the regional divisions first identified the circumstances that limited effective lending, such as arrears or civil strife. Against this background, the resources available to the region were allocated through the country strategic opportunities programme (COSOP) process on the basis of needs-based and performance-related criteria.
37. The criteria applied were the following: (i) “responding to country needs”, which included breadth of poverty, depth of rural poverty, per capita income, size of indigenous population and natural disasters; (ii) “portfolio performance” including disbursement rates and lags, average project rating for ongoing projects, time taken from approval to effectiveness, and number of extensions per projects and (iii) “limiting circumstances”, such as chronic arrears problems, situations of political instability, and poor administration, unsupportive policy and weak commitment to the rural poor.
38. The portfolio performance criteria also included other indicators such as a coherent national rural poverty reduction strategy, economic and sectoral policies, transparency and efficiency in public resource allocation and use, accountability

¹⁷ IFAD (2002). *IFAD and Performance-Based Lending*. Consultation on the Sixth Replenishment of IFAD’s Resources – Third Session. Rome, 2-3 July 2002. REPL.VI/3/R.7.

¹⁸ IFAD (1999). *The Report Of The Chairman Of The Ad-Hoc Committee On Regional Allocations*. EB 99/67/R.10 4 August 1999.

¹⁹ *Ibid.*

and efficiency in public institutions and administration, governance, and other indicators. Though important, they are not strictly speaking indicators of “portfolio performance”.

39. **IFAD lending to poor countries.** Prioritizing the poorest countries was based on article 7 of the Agreement Establishing IFAD, which stipulated that the majority of IFAD loans should go to countries eligible for highly concessional financing.²⁰ This was determined to be countries with a GNP per capita below US\$805 (at 1992 rates) or eligible for International Development Association (IDA)-only financing terms.²¹ The 1999 Ad Hoc Committee on Regional Allocations recommended continuation of the 67 per cent share of highly concessional lending.²² For the period 1995-2001, there were 75 low-income borrowing Member States that received 74 per cent of IFAD’s total lending.²³

B. The performance-based allocation system

40. **Definition.** The final report of the IFAD6 Consultation approved by the Governing Council in 2003 states that: “In pursuing the objective of maximizing the impact of its resources on rural poverty, IFAD will further its practice of focusing resources on the best opportunities for accelerated and sustained rural poverty reduction through design and implementation of an explicit, transparent PBAS.”²⁴



Jharkhand Tribal Development Project, India. Photo by Ankita Handoo.

²⁰ The Agreement Establishing IFAD, article 7, section 2(b).

²¹ IFAD (2002). Criteria and Principles for the Development and Operation of a Performance-based Allocation System in IFAD. Consultation on the Sixth Replenishment of IFAD’s Resources – Fifth Session. REPL.VI/5/R.3. Rome, 14 November 2002. Para 9.

²² IFAD (1999). The Report of the Chairman of the Ad-Hoc Committee on Regional Allocations. EB 99/67/R.10 4 August 1999.

²³ IFAD (2002). IFAD and Performance-based Lending. Consultation on the Sixth Replenishment of IFAD’s Resources. Rome, 2-3 July 2002. REPL.VI/3/R.7 19 June 2002. Table 1.

²⁴ EB 2003/79/R.2/Rev.1, p. 1.

41. **Objectives.** The overarching goal of the PBAS is to help IFAD further its mandate of rural poverty reduction in developing Member States. More specifically, the IFAD6 Consultation Report underlines that “The objective of the system should be to ensure that countries that have created or are creating a conducive national, sectoral and local framework for sustainable rural poverty reduction receive ex ante allocations of IFAD resources in line with their demonstrated ability to use such resources effectively, with higher-performing countries receiving higher allocations than lower performers. The system should also provide that countries that have had less success in creating such a framework, but which show a clear commitment to reform, receive support of the appropriate level and nature to enable them to confront the challenge.”²⁵
42. As noted in the overview document on the PBAS document²⁶ submitted to the Board in April 2014, the broad objectives of IFAD’s PBAS are to:
- Have a transparent rules-based approach to resource allocation;
 - Provide a performance incentive for Member States, particularly in regard to the quality of policies and institutions in the rural sectors; and
 - Allocate resources according to need when countries perform equally well.
43. The introduction of a PBAS was expected to establish a more systematic and transparent resource allocation process that would increase the effectiveness of the use of IFAD’s resources and predictability of future resource flows. Furthermore, as noted in the documented approved by the Board in September 2003 on the PBAS,²⁷ the system was expected to be a strategic management tool to boost policy dialogue between IFAD and its Member States towards the establishment of an enabling policy and institutional environment that favours the reduction of rural poverty. Moreover, a core principle of the system is its performance characteristic, which aims to promote enhanced country performance and reward them through larger allocations.
44. **Design and main features of PBAS.** IFAD applies the PBAS to all lending and country-specific grants, including grants for the Debt Sustainability Framework²⁸ countries. The PBAS is based on annual allocation exercises that operate in the context of three-year cycles, or “allocation periods”. More specifically, the PBAS is run at the outset of each three year allocation cycle, to determine the ex-ante total allocation for IFAD recipient countries. Within each cycle, IFAD reviews the ex-ante allocations annually to reflect updated data for all variables, both in the country needs and country performance components of the PBAS formula (see below).
45. Figure 2 provides the most current schematic representation of the IFAD PBAS as applied today. Figure 2 should be seen in conjunction with figure 3, as the latter clearly illustrates both the exponential and multiplicative weights of the PBAS formula. The PBAS formula has two main components namely a: (i) country needs component; and (ii) country performance component. Having said that, there have been some adjustments made to the PBAS formula and system since its adoption in September 2003, which are discussed latter in this chapter in the section on the “evolution of the system”.

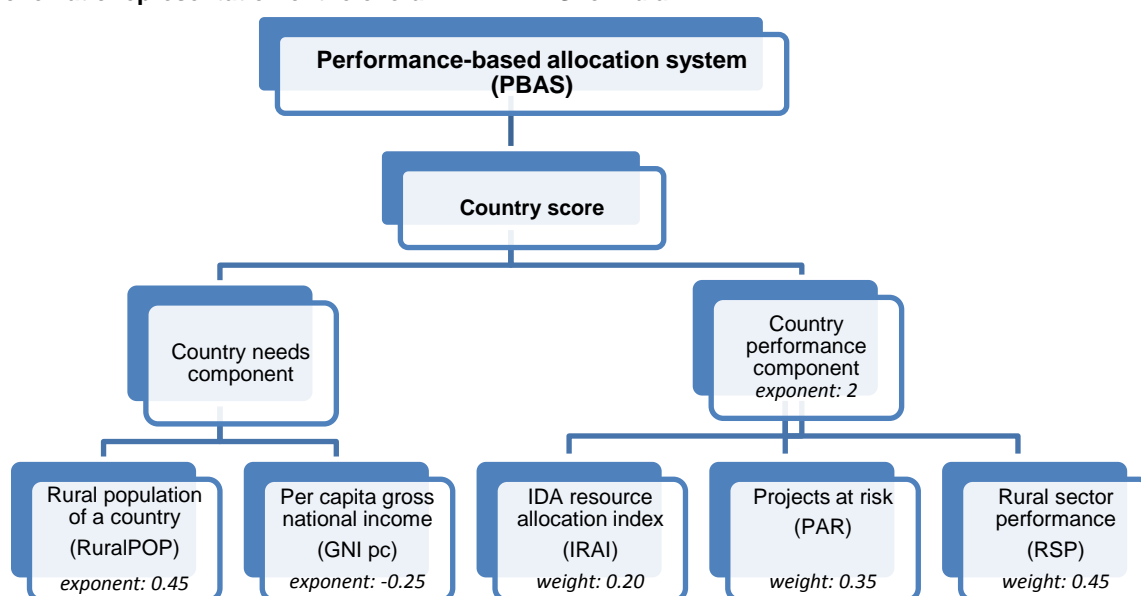
²⁵ REPL.VI/5/C.R.P.1/Rev.1, p. 1.

²⁶ EB 2014/111/INF.6.

²⁷ See, for example, paragraphs 4 and 15 in: *The Structure and Structure and Operation of a Performance-based Allocation System for IFAD*.

²⁸The Debt Sustainability Framework was introduced in 2007 (see document at <http://www.ifad.org/gbdocs/eb/90/e/EB-2007-90-R-2.pdf>).

Figure 2
Schematic representation of the overall IFAD PBAS formula



46. Based on a formula (see figure 3), a country score is generated for each country. The country score is thereafter applied in a second formula (see figure 4 on the next page) to generate the country's PBAS allocation.

Figure 3
IFAD PBAS formula to generate country scores

$$\underbrace{\text{RuralPOP}^{0.45} \times \text{GNI pc}^{-0.25}}_{\text{Country needs component}} \times \underbrace{[0.2\text{IRAI} + 0.35\text{PAR} + 0.45\text{RSP}]^2}_{\text{Country performance component}}$$

47. The following variables are included for the **country needs component**:
- RuralPOP: rural population of a country, with an exponent of 0.45; and
 - GNI pc: per capita gross national income,²⁹ with an exponent of -0.25.
48. The following variables are included for the **country performance component**:
- IRAI: IDA resource allocation index (general development framework for sustainable poverty reduction),³⁰ with a weight of 0.20. This is also known as the Country Policy and Institutional Assessment (CPIA);³¹
 - PAR: projects at risk with a weight of 0.35; and
 - RSP: rural sector performance score (IFAD's unique sectoral framework to rate a country's performance in establishing a policy and institutional environment favourable to reducing rural poverty), with a weight of 0.45.
49. Once the country score is determined, as mentioned above, a second formula (see figure 4) is applied to determine the annual allocations for the various borrowers for the following year. Each year, after approval of the annual programme of work, the country scores are updated and allocations re-examined to account for possible

²⁹ Using the World Bank Atlas method, converted to United States dollars.

³⁰ Annex III provides an overview of IDA's country policy and institutional assessment criteria.

³¹ In the case that the CPIA is not published for a given country, the weight of the CPIA is distributed to the PAR and RSP variables, with the weights of 43 per cent and 57 per cent respectively.

changes in the values of the variables (e.g. an increase or decrease in rural population).

Figure 4
IFAD country resource allocation formula

$$(\text{allocation envelope} \div \text{sum of final country scores}) \times \text{country score} = \text{ex ante country allocation}$$

50. The special provision for RSP in the PBAS formula has a degree of preponderance over the CPIA assessment. The RSP recognizes the importance of country performance by assessing policies and activities in rural areas that most effectively contribute to sustainable development and rural poverty reduction.
51. The RSP score is determined through the five indicator clusters shown below, which have in total 12 indicators (see annex III, which also includes a summary of the CPIA criteria) and several sub-questions. Each cluster has equal weight and is given a score/rating, following a six-point scale for each indicator. An average overall RSP rating is determined based on the individual ratings of the following five clusters.
 - Strengthening the capacity of the rural poor and their organizations;
 - Improving equitable access to productive natural resources and technology;
 - Increasing access to financial services and markets;
 - Gender equality; and
 - Public resource management and accountability.
52. The RSP and PAR analysis are supposed to contribute to the COSOPs, in the identification of key areas of improvement in the implementation of ongoing projects and the design of new projects. The COSOPs also include an estimate of the PBAS allocation for the concerned country, in order to provide a forecast for the entire COSOP period.³² Moreover, a forecast of country allocations for each year in a given allocation period has been included in the annual PBAS progress reports since 2006.
53. In situations in which ex ante country allocations within a specific replenishment period are not used – for example, due to the lack of demand from the borrower’s side or unavailability of projects in the pipeline – the unused allocations are reallocated to other recipient countries by the IFAD Management. New countries not originally included in a particular three-year PBAS cycle may be introduced in the allocation period as well.
54. While most of IFAD’s resources are allocated through the PBAS formula, a few exceptions apply. Among these exceptions are post-conflict countries. IFAD uses IDA’s guidelines within the PBAS methodology to distribute special allocations to these countries. This results in an increase in their country allocations above normal levels (up to twice as much) for a specific PBAS cycle.
55. Another exception is the ASAP (Adaptation for Smallholder Agricultural Programme) funds, which were provided to IFAD as earmarked, complimentary contributions from some member states. However, ASAP funds are not allocated through the PBAS formula. Some of the reasons for this may be seen in annex 3 of ASAP’s “programme description”,³³ which notes that using the PBAS would: (i) remove the incentive effect of awarding ASAP cofinancing only to projects that meet ASAP criteria; (ii) spread ASAP financing too thinly for it to make an

³² As of December 2015, the Executive Board of IFAD considered COSOPs for 78 member states. Of the 79 countries which actually received PBAS financing in IFAD9, 16 countries (about 20 per cent) have COSOPs.

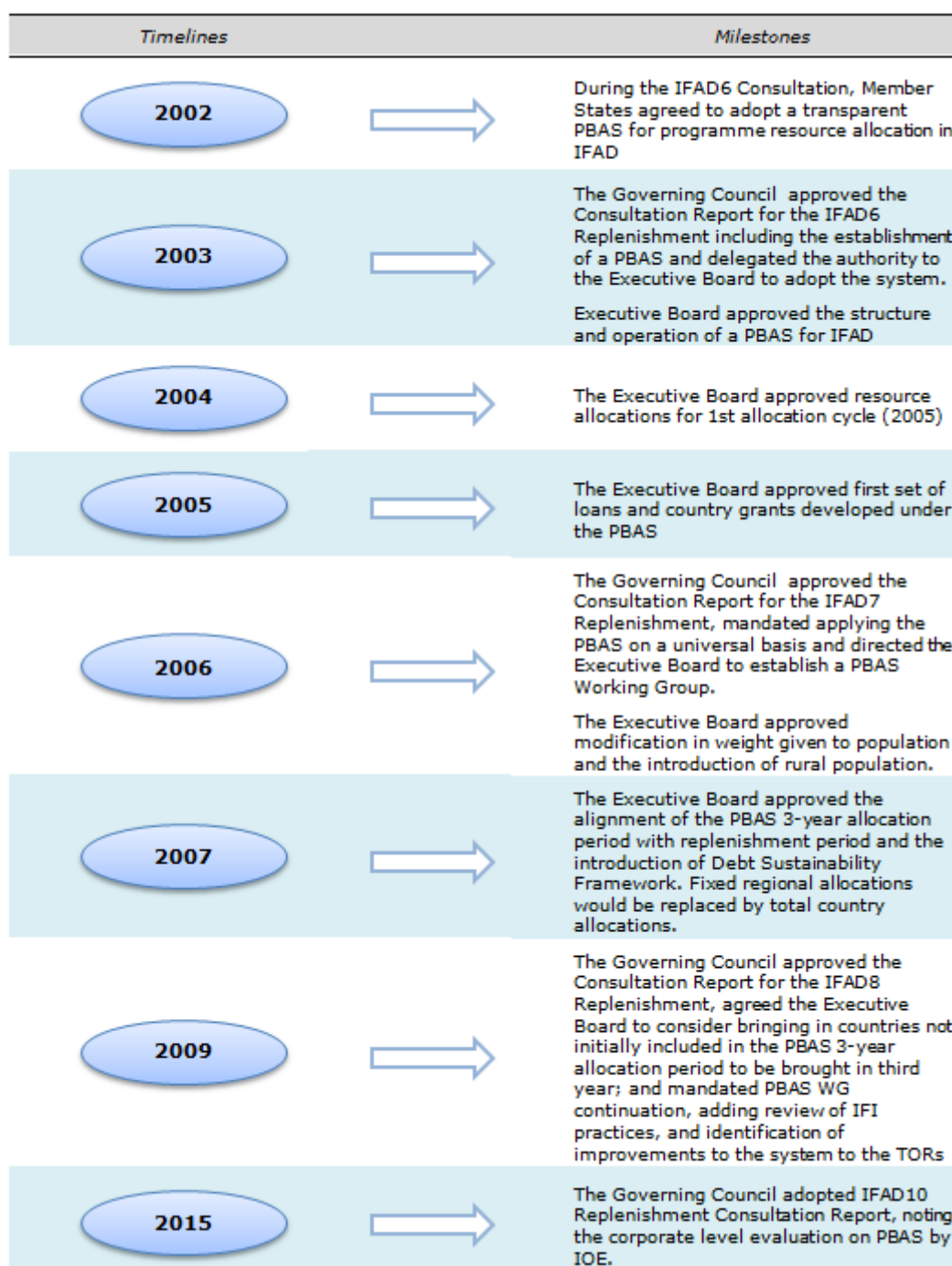
³³ <http://www.ifad.org/climate/asap/note.pdf>, dated January 2012.

incentives difference; (iii) not necessarily focus the funds on those communities or countries most vulnerable to climate change.

56. **Evolution of the system.** Figure 5 outlines the main milestones in the introduction and evolution of the PBAS at IFAD. Since 2006, some important changes have been made to the PBAS methodology based on lessons learned by IFAD during the implementation of the system in 2004-2005. For example, during the eighty-seventh session of the Executive Board, in 2006, and in line with IFAD's mandate to work only in rural areas, Board representatives agreed to:³⁴
- (i) Change the "total population" variable (which was originally included in the PBAS formula, as approved by the Board in September 2003) to "rural population", and to reduce its weight from 0.75 to 0.45.
 - (ii) Subsequently, as from the 2007-2009 PBAS cycle, it was agreed that fixed regional allocations would be replaced by total country allocations to favour more equitable distribution across recipient countries.
 - (iii) A further refinement introduced in 2006 is the use of individual CPIA as disclosed by the World Bank, rather than average scores based on quintiles of countries.
 - (iv) The Board also agreed that within the three-year allocation cycles, an annual allocation approach should be used, with country scores calculated for each year for all eligible Member States according to the PBAS formula.
57. In addition to the above, the concept of minimum and maximum allocations was also formalized. In this regard, it was agreed that countries whose PBAS allocation is US\$1 million or less in a particular year would automatically get a minimum allocation of US\$1 million per year, for a total of US\$3 million in any PBAS cycle. The aim of this measure is to ensure that countries get a sizeable amount of resources for investment projects. Secondly, the concept of maximum allocations for selected countries was also approved. In such cases, countries would not get more than a certain percentage of the total resources available in a three-year cycle, irrespective of their allocation based on the PBAS formula.

³⁴ EB 2005/85/R.3.

Figure 5
The main milestones in the adoption and evolution of the PBAS



58. After April 2006, a dedicated Working Group on the PBAS of the Executive Board was convened to develop a broader understanding of evolving issues in PBAS implementation. The working group is still in operational, nearly 10 years later. This will be discussed further in the evaluation report. In 2007, an important decision was taken to align the three-year PBAS allocation cycle with the three-year IFAD replenishment periods.
59. The Executive Board approved the Debt Sustainability Framework (DSF)³⁵ in 2007. The implication of the DSF will be explained in section D of this chapter and later in the report. As mentioned earlier, in the same year, IFAD adopted IDA guidelines

³⁵ EB 2007/90/R.2.

for post-conflict and crisis-affected countries (including natural disasters) to deliver an allocation methodology that is in line with PBAS methodology. This results in allocations above normal levels (up from 30 to 100 per cent) of the PBAS allocation for a specific period.

60. During IFAD8 (2010-2012), Member States recommended that – some countries not originally included in the PBAS – get allocations in the final (third) year of the PBAS cycle. This however was on the condition that a country or countries with a similar country score or scores be removed from the list. This issue was stimulated by the PBAS Working Group discussions in 2008.
61. Starting in the 2010-2012 allocation period, in order to better manage the total resources in any three-year period, countries that are expected to use only part of their total allocation are "capped" by Management and get a lower allocation than what is actually determined by the PBAS formula. Since 2009, however, neither the Governing Council nor the Executive Board has proposed significant changes to how the system operates.

C. Institutional arrangements for the PBAS

62. **Governance.** In February 2003, the Governing Council delegated authority to the Board to approve the design and implementation of the PBAS. The Board therefore has an important role to play in the oversight of the system.
63. Every year since 2003, the Board has received a progress report on the implementation of the PBAS. This report is thereafter submitted to the Governing Council in the subsequent year. Based on a review of the implementation of the system in its initial years, in April 2006, the Board adopted some adjustments to the system as originally approved in 2003 (as discussed above).
64. Moreover, during IFAD7 (February 2006), as mentioned previously, a dedicated Working Group on the PBAS was set up by the Governing Council to develop a broader understanding of evolving issues in PBAS implementation (see below).
65. **PBAS working group of the Executive Board.** The main elements of the terms of reference of the Board's working group are to discuss and develop a common understanding on the:
 - (i) Modifications of elements of the formula, including performance assessments and the weights of population and income, while maintaining the overall weight of performance;
 - (ii) Experience and lessons learned from other agencies implementing PBAS initiatives;
 - (iii) Data to be used for rural population;
 - (iv) Implementation of the PBAS for concessional and non-concessional borrowers; and
 - (v) Other potential indicators of poverty such as nutrition and per capita rural income levels.³⁶
66. The working group meets periodically, as determined by its members, to discuss progress and possible issues with regard to IFAD's PBAS and review practices in other IFIs.
67. The working group is composed of nine IFAD Member States: four from List A, two from List B and three from List C, which is the same distribution of Member States found in the other subsidiary bodies of the Board (i.e. the Audit and Evaluation Committees). The working group chairperson is elected from among its members and the Board is informed accordingly. The term of working group members

³⁶ EB 2014/111/INF.6, p. 2.

coincides with the term of Executive Board representatives.³⁷ The functioning of the working group will be discussed in chapter III-V.

68. **Internal management of the system.** Within IFAD, the front office of the Programme Management Department (PMD) is responsible, inter alia, for running the PBAS, monitoring resource utilization, preparing the annual progress reports, undertaking reviews and proposing any adjustments to the system. PMD has assigned a senior operations adviser as focal point for the PBAS, under the overall guidance of the Associate Vice-President, PMD. Regional divisions are responsible for ensuring that country allocations are utilized within the PBAS allocation periods.
69. Moreover, in order to ensure greater oversight by Senior Management in the implementation of the PBAS, since 2014, the IFAD Executive Management Committee³⁸ started to review country allocations and takes decisions on any reallocations, as and when needed. It also decides on any proposed adjustments to the PBAS, and submits these to the Board for approval. Issues related to the PBAS's internal management and governance will be analysed in chapters III-V of the evaluation report.

D. Key distinguishing feature of IFAD's PBAS

70. There are some distinguishing features of IFAD's PBAS that need to be kept in mind when doing an evaluation of the system. Firstly, IFAD has a single window financial architecture, whereas other IFIs and regional development banks (apart from the GEF) have a two window financial architecture. This means, as mentioned in the previous chapter, that all IFAD loans and country-specific grants resources are allocated through the PBAS, whereas in the other IFIs, their PBAS is only applied to channel funds to countries eligible to borrow on concessional terms.
71. Secondly, compared to other multilateral development banks (MDBs), IFAD's PBAS encompasses the largest number of recipient countries, yet IFAD has the smallest amount of resources at its disposal as compared to the World Bank and the three main regional development banks (ADB, AfDB and the Inter-American Development Bank). All developing countries that are Member States of IFAD are eligible for PBAS allocations, irrespective of their income per capita or country classification or typology (e.g. middle-income country, low-income country, fragile state, small island developing state, etc.). However, the number of recipient countries in each PBAS cycle has varied from 118 (IFAD6) to 89 (IFAD7) to 114 (IFAD8) and 99 (IFAD9). As will be discussed later in the report, the number of countries that are included in each PBAS cycle is determined by the IFAD Management based on the dialogue that regional divisions engage in with each developing Member States, including, for example, demand for assistance, absorption capacity, and security.
72. Thirdly, in line with the implementation of the DSF³⁹ policy of IFAD, those countries assessed as not at risk of future debt distress (i.e. classified as "green") continue to receive their allocations as loans from IFAD. Countries that have low debt sustainability (classified as "red") get their allocation fully as grants and not loans. However, in these cases, their total allocations are reduced by 5 per cent, and the reduction is redistributed to other IFAD recipient countries through the PBAS formula. The 5 per cent "discount" serves to maintain the performance linkage with the resource allocation system and to give a signal about, inter alia, the benefits of good public financial management. Finally, countries that are partly indebted (classified as "amber") receive their allocation divided equally between loans and grants. In their case, their allocations are reduced by 2.5 per cent and the reductions are reallocated as well.

³⁷ The most recent members were elected in April 2015 with a mandate of three years, until April 2018 (which coincides with the election of new Board representatives).

³⁸ The Executive Management Committee is chaired by the President and includes the Vice-President and the Associate Vice-Presidents.

³⁹ The Debt Sustainability Framework was introduced in 2007.

E. The PBAS in other international financial organizations

73. Box 1 below indicates the years in which the main IFIs/MDBs introduced their respective PBASs. An overview of the PBAS formulas of other IFIs is provided in annex V. Based on a review of key documentation and discussions with staff in comparator organizations, their PBASs aim to provide a transparent approach for resource allocation based on a coherent formula, so that funds may be channelled where they are likely to be most effective to further the respective organization's core mandate.

Box 1

Year of adoption of a PBAS by other IFIs/MDBs

- 1977 – International Development Association
- 1999 – African Development Bank
- 2000 – Caribbean Development Bank
- 2001 – Asian Development Bank
- 2002 – Inter-American Development Bank
- **2003 – International Fund for Agricultural Development**
- 2006 – Global Environment Facility

74. In 2005, following the adoption of PBAS approaches, the IFIs/MDBs (including IFAD) initiated an annual PBAS technical meeting to discuss important features of their systems and emerging development issues. A summary of these meetings is included in the yearly PBAS progress reports. IFAD hosted the meeting in 2008 and 2013.
75. Although selected United Nations specialized agencies, programmes and funds (e.g. the United Nations Development Fund, the United Nations Population Fund and the United Nations Children's Fund) also have some form of resource allocation system, they are not comparable to IFAD's PBAS or the allocation system in the IFIs/MDBs, because they are not performance-based. Moreover, the funds mobilized by the United Nations organizations are based on voluntary or "assessed" contributions, rather than through periodic replenishment processes. Their operating models and core business are also quite different from those of IFAD and other MDBs.
76. Although PBASs vary across the IFIs, all of them include the "country needs" and "country performance" components to determine the size of country allocations. However, the variables and weights for these two components are not always the same. Some IFIs – for example the World Bank – assess country performance through macro-economic management, social inclusion and public-sector-related policies.
77. As mentioned earlier, IFAD operates in a single sector and its PBAS includes, among others, an assessment of the empowerment of the rural poor, as well as the quality of local government and rural development policies. This shows that each PBAS reflects criteria applicable to the mandate of the respective institutions. As such, though IFAD's PBAS draws upon the experience of other IFIs, it aimed to embody the specific features of IFAD's mandate.
78. The other aforementioned organizations have a two-window financial structure (apart from the GEF, as mentioned above). They each have a concessional window (e.g. IDA in the World Bank) for lending to low-income countries including fragile states, and a non-concessional window (e.g. the International Bank for Reconstruction and Development in the World Bank) for lending to middle-income countries with most of the funds raised from the international financial markets. At the World Bank, the PBAS is only applied to the concessional window (i.e. IDA),

which receives the bulk of its resources through periodic replenishments by member states, but also through subsidies provided by IBRD. This two-window financial structure is prevalent also in other MDBs such as the Inter-American Development Bank.

79. However, it is worth noting that discussions are currently underway in the context of ADF12 (Twelfth Replenishment of the Asian Development Fund) replenishment process on the overall financial architecture of the ADB. For example, discussions are taking place on setting up a supplementary ADF window to accommodate the willingness of some donor to provide additional contributions to address emerging challenges such as disaster risk reduction and provision of regional public goods.
80. Some MDBs/IFIs, including IFAD, have special funding approaches to support fragile states, post-conflict states, small island developing states, regional or multi-country projects, and capped countries. The different PBAS systems used by various IFIs/MDBs were reviewed during this evaluation, and where applicable to IFAD, the findings have been reported in chapters III-V of the report. The full set of findings is documented in a dedicated working paper prepared by IOE, which may be made available upon request.

Key points of IFAD's resource allocation system

- Before the PBAS was adopted, IFAD resources were allocated according to indicative regional shares, taking into account countries strategic opportunities for rural poverty reduction, perceived country needs, portfolio performance and resource absorptive capacity of the concerned country.
- The PBAS was adopted by the IFAD Executive Board in September 2003. It is a rules-based formula-driven approach to allocate IFAD loans and grants.
- All IFAD developing Member States are eligible to receive PBAS allocations. The first allocations were made in 2005 using the PBAS.
- The allocations are made based on a PBAS formula which has two main components: (i) country needs with two variables (rural population and GNI/capita); and (ii) country performance with three variable (CPIA, RSP and PAR).
- Some changes were made to the PBAS following its adoption in 2003. These include, inter alia, replacement of total population with rural population, reduction of the weight allocated to rural population (as compared to total population), the alignment of the PBAS financial envelope with the three-year IFAD replenishment cycles, and the adoption of an annual allocation approach within each three-year PBAS cycle.
- A working group of the Board was established by the IFAD Governing Council in February 2006, consisting of representatives of nine IFAD Member States. The aim of the working group is to develop a broader understanding of evolving issues in the PBAS implementation. The Working Group continues to remain active.
- Every year, IFAD Management produces an annual progress report on the PBAS for consideration by the Executive Board.
- Within IFAD, the PMD front office is responsible for the PBAS and its implementation. Starting in 2014, the Executive Management Committee reviews country allocations and takes decisions on any reallocations.
- Several other IFIs also have adopted resource allocation systems similar to the IFAD PBAS. Though there are several similarities between IFAD's PBAS and the systems in other IFIs, each system also has distinguishing features consistent with their specific mandates and organizational architecture.

III. Relevance of the PBAS

81. In line with the definition for relevance contained in the IFAD Evaluation Manual (2009), this section assesses: (i) the relevance of the defined objectives of the PBAS at the time of its approval by the Board and in today's context, taking into account IFAD's broader mandate and the evolution of its corporate priorities; and (ii) the relevance of the PBAS design (for example, in terms of the formula and its evolution over time, the system's governance and management, monitoring and evaluation, and reporting) to meet its objectives. In particular, the following three questions were addressed by the evaluation.

- Is the PBAS an appropriate strategic management tool to effectively use IFAD's resources for rural poverty reduction?
- As designed, including all adjustments made over time, is the PBAS an appropriate instrument for the allocation of IFAD's resources and are its objectives coherent with the overall institutional mandate, including in terms of sustainable agriculture and food security, gender equality and women's empowerment?
- Did IFAD put the right organizational structure, systems and processes in place to ensure the smooth implementation, monitoring and reporting, and review of the PBAS over time?

A. Relevance of objectives

82. As mentioned in chapter II, the PBAS's main objectives are to ensure that countries that have created or are creating a conducive national, sectoral and local framework for sustainable rural poverty reduction receive ex ante allocations of IFAD resources in line with their demonstrated ability to use such resources effectively, with higher-performing countries receiving higher allocations than lower performers. The system should also ensure that countries that have had less success in creating such a framework, but which show a clear commitment to reform, receive support at the appropriate level and nature to enable them to confront challenges.
83. The Structure and Operations of a PBAS (September 2003) repeats the above objective, but also includes a further objective as follows: "to generate three-year (but annually reviewed) loan-commitment envelopes for all borrowers, on a consistent basis involving transparent criteria, that can provide the basis for discussions with countries on the elaboration of IFAD's lending programme within the framework of medium-term national development strategies (including poverty reduction strategy papers (PRSPs)".
84. **Pre- and post-PBAS.** Before analysing the above-mentioned objectives, the evaluation finds that the broader objective of introducing a PBAS system in IFAD was highly relevant and timely, compared to the resource allocation system in place before 2003. The introduction of the PBAS aligned IFAD's resource allocation system with the practice in other IFIs, most of which had similar systems in place before 2003, while taking into consideration IFAD's mandate and specificity.
85. Though IFAD had a resource allocation approach before 2003, it was managed internally with relatively limited reporting to and participation of the governing bodies. It did not explicitly aim – as the PBAS – to provide incentives to Member States to improve their portfolio performance or performance of the rural sector. Moreover, although it also considered "country needs" and "portfolio performance", the latter was not focused on the performance of IFAD-funded projects, as it included numerous indicators on the performance of the agricultural and rural sectors.
86. The pre-PBAS system was driven by pre-defined regional shares, which the five IFAD regional divisions managed. It did not include a transparent formula for

translating regional shares into country allocations or specify any weight between country needs on one hand, and portfolio performance on the other, nor were there any clear and corporate provisions for reallocations in those cases when allocations could not be committed in new loans and grants for a given country. However, as noted in chapter II, a strong feature of the pre-PBAS allocation system was its focus on food security, food production, and food-deficit countries, aspects which do not prominently feature in the current PBAS objectives or design.

87. In general, the approach before the PBAS manifested a great deal of flexibility, but at the same time, it did not have the required degree of transparency or corporate approach, nor were allocations explicitly linked to country strategies. Moreover, feedback from several Member State representatives collected during the evaluation process revealed that the introduction of the PBAS enhanced their confidence in the Fund as a whole, and further enshrined IFAD's identity as a credible IFI part of the United Nations system.
88. Table 2 below shows the actual regional allocations by the five IFAD geographic regions, in percentage of total commitment of resources, before and after the PBAS was first implemented. It is important to compare the percentages of resources rather than total allocations, because IFAD's total programme of loans and grants has steadily increased over the years. Therefore, to facilitate comparison, two 11 year periods are analysed (pre-PBAS from 1994-2004, and post-PBAS from 2005-2015).
89. The table shows that the allocations in Asia and Pacific (APR) have increased most, whereas the shares of two regions have reduced quite a bit (Latin America and the Caribbean (LAC), followed by Near East, North Africa and Europe (NEN). There are a number of reasons for this shift in the level of resources allocated. Rural population is one key driver, which is high in APR and relatively low in LAC and NEN.

Table 2

Share of approved loans and country grants by region (percentage)

<i>Region</i>	<i>1994-1996</i>	<i>1997-1999</i>	<i>2000-2002</i>	<i>2003-2004</i>	<i>Pre-PBAS average</i>	<i>2005-2006</i>	<i>2007-2009</i>	<i>2010-2012</i>	<i>2013-2015</i>	<i>Post-PBAS average</i>
APR	31	31	28	26	29	35	34	33	38	35
ESA	19	17	21	21	20	16	26	23	19	21
LAC	16	19	15	16	17	15	11	10	6	11
NEN	19	18	16	20	18	15	14	12	12	13
WCA	15	15	20	17	17	18	15	22	25	20

ESA = East and Southern Africa; WCA = West and Central Africa.

Source: IFAD's Grants and Investments Projects System, calculated by IOE.

90. **PBAS objectives.** The PBAS objectives are captured in several key corporate documents, in particular the final IFAD6 Consultation Report adopted by the Governing Council in February 2003 and the main PBAS design document adopted by the Executive Board in September 2003. Moreover, management produced an information paper on the PBAS for the Board's consideration in April 2014, which also contains the objectives of the PBAS.
91. Notwithstanding the aforementioned and using the objective statement adopted by the Governing Council – given its supreme positioning in IFAD's governance architecture – the evaluation finds appropriate the statement that "with higher-performing countries receiving higher allocations than lower performers" (see paragraph 41 in chapter II for the full objective statement adopted by the Governing Council). This will contribute to maximizing the impact of IFAD operations on rural poverty reduction, in line with IFAD's overarching mandate.

92. The above objective statement should be read together with the further objective of the PBAS, which is to “provide countries that have had less success in creating such a framework, but which show a clear commitment to reform, receive support of the appropriate level and enable them to confront the challenge”. This is also appropriate to reduce the risks to lower performing countries from further indebtedness, while at the same time providing them the required support to improve their performance.
93. As mentioned above, there is one important aspect of the PBAS that is not adequately reflected in the PBAS’s objective statement, which relates to IFAD’s core mandate of promoting food security, food production and improving nutritional levels. In fact, the Agreement Establishing IFAD (see article 2) states that “..the Fund shall provide financing primarily for project...taking into consideration the need to increase food production...and the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives”. While IOE recognizes that IFAD’s strategic framework also emphasizes other interventions strategies for rural transformation, it would have been appropriate for the objectives of the PBAS to emphasize food security and food production issues.
94. In order to compliment the above analysis, the evaluation assessed the relevance of the second objective contained in the document on the Structure and Operation of a PBAS, as approved by the Executive Board in September 2003. The objective to generate three-year (but annually reviewed) loan-commitment envelopes for all borrowers is good, as it aims to enhance the predictability of resources IFAD can provide to its developing Member States, which in turn helps both country authorities and IFAD operations in forward planning the design of new investment operations.
95. Additionally, this objective statement implicitly links the determination of the PBAS allocations to the three-year IFAD replenishment cycles and corresponding programme of loans and grants (PoLG) in the same period. This is also a positive feature, as it allows the organization to make calculations about its total PoLG based on more systematic calculations of the resources that will be available in any replenishment cycle.
96. Furthermore, the evaluation has analysed the relevance of other key dimensions of the PBAS’s objectives, as approved by the Governing Council and the Executive Board. The first one relates to the need to “design and implement an explicit, transparent PBAS”. In fact, the PBAS formula, which will be discussed more in detail later in this chapter, has indeed helped pursue this objective and instilled much more transparency in IFAD’s resource allocation process, especially as compared to the pre-PBAS approach.
97. Though it was not part of the objective statement in the document approved by the Executive Board in September 2003, the PBAS was expected to provide “a performance incentive for Member States, particularly in regard to the quality of policies and institutions in the rural sectors”.⁴⁰ In fact, numerous IOE evaluations underline that government performance – including the creation of enabling policy and institutional environment in the rural sector – is one of the most determining factors contributing to successful IFAD-supported project outcomes. Therefore, according to the evaluation, using the PBAS as an instrument to provide incentives for better policies and institutions is indeed appropriate. However, no reference is made in the PBAS documents about how the system could also serve as an incentive to improve IFAD project performance. The topic of incentives will be further explored in the next chapter on effectiveness.

