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## **Progress report on the implementation of the performance-based allocation system and the Borrowed Resource Access Mechanism**

### **Addendum**

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# Progress report on the implementation of the performance-based allocation system and the Borrowed Resource Access Mechanism

## Addendum

1. The Executive Board is invited to take note of the additional information relating to the progress report on the implementation of the performance-based allocation system (PBAS) and the Borrowed Resource Access Mechanism (BRAM), as contained in document EB 2023/140/R.15, as of the second year of the Twelfth Replenishment of IFAD's Resources (IFAD12). Members are also invited to take note of the progress on the implementation of the IFAD Graduation Policy.

## I. Implementation of the PBAS and BRAM in IFAD12 (2022–2024)

2. **Background.** In February 2022, Management presented to a special session of the Executive Board the list of countries accessing PBAS and BRAM resources in IFAD12. It also shared the individual country allocations deriving from the application of the PBAS formula, and indicative amounts of BRAM resources that eligible countries could access based on demand. The list included a total of 78 countries: 66 low-income countries (LICs) and lower middle-income countries (LMICs), which access IFAD core resources distributed through the PBAS, and 12 upper middle-income countries (UMICs), which can access BRAM resources.
3. The following sections outline the progress made to date<sup>1</sup> in delivering PBAS and BRAM resources in terms of approvals and the pipeline of operations for the cycle. It should be noted that the pipeline information is fluid and constantly evolving, as operational design processes move forward and in-country situations change. A complete overview of the implementation of the PBAS and BRAM will be provided at the end of the cycle, in the progress report that will be shared with the Executive Board in December 2024.
4. **PBAS implementation.** As mentioned above, in early 2022 66 LICs and LMICs were identified to access IFAD12 core resources through the PBAS. Of these, 15 were eligible to access country grants under the Debt Sustainability Framework (DSF). Since then, in 2023 two additional countries became eligible for country grants under DSF, while an additional country was added to the list following the lifting of suspension by the Enterprise Risk Management Committee. IFAD was able to provide resources to these countries thanks to the availability of unprogrammed country grant resources and the country grants envelope set aside that was established in IFAD12 for such cases. Following these developments, the number of countries currently eligible to access country grants resources stand at 17.
5. **BRAM implementation.** At the beginning of the IFAD12 cycle, 52 countries were assessed as being eligible<sup>2</sup> for BRAM resources and confirmed interest to access them: 11 LICs, 29 LMICs and 12 UMICs. Since then, changes to the international economic context as well as specific country situations, changes in their fiscal landscape and the decision to programme operations only using the PBAS resources available to them have led to a reduction in the number of countries accessing BRAM, which currently stand at 37 countries. A total of 3 LICs, 8 LMICs and 4 UMICs have released BRAM resources.

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<sup>1</sup> September 2023.

<sup>2</sup> In addition to complying with the three criteria for accessing both core and borrowed resources (strategic focus, absorptive capacity and ownership), countries accessing BRAM are assessed on their level of indebtedness and risk status by the Office of Enterprise Risk Management.

6. To ensure full delivery of the programme of loans and grants (PoLG), the BRAM resources that became available in 2023 have been made available to other BRAM-eligible countries. Countries absorbing additional BRAM resources included six LMICs and two UMICs. As a result of this exercise, all additional BRAM demand has been satisfied, with the full absorption of the resources available. The BRAM delivery therefore remains on track, and the overall volume of resources available is expected to be utilized by the end of the cycle.
7. **IFAD12 country list composition.** Taking into account the information provided in the paragraphs above, table 1 reflects the current number of countries accessing IFAD12 resources. The number stands at 74. Table 2 outlines the number of countries currently accessing BRAM financing and the share of PoLG available to UMICs.

