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Investing in rural people

## **Corporate-level evaluation of IFAD's performance-based allocation system**

### **Draft approach paper**

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**For: Review**

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## Abbreviations and acronyms

AfDB	African Development Bank
ADB	Asian Development Bank
CLE	corporate-level evaluation
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFI	international financial institution
IOE	Independent Office of Evaluation of IFAD
MDB	multilateral development bank
MIC	middle-income country
PBAS	performance-based allocation system
PMD	Programme Management Department

# Corporate-level evaluation of IFAD's performance-based allocation system

## Draft approach paper

### I. Background and context

1. **Background.** 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.<sup>1</sup>
2. As a result, the Governing Council during its twenty-fifth session in 2003 decided that the Fund should design and implement an explicit, 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).<sup>2</sup>
3. **The evaluation.** As decided by the IFAD Executive Board in December 2014, the Independent Office of Evaluation of IFAD (IOE) will conduct a corporate-level evaluation (CLE) of IFAD's PBAS in 2015–2016. This will be the first evaluation by IOE of the PBAS. The evaluation will be undertaken within the overall framework of the IFAD Evaluation Policy (2011),<sup>3</sup> and follow the broad methodological fundamentals enshrined in the Evaluation Manual (2009).<sup>4</sup> The overarching purpose of this evaluation is to undertake an independent assessment of the PBAS – a key policy instrument and critical component of the organization's operating model – to help IFAD further improve the allocation of its resources to developing Member States for rural poverty reduction.
4. This is a challenging evaluation in that few evaluations of this type have been undertaken in recent years by other multilateral development organizations. The only similar reviews found by IOE while preparing this approach paper were carried out by the World Bank in 2001 and 2010, the Asian Development Bank (ADB) in 2004, and the Global Environment Facility (GEF) in 2009. Of these, only the GEF review was conducted by the respective independent office of evaluation; the others were carried out by Management in the respective organizations.
5. **Structure of the approach paper.** This approach paper includes the feedback of IFAD Management and contains four sections. Section I provides a short summary on the genesis of the PBAS and background to the evaluation. Section II focuses on IFAD's definition of the PBAS, the objectives and design of the system – including its process, methodology and evolution over time – and the governance of the system in IFAD. Section III provides a snapshot of similar resource allocation systems in other international financial institutions (IFIs). Section IV presents the evaluation methodology and process, including its objectives, core criteria, evaluation questions, time frame and deliverables. Additional information on the PBAS and the evaluation are contained in the annexes.

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<sup>1</sup> REPL.VI/4/R.3, p.1.

<sup>2</sup> EB 2003/79/R.2/Rev.1.

<sup>3</sup> <http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-2.pdf>.

<sup>4</sup> [http://www.ifad.org/evaluation/process\\_methodology/doc/manual.pdf](http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf).

## II. The performance-based allocation system

### A. Definition of PBAS

6. The final Report of the Consultation on the Sixth Replenishment of IFAD's Resources 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."<sup>5</sup>

### B. Objectives and methodological approach of IFAD's PBAS

7. **Objectives.** The IFAD6 Consultation Report further clarifies that "[T]he 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."<sup>6</sup>
8. As noted in the Overview of the performance-based allocation system document<sup>7</sup> 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.
9. 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, 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.
10. **Design and main features of PBAS.** IFAD applies the PBAS to all lending and country-specific grants, including grants for the Debt Sustainability Framework<sup>8</sup> countries. The PBAS is based on annual allocation exercises that operate in the context of three-year cycles, or "allocation periods". Within each cycle, IFAD reviews the ex ante allocations annually to reflect the results of the annual country performance assessments, as these capture changes in country needs and/or achievements in the sphere of policy and institutional frameworks.
11. Figure 1 provides a schematic representation of the IFAD PBAS, which has two main components: (i) a country needs component; and (ii) a country performance component. Based on a formula (see figure 2), a country score is generated for each country. The country score is thereafter applied in a second formula (see figure 3) to generate the country's PBAS allocation.

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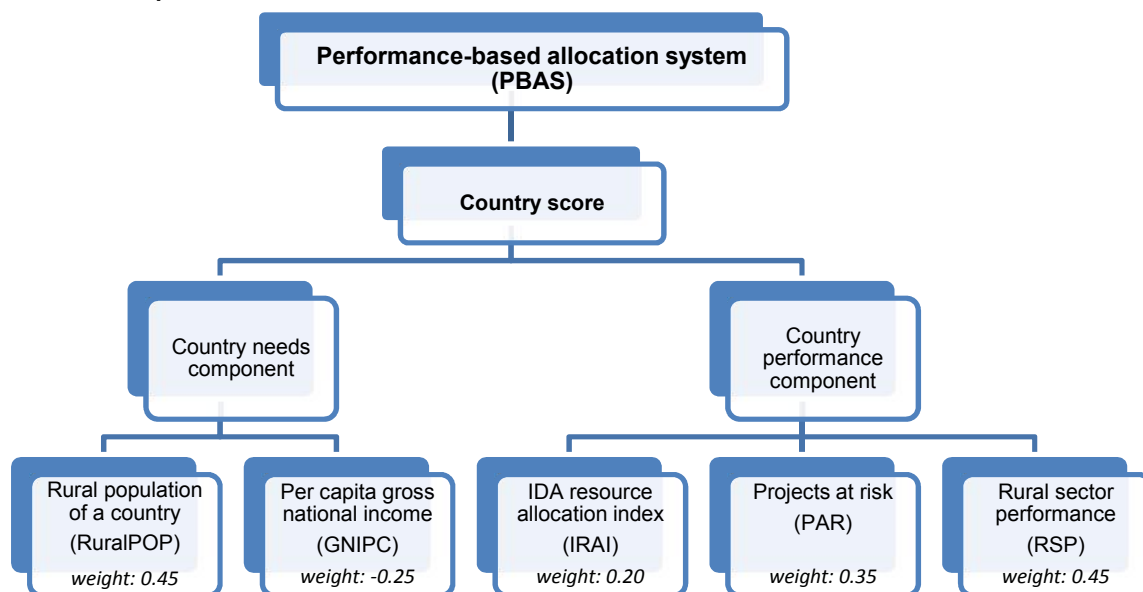
<sup>5</sup> EB 2003/79/R.2/Rev.1, p. 1.

