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Investing in rural people

Report of the Chairperson on the third meeting of the Working Group on the Performance-based Allocation System

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For: Review

Report of the Chairperson on the third meeting of the Working Group on the Performance-based Allocation System

1. This report covers the discussions of the Working Group on the Performance-based Allocation System (PBAS) at its third meeting, held on 10 June 2016.
2. The meeting was attended by Working Group members from China, the Dominican Republic, France, Ghana, Ireland, Japan, Nigeria (Chairperson) and the Bolivarian Republic of Venezuela. Italy and the Netherlands attended as observers.

Adoption of the agenda

3. The agenda presented the following items: (i) opening of the session; (ii) adoption of the agenda; (iii) approach and workplan to fine-tune the PBAS; and (iv) other business.
4. Members adopted the agenda (PBAS 2016/3/W.P.1), noting the addition, under other business, of an item on proposed dates for the next PBAS Working Group meeting, as suggested by the Office of the Secretary.

Approach and workplan to fine-tune the PBAS

5. Management advised members that, in the light of recent discussions by the Executive Board and the Evaluation Committee, a cross-departmental technical working group had been established to address the recommendations of the corporate-level evaluation (CLE) of the PBAS, as reflected in document EC 2016/91/W.P.2. Management emphasized the importance of fine-tuning the PBAS to allow IFAD to respond to the Zero Hunger Challenge, contribute to the achievement of Sustainable Development Goal 2 by 2030, and help bring about inclusive and sustainable rural transformation.
6. The Programme Management Department informed members of their participation in the annual meeting of the multilateral development bank (MDB) PBAS working group that took place in Zambia during the first week of June. The meeting discussions yielded interesting information for IFAD, such as the fact that other international financial institutions (IFIs) were considering enhancing the needs component of their respective allocation systems.
7. Members appreciated the informative and useful presentation on IFAD's approach and workplan for fine-tuning the PBAS, which described the context of the fine-tuning exercise, the approach being used and the results of the preliminary analysis. The presentation also addressed ideas on which member guidance was needed and included a plan for making the changes.
8. In terms of context, the IFAD Strategic Framework 2016-2025 and the Impact Assessment Initiative reveal a corporate push for expanded outreach to poor rural people, as well as better performance. This aspect should be considered when refining the PBAS to ensure that countries and projects that achieve better development results are rewarded accordingly. Management noted that IFAD was the only IFI that used the PBAS for both concessional and non-concessional lending, and that this posed special challenges. It also pointed out the need to continue providing differentiated services based on country needs to cater to diverse types of IFAD clients.
9. Members noted that Management was considering various possibilities for fine-tuning the system in line with the CLE recommendations, as follows:
 - (a) Enhancing the focus on poverty in the needs component of the formula. In this regard, Management would maintain the currently used GNI per capita index, as this was a readily available real measure of income, and would explore the option of developing an index based on available data sources, to

complement the GNI index, to better capture IFAD's mandate. Management was also exploring two of the options suggested by the CLE. It had tested the option of using the logarithmic function of the rural population to reduce the range of allocations, while maintaining all other parameters in the formula unvaried. This had indeed narrowed the range of allocations, and the allocations, themselves, had changed significantly. A similar result was obtained when the Human Development Index was substituted for the GNI per capita. These results would need to be taken into account moving forward.

- (b) Providing performance incentives by improving the rural-sector performance score, embedding cross-cutting issues such as climate change and gender and revising the relative weights for each indicator, removing the country policy and institutional assessment (CPIA) index, and adjusting the portfolio-at-risk index to reflect disbursement performance.
 - (c) Improving PBAS management through better reporting, collective decision-making, exploring the possibility of undertaking earlier reallocations, and continuous learning and enhanced transparency. Members also noted that the completion of an IT tool to calculate allocations automatically was one of the actions planned by Management.
10. As regards the performance component, Management suggested removing the CPIA variable, while streamlining IFAD's rural-sector performance assessment. It also proposed maintaining the projects at risk (PAR) variable of the formula. Regarding the request to better reflect gender and climate change issues in the formula, Management suggested that these issues were best addressed within the performance component by strengthening the elements that composed the PAR index related to these themes; this was considered preferable to introducing additional variables into the formula. Management pointed out, however, that this differed from the practice of other MDBs, where cross-cutting issues were addressed at the policy or operational level.
 11. In terms of process, members noted Management's proposal to undertake the PBAS analysis in two phases. The first phase would focus on a thorough assessment of current and potential variables to include in the formula, while the second would focus on the statistical analysis of weights and the development of the final PBAS mathematical equation. The findings of the analysis would be discussed with the Executive Board at its session in April 2017, but an approach paper would be presented to the December 2016 Board.
 12. Members expressed appreciation for the informative presentation, which provided a good basis for discussion. With reference to the need to increase the weight of the PBAS performance component, members highlighted the lack of consensus on the conclusion of the CLE report to strengthen incentives for good performance, and expressed doubts regarding how performance was assessed. On the aspect that performance drives only 35 per cent of the allocation currently, one member asked whether this was perceived as low or high, and what the right balance was. Members expressed the view that allocations should be based on both country needs and country performance, and suggested that a justification for changing the current ratio should be provided. In the view of some members, country needs should be prioritized and the weight of the performance component should not be increased, but a dynamic assessment of performance could be introduced.
 13. Management acknowledged the challenge posed in deciding whether it was better to prioritize the return on investments based on good performance, or reward performance only if needs were met.
 14. Although the system is referred to as "performance-based", members remarked that it was actually a needs- and performance-based allocation system; and

