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Minutes on the Twelfth and Thirteenth Meetings of the Working Group on the Performance-Based Allocation System

Note Executive Board representatives

Focal points:

Technical questions:

Thomas Eriksson
Director
Operational Policy and Results Division
Tel. + 39 06 5459 2425
e-mail: t.eriksson@ifad.org

Luis Jiménez-McInnis
Secretary of IFAD
Tel.: +39 06 5459 2254
e-mail: l.jimenez-mcinnis@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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For: Information

Minutes of the Twelfth Meeting of the Working Group on the Performance-Based Allocation System

1. The discussions at the twelfth meeting of the Working Group on the Performance-Based Allocation System (PBAS) held on 7 September 2020 are reflected in this document. Upon approval by the Working Group, the minutes will be shared with the Executive Board for information.

Agenda item 1: Opening of the meeting

2. The meeting was attended by Working Group members from Nigeria (Chair), Angola, Canada, Dominican Republic, Japan, Republic of Korea and the Bolivarian Republic of Venezuela. Executive Board observers from Bangladesh, China, Finland, France, Germany, Italy, Netherlands, Spain and the United Kingdom were also in attendance. Management was represented by the Associate Vice-President, Programme Management Department; the Director, Operational Policy and Results Division; the Director, Financial Management Services Division; the Secretary of IFAD; and other IFAD staff.

Agenda item 2: Adoption of the agenda

3. The provisional agenda, document PBAS 2020/12/W.P.1, contained the following items: (i) opening of the meeting; (ii) adoption of the agenda; (iii) The PBAS in the Eleventh Replenishment of IFAD's Resources (IFAD11) and IFAD12; (iv) Borrowed Resources Access Mechanism (BRAM), and (v) other business. Members adopted the provisional agenda, with no amendments.

Agenda items 3, 4 and 5: The PBAS in the Eleventh Replenishment of IFAD's Resources (IFAD11) and IFAD12, Borrowed Resources Access Mechanism (BRAM) and other business – next steps

4. Management advised that while replenishment contributions would continue to be the bedrock of IFAD's financial architecture, a series of transformational financial reforms were foreseen for the IFAD12 period. These would allow the Fund to further diversify its funding sources and access borrowed resources to complement donor contributions in IFAD12. As such, Management was reviewing the resource access mechanisms to ensure that the ambition to reach greater impact was aligned with the nature of available financial resources, while safeguarding IFAD's financial stability and universality of access to IFAD resources. Two differentiated but interlinked and complementary mechanisms were under consideration: the PBAS, which would continue to be the mechanism for allocating core resources, and BRAM, determining eligibility and access to borrowed resources.
5. Management presented: (i) an overview of the revisions to the PBAS formula effective from IFAD11 and their rationale; (ii) the outcomes of PBAS application in IFAD11 in terms of resource distribution by country groupings; and (iii) the way in which the IFAD11 formula had enabled greater distribution of resources to the poorest countries as compared to IFAD10, and current projections showing that it will continue to do so in IFAD12. In addition, Management presented the interaction between PBAS and BRAM in terms of estimated projected resource distribution to country income groupings, based on scenario D (mid-high).
6. Management also presented the proposed underlying principles and eligibility criteria for BRAM. Access to borrowed resources would be determined based on three key principles, namely alignment with IFAD's mandate and development effectiveness; demand from governments; and financial safeguards including borrowers' creditworthiness and capacity to absorb additional debt. Borrowed resources would thus be available to upper-middle-income countries (UMICs) as well as creditworthy lower-middle-income countries (LMICs) and middle-income countries. Management proposed that at least 80 per cent of IFAD's overall financing, whether with core or borrowed resources, be provided to lower-income

countries and LMICs, and up to 20 per cent to UMICs. Furthermore, UMICs would have access to at least the same share of total resources allocated to UMICs in IFAD11, which is 11 per cent.