<sup>6</sup> REPL.VI/5/C.R.P.1/Rev.1, p. 1.

<sup>7</sup> EB 2014/111/INF.6.

<sup>8</sup> The Debt Sustainability Framework was introduced in 2007.

Figure 1  
Schematic representation of the IFAD PBAS formula



12. Figure 2 below shows the formula for generating the country score, which includes specific weights assigned to the variables in each component:

Figure 2  
IFAD PBAS formula to generate country scores

$$\underbrace{\text{RuralPOP} \times 0.45 \times \text{GNIPC} \times -0.25}_{\text{Country needs component}} \times \underbrace{[0.20 \text{IRAI} + 0.35 \text{PAR} + 0.45 \text{RSP}]^{2.0}}_{\text{Country performance component}}$$

13. The following variables are included for the **country needs component**:
- RuralPOP: rural population of a country, with a weight of 0.45; and
  - GNIPC: per capita gross national income,<sup>9</sup> with a weight of -0.25.
14. The following variables are included for the **country performance component**:
- IRAI: International Development Association (IDA) resource allocation index (general development framework for sustainable poverty reduction),<sup>10</sup> with a weight of 0.20;
  - PAR: projects at risk (actual and potential risks of portfolio-level implementation factors to meeting their objectives), 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 political and institutional environment favourable to reducing rural poverty), with a weight of 0.45.
15. Once the country score is determined, as mentioned above, a second formula (see figure 3) 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 in rural population).

<sup>9</sup> Using the World Bank Atlas method, converted to United States dollars.

<sup>10</sup> Annex I provides a complete overview of IDA’s current country policy and institutional assessment criteria.

Figure 3  
IFAD country resource allocation formula

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

16. The special provision for rural sector performance has a degree of preponderance over the assessment of country policies and institutional capacities. This recognizes the importance of country performance by assessing policies and activities in rural areas that most effectively contribute to sustainable development and poverty reduction. The rural sector performance score is determined through the indicator clusters below, following a six-point scale for each indicator.<sup>11</sup>
  - 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 issues; and
  - Public resource management and accountability.
17. The rural sector performance analysis and PAR analysis also contribute to the country strategic opportunities programmes (COSOPs) in the identification of key areas of improvement in the implementation of ongoing projects. The COSOPs further include some estimations of PBAS allocations in order to provide a forecast for the entire timespan of the COSOP. A forecast of allocations for each year of a given allocation period has been included in the annual PBAS progress reports since 2006.
18. In situations in which ex ante country allocations within a specific replenishment period are not used – for example due to the absence of possibilities to participate in country operations or lack of demand from the borrower’s side – the unused allocations are reallocated for redistribution through the PBAS according to reallocation procedures as agreed by the Executive Board. New countries may be introduced in the final year of the allocation period.
19. 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 increasing allocations above normal levels (up to twice as much) for a specific period.
20. **Evolution of the system.** Annex III outlines the main landmarks 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 change total population as one of the variables to rural population in the PBAS formula, and to reduce its weight from 0.75 to 0.45. 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.
21. Bottom and ceiling allocations were introduced to set a minimum allocation of US\$1 million per year to ensure manageable levels of country programmes (and extendable over two allocation periods) and to ensure that Member States are not:
  - (i) Assigned overly small allocations from the perspective of effective project/programme operations;

<sup>11</sup> The complete overview of indicators grouped under these clusters can be found in annex II.

- (ii) Classified with minimum or maximum allocations effectively placing them outside a performance/poverty-based system; and
  - (iii) Receiving allocations ultimately based on significant reallocations from countries with unused allocations.<sup>12</sup>
22. Moreover, the capped countries cannot receive more than 5 per cent of IFAD's lending resources over the relevant allocation period, even if the PBAS formula foresees a higher allocation.

### **C. Internal organization in IFAD**

23. **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.
24. Every year since 2003, the Board has received a progress report on the implementation of the PBAS. This report is subsequently submitted to the Governing Council. 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. Other adjustments have been made to the system over time, which will be analysed in the course of the evaluation.
25. Moreover, under the IFAD7 Consultation, a dedicated Working Group on the PBAS was set up to develop a broader understanding of evolving issues in PBAS implementation (see below).
26. **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.<sup>13</sup>
27. The working group meets periodically, as determined by its members, to discuss progress and possible issues with IFAD's PBAS and review practices in other IFIs. Guest speakers from other IFIs are also invited to share experiences and information.
28. The working group is composed of nine IFAD Member States: 4 from List A, 2 from List B and 3 from List C, which is the same distribution of Member States found in the other subsidiary bodies of the Board. The working group chairperson is elected from among its members and the Board is informed accordingly. The term of working group members coincides with the term of Executive Board representatives.<sup>14</sup>
29. **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 its utilization, preparing the annual progress reports,

<sup>12</sup> EB 2006/87/R.8, p. 3.

<sup>13</sup> EB 2014/111/INF.6, p. 2.

<sup>14</sup> The most recent members were elected in April 2012 with a mandate of three years till April 2015 (which would coincide with the election of new Board representatives).



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.

30. Moreover, in order to ensure greater oversight by Senior Management of the implementation of the PBAS, as of last year, the IFAD Executive Management Committee<sup>15</sup> reviews 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.

### **III. The PBAS in other international financial organizations**

31. Box 1 below indicates the years in which the main IFIs/multilateral development banks (MDBs) introduced their respective PBASs.

Box 1

#### **Year of adoption of 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
- 2006 – Global Environment Facility

32. Following the adoption of PBAS approaches, the IFIs/MDBs (including IFAD) initiated, in 2005, an annual PBAS technical meeting to discuss important features of their systems and emerging development issues. A summary of this meeting is included in the yearly PBAS progress reports. IFAD hosted the meeting in 2008 and 2013.
33. Although selected United Nations specialized agencies, programmes and funds (e.g. the United Nations Development Fund [UNDP], the United Nations Population Fund [UNFPA] and the United Nations Children’s Fund [UNICEF]) 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.
34. Although PBASs vary across the IFIs, all of them include the “country needs” and “country performance” components to determine the size of the 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.
35. 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 demonstrates that each PBAS reflects criteria applicable to the mandate of the respective institutions. As such,

<sup>15</sup> The Executive Management Committee is chaired by the President and includes the Vice-President and the Associate Vice-Presidents.

though IFAD's PBAS draws upon the experience of other IFIs, it embodies the specific features of IFAD's mandate.

