

profile

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Corporate-level evaluation on IFAD's Performance-based Allocation System (PBAS)

The Performance-based Allocation System (PBAS) has been used by the International Fund for Agricultural Development (IFAD) to promote a rules-based and transparent system to allocate financial resources to developing Member States. Since it was introduced by IFAD's Executive Board in 2003, the system has enhanced the Fund's credibility, transparency and predictability of financial resource allocations.

Nonetheless, the design and implementation of the PBAS have had some limitations, in terms of the system's management and governance as well as in the formula used to calculate allocations. The corporate-level evaluation (CLE) on IFAD's PBAS, conducted in 2015, aims to provide findings and recommendations to inform the further refinement of the system.

PBAS: How does it work?

The core feature of IFAD's PBAS is that country allocations are calculated using a specific formula to generate a **country score**, using several variables that, put together, determine **country needs** and **country performance**, respectively (see box 1). Another formula is then used to determine **annual allocations**, by multiplying the country score by the ratio of the total allocation envelope and the sum of final country scores (see box 2).

Box 1: Formula used to calculate the country score in IFAD's PBAS

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

Variables included in the country needs component

RuralPOP: Rural population of a country
GNIpc: Per capita gross national income

Variables included in the country performance component

IRAI: International Development Association (IDA) resource allocation index, also known as the CPIA (country policy and institutional assessment), which is an indicator for the macroeconomic performance of a country
PAR: IFAD internal score assessing projects at risk
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)

Box 2: Formula used to calculate the country allocation in IFAD's PBAS

$$\frac{\text{(Allocation envelope / Sum of final country scores)} \times \text{Country score}}{\text{Country score}} = \text{Ex ante country allocation}$$

The PBAS was first used to allocate resources in 2005-2006 (IFAD's 6th replenishment period, IFAD6); since then, the system has been used in all replenishment cycles, for 95 per cent of IFAD's programme of loans and country grants (the remaining 5 per cent is set aside for the Regional and Global Grants programme and not allocated through the PBAS). In addition to the formula, the PBAS has three distinguishing features that drive country allocation: **provisions for minimum/maximum allocations** to selected countries; **reallocations of unused funds**, which are normally reallocated in the final year of the PBAS cycle, allowing IFAD to make full use of its total resources in any replenishment cycle; and **capping of allocations**, through which some countries receive less than the allocation generated by the formula if they are not able to absorb the full amount of funds – for instance in situations of civil unrest.

Main findings

Relevance of the system. Overall, the evaluation finds the PBAS to be relevant. It has enhanced transparency, predictability and flexibility in allocating resources, even though there are opportunities to further sharpen its relevance taking into account the organization's priorities, such as food security, nutrition and climate change. Moreover, the system currently does not explicitly consider a country's fragility or vulnerability when determining country needs of IFAD financial assistance.

Looking more specifically at the formula used to calculate country scores, the evaluation finds that the country needs component of the formula has limited rural poverty focus. For instance, the evaluation draws attention to the fact that the rural population variable (RuralPOP) – although much more relevant than the total country population variable used between 2005 and 2006 – does not capture country needs in terms of the poverty profile of the rural poor. Similarly, the per capita gross national income (GNIpc) – given its national coverage - might not

be the best variable for IFAD in light of the organization's exclusive focus on the rural sector.

The country performance component is made of three variables (International Development Association's (IDA) Resource Allocation Index, IRAI, which is an indicator of a country's macroeconomic performance; the Rural Sector Performance score, RSP; and the IFAD internal performance score assessing projects at risk, PAR). These variables are mutually reinforcing. However, data for some of the variables (in particular the IRAI) are not always available for all countries, and the PBAS has not provided sufficient incentives to achieve better country performance, a core principle of the allocation system.

Effectiveness of the system. The effectiveness of the PBAS is on the whole moderately satisfactory. The evaluation found that in IFAD's eighth and ninth replenishment period (IFAD8 and IFAD9), 50 per cent of the funds went to countries borrowing at "highly concessional" terms. Twenty-three per cent of total funds went to countries borrowing on "ordinary terms" in IFAD9, as compared to 17 per cent in IFAD8. Moreover, although pre-defined regional shares have been abolished, around 50 per cent of total IFAD resources have been allocated to Africa.

Notwithstanding the above, the management of countries and the rationale for including or excluding countries from the PBAS is not clearly documented. The same holds true for the countries that are capped, as their selection is determined by the concerned regional divisions. The evaluation recognizes that capping is an important feature of the PBAS, but the underlying rationale for capping is not recorded in corporate documents, nor is this information made publicly available.

Another feature related to the PBAS's effectiveness is the role of the Governing Bodies. The latter played a key role in introducing the PBAS, and continued their engagement for some years after that. More recently, however, the Executive Board has not been proactive - apart from considering the annual progress report on the PBAS containing country scores and allocations - in providing guidance for the adjustment of the PBAS to the organizational needs.

Efficiency of the system. The evaluation finds the PBAS to be a relatively efficient system that has simplified the allocation process and given a clear formula for determining country allocations, which are now more predictable and are announced at the beginning of each replenishment cycle. The evaluation indicates three challenges that constrain the system's efficiency: (i) The scoring of the RSP variable is done every year. This might not be necessary, as the RSP scores change very little from year to year in any three-year cycle; (ii) Fewer loans are committed in the first year of any three-year PBAS cycle, and this requires tighter synergies between pipeline development, country allocations and administrative budget earmarking; and (iii) IFAD does not have a single document that captures the design of the system and how it has evolved. This could pose a problem, especially when there is turnover of key staff.

Consolidated evaluation ratings of IFAD's PBAS

Relevance: 4.6

Effectiveness: 4.2

Efficiency: 4.1

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

Conclusions

- The PBAS is well tailored to IFAD and has enhanced the Fund's credibility, predictability and transparency in resource allocation. However, the formula does not factor in some key dimensions of IFAD's priorities, such as food security, nutrition and climate change. It also does not consider fragility and vulnerability issues as determinants of country needs;
- The formula provides a good picture of country performance through its variables, but the PBAS has not provided adequate incentives to achieve better country performance in the rural sector; and
- Some features of the PBAS, such as minimum and maximum allocations, reallocations and capping have enhanced the system's flexibility; however, the implementation of the system has not been sufficiently transparent and largely managed only by PMD.

Key recommendations

1. **Enhance the PBAS design**, by sharpening the PBAS objectives; strengthening the rural poverty focus of country needs; refining the RSP variable; and reassessing the balance between country needs and country performance components of the formula.
2. **Streamline the process for better effectiveness**, by reflecting on whether to retain the IRAI variable of the country performance component and by systematizing and strengthening the RSP, its scoring and associated quality assurance.
3. **Improve efficiency**, by scoring the RSP variable less frequently and processing reallocations earlier in any three-year allocation cycle.
4. **Enhance management and governance**, by taking a more corporate approach to the PBAS in general – for example, by establishing an inter-departmental committee. Moreover, reports to the Executive Board should be made more comprehensive and include information on reallocation, capping and other strategic issues.
5. **Promote better learning**: there should be more explicit monitoring and continuous learning from the implementation of the system and cross-fertilization of experiences across country programme managers, regional divisions and countries.

Further information:

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