⁴⁰ See information paper on the PBAS prepared by the Management, submitted to the Board in April 2014.

B. Relevance of design

98. In this section, the evaluation assesses the relevance of the PBAS formula and its variables and weights, including the changes introduced over time, the governance and management of the system, and reporting and reviews.
99. As discussed in the previous chapter, the PBAS formula is composed of two components: country needs and country performance. The country needs component has two variables, which are rural population and GNI pc. Country performance has three variables, which are the CPIA, RSP, and PAR. Each variable is also given a weight, as described in chapter II.
100. **Country needs.** The two variables capturing country needs in the formula are highly influential in the initial allocation one of the reasons is that their range of variation is large compare to other variables. This is particularly relevant for the case of rural population (RuralPOP), which is the variable with the highest range of variability.⁴¹
101. The population variable (RuralPOP) in IFAD's allocation formula substantially determines the size of IFAD's allocation to a particular country. In fact, the variable with the highest correlation with the final value of the PBAS formula is rural population, with a correlation coefficient of 0.71.⁴² The evaluation team was able to do a decomposition of the contribution of each variable to the PBAS formula,⁴³ with the finding that about 65 per cent of IFAD allocations in any given year are driven by the "country needs" component in the allocation formula. However, it is important to note that this is a static view.
102. On the other hand, if one takes a dynamic view and looks at changes in allocations over time, then the country performance variables gain more relevance. The relative weights of the country needs variables (RuralPOP and GNI pc) are fixed and are equal for all countries, while the case is different for the country performance variables, particularly for the PAR and RSP (especially when there is no CPIA for a particular country, but also because PAR ratings can change quite a bit from one year to another). Therefore, the country performance variables tend to drive changes in allocations over time. This provides an incentive to countries to improve their performance scores.⁴⁴
103. IFAD's allocation formula has somewhat changed over the past twelve years; in particular there was a change to the population variable in its formula. Initially, IFAD used "total population" in the allocation formula with an exponent (weight) of 0.75. In 2006, the Executive Board approved a change in the allocation formula from using national population (POP) to rural population (RuralPOP). At the same time, the weight of this variable was reduced from 0.75 to 0.45.
104. The intent of changing from POP to RuralPOP was to adjust the allocation formula to be a closer fit with IFAD's rural mandate, addressing the following parameters:⁴⁵
- (a) Reduction in number of maximum/minimum allocations;
 - (b) Allocations to larger countries that remain responsive to needs;
 - (c) Allocations to smaller countries that provide the basis for loan and grant sizes that enable effective levels of intervention; and
 - (d) Allowing performance an increasing influence.

⁴¹ The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation among data series, even if the means are drastically different from each other. In annex VII, table 2. The Coefficients of variation of the main variables in the IFAD allocation formula are as follows: RuralPOP (1.58), followed by GNI pc (0.875), PAR (0.227), RSP (0.136) and CPIA (0.134).

⁴² The correlation measures the degree (strength) of the relationship or association between two or more variables. See annex IX.

⁴³ Given the multiplicative nature of the PBAS formula, the decomposition was based in the log linearized version of the formula. See annex IX.

⁴⁴ See annex IX.

⁴⁵ EB 2005/85/R.3, paragraph 22.

105. Having said that, the evaluation's analysis also found that some countries define "rural population" differently, making the data less reliable across countries than the data for national population. Nevertheless, on balance, the evaluation concludes that the change to RuralPOP was correct so as to align the allocation formula more closely with IFAD's mandate. In fact, the change in the population indicator (from total to rural) increases the contribution of the performance variables in the PBAS formula (from an average of 21 per cent to around 35 per cent).
106. It is worth noting that the weight of RuralPOP at present would result in allocations to the largest borrowing Member States that are greater than the maximum allocation allowed (5 per cent of total resources in any allocation cycle). Therefore, the allocations to such countries are capped at the 5 per cent level. In principle, any artificial cap reduces the integrity of the allocation system. Two other IFIs⁴⁶ that, like IFAD, have borrowing member countries that vary greatly in size, have changed the population variable in their allocation formulas to a logarithmic measure of population (LogPOP). This form of the population variable has the natural effect of making the distribution of population values closer to linear – that is, it reduces the range of variation and can bring the allocations for the largest countries sufficiently in line to avoid the need for an artificial cap. However, in simulations carried out by IOE, the effects of using logarithmic values of rural population (instead of weighted rural population) significantly reduced the allocations to larger countries, but at the same time, increases the role of performance variables in the PBAS formula.
107. Finally, on rural population, the evaluation raises one issue that merits consideration. That is, and notwithstanding that a large majority of people living in rural areas are poor, how representative is rural population as a variable of country needs? In particular, rural population as a variable does not capture the complexities and multidimensional nature of rural poverty, and therefore it does not adequately reflect a country's needs for IFAD's development assistance. In fact, the CLE did not find a clear correlation between rural population and some indicators of rural poverty taken from the World Bank, for instance: access to water (percentage of rural population) 0.08, access to electricity 0.1, access to sanitation 0.03. However, the evaluation recognizes there are several challenges in using an alternative variable with a stronger rural poverty focus, such as the availability, comparability and credibility of such data for all IFAD recipient countries.
108. The second variable of the country needs component is GNI pc. The weight of this variable is negative, implying that the higher the GNI pc, the lower the allocation to a given country.
109. The exponential weight that IFAD uses for GNI pc is -0.25. Some MDBs give income a less negative exponent (AfDB -0.125). In contrast, some give income a much more negative weight (the Global Fund to Fight AIDS, Tuberculosis and Malaria, for example, gives GNI pc a very negative exponent of -5.0). However, looking at the size of a single exponent on one variable in an allocation formula does not provide enough information, because it is the evaluation of the entire formula that will indicate the contribution of each of its parts and not just the weight of one its variables. Overall, everything does not depend on the absolute size of the exponent, but how it compares in relation to other exponents in the same formula (and the range of variation of the values of the variables). In exponential formulas, the calculation of how allocations are affected by particular variables and their weights is complex.

⁴⁶ The Caribbean Development Bank and EU ACP.

110. The evaluation found that "GNI pc" has higher correlation with various factors that are measures of rural poverty.⁴⁷ Therefore, it has been a reliable variable to help measure country needs.
111. Notwithstanding the aforementioned, the evaluation raises the point whether GNI pc is an appropriate variable, in light of the organization's exclusive focus on smallholder agriculture development in rural areas only. The GNI pc captures the sum of value added by all resident producers in a given country, plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Therefore, it does not fully reflect a proper picture of needs in rural areas in IFAD recipient countries, given income inequalities between urban and rural areas in recipient countries.
112. In sum, the evaluation notes that there might be opportunities to sharpen the country needs component of the PBAS formula, for instance, by strengthening the rural poverty dimension of the same, but there are associated challenges that could lead to greater complexity of IFAD's PBAS. In this regard, part of the analysis done has looked on how potential internationally recognized indicators that reflect country needs could be related to IFAD's mandate. One of such indicators is the Human Development Index (HDI), which was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone (captured by GDP).⁴⁸
113. Another important aspect of country needs is their vulnerability to climate change. Vulnerability to climate change is of particular importance for countries whose location, size and economic instability makes them predominantly vulnerable to natural disasters such as the landlocked countries and small island states. Vulnerability to climate Change is an increasing concern of IFAD's member countries and international institutional partners.
114. In response, some international institutions, which are similar to IFAD, have incorporated a vulnerability variable in their allocation formulas. Some examples are the Caribbean Development Bank, the European Union (European Development Fund/African Caribbean and Pacific) and the Global Environment Facility.
115. Simulations carried out by IOE show that the addition of Vulnerability indicators⁴⁹ and the use of HDI instead of GNI pc to measure the country needs has the potential of increasing the correlation of the final country score of the PBAS formula with relevant indicators of rural poverty. It is interesting to notice that although GNI pc is also part of the HDI,⁵⁰ the correlation with rural poverty indicators is higher for the HDI than for the GNI pc. This result is just a reflection that an indicator like the HDI might be a better measure of the state of development of a country than the GNI pc.⁵¹
116. **Country performance.** The allocation formula contains a country performance component with an exponent of 2.0. The component is made up of three variables which enter additively in the performance component of the PBAS formula, namely the CPIA, the RSP and PAR. However, data for these three variables are not always available for all countries. Therefore, IFAD adjusts their weights, accordingly, to add to 100 per cent in each case, as follows:

⁴⁷ Poverty indicators used: Access to electricity, rural (percentage of rural population), access to water, rural (percentage of rural population), access to sanitation, rural (percentage of rural population), rural poverty.

⁴⁸ There are also other non-income measures of rural poverty, such as nutrition (stunting) and mortality, and measures of income distribution such as the Gini coefficient that might also be useful.

⁴⁹ Such as: The Economic Vulnerability Index (EVI), FERDI Physical Vulnerability to Climate Change Index (PVCCI) and, in particular the ND-GAIN Country Index.

⁵⁰ See UNDP (2014). HUMAN DEVELOPMENT REPORT 2014. Sustaining Human Progress Reducing Vulnerabilities and Building Resilience. Technical notes.

⁵¹ See annex IX.

Box 2

Country performance component

Country performance score =
 $(0.2 \cdot \text{CPIA} + 0.35 \cdot \text{PAR} + 0.45 \cdot \text{RSP})^{2.0}$
or $(0.3 \cdot \text{CPIA} + 0.7 \cdot \text{RSP})^{2.0}$ – when PAR scores are not available
or $(0.43 \cdot \text{PAR} + 0.57 \cdot \text{RSP})^{2.0}$ – when the CPIA scores are not available

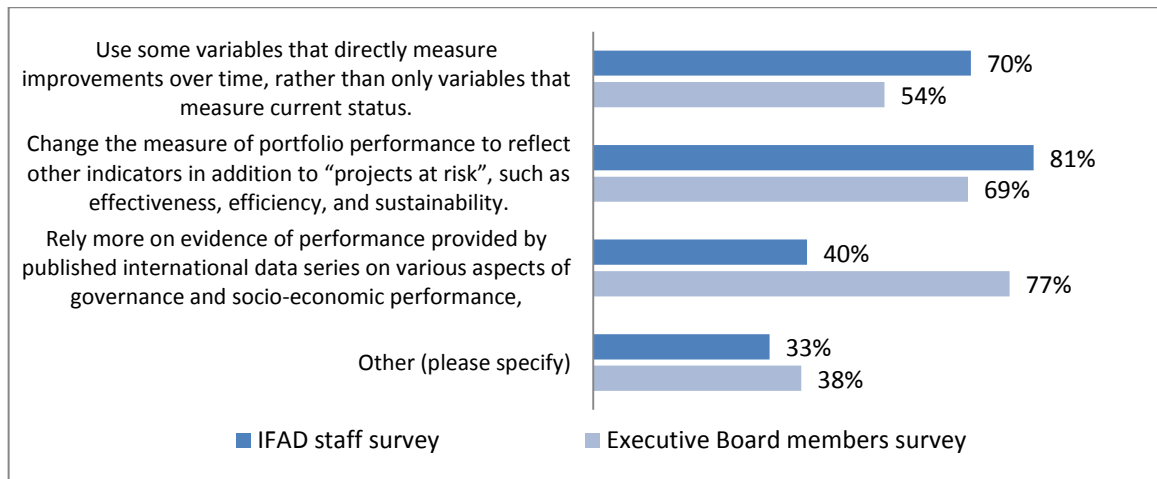
Note: The reweighting in the absence of the PAR variable is not mentioned in the structure and operation of the PBAS. Based on the analysis of the excel document used by Management to calculate the PBAS scores, such reweighting is carried out. However, the absence of the PAR score is unusual.

117. The evaluation found that countries with missing data for the CPIA⁵² have a significant advantage, because much more weight falls on PAR scores. These have been systematically higher than the CPIA scores (almost by 1.0 on average on the scale of 1 to 6 or around 30 per cent more), and giving such a high weight to PAR destabilizes allocations in undesirable ways. Therefore, using the CPIA as a key variable in the country performance component – especially because a CPIA score is not available for a number of countries (in IFAD7, 30 per cent of countries that received an allocation do not have a CPIA score; in IFAD8, the percentage increased to 36 per cent and in IFAD9, 38 per cent of countries that received an allocation did not had a CPIA score) has adverse effects on IFAD’s country allocation system. In fact, simulations done by IOE show that the potential effect of such reweighting could be allocating around 1 percentage point more of resources to the group of reweighting relative to the group where data is no missing.⁵³ The evaluation consulted with members of the Executive Board and IFAD staff through an online questionnaire, the main question being whether they regarded the existing measures of country performance as adequate. The responses showed that 80 per cent of the respondents think that the measures of performance could be enhanced to some degree.
118. There was a consensus that the measures of country performance should become broader, more evidence-based and more oriented to change over time rather than focused on current status. However, there were differences between the responses of representatives on the Executive Board and IFAD staff. Board representatives would like to see published international data used more often and staff members were somewhat keener to move away from PAR as the sole measure of portfolio performance and somewhat more inclined to think that improvement in policies and institutions over time, rather than only a snapshot at a particular point in time, should be an important performance consideration. Figure 6 presents the feedback collected from Executive Board representatives and IFAD staff on the measures of country performance.

⁵³ Calculations assuming the mean value in the sample for countries for which the IRAI data was missing suggest an impact of re-weighting on total final allocations for 2012 of around 1 percentage point of additional share on total resources allocation for the group of countries without IRAI data.

Figure 6

How should the measures of country performance change?



Source: IFAD staff questionnaire, question #8.1; number of respondents: 43; Executive Board questionnaire, question #6.1; number of respondents: 13.

119. **CPIA.** As noted, IFAD includes the CPIA score as a broad measure of national policy and institutional capability as a variable in the country performance component. IFAD gives this variable a modest weight (20 per cent of the country performance score). Unlike some other IFIs, IFAD does not give especially heavy weight to the "governance" cluster of criteria in the CPIA, as the World Bank/IDA does in its PBAS. However, governance factors are treated by IFAD in both the CPIA (national level) and the RSP (rural level), which ultimately increases its cumulative weight.
120. The components of IFAD's RSP and the components of the World Bank's CPIA are similar with the important caveat that IFAD addresses a single sector and the World Bank addresses all sectors of an economy (i.e. the macro level). Ten of the twelve RSP indicators have at least approximate equivalents in the CPIA.
121. The correlations between the CPIA and RSP are consistently very high, approximately 80 per cent or more of the variability of one being explainable by the other (see table 3).⁵⁴

Table 3

Historical correlation between the IDA CPIA ratings and IFAD RSP ratings (one year lag)*

2005 CPIA and 2006 RSP	2006 CPIA and 2007 RSP	2007 CPIA and 2008 RSP	2008 CPIA and 2009 RSP	2009 CPIA and 2010 RSP	2010 CPIA and 2011 RSP	2011 CPIA and 2012 RSP	2012 CPIA and 2013 RSP	2013 CPIA and 2014 RSP
0.788	0.820	0.851	0.806	0.880	0.805	0.835	0.781	0.820

* Each correlation is statistical significant at 95 per cent.

Source: Progress report on the implementation of the PBAS, IOE, 2015.

122. The close correlation between the CPIA and the RSP could provide an argument that IFAD might not need both variables in its PBAS formula. However, they are not perfectly correlated and in some instances there appears to be differences between country performance on national policies and institutions, and its performance on rural sector policies and institutions. The World Bank's relatively stronger emphasis on policy implementation performance may underpin some of the differences, relatively minor though they are. It is also possible that part of the reason for the close correlation between the CPIA and the RSP scores is that – as per the feedback of CPMs – they have been guided by the CPIA when scoring RSP and because they are asked by PMD front office to revisit the RSP if major

⁵⁴ IFAD using the data available in the annual progress report on the implementation of the PBAS.

deviations are found in the two (CPIA and RSP) scores. This only reinforces the case that a more systematic and intensive approach needs to be taken in scoring the RSP variable.

123. All in all, however, the evaluation concludes that there is a good rationale for including the CPIA (alongside the RSP) in IFAD's allocation formula to reflect a broad view of policy and institutional performance at the national level. However, the evaluation notes that, in the future, the number of countries with a CPIA score could reduce further, as the GNI pc of recipient countries increases and they no longer are eligible for concessional financing by the World Bank. This will pose a challenge to IFAD's PBAS formula.
124. **The rural sector performance (RSP).** The RSP was designed to be directly relevant to IFAD's mandate of supporting agriculture and rural development. It is assessed based on twelve equally weighted indicators grouped in five clusters (as mentioned before, see annex III). The clusters cover the following topics: capacity of the rural poor and their organizations; equitable access to productive distribution and technology; access to rural financial services and markets; gender equality; and public resources management and accountability. IFAD is the only institution to assess RSP. In fact, some other institutions, such as the U.S. Millennium Challenge Corporation, use the RSP scores in producing their own country performance scores.
125. The RSP is a critical variable. This is particularly the case because, while the CPIA captures the country's performance at the macro level and the PAR aims to assess performance of the IFAD operations, the RSP assesses the performance of the sector of key concern to IFAD. Therefore, the CPIA, RSP and PAR together cover three complimentary levels of country performance, respectively, at the macro, meso and micro-levels.
126. In terms of process, the RSP scores are done at the outset of the three-year PBAS allocation cycle and thereafter reviewed largely through a desk review on an annual basis. The concerned CPM has the primary responsibility for RSP scoring. The rating (scoring) process is facilitated by a questionnaire and handled in different countries by various means. For some countries, the CPMs develop the score, with an in-country validation workshop. However, in many countries, the scores are done without the participation of in-country stakeholders, and largely reflect the CPM's own judgement of RSP. An example of good consultation with government in the formulation of the RSP score is shown in box 3 below.

Consultations with government on RSP scoring

When the PBAS was first introduced, some CPMs in Asia and the Pacific Division consulted with governments in a structured way on the first scoring of rural sector policy and institutional performance. The Sri Lankan, Philippine and Vietnamese exercises were reported in the IFAD newsletter *Making a Difference in Asia and the Pacific* in November 2006.

For example, in the Philippines, IFAD collaborated with the National Economic Development Authority (NEDA) to coordinate the RSP scoring process. This involved preliminary self-scoring by five government departments in addition to NEDA, followed by a half-day validation exercise jointly with IFAD.

The lesson learned from the exercise was stated to be: "A major challenge for IFAD is how to accommodate the suggestions received from governments ... especially to ensure the objectivity of the scoring based on the results of a detailed survey and study. The recommendations will have significant cost implications but it is important to address them to ensure the constructive engagement of government partners in the PBAS process."

127. In developing the RSP scores, the roles of the regional division directors, regional economists and portfolio advisers vary considerably from division to division, ranging from relatively intensive to very little participation. Therefore, there is no consistent approach to scoring or quality assurance of the RSP scores across divisions within PMD. There is no role in the process for the Strategy and Knowledge Department, the Policy and Technical Advisory Division nor the Environment and Climate Division.
128. However, it is fair to note that the PMD front office reviews all the RSP scores and engages in a dialogue with the concerned regional division, especially in those situations where the RSP scores are significantly different from the CPIA score for the same country, or when the RSP scores might have changed significantly from year to year. In these situations, feedback from numerous CPMs reveal that the PMD front office often requests the CPM to review the RSP scores to align them better with the CPIA score, which has served as a disincentive to CPMs in their efforts to score the RSP. This has been one factor limiting opportunities for using the RSP process for promoting policy dialogue between IFAD and its developing Member States.
129. With regard to the aforementioned, by trying to "mirror" the CPIA scores, the RSP loses its potential as a variable that provides an objective assessment of the sector's performance (see previous section on CPIA scores and their correlation with RSP). This merits reflections, as there are likely to be instances when a country's macro level performance (i.e. the CPIA score) may be different from the meso-level performance (RSP score).
130. On a process issue, the primacy of CPMs in scoring the RSP also needs reflection. In other IFIs (e.g. the AfDB), sector and thematic specialists play a much larger role in the process, but IFAD has not drawn much on the skills of its sector specialists in scoring the RSP. For example, the gender team has not been involved in assessing countries' performance on gender equality, whereas one might expect that their judgement on this across all IFAD member countries could strengthen the quality and credibility of the RSP scores.
131. The five clusters and 12 indicators selected at the time of the PBAS design largely reflected IFAD's priorities at the time. However, it was found that the 12 indicators have not been reviewed since the introduction of the PBAS, and therefore, they do not fully reflect IFAD's evolving strategies and priorities over time. Take gender equality as an example. Despite the fact that this issue is covered in both CPIA and RSP of the country performance variables, none of the gender-specific criteria

under these two variables reflect the third strategic objective of the IFAD Gender Policy (2012) to “achieve a more equitable balance in workloads and in the sharing of economic and social benefits between women and men.”⁵⁵ Another example is promoting nutritional security – which was already enshrined in the Agreement Establishing IFAD of 1977 – but did not receive adequate attention in the RSP.

132. There is a general opinion among stakeholders that the RSP indicators are satisfactory or moderately satisfactory (see table 4 below). Stakeholders did however suggest that the indicators should be updated to reflect some of IFAD’s current priorities, such as adaptation and mitigation efforts due to climate change; nutrition sensitive agriculture and some aspects of gender equality, including economic empowerment of women.
133. The RSP is fully defined in the Report of the Panel on the Performance-based Allocation System.⁵⁶ This document states that the RSP “would be reviewed on a regular basis to assess their relevance (including to the particular set of issues and best practices in each of IFAD's operating regions) and practical feasibility”. However, as mentioned, the evaluation found that the RSP indicators have not been modified since they were first introduced.

Table 4

At present there are 12 criteria in IFAD's RSP rating system. Are the number and nature of criteria appropriate?

	<i>IFAD staff (percentage)</i>	<i>Executive Board representatives (percentage)</i>	<i>Total (percentage)</i>
6. Highly satisfactory	0	8	2
5. Satisfactory	38	38	38
4. Moderately satisfactory	34	31	33
3. Moderately unsatisfactory	13	0	10
2. Unsatisfactory	9	0	7
1. Highly unsatisfactory	4	0	3
No opinion	2	23	7

Source: IFAD staff questionnaire, question #9, number of respondents: 44; Executive Board questionnaire, question #7, number of respondents: 13.

134. IOE found that other IFIs that use similar types of composite indices assign weights not to each individual criterion but by cluster. Using cluster weights simplifies and adds flexibility in regard to the number of criteria within each cluster. Other IFIs also conduct a more rigid and intense review, demanding a justification for the scores and using the weight of such scores in their PBAS formulas to actively engage in policy dialogue with recipient countries. It is apparent from questionnaire data that 72 per cent of IFAD staff respondents are satisfied or moderately satisfied with the RSP indicator weights at present. However, many raised the issue that the cross checking with the CPIA scores does not allow CPMs to enter into policy dialogue with recipient countries.
135. **Project-at-risk (PAR).** The performance of a country’s portfolio of active IFAD projects is one of the three performance variables in IFAD’s allocation formula. The metric that IFAD uses to score portfolio performance is based on PAR, with a conversion table⁵⁷ to generate a score from 1 to 6: Score 6 (no projects at risk for

⁵⁵ IFAD (2012). Gender equality and women's empowerment. Available at: www.ifad.org/gender/policy/gender_e.pdf.

⁵⁶ EB 2003/80/R.3.

⁵⁷ Calculating PAR depends on the number of active projects held by the borrower, if there is only one active project the score may depend on the implementation progress (IP) and development objective (DO) scores, if the country has more than one project the score depends on the number of projects rated as: 'not at risk', 'potential problem', and 'actual problem'. EB 2003/79/R.2/Rev.1 p. 29.

two or more years), score 5 (no projects at risk currently), score 4 (up to 34 per cent of projects at risk), score 3 (35 to 67 per cent of projects at risk), score 2 (68 to 100 per cent of projects at risk) and score 1.0 (100 per cent of projects at risk for two years or more). If a country has no active project, it has no PAR score. In that case, the country performance score is determined by the other two performance variables (CPIA and RSP), and both then receive an increased weight.⁵⁸

136. The country performance rating is the weighted average of the three performance variables (CPIA, RSP and PAR). PAR has a weight of 35 or 43 per cent, depending on the availability of the country's CPIA score.⁵⁹
137. The evaluators found that other IFIs give a much lower weight to PAR because there are some issues with the variable, which has been noted in the literature of PBAS in the past.⁶⁰ In January 2005, the topic was discussed at the first annual PBAS Technical Meeting of the IFIs.⁶¹ Consequently, the World Bank/IDA gives PAR a weight of only 8 per cent and the AfDB 16 per cent.
138. In principle, the PAR aims to reward IFAD portfolio performance. However, according to the evaluation, the PAR might be too narrow a variable in determining country performance, as it does not adequately capture the Fund's performance at the "country programme level", beyond the project level.
139. In this regard, increasingly, since the adoption of the PBAS, IFAD country programmes include a range of activities such as policy dialogue, knowledge management, South-South and Triangular Cooperation, partnership-building, grant-funded research and reimbursable technical assistance. All these activities compliment investment programmes to achieve country programme objectives. The PAR variable does not capture country performance in these areas, as it is only focused on loan-funded projects.
140. The aforementioned is supported by a further analysis done by IOE to discern if there is a relationship between PAR scores and ratings of country performance (based on country programme evaluations by IOE in 2013-2014) in three areas: (i) the project portfolio; (ii) non-lending activities; and (iii) the COSOP in terms of relevance and effectiveness (see table 5 below).

⁵⁸ This does not happen often. During IFAD9 (2014) only two countries without PAR scores received an allocation. If there is no PAR, the weight of the CPIA/IRAI is increased from 0.2 to 0.3, and the weight of IFAD's RSP is increased from 0.45 to 0.7.

⁵⁹ "Pending the development of a basis for adequate assessment of broad framework performance for non-highly concessional borrowers, the weighting of the rural development-sector framework indicators and the portfolio-level implementation indicators would be increased proportionately to 57% and 43% respectively to account for a total of 100%" (EB 2003/79/R.2/Rev.1).

⁶⁰ EB 2005/85/R.3 p. 47.

⁶¹ ADB, Multilateral Development Bank Technical Meeting on Performance-Based Allocation Methods. 24-25 January 2005. "Discussion at the Inter-MDB Workshop in Manila in 2005 seemed to indicate a consensus that portfolio performance assessment as part of the PBAS is an area that needs reform. Reforms that were suggested included giving the borrower a voice in assessing project and portfolio performance. Several participants in Manila noted the potential usefulness of performance contracts that set out the responsibilities of both the IFI and the borrower. Some participants also noted that MDBs/IFIs need to resolve their own issues in regard to project performance, in particular issues of staffing and incentives. There were also comments about the need for cost-benefit analysis during the design of each project as the basis for performance assessment later. A PBAS system that rewards project designs that avoid risk would be counterproductive. The mix of projects/subsectors should be taken into account when assessing the performance of a whole portfolio of projects."

Table 5

Country performance ratings in country programme evaluations by IOE and PAR

<i>Country</i>	<i>Year of CPE</i>	<i>Portfolio performance</i>	<i>Non-lending activities</i>	<i>COSOP performance</i>	<i>PAR (2014)</i>
Ecuador	2014	3	4	4	4
Indonesia	2014	4	3	3	5
Jordan	2014	3	4	3	1
Madagascar	2013	4	5	5	6
Mali	2013	4	4	4	3
Republic of Moldova	2014	4	4	3	6
Senegal	2014	4	4	4	6

Source: IOE and PMD data.

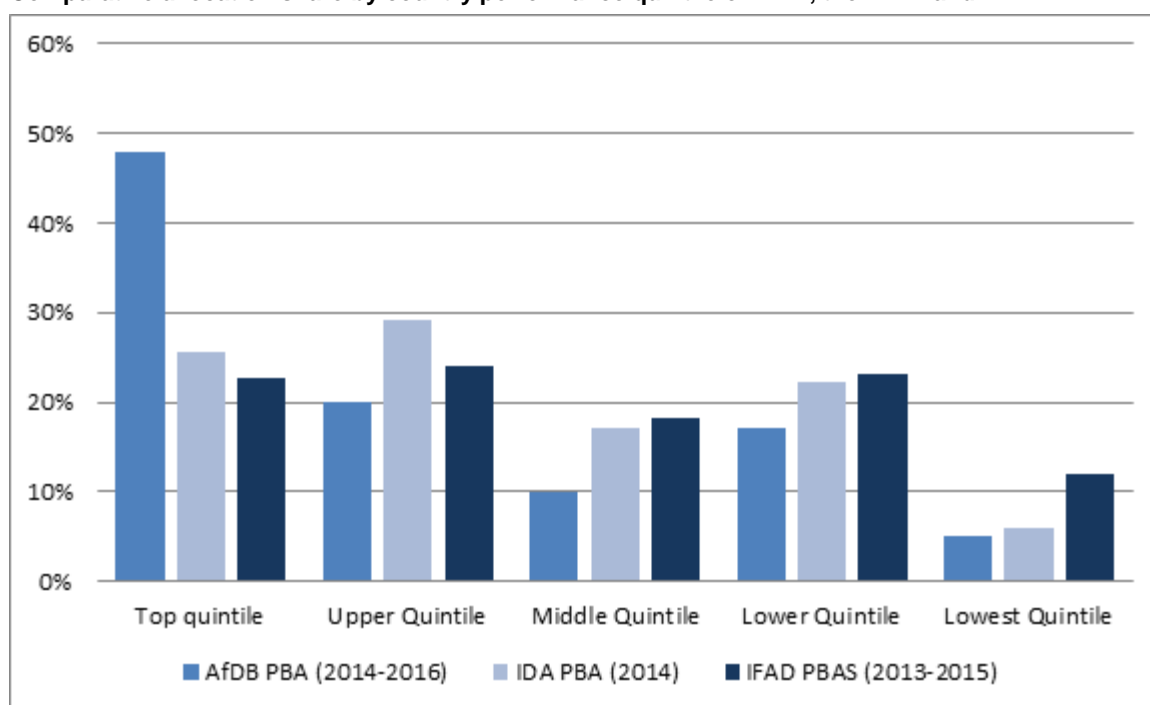
141. **Country needs versus country performance.** As mentioned earlier, based on the static analysis done by the evaluation, around 65 per cent of a country's allocation is driven by country needs, as compared to 35 per cent by country performance. However, if one looks at changes in allocations over time, then the performance variables gain more relevance. The relative weights of the country needs variables (RuralPOP and GNI pc) are fixed and are equal for all countries, while the case is different for the performance variables, particularly for the PAR and RSP. Therefore, the country performance variables tend to drive changes in allocations over time. This provides an incentive to countries to improve their performance scores.
142. In this regard, the evaluation estimated the effective weight of the country performance component in several ways. The CLE compared the exponents on performance factors in various institutions' allocation formulas. This gives only a rough indication of relative weight. They then modelled the effective weights statistically, which is a more accurate measure. Third, they looked at the proportion of total allocations by various IFIs that accrued to countries in the top two quintiles of country performance.
143. For example, the AfDB⁶² uses an exponent of 4.125 on country performance, and the World Bank an exponent of 4.0, compared with 2.0 for IFAD. The AfDB allocated 68 per cent of all funds in 2014-2016 to countries in the upper two quintiles of performance,⁶³ the World Bank allocated over 50 per cent in 2014, and IFAD allocated 42 per cent (in 2013-2015).
144. IFAD's weight for country performance is relatively low. Figure 7 shows that as compared to IDA and AfDB, the quintile of countries performing best did not receive a larger share of allocation. However, this is partly explained by the fact that, as compared to other IFIs, IFAD has a very specific mandate to assist poor people who live in remote rural areas in all developing Member States, and its resource allocation model should not penalize the rural poor because of a country's political status, macro-economic and institutional policies, nor capabilities and performance.

⁶² For the full report see the case study: PBA system of the African Development Bank.

⁶³ Highest quintile 48 per cent, upper quintile 20 per cent, middle quintile 10 per cent, lower quintile 17 per cent, and lowest quintile 5 per cent.

Figure 7

Comparative allocation share by country performance quintile of IFAD, the AfDB and IDA



Source: (FRMB, 2015), (IFAD, 2014), (World Bank, 2015).

145. In sum, based on the above, the evaluation underlines that the design of the formula does not sufficiently reflect the “performance” dimension of the PBAS’s objectives, which says that “...higher-performing countries receiving higher allocations than lower performers”. This merits consideration in any further fine-tuning of the IFAD PBAS in the future.

Predictability, transparency, flexibility, and accessibility

146. In introducing the PBAS, member states aimed to have a system that would enhance predictability, transparency, flexibility and accessibility in the organization’s resource allocation system. Although aspects related to these four dimensions have been covered before in this chapter, the aim of this section is to consolidate the corresponding findings.
147. **Predictability.** The PBAS has made resource allocation more predictable for regional divisions, CPMs and country authorities, as compared to the pre-PBAS approach. The total country allocations are determined for three years, although they are adjusted annually as needed within the three-year period. Any major changes however occur in the final year of any PBAS. Hence, all in all, the PBAS has made resource allocation more predictable with the aforementioned qualifications. There are however some challenges to programmes with PBAS allocations that are adjusted from year to year, and box 4 and table 6 illustrate this in the case of Egypt.
148. In general, the PBAS has also allowed for improved forward planning of investment programme pipelines. The three-year country allocations are reflected in COSOPs, aiming to link allocations to future programming. Some COSOPs and project proposals include foreseen allocations for more than one PBAS allocation cycle, to provide for a longer term strategic engagement in a particular country or to ensure IFAD operations take a more programmatic approach.
149. Finally, as mentioned earlier, resource allocation has also become more predictable by linking the total IFAD resource envelope available to the three-year periodic replenishment cycles. This enables the organization to develop a realistic PoLG for

the same three-year period, depending on the replenishment contributions made by Member States to the Fund.

Box 4

The case of Egypt: some challenges in fluctuating allocations

IFAD's allocations to Egypt over the IFAD9 Replenishment period demonstrate the challenges of designing a country programme around the provisional allocation figures available at the start of the Replenishment period, when allocations could change during the two final years. In late 2012, Egypt's 2013 allocation was set at US\$26.3 million, and that same amount was signalled as indicative for 2014 and 2015 allocations. But in 2014, Egypt's rural population count declined by 1.2 million, and the resulting lower RSP pulled down the Country Performance Rating. These factors combined reduced Egypt's 2014 allocation to US\$19.2 million. In 2015, Egypt's allocation rose to US\$22.2 million, reflecting a rural population increase of 600,000 and an improved RSP. Even with this increase, Egypt's total IFAD9 allocation of US\$67.7 million was US\$11.1 million less than the US\$78.8 million forecast at the beginning of the IFAD9 period. Such fluctuations in allocation levels can add to the complexity of designing a project around anticipated funding, even as they reinforce the importance of maintaining strong performance underpinning the use of IFAD's limited funds.

Table 6
Egypt: PBAS formula elements and allocations, IFAD9

Year	GNI per capita (US\$)	Rural population (million)	Rural sector perf.	Projects at risk	Country perf'ce rating	Final country score	2013	2014	2015	Total IFAD9 allocation
							allocation	allocation	allocation	
2013	2 600	46.6	4.68	6	5.26	10 934	\$26.3	\$26.3 *	\$26.3 *	\$78.8 *
2014	3 000	45.4	4.31	5	4.61	8 014	\$26.3	\$19.2	\$19.2 *	\$64.6 *
2015	3 160	46.1	4.71	5	4.79	Not disclosed	\$26.3	\$19.2	\$22.2	\$67.7

Note: Final country scores are assessed in the fourth quarter to determine the final allocation for the subsequent year; therefore allocations for the following years are provisional (denoted with asterisks). No IRAI scores are included because IDA does not provide CPIAs for middle-income countries.

Sources: IFAD's 2013 results-based programme of work and regular and capital budgets, the IOE result-based work programme and budget for 2013 and the HIPC and PBAS Progress Report; Progress report on implementation of the performance-based allocation system, 2014, 2013, 2012.

150. **Transparency.** The PBAS has brought about more transparency in the allocation of IFAD resources, as compared to the pre-PBAS period. The PBAS formula and any adjustments made over time have been agreed with all main partners, providing the basis for determining country allocations. The data for three of the five variables (excluding the RSP and PAR) in the formula is generated by other organizations with the required international credibility. All historic data since the adoption of the PBAS used to run the formula, including the RSP and PAR scores, and country scores and allocations are documented and made publicly available through the annual progress report on the PBAS.
151. There are, however, some opportunities for further enhancing the transparency of the PBAS. The scoring process and quality assurance of RSP scores is not sufficiently participatory across the board. Good practice would require that recipient governments and other in-country partners be systematically consulted and given the opportunity to provide feedback on the scores before they are fixed, which is not part of the current process. Moreover, any adjustments made to the RSP scores thereafter by IFAD Management are not explicitly justified or documented, and scores are not generally formally communicated to individual recipient countries in a timely manner.