36. IFAD has two further distinguishing features. First, compared to other 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 (African Development Bank [AfDB], ADB and Inter-American Development Bank [IDB]).
37. The second is related to IFAD's financial architecture as compared to that of the ADB, AfDB, IDA and World Bank. The core replenishment resources mobilized by IFAD are all included in the PBAS, to determine the loan and grant allocations for all its recipient countries. That is, IFAD has a one-window financial structure for all its operations, irrespective of whether a country is classified as low income or middle income.
38. The other aforementioned organizations have a two-window financial structure. 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 [IBRD] in the World Bank) for lending to middle-income countries (MICs). 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, but also through subsidies provided by IBRD. This two-window financial structure is prevalent in the other MDBs.
39. 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 will be reviewed during this evaluation. An overview of the PBAS formulas of other IFIs is provided in annex IV.

## **IV. Evaluation objectives, methodology and process**

### **A. Objectives**

40. The PBAS evaluation will have the following three main objectives:

1. Assess the performance<sup>16</sup> of the PBAS in transparently allocating IFAD's financial resources to developing Member States for rural poverty reduction.
2. Analyse the PBASs, 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.

### **B. Methodology**

41. **Evaluation period.** This evaluation will cover the period 2002-2015. The discussions on the design of the PBAS started in 2002, during the IFAD6 replenishment process, and the PBAS policy instrument was approved by the Board in 2003. All PBAS cycles and activities – including the most recent period covering 2013-2015 – will be assessed as part of this CLE. The evaluation will be finalized in early 2016, thus allowing IOE to properly assess all PBAS activities, including the current allocation cycle in its entirety (2013-2015).

<sup>16</sup> In terms of relevance, effectiveness and efficiency.

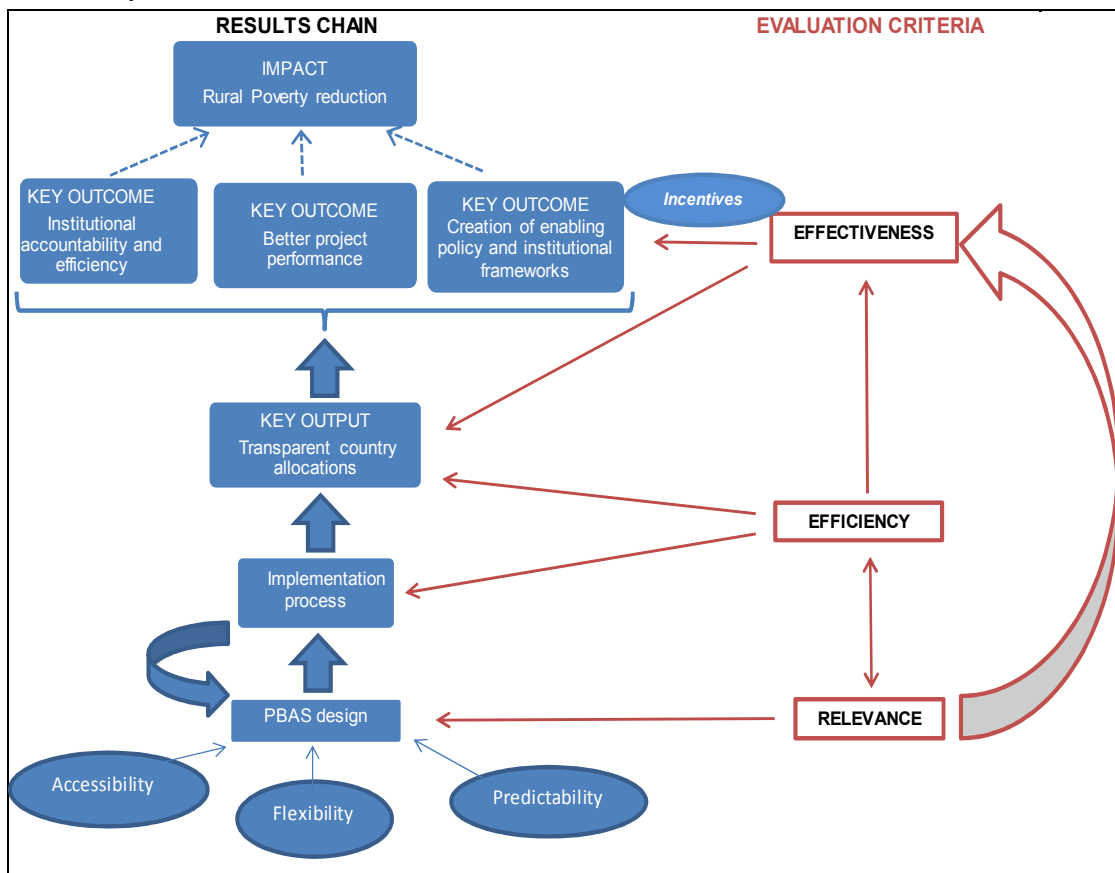
42. **Two main components.** The evaluation methodology will have two main components. The first component relates to an overall assessment of performance and will contribute mainly to the first objective of the evaluation, whereas the second component relates to learning from comparators and will help achieve the evaluation's second objective. Findings from both these components will allow IOE to achieve the evaluation's third objective.
43. **Performance assessment.** Overall, this component will be based on the assessment of three core evaluation criteria, as enshrined in the IFAD Evaluation Manual. These are relevance, effectiveness and efficiency. The evaluation will assess and rate<sup>17</sup> the PBAS on each of these criteria and seek to generate lessons from IFAD's own experience of working with the PBAS for more than a decade.
44. Though the PBAS is not a classical corporate policy on a specific theme (e.g. on rural finance or gender) or an intervention (i.e., in the form of a development project or programme), it can be considered as a major corporate policy instrument<sup>18</sup> that has transformed the way IFAD allocates resources. As designed, it has an overall purpose, specific objectives and expected outputs – to be achieved based on a combination of inputs, internal processes and administrative resource allocation.
45. Therefore, in line with international good practice to enhance the transparency and clarity of the subject being evaluated, figure 4 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, its purpose is not to illustrate explicitly how all other associated corporate policies (e.g. the grants policy) and processes (e.g. country presence) contribute to fulfilling the PBAS's objectives.