7. Members expressed their appreciation for the current PBAS formula as it had succeeded in distributing resources to the poorest and neediest countries. Most members expressed their support for Management's proposal to maintain the current formula unchanged in IFAD12. The possible need to fine-tune the formula, once agreement had been reached in the IFAD12 Consultation, was mentioned.
8. Some members asked whether a separate mechanism for the allocation of borrowed resources was needed. Management noted that while the current PBAS mechanism served to allocate core and borrowed resources, it was delinked from financing terms. The PBAS made allocations on the basis of country needs and performance without considering a country's ability to borrow resources.
9. In response to requests for information as to the practices of other international financial institutions (IFIs), Management advised that banks, IFIs and development finance institutions did not normally differentiate between core and borrowed resources. As such, and given IFAD's nature as a fund rather than a bank, there were no direct comparators available. As a mechanism for allocating resources, BRAM would guarantee a risk-based approach, safeguard IFAD's financial sustainability and ensure recovery of borrowing costs. This would be critical in the context of the increased borrowing levels expected in IFAD12.
10. Questions were raised about how Management would address a situation where demand outstripped supply. How would allocations be made in a dynamic environment while additional resources are being mobilized? How would decisions be made regarding allocations between different income categories? Management clarified that work was ongoing to better define criteria for such prioritization. Currently a development effectiveness matrix is used to evaluate projects prior to submission for Board approval; a similar type of mechanism could be devised to ensure that projects meet the criteria defined in BRAM, including alignment with IFAD's mandate and with country strategic opportunities programmes and country strategy notes.
11. Members noted that further discussions on a number of interlinked issues such as IFAD's Integrated Borrowing Framework and transition/graduation to different lending terms were a prerequisite to making an informed decision on BRAM. The Working Group acknowledged that the question of resource allocation and availability is linked to the ongoing discussions on transition/graduation and pricing. IFAD pricing would need to be defined such that underlying costs related to borrowing would be fully recovered while remaining competitive in terms of what members could obtain from the bond markets. Risks would be assessed and addressed along similar lines to the practices at other IFIs.
12. Management agreed that the paper for discussion at the informal seminar on BRAM on 6 October 2020 would include additional information on: risk control measures; prioritization methods; scenarios where demand exceeded supply capacity; and comparisons, where possible, with mechanisms used by other multilateral development banks and IFIs.
13. Management also agreed to explore potential dates for a Working Group meeting to take place after the informal seminar on BRAM and before the next Audit Committee meeting. The Working Group, together with Management, would provide technical input to the discussion on the PBAS for IFAD12, bearing in mind other related workstreams and engaging with the Board on the transformation of IFAD's financial architecture and the next steps on the transition/graduation discussion.

Minutes of the Thirteenth Meeting of the Working Group on the Performance-Based Allocation System

1. The discussions at the thirteenth meeting of the Working Group on the Performance-Based Allocation System (PBAS) held on 23 October 2020 are summarized in this document.

Agenda item 1: Opening of the meeting

2. The meeting was attended by Working Group members from Nigeria (Chair), Angola, Canada, Dominican Republic, Japan, the Republic of Korea, Switzerland and the Bolivarian Republic of Venezuela. Executive Board observers from China, France and the United States were also in attendance. Management was represented by the Associate Vice-President, Programme Management Department; the Director, Operational Policy and Results Division; the Director, Financial Management Services Division; the Treasurer; the Secretary of IFAD; and other IFAD staff.

Agenda item 2: Adoption of the agenda

3. The provisional agenda contained the following items: (i) opening of the meeting; (ii) adoption of the agenda; (iii) minutes of the twelfth meeting of the Working Group on the Performance-Based Allocation System (PBAS); (iv) discussion and validation of a three-year (replenishment cycle) approach to allocations; (v) Borrowed Resources Access Mechanism (BRAM); and (vi) other business.
4. Members adopted the provisional agenda with one amendment (now revised as document PBAS 2020/13/W.P.1/Rev.1), namely the removal of agenda item (iv) on the discussion and validation of a three-year (replenishment cycle) approach to allocations, which would be considered at a future meeting.