152. Similarly, the reallocations are not reported and disclosed separately. It is not easy to obtain information on countries that receive greater amounts through the reallocation process. This topic will be discussed further later in the chapter. Moreover, the annual progress reports include information on allocations, but do not report on the actual use (commitment) of those allocations (including reallocations) on an annual basis or at the end of the three-year PBAS cycles.
153. The PAR process is more transparent and institutionalized. This is because IFAD has a well-established internal self-evaluation system, and conducts annual portfolio reviews by region. The portfolio reviews, which include the determination of PARs, are prepared by regional divisions and discussed within PMD and colleagues from other divisions and departments in IFAD. Hence, the PARs are not done specifically to feed into the PBAS, but as part of Management's efforts to ensure improved portfolio management for better impact. However, similar to the RSP scores, government authorities and other in-country partners are not normally consulted nor is their feedback sought by IFAD when determining the PAR score.
154. IFAD management annually discloses the PBAS country scores and scores of the variables that make them up. Management also discloses the allocations for the initial year of the replenishment and subsequent years. However there appears to be considerable management discretion in capping countries' allocations and transferring unused funds that are reallocated. These decisions are not addressed in the annual PBAS Progress Report, and are not explained to the Governing Council, Executive Board or PBAS Working Group.
155. **Flexibility.** The evaluation finds that the PBAS ensures a fair amount of flexibility in IFAD's resource allocation system, as compared to the pre-PBAS approach. For instance, post conflict-affected states receive an additional allocation over and above their PBAS allocation.⁶⁴
156. Other characteristics of the PBAS also allow for flexibility, including the maximum and minimum allocations to selected countries, capping of some other countries, and the selection of countries that are initially included in the three year PBAS allocation cycle and the countries that actually receive financing by the end of the three years. The pros and cons of the above characteristics rendering the PBAS flexible will be discussed in detail in the chapter on effectiveness of the system.
157. Though the PBAS provides IFAD flexibility, its current design does not make provision for IFAD to channel assistance to developing countries in moments of natural disasters, economic or financial crisis, or to respond to other emerging unforeseen situations affecting the lives of the rural poor. Though IFAD is not an emergency-response organization, unpredictable situations affecting the livelihoods of smallholder farmers in rural areas are likely to arise, yet the PBAS does not have in-built flexibility for IFAD to response to such situations in a timely manner.
158. On the same issue, the CLE on Fragile States (2014) noted that there are no additional resources made available to countries by virtue of being labelled as fragile. The original proposal for PBAS did note that "The conditions of countries in post-conflict situations would be reflected, and provision might be made for other special circumstances on the basis of policy papers approved by the Executive Board." This provision has only been taken up for post-conflict situations, but not "special circumstances" as suggested in the note.
159. **Accessibility.** In line with the Agreement Establishing IFAD, the PBAS formula or system does not prevent any developing member state to access IFAD resources, irrespective of the country type (e.g. middle or low income countries) or lending

⁶⁴ Some additional funding is made available based on the post-conflict situation of a country and is derived directly from IDA's policy. Countries which meet IDA's criteria receive an extra 30 to 100 per cent of the PBAS allocation. The selection of countries therefore happens automatically, in the sense that the IDA analysis and assessment of countries to be designated as post-conflict is adopted directly by IFAD.

terms they are eligible to. A member state interested in accessing resources can do so, provided resources will be used in line with IFAD's mandate and their demand clearly articulated to the Fund. Accordingly, IFAD Management includes the country in the PBAS formula at the outset of the three year cycle, so that their allocation can be determined through the formula.

160. Moreover, the decision to channel all borrowed resources through the PBAS is a good one, as it enhances the transparency of the resources at the disposal of the Fund that it can be available to Member States. Another positive feature in ensuring accessibility is the concept of minimum allocation countries. These are countries whose PBAS allocation is less than US\$1 million per year in any allocation cycle, but are actually granted US\$1 million per year (up to US\$3 million in any three year allocation cycle).

Governance, management and reporting

161. **Governing Council:** The PBAS was established by the Governing Council in February 2003, when it approved the Report of Consultations on the Sixth Replenishment (IFAD6). The Governing Council delegated design and operational decisions regarding the PBAS to the Executive Board. The Governing Council subsequently adopted the IFAD7 and IFAD8 Replenishment Consultation Reports, which included adjustments to the way the PBAS operates.
162. **Executive Board:** The Executive Board approved Management's proposal on the design of the PBAS in September 2003 and subsequent modifications. Executive Board oversight of the PBAS is principally through the annual PBAS Progress Report, which it considers and thereafter refers to the Governing Council.
163. **PBAS Working Group of the Executive Board:** The Executive Board established a dedicated working group on the PBAS in 2006, with the traditional composition of Member States, including four representatives from List A, two from List B and three from List C – similar to the main subsidiary organs of the Board (i.e. the Audit and Evaluation Committees). It has specific terms of reference (see chapter II) which guides its activities, with the aim of assisting the Board in examining in detail issues related to the functioning of the PBAS.
164. The establishment of the working group was a positive move to accompany the implementation of the PBAS, though the group was not given a time-bound mandate. The group is not a permanent subsidiary body of the Board, but has been in existence for nearly 10 years.⁶⁵ It meets between one and three times per year, with timing determined by its members. PMD front office facilitate the working group's meetings, serving as an informal secretariat, preparing and distributing background materials and presentations on the PBAS. The working group's minutes were reported in the 2007, 2008 and 2010 annual progress reports on the PBAS's implementation presented to the Executive Board each December.⁶⁶
165. **Initial governance issues: mandating the PBAS and approving its design.** The establishment of IFAD's PBAS system reflects the interplay of negotiations among Member States in the context of IFAD replenishments. Member state representatives on IFAD replenishments pushed IFAD to allocate its resources based on performance, thus aligning IFAD with other IFIs' practices while reflecting IFAD's specific mandate and lending policies and criteria.
166. More specifically, IFAD established its PBAS in response to the agreement between Member States and management in the context of IFAD6 in 2002. At that time, other IFIs already based their allocations for low-income countries on performance, with the systems of the IDA, the African Development Fund and the Asian Development Fund in place since 1998. The three systems had common

⁶⁵ The Working Group does not have the status of an official Board committee. (IFAD's Board has only two formal committees, the Audit Committee and the Evaluation Committee).

⁶⁶ IFAD 2007. *Progress report on implementation of the performance-based allocation system*. Rome: IFAD.

fundamentals with which many governments were familiar, forming a roughly comparable IFI practice.

167. In February 2003, IFAD's Governing Council approved a resolution saying that IFAD should design and implement an "explicit, transparent...PBAS...to enhance its development effectiveness".⁶⁷ The Consultations Report of IFAD6 also stated that "The IFAD PBAS should draw upon the experience and general approach of the other IFIs (notably the African Development Fund, Asian Development Fund and IDA) in developing their PBAS, but it should also reflect the specificity of IFAD's mandate, its mechanisms of assistance, and its financial and governance structure."⁶⁸ This included the intent that at least 67 per cent of IFAD's loan resources would be allocated to countries that borrow on highly concessional terms, and that IFAD's resources should be used with "due regard to a fair geographic distribution".⁶⁹
168. During the course of 2004, management got prepared for the implementation of the PBAS. In particular, it undertook the RSP assessments and ran the PBAS to generate the first allocations based on the formula.⁷⁰ The first allocations based on the PBAS were provided in 2005.⁷¹
169. Member States recommended substantive changes to the PBAS in two subsequent replenishment consultations. In IFAD7, they recommended that the PBAS be applied on a universal basis, measuring all countries on the same terms rather than on a regional basis. When the Governing Council approved the reports on the IFAD7 Replenishment, it endorsed this change to the PBAS, which was subsequently also approved by the Executive Board.
170. In IFAD8, as mentioned in chapter II, Member States recommended that some countries not included in the original PBAS allocations in a specific PBAS three year cycle be added in the final year. This issue was stimulated by the PBAS Working Group 2008 discussions, which the Working Group asked be presented as a background paper to the replenishment consultations.⁷² Again, this took effect following endorsement by the Governing Council and subsequent Board approval.
171. The Governing Council and Executive Board were more engaged in PBAS policy discussions in the earlier years when the system was adopted and rolled out. Since 2009, neither the Governing Council nor Executive Board has proposed significant changes to the how system operates.
172. **Internal management.** With regard to the internal management of the system, as noted in the progress report of December 2003, the Associate Vice-President of PMD was designated responsible for PBAS implementation, with the support of PMD staff. Only in 2014, was the Executive Management Committee of IFAD involved in approving the allocations and reallocations. This was a positive decision, ensuring a more corporate oversight to the management of the PBAS. Apart from this, over the years the PBAS has however been largely PMD-centric in terms of its management and implementation.
173. Other IFIs do not typically have the focal point for their PBAS in the operations departments. The PBAS is normally situated in strategic planning, or resource mobilization or another "staff" rather than "line" unit. For example, at the Caribbean Development Bank, the focal point for PBAS is in Finance and Corporate Planning, at the ADB, in Strategic Planning and Policy and at the AfDB, it is overseen by the Department of Resource Mobilization and External Financing. The

⁶⁷ IFAD 2003. *Enabling the Poor to Overcome Their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006)*. Rome: IFAD.

⁶⁸ Ibid.

⁶⁹ IFAD 1977. *Agreement Establishing IFAD*. Rome: IFAD.

⁷⁰ IFAD 2004. *Progress Report on the Implementation of the Performance-Based Allocation System*. Rome: IFAD.

⁷¹ Ibid.

⁷² IFAD 2008. *Progress Report on implementation of the performance-based allocation system*. Rome, IFAD.

scores are done by the country economists in the AfDB. Then a peer review process involving 150 staff members plus ten consultants takes place. The entire process takes about three months. IFAD does the scoring much more economically, but the result is that a significant number of CPMs and regional directors invest much less time and efforts in ensuring the required rigor in the process.

174. **Reporting.** The other issue related to governance is the consideration by the Board of the PBAS annual progress reports. Until 2011, such reports were included in the Board's agenda as a separate agenda item for approval. From 2012 onwards, the progress report was attached as an addendum to IFAD's annual programme of work and budget document. Given the importance of the PBAS in general, this change merits reflection, especially if the progress reports become more issues-oriented and comprehensive. The quality of the annual progress reports will be further analysed in the chapter on efficiency of the PBAS.

The main PBAS document

175. The evaluation also reviewed the underlying process for the development and structure of the main PBAS document, which was: *The Structure and Operation of a PBAS for IFAD*, together with the two "conference room papers" that were discussed in the Board at the time of design (September 2003) under the same agenda item.
176. Overall, a review of all background documents and discussions with key stakeholders reveals that a highly participatory process was followed in the adoption of the PBAS at IFAD, including intensive dialogue and consultation with Member State representatives. The main document is succinct, with additional important details provided in annexes. Adjustments made to the PBAS in the course of the years also benefitted from good interactions with governing bodies.
177. There are, however, few areas in which the document could have been clearer. Firstly, the document has limited information on the nature of reporting to the Board and no provision was made for a comprehensive evaluation or review of the system after a specific period of time. There was, however, provision for a review by the Board in September 2005 of the initial experience of the PBAS, which was carried out and adjustments were made to the system thereafter. The document also required the preparation of "operational procedures by the end of 2003", which was done and presented as part of the first progress report on the PBAS to the Board in December 2003.
178. Finally, a current limitation is that there is no single document in IFAD which captures in detail the objectives, systems and process related to the PBAS, reflecting the several adjustments made over the years. That is, while the documentation is available, it is not fully institutionalized and is reliant on the individuals who have been responsible for the system's management.

C. Rating for relevance

179. **The rating for relevance of the PBAS is 4.6, which is between moderately satisfactory (4) and satisfactory (5).** The relevance rating (4.6) is an average of individual ratings for the 10 sub-criteria adopted by the evaluation. However, it is noteworthy that the evaluation considers the relevance of the PBAS's objectives to be satisfactory (5), whereas the design of the PBAS is closer to moderately satisfactory, with an average score of 4.4. The individual ratings for all 10 sub-criteria are shown in annex II. The relevance in general is less than satisfactory as the PBAS system, inter-alia, is not sufficiently transparent in the reallocation process, has insufficient focus on rural poverty beyond rural population, and does not emphasize food security as a key dimension in its allocation formula. Moreover, the lack of CPIA ratings for several countries has adverse effects on the allocation system.

Key points on the relevance of the PBAS

- Overall, the relevance of the PBAS is between moderately satisfactory and satisfactory.
- The introduction of the PBAS has contributed to a more systematic and transparent process for allocation of its resources, in line with the practice in other IFIs, as compared to the period before the PBAS was introduced.
- The evaluation found that the PBAS increased accessibility and predictability of resource allocation, and instilled a sense of broad-based fairness based on a coherent formula, as compared to the ad hoc allocation approach adopted prior to the implementation of the PBAS.
- The initial design and the changes made over time reflected the institution's priorities at the time, even though there are opportunities to further sharpen the relevance of the system in light of key priorities such as food security.
- The PBAS formula has served IFAD well, although some adjustments could be considered. For example, the evaluation notes that the RSP variable could be refined and the PAR might not provide a full appreciation of performance at the country programme level.
- The lack of a CPIA rating for all countries has an adverse effect on the overall allocation system.
- Some of the underlying processes for generating the RSP and PAR scores could be strengthened. In particular, the generation of RSP scores could be made more participatory with stronger internal quality assurance.
- The governance and management on the whole were relevant, even though a more corporate approach could be taken in the implementation of the system and the role of the Board and its working group merits reflection moving forward.
- Though ample documentation is available on the detailed aspects of the PBAS, it is fragmented and needs to be pulled together to facilitate understanding of the system and its evolution.
- Reporting to the governing bodies has been adequate, but could be enhanced in the future.

IV. Effectiveness of the PBAS

180. As per the internationally recognized definition, effectiveness is a measure of the extent to which objectives were met or are likely to be met. Hence, this chapter analyses whether the PBAS objective have been met or are likely to be met. In order to analyse the PBAS effectiveness, the evaluation has been guided by the following questions:

- To what degree have resources been allocated to countries in an effective manner based on country needs and country performance?
- Has the PBAS served as an incentive to promote better policies and institutions in the rural sectors within developing Member States?
- What are the intended and unintended consequences of applying the PBAS?

181. In order to assess the effectiveness of the PBAS, first the evaluation analysed the results of the implementation of the system since its adoption. Based on that and the triangulation of evidence collected, this section presents a consolidated assessment of the achievements of the system's objectives.

A. Implementation results of the PBAS

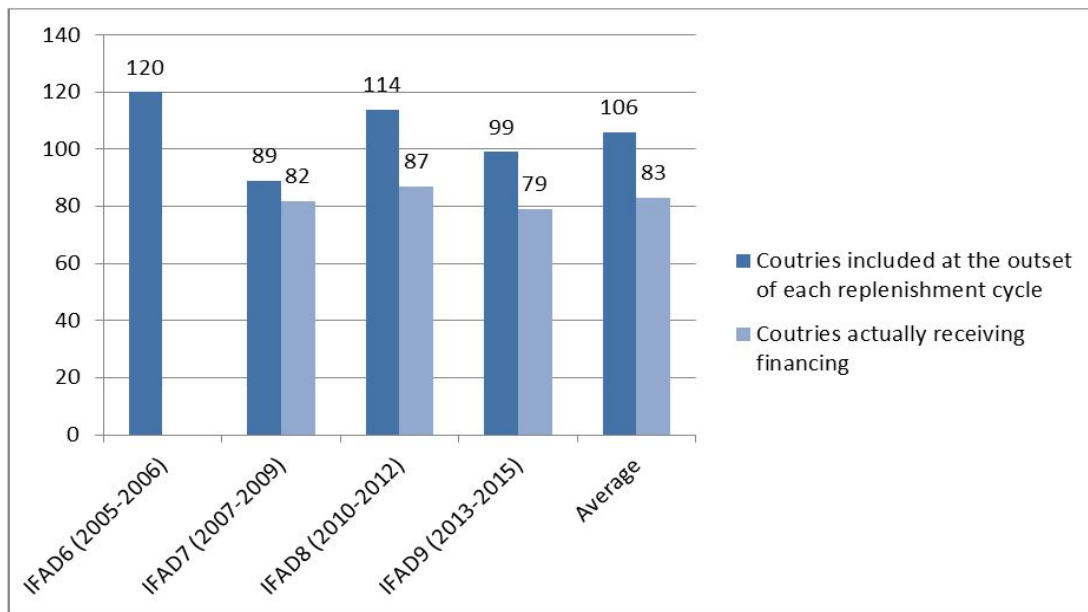
182. **Background.** The PBAS was adopted by the Board in September 2003; however, it could not be applied for allocation of IFAD resources in 2004, as time was needed to implement the system. Hence, the first allocations based on the PBAS were for the period 2005-2006 (the IFAD6 replenishment period). Since then the PBAS has been used to allocate IFAD resources in IFAD7 (2007-2009), IFAD8 (2010-2012), and IFAD9 (2013-2015). It was also used to allocate resources in the IFAD10 period (2016-2018).

183. From 2005 to 2015 there were four IFAD replenishment cycles and 12 allocation exercises. More specifically, for IFAD6, there were allocation exercises only in 2005 and 2006, while during IFAD7, four allocation exercises as reallocation exercises were submitted to the Executive Board in 2009, in addition to three annual allocation exercises. Both IFAD8 and IFAD9 had three allocation exercises during each period. For IFAD10, there has been one allocation up to the time of the CLE report writing.

184. In principle, ninety-five per cent of the regular resources for the PoLG target are to be allocated through IFAD's PBAS. Five per cent of the total replenishment funding is set aside for the Regional and Global Grants programme. For IFAD9, with a target PoLG of US\$3 billion, earmarked funding of US\$380 million for ASAP was not included into the PBAS run. Hence, IFAD9 PBAS allocated US\$2.62 billion. By contrast, the PBAS total for IFAD8 was approximately US\$2.8 billion out of a target PoLG of US\$3 billion, because IFAD8 contributions were untied.

185. **Management of allocations.** An important dimension is the number of developing Member States that are included in the PBAS in each replenishment cycle. This number has varied. Figure 8 shows the difference between the number of countries that were included at the outset of each three-year cycle, and the number of countries that actually received financing. The number of countries that receive allocations is based on a number of considerations including demand, absorptive capacity, enabling environment, strategic dialogue, portfolio performance, and political and security situation. There are also examples of several countries that might receive an allocation in a particular replenishment cycle, but not in another cycle.

Figure 8
Countries receiving allocation and financing by replenishment period



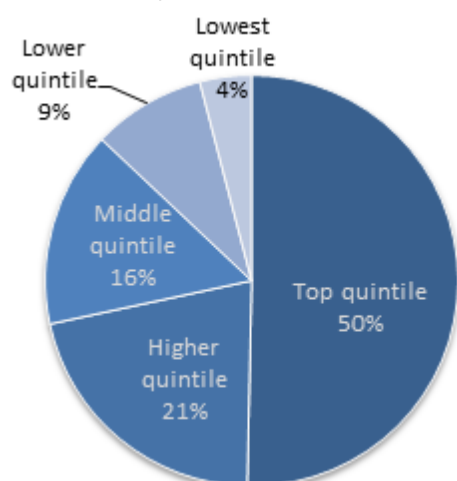
Source: Programme Management Department data, IFAD.

186. Figure 8 shows that IFAD has been proactive in managing the PBAS to ensure that financing is provided to countries that can use them in a timely manner for reducing rural poverty. Notwithstanding IFAD's global mandate of helping rural poor people in all developing Member States, it is evident that the number of countries receiving financing has reduced over time, especially in the IFAD9 allocation period.
187. However, one important feature to highlight is that 27 countries in IFAD8 and 20 countries in IFAD9 included initially did not receive financing in the end. This merits reflection because funds allocated and then not disbursed are eventually reallocated to other countries. This activity does not follow the PBAS formula, but follows other considerations related to demand and absorption capacity. The issue of reallocations and the implications thereof will be discussed later in the chapter.
188. With regard to the aforementioned, the countries included in the PBAS and those finally receiving financing is normally based on a dialogue between Member States and the regional divisions and PMD front office. However, the evaluation finds that the management of countries and the rationale for including or excluding countries from the PBAS is not clearly documented, nor is this information made available to the public. Moreover, for most of the period since the adoption of the PBAS, the number and nature of countries included or excluded from the PBAS was a decision left largely to PMD without much discussion at the corporate level.
189. The same applies to countries that are capped. To clarify, once the PBAS is implemented and allocations determined, some country allocations are capped below the allocation amount determined by the PBAS formula. As mentioned earlier, the selection of countries to cap is determined by the concerned regional divisions. The total "savings" are included back into the pool of resources available to IFAD for loans and grants and the PBAS is implemented again. This means the countries included in the PBAS could get a slightly higher allocation than originally envisaged. The evaluation concurs that capping is a positive feature of the PBAS; however, the underlying rationale for capping is not recorded in corporate documents, nor is this information made publicly available. Also, the decision of which countries to cap is largely left to PMD.

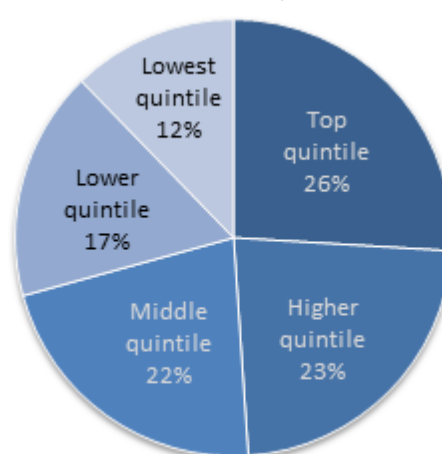
190. Another important aspect in the management of the PBAS are the reallocations of original allocations. Reallocations might be needed – in any three-year cycle – if IFAD determines that a country might not be able to use the full amount allocated. Reallocations are normally carried out in favour of countries that have higher absorptive capacity and demand. This is usually formalized in the third year of the PBAS funding cycle, which may be somewhat late in a three-year cycle.
191. The evaluation concludes that reallocations are a good practice to ensure that all IFAD resources are committed to combat rural poverty. However, the evaluation finds that the process for reallocation has traditionally been a feature left to PMD’s discretion. It is important to underline that in 2014, for the first time, the proposed reallocations were discussed and approved by IFAD’s Executive Management Committee, chaired by the President, thus instilling a more strategic and institutional approach to the process. The timeliness of the reallocations is also an issue that merits consideration.
192. **Allocations by country needs.** The CLE did an analysis to assess the amount of total resources allocated – since the introduction of the PBAS - to borrowing countries, based on the two variables (rural population and GNI pc) part of the country needs component of the PBAS formula. The results of the analysis may be seen in two pie charts in figure 9. The pie chart on the left of figure 9 shows the share of total IFAD resources allocated according to rural population, whereas the pie chart on the right shows the share of resources allocated according to GNI pc. The analysis has been undertaken by grouping all borrowing member states – according to their rural population and GNI pc - into five quintiles (top, higher, middle, lower, and lowest).
193. The pie chart on the left shows that the top twenty per cent of countries with the highest rural population (i.e. those in the top quintile) have received around 50 per cent of the PBAS resources. It also shows that 20 per cent of countries with the smallest rural population (i.e. those in the lowest quintile) have received around four per cent of total PBAS allocations. This analysis further reveals that the PBAS formula is strongly driven by rural population.
194. The pie chart on the right shows that countries with the lowest GNI pc have received around 26 per cent of total IFAD resources, whereas countries with the highest GNI pc have received 12 per cent of resources. In conclusion, the analysis shows that the countries with greater needs (larger rural populations and lower GNI pc) have received a larger share of allocations through the PBAS.

Figure 9

Allocations by rural population



Allocations by GNI pc



Source: IFAD progress report on the implementation of the PBAS, CLE elaboration (2015).

195. **Allocations by country performance and PBAS as an incentive instrument.** One of the reasons for the introduction of the PBAS was to incentivize countries to improve their performance, especially in terms of creating a more conducive policy and institutional environment in the agriculture and rural sectors, and better portfolio performance. The hypothesis is that countries would work towards achieving better RSP and PAR scores, which would translate into higher allocations.
196. Table 7 shows the average RSP and PAR score by IFAD geographic region for all countries included in the PBAS, comparing the scores of the year when the PBAS was first introduced (2004) with the most recent scores (2014) publically available.

Table 7

Average RSP and PAR scores (scale 1 to 6, with 1 being the worst and 6 the best)

	<i>Rural sector performance</i>		<i>Projects at risk</i>	
	2004	2014	2004	2014
Asia and the Pacific	3.2	3.7	4.6	4.7
East and Southern Africa	3.7	3.8	3.8	3.9
Latin America and the Caribbean	4.0	4.2	4.3	4.6
Near East, North Africa and Europe	3.5	4.1	3.9	4.4
West and Central Africa	3.2	3.5	3.5	4.6

Source: IFAD Progress Reports on the PBAS (2004 and 2014).

197. Table 7 reveals that there have been improvements in all regions in PAR scores over time, implying that the PBAS has been one of the drivers in improved portfolio performance. All regions have been rated between moderately satisfactory (4) and satisfactory (5), even though East and Southern Africa (3.9) is just close to moderately satisfactory. This is supported by the findings in the 2015 Annual Report on Results and Impact of IFAD Operations, which says that 83 per cent of projects completed in 2012-2014 are moderately satisfactory or better for "overall project achievement", as compared to 70 per cent in the early 2000s. However, analysis done during the CLE revealed that the improvements are not statistically significant.
198. Elaborating further on the above analysis (see table 8 below), the evaluation identified six countries to analyse their individual PAR scores.⁷³ For each country, the table includes the number of PAR scores available (i.e. the sample size), and the highest and lowest PAR score that the country got between 2004-2014. The table also includes the average PAR score for each country between 2004-2014 together with the standard deviation.
199. In interpreting the data, the table shows that in all six countries (apart from one, Mauritius), there has been an improvement in their absolute PAR score from when the PBAS was introduced, thus revealing that the PAR might have served as an incentive for better performance at the country level. However, it is to be noted that in some countries (Guyana, Mauritius and Paraguay), the standard deviation from the average is quite high. Therefore, it shows the volatility of the PAR as a variable, and the need to exercise caution in concluding that the PAR has actually served as an incentive to member states for better portfolio performance.

⁷³ These countries were selected based on the highest and lowest standard deviation from their average PAR scores between 2004-2014.

Table 8

List of countries with the highest and lowest standard deviation from their average PAR score between 2004-2014

Countries	2004 PAR	2014 PAR	Sample size	Highest PAR	Lowest PAR	Average	Standard deviation
Paraguay	2.00	5.00	10	6.00	1.00	4.25	2.065
Guyana	2.00	6.00	11	6.00	1.00	3.98	1.964
Mauritius	5.00	2.00	11	6.00	1.00	2.95	1.704
Morocco	4.00	4.00	10	4.50	4.00	4.05	0.150
Peru	5.00	6.00	11	6.00	5.00	5.91	0.287
Gambia (The)	5.00	6.00	11	6.00	5.00	5.91	0.287

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

200. It is not possible to exclusively link PAR scores to improved portfolio performance, also because the latter is driven by several key reforms introduced to IFAD's operating model in the last decade that are also drivers of better portfolio performance, including direct supervision and implementation support, IFAD country presence, enhanced quality enhancement and quality assurance processes, and more systematic portfolio management.
201. With regard to RSP scores, table 7 above shows an improvement in all five regions over time, with the greatest improvements being in the Near East, North Africa and Europe region followed by Asia and the Pacific region. However, the table also shows that performance is between moderately unsatisfactory (3) and moderately satisfactory (4) in Asia and the Pacific and the two sub-Saharan African regions. RSP scores are just marginally above the moderately satisfactory line in Latin America and Caribbean and Near East, North Africa and Europe regions. The RSP figures also need to be interpreted with caution, because the improvements in APR and ESA are not statistically significant, but they are for LAC, NEN and WCA.
202. Since the objective of the RSP is to respond to differences in performance, it is the relative performance of countries that would shape allocations.⁷⁴ Since part of its objective is to shape the allocations, an analysis of the scores from 2006 to 2014 was done. The analysis found that the variation of the RSP scores is very small: 92.8 per cent of the scores have a value between 3 and 4.99, and 5.6 per cent of the historical scores have a value below 3 and 1.5 per cent are above 5. Focusing on the objective of the RSP, the significant concentration of the scores in two fifths of the scale from (3 to 4.99), reduces the impact and the availability of the indicator to shape the allocations based on performance.
203. Moreover, as for the PAR above, the evaluation analysed the RSP scores in a selection of countries⁷⁵ (see table 9 below). Firstly, it shows the RSP score has improved from when the PBAS was introduced, thus revealing that the RSP might have served as an incentive for better performance at the country level. It is also noted that the standard deviation from the average is quite low. The latter might be explained by the fact that: (i) there is little variation in RSP scores from year to year, given policy and institutional reform is a longer term process; and (ii) as said earlier, CPMs have little incentive to invest a lot of effort in the RSP scoring, because they are requested to minimize deviations between CPIA and RSP scores.

⁷⁴ Report of the Panel on the Performance-Based Allocation System (EB 2003/80/R.3).

⁷⁵ These countries were selected based on the highest and lowest standard deviation from their average RSP scores between 2004-2014.

Table 9

List of countries with the highest and lowest standard deviation from their average RSP score between 2004-2014

<i>Countries</i>	<i>2004 RSP</i>	<i>2014 RSP</i>	<i>Sample size</i>	<i>Highest RSP</i>	<i>Lowest RSP</i>	<i>Average</i>	<i>Standard deviation</i>
Sierra Leone	2.64	3.79	11	3.79	2.63	3.39	0.479
Mauritius	4.10	5.03	11	5.09	4.10	4.70	0.453
Venezuela	3.30	4.48	11	4.59	3.30	4.19	0.452
Jamaica	4.13	4.30	10	4.30	4.13	4.25	0.056
China	4.33	4.39	11	4.39	4.21	4.30	0.057
Botswana	4.16	4.31	10	4.38	4.16	4.32	0.058

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

204. Learning from other institutions, the evaluation observed that at the AfDB, the country performance assessments – the AfDB equivalent of the RSP – are done by the country economists. Then a peer review process involving 150 staff members plus ten consultants takes place. The whole process takes three months.
205. As for project performance, it is hard to determine a causal link between RSP scores and IFAD's performance in policy dialogue, because the latter is driven by a number of factors (such as time and resources available for policy dialogue, clarity of objectives and activities, IFAD country presence, etc.). However, it can be said that the RSP scoring process, if conducted in a participatory manner with Government authorities and other in-country partners, may serve as a useful opportunity for policy dialogue, and that better RSP scores would contribute to greater PBAS country allocations.
206. The marginal improvements in RSP scores between 2004 and 2014 is also supported by the finding in the 2015 Annual Report on Results and Impact of IFAD Operations that performance in national policy dialogue has improved since 2006-2008 (29 per cent moderately satisfactory or better) to 58 per cent in 2012-2014. However, in spite of the improvements in RSP scores and policy dialogue, the data indicates that significant opportunities exist for further improvements in the agricultural and rural sector policies in recipient Member States. It also indicates what the evaluation noted earlier, that the PBAS (in particular the process for scoring RSP) has not been yet sufficiently leveraged to promote a more conducive institutional and policy environment in the agricultural sector in recipient countries.
207. **Outlier analysis to test the use of the formula.** Using the allocations for the IFAD9 period, the evaluation did an outlier analysis by selecting one country per region with the highest and lowest allocations by region. Ten countries were included in the analysis. Countries that receive a fixed maximum allocation (China and India) and minimum allocation (US\$1 million) were excluded from this analysis. The aim was to analyse the data of the variables, and to see if any trends are visible in the application of the PBAS formula. Table 10 reproduces data on the 10 countries in this analysis.

Table 10

Ranked by allocation: countries, region, and highest and lowest allocation in IFAD9 (2013-2015)

<i>Country</i>	<i>GNI pc (2013) (US dollars)</i>	<i>Rural population (2013)</i>	<i>Country performance rating</i>	<i>2013-2015 allocation (Millions of US\$)</i>
Countries with highest allocations by region				
Bangladesh	900	110 583 291	4.49	108.7
Ethiopia	470	77 594 354	3.94	88.2
Nigeria	2 760	85 343 053	3.64	72.2
Egypt	3 160	46 061 691	4.79	67.7
Brazil	11 690	29 774 584	5.42	48.7
Countries with lowest allocations by region				
South Sudan	1 120	9 212 413	2.18	8.2
Cabo Verde	3 630	179 255	4.98	5.6
Solomon Islands	1 610	441 293	3.88	5.1
Trinidad and Tobago	15 760	247 830	4.84	3.3
Lebanon	9 870	559 701	4.23	2.5

Note: Country performance rating is based on IRAI 2013, RSP 2014, and PAR 2014.

Source: IFAD Annual Progress Report (2014), CLE elaboration (2015).

208. On the whole, data in table 10 above shows that the formula works according to the basic principles of the PBAS, which is to allocate resources based on country needs and country performance. The following observations can be derived from the data:
- (i) Countries with the highest allocations have close to 30 million or more rural people, confirming the importance of rural population in the PBAS formula;
 - (ii) Countries with the lowest allocations have less than 1 million rural people, apart from South Sudan, which is an outlier among the countries with lowest allocations. The low allocation to South Sudan is therefore partly explained by the very low country performance score;
 - (iii) The average GNI pc of the five countries with the highest allocation is US\$3,796, as compared to US\$6,398 in the countries with the lowest allocation, confirming the importance of GNI pc in the allocation process. In this regard, even if one excludes the outliers (Brazil and Trinidad and Tobago, respectively) from the analysis, the average GNI pc of the countries with the highest allocations is US\$1,822, as compared to US\$4,057 for the countries with the lowest allocations; and
 - (iv) The average country performance score of the five countries with highest allocations is 4.5, as compared to 4.0 for five countries with the lowest allocations, confirming the performance dimension of IFAD's allocation system.
209. **Allocations by region.** Table 11 and 12 below presents the PBAS allocation in each replenishment cycle by region (reallocations are not included).

Table 11

Allocation by the five IFAD regions
(Millions of United States dollars and percentage of total by replenishment cycle)

	<i>IFAD6</i> (2005-2006)	<i>IFAD7</i> (2007-2009)	<i>IFAD8</i> (2010-2012)	<i>IFAD9</i> (2013-2015)	<i>Total</i>	<i>%</i>
Asia and the Pacific	304	623	918	868	2 713	33
East and Southern Africa	181	439	636	583	1 839	22
Latin America and the Caribbean	168	208	324	291	992	12
Near East, North Africa and Europe	150	257	375	348	1 130	14
West and Central Africa	181	313	567	539	1 600	19
Total	984	1 841	2 820	2 628	8 374	100

Source: IFAD Progress Reports on the implementation of the PBAS.

Table 12

Allocation by the five IFAD regions
(Percentage by replenishment cycle)

<i>Allocation period</i>	<i>Region</i>						<i>All regions</i>
	<i>Asia and the Pacific</i>	<i>East and Southern Africa</i>	<i>Latin America and the Caribbean</i>	<i>Near East, North Africa and Europe</i>	<i>West and Central Africa</i>		
2005-2006	31%	18%	17%	15%	18%		100%
2007-2009	34%	24%	11%	14%	17%		100%
2010-2012	32%	23%	12%	13%	20%		100%
2013-2015	34%	22%	11%	12%	20%		100%
All periods	33%	22%	13%	14%	19%		100%

Source: IFAD Progress Reports on the implementation of the PBAS.

210. The above tables show that Asia and the Pacific region has the single highest allocation since the PBAS was implemented in 2005, followed by East and Southern Africa, West and Central Africa, Near East, North Africa and Europe, and Latin America and the Caribbean. Forty-one per cent of the total funds have been allocated to sub-Saharan Africa (see table 13 below). However, if one includes the countries in North Africa, which are part of the Near East, North Africa and Europe region, then Africa as a whole has received a higher proportion of allocations (close to 50 per cent).

Table 13

Allocation to sub-Saharan Africa since 2005

	<i>IFAD6</i> (2005-2006)	<i>IFAD7</i> (2007-2009)	<i>IFAD8</i> (2010-2012)	<i>IFAD9</i> (2013-2015)	<i>Total</i>
Sub-Saharan Africa (ESA and WCA regions)* (US\$ million)	362	752	1 203	1 122	3 439
Percentage of total replenishment	37	41	43	43	41

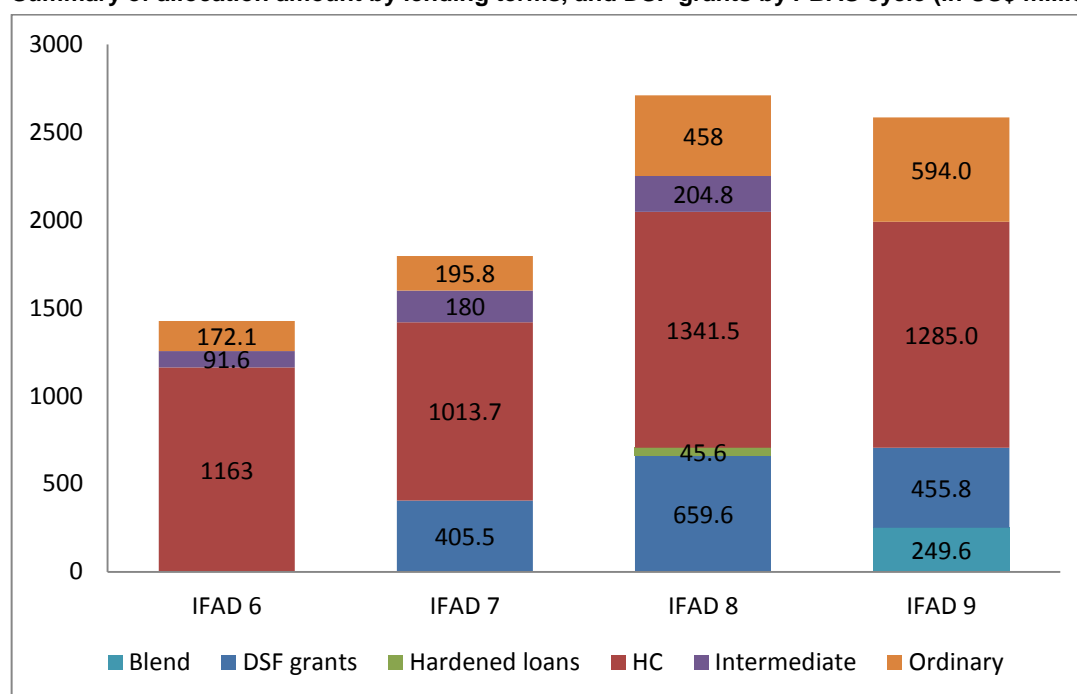
* The Sub Sahara Africa list also includes three countries from the NEN region; Djibouti, Somalia and Sudan.