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<sup>17</sup> As in all IOE evaluations, a six-point rating scale will be used, as follows: 1 - highly unsatisfactory; 2 - unsatisfactory; 3 - moderately unsatisfactory; 4 - moderately satisfactory; 5 - satisfactory; and 6 - highly satisfactory.

<sup>18</sup> As such, the PBAS is approved by the Executive Board, as are IFAD corporate policies.

Figure 4  
**A simplified results chain of the PBAS, together with the evaluation criteria that will be used to assess its performance**



46. It is important to clarify up front that the evaluation will not assess the impact of the PBAS on beneficiaries of IFAD’s assistance (in terms of income, nutrition, food security, etc.). This type of analysis is not methodologically feasible, nor is it possible given the limited resources and time frame of the evaluation. Therefore, the evaluation will focus on assessing the PBAS’s effectiveness, against the three main objectives in paragraph 8 above (in addition to its relevance and efficiency).
47. **Relevance.** In assessing relevance, the evaluation will analyse the: (i) relevance of the objectives of the PBAS, in relation to IFAD’s mandate and corporate policies and the needs of poor people in developing Member States; and (ii) relevance of design of the overall system, in particular in terms of its predictability, accessibility and flexibility and the rationale and appropriateness of the variables (e.g. the use of GNI/capita as a key indicator of poverty levels at country level) and the corresponding weights used in the PBAS formula.
48. The relevance of the PBAS will be assessed both at the time of its introduction in 2003 and in today’s context, taking into account the various adjustments made to its formula over time. In determining the PBAS’s relevance, the evaluation will also analyse the PBAS against the resource allocation system that was in place at IFAD, before the introduction of the PBAS.

49. The three key questions for assessing relevance are as follows:

- 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 sustainable agriculture, and 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?

50. In assessing relevance, inter alia, the evaluation will include a simulation analysis. Two types of simulations will be conducted. First, the evaluation will assess the implications for country allocation using the different scenarios of core replenishment resources proposed in each replenishment consultation. A second type of simulation analysis will be done by introducing some different variables (e.g. climate change vulnerability) and modifying the weights in the PBAS formula. The specific variables to be used and the modification to the weights will be determined during the evaluation's inception phase.

51. The aim of the simulation analysis is to explore how country allocations have changed in order to accommodate the varied needs of developing Member States and IFAD's evolving priorities since the introduction of the PBAS. The outcome of this analysis would contribute to any debate on the level of core resources needed by IFAD to fulfil its mandate and to fine-tune the system, if needed, in the future.

52. **Effectiveness.** In line with the internationally accepted definition, the analysis of effectiveness will focus on whether, at the time of the evaluation, the PBAS objectives (see paragraph 8 above) have been achieved.

53. The following key questions will also be analysed in assessing effectiveness:

- To what degree have resources been allocated to countries in a transparent, predictable and accessible manner based on country performance and needs?
- 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?

54. In assessing the effectiveness of the system, the evaluation will perform a country data analysis. In particular, the evaluation will analyse the amounts and trends in country allocations since the PBAS was introduced, and the number of countries covered in total and the number included in each PBAS cycle. An assessment will be made of the criteria used for excluding developing Member States from each PBAS cycle. These data will also allow the evaluation to assess the flexibility of the system through the analysis of allocations by country category, i.e. fragile states, low-income countries, MICs, small island developing states, landlocked states, and so on.

55. In addition, during the inception phase of the evaluation, IOE will explore the feasibility of undertaking a thematic analysis to assess if the PBAS has had an effect on the subsector composition of IFAD operations.

56. Furthermore, under the effectiveness criterion and given that "projects at risk" is a key variable in determining PBAS allocations, the evaluation will conduct a portfolio performance assessment. In particular, the evaluation will analyse whether the

projects at risk variable in the PBAS formula has in any manner served as an incentive to ensure better project design and project performance, for instance, through greater attention by IFAD to portfolio management and review processes or more timely follow-up by governments to supervision recommendations. The sample of projects to include in the assessment will be specified during the evaluation's inception phase, taking into account that the projects designed using the first PBAS allocation were approved by the Board in 2005.

57. Particular attention will be paid also to the unintended consequences of implementing the PBAS and the implications thereof. For example, how has IFAD dealt with countries that have low PBAS allocations (e.g. some MICs with low rural populations)? The evaluation will also review other selected corporate processes (e.g. the quality assurance systems in place for assessing projects at risk or determining the rural sector performance rating), and any possible consequences for the PBAS's effectiveness.
58. **Efficiency.** In analysing the PBAS's efficiency, the evaluation will review 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. The evaluation will also assess whether there have been any savings in terms of time, effort or money by using the PBAS, as compared to the former resource allocation system. The following key questions will inform 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?

59. Additional key questions for assessing the three evaluation criteria are provided in the evaluation framework contained in annex V. These questions will be further fine-tuned during the inception phase of the evaluation (annex VI contains details about the evaluation process).
60. **Learning from comparators.** Learning from others will be invaluable and will especially contribute to the formative aspect of the evaluation. This component of the evaluation will entail detailed study of the resource allocation systems, experiences, good practices and lessons in a selection of comparator organizations of possible relevance for IFAD's PBAS in the future. Careful consideration will be given to IFAD's specific financial architecture, mandate and operations, as compared to other MDBs in drawing any applicable lessons for the Fund.
61. In particular, the analysis of comparators will entail an in-depth study of the PBAS formulas in other IFIs/MDBs as compared to the one used by IFAD, taking into account institutional priorities and financial modalities. Among other issues, the study will examine the internal and external governance systems, quality assurance mechanisms, the role of governments, monitoring and reporting, review and learning processes in comparator organizations.
62. This component of the evaluation will seek to answer the following two questions:

- What lessons can be drawn from the experience of other organizations, taking into account IFAD's single-window financial structure, mandate and size of operations?
- Have new international good practices in performance-based allocation frameworks and their implementation emerged, which should be taken into account by IFAD?