Agenda item 3: Minutes of the twelfth meeting of the Working Group on the Performance-Based Allocation System

5. The minutes of the twelfth meeting of the PBAS Working Group were approved with one correction, which will be reflected in a revised document to be posted on the Member States Interactive Platform.

Agenda item 4: Borrowed Resources Access Mechanism

6. At the outset, Management recalled that the BRAM was intended to support IFAD in expanding its programme of loans and grants (PoLG) by accommodating higher levels of borrowing while guaranteeing financial sustainability and adherence to the principles of development effectiveness. As a complementary mechanism to the PBAS, the BRAM could facilitate scaling up of successful interventions in low- and lower-middle-income countries as well as offering universality in access to resources for upper-middle-income countries.
7. Management proposed a time line that would allow for the mechanism to be in place at the start of the Twelfth Replenishment of IFAD's Resources (IFAD12) period. The time line envisaged the presentation of the BRAM to the Audit Committee and the Executive Board in April 2021. Amendments to the Policies and Criteria for IFAD Financing would be required in order to implement the BRAM and such amendments would be submitted to the Governing Council for approval in February 2022.
8. Responding to questions, Management reassured members that the BRAM mechanism would be aligned with IFAD's mandate and that the allocation and implementation process would mirror that already in place for the PBAS. As such, the availability of resources would be reviewed; country eligibility would be determined based on, inter alia, creditworthiness, capacity to absorb debt and single country limits; eligible countries would be informed and requested to confirm their interest in accessing the borrowed funds; projects would be designed according to existing IFAD design processes with a focus on development

effectiveness – using the development effectiveness matrix – and aligned with IFAD policies, procedures and rigorous review mechanisms. Reporting and monitoring would be in accordance with the IFAD12 Results Management Framework.

9. Resources would be distributed in accordance with agreements reached during the IFAD12 Consultation and Executive Board processes, for example, agreed distribution levels per income categories and total share of PoLG allocated to sub-Saharan Africa, etc. These parameters would also play a role in prioritizing allocations.
10. Noting the need to ensure competitive onlending terms, Management noted that the issue of pricing was proposed for consideration together with the BRAM, precisely because of the interlinkages between these issues. Pricing would be competitive, differentiate between countries by group of borrowers based on their income category, presence of fragility and transition stage of development. Furthermore, the borrowed resources would be onlent in such a way as to ensure that IFAD recovered the costs of its own borrowing. As such, Management suggested introducing a commitment fee and an up-front fee. The outcome of ongoing discussions around graduation, currently taking place in the context of the IFAD12 Consultation, would influence further developments in this regard.
11. Management acknowledged that IFAD’s credit rating was a significant milestone with respect to establishing pricing but it would take time to set a predictable and reliable price reference that was IFAD’s own. Until such time, the pricing benchmark of the International Bank for Reconstruction and Development would be used.
12. Management confirmed that the necessary risk architecture was in place to manage and monitor the creditworthiness of countries, assess the impact of potential unexpected credit loss on the portfolio and consistently monitor the construction of the portfolio.
13. In answer to a query as to the applicability of the BRAM to borrowed resources, irrespective of their source (sovereign or bond market), Management confirmed that all borrowed resources would be combined to provide a portfolio of debt that would be looked at on a weighted average basis in terms of both maturity and cost, after which consideration would be given to the appropriate onlending terms that would ensure competitiveness and cost recovery.
14. Responding to a question on the Development Effectiveness Framework, Management confirmed that it would be updated in line with an IFAD12 commitment. The update would ensure alignment with best practices but no significant changes to the development effectiveness matrix were foreseen.
15. Members suggested that more tangible examples, illustrative cases and access mechanisms would be welcome at a future session.
16. Members queried whether the role and scope of the PBAS Working Group needed to be reviewed. It was agreed that the Working Group would continue its review of the BRAM and would further discuss a possible revision of its terms of reference and composition. Additional expertise would be employed to assist in this task.
17. The Working Group suggested that another meeting be convened before the end of the year. The Secretariat committed to identifying scheduling options and reverting in due course.

Agenda item 5: Other business

18. No items under other business were raised and the meeting was adjourned.