Source: IFAD Progress Reports on the implementation of the PBAS.

211. **Allocations by loan interest rates.** The evaluation analysed the types of countries receiving PBAS allocations based on their lending terms.⁷⁶ Figure 10 shows that in IFAD9 and IFAD8, 50 per cent of funds went to countries borrowing at "highly concessional" terms. Twenty three per cent of total allocations went to countries borrowing on "ordinary" lending terms in IFAD9, as compared to 17 per cent in IFAD8. The remaining funds were provided to countries based on "blend" terms, and on grants and a mixture of grants and highly concessional loans (in line with the policy on the DSF).

Figure 10

Summary of allocation amount by lending terms, and DSF grants by PBAS cycle (in US\$ million)*



* Data are retrieved from IFAD Annual Report from 2004 to 2014. The 2015 IFAD annual report was still pending for finalization when the data was consolidated by IOE; therefore, the amount of loans approved in 2015 were not included herein.

Source: IFAD annual report (2004-2014), 2015 data: Draft IFAD annual report, consolidated by IOE.

212. As concluded by the CLE on IFAD Replenishments⁷⁷ (2014) and the evaluation system report on middle-income countries⁷⁸ (2014), lending to countries on ordinary terms is an important part of IFAD's financial architecture. This helps further the financial sustainability of the organization, given that lending on ordinary terms generates financial reflows of greater magnitude, as compared to loans based on other IFAD lending terms and grants.
213. Figure 11 shows that upon the adoption of the PBAS, 61 per cent of resources went to low income countries, whereas in 2015 39 per cent went to that same country category. In the same time frame, the allocation to the upper middle-income countries has doubled from 7 per cent in 2005 to 15 per cent in 2015.

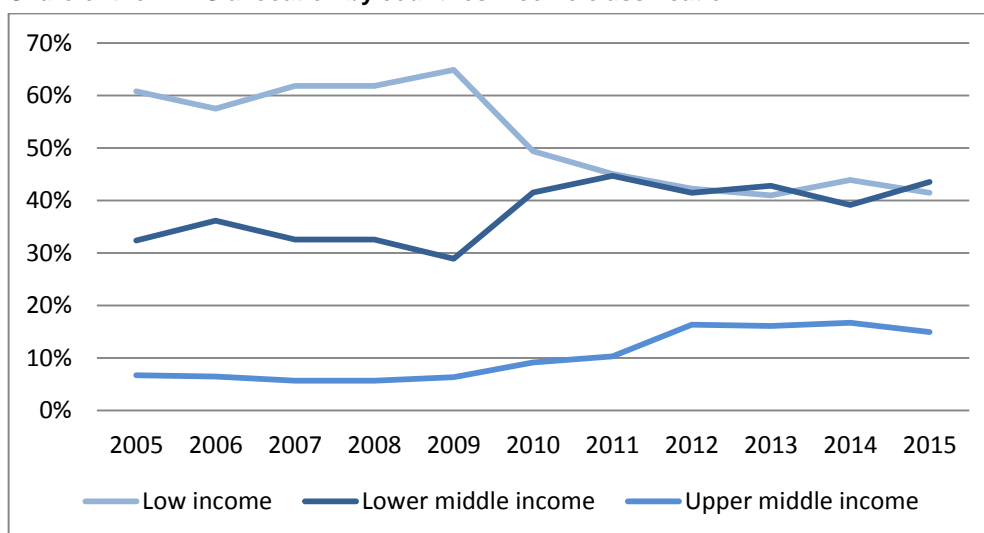
⁷⁶ As of 2013, IFAD's lending terms are: (i) highly concessional (HC), given to "those developing Member States having a gross national product per capita of US\$805 or less in 1992 prices or Members classified as IDA only countries. HC loans have no interest charged but only a service charge of 0.75 per cent; (ii) Blend terms, are given to developing Member States that are above the IFAD threshold for HC terms and below the ordinary terms, and are eligible for IDA blend terms. Loans on blend terms have a fixed interest rate of 1.25 per cent and a service charge of 0.75 per cent, and; (iii) Ordinary, for the developing Member States with a GNP per capita of US\$1,306 or above in 1992 prices. Such loans have an interest rate determined by the Fund on an annual basis and service charge of 0.75 per cent. The ordinary interest rates of the first semester of 2016 is 1.34 per cent. Prior to 2013, IFAD had two more lending terms, the hardened loans and the intermediate terms, though as of 2013 they were replaced by the blend term.

⁷⁷ See report at www.ifad.org/evaluation/public_html/eksyst/doc/corporate/replenishments_full.pdf.

⁷⁸ See report at www.ifad.org/evaluation/public_html/eksyst/doc/syn/2014/mics/index.htm.

Figure 11

Share of the PBAS allocation by countries income classification



Source: Annual progress reports of PBAS and the World Bank historical income classification by GNI pc. The country classification is based on the historical GNI per capita in US\$ (Atlas methodology) change of the classification over time can be seen at:

<http://econ.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20487070~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>.

214. The DSF does not have an immediate impact on the PBAS, as all core resources are allocated based on the PBAS formula. However, the DSF impacts the reflows of funds to IFAD, in particular because under the DSF and depending on their indebtedness some countries receive their allocations as grants (those classified as 'red') and some as a combination of grants and highly concessional loans (those classified as 'amber'). Countries classified as 'green' receive their allocations fully in loans. While Member States that make replenishment contributions to IFAD also undertake to provide donations to compensate for the DSF, replenishment contributions are made on a voluntary basis and are not assured, unlike reflows of loans (irrespective of the interest rates applied).
215. Table 14 shows a comparison of how the debt sustainability framework is treated in other IFIs.

Table 14

Debt sustainability and grants in other IFIs

	<i>AfDB</i>	<i>ADB</i>	<i>IDA</i>	<i>Inter-American Development Bank</i>	<i>IFAD</i>
DSF adopted for determining grants and credits?	Yes	Yes	Yes, a country's risk of debt distress (as determined through a DSA) determines the credit-grant mix	The appropriate degree of concessionality for each eligible country is derived from the debt distress indicators (DSA).	Yes, same as IDA
Modified volume discount, percentage and methodology	Yes	20% discount, all available for hard term facility	Grant allocations subject to a 20% upfront volume reduction, of which 11% is an incentive-related discount while 9% is a charges-related discount		Grant allocations subject to 5% and 2.5% upfront volume reduction

Source: Comparative review of the PBAS of eight international organizations.

216. There is another dimension that will require careful consideration in the future. This related to the unrestricted complimentary contributions made by member states to the Fund, such as the ASAP for climate, nutrition and South-South and Triangular Cooperation. As already explained earlier, the ASAP funds have not been channelled through the PBAS and there is no decision for the moment how such

funds will be treated in the future. On the one hand, channelling such resources through the PBAS would imply they would be spread thinly across member states, including to those countries that might not require or consider such funding a priority in light of their thematic focus. On the other hand, allocating these resources outside the PBAS would be a further factor distorting country allocations and potentially undermine the performance orientation and principles of IFAD's PBAS.

217. **PBAS and partnerships.** One of the key questions contained in the approach paper was to assess whether the PBAS has contributed to strengthening partnerships at the country level. While introducing this issue, it is important to note that the 30 country programme evaluations carried out by IOE since 2006 show that performance in promoting partnerships with a range of actors in the agricultural sector has improved from 58 per cent (moderately satisfactory or better) in 2006-2008 to 75 per cent in 2012-2014. These results need to be interpreted with caution however, as they only cover 30 recipient countries and a number of these country programmes evaluations found IFAD's performance to be only moderately satisfactory in this area.
218. In principle, the PBAS allocation process – in particular the dialogue around the RSP and PAR scores – should provide an opportunity for strengthening partnerships with key in-country stakeholders in the agriculture sector. However, as found by the PBAS evaluation, the approach taken to assigning RSP and PAR scores varies considerably from country to country, with some good examples of participatory processes to less satisfactory ones. Moreover, in several CPEs completed by IOE (e.g. in Bangladesh, Brazil, China and India), a key concern raised was the limited partnership with central ministries of agriculture, who would be expected to play a determining role in the RSP scoring process.
219. Another opportunity for identifying and strengthening partnerships is the availability of COSOPs and the underlying process in their preparation, which also include an indication of the country's PBAS allocation. However, out of the 79 countries that received allocations in IFAD9, only 31 countries had new COSOPs after 2010. Some COSOPs in fact have not been revised. It is fair to note that, in some cases, it has not been possible to develop a new COSOP in recent years due to conflict or similar situations in the country. Nevertheless, in many cases, IFAD has not fully used the COSOP process as an opportunity to promote dialogue around RSP and PAR scores, nor to identify and clearly articulate strategic partnerships.

B. Distortions in the allocations

220. The evaluation has found that the PBAS increased transparency and predictability of resource allocation, and instilled a sense of broad-based fairness based on a coherent formula. For instance, not only does the concerned member state know their individual allocation in the three year cycle, but all Member States also know the allocations of the other countries included in the PBAS.
221. **Additionality of borrowed funds.** In spite of the above, the PBAS has led to some "distortions". Firstly, the PBAS formula has resulted in relatively small allocations for some countries that have a greater demand for IFAD resources (for example, Argentina and Brazil, see next two paragraphs).⁷⁹
222. An example is the case of Argentina, as found by the country programme evaluation in 2010, which had an allocation of US\$7.8 million at the time. While the country programme evaluation also found other challenges in the IFAD-Government partnership, the small PBAS allocation was a constraining factor in re-galvanizing the dialogue. To redress this situation, the Fund was able to provide

⁷⁹ Reference Argentina CPE (2010) and Brazil CPE (2015).

(for a new programme)⁸⁰ an additional US\$50 million from the then Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund),⁸¹ which were not included as part of the PBAS allocation process. This de facto increased and “distorted” the country’s allocation from US\$7.8 million to US\$57.8 million.

223. Another example is Brazil. The country has the greatest number of people living in rural areas (around 30 million) in the Latin America and Caribbean region. As found by the recent Brazil country programme evaluation (2015), demand for IFAD assistance is very high especially by the States in the north-east of the country. However, the country’s PBAS allocation in IFAD9 was “only” US\$48 million, but as noted in the Brazil country programme evaluation, it was also provided an extra US\$40 million from the Spanish Trust Fund outside its PBAS allocation. This additional funding increased and distorted the country’s allocation from US\$48 to US\$88 million in the IFAD9 period.
224. In any case, the evaluation recognizes this no longer is an issue, because with the recent approval of the IFAD Sovereign Borrowing Framework, all borrowed funds must be channelled through the regular PBAS process. This is indeed a good decision, which will prevent such distortions from occurring in the future. For example, IFAD provided China with two loans, for Euro 34.35 million in December 2014 and Euro 38.75 million in September 2015, from funds it recently borrowed from KfW Bank in Germany. These amounts were part of the overall IFAD9 allocation for China and not additional allocations. Since December 2014, the funds borrowed from KfW have been used for the majority of loans approved by the Board for Member States on ordinary terms, which may have some implications, in particular currency risk to the borrowing countries given that these loans were in Euros, rather than in Special Drawing Rights.⁸²
225. There is a related issue that IFAD will need to deal with in the future, especially if the amount of borrowing funds increases. That is, the organization will be compelled to provide such borrowed funds only to countries that borrow from IFAD on ordinary terms, to ensure that the reflows generated can be used to pay back the loan taken by IFAD. This could create some difficulties for IFAD to repay any sovereign loan, in particular if the total amount of borrowed funds are greater than the total PBAS allocations for all countries that borrow on ordinary terms.
226. **Minimum and maximum allocations.** Other distortions include assigning a maximum and minimum allocations as well as capping of allocations to selected countries. The PBAS requires that some countries get a maximum allocation, which is 5 per cent of the total resources available for commitment. In this regard, in IFAD9, China and India received a maximum allocation each of US\$131.4 million. Had their allocations not been purposely restricted, they would have respectively been allocated US\$160 million and US\$149 million (China an additional US\$27.6 million, and India US\$17.6 million). The distortion created by determining a maximum allocation (in percentage terms) is to ensure the concerned country obtains a relatively sizeable allocation, but at the same time, free up some resources for other recipient Member States. This is an important feature of the IFAD PBAS, given that all recipient countries are potentially included in the PBAS, irrespective of their category (e.g. middle-income countries, low income countries, fragile states, etc.), which is not the case in other IFIs.
227. However, this amount is higher when one compares with the allocation China and India got, respectively, US\$42.7 million and US\$59.9 million in the period between 2002-2004, for the three year period immediately before the PBAS was introduced. These comparisons need to be drawn with caution as IFAD’s total annual PoLG was

⁸⁰ Inclusive Rural Development Programme.

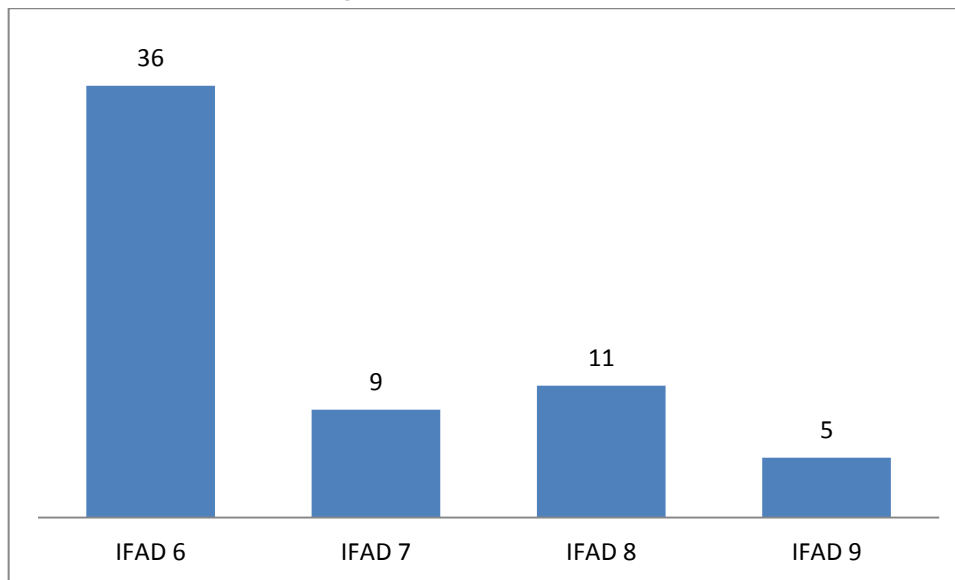
⁸¹ The Spanish Trust Fund was managed by IFAD. It entailed a loan to IFAD of EUR 285.5 million and a grant of EUR 14.5 million from the Spanish Government. See <http://www.ifad.org/gbdocs/eb/100/e/EB-2010-100-R-29-Rev-2.pdf>.

⁸² Lending resources to the borrower countries in the same currency as the borrowed fund would mitigate the risk for IFAD of being unable to repay the borrowed funds in full.

significantly lower in the early 2000s, as compare to the IFAD9 period. However, it is worth noting that the percentage of allocation to China and India of the total PoLG (US\$1.362 billion) in the period 2002-2004, was 3.1 per cent and 4.4 per cent, respectively. In both cases, this is lower than the 5 per cent maximum allocation reserved to these two countries under the PBAS.

228. As mentioned above, the PBAS also has a provision for minimum allocations to selected countries. These are countries that are included in the PBAS system at the outset of each cycle, but based on the results of the formula, their annual allocations are US\$1 million or less. In such circumstances, the countries are provided a minimum allocation of US\$1 million per year, for a total of US\$3 million over the three year PBAS period. Figure 12 below shows the countries receiving minimum allocations since IFAD6 till IFAD9.

Figure 12
Number of countries receiving minimum allocations



Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

229. The number of countries (36) receiving minimum allocations in IFAD6 was very high. This is largely due to the fact that the PBAS formula at the time included total population as a country needs variable, with a 0.75 weight. This means countries with small populations had low country scores, resulting in low allocations. However, the number of countries receiving minimum allocations reduced dramatically from IFAD7 onwards after the total population variable was changed to rural population with a weight of 0.45, once again confirming the positive effects of the change in this variable on country allocations. In fact, in IFAD9, only five countries received a minimum allocation, representing around 6 per cent of the countries that received an allocation.
230. The concept of minimum allocations is generally a positive feature of the PBAS. It gives IFAD the flexibility to remain faithful to its global mandate of helping all rural poor people, especially in small countries including small island developing states. However, further reflection is needed whether the minimum allocation (which is currently set at US\$3 million in a PBAS allocation cycle) is a reasonable amount to finance an investment operation, especially taking into account that design and supervision efforts and costs for such operations are nearly the same as for larger operations with significantly higher financial amounts.
231. **Capping.** Another characteristic of the IFAD PBAS is “capping” of allocations, which also distorts the original allocations derived from the PBAS formula. As discussed in the previous section on the PBAS’ relevance, the allocations of some countries are capped below the level of the allocation determined by the formula. This is done in

special circumstances, when based on a dialogue between IFAD and the concerned country, the latter will not be able to absorb the full amount of funds allocated.

232. This might occur, for instance, when a country is going through civil unrest, and IFAD and Government are unable to design and implement the required number of projects in a timely manner within a particular three year allocation cycle. The funds released (i.e. the original allocation minus the actual allocation retained for the country) are put back into the total pool of resources available to IFAD, and the PBAS formula is re-run across all countries included in a particular allocation cycle (excluding the capped countries and countries with maximum and minimum allocations). The capping therefore leads to an increase in allocations to other IFAD recipient Member States, beyond what was originally foreseen based on the PBAS formula.
233. Information was available on the number of countries capped in IFAD8 and IFAD9 (see table 15). The data shows that a relatively large number of countries were capped in IFAD8 (28 per cent of countries receiving financing), but a much lower number were capped in IFAD9 (8 per cent of countries receiving financing). The reduction in the number of countries is a positive sign, as it reduces the complexity in the management of the PBAS, but is also a reflection of better dialogue between IFAD and the concerned countries in identifying opportunities for the full utilization of allocations.

Table 15

Countries capped and allocation amounts

<i>IFAD8 (2010-2012)</i>				<i>IFAD9 (2013-2015)</i>			
Countries receiving allocations	Countries capped	Original allocation of countries capped* (US\$ mil)	Actual allocation of countries after capping (US\$ mil)	Countries receiving allocations	Countries capped	Original allocation of countries capped* (US\$ mil)	Actual allocation of countries after capping (US\$ mil)
87	24	237.3	68.6	79	6	123.7	78.3

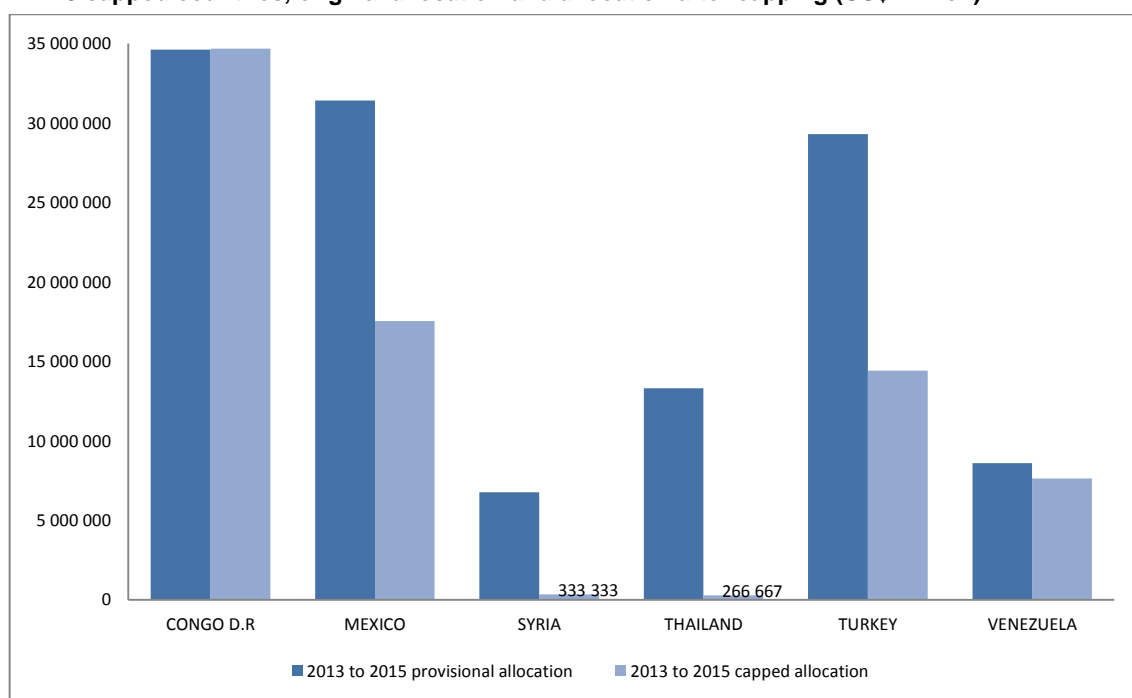
*CLE calculation using IFAD's PBAS formula.

Source: PBAS database, PMD, IFAD (2015).

234. Further to the above, the evaluation analysed the allocations of the six countries capped in the IFAD9 allocation cycle (see figure 13 below). The allocations for these countries were capped at the outset of the IFAD9 allocation cycle, due to special country situations (e.g. civil strife in the Syrian Arab Republic, little demand from the government in Mexico and Thailand, etc.). As may be seen, the allocations for all but one was less than what was determined by the PBAS formula. Although the allocation for the Democratic Republic of the Congo was capped at the outset of the three year cycle, its actual allocation was in fact very marginally higher than its PBAS allocation.

Figure 13

IFAD9 capped countries, original allocation and allocation after capping (US\$ million)



Source: PBAS database, PMD, IFAD (2015).

235. The evaluation recognizes that capping might be necessary in some countries. It facilitates better management of IFAD's total resources, because conscious efforts are made at the beginning of the three year PBAS cycles to generate a proper estimate of the funds that will be actually committed to a particular country. At the same time, funds are released that are included in the PBAS formula at the outset of the allocation cycle, without having to resort to reallocations during the three periods.
236. As mentioned in chapter III, capping is another example of the PBAS' flexibility, as it allows IFAD to make full use of its resources for rural poverty reduction. However, as mentioned above, the underlying reasons for capping countries is not sufficiently documented and communicated. Moreover, the annual progress reports do not specify the original allocation for countries capped, so that it is not easy to understand by how much the allocation was reduced. The rationale for selecting a certain percentage of the original allocation to determine the country cap is also not disclosed. Moving forward, these issues would merit consideration to further enhance the transparency of the allocation process.
237. **Special circumstances.** There are some special circumstances that also distort the PBAS allocations, for instance, when some countries are affected by unforeseen natural disasters or civil strife. An example was the food crises in 2008 (see box 5). The PBAS does not have any explicit provision to support countries that face such special circumstances. IFAD has however responded in a timely manner in situations of crisis (e.g. the earthquake in Pakistan, the food crises in the Philippines, or the Ebola crises in West Africa), and made funding available over and above the PBAS allocations, both through loans and grants. The source of loan funding is mostly through the reallocations made from countries that are not expected to use their full PBAS allocation.

IFAD's response to the 2008 Food Crisis

In response to the United Nations Secretary-General Ban Ki-Moon's April 2008 warning regarding the escalation food crisis, IFAD took a number of actions, notably offering in the short term to reallocate up to US\$200 million from existing loans and grants to provide an immediate boost to developing countries' agricultural production, if the countries so requested. Over the medium-long term, IFAD would provide a bridge between an emergency response and longer term solutions to build the resilience of IFAD's target populations. This would be accomplished through strengthening IFAD's development effectiveness and expanding its investment in sustainable agricultural production to support food security, adequate nutrition and rural development. IFAD also contributes to the development and dissemination of improved and new technologies to increase resilience.

Source: IFAD's response to the food price increase. See report REPL.VIII/3?R.4.

238. **The CPIA.** Last but not least, a further distortion occurs because the CPIA score is not available for all countries, every year. In such situations, as mentioned earlier, IFAD adjusts the weights of the other two variables (PAR and RSP) in the country performance component of the PBAS formula, thus creating further distortions to the overall country allocations. Since the CPIA score is only available for countries that borrow on highly concessional terms, and each year countries are graduating from the World Bank list of highly concessional countries, the distortion of the reweighting of the performance variables will apply to even more countries.⁸³

C. Reallocations

239. Reallocation of unused funds is normally handled in the final year of the three year PBAS cycle, so that the allocation to each recipient country remains stable and CPMs can plan project pipelines accordingly.
240. Towards the end of the second year in the three year allocation cycle, the front office of the PMD asks CPMs to identify any PBAS funds that are likely to be unused before the end of the cycle. At the beginning of the third year, PMD asks CPMs which countries need an additional allocation, or whether there are countries to add to the PBAS list for the final year. If a new country is to be added to the final allocation year, it must be balanced by removing a country from the same region from the PBAS. This ensures that the total number of recipient countries in each region will remain the same throughout the replenishment period.
241. The reallocation is done by PMD and remains internal; it is not shown to the Governing Council or Executive Board. However, as mentioned before, starting from 2014, the Executive Management Committee of IFAD reviewed the proposed reallocations by PMD and decided on the final amounts and countries, thus providing the process a more corporate dimension. The below tables (16 and 17) shows data on the reallocation of three PBAS cycles, IFAD7, IFAD8 and IFAD9.

⁸³ In the 2006 country scores and 2007 annual allocation, 24 countries out of the 94 countries that received an initial allocation did not have a CPIA score (25 per cent), in the 2014 country scores and 2015 annual allocation, 32 out of the 85 countries that received an initial allocation did not have a CPIA score (38 per cent).

Table 16
Reallocation in numbers

<i>Replenishment period</i>	<i>IFAD PBAS resources (Billions of United States dollars)</i>	<i>(Millions of United States dollars)</i>		
		<i>Resources to be reallocated</i>	<i>Resources reallocated</i>	<i>Resources not allocated</i>
IFAD7 (2007-2009)	1.8	80.2	65.7	14.5
IFAD8 (2010-2012)	2.8	204.9	184.8	20.2
IFAD9 (2013-2015)	2.6	277.9	277.9	-

Source: Data from PMD (2015).

Table 17
Number of countries involved in the reallocation

<i>Replenishment period</i>	<i>Allocation increase</i>	<i>Allocation decreased*</i>	<i>Number of countries included in the PBAS</i>	<i>Number of countries that received financing</i>
IFAD7	16	23	89	82
IFAD8	27	55	114	87
IFAD9	34	32	99	79

* Number of countries with an allocation change greater than 2 per cent.

Source: Data from PMD (2015).

242. The evaluations recognizes that country contexts changes and therefore concurs with the need for reallocations, which is in line with the practice in other IFIs, allowing IFAD to make full use of its total resources in any particular PBAS cycle.
243. However, table 16 above shows that the amount of reallocation in IFAD8 was rather high, around 7.3 per cent (US\$204 million) of the total PBAS resources. The point to note is that the amount reallocated based on a country's demand and capacity to absorb, and the availability of projects in the pipeline. This means, in IFAD8, US\$204 million out of the total funds available were not allocated based on the PBAS. Moreover, it is to be highlighted that both in IFAD7 and IFAD8, some funds were not allocated in the end (US\$14.5 million in IFAD7, and US\$20.2 million in IFAD8).
244. In IFAD9, the amount of reallocation was even higher (US\$ 277 million) than in IFAD8. In IFAD9, the reallocation process was based on unused funds from the first two years (2013-2014) of the three year cycle, as well as some additional funding from IFAD's internal resources.
245. Table 17 on the other hand shows the number of countries whose allocations were in the end increased or decreased in the respective PBAS cycles. Fifty-five (48 per cent) out of the 114 countries that were initially included in the PBAS in IFAD8 had a decrease in their allocation. Moreover, the data from PMD shows that 21 countries that were initially included in the PBAS were provided no allocation in the end. Though the evaluation recognizes that part of this may be due to emerging challenges in some countries, more though analysis might be needed in deciding the number of countries to include in the PBAS at the outset of the cycle.
246. Finally, as mentioned earlier in the report, the reallocations are not clearly disclosed. In IFAD7, the final PBAS Progress Report presented to the December 2009 Board session included the final allocations for the period 2007-2009, so by looking at previous progress reports, the amount of reallocation by country may be reconstructed, though it would be quite a cumbersome task. The final allocations, after the reallocations, were not disclosed in IFAD6 and IFAD8. The lack of

transparency on the process of redistributing the resources in the reallocation exercise and the disclosure of the final resources allocated by the PBAS demonstrates an opportunity to enrich the progress reports on the implementation of the PBAS in order to disclose and further explain the reallocation process.

D. Rating for effectiveness

247. **The rating for the effectiveness of the PBAS is 4.2, which is closer to moderately satisfactory (4) than satisfactory (5).** The effectiveness rating (4.2) is an average of individual ratings for the 11 sub-criteria adopted by the evaluation. However, it is noteworthy that the evaluation considers the PBAS's effectiveness to be satisfactory in terms of the allocation of resources across countries and regions, but moderately satisfactory in promoting better country performance, and moderately unsatisfactory in channelling resources to countries affected by special circumstances. All ratings for the 11 sub-criteria are shown in annex II.

Key points on the effectiveness of the PBAS

- All in all, the effectiveness of the PBAS is on the whole moderately satisfactory.
- The adjustments done on the PBAS formula over time have helped IFAD to allocate resources in line with IFAD's mandate. In particular, the share of resources allocated to sub-Saharan Africa has been above the levels agreed by the Board when the revisions of PBAS were proposed in 2006 (36.8 per cent).
- The evaluation recognizes the good flexibility of the system, including the maximum and minimum allocations, and reallocations and caps applied to concerned countries.
- The total amount of resources (US\$3 million) provided to minimum allocation countries in any given three year cycle merits reflection, especially considering that the costs for design and supervision in such cases is broadly the same as for larger investment operations.
- The evaluation identified areas which merit consideration to further enhance the transparency of the system. Particularly, the country selectivity, the rationale for capping, quality assurance of RSP scores, and reallocation exercises are not publicly disclosed.
- It is difficult to determine an explicit link between RSP scores and IFAD's performance in non-lending activities. However, conducting RSP in a more participatory manner with more involvement of counterpart governments could provide opportunity for IFAD to get engaged in policy dialogue with the recipient governments.
- The dynamic changes (year to year) are indeed driven by country performance variables in the PBAS formula. However, data analysis shows that the rural population variable has a major impact on country allocations.

V. Efficiency of the PBAS

248. In analysing the PBAS's efficiency, the evaluation reviewed the resources used in overall management of the system to ensure an appropriate allocation of programme resources. An analysis was made of the human and financial resources as well as process and systems in place to support the functioning of the PBAS in IFAD. The following key questions informed the assessment of efficiency:

- Is the process of allocating resources more expedient with the PBAS, as compared to the system in place before its introduction?
- How has the PBAS affected IFAD's overall institutional efficiency?
- Are the corporate processes underpinning the implementation of the PBAS appropriate?

A. Management of the PBAS and reporting

249. The PMD Associate Vice-President is responsible for the management of the PBAS. Implementing the PBAS occupies two IFAD staff members for portions of their time: PMD's Senior Operations Manager, assisted by a PMD portfolio manager. No time management analysis has been done, but the Senior Operations Manager estimated that he and the portfolio manager each devote about 15 per cent of their time hours to the PBAS.⁸⁴ All in all, therefore, the direct staff costs for managing the PBAS is relatively low.
250. The procedures to implement the PBAS seems however to absorb a fair amount of time. This includes soliciting and organizing data required for PBAS formula inputs for up to 120 countries, particularly the elements of the RSP, would entail significant time expenditure. Scanning the RSP elements for any outliers, and discussing those with CPMs, would also take time. Running the formula to calculate the annual allocations could be the most complicated for the first and final years of the replenishment period. Added to these tasks would be the preparation and posting of the allocations and country scores, preparing the annual PBAS Progress Report.
251. PMD is also responsible for representing IFAD at the IFI PBAS technical group, which meets regularly to discuss challenges in implementing each institution's performance-based allocations process. IFAD hosted the technical group's meeting in 2008 and 2011.
252. PMD is responsible for preparing all the necessary background documents and presentations for the Executive Board's PBAS working group. The role of the Secretary's Office (SEC) is largely limited to organising meetings and related logistic arrangements. There might be opportunities for SEC to play a greater role, for instance, in briefing the chair of the working group (as they do in the case of the Audit and Evaluation Committees) and in preparing the minutes of their meetings.
253. One of the findings of the evaluation is that in the past, from the adoption of the PBAS till mid-2015, one senior PMD staff (Senior Operations Manager) was mostly responsible for the PBAS and its implementation. This led to the centralization in the management of the system. However, in the last quarter of 2015, the evaluation notes that the Associate Vice-President PMD reconfigured the human resources and management of the PBAS and a more-broad-based approach was taken in running the PBAS for IFAD10. Moreover, as mentioned earlier, since 2014, the Executive Management Committee chaired by the President has taken a proactive role in discussing and approving allocations and reallocations. Recent efforts have also been made to reach out more actively to IFAD staff and the

⁸⁴ Evaluation team interview with PMD Senior Operations Manager, 26 June 2015.

Executive Board, to brief them on the functioning of the system. These are steps in the right direction to give the PBAS a more corporate dimension.

254. Larger MDBs may devote more staff time to their PBAS implementation. For instance, IDA, with a much larger volume of funding and operations under its PBA system, has a bigger staff handling the same kind of work on IDA's system.⁸⁵ IDA's allocation process covers 77 countries, predominantly those with a per capita income below the cut-off level for IDA financing (\$1,215 in fiscal year 2016). IFAD's total PBAS allocation are for a smaller pot of funds, but the number of countries it covers is larger: between 90 and 120 low-income and middle-income borrowing countries since it was established.⁸⁶
255. While IFAD's PoLG is smaller than the volume of funds going through other IFIs' PBAS, the procedures required for operating IFAD's PBAS are not proportionately fewer, particularly since IFAD's PBAS covers more countries.
256. **The PBAS working group.** The evaluation notes that PBAS Working Group may not be using its full mandate to review IFI practices and propose changes. Limited information on PMD procedures and working group membership tenures may affect what the group is able to accomplish. Document review identified only one issue on which the Working Group has suggested a change to IFAD procedures (2008: adding new countries in year 3 of the allocation period) that was subsequently approved and implemented. IOE did not see evidence that the Working Group has suggested any further adjustments to the PBAS system. Also, no documentary evidence was found indicating that the Working Group has brought any major issues to the Executive Board for consideration since 2008.
257. **Reporting by management.** IFAD management has provided a report to the Executive Board at every December Board meeting since 2003. These reports were initially submitted as separate agenda items to the Board for approval (until 2011). However, as mentioned earlier, beginning in 2012, the annual PBAS progress report was incorporated as an addendum as part of IFAD's annual programme of work and budget. The 2012 PBAS Progress Report is only one page summarizes the application of the PBAS together with several annexes that include the country scores and allocations. The same format was used for the 2013 and 2014 PBAS progress reports. Additionally, in March 2014 an overview of the PBAS system⁸⁷ was provided to the Board for information in its April 2014 session.
258. IFAD's annual PBAS Progress Report is shorter, less detailed, and less strategic than those of other IFIs. The PBAS Progress Report summarizes the history of IFAD's PBAS and adjustments to it; that year's meetings of the PBAS working group (until 2010, sometimes attaching minutes); a brief general account of that year's IFI PBAS technical meeting; and a short, general account of how the PBAS has been applied that year. Some sections of the report use basically the same language from year to year. Attached to the progress report (or available by web link) are two sets of tables: (1) a listing of the figures that go into the PBAS formula for each country, its final country score, and its allocation for the subsequent year and any other years in that replenishment period (future years are indicative); and (2) for each country, the scores for each of the indicators making up the rural sector performance assessments.
259. The PBAS Progress Report does not provide specifics on how management decisions are taken regarding which countries are included in the PBAS in the three year cycle, nor by how much are countries allocations capped, nor how reallocations are actually made. The reports also do not normally identify emerging policy issues related to the design or implementation of the allocation system.

⁸⁵ Ibid.

⁸⁶ World Bank Webpage: <http://www.worldbank.org/ida/borrowing-countries.html>.

⁸⁷ IFAD 2014. *Overview of the performance-based allocation system*. Executive Board – 111th Session. Rome: IFAD.