63. The proposal is to cover the following organizations in the review: ADB, AfDB, GEF, IDB and the World Bank. All these organizations, by and large, have a similar governance structure and operating model to IFAD. They also rely on periodic replenishment processes for mobilizing core resources for their concessional lending windows (IDA, African Development Fund, etc.). For reasons mentioned in paragraph 33, the evaluation will not cover the United Nations specialized agencies, programmes or funds.
64. **Instruments for data collection and analysis.** The evaluation will use mixed methods to collect data and information from a range of sources and informants. It will pay special attention to triangulating the data and information collected before forming its evaluative judgements. This is essential to ensure an evidence-based and credible evaluation, with a robust analytical underpinning.
65. The following are the main instruments for data collection:
- **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 meetings, Management reviews of the system, and any IOE evaluation that might have included the PBAS – for example, the CLE of IFAD's institutional efficiency and the efficiency of IFAD-funded operations.
  - **IFAD stakeholder consultations.** These will be conducted through structured and semi-structured interviews and focus group discussions. Key stakeholders to be interviewed include: (i) members of the Evaluation Committee and the Executive Board; (ii) IFAD Management and staff; and (iii) partners in selected Member States, especially recipient countries.
  - **Survey.** An electronic survey will be undertaken to collect a variety of perspectives and information from stakeholders from Member States, especially government officials, and selected Member State representatives who were members of the Executive Board over the period since 2003 (with a focus on members of the PBAS Working Group).
  - **Interviews with key informants in partner countries.** The survey will be complemented by interviews with key informants from the governments of selected countries who are familiar with the PBAS and understand its advantages and disadvantages. Given the limited time and resources available for the evaluation, it is proposed that key informants be invited to participate in a one-day workshop at IFAD headquarters. The list of informants will be prepared during the inception phase of the evaluation in consultation with IFAD Management. Moreover, two country visits will be undertaken – to the Asian Development Bank in Manila (the Philippines) and the AfDB in Abidjan (Cote d'Ivoire). The evaluation team will visit both institutions in the context of the comparator analysis.
  - **Comparative study.** Dedicated visits will be undertaken to the headquarters of all five comparator organizations (including Washington, D.C. to cover the IDA, GEF and IDB) to hold discussions with staff dealing with performance-based resource allocation systems and with the evaluation offices. Extensive

literature reviews will also be undertaken of documents prepared by comparator organizations.

### **C. Process and main deliverables**

66. The evaluation will be implemented in five phases, namely (i) an inception phase; (ii) desk review and data analysis; (iii) interviews, focus groups and survey; (iv) visit to comparator organizations; and (v) data analysis and report writing (see annex VI for details). It is important to note that the phases are not strictly sequential, but in many cases iterative, conducted in parallel, and partly overlapping.
67. **Possible revisions to the PBAS and follow-up to the evaluation.** In line with the IFAD Evaluation Policy and Terms of Reference of the Evaluation Committee, IOE will prepare written comments on any major revision of the PBAS undertaken by Management (submitted to the Board) after completion of the evaluation. The implementation of the evaluation's recommendations will be reported through the President's Report on the Implementation Status and Management Actions of Evaluation Recommendations (PRISMA).

### **D. Time frame, core learning partnership, communication, and evaluation team**

68. The evaluation will be undertaken from January 2015 to April 2016, as decided by the Board in December 2014 (see annex VII for details on the timelines). The role and composition of the core learning partnership is provided in annex VIII, whereas an overview of the communication activities to be undertaken during the evaluation and details of the IOE staff and consultants assigned to the evaluation are contained in annex IX.



## **IDA's country policy and institutional assessment (CPIA) criteria**

### **A. Economic management**

- Monetary and exchange rate policies
- Fiscal policy
- Debt policy and management

### **B. Structural Policies**

- Trade
- Financial sector
- Business regulatory environment

### **C. Policies for social inclusion/equity**

- Gender equality
- Equity of public resource use
- Building human resources
- Social protection and labour
- Policies and institutions for environmental sustainability

### **D. Public sector management and institutions**

- 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

Source: World Bank; IDA 2011.

## Rural performance score clusters and indicators

### **A. Strengthening the capacity of the rural poor and their organizations**

- Policy and legal framework for rural organizations
- Dialogue between governments and rural organizations

### **B. Improving equitable access to productive natural resources and technology**

- Access to land
- Access to water for agriculture
- Access to agricultural research and extension services

### **C. Increasing access to financial services and markets**

- Enabling conditions for rural financial services development
- Investment climate for rural businesses
- Access to agricultural input and produce markets

