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Investing in rural people

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

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For: **Information**

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

1. The discussions at the sixteenth meeting of the Working Group on the Performance-Based Allocation System (PBAS) held on 3 November 2021 are summarized in this document.

Agenda item 1: Opening of the meeting

2. The Secretary of IFAD welcomed participants and acknowledged new members who had joined the PBAS Working Group following their appointment at the Board session held in April 2021, namely: Austria, Bangladesh, Costa Rica, Côte d'Ivoire, France, and Sweden.

Agenda item 2: Election of the Chairperson

3. Nigeria was elected as Chairperson of the Working Group for its term of office ending with the first session of the Executive Board in 2024.

4. Dr Yaya Olaniran, Minister, Permanent Representative of the Federal Republic of Nigeria to the United Nations Food and Agriculture Agencies in Rome, took the chair and formally opened the meeting.

5. The meeting was attended by Working Group members from Austria, Bangladesh, Canada, Côte d'Ivoire, France, Nigeria (Chair), Sweden and Bolivarian Republic of Venezuela. Executive Board observers from Angola and China were also in attendance. Management was represented by the Associate Vice-President, Programme Management Department; the Chief Risk Officer and Associate Vice-President, Office of Enterprise Risk Management; the Director, Operational Policy and Results Division; the Director, Financial Management Services Division; the Secretary of IFAD; and other IFAD staff.

Agenda item 3: Adoption of the agenda

6. The provisional agenda contained the following items: (i) opening of the meeting; (ii) election of the chairperson; (iii) adoption of the agenda; (iv) introduction to IFAD’s financial resource mechanisms; and (v) other business.

7. Members adopted the provisional agenda as proposed.

Agenda item 4: Introduction to IFAD’s financial resource mechanisms

8. Management presented an overview of the PBAS and Borrowed Resource Access Mechanism (BRAM), noting that the PBAS was the instrument through which IFAD had allocated its resources since 2003. It was also the mechanism through which IFAD would distribute all IFAD12 core resources to low-income countries (LICs) and lower-middle-income countries (LMICs) exclusively. This was in line with the practice of other international financial institutions that also used performance-based mechanisms for the allocation of concessional resources.

9. The creation of the BRAM had been approved by the Executive Board in April 2021. BRAM was IFAD’s new financing mechanism through which borrowed resources would be channelled to eligible LICs, LMICs and upper-middle-income countries (UMICs), based on demand.

10. Addressing members’ questions regarding the relationship between countries where IFAD-financed projects were already under way versus IFAD12 countries, Management explained that IFAD would continue to work with and finance projects already under way regardless of whether these projects were in countries included in the IFAD12 list. In terms of identifying the countries accessing financing in each cycle, a phasing approach was used for various reasons, including to ensure that countries access an amount of resources that they can manage – as in the case of small island developing states in the Asia and the Pacific region – or to address the fact that country circumstances prevented a country that had accessed resources

in the previous cycle to engage in the next. This led to some fluctuation in the list of countries in each cycle.

11. In response to requests for clarification, Management provided additional information on the past when over 100 countries had been considered eligible for PBAS resources. Experience had shown that many of those countries were not in a position to use the resources and that funds had had to be reallocated to the remainder of the countries within the PBAS.

12. In addition, a corporate-level evaluation on efficiency had concluded that IFAD should focus its interventions on larger programmes in fewer countries in order to have greater impact.

13. As such, at the start of IFAD11, it had been agreed with Membership to cap the total number of countries in the PBAS to 80 countries. This had proved to be workable; hence, it was proposed that the limit of 80 countries should be maintained for the IFAD12 programming cycle.

14. Management also shared its proposal to maintain the IFAD12 allocations constant throughout the cycle, rather than updating them on a yearly basis, building on the positive experience of adopting this approach in IFAD11. Management also underlined that this would be particularly important for Debt Sustainability Framework (DSF) countries, as they would be subject to high variability year on year given their small number.

15. Management provided background on the various elements of the PBAS formula. Initially IFAD had considered overall population as a factor. As the PBAS evolved, and to increase relevancy to IFAD’s mandate, the criteria and focus of the needs component shifted to the volume of rural population. Therefore, all other factors being equal, countries with larger rural populations would receive more resources as needs were higher in those countries.

16. Members asked about the IFAD Vulnerability Index (IVI) and how it worked. This had been introduced during IFAD11 to capture the multi-dimensionality of rural poverty. In broad terms, the index was as an indication of well-being in rural areas and the effects of climate change. The index comprised 12 equally weighted indicators that measure rural vulnerability in terms of exposure, sensitivity, and adaptive capacity to exogenous causes and/or events.