Table 1

**Number of countries accessing IFAD12 resources by income category**

(Number of countries – at time of writing)

<i>Income status</i>	<i>Number of countries</i>
LIC	24
LMIC	42
UMIC	8
<b>Total</b>	<b>74</b>

Table 2

**Number of countries accessing BRAM by income category**

(Number of countries and share of resources – at time of writing)

<i>Income status</i>	<i>Number of countries</i>
LIC	8
LMIC	21
UMIC	8
<b>Total</b>	<b>37</b>

8. **PBAS and BRAM programming.** At the time of writing,<sup>3</sup> the bulk of IFAD12 resources (95 per cent) have already been programmed. As shown in table 3, this is the case for both core and borrowed resources. Programmed resources include approvals in 2022 and 2023 as well as investment projects in the 2023–2024 operational pipeline. Only 5 per cent of available resources remain to be programmed. Demand for such resources exists and Management is confident that the full volume of resources available will be programmed by cycle-end.

Table 3

**IFAD12 programming: core and borrowed resources**

(Share of programming by financing source)

<i>Type of resources</i>	<i>Programmed resources</i>
Country grants (core)	100%
Loans (core)	94%
BRAM (borrowed)	95%
<b>Total</b>	<b>95%</b>

<sup>3</sup> September 2023.

## II. Implementation of the IFAD Graduation Policy

### A. Introduction

9. The Executive Board approved the IFAD Graduation Policy (EB 2021/133/R.5) in September 2021. The policy is guided by the principle of universality and IFAD's mandate to serve its developing Member States, while focusing on poor, food-insecure and vulnerable rural people. Graduation is firmly based on a process of consensus-building and consultation with Member States, and is guided by criteria established in the policy and agreed targets to ensure full transparency. The policy comprises four pillars and provides clarity on the distribution of IFAD's financial resources (pillar 1) and the financing conditions and pricing of borrowed IFAD resources (pillar 2). Pillars 3 and 4 articulate in detail the criteria and process, and also address situations of possible reversal of the socioeconomic development of an IFAD Member State. In line with the commitment made in the policy, the sections below report on the policy implementation.

### B. Implementation status by pillar

#### **Pillar 1. Distribution of IFAD's financial resources**

10. As per the policy, IFAD's core resources are fully allocated to LICs and LMICs, with lending to UMICs funded from borrowed resources managed under the BRAM. UMICs receive between 11 and 20 per cent of the overall PoLG, and at this point are projected to receive 15 per cent in IFAD12. IFAD Management is implementing the funding plan to ensure it meets expectations regarding the availability of lending to UMICs. Management is also reporting annually to Executive Board on the status of the allocations, the distribution of resources among country groups and lending terms and changes to the lending terms of Member States, including information on changes in Member States' gross national income (GNI) per capita relative to the Graduation Discussion Income (GDI) (EB 2022/137/R.3 and EB 2022/137/R.3/Add.1/Rev.2). Updates on the implementation of IFAD's funding plan are provided regularly to the Executive Board (EB 2022/137/R.12).

#### **Pillar 2. Financing conditions and pricing of borrowed resources**

11. As set out in pillar 2 of the policy, IFAD's financing conditions and pricing are set to ensure that IFAD recovers the cost of borrowing and differentiates among countries in different income groups, while remaining competitive and attractive vis-à-vis countries' other sources of development financing. This differentiation in the financing terms is reflected in different elements of pricing, with tailored maturity periods, grace periods and maturity premiums. Recent updates on ordinary loan pricing (EB/2023/138/R.7) and the revised Integrated Borrowing Framework (EB/2023/138/R.8) are aligned with the requirements of the policy.