260. Minutes of the Executive Board's December meetings from 2005-2014 show that the Board has consistently approved the report and sent it for information to the Governing Council, with occasional substantive exchanges. The below are some points that have been raised by Board members on the annual progress reports:
- 2009: one Board representative challenged his country's declining score.⁸⁸
 - 2010: the Board requested that the PBAS Working Group add to its programme of work for 2011 further analysis of the PBAS allocations, in particular with regard to such issues as formula variations for middle-income countries and GNI.⁸⁹
 - 2012: the Board asked why ASAP funds were not allocated by the PBAS.⁹⁰
 - 2014: Board members asked about the potential impact of the loan from KfW Development Bank on country allocations; management assured them that any KfW funding would be handled within the PBAS system, financing to the extent possible for ordinary term loans under IFAD9, thus allowing more resources to be freed up for highly concessional lending.⁹¹
261. The IOE electronic questionnaire found that sixty per cent of Board respondents noted that called Board oversight of the PBAS by the Executive Board and PBAS Working Group has been satisfactory or moderately satisfactory. However, when asked how oversight might be improved, 77 per cent wanted specific and analytical reports to be provided to the Board at the time of the initial allocation exercise in each cycle, and in the reallocation exercise; 46 per cent wanted more scope for the Board to provide guidance on strategic issues before each resource allocation cycle; and 46 per cent wanted more frequent independent evaluations of the PBAS.
262. **Reporting to the Boards in other IFIs.** The AfDB's annual PBAS report, presented to the Board on a no-objection basis, details the total level of funds allocated for 2015 and explains why the total is higher than expected. It indicates that the 2015 allocations confirm that performance remains the cornerstone of the system, with more than 2/3 of the resources continuing to go to the highest performing countries, and more than half goes to low-income countries and/or those with weak infrastructure. It identifies the countries whose allocations have increased and shows how that is linked to improved performance, with a graph showing allocation shares by performance quintiles. It also identifies the AfDB offices responsible for the PBA and contributing to its calculations, summarizing the methodology. It provides country allocations for that year and the rest of the replenishment period, and explains why allocations have changes (but does not provide the underlying data. It also details DSF treatment, financing terms, countries paying off debt, and funds provided to countries under Pillar I of the transitional states facility. The AfDB's PBA covers 55 countries.⁹²
263. The Asian Development Bank's 2014 report is brief. It describes the objective and summarizes the way that the resource allocation is carried out. It also identifies the offices responsible for and contributing to the process. It provides data on each country's indicators making up their Composite Country Performance Rating, and ranks countries by performance indicator. It also lists post-conflict countries' performance assessments. It does not provide the level of funds allocated for the year or for the replenishment period. The document is posted on a website accessible to the public.⁹³

⁸⁸ IFAD 2010. Minutes of the Executive Board — Ninety-eighth Session. Rome: IFAD.

⁸⁹ IFAD 2012. Minutes of the Executive Board— 104th Session. Rome: IFAD.

⁹⁰ IFAD 2013. Minutes of the Executive Board— 107th Session. Rome: IFAD.

⁹¹ IFAD 2015. Minutes of the Executive Board— 113th Session. Rome: IFAD, 15-16 December 2014

⁹² African Development Fund (AfDF) 2015. Allocations Pays 2015 au Titre du FAD-13. Abidjan: AfDF; the AfDF 2015 Allocations document was made available by AfDB staff; it does not appear to be available on a public website.

⁹³ Asian Development Bank 2015. *Annual Report of the 2014 Country Performance Assessment Exercise*. Manila: ADB.

264. The document IDA country allocations for FY15⁹⁴ lists the 74 country allocations for FY15 and their financing categories; and key input data for the allocations (e.g. front and back-loading, regional and inter regional reallocations, the Country Performance Rating and its elements: average of CPIA clusters A, B and C, CPIA Cluster D, and Portfolio Performance Rating; population; and GNI per capita). How the allocations were arrived at is not explained. Instead the document refers readers to other documents including the IDA17 Deputies Report to provide details on the IDA17 implementation period, the PBAS system. The document also identifies allocations under the Crisis Response Window, with notes explaining the crises addressed.

B. Documentation, databases and learning

265. **Documentation.** IFAD has a wealth of documentation on the design and implementation of the PBAS, including the methodology of the system, annual progress reports, power point presentations and other related information. However, there is no single document that captures how the system has evolved over the years, for example, in terms of the changes that were introduced to the formula, the implications of the DSF, or how the reallocations are done. Similarly, information on the reallocations is not disclosed. Nor does IFAD have an "implementation manual" for the PBAS, which would be helpful to further institutionalize the system.

266. In sum, the documentation is fragmented and some aspects of the system are not adequately documented (such as the implications of the DSF), thereby making it rather difficult to get a full understanding of the system, without extensive review of literature. This aspect affects efficiency, especially for new staff or concerned partners at the country level who deal with the PBAS in their work.



Members of a women's farmer field school, Zanzibar 2014, United Republic of Tanzania. Photo by F. Felloni.

267. **Databases.** Since the adoption of the PBAS, the PMD front office maintains numerous spread sheets in Excel with algorithms and data on the PBAS (e.g. RSP scores, number of countries), allocations, reallocations and related adjustments. While this was appropriate in the first decade of the PBAS, it will become quite

⁹⁴ World Bank 2015. *IDA Country Allocations for FY15*. Washington, D.C.

difficult to manage an increasing volume of data moving forward and to retrieve essential historic data.

268. Also, the calculation of allocations and the adjustments are maintained in different spread sheets by replenishment period and by year, but a consolidated repository of all the historic data is not available. Apart from poses challenges in conducting analytic work on the PBAS historic data, retaining such critical information in Excel in individual personal computers (rather than in a corporate database with proper backups) could pose a corporate risk. Moreover, the PBAS databases are not made available outside PMD.
269. **Learning and cross-fertilization of experiences.** The evaluation did not find much evidence that efforts were made to systematically extract and share lessons from the implementation of the PBAS. A better learning and feedback system would also have contributed to enhancing the efficiency of the PBAS processes.
270. Management conducted a review in 2006 of the PBAS, which laid the basis for some adjustments to the system, but that appears to have been a one-off activity. Apart from the 2006 review, no other consolidated review or study has been undertaken of the PBAS until this independent evaluation was commissioned by the Board, nor have any specific mechanisms or platforms been put in place for sharing of knowledge on PBAS-related matters between CPMs, country authorities or IFAD operational divisions.
271. Ample discussions and exchanges have taken place within regional divisions, but these have been largely about PBAS allocations and implementation, but less about reflection and learning about the PBAS as an instrument and how it could strengthened. Participating systematically in the IFI technical group on the PBAS does however provide IFAD an opportunity to learn from the allocation systems in other organizations.

C. Other dimensions of PBAS efficiency

272. **PAR and RSP processes.** As discussed in the previous chapter, the PAR scoring is done as part of IFAD's institutionalized portfolio management and review process. This is good and positively affects the PBAS's efficiency, because the PBAS builds on other internal existing corporate processes.
273. On the other hand, the RSP process and scoring is specific to the PBAS and done annually by the CPMs. It can be quite a time consuming process, especially if done with the required participation of concerned in-country stakeholders. Analysis by IOE (see tables 18 and 19 below) shows that the RSP scores change very little within the three years in any given PBAS cycle and without any statistical significance, affecting very marginally the country allocations. Therefore, it is worth reflection whether annual scoring of the RSP is really necessary. Doing the RSP less frequently, in a more robust and participatory manner, rather than three times for each PBAS cycle, is likely to lead to overall efficiency gains for both the Fund and recipient countries.

Table 18

Rural sector performance scores descriptive statistics

Year	IFAD6			IFAD7			IFAD8			IFAD9	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Observations	124	121	121	87	94	113	112	112	115	98	111
Average	3.76	3.88	3.88	3.86	3.88	3.88	3.84	3.84	3.83	3.92	3.88
Standard deviation	0.55	0.57	0.57	0.46	0.56	0.56	0.55	0.54	0.54	0.55	0.60
Smallest value	2.00	2.24	2.24	2.21	2.27	2.31	2.06	2.06	2.06	2.41	2.06
Largest value	4.76	5.19	5.19	4.65	5.17	5.32	5.03	5.03	5.03	5.09	5.03

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

Table 19

Rural sector performance scores average by region

	IFAD6			IFAD7			IFAD8			IFAD9	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Asia/Pacific	3.74	3.76	3.77	3.78	3.70	3.65	3.62	3.62	3.65	3.68	3.72
East/Southern Africa	3.67	3.75	3.75	3.77	3.88	3.99	3.88	3.86	3.86	3.99	3.81
Latin America/Caribbean	4.02	4.23	4.23	4.05	4.09	4.12	4.14	4.22	4.24	4.26	4.19
Near East, North Africa and Europe	4.05	4.14	4.14	4.20	4.24	4.29	4.20	4.15	4.07	4.21	4.22
West and Central Africa	3.24	3.35	3.35	3.53	3.56	3.60	3.58	3.54	3.54	3.56	3.49

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

274. **Selection of countries.** As discussed in the previous chapter, a number of countries are included in the PBAS at the outset of the three year cycle. However, the number of countries that eventually get financing is generally lower. While this provides flexibility to IFAD in allocating resources based on demand and absorption capacity, there are some potential inefficiencies that may be avoided. In particular, it would be advantageous to ensure that the number of countries included in the PBAS at the outset of the three year cycle is as close as possible to the countries that actually take up financing. This would limit the efforts and time spent in identifying countries that may receive higher allocations than originally foreseen.
275. **Reallocation process.** The reallocations are formalized in the third year of the PBAS cycle. Starting from 2014, as mentioned earlier, the Executive Management Committee is responsible for discussing and deciding the recipient countries and the amount of reallocation. This is positive, yet it would be more efficient if the criteria for reallocations are made explicit, and the reallocations done earlier in the cycle. The risk of formalizing the reallocations in the third year could imply that projects might not be in the pipeline for funding and IFAD might not in the end meet the lending targets agreed with the governing bodies.
276. **Change in variable, alignment with replenishment cycle and capping.** There are at least three features of the PBAS that have favourably contributed to improving the efficiency. Firstly, the change from total population to rural population as a variable in the PBAS formula together with the adjustment in the weight of this variable has contributed to significantly reducing the number of countries with minimum allocations of US\$3 million in each three year cycle. In particular, 36 countries had minimum allocations in IFAD6 as compared to five in IFAD9. This reduction has a positive effect on overall institutional efficiency for a number of reasons. For instance, a smaller number of countries with minimum

allocations means the Fund's programme resources are less thinly spread out, inter alia, which allows it to use its administrative budget in a more consolidated manner for better development effectiveness.

277. A second critical adjustment was the alignment of the PBAS cycle with the three year replenishment cycles. This has at least two implications that contribute to better institutional efficiency. Firstly, it potentially allows for improved pipeline planning and management, as the organization is able to develop its PoLG over a three year horizon cognizant of the agreed replenishment targets. Secondly, it allows the Fund to have a better picture of the Fund's total resource availability, including any gaps that would need to be filled – for example through borrowing – to achieve a specific level of PoLG within a three year cycle.
278. Thirdly, in spite of the issues raised by the evaluation on capping in the previous sections on relevance and effectiveness, capping allocations contributes to better efficiency in managing IFAD resources. Without capping, concerned countries would not in principle be able to use the full allocations determined by the PBAS formula, thus requiring the organization to invest time and energy in reallocating the unutilized resources during the PBAS cycle to meet the agreed lending targets. This process is not only cumbersome, but as mentioned before, does not contribute to a promoting the basic objective of the PBAS to allocate resources transparently based on specific rules.
279. **Country allocations, pipeline development and administrative budget allocation.** In spite of the above, and based on consultations with CPMs and the analysis of corresponding data, there are opportunities to improve the linkages between the use of country allocations, pipeline development, and administrative budget earmarking for better overall institutional efficiency.
280. In particular, data shows that fewer loans are committed in the first year of any three-year PBAS cycle. Commitments generally increase in the second year, with the largest volume of commitments made in the third year of any PBAS allocation cycle. For instance, in IFAD7, the commitments in 2007 (the first year in the allocation cycle) was US\$565 million, which was about 100 million less than the commitments in 2009 (the third year in the IFAD7 cycle, which totalled US\$660.5 million). A similar trend was found in IFAD8 and IFAD9.
281. There are at least two reasons for the above. Firstly, the low commitments made in the first year of any three year cycle is due to the relatively fewer number of projects available in the pipeline that can be fully designed for Board approval. Secondly, even with projects in the pipeline, regional divisions do not often have access to, or proactively earmark, the required amounts of administrative budgets in the year before any three year PBAS allocation cycle for designing projects for approval in the first year of the PBAS cycle. This naturally is not an issue in those countries (especially with relatively small allocations) that are likely to benefit only from one new project in any three year period.
282. A better spread in the total commitments made annually across the three years in any allocation cycle would contribute to better institutional efficiency. This will required tightening forward planning processes, in particular by ensuring better linkages between project pipeline development, country allocations and administrative budget earmarking.
283. **Number of countries and allocation per country.** The organization financed projects in 79 countries in IFAD9, which is the lowest number of countries covered in total since the adoption of the PBAS. Moreover, the average allocation per country increased from US\$6.9 million in IFAD7 to US\$9.4 million in IFAD9. Taking the IFAD7 average country allocation as a basis, there has been an increase by 36 per cent in average country allocations in IFAD9, as compared to an increase of 33 per cent in the administrative budget between IFAD7 and IFAD9. These features

positively affect institutional efficiency, although it is not possible to attribute this to the PBAS *per se*.

284. **Managing borrowed funds.** The efficiency of IFAD's resource allocation processes has been strengthened by the decision in 2015 that all borrowed funds would be allocated through the PBAS. This is important especially because IFAD is increasingly likely to borrow funds under the Sovereign Borrowing Framework to satisfy the growing demand for its development assistance.
285. The funds IFAD borrowed recently from the KfW Development Bank will be allocated to recipient countries based on the PBAS formula. This is important, also because it increases the organization's efficiency in managing its broader programme resources, rather than have parallel processes and systems for allocating borrowed funds.
286. **Pre and post PBAS efficiency resource allocation.** In comparing the pre and post PBAS period, firstly, it is fair to note that the annual lending programme of IFAD was much small before the implementation of the PBAS (i.e. the 2004 lending programme was US\$415 million, as compared to US\$1.2 billion in 2015). So any efficiency comparisons need to consider this important dimension.
287. While it is challenging to make a clear-cut comparison given the different organizational contexts pre and post PBAS, the evaluation finds that the PBAS simplified the allocation process given a clear formula for determining country allocations. No information is available on the efficiency of the system that was in place before the PBAS was established. That system did not however determine or announce potential allocations for countries for the replenishment period, and funding decisions were neither predictable nor transparent.
288. By contrast, under the PBAS, allocations are more transparent and predictable. Indicative country allocations for the replenishment period are announced at the beginning of the period, facilitating the planning of operations that would use that funding, which makes it possible for both IFAD and borrowing governments to position their own resources accordingly. Therefore, the evaluation finds the PBAS process is more efficient than the previous arrangement, which left of discretion to the Management at the time to make country allocations with agreed regional lending shares.

D. Rating for efficiency

289. **The rating for the efficiency of the PBAS is 4.1, which is just marginally above moderately satisfactory (4).** The efficiency rating (4.1) is an average of individual ratings for the 15 sub-criteria adopted by the evaluation. However, it is noteworthy that the evaluation considers efficiency to be satisfactory in terms management of the PBAS and the process for generating PAR scores. However, efficiency in terms of PBAS documentation and learning is moderately satisfactory, whereas it is moderately unsatisfactory with regard to databases and RSP process. All ratings for the 15 sub-criteria are shown in annex II.

Key points on the efficiency of the PBAS

- The evaluation rates the efficiency of the PBAS as moderately satisfactory.
- The evaluation finds the PBAS process is more efficient than the previous arrangement, considering the pre-PBAS arrangement did not determine or announce potential allocations for countries for the replenishment period, and funding decisions were neither predictable nor transparent.
- The change from total population to rural population as a variable in the PBAS formula together with the adjustment in the weight of this variable has contributed to largely reducing the total number of countries with maximum and minimum allocations.
- The alignment of the PBAS cycle with the three year replenishment cycles contributes to better institutional efficiency. In particular, it allows for improved pipeline planning and management and enables the Fund to have a better picture of the total resources availability.
- From the adoption of the PBAS till mid-2015, the PBAS has been most run by one senior staff in PMD front office, which contributed to the centralization of the PBAS management.
- There is no single document that captures how the system has evolved over the years and information on the reallocations are not disclosed.
- The PBAS database, including the calculations, allocations and adjustments are maintained in different spread sheets by replenishment period and by year. A consolidated repository of all the historic data with proper backups is absent, which could pose a corporate risk for the Fund. The PBAS databases are not available outside PMD either.
- Data shows that the RSP scores change very marginally within the three years in any given PBAS cycle. Given that the RSP scoring process is time and cost consuming, it may diminish the efficiency of the PBAS process for both the Fund and recipient countries for conducting it annually.
- The Board's oversight of the PBAS is primarily through the annual PBAS report, which report country scores and allocations, but not management decisions underlying them nor emerging issues.
- The PBAS working group may not be using its full mandate to review IFI practices and suggest changes.
- More attention needs to be devoted to extracting lessons among CPMs, and across countries and geographic regions.
- There are opportunities to improve the linkages between the use of country allocations, pipeline development, and administrative budget earmarking for better overall institutional efficiency.

VI. Conclusions and recommendations

A. Conclusions

290. **Storyline.** The decision by IFAD to introduce the PBAS following broad-based consultation was appropriate. As compared to the allocation system in place until the adoption of the PBAS in September 2003, the PBAS has allowed IFAD to have a rules-based allocation system that is more predictable, transparent, and flexible, providing access to resources in a fair manner across countries and regions. In general, the PBAS has enhanced IFAD's credibility as an international financial institution with a global mandate, and aligned its resource allocation system with those found in other similar organizations.
291. The PBAS is generally well tailored to IFAD, and among other advantages, has contributed to better forward planning and more appropriate and timely use of the organization's resources. The alignment of the PBAS cycle with the three year replenishments reflect a positive evolution in the system, enabling improved harmonization between the resources available to IFAD and their allocation for rural poverty reduction.
292. However, some characteristics of the PBAS make its implementation complex, especially when one considers the amount of resources available to the Fund in each replenishment cycle (e.g. in IFAD9 US\$2.6 billion). The PBAS is indeed a very useful instrument for resource allocation, but opportunities for streamlining some underlying processes are worth exploring. In particular, based on the evidence collected and its analysis, the evaluation concludes that the PBAS has not sufficiently promoted incentives to achieve better country performance in the rural sector, which is a core principle of IFAD's allocation system.
293. After more than ten years since the PBAS was adopted, this evaluation has provided a timely opportunity to reflect on its design, the adjustments made in the course of the years, its implementation, and possible refinements moving forward. In this regard, the evaluation finds there are indeed opportunities to enhance further the relevance, effectiveness and efficiency of the system.
294. **The PBAS has made the allocation of resources more predictable, as compared to the allocation system in place before 2003.** Under the PBAS, both the CPMs and concerned authorities are informed of their estimated three year country allocations for the entire PBAS cycle, though the amounts are revisited on an annual basis. The allocation amounts are predictable also because they are based on a clear, rules-based formula, which aims to give due consideration to country performance. The predictability allows for better forward planning of investment operations and country grants, and prioritization in the use of IFAD resources. It also enables strengthening partnership and dialogue with country authorities as well as enhances the leveraging capacity of IFAD resources, given recipient countries are able to earmark earlier on their own resources as counterpart funding towards IFAD operations.
295. **Having a coherent PBAS formula has added to the transparency in the allocation of IFAD resources.** The formula has been agreed by Member States and is known to all concerned. In addition, the country scores and country allocations generated using the formula are disclosed to the Board and the public at large on an annual basis.
296. However, there is room for further increasing transparency. For instance, the process and rationale for capping selected countries and reallocation decisions are not documented, nor made publicly available. Although all developing Member States have in principle access to IFAD resources based on demand, the criteria for including or excluding countries from the PBAS are not clarified. And, the databases containing the PBAS data are internal to the front office of PMD and not

made available to others in IFAD or outside, thus constraining those interested in conducting their own analysis on the PBAS data.

297. **The allocation process ensures flexibility to IFAD in allocating its resources in pursuit of its mandate.** This is facilitated by selected features of the PBAS, including definition of maximum and minimum allocations and capping the allocations of selected countries. Having the flexibility to reallocate resources is also a good practice that ensures the total amount of resources available to the Fund in any given PBAS cycle are fully used to combat hunger and rural poverty. At the same time, the amounts reallocated are not based on the PBAS formula, but based on other considerations such as demand, absorption capacity, country context, and readiness of projects in the pipeline, thus undermining the rules-based character of the PBAS.
298. Though the PBAS provides IFAD flexibility, its current design does not make provision for IFAD to channel assistance to developing countries in moments of natural disasters, economic or financial crisis, or to respond to other emerging unforeseen situations affecting the lives of the rural poor. Though IFAD is not an emergency-response organization, unpredictable situations affecting the livelihoods of smallholder farmers in rural areas are likely to arise, yet the PBAS does not have in-built flexibility for IFAD to respond to such situations in a timely manner.
299. **The PBAS has allowed IFAD to remain faithful to its global mandate of providing access to its resources in a fair manner to all developing member states.** In particular, the PBAS has allowed IFAD to continue its focus on low-income countries. In fact, in IFAD8 and IFAD9, between 50-55 per cent of total resources were allocated to countries that borrow on highly concessional terms, 8 per cent in blend terms for IFAD9 and 17-24 per cent as DSF grants in accordance with the DSF policy, the rest (17 -20 per cent) were allocated to countries on 'ordinary' lending terms.
300. Although regional lending shares are no longer foreseen as per the current PBAS design, forty three per cent of total resources were allocated to sub-Saharan Africa. However, Africa received close to 50 per cent of all funds if one also includes countries covered in the North Africa region.
301. Related to the aforementioned, at the outset of each allocation cycle, IFAD determines the set of countries to be included in the PBAS. However, there are variations between the set of countries included in the PBAS and the number of countries that actually in the end receive financing. While the number of countries that received financing is the lowest in the IFAD9 period as compared to previous allocation cycles, the difference between the number of countries that are originally included in the PBAS and those receiving financing is still relatively large (e.g. 20 in IFAD9). This creates, among other factors, the need for reallocation of resources during the allocation cycle, which is a time consuming exercise, and leads to distortions in the final allocations as the reallocations are not driven by the formula.
302. On the issue of access, the principles of maximum and minimum allocations are positive features of the PBAS, aiming to ensure that resources may be channelled to poor rural people in different countries and regions, while also ensuring that small countries including small island developing states are not excluded from IFAD assistance. The practice to cap the allocations of some countries in each PBAS cycle below the amounts determined by the PBAS formula is also a good feature to maximize the use of IFAD resources. Based on the above, the evaluation concludes that the PBAS has contributed to providing fair access to IFAD assistance to its developing Member States in line with the Agreement Establishing IFAD, irrespective of a country's income classification.

303. **The PBAS formula was only changed once since its adoption in 2003, and does not reflect some key elements of IFAD's wider mandate.** In particular, the initial design and changes made over time (i.e. change from the total population variable to rural population, see next paragraph) in the PBAS formula appropriately reflects the institution's priorities, even though there are opportunities to further sharpen the relevance of the system in light of today's priorities. One example is that insufficient attention is given in the allocation system to food production and food security, characteristics that were prevalent in the allocation system preceding the PBAS. Similarly, the PBAS does not consider climate change, vulnerability, nutrition and scaling up, which are also at the core of IFAD's mandate of achieving sustainable rural transformation.
304. **The country needs component of the PBAS formula has insufficient rural poverty focus.** The conversion of the 'total population' variable to 'rural population' in 2007 with a lower weight was a good decision, to further align the PBAS towards IFAD's core mandate and rural focus. However, there remain some issues with this component, such as the varying definition of rural population across countries, inequality in rural areas, and the extent to which it actually captures the needs of poor rural people. For instance, the analysis done by the evaluation leads to the conclusion that the number of rural people in a given country is not correlated with indicators of rural poverty (e.g., in terms of their access to water, sanitation, and electricity) Similar issues may also be applicable to the GNI pc variable. This implies that reflection is needed on how the country needs component of the PBAS formula might be strengthened in the future with a greater rural poverty focus than at present.
305. **The three variables (IRAI, RSP and PAR) forming the country performance component of the PBAS are mutually reinforcing and therefore provide a good picture of country performance.** That is, the IRAI provides an overview of a country's broader policy and institutional performance at the national level, the RSP provides an appreciation of the performance of the rural sector institutions and policies, whereas the PAR is about IFAD's performance at the project level.
306. On the other hand, the use of the IRAI variable in the country performance component of the PBAS formula merits consideration, also because IRAI scores are not available for all IFAD recipient countries. For instance, IRAI scores were not disclosed for 38 per cent of IFAD recipient countries in 2015. Moreover, the RSP and PAR are given more weight for countries that do not have a CPIA score, thus creating asymmetries in the allocation process across countries.
307. In this regard, while the evaluation recognizes that the IRAI is a measure of a country's broader policy and institutional environment, whereas the RSP assesses the policy and institutional environment in the agriculture and rural sector, there is a close relationship between the scores of these two variables. Hence, given IFAD's mandate and focus on the rural sector, and assuming the RSP indicators and process is improved moving forward, it could be argued that using both variables in the IFAD PBAS might not be so compelling.
308. In addition to the above, the RSP is a critical variable in the PBAS formula, as it aims to capture IFAD's focus and mandate in the country allocation process. However, the indicators and questions underlying the RSP have not been refined over time since the PBAS was first adopted to reflect emerging priorities, opportunities and challenges in the rural sector. Without needed adjustments, there are risks that the RSP variable's relevance will diminish further. Therefore, while the RSP per se as a variable is highly relevant for IFAD's PBAS, there are opportunities to further strengthen its indicators and questions in generating the corresponding ratings.
309. There are other issues related to the RSP that need attention. Firstly, the underlying rating process in generating RSP scores is variable across countries. A

thorough, participatory process is followed in some countries, whereas in other countries, RSP scores are generated mostly based on desk work by the concerned CPMs. Similarly, the internal quality assurance of RSP scores is also highly variable from division to division. Secondly, the need to conduct and score the RSP every year might not be so necessary, given that RSP scores change very minimally from year to year in any three year allocation cycle.

310. Finally, the PAR aims to capture the performance of a country's portfolio of active IFAD projects. In principle, the PAR aims to reward IFAD portfolio performance. However, according to the evaluation, the PAR might be too narrow a variable, as it does not adequately capture the Fund's performance at the "country programme level" in particular related to non-lending activities. Notwithstanding the above, the PAR rating process is good, as it is part of the institution's annual portfolio review. Hence, this is a good example of how existing institutional processes are important in the implementation of the PBAS.
311. **IFAD is unique among most multilateral development banks, given its "one-window" financial architecture.** In this regard, the recent decision in the context of the adoption of the Sovereign Borrowing Framework to ensure all borrowed resources are allocated through the PBAS is a welcome step to strengthen the integrity of IFAD's resource allocation system. However, the implications of further borrowing at market rates on IFAD's financial sustainability will have to be carefully considered, especially if the total amount of borrowed funds are greater than the total PBAS allocations for all countries that borrow on ordinary terms.
312. **Good attention has been devoted to the management of the PBAS, though it has not benefitted sufficiently from a more corporate approach.** The PMD front office has co-ordinated the implementation of the PBAS since the system's adoption, made proposals for fine-tuning the system, led the dialogue with the Board's Working Group on the PBAS and represented IFAD in the IFI's technical group on the PBAS. The management of the PBAS has largely been PMD-centric, and together with regional divisions, the PMD front office has run the formula and made the necessary adjustments to determine country allocations. The Executive Management Committee started to review and approve allocations and reallocations starting from 2014, a positive development to provide a more corporate dimension in the management of the PBAS.
313. **The governing bodies were proactive in introducing the PBAS in IFAD, but over time, the strategic guidance provided and oversight has diminished significantly.** Member States were particularly active in the dialogue with IFAD Management in shaping the underlying objectives and principles of the system as far back as in 2002 in the context of the IFAD6 negotiations, including in some of the key adjustments made after the system was adopted by the Board in 2003. Moreover, given the importance of the system in resource allocation, a dedicated working group of the Executive Board was established on the PBAS in 2006, which is still functional today. However, after being closely engaged in the discussions to convert the total population variable to rural population and the introduction of the DSF in 2007, the governing bodies have not played an active role in the PBAS process, apart from considering the annual reports containing the country scores and allocations.
314. **The linkage between country allocations, pipeline development and IFAD's administrative budget is relatively loose.** Fewer country allocations are converted into commitments in the first year of any three-year allocation cycle, with the largest commitments made in the third year. This poses greater pressure on Management and the Board to deliver larger volumes of financing in the last year of any allocation cycle. It also exposes the organization to the risk of not being able to fully achieve its total programme of loans and grants planned over

any PBAS cycle. This is a key challenge for the organization that merits priority consideration in the future.

315. **Insufficient attention has been devoted to systematic learning and cross-fertilization of experiences.** Less attention has been devoted to reflection and learning from the PBAS as an instrument, and how it could be strengthened. Apart from the 2005 review, no other consolidated review or study has been undertaken of the PBAS until this independent evaluation was commissioned by the Board, nor have any specific mechanisms or platforms been put in place for sharing information and knowledge on PBAS-related matters between CPMs, country authorities or IFAD regional operational divisions.

B. Recommendations

316. The evaluation makes the following five overarching recommendations for the future. The implementation of the recommendations from this evaluation would be reported through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA).
317. **Recommendation 1: Enhance the PBAS's design.** IFAD Management should propose necessary enhancements to the PBAS design for approval by the Executive Board. In doing so, specific attention should be devoted to:
- (a) Strengthening the rural poverty focus of the country needs component of the formula, in particular by assessing how measures of vulnerability and fragility, income inequality and non-income poverty can be included;
 - (b) Further sharpening the PBAS objectives and overall specifications, also ensuring that IFAD's core mandate of promoting food production and food security is adequately reflected;
 - (c) Refining the RSP variable by revisiting the underlying indicators and questions; and
 - (d) Reassessing the balance between the country needs and country performance components of the PBAS formula.
318. **Recommendation 2: Streamline processes for better effectiveness.** Given the unavailability of the IRAI score for numerous countries, Management and the Board should reflect on whether to retain the IRAI variable in the country performance component of the PBAS formula. With regard to the RSP, due attention should be devoted to systematising and strengthening the RSP scoring and quality assurance processes and viewing them as an opportunity to strengthen partnerships at the national level, knowledge management, and policy dialogue. Moreover, ways should be explored to capture IFAD's performance at the country programme level, beyond the PAR.
319. **Recommendation 3: Improve efficiency.** Based on a more robust and participatory process, it is recommended that the RSP score be done less frequently, rather than annually as is current practice. Moreover, specific measures should be introduced to formally collect feedback on the proposed RSP and PAR scores from in-country authorities, before the scores are confirmed and fed into the PBAS.
320. Reallocations should be formally done earlier in any three year allocation cycle than the current practice. And finally, efforts are needed to ensure a better spread of the total annual commitments across the three years of any allocation cycle. This will require tightening forward planning processes, in particular by ensuring better linkages among project pipeline development, country allocations and administrative budget earmarking.
321. **Recommendation 4: Management and governance.** IFAD should take a more corporate approach to the PBAS in general. In this regard, one measure is to

establish a standing inter-departmental committee on the PBAS, *inter alia*, to discuss RSP scores, the list of countries to be capped, reallocations and lessons in implementation of the PBAS. This committee would make recommendations to the Executive Management Committee for any adjustments deemed necessary. Moreover, to enhance the transparency of the system, progress reports should be more comprehensive and should include information on reallocations, capping and any strategic and systemic issues warranting guidance from the Board.

322. **Recommendation 5: Generate learning.** Implementation of the system should receive more explicit monitoring and should generate continuous learning and cross-fertilization of experiences across CPMs, regional divisions and countries. A consolidated review or evaluation of the PBAS should be planned for six years after the revised PBAS design document is adopted by the Board, and the introduction of a periodic review process should also be considered.

Definition of key evaluation criteria adopted by IOE

<i>Definition*</i>	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design and coherence in achieving its objectives. An assessment should also be made of whether objectives and design address inequality, for example, by assessing the relevance of targeting strategies adopted.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.

*These definitions have been taken from the OECD/DAC Glossary of Key Terms in Evaluation and Results-Based Management and from the IFAD Evaluation Manual (2009).

Ratings by evaluation criteria and sub-criteria

<i>Evaluation criteria</i>	<i>Evaluation sub-criteria</i>	<i>Rating</i>
Relevance	<ul style="list-style-type: none"> Is the PBAS an appropriate strategic management tool to effectively use IFAD's resources for rural poverty reduction? As designed, including all adjustments made over time, is the PBAS an appropriate instrument for the allocation of IFAD resources, and are its objectives coherent with the overall institutional mandate, including in terms of scaling up impact, climate-smart agriculture, and gender equality and women's empowerment? Did IFAD put the right organizational structure, systems and processes in place to ensure a smooth implementation, monitoring, reporting, and review of the PBAS over time? <ol style="list-style-type: none"> Relevance of the objectives <ol style="list-style-type: none"> Alignment with IFAD mandate and priorities 	5
	Alignment with IFAD's replenishment cycle	6
	Coherent with objectives of the PBA systems of other IFIs/MDBs	5
	<ol style="list-style-type: none"> Relevance of the design <ol style="list-style-type: none"> Alignment with IFAD's priorities and objectives Country needs Country performance 	4
		4
		4
	Predictability	5
	Transparency	4
	Flexibility	4
	Accessibility	5
	Overall rating (average)	4.6
Effectiveness	<ul style="list-style-type: none"> To what degree have resources been allocated to countries in an effective manner based on country performance? Has the PBAS served as an incentive to promote better policies and institutions in the rural sector within developing Member States? What are the intended and unintended consequences of applying the PBAS? <ol style="list-style-type: none"> Management of the PBAS Allocations distribution between IFAD member states and regions 	4
		5

Evaluation criteria	Evaluation sub-criteria	Rating
	3. PBAS as an incentive for better performance -Rural sector performance -Projects-at-risk	4
	4. Loan interest rate, the PBAS and the countries lending terms	5
	5. PBAS and partnership, has the system contributed for strengthening partnership at the country level	4
	6. Borrowed funds, IFADs severing borrowing framework and the PBAS	4
	7. Maximum and minimum allocations	5
	8. Capping at the expected level of financing	5
	9. Countries in special circumstances, (post-conflict affected states, natural disasters)	3
	10. Reallocations	4
	11. Complexity of the system	4
	Overall rating (average)	4.2
Efficiency	<ul style="list-style-type: none"> ● Is the process of allocating resources more expedient with the PBAS, as compared to the system in place before its introduction? ● How has the PBAS affected IFAD's overall institutional efficiency? ● Are the corporate processes underlining the implementation of the PBAS appropriate? <ol style="list-style-type: none"> 1. Management of the PBAS 2. PBAS working group 3. PBAS reporting by management 4. Reporting compared to other IFIs 5. Documentation 6. Databases 7. Management of the PAR process 8. Management of the RSP process 9. Selection of countries 10. Capping at the expected level of financing (process and transparency) 	 5 4 4 4 4 3 5 3 4 3

<i>Evaluation criteria</i>	<i>Evaluation sub-criteria</i>	<i>Rating</i>
	11. Reallocation process	3
	12. Changes to the system (population variable and its weight, alignment with replenishment cycle and caps)	5
	13. Number of countries and allocation per country	5
	14. Managing borrowed funds	6
	15. Learning and cross-fertilization of experiences	3
	Overall rating (average)	4.1

Principal indicators of IFAD's country performance variables

IDA's Country Policy and Institutional Assessment (CPIA) criteria

<p>A. Economic management</p> <ul style="list-style-type: none">• Monetary and exchange rate policies• Fiscal policy• Debt policy and management <p>B. Structural Policies</p> <ul style="list-style-type: none">• Trade• Financial sector• Business regulatory environment <p>C. Policies for social inclusion/equity</p> <ul style="list-style-type: none">• Gender equality• Equity of public resource use• Building human resources• Social protection and labour• Policies and institutions for environmental sustainability <p>D. Public sector management and institutions</p> <ul style="list-style-type: none">• Property rights and rule-based governance• Quality of budgetary and financial management• Efficiency of revenue mobilization• Quality of public administration• Transparency, accountability and corruption in the public sector
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Source: World Bank; IDA 2011.

IFAD's Rural Sector Performance (RSP) development criteria

<p>A. Strengthening the capacity of the rural poor and their organizations</p> <ul style="list-style-type: none">• Policy and legal framework for rural organizations• Dialogue between governments and rural organizations <p>B. Improving equitable access to productive natural resources and technology</p> <ul style="list-style-type: none">• Access to land• Access to water for agriculture• Access to agricultural research and extension services <p>C. Increasing access to financial services and markets</p> <ul style="list-style-type: none">• Enabling conditions for rural financial services development• Investment climate for rural businesses• Access to agricultural input and produce markets <p>D. Gender issues</p> <ul style="list-style-type: none">• Access to education in rural areas• Representation <p>E. Public resource management and accountability</p> <ul style="list-style-type: none">• Allocation and management of public resources for rural development• Accountability, transparency and corruption in rural areas
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Source: IFAD, EB 2014/111/INF.6; EB 2003/79/R.2/Rev.1.

Portfolio performance rating	Number of Active Projects Held by Borrower		
	1	2	3 or more
6	Project rated 'not at risk' For two or more consecutive years	Both projects rated 'not at risk' for two or more consecutive years	PAR proportion 0% for two or more consecutive years
5	Project rated 'not at risk'	Both projects rated 'not at risk' (N+N)	PAR proportion 0%
4	Project rated 'potential problem project' but with a sum of IP/DO scores < 4	One project rated 'not at risk'. One project rated 'potential problem project' (N+P)	PAR proportion 0- 34%
3	Project rated 'potential problem project' and a sum of IP/DO scores = 4 (2+2)	Both projects rated 'potential problem projects' or One project rated 'not at risk' and one project rated 'actual problem project' (P+P or N+A)	PAR proportion 35-67%
2	Project rated 'actual problem project'	One project rated 'potential problem project' and one project rated 'actual problem project' or both projects rated 'actual problem project' (P+A or A+A)	PAR proportion 68-100%
1	Project rated 'actual problem project' for two or more consecutive years	One project rated 'potential problem project' and one project rated 'actual problem project' or both projects rated 'actual problem project' for two or more consecutive years	PAR proportion 100% for two or more consecutive years

Source: IFAD, EB 2003/79/R.2/Rev.1.