### **D. Gender issues**

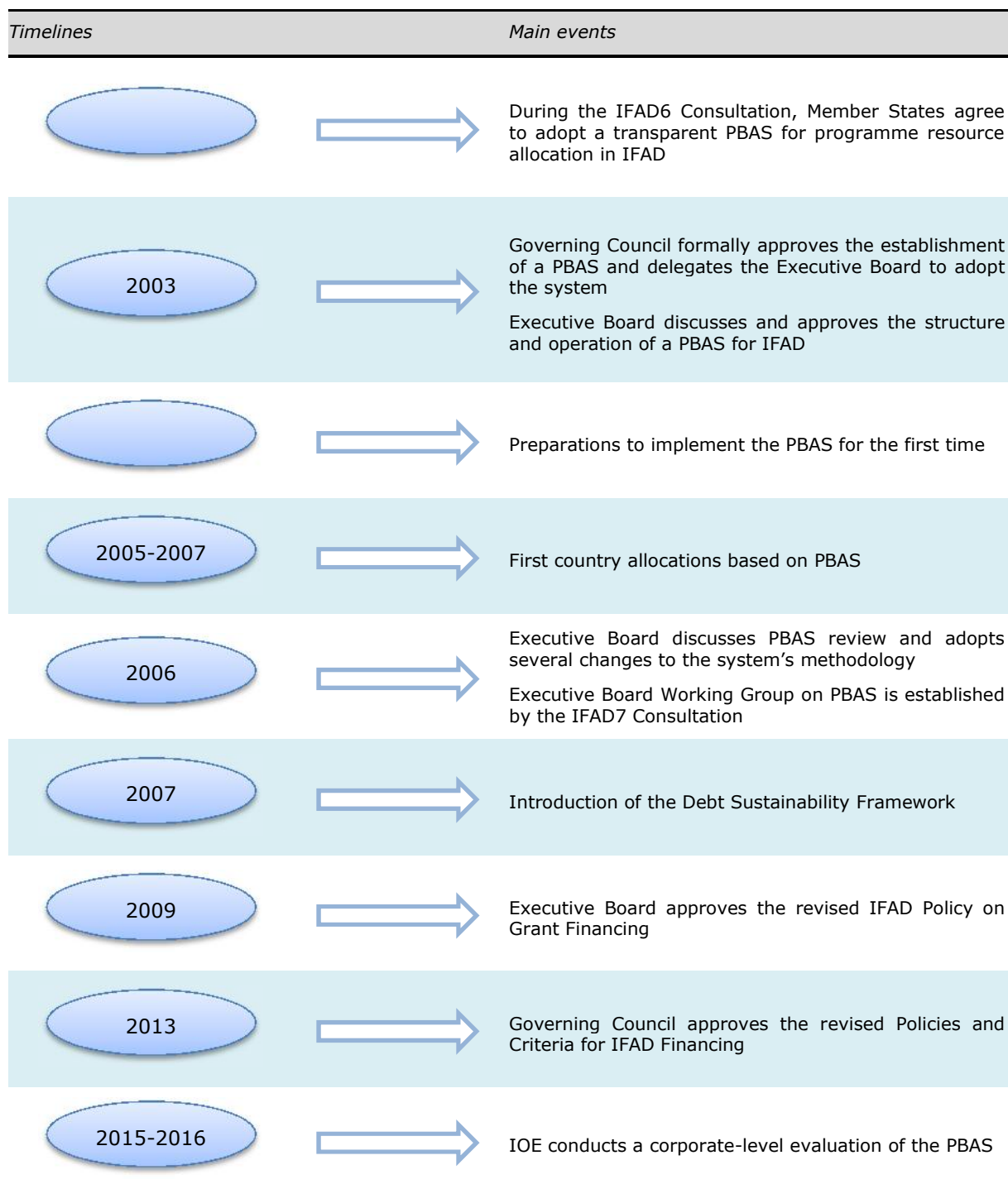
- Access to education in rural areas
- Representation

### **E. Public resource management and accountability**

- Allocation and management of public resources for rural development
- Accountability, transparency and corruption in rural areas

Source: IFAD, EB 2014/111/INF.6; EB 2003/79/R.2/Rev.1.

## Introduction and evolution of the performance-based allocation system (PBAS) in IFAD



## An overview of performance-based allocation systems of other institutions

Institution	Began PBA	Allocation Formula		Result	Min. Alloc.	Ceiling
		Needs Factors	Performance Factors			
AfDB	1999	$POP^{1.0} \times GNPPC^{-0.125}$	$\times [(0.26CPIA_{A-C} + 0.58CPIA_D + 0.16PORT)]^{4.0}$	= allocation share weight	SDR 5 million	
AsDB	2001	$POP^{0.6} \times GNPPC^{-0.25}$	$\times [(ES\_CPIA^{0.7} \times PORT^{0.3}) \times GOV]^{2.0}$	= allocation share weight	None	The largest ADF borrowers are subject to a ceiling.
CDB	2000	$LogPOP \times GNPPC^{0.9} \times VUL^{2.0}$	$\times [0.7CPIA + 0.3PORT]^{2.0}$	= 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 <sup>2.5</sup> (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.)	$\times [0.2CPIA + 0.10PORT + 0.70CEPIA]$ (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)	$(0.133FUND) \left( \frac{POP}{\sum POP} \right) + (0.133FUND) \left( \frac{1}{\sum \frac{1}{GNPPC}} \right) + (0.133FUND) \left( \frac{DEBT}{\sum DEBT} \right)$	$+ (0.6FUND) \times \left[ \frac{0.7CPIE - 0.3PORT}{\sum (0.7CPIE + 0.3PORT)} \right]$	= 50% Allocation (Component I)		
IDB (FSO)	2002 (current formula 2007)	$Pop^{0.50} \times GNIPC^{-1}$	$\times [0.3PORT + 0.7CPIE]^{2.0}$	= 50% Allocation (Component II)		US\$25 Million per year
		$(0.22FUND) \left( \frac{POP}{\sum POP} \right) + (0.133FUND) \left( \frac{1}{\sum \frac{1}{GNPPC}} \right)$	$+ (0.6FUND) \times \left[ \frac{0.7CPIE - 0.3PORT}{\sum (0.7CPIE + 0.3PORT)} \right]$	= 50% Allocation (Component I)		US\$54 Million per year
IFAD	2005	Rural $POP^{0.45} \times GNIPC^{-0.25}$	$\times [0.2CPIA + 0.35PORT + 0.45RuralCPIA]^{2.0}$	= allocation share weight	\$1 million	5% of total allocated
World Bank (IDA)	1977	$POP^{1.0} \times GNPPC^{-0.125}$	$\times [0.24CPIA_{A-C} + 0.68CPIA_D + 0.08PORT]^{5.0}$	= 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.6.

## Evaluation framework (to be further developed during the inception phase)

<i>Evaluation criteria</i>	<i>Evaluation questions</i>	<i>Data sources</i>
<b>Relevance</b>	<p><b>DESIGN OF THE PBAS</b></p> <p><b>KEY QUESTION 1: Is the PBAS an appropriate strategic management tool to effectively use IFAD's resources for rural poverty reduction?</b></p> <p><b>SUB-QUESTIONS:</b></p> <p>Does the PBAS methodology ensure that IFAD resources are properly allocated to support improvement in livelihoods of poor rural people?</p> <p>To what extent do the indicators relate to countries' ability to implement IFAD projects successfully and produce sustained global rural poverty reduction benefits?</p> <p>To what extent do the indicators in rural sector performance score (RSP) measure the quality of governance in a country?</p> <p>To what extent do the performance indicators reflect countries' institutions and policies, including successful policy formulation towards rural poverty reduction?</p> <p>Does the design of the PBAS adequately reflect IFAD priorities and objectives, including its scaling-up agenda and partnership-building efforts? Is it customized to specific country contexts (e.g., fragile states, MICs, etc.)? Does the design adequately reflect the heterogeneity of IFAD Member States?</p> <p>To what extent would fluctuations in the CPIA indices cause volatility in the PBAS allocations? More generally, how flexible are the indices? Do they take account of changes in socio-economic stability; crisis and post-conflict situations and changes in the underlying indicators?</p> <p>What are the weights of performance within the indices (allocations formula) and of governance (within performance)? Are they adequate?</p> <p>To what extent does the PBAS design take the actions of governments and other donors on rural poverty reduction into account?</p> <p><b>KEY QUESTION 2: 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?</b></p> <p><b>SUB-QUESTIONS:</b></p> <p>Did the modifications of elements of the formula (e.g. the change from total population to rural population) affect the overall relevance of the system?</p> <p>What are the implications of the introduction of the Debt Sustainability Framework in 2007 on the PBAS?</p>	Desk review, databases, interviews