#### **Pillar 3. Trajectory for UMICs reaching GDI threshold**

12. **Update of country strategic opportunities programme (COSOP) guidelines.** Following the approval of the policy, IFAD updated the guidelines and procedures for COSOPs to provide guidance to country teams on the preparation of new COSOPs for countries that have passed the GDI threshold for three consecutive years.
13. **Prioritization of country strategy and programme evaluations (CSPEs).** As set out in the policy, Management liaised with the Independent Office of Evaluation of IFAD (IOE) to prioritize the undertaking of CSPEs for countries that have per capita incomes above GDI for three consecutive years. This was to ensure that, to the extent possible and resources permitting, new COSOPs are informed by the recommendations emanating from CSPEs. In the IOE work programme for 2023 and 2024, IOE has made provision for CSPEs for Argentina, China, Dominican Republic and Türkiye.

14. **Preparation of CSPEs and COSOPs for countries above GDI.** As outlined in the annex of the policy, in 2021, before the beginning of the current replenishment cycle, a total of eight Member States were above the GDI threshold for three years consecutively. This list included Argentina, Brazil, China, Cuba, Dominican Republic, Mexico, Montenegro and Türkiye.
15. The CSPE process has been completed in China and is well advanced in Türkiye. For Argentina and the Dominican Republic, the process will start shortly and complete in 2024.
16. The new COSOPs are programmed for preparation in 2023 and 2024, with COSOP discussions with the Executive Board scheduled in either 2024 or 2025. In this regard, consultation on the COSOP process has already begun in the case of Brazil.
17. Country by country progress is shown below:
  - (a) In the case of **Argentina**, IOE has indicated that a CSPE will start in September 2023 and that they expect to finalize it by September 2024. An agreement at completion point is expected to be signed by October 2024. A new COSOP will be prepared for Management approval in December 2024.
  - (b) With respect to **Brazil**, a discussion was held with IOE on the possibility of a CSPE, but given that a new COSOP design process had already been scheduled for early 2023 with the incoming Government, the timing was not conducive. The new COSOP for Brazil is being planned for Executive Board discussion in 2024.
  - (c) In the case of **China**, IOE started the CSPE in March 2022 and finalized the report in March 2023. The agreement at completion point was signed in September 2023. The new COSOP will be prepared for Executive Board discussion in 2024.
  - (d) In the case of **Cuba**, given the significant changes that have occurred in the country situation due to economic shocks in 2019, and as previously communicated, an assessment is taking place to ascertain if Cuba has moved back below GDI. Cuba GNI/capita figures have not been updated by the World Bank since 2019 and by United Nations Statistics Division (UNSTATS) not since 2021. The Economic Commission for Latin America and the Caribbean (ECLAC) published the GDP per capita for 2022 at US\$1,449. This translates as a massive shrinking of the economy since 2019. The ECLAC data is currently being validated by UNSTATS, and it is expected that updated GNI per capita data will soon be issued by UNSTATS. If confirmed that Cuba has moved below the GDI threshold, it is proposed that Cuba be removed from the list of eight countries.
  - (e) In the case of the **Dominican Republic**, IOE has indicated that a CSPE is due to start in December 2023, and expects it to be finalized by October 2024. An agreement at completion point is scheduled for December 2024. With the conclusion of the CSPE, a new COSOP will be designed for Executive Board discussion in 2025.
  - (f) In the case of **Mexico**, given that the most recent CSPE was published in 2019 and that a COSOP for the period 2020–2025 is already in place, a new COSOP is not scheduled until 2025.
  - (g) In the case of **Montenegro**, a light COSOP will be prepared for approval in 2024; the country last accessed IFAD financing in IFAD10.
  - (h) In the case of **Türkiye**, IOE initiated a CSPE in April 2023, and expects to finalize it by April 2024. An agreement at completion point is currently planned for June 2024. With the conclusion of the CSPE, the new COSOP design process will start and is expected to be completed in 2025.