strongly suggested that in the fine-tuning process, a new name for the system be considered to reflect this fact. A proposal was made to rename the system “needs- and performance-based allocation system (NPBAS)”. Members also expressed the view that the term “revision” would be a more appropriate than “fine-tuning” when referring to the work being done on the PBAS system.

15. On whether to retain GNI per capita as a measure of poverty or rural poverty in addition to any other index Management may develop, members expressed the view that the GNI per capita variable should first be subjected to the same normative assessment as the other variables under consideration, before reaching a conclusion on whether to retain it or not. It was mentioned that the GNI variable should not be discarded before a better alternative had been found. The Working Group expressed support for the development of an IFAD-specific index that captured the uniqueness of IFAD and its very specific mandate.
16. Members stressed that the PBAS formula should be kept simple, but should also integrate key cross-cutting issues central to IFAD’s mandate, such as gender, climate change and nutrition. All members welcomed Management’s suggestion to remove the CPIA variable from the PBAS formula.
17. In response to a question on better accommodating the allocation of Sovereign Borrowing Framework funds and complementary funds, Management informed the Working Group that IFAD was the only IFI to apply the PBAS across the whole portfolio, and that the cost of capital would become a factor in this equation and might clash with the allocation.
18. One member asked whether changing the periodicity of the PBAS from a yearly exercise to one undertaken every three years could be considered. Management agreed that it was unnecessary to measure the variables annually, given that the changes over a three-year cycle were minimal, and that other options could be explored. Moreover, members welcomed Management’s idea of developing a PBAS manual and an IT tracking system to enhance transparency of the system.
19. Management reaffirmed its recognition of the role of the Executive Board’s Working Group on the PBAS in its revision, and confirmed that it would continue to work closely with Working Group members and that decisions would be taken jointly. In this process, suggestions and input from members would be welcome. One member suggested that country selectivity and capping, and PBAS management in broader terms, were issues that members may wish to discuss during replenishment negotiations.
20. Members asked Management to clarify the impact of any proposed changes to the PBAS on allocations by region, given that the PBAS formula was applied across all countries and that the PBAS system, itself, did not foresee any preassigned allocation by region. Members also urged that, in the discussions to revise the PBAS, possible linkages to Agenda 2030 be considered. Moreover, members called for a strong focus on the needs component, in line with IFAD’s mandate, albeit without compromising the performance aspect.
21. In relation to its two-phase plan, Management informed members that work was continuing on a cover document providing an overall picture of IFAD’s direction in terms of the PBAS and its approach to middle-income countries and countries in fragile situations, with decentralization as a closely related topic. This document would be presented to the Board in December 2016 and a final paper would be presented in April 2017, proposing final adjustments to the system.
22. Members agreed to hold the next meeting in September, just before the Board session. The date would be communicated by the Office of the Secretary. The possibility of a subsequent informal seminar would be discussed at that meeting.

23. Members requested that in the future, all presentations and documentation be posted well in advance to provide them with sufficient time to consult their capitals.

Other business

24. The Officer-in-Charge, Office of the Secretary, proposed the date of 10 October 2016 for the next Working Group meeting. However, members indicated the need to meet before the September session of the Board. The Office of the Secretary was thus requested to indicate which of the suggested dates was more suitable – 19 or 20 September.¹
25. Management expressed its appreciation to the Working Group for the useful feedback provided. In conclusion, there being no more items for discussion, the Chairperson thanked members and observers for their active participation, and also the interpreters, messengers, support staff, Management and the Office of the Secretary for their support during the meeting.

¹ Further to the meeting, and in agreement with the Chairperson, 20 September 2016 was confirmed as the date of the fourth meeting of the Working Group.