Evaluation criteria	Evaluation questions	Data sources
	<p>Did these changes and adjustments to the formula underlying the PBAS help in increasing its performance orientation and improving its transparency?</p> <p>What would be the impact on allocations if the weights in the allocation equation were different, within and between each index?</p> <p><b>GOVERNANCE OF THE PBAS</b></p> <p><b>KEY QUESTION 3: 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?</b></p> <p>SUB-QUESTIONS</p> <p>Does IFAD have adequate expertise and procedures in place for the PBAS administration to ensure efficiency and effectiveness in the allocation of resources?</p> <p>What is IFAD's quality assurance system to ensure a transparent allocation of its resources?</p> <p>Are the Executive Board and other governing bodies of IFAD – including through the dedicated working group – providing adequate input, feedback and strategic direction on the PBAS? And what are the main priorities and opinions of Executive Board members on IFAD's PBAS?</p>	
Effectiveness	<p><b>KEY QUESTION 1: To what degree have resources been allocated to countries in a transparent and effective manner based on country performance?</b></p> <p>SUB-QUESTIONS</p> <p>Has the PBAS channelled resources to countries with high performance scores?</p> <p>Has the PBAS facilitated the establishment of a more transparent basis and predictable level of future resource flows?</p> <p><b>KEY QUESTION 2: Has the PBAS served as an incentive to promote better policies and institutions in the rural sectors within developing Member States?</b></p> <p>SUB-QUESTIONS</p> <p>Did the PBAS favour:</p> <ul style="list-style-type: none"> <li>(i) the creation of enabling policy and institutional environments; AND</li> <li>(ii) the establishment of strategic partnerships in Member States, including in the ones with small PBAS allocations?</li> </ul> <p><b>KEY QUESTION 3: What are the intended and unintended consequences of applying the PBAS?</b></p> <p>SUB-QUESTIONS</p> <p>Did the modifications of elements of the formula (e.g. the change from total population to rural population) affect the overall effectiveness of the system? How has the application of the formula by Management changed the actual allocations compared to the ideal ones dictated by the formula?</p> <p>Has the PBAS been one of the contributing factors to possible shifts in IFAD's thematic priorities?</p> <p>What are the main implications of the system for the financial sustainability of IFAD funds?</p>	Desk review, databases, survey, interviews

Evaluation criteria	Evaluation questions	Data sources
	<p>How has Management determined the ineligibility of countries for the PBAS? How would different eligibility practices affect the actual applications?</p> <p>How has the 5 per cent cap on India and China affected the allocations?</p> <p>Does the PBAS formula factor in the leverage achieved by IFAD in different countries through cost-sharing by clients and cofinancing by partners? Does the system promote better programme quality through greater client ownership?</p>	
<p><b>Efficiency</b></p>	<p><b>KEY QUESTION 1: Is the process of allocating resources more expedient with the PBAS, as compared to the system in place before its introduction?</b></p> <p>SUB-QUESTIONS</p> <p>How do the different PBAS cycles compare in terms of transparency, simplicity and efficiency?</p> <p>To what extent is the PBAS cost effective?</p> <p><b>KEY QUESTION 2: How has the PBAS affected IFAD's overall institutional efficiency?</b></p> <p>SUB-QUESTIONS</p> <p>To what extent is the PBAS contributing to programme management efficiency? And to overall institutional efficiency?</p> <p>How has the PBAS affected the operational and administrative costs of IFAD?</p> <p>What are the costs and savings of introducing the PBAS (at corporate and country levels)?</p> <p><b>KEY QUESTION 3: Are the corporate processes underlining the implementation of the PBAS appropriate?</b></p> <p>SUB-QUESTIONS</p> <p>Are the administrative resources used in the design, implementation, monitoring and reporting, and overall management of the system appropriate?</p>	<p>Desk review, databases, survey, interviews</p>

## Evaluation process and main deliverables

1. **Inception phase.** This phase will be launched immediately following the discussion of the draft approach paper with the Evaluation Committee on 30 March 2015. The main objective of the phase is to further develop the overall evaluation approach and methodology, fine-tune the evaluation framework as required, develop the plan for interviews and focus group discussions, develop survey instruments and questionnaires, outline further the objectives and plans for visits to selected developing Member States and comparator organizations, prepare the proposed outline of key evaluation deliverables, and contract the consultants for the evaluation. This phase will include an inception workshop in Rome, bringing together the consultants recruited for a thorough briefing on the objectives, process, timelines and expectations from the evaluation.
2. **Desk review and data analysis.** This phase will have three parts: (i) extensive desk review of documents; (ii) country, thematic and simulation analysis through the examination of IFAD databases; and (iii) portfolio analysis. The desk review will result in the production of working paper(s) on selected themes and questions, which will include the emerging hypothesis and areas that require validation and further investigation in the subsequent phases of the evaluation.
3. **Interviews and focus group discussions and survey.** This phase will be organized building on the work done and issues emerging from the desk review phase. With regard to the survey, the responses will be treated in strict confidence. The SurveyMonkey tool will be used to capture feedback from the targeted audience. This phase will include the in-house workshop with key informants from partner countries.
4. **Visits to recipient countries and comparator organizations.** To the extent possible, visits to comparator organizations, including the two country visits, will be conducted in parallel. Each visit will lead to the preparation of a dedicated note, capturing the perspectives of comparator organizations and in-country partners (the latter in the case of the Philippines and Cote d'Ivoire).
5. **Data analysis and report writing.** In this phase, IOE will analyse all the data and information collected, and prepare the draft final report. The final report will be first exposed to an internal peer review within IOE, and thereafter transmitted to the IFAD Management for its review and comments. Management will be provided three weeks (15 working days) for its consolidated written comments. IOE will carefully consider Management's comments in preparing the final report. It will also prepare an audit trail that will show how IOE treated each major comment by Management in preparing the final report. The audit trail will be shared with IFAD Management for information. Once the final report is produced, IFAD Management will prepare a written response to the evaluation, which will be shared and discussed with the Evaluation Committee and Executive Board when the final report is considered by members. The IFAD Management response will include both a narrative of its overall perspectives on the evaluation, as well as a matrix clearly specifying how it plans to treat each recommendation with associated timelines and deliverables.
6. **Communication and dissemination.** IOE will make thorough efforts to ensure timely and clear communication with IFAD Management and the governing bodies, as needed, on key issues throughout the evaluation process. In addition, an in-house workshop will be organized on the main findings and recommendations contained in the draft final report. The aim of the workshop will be to engage IFAD Management and staff in a dialogue and collect oral feedback, before finalizing the evaluation report. This feedback will be in addition to the written comments to be provided by Management on the draft final report. Specific efforts will be made after the discussion of the final evaluation report at the Executive Board session in April 2016 to ensure proper outreach and dissemination of the main evaluation results to different audiences.