18. As shown above, by the end of IFAD12, for four out of eight countries above GDI (Argentina, China, Dominican Republic and Türkiye), IOE expects to have completed a CSPE, providing recommendations to feed into new COSOPs. In addition to CSPEs, several countries on the list have either had a recent project performance evaluation (PPE) or are due for one before the end of IFAD12. This includes the Dominican Republic, where a PPE was undertaken for the Rural Economic Development Project in the Central and Eastern Provinces in 2020; Cuba, where a PPE for the Cooperative Rural Development Project in the Oriental Region was completed in 2022; and Montenegro, where a PPE of the Rural Clustering and Transformation Project is planned for 2024.
19. As already communicated to Members at the December 2022 Executive Board, while it was originally hoped that Management would approve all new COSOPs in 2024, a number of them will be deferred to 2025 to allow time for IOE to complete its assessments and for the CSPEs to inform the new COSOPs. By the end of 2024, four COSOPs will have been finalized, for Argentina, Brazil, China and Montenegro. As outlined above, if it is confirmed that Cuba has moved back below the GDI threshold, it is proposed that Cuba is removed from the list of eight countries. In this scenario, a standard COSOP will be presented to the Executive Board at its session to be held in December 2024. The remaining COSOPs will be finalized in 2025.
20. The COSOPs for countries that have been confirmed to have surpassed the GDI for three consecutive years will be prepared in line with the COSOP guidelines updated in 2022, which reflect the criteria and process set in the policy. IFAD country teams and technical specialists will prepare the COSOPs in close consultation with the concerned Member State. In line with the policy, IFAD is committed to support partner countries throughout the whole COSOP process. At the completion of the COSOP period, both IFAD and the Member State will assess the country's progress and readiness to graduate from IFAD's financial support. The decision will be based on a discussion between the concerned Member State and IFAD on the basis of the criteria of the policy. The universality principle governs IFAD's relationships with its Member States, and all countries will continue to have access to diverse support and services related to the sharing of knowledge, technical expertise and policy engagement, including through instruments such as South-South and Triangular Cooperation and reimbursable technical assistance.<sup>4</sup>

#### **Pillar 4. Addressing reversals due to economic shocks**

21. None of the eight countries mentioned in the policy have graduated, hence pillar 4 does not yet apply. With respect to seven of the eight countries listed in the policy, it can be confirmed that all of them have an applicable GNI per capita above the latest GDI of US\$7,805, issued by the World Bank on 1 July 2023. For Cuba however, due to economic shocks, if it is confirmed that Cuba has dropped below the GDI threshold, it is proposed that Cuba is removed from the list of eight countries.

### **C. Post-graduation**

22. IFAD continues to engage with a wide range of Member States across all Lists, including those that do not access IFAD financial resources, in various forms of partnership and cooperation including knowledge-sharing and policy engagement on the second Sustainable Development Goal (SDG 2), climate and other IFAD-relevant themes, as well as South-South and Triangular Cooperation and reimbursable technical assistance.

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<sup>4</sup> GC 44/L.6/Rev.1.

## **D. Reporting on implementation progress**

23. As envisaged in the policy, Management has begun annual reporting on progress on implementing the policy. A first annual update was presented as part of the results-based programme of work to the Executive Board at its session held in December 2022 (EB 2022/137/R.3/Add.1/Rev.2), and subsequently to the Governing Council in February 2023. This constitutes the second annual update.

## **E. IFAD Member States above GDI**

24. As per the policy, the starting point for the process is triggered when a country remains above the GDI, as defined and annually updated by the International Bank for Reconstruction and Development, for at least three consecutive years prior to an IFAD financing cycle. This minimizes the risk of a country starting the process and then shortly afterwards facing a reversal.
25. For IFAD12, the 2021 GDI threshold of US\$7,155 was applied. For IFAD13, the 2024 GDI threshold will be applied. In 2024, an updated list of countries that have surpassed the GDI threshold for three years consecutively will be prepared. The list will be reported to the Executive Board in December 2024. Management will then engage with any new countries which have entered the list to initiate a structured dialogue to develop a new COSOP during the IFAD13 period. For these countries, where no CSPE has been performed within the last five years, IFAD Management will propose that one be prioritized during the annual work programme discussions with IOE.