Technical note on the structure of the allocation formula and the effective weights of various factors within the formula

1. In order to understand the current PBAS formula, a statistical analysis of the formula, and its main variables, their contribution and their interactions is presented in the following section.¹
2. The analysis focused on:
 - a. Descriptive statistics; identifying each variable average, standard deviation, minimum and maximum scores. The variables coefficient of variation.
 - b. Variables correlation between each other and the countries final country score.
 - c. Normalization
 - d. Contribution of indicators (static and dynamic contributions), needs vs. performance.
 - e. The correlation between the PBAS final country score and various indicators of rural poverty, as an indicator of relevance of the formula.

Descriptive statistics

3. It is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that, for example, patterns might emerge from the data.

Table 1
PBAS formula variables

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
Rural population	417	19 100 000	58 500 000	62 520	788 000 000
GNI per capita	417	1 116	989	100	6 530
IRAI	417	3.34	0.48	1.40	4.44
RSP	417	3.75	0.50	2.06	5.17
PAR	417	4.64	1.15	0.60	6.00
Country score	417	4 376	3 825	333	30 735

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

4. Table 1 shows the five indicators that compose IFADs PBAS formula and its basic statistical description. As it was expected the rural population has the biggest standard deviation, this means that its scores have the greatest range. Since IFAD recipient countries include SIDS and vast countries like India and China the spread of the rural population is expected. The great variation of countries rural population is seen in the maximum score (788 million) and minimum score (62,000). These values correspond to India and Sao Tome and Principe, respectively. For the country performance indicators, it can be seen that the range of change in the indicators is a lot smaller; it is worth mentioning that the biggest standard deviation of these scores corresponds to the PAR variable; this is also expected since projects at risk can have an abrupt change from one year to the next. However, a better indicator to do a comparison of the range of variation across variables is the use of the coefficient of variation.

¹ All the results presented in this section are based on the dataset based on the progress report of the performance-based allocation system (2007-2015). The statistical software used is STATA: Data Analysis and Statistical Software, version 13.

5. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation among data series, even if the means are drastically different from each other.

Table 2
Coefficient of variation (PBAS variables)

Variable	Obs	Value for 2013
CVruralPOP	62	1.5808
CVgnipc	62	0.8751
CVirai	62	0.1349
CVrsp	62	0.1368
CVpar	62	0.2272

CV = coefficient of variation.

Source: (IFAD, 2013).

6. Table 2 shows results for 2013 indicating that rural population is by far the indicator with the largest range of variability (with a coefficient of variation around 10 times of the performance indicators and almost twice the GNI pc).

Correlations

7. The correlation measures the degree (strength) of the relationship or association between two or more variables. A positive relationship means the variables move in the same direction; in negative correlations the variables tend to move in opposite directions.²

Table 3
Correlation matrix (PBAS formula variables)

Variable	Rural population	GNI per capita	IRAI	RSP	PAR	Final country score
Rural population	1					
GNI per capita	-0.1081*	1				
IRAI	0.083	0.2774*	1			
RSP	0.0541	0.2462*	0.8319*	1		
PAR	-0.078	0.1089*	0.2582*	0.2896*	1	
Final Country Score	0.7062*	-0.3648*	0.1856*	0.2238*	0.0747	1

Note: * implies that the correlation is significant at the 5 per cent.

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

8. Table 3 shows the correlation between each of the indicators. There is a high and statistically significant (at the 95 per cent) correlation between the final country score and the rural population (0.706). Also, the GNI pc and the Final Country Score (FCS) have a negative correlation, this is thanks to the negative exponent of the GNI pc, with a correlation between these two indicators of (-0.36). The performance indicators have smaller correlation with the final country score, with the project at risk indicator having a statistically insignificant correlation, while rural sector performance the indicator with the highest correlation (0.22). There is a very strong correlation between the IRAI and RSP of (0.83), which is interesting given that the IRAI is a macro indicator whereas the RSP is a micro indicator.

² The degree of strength of a relationship depends on the correlation score, when two variables are exactly (linearly) related the correlation coefficient is ± 1 ; when two variables have no relationship at all, their correlation is 0.

Contribution of indicators

9. What is the relationship between the value of the PBAS formula and the country performance score? Before getting into the details of the analysis, a couple of exercises will be presented that illustrate the potential relationship and some of the potential complexities that the analysis will find. Table 4 shows the average value of the Final Country Score (FCS) of the PBAS formula by country performance score quintile. It can be seen that on average the value of the formula increases as we move up in the country performance score quintile. However, it seems that the relation is not monotonic.

Table 4
Descriptive statistics Final Country Score (FCS) of the PBAS formula by quintile score of the country performance score (year 2013)

<i>CPS quintile</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
1	13	2 457.9	1 572.7	629.5	5 803.3
2	12	4 039.5	2 139.8	1 416.5	9 690.9
3	13	4 468.9	3 634.1	366.7	12 467.6
4	12	6 119.0	4 470.4	446.2	15 393.5
5	12	3 125.4	2 417.1	745.0	7 570.9

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

10. To explore for the presence of nonlinearities in a continuous way, table 5 shows the results from a fractional polynomial regression between the value of the PBAS formula and the country performance score.³

Table 5
Fractional polynomial regression between the value of the PBAS formula and the country performance score (*)

<i>Explanatory variable</i>	<i>Coef.</i>	
lcps__1	4 991.2	***
t	6.5	
lcps__2	-4 310.73	***
t	-5.97	
Regional Dummies	Y	
Year Dummies	Y	
R2	0.2456	
Observation	417	

(*) This regression is done with a degree of 2, which means that only 2 fractional polynomials are considered. STATA automatically chooses the functional form of each of the fractional polynomials.

Note: *** implies that the correlation is significant at the 1 per cent.

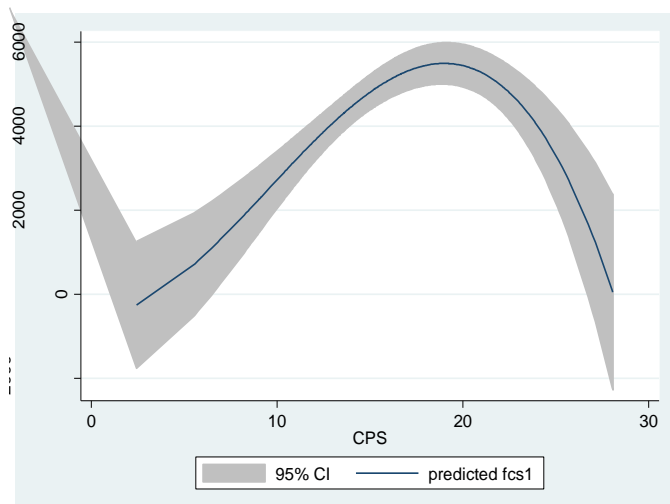
Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

³ Fractional polynomials increase the flexibility afforded by the family of conventional polynomial models. Although polynomials are popular in data analysis, linear and quadratic functions are limited in their range of curve shapes, whereas cubic and higher-order curves often produce undesirable artifacts such as edge effects and waves. Fractional polynomials differ from regular polynomials in that 1) they allow logarithms, 2) they allow non-integer powers, and 3) they allow powers to be repeated. Regression models based on fractional polynomial functions of a continuous covariate are described by Royston, P., and D. G. Altman. 1994. Regression using fractional polynomials of continuous covariates: Parsimonious parametric modelling. *Applied Statistics* 43: 429–467.

11. The result of the fractional polynomial regression shows a positive and non-linear relationship between the value of the PBAS formula and the country performance score. Figure 1, presents an illustration of this non-linear relationship based on table 5.

Figure 1

Relationship between the value of the PBAS formula and the country performance score (results from table 5)



Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

(i) Static contribution: Logarithmic decomposition

12. To understand the static contribution of the indicators we will use a logarithmic decomposition. Given the multiplicative nature of the formula, we can apply logarithm and get an additive specification in which contributions of components can be easily decomposed. The static influence of indicators is affected not only by the weights of the formula but also by the range of variability of the indicators. The Final Country Score (FCS) of the PBAS formula is given by:

$$FCS = rural\ pop^{.45} * GNIpc^{-.25} * Country\ Performance\ Score^2$$

$$\ln(FCS) = .45 * \ln(rural\ pop) - .25 * \ln(GNIpc) + 2 * \ln(Country\ Performance\ Score)$$

$$shruralpop = \frac{0.45 * \ln(rural\ pop)}{\ln(FCS)}$$

$$shgnipc = \frac{-0.25 * \ln(GNIpc)}{\ln(FCS)}$$

$$shcps = \frac{2 * \ln(Country\ Performance\ Score)}{\ln(FCS)}$$

Where

$$shneeds = shruralpop + shgnipc$$

And

$$1 = shneeds + shcps$$

13. The results of the assessment of the static contribution on table 6 show that the average contribution of needs to the value of FCS is around 65 per cent (which is mostly driven by rural population).

Table 6
Static contribution of the needs component variables

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
ShruralPOP	417	0.8689	0.0381	0.7974	1.0546
Shgnipc	417	-0.2111	0.0419	-0.3719	-0.1288
Shcps	417	0.3421	0.0485	0.1302	0.4878
Shneeds	417	0.6579	0.0485	0.5122	0.8698

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

14. The contribution of needs on average declines if we move upwards (lowest to highest) in the country performance score quintiles. The higher the quintile the lower the average contribution of needs (see table 7 for results for 2013). However, the total allocations of resources (on average) do not monotonically increase by country performance quintiles, since on average it drops for the 5th quintile (highest country performance score).

Table 7
Descriptive statistics of the contribution of needs and country performance to the PBAS formula by quintile score of the country performance score

CPS = 1					
Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	13	0.92082	0.02411	0.88724	0.98712
Shgnipc	13	-0.23273	0.04211	-0.31400	-0.15559
Shcps	13	0.31191	0.03530	0.24313	0.37285
Shneeds	13	0.68809	0.03530	0.62715	0.75687
FCS1sh	13	0.00985	0.00630	0.00252	0.02326
CPS = 2					
Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	12	0.88504	0.01904	0.85178	0.91391
Shgnipc	12	-0.20963	0.02252	-0.25150	-0.16795
Shcps	12	0.32459	0.02164	0.28507	0.36563
Shneeds	12	0.67541	0.02164	0.63438	0.71493
FCS1sh	12	0.01619	0.00858	0.00568	0.03885
CPS = 3					
Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	13	0.87114	0.01949	0.84621	0.90842
Shgnipc	13	-0.22256	0.05849	-0.37192	-0.15948
Shcps	13	0.35142	0.04985	0.29370	0.46350
Shneeds	13	0.64858	0.04985	0.53650	0.70630
FCS1sh	13	0.01791	0.01457	0.00147	0.04998
CPS = 4					
Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	12	0.84927	0.02332	0.81883	0.88627
Shgnipc	12	-0.20327	0.04185	-0.29444	-0.15598
Shcps	12	0.34500	0.04447	0.30978	0.47260
Shneeds	12	0.64600	0.04447	0.52740	0.69022
FCS1sh	12	0.02453	0.01792	0.00179	0.06171
CPS = 5					
Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	12	0.83993	0.02014	0.79855	0.87128
Shgnipc	12	-0.24413	0.04772	-0.31169	-0.16972
Shcps	12	0.40420	0.04212	0.33763	0.48782
Shneeds	12	0.59580	0.04212	0.51218	0.66237
FCS1sh	12	0.01259	0.00969	0.00299	0.03035

Source: (IFAD, 2013).

15. These results imply that on average the contribution of performance to the value of the PBAS formula increases as we move up into the performance distribution (as we increase the quintile). However, the relationship although on average positive is

non-linear. Similarly, to the case of the value of the PBAS formula, we present the results (table 8 and figure 2) from a fractional polynomial regression between the contribution of performance indicators to the value of the PBAS formula and the country performance score.

Table 8
Fractional polynomial regression between the contribution of performance indicators to the PBAS formula and the country performance score

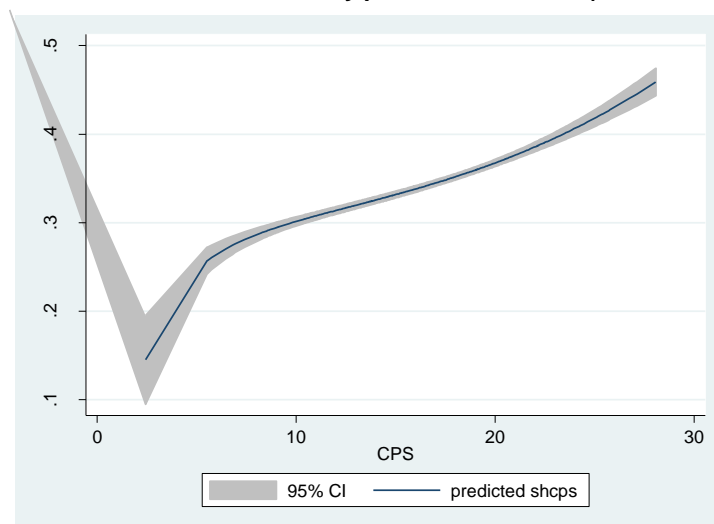
<i>Explanatory variable</i>	<i>Coef.</i>	
lcps__1	-0.0417	***
t	-5.5	
lcps__2	0.0059	***
t	11.1	
Regional Dummies	Y	
Year Dummies	Y	
R2	0.5781	
Observations	417	

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Note: *** implies that the correlation is significant at the 1 per cent.

- The result of the fractional polynomial regression shows a positive and non-linear relationship between the contribution of performance indicators to the PBAS formula and the country performance score, as illustrated on figure 2.

Figure 2
Relationship between the contribution of performance indicators to the PBAS formula and the country performance score (results from table 8)



Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

(ii) Dynamic contribution: Elasticity analysis and interdependency of effects

- When we analysed the functional form of the PBAS formula, we found that each of the needs components enters separate an in a multiplicative form, while the performance component enter first in an additive form and then as multiplicative. As we will present in this section, this will have implications for their elasticity values (or dynamic contribution). In this section, we can make use of the formula structure and check within the formula which indicators have a higher dynamic

contribution to the value of the PBAS formula. In particular, we will check the effect of a change of 1 per cent on each indicator of the value of the PBAS formula (in percentage). To do the analysis, we calculate the value of the Final Country Score of the PBAS formula (FCS1) for the sample where all indicators are available.

$$FCS1 = rural\ pop^{.45} * GNIpc^{-.25} * Country\ Performance\ Score^2$$

Where

$$Country\ Performance\ Score = (0.2IRAI + 0.35PAR + 0.45RSP)^2$$

18. As we can see from table 9, both FCS (the values of the PBAS formula obtained on the progress report of the performance-based allocation system (2007-2015) and FCS1 (our calculations by applying the formula to the data) have very similar descriptive statistics (with FCS1 with a slightly higher mean). The correlation between FCS and FCS1 shown on table 10 indicates that the plain application of the formula give values which are highly correlated to the "official" FCS values. This gives us the confidence to use our reconstruction of FCS (named FCS1) to do the analysis of the elasticity.

Table 9

Comparison of the final country score disclosed in the progress reports of the PBAS and the internally made final country score descriptive statistics

Variable	Obs	Mean	Standard deviation	Min	Max
FCS1	417	4 418	3 842	332	30 739
FCS	417	4 376	3 825	333	30 735

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Table 10

Correlation of the final country score disclosed in the progress reports of the PBAS and the internally made final country score

	FCS1	FCS
FCS1	1	
FCS	0.9936*	1

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

19. The analysis of elasticity is based in a simple exercise in which the variables are affected by a hypothetical shock of 1 per cent, and we recalculate the FCS value using the formula to check if the final impact on FCS is equal, greater or smaller than 1 per cent. This will give a base for comparison across indicators in terms of its contribution to changes on the final country score.
20. Table 11 shows the average value of the PBAS formula after a 1 per cent shock given to each of the variables. Notice that we use the sample for the constructed FCS1 for which we also have the official FCS used in the actual allocations, which is composed of 417 observations. The results are the following.

Table 11
Descriptive statistics of the final country score based on 1 per cent change in each variables

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
FCS1	417	4 417.70	3 841.89	332.36	30 739.34
FCS1rural	417	4 437.52	3 859.13	333.85	30 877.29
FCS1gni	417	4 406.72	3 832.34	331.54	30 662.96
FCS1IRAI	417	4 432.59	3 854.95	333.87	30 856.86
FCS1rsp	417	4 455.58	3 874.91	335.37	31 021.66
FCS1par	417	4 453.44	3 872.80	334.51	30 955.42

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

21. The results of elasticity for each indicator show that for a given 1 per cent increase in the variable, the RSP and PAR impact the value of the PBAS formula relatively more than other variables. In other words, they have a higher elasticity. Table 12 shows the values of the elasticity by indicator.

Table 12
Average elasticity of the PBAS variables

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
Elasticity rural pop	417	0.4487	5.00E-06	0.4487	0.4487
Elasticity GNI pc	417	-0.2484	5.29E-06	-0.2484	-0.2484
Elasticity IRAI	417	0.3378	0.0428	0.2148	0.5507
Elasticity rsp	417	0.8572	0.0975	0.6080	1.3126
Elasticity par	417	0.8086	0.1325	0.2337	1.1178

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

22. Notice that by construction of the PBAS formula, the elasticity for rural population and GNI per capita are constant (0.45 and -0.25, respectively). However, the additive nature of the performance indicators, introduces some variability on the elasticity of these components of PBAS formula.
23. Table 13 shows that the average elasticity of IRAI declines as we move upwards (from lower to higher) in the country performance score quintiles. The higher the quintile the lower the average contribution of needs (see table 14). However, when the RSP declines, the PAR increases until the 4th quintile and then the RSP increases and the PAR declines for the 5th quintile.

Table 13
Formula variables elasticity ordered by quintile scores of the country performance rating

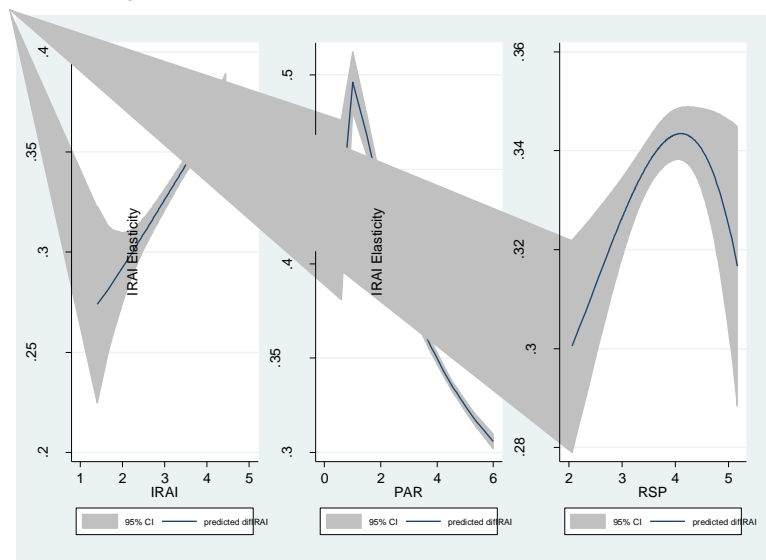
CPS = 1					
Variable	Obs	Mean	Standard deviation	Min	Max
difrural	13	0.44877	0.00001	0.44876	0.44878
difgnipc	13	-0.24845	0.00000	-0.24845	-0.24844
diflRAI	13	0.35519	0.04384	0.26705	0.41996
difrsp	13	0.90112	0.11297	0.71748	1.13698
difpar	13	0.74749	0.12483	0.48880	0.92765
CPS = 2					
Variable	Obs	Mean	Standard deviation	Min	Max
difrural	12	0.44877	0.00001	0.44876	0.44878
difgnipc	12	-0.24845	0.00000	-0.24846	-0.24844
diflRAI	12	0.34202	0.02706	0.27835	0.37092
difrsp	12	0.88444	0.08910	0.60805	0.94817
difpar	12	0.77733	0.10843	0.72553	1.11784
CPS=3					
Variable	Obs	Mean	Standard deviation	Min	Max
difrural	13	0.44877	0.00000	0.44876	0.44877
difgnipc	13	-0.24845	0.00000	-0.24846	-0.24844
diflRAI	13	0.33541	0.03934	0.26324	0.38520
difrsp	13	0.84247	0.10609	0.66566	0.95684
difpar	13	0.82594	0.14191	0.69195	1.04369
CPS=4					
Variable	Obs	Mean	Standard deviation	Min	Max
difrural	12	0.44877	0.00000	0.44876	0.44878
difgnipc	12	-0.24845	0.00001	-0.24846	-0.24844
diflRAI	12	0.31716	0.02435	0.28878	0.34914
difrsp	12	0.78168	0.06338	0.69485	0.86519
difpar	12	0.90500	0.08443	0.79030	0.99793
CPS=5					
Variable	Obs	Mean	Standard deviation	Min	Max
difrural	12	0.44877	0.00000	0.44876	0.44877
difgnipc	12	-0.24845	0.00000	-0.24845	-0.24844
diflRAI	12	0.31486	0.02761	0.26938	0.37492
difrsp	12	0.82560	0.04293	0.78564	0.91922
difpar	12	0.86335	0.06391	0.73701	0.93197

Source: (IFAD, 2013).

24. The nature of the PBAS formula affects the influence of the performance indicators, not only by the level of the indicator value but also by the value of other performance indicators in a way that it is not explicitly consider in the formula, given their internal "empirical" correlations.

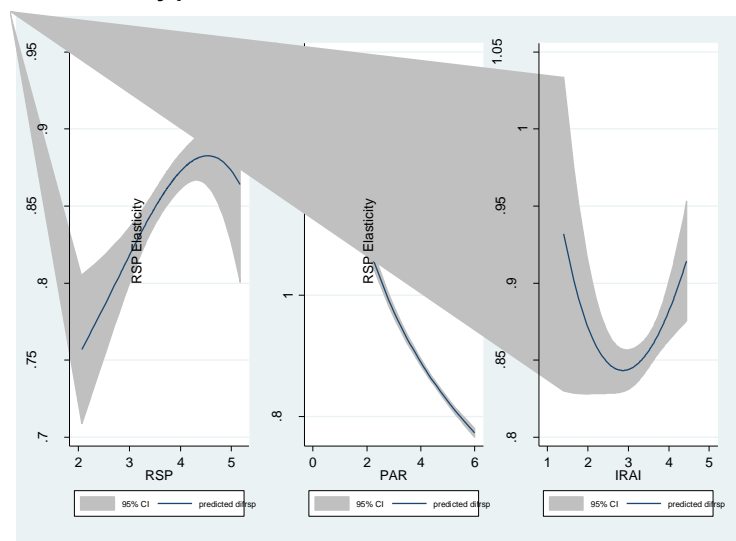
25. These results indicate that there is interdependency of effects in the elasticity of each of the country performance indicators. When we explore the elasticity, we find that the IRAI elasticity on average depends positively on IRAI and RSP, and negatively on PAR. These last two in a non-linear way as shown by figure 3. The RSP elasticity on average depends positively on RSP, and negatively on PAR (a more mix relationship for IRAI) all non-linear relations as illustrated on figure 4. In addition, PAR elasticity depends positively of PAR, and negatively on RSP and PAR, in a non-linear way as shown by figure 5.

Figure 3
Relationship between the elasticity of IRAI and other components of the country performance score



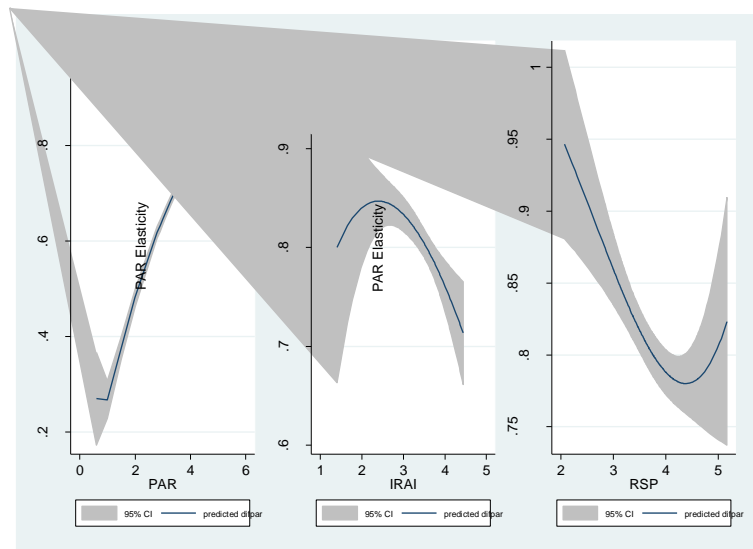
Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Figure 4
Relationship between the elasticity of RSP and other components of the country performance score



Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Figure 5
Relationship between the elasticity of PAR and other components of the country performance score



Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Normalization

26. An additional factor that significantly affects the contribution of each of the components of the PBAS formula is the normalization of the indicator. In the current PBAS formula, all indicators enter in different units and with different range of variation (as previously discussed). In this section, we explore the implications for the range of variability and the contribution to the PBAS formula of different normalization methods for the needs indicators (rural population and GNI pc): 1-6 scaling, max-min normalization and logarithmic normalization.

(iii) Scaling 1-6

27. Table 14 shows that forming groups of 1-6 reduces (by design, given that each group has a similar amount of data) the variability of rural population and GNI pc. Table 15 shows the contribution to the value of the PBAS formula when using the same weighting but introducing a scaling 1-6. Results show that this normalization reduces significantly the contribution of needs (rural population and GNI pc) to only around 6 per cent (results are calculated for 2012).

Table 14

PBAS variables coefficient of variation after 1-6 normalization for needs indicators

Variable	Obs	Value for 2012
CVruralPOP	61	0.5023
CVgnipc	61	0.5023
CVirai	61	0.1349
CVrsp	61	0.1368
CVpar	61	0.2272

CV = coefficient of variation.

Source: (IFAD, 2013).

Table 15
Contribution of the PBAS formula with normalization 1-6 for needs indicators

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
ShruralPOP	61	0.1586	0.0902	0	0.3314
Shgnipc	61	-0.0981	0.0628	-0.2379	0
Shcps	61	0.9395	0.1266	0.7307	1.225253
Shneeds	61	0.0605	0.1266	-0.2252	0.2692

Source: (IFAD, 2013).

28. Normalizing by max-min. Table 16 shows results from the max-min normalization indicating that it reduces the variability of rural population and GNI pc, but not by much since these are still significant compare to other indicators.

Table 16
PBAS variables coefficient of variation after min-max normalization for needs indicators

<i>Variable</i>	<i>Obs</i>	<i>Value for 2013</i>
CVruralPOP	62	1.5879
CVgnipc	62	1.0308
CVirai	62	0.1349
CVrsp	62	0.1368
CVpar	62	0.2272

CV = coefficient of variation.

Source: (IFAD, 2013).

29. This normalization moves the range of variation of the indicators between 0 and 1 (which could be a significant inconvenient for calculating the PBAS formula for those countries with the minimum at each indicator).

(iv) Logarithmic transformation

30. Table 17 shows results of doing the log transformation of the indicators rural population and GNI pc, indicating that this significantly reduces their variability to levels similar to other indicators.

Table 17
PBAS variables coefficient of variation after logarithmic transformation for needs indicators

<i>Variable</i>	<i>Obs</i>	<i>Value for 2013</i>
CVruralPOP	62	0.1084
CVgnipc	62	0.1126
CVirai	62	0.1349
CVrsp	62	0.1368
CVpar	62	0.2272

CV = coefficient of variation.

Source: (IFAD, 2013).

31. Table 18 shows that the log transformation also reduces the contribution of needs (rural population and GNI pc) to the PBAS formula value around to 22 per cent.

Table 18
Contribution of the formula components to the final country score after logarithmic transformation

Variable	Obs	Mean	Standard deviation	Min	Max
ShruralPOP	61	0.3569	0.0374	0.2932	0.5139
Shgnipc	61	-0.1392	0.0166	-	-
Shcps	61	0.7822	0.0268	0.7046	0.8439
Shneeds	61	0.2178	0.0268	0.1561	0.2954

Source: (IFAD, 2013).

32. The log transformation seems to be an interesting way to not only to reduce the variability of the needs indicators, but also to reduce the contribution of needs to the PBAS formula value.

Reweighting for countries with no performance data for IRAI

33. According to the structure and operation of a performance-based allocation system for IFAD (EB 2003/79/R.2/Rev.1), in the case for the non-concessional borrowers whom are not part of the IDA borrowers, there is a change in the performance indicator weights. There is an increase of the rural sector performance from 45 per cent to 57 per cent, and the projects at risk from 35 per cent to 43 per cent.
34. The number of countries with missing information for IRAI is an average of 30 since 2008, representing around 28 per cent of total resources allocated. This section aims to understand the implications of the re-weighting process done for this group of countries on the final allocations. The analysis uses the PBAS formula to calculate the "implicit" value that the indicator IRAI would have given the values of the other indicators, the value of the Final Country Score assigned to the country after re-weighting, and the PBAS formula (FCS1).

$$FCS = rural\ pop^{.45} * GNI\ pc^{-.25} * (0.2IRAImplicit + 0.35PAR + 0.45RSP)^2$$

This implies:

$$IRAImplicit = \left(\frac{1}{0.2}\right) * \left(\left(\frac{FCS}{rural\ pop^{.45} * GNI\ pc^{-.25}}\right)^{1/2} - (0.35PAR + 0.45RSP)\right)$$

35. Results from calculations shown on tables 19 and 20 indicate that for the sample of countries for which there is no IRAI data the re-weighting created an effect similar to assuming that those countries have a much higher IRAI than the countries for which data exists (almost by 1 or around 30 per cent more). In fact, table 20 shows that there are values of implicit IRAI beyond the possible range admissible for IRAI (which is 6). Of course, this is an implicit value and not a real one, but it shows the impact that the re-weighting of RSP and PAR is having on the final value of PBAS formula.

Table 19
Summary statistics for IRAI, Final Country Score (FCS) and Needs

Variable	Obs	Mean	Standard deviation	Min	Max
IRAI	421	3.3	0.5	1.4	4.4
FCS	421	4 364	3 812	333	30 735
needs	421	280	228	24	1 931

Source: (IFAD, 2013).

Table 20
Summary statistics for IRAimplicit, Final Country Score (FCS) and Needs

Variable	Obs	Mean	Standard deviation	Min	Max
IRAimplicit	202	4.1	1.0	1.0	6.8
FCS	202	3 594	3,623	150	28 756
needs	202	192	191	24	1 551

Note: the values for IRAimplicit are calculated using the formula previously described at the beginning of the section.

Source: (IFAD, 2013).

36. Table 21 shows that the differences between “implicit” IRAI and actual values of IRAI are statistically significant at 1 per cent. Table 22 shows that this is because the countries with missing IRAI have a statistically significantly higher RSP.

Table 21
Mean-comparison tests for IRAI and IRAimplicit

Group	Obs	Mean	Std. Err.	Standard deviation	95% Conf.	Interval
0	421	3.18	0.05	0.97	3.09	3.28
1	202	4.08	0.07	0.98	3.94	4.21
Combined	623	3.47	0.04	1.06	3.39	3.56
Diff		-0.89	0.08		-1.06	-0.73
diff = mean (0) - mean (1)				t = -10.72		
Ho: diff = 0				degrees of freedom = 621		
Ha: diff < 0		Ha: diff != 0		Ha: diff > 0		
Pr (T < t) = 0		Pr (T > t) = 0		Pr (T > t) = 1.00		

Note: the values for IRAimplicit are calculated using the formula previously described at the beginning of the section.

Source: (IFAD, 2013).

Table 22
Mean-comparison tests for RSP across countries with and without IRAI

Group	Obs	Mean	Std. Err.	Standard deviation	95% Conf.	Interval
0	421	3.75	0.02	0.51	3.70	3.80
1	202	4.20	0.03	0.48	4.13	4.26
combined	623	3.90	0.02	0.54	3.85	3.94
diff		-0.45	0.04		-0.53	-0.36
diff = mean (0) - mean (1)				t = -10.3834		
Ho: diff = 0				degrees of freedom = 621		
Ha: diff < 0		Ha: diff != 0		Ha: diff > 0		
Pr (T < t) = 0		Pr (T > t) = 0		Pr (T > t) = 1.00		

Source: (IFAD, 2013).

37. Finally, calculations assuming the mean value in the sample for countries for which the IRAI data was missing suggest an impact of re-weighting on total final allocations. The aggregate effect in 2012 is around 1 percentage point of share on total resources allocation for the group of countries without IRAI data (actual value

of 28.6 per cent compared to 27.3 per cent, if we assume the mean value of IRAI for these countries instead of re-weighting).

Relevance of the PBAS formula

38. As part of the evaluation framework one of the key aspects to analyse is the relevance of the PBAS formula as a tool for resource allocation. As stated in the IFAD Strategic Framework 2011-2015, "IFAD's unique mandate is improving rural food security and nutrition, and enabling rural women and men to overcome poverty." This section presents some evidence to address the question highlighted in the Approach Paper (2015): Does the PBAS methodology ensure that IFAD resources are properly allocated to support improvement in livelihoods of poor rural people?

Table 23

Correlation matrix (Final Country Score, indicators in the formula and rural poverty indicators)

Variable	Final Country Score	Country Performance Score	Rural population	GNI per capita	Access to water (% rural pop)	Access to electricity (% rural pop)
Final Country Score	1					
Country Performance Score	0.1533*					
Rural population	0.7068*	1				
GNI per capita	-0.3663*	-0.03	1			
Access to water(% rural pop)	-0.1464*	0.2495*	-0.1081*	1		
Access to electricity (% rural pop)	-0.1415	0.2704*	0.0669	0.3792*	1	
Access to sanitation (% rural pop)	-0.1398*	0.2344*	0.0845	0.5232*	0.7038*	1
Rural poverty	-0.1757	0.2459*	-0.0392	0.4810*	0.6615*	0.8366*
Undernourishment	0.0582	-0.2331*	-0.2024	-0.2930*	-0.5016*	-0.4846*

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Note: * Implies that the correlation is significant at the 5 per cent.

39. Table 23 shows us that there is a modest or no correlation between the value of the final country score and indicators of rural poverty (column 1). This result indicates that in terms of relevance, the PBAS formula does not have a strong link with rural poverty. In fact, the correlation coefficient with rural poverty is negative (although not statistically significant from zero). The rural population (which is highly correlated with the value of the PBAS formula) indicator that is supposed to capture rural poverty has very little correlation with indicators of rural poverty (third column). A stronger relationship with rural poverty seems to be captured by GNI pc (forth column).

Final considerations

40. These results show that **the average (static) contribution of needs (mostly driven by rural population) in the value of the PBAS formula is around 65 per cent.** Results also show that the contribution of needs declines (on average) with country performance score quintiles. However, **total allocations of resources (on average) do not monotonically increase by country performance quintiles.** In fact, the results show that there are significant non-linearities.
41. **The analysis of dynamic contributions (captured by the elasticity analysis) shows that RSP and PAR variables are relatively more dynamic than others**

(higher elasticity). Given the summative nature of the performance component, the results of the PBAS formula is not only affected by the value of individual indicators but also by the behaviour of the inter relations of these indicators not explicitly considered in the formula. In fact, the results of the dynamic analysis show significant non-linear relations.

42. The main implication of the analysis of contributions (both static and dynamic) is that the **most significant determinant of the allocation that a country will receive** (as indicated by the final country score of the PBAS formula) **will be its level of rural population** (the indicator driving the static contribution). However, any marginal variation of the PBAS variables shows that the performance indicators (particularly RSP and PAR, as the components with higher elasticity) have a higher contribution to the PBAS allocation.
43. **The analysis also indicates that different normalizations alternatives will have implications for variability and contribution of indicators to the PBAS formula.** Among the normalizations considered, the log transformation of rural population and GNI pc is the one that reduces the variability of the needs indicators to levels similar to performance indicators as well as reducing the contribution of needs to the final country score of the PBAS formula.
44. The analysis of the implication of re-weighting for countries with missing data for IRAI indicate that **re-weighting created an effect similar to assuming that those countries have a much higher IRAI than the countries for which data exists** (almost by 1 or around 30 per cent more). The aggregate effect of re-weighting, illustrated for the year 2012, is potentially 1 percentage point of additional share on total resources allocation for the group of countries without IRAI data.
45. The analysis found evidence of a modest or no statistically significant correlation between the final country score of the PBAS formula and indicators of rural poverty. The indicators of needs, rural population (highly correlated with the value of the PBAS formula) presents very little correlation with rural poverty, while a stronger relationship seems to be captured by GNI pc. In addition, rural population is the indicator that has by far the largest range of variability (around 10 times of the performance indicators and twice the GNI pc).

