Adjusting the performance-based allocation system

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<table>
<thead>
<tr>
<th>Section</th>
<th>Slide(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions taken</td>
<td>slide n. 3</td>
</tr>
<tr>
<td>Formula</td>
<td>slide: 4 - 5</td>
</tr>
<tr>
<td>Scenarios</td>
<td>slide: 6 - 7</td>
</tr>
<tr>
<td>New steps</td>
<td>slide: 8</td>
</tr>
</tbody>
</table>
### Enhancing rural poverty focus

- ✔ Development and inclusion of IFAD Vulnerability Index (IVI), which includes measures of vulnerability, income inequality, nutrition and non-income poverty.
- ✔ Realignment of RSP assessment with IFAD’s strategic frameworks 2016-2025.

### Strengthening the performance component

- ✔ Country Policy and Institutional Assessment (CPIA): elimination and folding within RSP
- ✔ Rural sector performance assessment revision: revisiting underlying indicators and questions; systematizing and strengthening the RSP scoring and quality assurance processes. RSP utilisation for policy dialogue and COSOPs development. Efficiency gains through RSP scoring once per cycle.
- ✔ Portfolio performance and disbursement (PAD): enhanced portfolio performance assessment and inclusion of a disbursement measure

### Rebalancing the needs and performance components

- ✔ Reviewing the weights of formula variables in order to increase the performance-drive of the formula, while taking needs in due account.
- ✔ Reduction in rural population exponent.
- ✔ Increase in performance component exponent.

### Streamlining PBAS management process for better effectiveness and transparency

- ✔ Enhanced reporting to Governing Bodies on allocations, countries entering and exiting the cycle, capping, minimum and maximum allocations, reallocations.
- ✔ PBAS-related decision making approved by OMC and EMC, which have full interdepartmental representation.
- ✔ Exploring options for reallocating resources earlier in the cycle.
- ✔ Generating learning through learning events for IFAD staff, the inter-departmental working group on PBAS, and informal seminars with the EB.
Refreshing our understanding of the Performance based Allocation System

How many people live in the rural areas?

The bigger the rural population, the higher the allocation

How poor are the countries we work in?

The higher the rural poverty, the higher the allocation

How good is the enabling environment for rural poverty reduction?

The better the enabling environment, the higher the allocation

How is IFAD’s portfolio performing?

The stronger the performance, the higher the allocation
Phase I introduced changes to the variables

Reduce the range of variation

Maintain

Add a vulnerability measure

\[
\text{NEEDS} \quad \left[ \left( \text{Rural Pop}^{0.40} \times \text{GNIpc}^{-0.25} \right) \times (IVI) \right]
\]

\[
\text{PERFORMANCE} \quad \left[ (0.65 \times \text{RSP}) + (0.35 \times \text{PAR}) \right]^2
\]

Fold CPIA into RSP and merge their weight

Simplify and add disbursements: from PAR to PAD
Phase II focused on the weights of the variables and components: the four scenarios developed show stability across income groups but variations within fluctuate.

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>LICS Low Income Countries</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Max</strong></td>
<td>$122m Nepal</td>
<td>$135m Nepal</td>
<td>$152m Nepal</td>
<td>$152m Nepal</td>
</tr>
<tr>
<td></td>
<td>$58.8m Rwanda</td>
<td>$56.9m Rwanda</td>
<td>$46.7m Nepal</td>
<td>$27.3m Nepal</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>$53.5m $34m</td>
<td>$53.2m $36m</td>
<td>$24m $8m</td>
<td>$152m Nepal</td>
</tr>
<tr>
<td><strong>Min</strong></td>
<td>$4.5m</td>
<td>$4.5m</td>
<td>$4.5m $8m</td>
<td>$152m Nepal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Rwanda</strong></th>
<th><strong>Nepal</strong></th>
<th><strong>Sri Lanka</strong></th>
<th><strong>Mexico</strong></th>
<th><strong>Income level</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Max</strong></td>
<td>$152m</td>
<td>$152m</td>
<td>$132m</td>
<td>$152m</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>$34m</td>
<td>$24m</td>
<td>$34m</td>
<td>$34m</td>
</tr>
<tr>
<td><strong>Min</strong></td>
<td>$4.5m</td>
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Although counterintuitive, a larger weight for one variable (or component) does not necessarily imply that countries with better scores in that variable receive more resources, even if that variable scores better than any other variable in the formula.
Comparative distribution of resources by selected scenarios

Scenario 1

Current IFAD

Needs Quintiles

Performance Quintiles

35% share
65%

53% share
47%

Scenario 2

Needs Quintiles

Performance Quintiles

46% share
54%

52% share
48%

Scenario 3

Needs Quintiles

Performance Quintiles

[(0.40 X RSP) + (0.60 X PAD)]

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

[(0.40 X RSP) + (0.60 X PAD)]

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

UMICs 20%
LMICs 80%

Scenario 2

Needs Quintiles

Performance Quintiles

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

[(0.2 IRAI + 0.45 RSP + 0.35 PAR)]^2

UMICs 20%
LMICs 80%
Next steps

- Needs component: refining the weights of GNIpc and IVI
- Performance component: refining the weights of RSP and PAD
- Rural sector performance assessment: finalization of scoring methodology and Quality Assurance system
- Refining the sensitivity and the elasticity analyses
Questions and discussion

Any questions?

Thank you