Review of IFAD’s Performance Based Allocation System

121st Executive Board session

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Operational Programming and Effectiveness Unit (OPE), PMD
Today’s presentation

- Formula: slide 3 - 6
- Alocations: slide 7
- Moving forward: slide 8 - 9
Timeline of PBAS review process

Creation of technical working group on PBAS and implementation of phase I of the review

Executive Board PBAS Working Group meeting

Learning Event on PBAS & Executive Board session (document EB 2016/119/R.5)

Executive Board PBAS Working Group meeting

Two Executive Board PBAS Working Group meetings

April 2016

June 2016

September 2016

December 2016

January 2017

March 2017

April 2017

July 2017

September 2017

Executive Board PBAS Working Group meeting

Executive Board PBAS Working Group meeting

Executive Board informal seminar & Executive Board session (document EB 2017/95/WP2)

Presentation of final proposal to the Executive Board (document EB 2017/121/R.3)

Consultation with MDBs WG on PBAS
Management actions in response to IOE recommendations

- Enhancing rural poverty focus
- Rebalancing the needs and performance components
- Strengthening the performance component
- Streamlining PBAS management process for better effectiveness and transparency

Formula revision
The PBAS formula

\[
\text{NEEDS} = \left[ \left( \text{Rural Pop}^{0.405} \times \text{GNIpc}^{-0.265} \right) \times (\text{IVI})^{0.95} \right] \times \\
\text{PERFORMANCE} = \left[ (0.35 \times \text{RSP}) + (0.65 \times \text{PAD}) \right] \\
\]

- Reduce the range of variation
- Maintain and reduce the weight
- Add a vulnerability measure
- Fold CPIA into RSP
- Simplify and add disbursements: from PAR to PAD
Both needs and performance are actionable and meaningful

**IVI**
- Most influential needs variable
  - Largest elasticity to ensure high relevance in country scores
  - High reaction to new situations of fragility
  - Considers multi-dimensional poverty aspects

**PAD**
- Most influential performance variable
  - Second-largest elasticity to capture changes in performance
  - Computation accounts for portfolio and country-related dynamics
  - Creates virtuous incentives

Formula revision
IFAD11 proposed focus and priorities are adequately captured

Share of allocation to countries with greatest needs by two top quintiles (Total resources)

- **Gender**: IFAD10 46%, Proposed Scenario 49%
- **Youth**: IFAD10 40%, Proposed Scenario 44%
- **Nutrition**: IFAD10 55%, Proposed Scenario 59%
- **Climate**: IFAD10 25%, Proposed Scenario 29%

Allocation breakdown:
- LICs + LMICs 83.4%
- UMICs 16.6%
Outstanding replenishment decision do not directly affect the PBAS formula

IFAD11 country selectivity criteria preserve the formula’s macro-stability

The projected allocations are compatible with the proposal on shares of allocations of core resources (90% to LICs and LMICs, 10% to UMICs)

The size of the PoLG does not influence the PBAS allocation shares by income level, lending term or any other breakdown

Business Model
### Alternative timelines

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<thead>
<tr>
<th>IFAD11</th>
<th>IFAD12</th>
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<tbody>
<tr>
<td><strong>PBAS approved</strong></td>
<td><strong>PBAS approved</strong></td>
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<tr>
<td>✓ Available resources defined before beginning of new cycle</td>
<td>✓ Available ODA resources defined before beginning of cycle</td>
</tr>
<tr>
<td>✓ All allocations defined through PBAS</td>
<td>✓ Available market resources defined through financial covenants</td>
</tr>
<tr>
<td>✓ Ordinary borrowers get a share of total</td>
<td>✓ Ordinary borrowers get resources in line with demand within allowable exposure</td>
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<tr>
<td>• Successful replenishment will allow for a higher PoLG; all borrowers will benefit.</td>
<td>• Replenishment will fund only concessional borrowers.</td>
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<tr>
<td>• PBAS instrumental for good rating: transparent allocation mechanism and sound financial forecast.</td>
<td>• Market funds will fund ordinary borrowers; only constraints will be demand and capital adequacy.</td>
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<thead>
<tr>
<th>IFAD11</th>
<th>IFAD12</th>
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<tbody>
<tr>
<td><strong>PBAS not approved</strong></td>
<td><strong>PBAS not approved</strong></td>
</tr>
<tr>
<td>✓ Available resources defined before beginning of cycle</td>
<td>✓ Application of same PBAS as in IFAD11</td>
</tr>
<tr>
<td>✓ All allocations defined through PBAS</td>
<td>✓ No availability of market resources</td>
</tr>
<tr>
<td>✓ Ordinary borrowers get a share of total</td>
<td>✓ Ordinary borrowers get only share of total, and no market borrowing</td>
</tr>
<tr>
<td>• Allocations defined based on current PBAS formula</td>
<td>• Market borrowing delayed</td>
</tr>
<tr>
<td>• Rating process endangered</td>
<td>• Supply of resources constrained by ODA</td>
</tr>
<tr>
<td>• No demand consideration</td>
<td>• No demand consideration</td>
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Any questions?

Thank you for your attention