An overview of the PBAS formula of other selected IFIs

Institution	Began PBA	Allocation Formula			Result	Min. Alloc.	Ceiling
		Needs Factors		Performance Factors			
AfDB	1999	$POP^{1.0} \times GNPPC^{-0.125}$	x	$[(0.26CPIA_{A-C} + 0.58CPIA_D + 0.16PORT)]^{4.0}$	= allocation share weight	SDR 5 million	
AsDB	2001	$POP^{0.6} \times GNPPC^{-0.25}$	x	$[(ES_CPIA^{0.7} \times PORT^{0.3}) \times GOV]^{2.0}$	= allocation share weight	None	The largest ADF borrowers are subject to a ceiling.
CDB	2000	$LogPOP \times GNPPC^{0.9} \times VUL^{2.0}$	x	$[0.7CPIA + 0.3PORT]^{2.0}$	= allocation share weight		Haiti is subject to a fixed ceiling and does not get a formula-based allocation.
EU (ACP)		$LogPOP \times 0.2GNPPC^{-1.0} \times 0.2HDI^{-1.0} \times DEBT \times VUL$			= allocation share weight		
GEF	2006	GBI ^{2.5} (The Global benefits Index is calculated separately for the two focal areas: The GBI for Biodiversity is 0.8 x TERRESTRIAL BIODIVERSITY + 0.2 MARINE BIODIVERSITY (Terrestrial Biodiversity is defined as 0.55 x represented species + 0.20 x threatened species + 0.15 x represented eco-regions + 0.10 * threatened eco-regions; and Marine Biodiversity is defined as represented marine species The GBI for Climate change is defined as Baseline GHG emissions X carbon intensity adjustment factor.)	x	$[0.2CPIA + 0.10PORT + 0.70CEPIA]$ (The World Bank CPIA scores are used, with 0.7 weight to environmental criteria and 0.2 weight to "broad framework indicator" (governance). Portfolio performance, PORT, is judged on ten years of GEF and World Bank environmental projects.)	= allocation share weight for each focal area	\$1 million for each focal area	
IDB (IFF)	2002 to 2008 (IFF discontinued after 2007)	$(0.133FUND) \left(\frac{POP}{\sum POP} \right) + (0.133FUND) \left(\frac{1}{\sum GNPPC} \right) + (0.133FUND) \left(\frac{DEBT}{\sum DEBT} \right)$	+	$(0.6FUND) \times \left[\frac{0.7CIPE + 0.3PORT}{\sum (0.7CIPE + 0.3PORT)} \right]$	= 50% Allocation (Component I)		
IDB (FSO)	2002 (current formula 2007)	$Pop^{0.50} \times GNIPC^{-1}$	x	$[0.3PORT + 0.7CIPE]^{2.0}$	= 50% Allocation (Component II)		US\$25 Million per year
		$(0.22FUND) \left(\frac{POP}{\sum POP} \right) + (0.133FUND) \left(\frac{1}{\sum GNPPC} \right)$	+	$(0.6FUND) \times \left[\frac{0.7CIPE + 0.3PORT}{\sum (0.7CIPE + 0.3PORT)} \right]$	= 50% Allocation (Component I)		US\$54 Million per year
IFAD	2005	$Rural POP^{0.45} \times GNIPC^{-0.25}$	x	$[0.2CPIA + 0.35PORT + 0.45RuralCPIA]^{2.0}$	= allocation share weight	\$1 million	5% of total allocated
World Bank (IDA)	1977	$POP^{1.0} \times GNPPC^{-0.125}$	x	$[0.24CPIA_{A-C} + 0.68CPIA_D + 0.08PORT]^{5.0}$	= allocation share weight	SDR 4.5 million per country per replenishment	SDR 19.8 per capita

Note: Variables: CIPE= Country Institutional and Policy Evaluation (IDB); CPIA = Country Policy and Institutional Assessment; DEBT = Debt service ratio; ES_CPIA= Economic and Social Performance Criteria in CPIA (for ADB); FSO=Fund for Special Operations (IDB); Fund= Size of IFF and FSO Envelope; GOV= Average of the five criteria in the "public sector management cluster" for ADF; average of the six criteria in the Governance and Public Sector Performance for AfDF; average of the five criteria in the public sector management cluster (Cluster D) for IDA; GNPPC = GNP per capita; Log = logarithm; HDI = Human Development Index; PCEF= Post-conflict Enhancement Factor (AfDB); POP = Population; PORT= Portfolio rating; RuralCPIA= Performance rating on policies and institutions for rural development (IFAD); VUL = Country Vulnerability (EU ACP).

Source: IFAD, EB 2014/111/INF.

Modelling analysis of the PBAS formula

1. A modelling analysis was conducted in order to illustrate the behaviour of the formula under different types of changes.
2. The simulation was based doing the following changes to the PBAS formula:
 - (i) changing the weight of rural population from an exponent of 0.45 to a logarithmic expression, (ii) replacing the GNI per capita variable for the HDI, (iii) adding a vulnerability variable¹ to the needs component of the formula, and (iv) remove the CPIA variable.
3. To further analyse adjustments to the formula, different simulations have been carried out on a specific range of weights that address the following parameters
 - Increasing the correlation of the PBAS formula with some rural poverty indicator.
 - Adjust the formula so that it is more driven by performance than needs; increase the performance component from its actual static contribution of 35 per cent to 65 per cent.
 - Increase the formula consistency by reducing the need for imputation (i.e. different formulas, maximum and minimum allocations)
4. To do the simulation, the evaluators used the country scores from 2007 until 2014 calculating an indicative final country score (FCS1) for each year. The indicative final country score used has a correlation of 0.9935 and is statistically significance at 95 per cent. The further changes to the formula were compared to this score.
5. In order to address the first parameter, the analysis proposed the addition of Vulnerability and HDI instead of GNI pc. The adjustment has the potential of increasing the correlation of the final country score of the PBAS formula with relevant indicators of rural poverty. It is interesting to notice that although GNI pc is also part of the HDI,² the correlation with rural poverty indicators is higher for the HDI than for the GNI pc. This result is just a reflection that an indicator like the HDI is a better measure of the state of development of a country than the GNI pc.
6. In addition to the strong correlation of vulnerability to rural poverty indicators, it is important to highlight that vulnerability to climate change is relatively exogenous to countries (at least for the majority of developing countries, and for that reason it is not clearly affected by local policies or any socio-economic factor of the countries. This implies that the most natural place where Vulnerability can enter into the PBAS formula is on the needs side, since the performance side of the formula is the one that captures policies. The vulnerability variable will be added as a multiplicative variable in order to have a constant elasticity.
7. The Human Development Index (HDI) and the ND gain vulnerability variable have similar ranges of variation to those of the other indicators (0.23, 0.14), for these reason no additional normalization of the variables is needed.
8. Incorporating HDI and vulnerability requires re-weighting of indicators, which allow achieving re-balancing contributions of PBAS components. For the purpose of this what if scenario, it was set a target of 65 per cent contribution of country performance score in the final country score in the PBAS formula, increase the correlation of the final country score with indicators of rural poverty and to increase the consistency of the process. This will imply a calibration of the weights of

¹ The Notre Dame Global Adaptation Index, "The Index shows a country's level of vulnerability, and the readiness of a country to successfully implement adaptation solutions for climate change", University of Notre Dame.

² See UNDP (2014). Human Development Report 2014. Sustaining Human Progress Reducing Vulnerabilities and Building Resilience. Technical notes.

indicators. The following Final Country Score formula is considered for the simulation analysis:³

Simulation model

$$\ln(\text{rural pop})^{0.5} \times (5 \times \text{HDI})^{-0.75} \times (5 \times \text{Vulnerability})^{0.75} \times (0.57 \times \text{RSP} + 0.43 \times \text{PAR})^2$$

9. The HDI proposed exponential is (-0.75) and a multiplicative weight of (5), the vulnerability variable will have the same exponent with a positive sign, and the same multiplicative weight of (5), in order to guarantee effects of "right" sign and magnitude. The coefficients are adjusted to approach 35 per cent static contribution target. The natural logarithm used in the rural population (ln), is the inverse operation to exponentiation, that means the logarithm of a number is the exponent to which another fixed value⁴ must be raised to produce the original number, in this case such number is the countries rural population.
10. The change of the rural population exponent significantly reduces its variability, approximating it to that of the other indicators; this alternative seems to be an appropriate transformation of the rural population putting all the variables in a similar degrees of variability among all indicators.

Simulation results

11. **Role of performance.** The Result for the simulation (for the country scores of year 2012 shows that the role of needs is on average 34.4 per cent (table 4), with a relatively balanced role in all indicators (including that the HDI and vulnerability have similar contributions but with opposite signs). The correlation between rural poverty indicators and the PBAS formula has increased (see table 6), and the formula is more concise since all variables proposed are available for all countries⁵ the simulation also had another impact on formula consistency, since the natural logarithm used in the rural population variable eliminates the need of having maximum and minimum cap to certain countries.
12. The modifications made to the PBAS formula implied by the what if scenario created a significant change in country resource allocations (see table 5), the statistical significant correlation between the 2012 final country scores and the theoretical simulated country score is moderate (close to 0.4).
13. To understand in more detail the implication for specific countries, tables 1, 2 and 3 show the distribution of countries for which in 2012 the share of in total allocation decreases/increases, including a disaggregation by region. As we can see from the table, the majority of countries will decline its share in total resources allocated in the what if scenario relative to the current PBAS formula.
14. The regions that benefit the most are APR and ESA, where 66.7 per cent and 50 per cent of countries respectively increase their share. While the regions where the majority of countries reduce its share are LAC, WCA and NEN, where 83.3 per cent, 80 per cent and 70.6 per cent of countries respectively reduce their share in total allocations.

³ The particular weights are just a simple illustration of the type of adjustments that needed to be done to achieve the objective that the average contribution of performance into the PBAS formula is 65 per cent. Any other combination of weights and normalization could be explored, but the final calibration process will depend on the criteria that will be utilized to measure the goodness of the formula. In this exercise, in addition to the contribution of performance it will be important the increase in the correlation between the final country score and rural poverty indicators.

⁴ $e=2.718281828$.

Table 1
Changes in the country share in total allocation using the current PBAS formula and the what if scenario formula

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
Positive change in the share of resources allocation	32	0.00803	0.00720	0.0003	0.02773
Negative change in the share of resources allocation	57	-0.00451	0.00335	-0.01506	-1.62e-06

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Table 2
Countries with positive changes in its share in total allocation using the current PBAS formula and the what if scenario formula, by region

<i>Region</i>	<i>Number of countries</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
APR	12	0.010517	0.00776	0.00140	0.02773
ESA	8	0.007963	0.00619	0.00127	0.02014
LAC	3	0.005399	0.00319	0.00266	0.00891
NEN	5	0.005573	0.00772	0.00004	0.01904
WCA	4	0.005777	0.00952	0.00025	0.01996

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

Table 3
Countries with negative changes in its share in total allocation using the current PBAS formula and the what if scenario formula, by region

<i>Region</i>	<i>Number of countries</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
APR	6	-0.004792	0.00378	-0.01006	-1.62e-06
ESA	8	-0.004452	0.00308	-0.00895	-0.00077
LAC	15	-0.002972	0.00228	-0.00935	-0.00004
NEN	12	-0.003495	0.00222	-0.00859	-0.00050
WCA	16	-0.006637	0.00401	-0.01506	-0.00083

Source: Elaborated by the evaluation team based on the progress report of the performance-based allocation system (2007-2015).

15. These results show the significant implications that changes in the formula may have in the final allocation of resources for countries. The what if scenario shows that increasing the weight of performance and introducing new indicators to better capture the needs implied important difference in allocation of funds across countries and regions.

Table 4
Contribution of the scenario 1 formula components to the final country score

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
Share ln(ruralPOP)	343	0.3231	0.0347	0.2693	0.5463
Share (HDI)	343	-0.1524	0.0524	-0.3322	-0.0528
Share (Vulnerability)	343	0.1711	0.0242	0.1058	0.2683
Share (cps (i))	343	0.6581	0.0608	0.3404	0.8009
Share (Needs (i))	343	0.3419	0.0608	0.1991	0.6596
Sum tot (i)	343	1.0000	0.0000	1.0000	1.0000

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).
(i) are the simulated values.

Table 5
Descriptive statistics of the actual PBAS formula components and the indicative scores of the modelling

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Min</i>	<i>Max</i>
Needs	343	280.77	228.70	24.46	1 930.73
Needs (i)	343	4.50	1.22	2.21	7.51
cps	343	16.22	4.54	2.44	28.08
cps (i)	343	17.61	5.28	2.37	30.62
FCS1	343	4 475.20	3 956.31	332.36	30 739.34
FCS1 (i)	343	77.46	26.76	12.61	158.38

(i) Refers to the simulated scores of needs, performance and final country score.

Source: IFAD Progress Reports on the implementation of the PBAS, CLE elaboration (2015).

Correlation with rural poverty indicators

Table 6

Scenario 1 variables correlation with rural poverty indicators

	Needs	Needs (i)	FCS1	FCS1 (i)	cps	cps (i)	RuralPOP	ln (RuralPOP)	GNI pc	HDI (2012)	Vulnerability	Water access	Electricity access	Rural sanitation	Rural poverty	FAO undernourishment
Needs	1															
Needs (i)	0.3035*	1														
FCS1	0.9458*	0.2443*	1													
FCS1 (i)	0.2185*	0.5883*	0.3988*	1												
cps	-0.078	-0.3303*	0.1752*	0.5319*	1											
cps (i)	-0.094	-0.2835*	0.1609*	0.5744*	0.9911*	1										
RuralPOP	0.7897*	0.0243	0.7103*	0.009	-0.022	-0.0409	1									
ln (ruralPOP)	0.8618*	0.3301*	0.8017*	0.1634*	-0.1663*	-0.1845*	0.4983*	1								
GNI pc	-0.3754*	-0.6476*	-0.3378*	-0.3892*	0.2702*	0.2485*	-0.092	-0.3724*	1							
HDI (2012)	-0.2524*	-0.9625*	-0.1848*	-0.5367*	0.3628*	0.3122*	0.0004	-0.2571*	0.6882*	1						
Vulnerability	0.0804	0.8355*	0.0638	0.5534*	-0.2530*	-0.1975*	-0.0648	0.0544	-0.5049*	-0.7842*	1					
Water access	-0.1217*	-0.5925*	-0.1234*	-0.3440*	0.2365*	0.1973*	0.0796	-0.2727*	0.3704*	0.5728*	-0.5472*	1				
Electricity access	-0.123	-0.8112*	-0.1396	-0.5572*	0.2066*	0.1589	0.103	-0.1044	0.5347*	0.8218*	-0.8313*	0.6978*	1			
Rural sanitation	-0.1744*	-0.7006*	-0.1399*	-0.4086*	0.2431*	0.1969*	-0.0394	-0.1950*	0.4822*	0.7404*	-0.6786*	0.6826*	0.8276*	1		
Rural poverty	-0.164	0.3388*	-0.2062	0.1679	-0.2112*	-0.1594	-0.2332*	-0.1205	-0.2410*	-0.3866*	0.3515*	-0.4943*	-0.4666*	-0.4228*	1	
FAO undernourishment	0.1	0.3077*	0.0591	0.045	-0.2770*	-0.2412*	-0.0258	0.1505*	-0.3044*	-0.3206*	0.1991*	-0.4886*	-0.3315*	-0.2298*	0.4155*	1

Source: Internally made with indicators from: (World Bank, 2015).

Note: * implies that the correlation is significant at the 5 per cent.

Final considerations

16. **The analysis indicated that different normalizations alternatives will have implications for variability and contribution of indicators to the PBAS formula.** The natural logarithmic transformation of rural population is the change that reduces the variability of the needs indicators to levels similar to performance indicators as well as reducing the contribution of needs to the final country score of the PBAS formula.
17. The analysis of the implication of re-weighting for countries with missing data for IRAI indicate that **re-weighting created an effect similar to assuming that those countries have a much higher IRAI than the countries for which data exits** (almost by 1 point or around 30 per cent more). The aggregate effect of re-weighting, illustrated for the year 2012, is potentially 1 percentage point of additional share on total resources allocation for the group of countries without IRAI data.
18. **The simulation scenario** presented the potential implications of the inclusion of vulnerability and a measure of development like the HDI (instead of the GNI pc) along with the use of a logarithm for rural population. In particular, there is a discussion on how this could increase the relevance of the PBAS formula regarding its relationship with rural poverty indicators (including the reweighting that is done to decrease the role of needs in the final country score of the PBAS formula). The simulation example illustrates that **a PBAS formula with HDI and vulnerability (and a log normalized rural population and re-weighting) on the needs side increases the contribution of performance in the PBAS formula and generates strong correlations between the final country score and rural poverty indicators.** The simulation also increased the consistency of the system since there is no more need for minimum, maximum allocations and the use of alternate formulas depending on CPIA availability.
19. **The complex interrelationships of the PBAS formula indicate that it is not possible to consider any simulation scenario without discussing the implications of normalization, weights and functional form.** The results illustrate the importance of doing a detail analysis of the PBAS formula to fully understand its relevance and implications. It also shows that doing so requires significant considerations about normalizations, functional form and weights, because these elements will have significant implications in the contribution of needs and performance to the final country score of the PBAS formula as well as its correlation with indicators that are relevant to rural poverty as a primary concern of IFAD.
20. The modelling exercise was conducted for illustrative purposes only, with the aim of stimulating further discussion and reflection on the way forward related to IFAD's PBAS formula. It does not intend to provide recommendations for the future of the formula. In fact, any changes to the PBAS formula is a prerogative of the IFAD Executive Board, building on inputs from the CLE and its recommendation as well as dialogue with the IFAD Management and the PBAS working group of the Executive Board.

Survey questionnaire

Evaluation of the Performance-based Allocation System (PBAS)

Your position

What is your position at/with IFAD?

Choose your most recent position with IFAD. Only one response is allowed.

Executive Board member or alternate (current or past) ()

IFAD staff member ()

Personal information *(Question only asked to the IFAD staff members)*

What is your position?

- Director ()
- Country programme manager/Country director ()
- Other ()

In which region do you work?

- APR ()
- ESA ()
- LAC ()
- NEN ()
- WCA ()
- Work in more than one region ()
- Other ()

Where do you work?

- Rome ()
 - Country-based ()
-

Annual progress report on implementation of the performance-based allocation system

Do the annual progress reports provide adequate information on accessibility and flexibility of the PBAS process?

- Yes ()
No ()
No opinion ()

If you feel that the information provided in the annual progress reports needs improvement, please explain.

Should the progress reports include more information on the reallocation exercises done at the end of the three-year replenishment cycle?

- Yes ()
No ()
No opinion ()

Allocation formula and weights

IFAD's allocation formula, and their weights (exponents) are as follows

Allocation formula

$$(\text{Rural population})^{0.45} \times (\text{GNI per capita})^{-0.25} \times (0.2 \text{ CPIA} + 0.35 \text{ PAR} + 0.45 \text{ RSP})^{2.0}$$

Where CPIA = World Bank/IDA measure of country policy and institutional performance (across all sectors), also called the IRAI; PAR = performance of the country's portfolio of IFAD projects based on projects at risk, RSP= rural sector performance rating.

Rate the balance between the PBAS formula needs factors (rural population and GNI per capita) and performance factors (RSP, CPIA, PAR).

Highly satisfactory	()
Satisfactory	()
Moderately satisfactory	()
Moderately unsatisfactory	()
Unsatisfactory	()
Highly unsatisfactory	()
No opinion	()

Rank the PBAS variables of the formula according to the weight or relevance you consider they should have in determining allocations (the variables can have equal relevance).

1: lowest relevance ----- 6: highest relevance

Rural population	()
GNI per capita	()
Rural sector performance (RSP)	()
Projects-at-risk (PAR)	()
IDA resource allocation index (CPIA)	()

Measures of country needs

There are two variables in IFAD's allocation formula that measure a country's needs and its ability to pay for anti-poverty programmes (rural population and GNI per capita). Other organizations have used different measures of need in their allocation formulas, including the number of (rural) poor people or families, multi-dimensional measures of poverty, and measures of structural vulnerability. Measures of need could be modified to be more comprehensive and precise, but would result in a more complex formula.

Should the measures of country need (rural population and per capita national income) remain as they are in the allocation formula or should they be changed?

Remain as they are	()
Be adjusted slightly	()
Be changed significantly	()
No opinion	()

Measures of country performance

There are three variables in IFAD's allocation formula that measure country performance:

- (i) Rural sector performance ratings produced by IFAD;
- (ii) An IFAD country portfolio rating based on projects-at-risk;
- (iii) A general measure of policy and institutional performance produced by the World Bank/IDA for a subset of countries.

Measures of performance could be modified to be more comprehensive and precise, but would result in a more complex formula.

Should the measures of performance (rural sector performance, portfolio performance and World Bank rating of policy and institutional performance) remain as they are in the allocation formula or should they be changed?

- Remain as they are ()
- Be adjusted slightly ()
- Be changed significantly ()
- No opinion ()

Please explain; check all that apply.

- () Use some variables that directly measure improvements over time, rather than only variables that measure current status.
- () Change the measure of portfolio performance to reflect other indicators in addition to "projects-at-risk", such as effectiveness, efficiency and sustainability.
- () Rely more on evidence of performance provided by published international data series on various aspects of governance and socio-economic performance.
- () Other. Please explain. _____

Rural sector performance, components and weights

Each of the rural sector performance criteria is equally weighted. Therefore the weight of a cluster of criteria depends upon the number of criteria it contains.

The clusters and the criteria are as follows:

Cluster A: Strengthening the capacity of the rural poor and their organizations

1. Policy and legal framework for rural organizations
2. Dialogue between government and rural organizations

Cluster B: Improving equitable access to productive natural resources and technology

3. Access to land
4. Access to water for agriculture
5. Access to agricultural research and extension services

Cluster C: Increasing access to financial services and markets

6. Enabling conditions for rural financial services development
7. Investment climate for rural businesses
8. Access to agricultural input and produce markets

Cluster D: Gender issues

9. Access to education in rural areas
10. Representation

Cluster E: Public resource management and accountability

11. Allocation and management of public resources for rural development
12. Accountability, transparency and corruption in rural areas

At present there are 12 criteria in IFAD's rural sector performance rating system. Are the number and nature of criteria appropriate?

- Highly satisfactory ()
- Satisfactory ()
- Moderately satisfactory ()
- Moderately unsatisfactory ()
- Unsatisfactory ()
- Highly unsatisfactory ()
- No opinion ()

What is the main change to the criteria, if any, that you suggest? _____

Each of the 12 criteria in IFAD's rural sector performance variable has an equal weight. Therefore, each cluster of criteria has a different weight depending on the number of criteria it contains.

Do you find this weighting scheme satisfactory?

Highly satisfactory ()
 Satisfactory ()
 Moderately satisfactory ()
 Moderately unsatisfactory ()
 Unsatisfactory ()
 Highly unsatisfactory ()
 No opinion ()

Please indicate below the weight you believe appropriate for each cluster in IFAD's rural sector performance scoring for countries.

<i>Criteria cluster</i>	<i>Current weight (%)</i>	<i>Suggested weight</i>
Strengthening the capacity of the rural poor and their organizations	16.7	
Improving equitable access to productive natural resources and technology	25	
Increasing access to financial services and markets	25	
Gender issues	16.7	
Public resource management and accountability	16.7	

PBAS as a tool for policy dialogue and incentives

Do you believe the PBAS has been useful as a tool to promote policy dialogue between IFAD and developing member governments, especially in regard to the rural sector performance scores?

Yes, to a modest extent ()
 Yes, to a great extent ()
 No ()
 No opinion ()

Do you think the PBAS could be used more actively to promote policy dialogue? If so, please explain. If not, please feel free to add a comment to the contrary. _____

Country selectivity

The PBAS includes country selectivity at three points in the PBAS cycle:

- (i) Selecting a set of countries to receive an allocation at the start of a new cycle;
- (ii) Capping the allocations of some countries because of special circumstances and/or increasing the allocations of post conflict countries; and
- (iii) Reallocating funds at the start of year three of the cycle to countries with greater effective demand.

At the major milestones of the allocation cycle, has country selectivity worked satisfactorily to respond to the realities of absorptive capacity and effective demand, while maintaining the integrity of the PBAS?

Highly satisfactory ()
 Satisfactory ()
 Moderately satisfactory ()
 Moderately unsatisfactory ()
 Unsatisfactory ()
 Highly unsatisfactory ()
 No opinion ()

If selection practices need improvement, please explain. _____

Countries in special circumstances

Some countries in special circumstances include small island developing states, countries at different stages of development and/or fragile and post-conflict states.

Does the PBAS give due consideration to countries with special characteristics, such as small island developing states, fragile states and post-conflict states?

- Yes
- No
- No opinion

If you believe changes are needed with regard to particular types of countries, please explain. _____

Topics not included in the formula

Do you think the PBAS formula should be adjusted to include any of the topics listed below? (Select all that apply or none)

- Vulnerability to natural hazards
- Rural poverty
- Country inequality
- Climate change
- Other, please explain _____
-

Satisfactory oversight? *(Question only asked to the Executive Board members)*

Has there been satisfactory oversight of the PBAS by the Executive Board and the PBAS Working Group of the Board?

- Highly satisfactory
- Satisfactory
- Moderately satisfactory
- Moderately unsatisfactory
- Unsatisfactory
- Highly unsatisfactory
- No opinion

If you think oversight needs to be improved, please let us know how. Check any or all that apply, or if none adequately capture your views, please add your comments below.

- Allow more scope for the Board to provide guidance on strategic issues before each resource allocation exercise.
- Promote stronger Board guidance on the principles of reallocation at the start of year 3 of the cycle.
- Provide specific and analytical reports to the Board at the time of the initial allocation exercise in each cycle and at the time of the reallocation exercise at the start of year 3.
- Introduce more frequent independent evaluations of the PBAS.
- Other, please explain. _____
-

Efficient management of the PBAS? *(Questions only asked to the IFAD staff members)*

The PBAS needs to be managed well in all respects, including its integration with project pipeline planning and administrative budget management. Information on allocations must be clear and available in a timely fashion.

Has the management of the PBAS been sufficiently integrated with the management of the projects pipeline/approval process and with IFAD's administrative budget allocations?

- Highly satisfactory ()
- Satisfactory ()
- Moderately satisfactory ()
- Moderately unsatisfactory ()
- Unsatisfactory ()
- Highly unsatisfactory ()
- No opinion ()

If you believe IFAD's management of resource allocations needs to be improved, please explain how. Check all that apply and/or add a comment below.

- Rely less on performance scoring by country programme managers and more on sector/thematic specialists to improve objectivity in country rural sector performance scores.
- Provide more detailed and analytical reports on the PBAS annually or at major milestones (such as initial allocations in each cycle and reallocations at the start of year 3).
- Foster more dialogue before decisions are taken regarding country allocation caps and reallocations.
- Allow for more flexibility in how the PBAS is implemented.
- Allow more flexibility to the regional directors to redeploy a modest amount of resources rather than giving up all unused resources for reallocation across regions.
- If there are other ways in which the PBAS could be more efficient or flexible, please explain: _____

Transparent and predictable?

IFAD's PBAS is intended to be transparent and predictable (clear and rules-based). How satisfactory has the PBAS been in regard to these goals?

- Highly satisfactory ()
- Satisfactory ()
- Moderately satisfactory ()
- Moderately unsatisfactory ()
- Unsatisfactory ()
- Highly unsatisfactory ()
- No opinion ()

If you have encountered any situation where the PBAS was unclear or unpredictable, please explain this and what the result of the lack of clarity or predictability was. _____

Suggestions/recommendations

Please provide here any suggestions/recommendations regarding IFAD's PBAS not discussed above.

List of people interviewed

(in alphabetical order)

IFAD Management and staff

Abdoul Barry, Country Programme Manager, West and Central Africa Division

Adolfo Brizzi, Director, Policy and Technical Advisory Division

Alessandra Zusi Bergés, Senior Governing Bodies Officer, Office of the Secretary

Allegra Saitto, Manager, Accounting and Financial Reporting, Controller's and Financial Services Division

Brian Baldwin, former Senior Operations Management Adviser, Programme Management Department (PMD)

Clare Bishop Sambrook, Lead Technical Specialist, Gender and Social Inclusion, Policy and Technical Advisory Division

Chiara Romano, Consultant, Policy and Technical Advisory Division

Chitra Deshpande, Special Adviser to the Vice-President, Office of the President and Vice President

Domenico Nardelli, Director and Treasurer, Treasury Services Division

Fabrizio Bresciani, Regional Economist, Asia and the Pacific Division

Gary Howe, former Director of Strategic Planning, Budget and Resource Management

Hoonae Kim, Director, Asia and the Pacific Division

Idesbald Reinout Jan Van Der Does de Willebois, Director, West and Central Africa Division

Joaquin Lozano Aguirre, Director, Latin America and the Caribbean Division

John McIntire, former Associate Vice-President, PMD

Josefina Stubbs, Associate Vice-President and Chief Development Strategist, Strategy and Knowledge Department

Iain Kellet, former Associate Vice-President, Financial Operations Department, IFAD

Kanayo F. Nwanze, President of IFAD

Khalida Bouzar, Director, Near East, North Africa and Europe Division

Khadidja Nene Doucoure, Regional Gender Coordinator, West and Central Africa Division

Maria Hartl, Senior Technical Specialist, Gender and Social Equity, Policy and Technical Advisory Division

Maria Soledad Marco, Portfolio Management Officer, PMD

Michel Mordasini, Vice-President of IFAD

Mohamed Béavogui, former Director, Partnership and Resource Mobilization

Périn Saint-Ange, Associate Vice-President, PMD

Rasit Pertev, Secretary of IFAD

Samira Hotobah-During, Adviser to the AVP, Financial Operations Department

Sana Jatta, Director, East and Southern Africa Division

Sma Abdelkarim, Regional Economist, Near East, North Africa and Europe Division

Sylvie Marzin, Lead Portfolio Adviser, West and Central Africa Division

IFAD Executive Board representatives

Abdelbaset Ahmed Aly Shalaby, Agricultural Counsellor, Deputy Permanent Representative of the Arab Republic of Egypt to the United Nations Food and Agriculture Agencies in Rome

Diletta Svampa, Adviser, Service in charge of Multilateral Development Banks (Office IX). Directorate General for International Financial Relations (Directorate III). Department of the Treasury Ministry of Economy and Finance of the Italian Republic

Donatienne Hissard, Advisor, Deputy Permanent Representative of the French Republic with FAO, WFP and IFAD. Evaluation Committee member.

Earnan O'Clérigh, Senior Development Specialist/Policy Lead Inclusive Economic Growth Policy Team Development Co-operation Directorate (Irish Aid) Department of Foreign Affairs and Trade of Ireland

Helle Sanden, Intern, Royal Norwegian Embassy in Italy

John Hurley, Director, Office of Debt and Development Policy Department of the Treasury of the United States of America

Julia Vicioso Varelas, Alternate Permanent Representative of the Dominican Republic to IFAD

Martin Landais, Economic adviser, Deputy Head of the Regional Economic Department French Embassy

Nicholas Strychacz, International Economist, Office of International Development and Debt Policy, Department of the Treasury of the United States of America

Osamu Kubota, Minister Counsellor, Deputy Permanent Representative of Japan to the United Nations Food and Agriculture Agencies in Rome

Rafael Ranieri, General Coordinator of Relations with International Organizations Secretariat of International Affairs, Ministry of Planning, Budget and Management, of the Federative Republic of Brazil

Rui Wang, Second Secretary, Alternate Permanent Representative of the People's Republic of China to the United Nations Food and Agriculture Agencies in Rome

Tazwin Hanif, Minister Counsellor for Multilateral Affairs Alternate Permanent Representative of the Republic of Indonesia to IFAD. Evaluation Committee member

Yaya O. Olaniran, Minister, Permanent Representative of the Federal Republic of Nigeria to the United Nations Food and Agriculture Agencies in Rome

Zhengwei Zhang, Counsellor, Deputy Permanent Representative of the People's Republic of China to the United Nations Food and Agriculture Agencies in Rome

IFAD Member States representatives

Focus Group Consultation

Aisha Omar, Deputy Director, International Economic Relations Department, Federal Ministry of Finance of the Federal Republic of Nigeria

Boyd Ng'andu, Senior Economist, Ministry of Finance, Zambia

Félicité Célestine Omporo Enouany, Financial Adviser for International Relations of the Ministry of State, Minister of Finance, Republic of Congo

Gerald Mugabe, External Resources Mobilization Expert, Ministry of Finance and Economic Planning, Rwanda (tele-meeting)

Luis Carvajal, Subsecretary of Public Finance Innovation, Ecuador

Monica Lily Mendoza Esprella, Financial Analyst for the Deputy Minister of Public Investment and Foreign Finance, Ministry of Development Planning, Bolivia

Noor Rizna Anees, Director, UN and Technical Assistance Division, Department of External Resources (ERD), Ministry of Finance and Planning, Sri Lanka

Omer Mohammed Ahmet El Hag, Director General, Corporation and Companies Directorate, Ministry of Finance and Economic Planning, Sudan (phone interview)

Pankaj Singh, Act Director (Debt), Ministry of Finance and Economic Planning, Fiji

Rui Li, Former Deputy Director, IFI Division IV, Department of International Economic and Financial Cooperation, Ministry of Finance of the People's Republic of China

Svjetlana Vukojičić, Ministry of Finance and Treasury, Bosnia and Herzegovina

Côte d'Ivoire Country Visit

Chantal Dongo, IFAD Focal Point, Department of Planning, Project Monitoring and Statistics, Ministry of Agriculture

Jules Coulibaly, Director, Division of Public Debt, Ministry of Finance

Kougnon Grégoire Zopoh, Service Chief, Division of Public Debt, Ministry of Finance

M. Irlebi, Technical Counsellor, Department of Planning, Project Monitoring and Statistics, Ministry of Agriculture

Samassa Issaka, Deputy Director, Department of Budget and Finance, Ministry of Budget

Séraphin Tanoh, Director for Policies and Budget Synthesis, Ministry of Budget

Seydou Traoré, Director General of Budget and Finance, Ministry of Budget

Sionsélingam Silué, Director of Monitoring and Projects, Department of Planning, Project Monitoring and Statistics, Ministry of Agriculture

Souleymane Coulibaly, Deputy Director, Department of Budget and Finance Ministry of Budget

The Philippines Country Visit

Arsenio N. Balisacan, Secretary of Socioeconomic Planning and Director General, National Economic and Development Authority, Government of Philippines

Enerson Palad, Under-Secretary, Department of Agrarian Reform, Government of Philippines

Herman Ongkiko, Under-Secretary, Department of Agrarian Reform, Government of Philippines

Roberto Tan, Under-Secretary, Department of Finance, Government of Philippines

Stella Laureano, Director, Department of Finance, Government of Philippines

Virgilio R. de los Reyes, Secretary, Department of Agrarian Reform, Government of Philippines

Zenaida Villegas, Director, Department of Agrarian Reform, Government of Philippines

African Development Bank

Aain Niyubahwe, Chief Strategist, Strategies and Policies Department

Alassane Diabate, Economist for Comoros (on phone)

Frederik Teufel, Senior Political Risk and Private Sector Development Analyst, Transition Support Department

Herimandimby Razafindramanana, Chief Post Evaluation Officer, Independent Development Evaluation

Leonce Yapo, Economist, Resource Mobilization and External Finance Department

Oscar Pitti Rivera, Senior Resource Mobilization Officer, Resource Mobilization and External Finance Department

Pascal Yiemblin, Chief Economist, West Africa Region Department

Samuel Kamara, Principal Country Program Officer for Kenya (by telephone)

Walter Owuor, Economist for Kenya (by telephone)

Asian Development Bank

Andrew Brubaker, Senior Evaluation Officer, Independent Evaluation Department

Ben Graham, consultant, Independent Evaluation Department

Chongshan Liu, PBA coordinator

Walter Kolkma, Director, Independent Evaluation Department

Sirpa Jarvenpaa, Director, Operations Planning and Coordination Division

Global Environment Facility

Elwin Grainger-Jones, Director, Policy and Operations

Juha Uitto, Director, Independent Evaluation Office

Neeraj Negi, Senior Evaluation Officer, Independent Evaluation Office,

Ramesh Ramankutty, Head, Operations and Business Strategy

Sonja Teelucksingh, Environmental Specialist, Operations and Business Strategy

Global Fund for AIDS, Tuberculosis and Malaria

Eriko Maniyama, Evaluation Intern, Technical Evaluation Reference Group

Himanshu Kateja, Specialist Allocation and Eligibility, Assess to Funding

John Puvimanasinghe, Senior Specialist, Technical Evaluation Reference Group

Robert Brinckman, Manager of Strategic Investment and Allocation, Access to Funding Department

Ryuchi Komatsu, Senior Adviser, Technical Evaluation Reference Group

Inter-American Development Bank

Cheryl Gray, Director, Office of Evaluation and Oversight, Inter-American Development Bank

Dougal Martin Lead Economist, Vice Presidency for Countries, Inter-American Development Bank

World Bank/IDA

Andres Liebenthal, Senior Evaluation Consultant, Environment and Energy, Independent Evaluation Group (IEG)

Basil Kavalsky, former Country Director

Caroline Heider, Director General and Senior Vice-President, IEG

Ismail Arslan, Senior Evaluator Officer, Country Evaluation and Regional Relations

Ivar Andersen, Manager Operations, IDA Resource Mobilization Department, World Bank

Konstantin Atanesyan, Senior Evaluator Officer, Country, Corporate and Global Evaluations

Milagros Deza Delgado, Economist, IDA Resource Mobilization Department

Nick York, Director, Country, Corporate and Global Evaluations, IEG

Tihomir Stucka, Senior Economist, IDA Resource Mobilization Department

PBAS allocation and approvals, by replenishment period and region

(United States dollars)