17. Indicators included in the IVI monitored issues such as food security, nutrition, inequality, climate and vulnerability. Publicly available data were used as sources. Reliability and availability of data at the global level were key to guaranteeing cross-country application. The Food and Agriculture Organization of the United Nations food security indicators were used for per capita food production and prevalence of undernourishment.

18. Management also explained the rationale and functioning of the portfolio and disbursement (PAD) measure. In this case, all other factors being equal, countries where projects performed better, as rated during project implementation, received an overall higher score.

19. The PAD was made up of two factors: (i) a country’s ability to absorb the financing available and (ii) the percentage of the ongoing portfolio that was unsatisfactory in terms of its implementation performance. Therefore, all other factors being equal, when the PAD variable scored lower, less resources were available at the country level.

20. There was broad consensus on the value of the IVI, a feature that peer organizations had expressed interest in replicating.

21. The Working Group asked for clarity on the interrelation between PBAS and BRAM resources and whether priority access to BRAM resources would be given to UMICs given that in IFAD12 this category of countries would no longer be eligible to receive PBAS allocations.

22. Management reiterated the principle of universality and IFAD's goal, through the BRAM, to reach more countries than would be possible with replenishment resources only. Management underlined that all IFAD12 commitments related to resource distribution would be met, such as that of ensuring a minimum of 11 per cent of the programme of loans and grants for UMICs through access to borrowed resources.

23. Management clarified that prioritization would entail sequencing, and not exclusion, of country access to BRAM resources.

24. Presenting an overview of the BRAM, Management explained that it was based on five principles: country selectivity and eligibility; supply of borrowed resources; risk-based country limits; differentiated financing conditions; and demand-based access.

25. With regard to the first principle of country selectivity and eligibility, the same criteria applied to all countries accessing IFAD resources, both core and borrowed resources. To be eligible for the BRAM, countries needed to comply with an additional criterion, namely creditworthiness.

26. Borrowed resources would be accessible to LICs and LMICs as well as UMICs based on financial criteria. Countries at high risk of debt distress would not be eligible for borrowed resources. Special attention would be given to countries in moderate debt distress and the assessment would take into consideration the International Monetary Fund's debt sustainability assessment and external debt limit policy, and IFAD's non-concessional borrowing policy.

27. IFAD had begun reaching out to the approximately 80 countries eligible to access resources in IFAD12 either from PBAS or from BRAM, or from both. Responses confirmed that interest and demand were high.

28. Management clarified that the overall funding amount to a country could not exceed the 5 per cent limit of the programme of loans and grants. Therefore, combined resources from the PBAS and the BRAM would necessarily remain within this cap.

29. On the supply of borrowed resources, the second principle of the BRAM, all investment projects developed would be required to follow the usual principles underlying IFAD-financed operations, namely alignment with IFAD's mandate and government priorities. This would avoid mission drift. Furthermore, BRAM-financed projects would undergo the established IFAD quality assurance processes.

30. Countries eligible to access both the BRAM and the PBAS would be encouraged to use both sources of finance. This would create efficiencies and contain design costs. Management would share the IFAD12 PBAS allocations with the Executive Board in December as per usual practice, together with an update on the pricing.

31. The proposed revisions to the Policies and Criteria for IFAD Financing would be presented to the Executive Board in December for endorsement of their submission to the Governing Council in February 2022 for approval.

32. When asked about the modalities for operationalizing the new mechanism, Management highlighted that the PBAS and BRAM should be seen as complementary to each other and not as separate mechanisms. While there was a lot of flexibility and it would be up to the countries accessing both sources to decide whether to finance projects using individual or combined PBAS and BRAM financing, Management also highlighted the need to seek efficiencies in relation to project design.

33. With regard to organizational readiness, a capacity-building programme with training sessions for operations staff was ongoing.

34. Management was confident that valuable experience would be gained in the upcoming 18–24 months. Members would be updated in due course.

35. In concluding, Management added that IFAD’s high credit rating had contributed to positioning the Fund favourably with partners and was confident that the BRAM mechanism would function well.

Agenda item 5: Other business

36. Management informed the Working Group that Ms Lauren Phillips, Lead Adviser, Policy and Results, Operational Policy and Results Division, would leave IFAD to take up a new position at the Food and Agriculture Organization of the United Nations (FAO). She had been instrumental in preparing IFAD for the BRAM mechanism. Members thanked her and wished her every success in her new endeavours.

37. The Chairperson informed the Working Group that members would be advised of the schedule for the next meeting in due course.

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