## Evaluation timelines

The final report will be presented to the Evaluation Committee in March 2016 and Executive Board in April 2016. The possibility of presenting the final report to the November session of the Evaluation Committee and December session of the Executive Board in 2015 was carefully considered by IOE. However, this would imply finalizing the evaluation fully by end-September (to allow for editing, translation and dispatch to Member States in line with the Rules of Procedure of the Executive Board), and would not provide sufficient time for all the steps in the process to be properly implemented – including sufficient time for IFAD Management review – to ensure a robust and evidence-based evaluation. The table below provides a tentative timeline for the evaluation.

### Tentative timeline

<i>Timeline</i>	<i>Activities</i>
2015	
2 February	Draft approach paper discussed by IFAD's Executive Management Committee
30 March	Revised draft approach paper discussed by IFAD Evaluation Committee
April	Inception phase: contracting of consultants; refinement of evaluation questions; development of evaluation instruments and detailed timelines; inception workshop
April-May	Desk review of documents and data collection
June	Interviews and focus group discussions (in Rome), electronic survey and in-house workshop with key informants from partner countries
June-July	Statistical and data analysis
July	Visits to comparator organizations
September-October	Preparation of draft final report by IOE
November	Internal peer review in IOE
Early December	IOE to send draft evaluation report to IFAD Management for comments and organize an in-house workshop on the main findings and recommendations
2016	
Early January	Management to provide written comments on the draft final report
End January	IOE to finalize evaluation report and transmit to the Office of the Secretary for editing, translation and dispatch. IFAD Management to prepare written response
End March	Presentation of the final report to the Evaluation Committee
13-14 April	Presentation of the final report to the 117 <sup>th</sup> Executive Board session

## **Role and composition of the core learning partnership**

As for all corporate-level evaluations and in line with the Evaluation Policy, IOE will constitute a core learning partnership (CLP) to enhance the quality of the evaluation. The main aim of the CLP will be to review major deliverables (e.g. the draft approach paper, and the draft final report, etc.) produced during the evaluation process and provide information, data and feedback to facilitate the evaluation. The CLP is expected to meet two or three times during the evaluation process. The CLP will comprise of the following members:

- President
- Vice-President
- Associate Vice-Presidents (Programme Management Department [PMD], Strategy and Knowledge Department, Corporate Services Department and Financial Operations Department)
- Director, Office of the President and the Vice-President
- Regional Directors and Director, Policy and Technical Advisory Division, PMD
- Director, Partnership and Resource Mobilization Office
- Director, IOE
- Directors of the Office of Audit and Oversight and the Controller's and Financial Services Division
- Director, Strategic Planning and Impact Assessment Division
- Deputy Director, IOE
- Senior Operations Adviser, PMD

## Communication activities and evaluation team

### A. Communication and dissemination

1. The final evaluation report will be distributed electronically to members of IFAD Management and staff as well as to Executive Board representatives. The main report will be approximately 50 pages in length, and printed copies will be made available upon request. As per usual practice, an evaluation profile and an evaluation insight<sup>1</sup> will be prepared for wider distribution both within and outside IFAD.
2. The final report, inclusive of IFAD Management's response, will be posted on the evaluation section of the IFAD website and disseminated to international evaluation networks (e.g. the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC); the United Nations Evaluation Group; and the Evaluation Cooperation Group of the Multilateral Development Banks). Once the evaluation has been completed, IOE will organize an in-house learning event to share the results of the evaluation and engage IFAD Management and staff in the main issues emerging from the evaluation and their implications for the way forward.

### B. Evaluation team

3. The corporate-level evaluation will be conducted under the overall guidance of Oscar A. Garcia, Director, IOE. The IOE lead evaluator and officer responsible for the management and conduct of the evaluation will be Ashwani Muthoo, IOE Deputy Director. He will be supported by Simona Somma (Evaluation Officer), Renate Roels (Evaluation Research Analyst), Linda Danielsson (Assistant to the Deputy Director) and Linda Calao (IOE intern). IOE will seek the cooperation of a number of consultants in the evaluation with expertise and experience in, inter alia, evaluation, performance-based allocation systems in multilateral development banks, agricultural development and financing models.
4. In addition and in line with the provisions of the IFAD Evaluation Policy, IOE will mobilize the support of one senior independent adviser (SIA) for the evaluation, whose role will be to review and provide comments on the: (i) evaluation methodology and process at the outset of the exercise; and (ii) draft final report. Moreover, once the evaluation report has been finalized by IOE, the SIA will prepare a written report (2-3 pages) on the overall quality of the evaluation, including its contents and the overall process followed. This report will be shared with the Evaluation Committee and Executive Board, in parallel with the final evaluation report, for consideration.

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<sup>1</sup> Both are brochures of 800 words: the evaluation profile will summarize the main evaluation findings and recommendations; the evaluation insight will focus on one learning theme emerging from the evaluation with the aim of stimulating further debate among development practitioner on the topic covered.

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