<i>Asia and the Pacific countries</i>	<i>2002-2004 approvals</i>		<i>2005-2006 approvals</i>		<i>2007-2009 approvals</i>		<i>2010-2012 approvals</i>		<i>2013-2015 approvals</i>
		<i>PBAS</i>		<i>PBAS</i>		<i>PBAS</i>		<i>PBAS</i>	
Afghanistan	-	3 016 991	-	18 431 289	23 895 248	29 660 402	58 001 000	51 193 220	5 999 537
Bangladesh	36 356 427	30 926 617	24 946 873	71 114 821	76 681 333	112 691 674	113 392 583	100 360 916	80 513 411
Bhutan	-	2 000 000	14 206 653	-	-	8 764 849	8 889 747	8 590 096	-
Cambodia	15 492 951	6 406 149	-	22 605 954	23 009 451	40 664 846	37 500 048	27 294 177	26 136 000
China	43 634 612	48 500 000	54 602 190	92 750 000	92 745 964	141 000 000	140 699 123	131 400 000	87 602 703
Cook Islands	-	-	-	-	-	400 000	-	-	-
Democratic People's Republic of Korea	-	7 571 715	-	-	-	400 000	-	-	-
Fiji	-	-	-	-	-	700 000	-	3 608 768	3 520 308
India	59 916 585	48 500 000	84 575 405	92 750 000	92 077 992	141 000 000	141 111 166	131 400 000	131 270 624
Indonesia	21 581 360	38 210 323	-	68 533 247	68 729 500	101 539 749	76 390 595	54 064 320	500 000
Iran (Islamic Republic of)	-	4 298 790	-	-	-	400 000	200 000	-	-
Kazakhstan	-	3 645 466	-	-	-	200 000	-	-	-
Kiribati	-	-	-	-	-	3 000 000	-	3 000 000	2 999 832
Lao People's Democratic Republic	13 413 663	2 000 000	21 184 291	15 016 173	14 999 787	17 630 904	16 962 549	9 771 619	9 721 552
Malaysia	-	-	-	-	-	200 000	600 000	-	-
Maldives	-	2 000 000	2 048 473	3 000 000	3 505 337	2 496 000	2 486 670	-	-
Marshall Islands	-	-	-	-	-	400 000	-	-	-
Mongolia	14 806 136	2 000 000	-	9 876 497	-	11 441 077	11 479 497	-	-
Myanmar	-	7 042 695	-	-	-	18 400 000	300 000	36 908 870	49 069 750
Nepal	11 954 763	8 683 021	685 000	23 271 859	19 710 931	38 091 516	47 168 575	41 835 079	53 629 559
Niue	-	-	-	-	-	200 000	-	-	-

<i>Asia and the Pacific countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Pakistan	21 766 389	26 146 138	52 845 562	47 732 328	35 206 314	70 062 927	70 369 245	65 172 891	102 258 927
Papua New Guinea	-	2 000 000	-	9 741 258	-	15 543 098	13 973 486	22 361 546	21 990 000
Philippines	-	20 275 898	22 966 788	43 058 026	44 028 217	49 900 270	20 700 235	62 455 493	4 050 000
Republic of Korea	-	-	-	-	-	-	-	-	-
Solomon Islands	-	2 000 000	-	3 000 000	-	4 246 405	3 995 540	4 262 960	4 540 000
Sri Lanka	22 310 900	7 258 021	41 138 001	25 385 825	24 999 996	20 240 614	22 230 655	28 530 396	-
Thailand	-	-	-	-	150 000	800 000	-	800 000	-
Timor-Leste	-	1 000 000	-	-	-	4 822 912	4 944 676	4 731 992	-
Tonga	-	-	-	-	-	3 000 000	2 999 675	-	-
Samoa	-	-	-	-	-	200 000	-	-	-
Viet Nam	24 751 650	26 277 792	26 688 000	56 246 115	56 949 766	68 752 429	68 159 404	52 561 168	55 000 290
Regional total	285 985 436	299 759 616	345 887 236	602 513 392	576 689 836	906 849 672	862 554 469	840 303 511	638 802 493

<i>Latin America and the Caribbean countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Antigua and Barbuda	-	1 000 000	-	-	-	-	-	-	-
Argentina	20 000 000	10 985 296	19 340 892	-	-	6 998 505	7 841 920	12 359 843	-
Barbados	-	1 000 000	-	-	-	-	-	-	-
Belize	-	2 000 000	-	3 000 000	3 000 145	-	-	-	-
Bolivia (Plurinational State of)	-	4 503 434	7 232 747	16 210 603	7 998 301	17 104 637	18 206 882	15 823 364	-
Brazil	-	41 016 341	30 500 331	45 783 683	45 000 623	49 002 176	49 150 133	48 433 397	47 999 999
Chile	-	2 796 547	-	-	-	-	-	-	250 800
Colombia	-	15 071 849	19 999 535	28 711 547	-	31 168 258	30 536 045	30 179 747	1 300 000
Costa Rica	-	2 318 474	800 000	9 547 771	-	-	2 500 000	-	-

<i>Latin America and the Caribbean countries</i>	<i>2002-2004 approvals</i>		<i>2005-2006 approvals</i>		<i>2007-2009 approvals</i>		<i>2010-2012 approvals</i>		<i>2013-2015 approvals</i>
		<i>PBAS</i>		<i>PBAS</i>		<i>PBAS</i>		<i>PBAS</i>	
Cuba	-	2 269 349	-	-	-	-	-	10 721 127	10 700 238
Dominica	-	2 000 000	-	-	-	200 000	-	-	-
Dominican Republic	-	4 007 250	-	14 243 222	14 000 081	14 579 452	14 000 301	-	-
Ecuador	14 842 342	5 089 385	-	12 269 776	13 187 056	22 290 093	17 496 000	15 269 516	-
El Salvador	-	3 720 896	15 999 001	13 840 733	14 759 984	17 617 781	16 999 887	12 895 322	-
Grenada	-	1 000 000	-	-	-	3 000 000	2 999 940	-	-
Guatemala	47 000 023	5 389 898	700 000	18 463 062	18 623 002	17 957 345	550 000	17 948 533	250 000
Guyana	-	2 000 000	-	3 471 403	5 759 630	2 316 085	-	7 604 199	-
Haiti	21 694 817	2 913 598	13 008 386	-	5 664 403	18 261 856	20 700 295	19 884 707	500 000
Honduras	-	2 439 592	-	9 377 299	9 385 005	19 959 448	18 722 555	14 292 999	14 293 029
Jamaica	-	2 000 000	-	-	-	7 306 112	-	7 538 244	-
Mexico	15 000 000	21 458 800	24 973 000	25 327 343	5 000 002	19 403 946	20 700 457	17 529 850	300 000
Nicaragua	14 000 001	3 455 552	-	9 010 824	9 028 374	18 957 086	19 799 530	16 129 418	16 120 348
Panama	-	2 000 000	200 000	4 381 082	4 200 000	3 000 000	-	-	-
Paraguay	-	2 000 000	12 015 796	3 125 847	3 780 232	10 000 000	10 000 093	17 645 922	-
Peru	15 984 829	10 143 922	-	23 028 917	23 000 556	30 214 529	19 997 627	25 536 439	300 000
Saint Christopher and Nevis	-	1 000 000	-	-	-	-	-	-	-
Saint Lucia	-	2 000 000	-	-	-	-	-	3 000 000	-
Saint Vincent and the Grenadines	-	1 000 000	-	-	-	-	-	-	-
Suriname	-	2 000 000	-	-	-	3 000 000	-	-	-
Trinidad and Tobago	-	1 000 000	-	-	-	-	-	5 035 171	-
Uruguay	-	1 000 000	-	-	200 000	-	-	-	4 000 289
Venezuela (Bolivarian Republic of)	15 000 344	6 995 019	-	13 509 441	13 000 000	9 388 699	7 000 001	7 618 009	-
Regional total	163 522 356	167 575 202	144 769 688	253 302 553	195 587 394	321 726 008	277 201 666	305 445 807	96 014 703

<i>Near East, North Africa and Europe countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Albania	-	2 733 554	7 999 993	9 603 198	9 599 978	15 705 649	-	-	-
Algeria	17 556 000	8 643 667	-	-	-	200 000	-	-	-
Armenia	15 300 840	3 352 028	-	10 657 329	12 400 148	13 952 565	14 088 391	12 800 251	11 350 000
Azerbaijan	12 554 968	5 359 192	100 000	16 857 537	17 195 917	20 114 423	19 350 299	16 456 230	-
Bosnia and Herzegovina	-	3 904 907	12 616 825	11 118 886	11 112 509	13 733 378	13 509 254	12 727 693	-
Croatia	-	-	-	-	-	-	-	-	-
Cyprus	-	-	-	-	-	-	-	-	-
Djibouti	3 596 867	2 000 000	-	3 000 000	3 000 000	3 000 000	3 000 000	4 114 269	4 112 916
Egypt	18 484 767	21 005 056	16 134 703	42 886 260	47 999 250	85 898 422	84 997 899	78 793 610	64 600 000
Gaza and the west Bank	2 953 000	2 092 320	200 000	-	4 982 562	-	-	-	-
Georgia	-	2 946 317	9 999 742	6 044 122	8 700 031	10 550 588	5 000 000	13 796 064	13 800 000
Iraq	-	2 000 000	190 000	3 000 000	1 185 000	18 505 415	-	19 542 340	-
Jordan	11 776 809	3 196 206	-	7 267 016	-	-	-	8 135 750	11 842 200
Kyrgyzstan	-	3 378 786	-	16 864 546	9 000 000	15 663 786	19 999 781	22 265 372	21 999 664
Lebanon	-	2 776 252	-	4 608 480	4 805 144	4 612 853	4 801 821	3 679 777	-
Libya	-	-	-	-	-	-	-	-	-
Malta	-	-	-	-	-	-	-	-	-
Morocco	6 360 503	11 400 725	16 205 751	18 752 115	18 756 464	29 569 896	29 515 657	23 931 930	26 005 000
Oman	-	-	-	-	-	-	-	-	-
Republic of Moldova	14 891 600	4 272 682	13 024 000	13 474 304	13 243 207	19 778 993	19 788 276	16 669 390	16 600 005
Romania	-	8 207 194	-	-	-	-	-	-	-
Somalia	-	9 755 031	-	-	73 000	-	-	-	-
Sudan	50 409 039	15 648 779	25 032 791	25 607 466	15 951 733	27 859 177	25 980 432	26 317 340	27 663 000

<i>Near East, North Africa and Europe countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Syrian Arab Republic	17 550 679	9 492 894	370 000	21 343 107	20 684 130	28 346 775	27 996 807	1 000 000	-
Tajikistan	-	2 000 000	-	12 356 468	12 299 560	18 101 348	14 599 610	9 080 170	-
The Former Yugoslav Republic of Macedonia	-	2 288 366	-	7 611 200	-	-	-	-	-
Tunisia	18 837 805	5 009 570	15 490 011	13 361 013	-	20 819 878	20 852 818	21 331 126	19 999 872
Turkey	13 078 584	17 021 509	24 099 765	10 033 294	19 199 994	31 569 696	28 090 947	14 420 155	-
Uzbekistan	-	-	-	-	-	-	10 634 000	24 796 500	-
Yemen	28 363 667	6 363 349	9 408 140	20 248 966	27 762 329	32 094 048	31 216 536	26 735 639	14 977 837
Regional total	231 715 128	154 848 384	150 871 721	274 695 307	257 950 956	410 076 890	373 422 528	356 593 606	232 950 494

<i>East and Southern Africa countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Angola	160 000	2 723 048	299 000	8 238 836	8 200 000	11 641 575	-	6 747 988	11 149 311
Botswana	-	1 000 000	-	4 621 662	-	5 695 018	5 650 139	-	-
Burundi	16 367 725	4 518 915	-	22 548 802	27 553 572	37 029 665	46 258 606	39 908 399	1 000 000
Comoros	350 000	2 000 000	-	3 000 000	4 653 694	2 594 861	2 600 000	4 688 631	-
Eritrea	10 000 490	3 753 877	12 588 182	-	8 000 000	25 189 105	29 857 027	-	-
Ethiopia	47 204 785	48 500 000	-	82 676 235	92 022 286	121 382 422	101 763 670	85 535 669	85 023 077
Kenya	32 476 052	12 099 551	18 625 000	29 876 566	29 869 974	51 462 384	62 905 747	56 715 096	61 776 000
Lesotho	10 129 436	2 018 840	-	9 728 365	8 887 974	11 946 739	9 997 308	13 355 874	11 610 000
Madagascar	14 670 119	12 994 973	13 484 494	37 204 947	37 194 402	47 037 994	51 205 461	53 511 963	-
Malawi	-	5 644 407	7 996 767	22 963 731	17 251 846	39 585 037	46 857 919	39 834 381	-
Mauritius	-	1 000 000	-	3 000 000	6 001 331	6 063 882	-	3 750 131	-
Mozambique	9 459 565	13 178 712	19 993 000	31 108 114	31 134 613	39 815 528	38 915 066	37 441 374	-
Namibia	-	-	-	-	-	-	-	-	-

<i>East and Southern Africa countries</i>	<i>2002-2004 approvals</i>	<i>PBAS</i>	<i>2005-2006 approvals</i>	<i>PBAS</i>	<i>2007-2009 approvals</i>	<i>PBAS</i>	<i>2010-2012 approvals</i>	<i>PBAS</i>	<i>2013-2015 approvals</i>
Rwanda	31 576 644	6 033 321	8 409 459	20 411 039	29 770 329	40 635 667	39 900 886	42 418 662	42 367 414
Seychelles	-	-	-	-	-	200 000	-	3 000 000	2 999 574
South Africa	-	10 506 824	-	-	-	15 663 255	444 960	22 009 239	-
South Sudan	-	-	-	-	13 539 065	-	-	10 410 934	-
Swaziland	-	2 000 000	200 000	3 000 000	5 997 997	3 225 531	-	7 852 366	10 260 000
Tanzania (United Republic of)	24 999 974	24 741 734	40 571 667	56 139 872	56 000 000	91 027 931	90 595 963	51 752 649	3 700 000
Uganda	18 429 231	20 765 067	28 234 889	50 200 896	52 665 969	63 912 485	67 003 868	66 724 239	79 200 343
Zambia	13 811 012	4 985 745	10 114 131	17 275 740	20 169 969	22 225 925	24 817 323	26 516 209	23 510 001
Zimbabwe	70 000	2 468 837	-	3 653 906	-	200 000	-	-	-
Regional total	229 705 033	180 933 851	160 516 589	405 648 711	448 913 021	636 535 004	618 773 943	572 173 804	332 595 720

<i>West and Central Africa</i>	<i>2002-2004</i>		<i>2005-2006</i>		<i>2007-2009</i>		<i>2010-2012</i>		<i>2013-2015</i>
<i>Countries</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>
Benin	-	8 504 593	10 005 178	18 781 800	17 924 362	24 689 383	27 000 004	25 418 326	-
Burkina Faso	28 095 794	12 262 936	14 000 035	23 044 822	27 587 392	39 575 310	51 158 056	28 984 015	28 980 201
Cameroon	24 885 236	8 109 263	170 000	13 530 417	13 732 404	19 193 738	22 144 581	23 961 337	22 500 000
Cape Verde	-	1 000 000	150 000	4 265 055	4 253 289	6 325 249	6 300 306	5 588 871	4 700 225
Central African Republic	-	1 000 000	-	4 344 543	-	9 133 607	10 883 236	11 613 253	-
Chad	13 000 306	6 712 886	13 206 924	19 375 439	19 497 476	17 913 423	17 399 278	17 252 784	17 200 000
Congo	11 909 288	2 927 442	8 407 222	8 559 126	8 573 978	10 645 698	9 805 283	7 621 837	500 000
Côte d'Ivoire	200 000	2 931 930	-	7 443 588	10 005 703	19 920 246	22 500 222	26 652 881	34 882 076
Democratic Republic of the Congo	14 761 534	22 087 726	15 828 323	32 575 691	23 326 249	64 817 047	68 382 311	36 901 926	-
Equatorial Guinea	-	1 000 000	-	-	-	200 000	-	-	-
Gabon	-	2 000 000	-	3 000 000	6 000 163	-	-	-	-
Gambia (The)	7 084 500	2 582 438	6 519 214	8 830 342	8 004 707	13 807 867	20 279 999	13 450 573	14 131 532
Ghana	11 245 121	19 505 629	19 163 981	28 726 078	28 717 339	45 344 386	40 499 521	35 347 421	37 100 000
Guinea	26 726 313	6 982 464	270 000	16 953 822	10 200 000	20 303 305	17 800 006	23 131 317	23 000 344
Guinea-Bissau	-	2 000 000	-	5 287 534	4 681 830	8 755 303	-	10 065 830	9 469 910
Liberia	-	1 000 000	-	-	4 999 936	10 155 032	16 883 759	20 729 808	2 500 000
Mali	-	9 747 919	26 759 855	25 380 935	25 044 049	31 838 547	31 997 934	33 413 895	33 226 816
Mauritania	21 536 402	4 313 286	-	11 920 679	12 008 548	17 459 795	17 893 680	14 608 388	-
Niger	10 003 439	9 468 021	15 646 914	16 654 022	16 190 466	33 399 790	38 481 895	43 024 132	48 500 000
Nigeria	15 029 950	42 633 778	27 574 134	45 029 694	-	83 203 697	88 352 351	88 486 380	70 507 027
Sao Tome and Principe	-	1 000 000	-	-	-	3 000 000	3 005 364	3 000 000	3 000 000
Senegal	12 508 118	8 548 584	19 510 486	15 178 545	15 156 404	30 178 332	32 831 478	34 686 375	34 697 000
Sierra Leone	8 507 202	3 186 434	-	9 957 907	9 883 467	21 455 624	36 637 342	28 616 171	22 315 552

<i>West and Central Africa</i>	<i>2002-2004</i>		<i>2005-2006</i>		<i>2007-2009</i>		<i>2010-2012</i>		<i>2013-2015</i>
<i>Countries</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>	<i>PBAS</i>	<i>Approvals</i>
Togo	-	1 428 524	-	-	-	13 497 046	13 552 837	20 927 751	21 618 200
Regional total	205 493 203	180 933 853	177 212 266	318 840 039	265 787 762	544 812 425	593 789 443	553 483 271	428 828 883
IFAD total	1 116 421 156	984 050 906	979 257 500	1 855 000 002	1 744 928 969	2 819 999 999	2 725 742 049	2 627 999 999	1 729 192 293

Joint report on the evaluation of the senior independent advisers: Bruce Murray and Anil Sood¹

1. The two senior independent Advisers were asked to submit joint comments and observations on the final version of the report: Corporate-level Evaluation of the IFAD Performance-based Allocation System, prepared by IFAD's Independent Office of Evaluation. In addition we provided suggestions on the approach paper and comprehensive joint comments on two earlier drafts on the report. For the record both Senior Independent Advisers wish to record their appreciation for the opportunity of being involved in this important evaluation.
2. The corporate-level evaluation of IFAD's Performance-based Allocation System (PBAS) is a strategically important exercise. IFAD was expected to use an explicit and transparent PBAS to allocate its resources more effectively to pursue its mandate of reducing rural poverty. The overarching purpose of this evaluation was to independently assess the PBAS – a key policy instrument and management tool – to help IFAD further improve the allocation of its financial resources to developing Member States. The evaluation is timely because, after a decade of using the PBAS, this is the first rigorous, independent evaluation that assesses its relevance, effectiveness and efficiency.
3. The Senior Independent Advisers appreciate the efforts of the evaluation team to respond to our comments during the evaluation process. We believe that the final report is an improvement over the earlier drafts. In particular the report is now more concise and better structured, the evidence base supports the key findings and the recommendations flow logically from the evaluation evidence presented.
4. While IOE responded to many of our comments and suggestions, some were not addressed. That is understandable because of the tight deadline, the time and resources needed to address some of the suggestions, differences of opinion and the fact that some of the suggestions went beyond the terms of reference for the PBAS evaluation. The Senior Independent Advisers are aware that not all peer reviewer comments on evaluations produced by other Multilateral Development Banks are taken on board. A key dimension of independence is that evaluation offices are responsible for determining the content of evaluation reports.
5. We recognize that this was a challenging evaluation. To our knowledge, this is the first comprehensive evaluation of a PBAS among the Multilateral Development Banks. Consequently, IOE needed to develop a customized evaluation methodology. In our view, the strongest part of the evaluation methodology was the statistical modelling and decomposition of the PBAS formula and the simulations that identified the relative importance of the variables and coefficients in allocating IFAD's financial resources among countries. In practice this is a powerful tool that Management could use, with IOE support if requested, to assess the implications of possible changes in variables and weights as it seeks ways to respond to IOE's recommendations and to strengthen the PBAS.
6. Based on the evidence presented the senior independent advisers believe that IOE has identified a number of areas that need to be addressed to strengthen the PBAS. We wish to highlight a number that we believe are particularly important:
 - (a) The lack of clear rural poverty focus in the country needs variables.
 - (b) The low weight assigned to the country performance variables relative to other MDBs. This implies that, consistent with the underlying objective of the PBAS, steps should be taken so that the country performance variables have

¹ Bruce Murray (Canada) was the former Director General of the Independent Evaluation Department in the Asian Development Bank. Anil Sood (India) was former Vice President for Resource and Strategy at the World Bank.

a greater impact in allocating IFAD's financial resources to the good performing countries.

- (c) Missing data issues related to the CPIA variable, which has the effect of biasing country allocations upward. Serious consideration needs to be given as to whether the CPIA variable should be retained in the PBAS formulae.
 - (d) Weaknesses in the process used to develop the values for the RSP and PAR variables. There is clearly a need for greater participation from in-country stakeholders.
 - (e) Issues related to the lack of transparency for some aspects of the PBAS.
 - (f) The desirability of reallocating resources earlier in the 3-year planning cycles.
 - (g) Issues related to the corporate-level management and oversight of the PBAS and reporting.
7. In many ways the recommendations are the most important part of the report because they identify the actions that need to be taken to address the weaknesses of the PBAS that were identified by the evaluation. The Senior Independent Advisers broadly support the five recommendations in the PBAS evaluation report. We believe Executive Board guidance is required for Management to fully address Recommendation 1 (d) that raises the important strategic issue about reassessing the balance between the country needs and country performance variables in the PBAS formula. Based on the evaluation evidence of the distribution of IFAD funding by country type, the Executive Board should provide guidance on how to balance the strategic tensions between the desire to allocate resources based on country performance and IFAD's mandate, as stated in Agreement Establishing IFAD, of concentrating its financial support in highly concessional countries. In particular, the Executive Board should give guidance on questions such as: (i) Is the balance of IFAD's financing across the types of countries resulting from the application of the PBAS about right? (ii) Should IFAD increase the weight of the performance variables in the PBAS so that performance plays a more prominent role in allocating IFAD's resources across countries, as is the case in other MDBs? And (iii) Should IFAD increase the weight of the country needs variables in the PBAS so that country needs play a more prominent role in allocating IFAD's resources across countries?
8. We appreciate the efforts that were made, following our advice, to improve the ratings and rating criteria compared to what was presented in the first draft of the report. While agreeing with many of the final ratings, we felt that there was a positive bias for some of the ratings in terms of one level on the 6-point rating scale. For some sub-criteria a case could be made for a few more Moderately Unsatisfactory ratings, i.e. 3 on the rating scale. That being said, the Senior Independent Advisers recognize that judgement is involved in determining the ratings and that in some cases the evidence is mixed (i.e. there are both positive and negative findings) that needs to be balanced in assigning the ratings. However, this does not detract from a generally solid evaluation of IFAD's PBAS, the valuable lessons learned and the practical suggestions for improving the PBAS going forward.

IFAD Management's response

Introduction

1. Management welcomes the corporate-level evaluation on IFAD's performance-based allocation system (PBAS). Management is committed to internalizing the lessons of this evaluation to further enhance the relevance, effectiveness and efficiency of the system, under the guidance of the Executive Board and its subsidiary committees.

Performance

2. Management welcomes the evaluation's confirmation that the PBAS ensures greater fairness in the allocation of IFAD's resources across developing Member States and that it is generally well tailored to IFAD and has aligned IFAD's resource allocation system with those found in similar organizations.¹ Importantly, the PBAS has consistently enabled IFAD to provide at least 50 per cent of its resources to Africa, and 45 per cent to sub-Saharan Africa. It has also ensured the provision of two thirds of its resources on highly concessional terms, as envisaged in the Policies and Criteria for IFAD Financing.²
3. Management is satisfied with the overall evaluation rating of 4.3, which is above the moderately satisfactory threshold, and the finding that the system is considered relevant (rated 4.6), effective (rated 4.2) and efficient (rated 4.1). With regard to effectiveness, Management acknowledges that the practice of managing minimum and maximum allocations and the capping of allocations contribute to making IFAD's PBAS a flexible mechanism. In terms of efficiency, it is worth noting that Management is already taking further steps, as suggested by the evaluation, such as the development of guidelines on the functioning of the PBAS, and the development of a customized system for calculating country allocations.

Methodology

4. Management appreciates the substantive changes made to the final report following Management comments on the draft, in particular the incorporation of practices from other international financial institutions (IFIs).³
5. Management acknowledges the robust statistical model used in the report, which with IOE's support, can be instrumental in fine-tuning the system moving forward. However, Management finds that the report does not sufficiently translate the background analysis into clear conclusions with actionable recommendations, particularly with regard to:
 - (a) **Adjusting the needs component by adding additional variables.** Lessons learned from other IFIs show that issues related to the availability, comparability and validity of alternative indicators have been among the more persistent barriers to adjusting the formula. Limited data availability has direct effects on the fairness and robustness of the results, because of the need for proxies. Final adjustments are the product of trade-offs between robustness and availability. An understanding of the costs and benefits of alternative sets of variables would have significantly benefited the evaluation. With regard to the suggested new variables, Management did not find a clear conclusion to the elasticity analysis undertaken in annex IV. Management will need to confirm that the addition of the suggested variables to the formula would sufficiently increase overall elasticity to justify the investments required to collect and analyse these new data. Second, Management does not find that the evaluation provides sufficient guidance for treating the

¹ EC 2016/91/W.P.2, paragraph 50.

² Policies and Criteria for IFAD Financing, <http://www.ifad.org/pub/basic/lending/e/ifad-financing.pdf>.

³ Management maintains a fruitful dialogue with other IFIs in the context of the Multilateral Development Bank's Working Group on Performance-based Allocation Systems, of which IFAD is an active member.

compounding effect of existing and potential new variables, i.e. the likelihood that the variables are correlated with other variables of the current formula (within and across components) and therefore produce a final effect that is disproportionate to their nominal weight in the formula. This risk seems to increase when the proposed new variables are indexes, such as the Human Development Index (HDI).⁴

- (b) **Rebalancing needs and performance components.** While recognizing the comprehensiveness of the model used, and agreeing with the spirit of the proposal, Management finds that the evaluation does not provide sufficient justification on the marginal utility of the suggested changes from a managerial perspective. First, although counterintuitive (because this is a composite formula), a larger (or even much larger) weight in the formula for one variable (or component) does not necessarily imply that countries that have better scores in that variable receive more resources, even if that variable scores better than any other variable in the formula. Whether the effect is positive or negative depends on the ratio of the score of that variable to the scores of other variables in comparison to other countries. Therefore, unintentionally, a composite formula weakens the effect of PBAS as an incentive for better country performance, even if the weight of this component is increased. More systematic insights by the evaluation in this regard would have contributed to enhance the overall value for money of the system. Second, adding new variables and changing their relative weight may have conflicting effects. For example, increasing the weight of the performance component could penalize vulnerability and fragility, offsetting the gains that more fragile and vulnerable countries would obtain by including fragility and vulnerability as additional variables in the needs component, as recommended in the evaluation.
6. Management notes that in addition to changes to the PBAS formula, the evaluation proposes the introduction of several additional features to the existing system.⁵ While some of these could enhance functionality, they could also increase complexity at various levels of the system. In particular, the effect of some of these proposals may offset some of the current good practices recognized by the evaluation with regard to efficiency, such as the relatively low direct staff costs of managing the PBAS (paragraph 249), the process for project-at-risk rating, as part of IFAD's consolidated self-evaluation system (paragraph 272) and the efficiencies in managing IFAD resources obtained through the capping process (paragraph 278). In making a decision on how to move forward, it is therefore important to strive to maintain the current level of efficiency in terms of both PBAS process management and robustness of the PBAS formula.

Clarifications

7. **Focus on food security.** Food security remains a key element of IFAD-financed projects. However, the spectrum of IFAD-financed activities has widened over time in alignment with partner countries' changing needs and demands, and IFAD's strategic thrust.⁶ Management therefore believes that any change to the PBAS should reflect IFAD's current priorities as established in the Strategic Framework 2016-2025 approved by the Executive Board.
8. **Access to PBAS allocations.** Before the start of a new PBAS cycle, all countries that express interest in accessing IFAD resources over the next three-year period

⁴ HDI has recognized limitations regarding the equal weighting of the components and the difficulty in measuring quality as opposed to quantity. A comparative assessment of the fitness of other measures such as the Multidimensional Poverty Index and the Index of Sustainable Economic Welfare would have been useful.

⁵ Such as enhanced quality assurance mechanisms, additional in-country consultations, the creation of a new inter-departmental management committee, and knowledge management practices.

⁶ In developing the programme of work associated with PBAS allocations, "the President is guided by the strategic framework established from time to time by the Executive Board", see Policies and Criteria for IFAD Financing, paras. 9-10.

are included in the initial PBAS calculation. At the end of the cycle, the number of countries for which financing actually materializes may be significantly lower. This may be due to several reasons, including the understanding between a Member State and IFAD Management that it is more effective and efficient to focus on improving the performance and results of ongoing operations rather than embarking on new ones.

Recommendations to Management

9. In responding to the recommendations, Management wishes to state its views regarding each sub-action bundled within the proposed five recommendations for adequate and transparent follow-up.

Recommendation 1: Enhancing PBAS design	Management response
1.1 Management should propose necessary enhancements to the PBAS design for approval by the Executive Board.	Agree. Management agrees with the need to ensure that the PBAS reflects the evolution of the institution and will therefore further fine-tune the current system. In this regard, and as shown by the evaluation, Management has progressively made adjustments to the system since its introduction in 2002 to incorporate lessons from experience.
1.2 Strengthening the rural poverty focus of the country needs component of the formula, in particular by assessing how measures of vulnerability and fragility, income inequality and non-income poverty can be included therein.	Agree. Management agrees with the spirit of this recommendation and will undertake further analysis to make this recommendation operational in a cost-effective manner, as explained above, in the section on methodology.
1.3 Further sharpening the PBAS objectives and overall specifications, ensuring that IFAD's core mandate of promoting food production and food security is adequately reflected therein.	Agree. In addition to the suggestions made by the evaluation, Management will ensure that any refinement is aligned with IFAD's Strategic Framework 2016-2025, as this reflects the priority areas for IFAD's work as determined by its Member States.
1.4 Refining the rural sector performance (RSP) variable by revisiting the underlying indicators and questions.	Agree. Current RSP indicators reflect IFAD priorities at the time the PBAS was developed. Although not all priorities have changed over time, there is scope to revise RSP indicators and questions to ensure that they include more current IFAD priorities, as per the IFAD Strategic Framework 2016-2025.
1.5 Reassessing the balance between the country needs and country performance components of the PBAS formula.	Agree. As Management undertakes further background analysis to adjust the system and fine-tune the formula, it will reassess the balance of the needs and performance components. As stated in the section on methodology, this reassessment needs to be carefully undertaken in tandem with recommendation 1.2 as both sub-recommendations may have unexpected effects on each other. Most importantly, the formula will be assessed with the intention of strengthening its effects as an incentive for better performance.
Recommendation 2: Streamlining processes for better effectiveness	
2.1 Given the unavailability of the Country Policy and Institutional Assessment (CPIA) score for numerous countries, Management and the Board should reflect on whether to retain the CPIA variable in the country performance component of the PBAS formula.	Agree. Management will reflect on the value added of the CPIA score, particularly as it strengthens the RSP questions and variables as recommended in 1.4.
2.2 With regard to the RSP, due attention should be devoted to systematizing and strengthening the RSP scoring and quality assurance processes and take them as an opportunity to strengthen partnerships at the national level, knowledge management, and policy dialogue.	Agree. Management will continue strengthening the RSP scoring and quality assurance processes, particularly by involving more technical staff from other divisions and departments and ensuring greater consistency in scores and the use of evidence. At the same time, Management will ensure that RSP findings have a more far-reaching operational usefulness, such as offering robust analytics for the formulation of IFAD country strategies, and providing an input for conducting more evidence-based country level policy engagement.

2.3 Ways to capture IFAD's performance at the country programme level, beyond the PAR, should also be explored.

Disagree. Management is committed to strengthening its country programme approach. The revised guidelines on country strategies require that a strategy be prepared for all countries with IFAD financing. At present, however, it would be premature to establish new ways of aggregating country performance, as country strategies have not yet been developed for all countries and the elaboration of such indicators may require significant resources (including further harmonization of current methods of self- and independent evaluation). As noted in the evaluation, the advantage of using the PAR variable is that it is based on the project-at-risk value, which is a well-established measure that is part of IFAD's self-evaluation system. Therefore, it is an efficient means for assessing performance, standard across the other IFIs. As noted in the methodological section, adding additional variables without appropriate incubation and testing may lead to undesirable effects, aside from eventual quality shortcomings.

Recommendation 3: Improving efficiency

3.1 Based on a more robust and participatory process, it is recommended that the RSP score be done less frequently, rather than on an annual basis as per current practice.

Agree. Management will analyse the effects on the effectiveness and efficiency of the PBAS and on the allocations themselves of discontinuing the practice of assessing RSP scores every year. Management will explore the best timing for this exercise, given that the PBAS is a three-year process with annual adjustments.

3.2 Specific measures should be introduced to formally collect feedback on the proposed RSP (3.2.1) and PAR scores (3.2.2) from in-country authorities, before the scores are confirmed and fed into the PBAS.

3.2.1 Agree. Management welcomes the introduction of in-country authority feedback in the RSP assessment process. This would align IFAD with best practices at other IFIs.

3.2.2 Disagree. Management disagrees on the need for in-country consultation on the PAR rating. PAR is built from project performance ratings determined by Management on the basis of consultations with country partners during project supervision. These initial ratings are inputted into a transformation matrix that helps determine how the country portfolio is performing at a specific point in time. Since the PAR plays a role as an incentive for better portfolio performance (given that it is perhaps the only variable of the formula that is immediately actionable), maintaining a reasonable degree of arms-length assessment is essential. In addition, formal consultations with authorities on the ratings would require provisions to accommodate their feedback, at the risk of both diminishing the accountability of the initial supervision ratings, and the robustness of the matrix application. For these reasons, no other IFI collects in-country feedback on these scores.

3.3 Reallocations should be formally done earlier in the three-year allocation cycle than is currently the practice.

Disagree. Management believes that earlier reallocations would limit the flexibility of the system, and worsen efficiency. Reallocations take place in the final year of the cycle to ensure that every opportunity to benefit from IFAD resources is provided to all countries that expressed willingness to receive financing at the beginning of the cycle. It is not programmatically feasible for all countries that enter the cycle in the first year to begin project design during that year. At the same time, the current practice provides enough flexibility to accommodate the needs of countries that may absorb top-up resources when other countries exit the cycle, increasing efficiency. Moreover, earlier reallocations would not preclude the need to reallocate resources also in the final year, causing a negative impact on the efficiency of the current process.

3.4 Efforts need to be made to ensure a better spread in the total commitments made annually across the three years of the allocation cycle. This will require tightening forward-planning processes, in particular by ensuring better linkages between project pipeline development, country allocations and administrative budget earmarking.

Agree. Management underscores that reinforced efforts are being put in place in 2016 to ensure a better spread across the replenishment cycle by: (a) making more extensive use of additional financing and scaling-up opportunities; (b) designing projects for financing over two PBAS cycles; (c) undertaking more frequent monitoring of the status of delivery at departmental and corporate levels; and (d) identifying opportunities for reserve projects to be prepared. Regarding budget earmarking, Management has started to develop a standardized budget allocation system across the regional divisions. This will facilitate planning at country level and also facilitate monitoring, reporting and corrective action when reallocations are required to ensure that annual programme of loans and grants (PoLG) targets are met. Management has also introduced budgetary rewards for regional divisions that develop a balanced pipeline of projects across the cycle.

Recommendation 4: Adjusting management and governance

4.1 IFAD should take a more corporate approach to the PBAS in general. In this regard, one measure is to establish a standing interdepartmental committee on the PBAS, inter alia, to discuss RSP scores, the list of countries to be capped, reallocations and lessons in implementation of the PBAS. This committee would make recommendations to the Executive Management Committee (EMC) for any adjustments deemed necessary.

Disagree. While fully recognizing the spirit of this recommendation and the need to further improve the process, Management does not consider the assessment underlying this recommendation to be entirely correct. Capping decisions, for example, are discussed within the Programme Management Department's management meetings and shared with the EMC for approval; so are the list of countries entering the cycle and the proposed reallocations. For the sake of efficiency and appropriate mainstreaming of PBAS decision-making into corporate decision-making processes, Management commits to seeking guidance more systematically on PBAS from the two existing interdepartmental bodies in IFAD, i.e. the Operational Management Committee (OMC) and the EMC. Both bodies have full interdepartmental representation and decision-making authority, and therefore a new standing committee is unnecessary.

4.2 To enhance the transparency of the system, progress reports should be made more comprehensive and include information on reallocations, capping and any strategic and systemic issues warranting guidance from the Board.

Disagree. Management will consult with the Executive Board on future reporting requirements related to the PBAS. Management is open to including information on reallocations and capping in any future reporting, should the Board consider this necessary.

Recommendation 5: Generating learning

There should be more explicit monitoring and continuous learning from the implementation of the system and cross-fertilization of experiences between country programme managers and across regional divisions and countries. A consolidated review or evaluation of the PBAS should be planned six years after the revised PBAS design document is adopted by the Board. The introduction of a periodic review process should be considered.

Agree. Management concurs on the importance of conducting more explicit monitoring of the implementation of the PBAS. Regarding learning on PBAS and its implementation, IFAD draws significant learning from other IFIs through the annual meeting of the PBAS technical group. Regarding internal learning, Management would benefit from more explicit guidance on how this would be realized and on how best to gain institutional learning from PBAS-related processes.

Way forward

10. Management will ensure that the findings of this evaluation are appropriately internalized and that meaningful internal and external consultations are undertaken. Accordingly, it will present the Executive Board with an update on the proposed way forward at its 119th session in December 2016. While some of the adjustments may be piloted during the Tenth Replenishment of IFAD's Resources (IFAD10) period, Management's goal is to propose a package of adjustments to be implemented in IFAD11.

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