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Investing in rural people

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

Note to PBAS Working Group members

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Working Group on the Performance-Based Allocation System —
Ninth Meeting

Rome, 29 June 2018

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

1. The discussions of the ninth meeting of the Working Group on the Performance-Based Allocation System (PBAS), held on 29 June 2018, are reflected in this document. The minutes as approved by Working Group members will be the basis for the Chairperson's report to the Executive Board.

Agenda item 1: Opening of the meeting

2. The meeting was attended by Working Group members from Canada, Dominican Republic, Japan, Kenya, Nigeria, Norway, Switzerland and Venezuela (Bolivarian Republic of), and Executive Board observers from China and France. On behalf of Management, the meeting was attended by: the Associate Vice-President, Programme Management Department; the Director, West and Central Africa Division and Director, a.i., Operational Policy and Results Division; the Acting Secretary of IFAD; and other IFAD staff.

Agenda item 2: Election of the Chairperson of the Working Group

3. Members re-elected Nigeria as Chair of the Working Group for the period up to April 2020.
4. The Chair thanked members for entrusting him with the responsibility for leading the Working Group and said he looked forward to the task.

Agenda item 3: Adoption of the agenda

5. The provisional agenda, document PBAS 2018/9/W.P.1, contained five items: (i) opening of the meeting; (ii) election of the Chairperson; (iii) adoption of the agenda; (iv) lessons learned: reviewing and implementing the PBAS; and (v) other business.
6. Members adopted the provisional agenda, with the addition of an item under other business on a proposed date for a joint meeting between the Working Groups on the PBAS and the Transition Framework.
7. The agenda would be revised and posted as PBAS 2018/9/W.P.1/Rev.1.

Agenda item 4: Lessons learned: Reviewing and implementing the PBAS

8. Management made a presentation summarizing the review process and main features of the PBAS formula for the Eleventh Replenishment of IFAD's Resources (IFAD11), highlighting the key lessons set forth below.
9. While reallocation of resources early in the cycle does contribute to smoother planning and delivery of the programme of loans and grants (PoLG), it does not entirely resolve the need for a later reallocation as well. The first lesson relates to the reallocation process. In 2016, the Corporate-level evaluation (CLE) of IFAD's PBAS recommended that reallocations take place early in the cycle – as opposed to the final year. Management committed to testing this during IFAD10, in order to incorporate lessons into IFAD11. Management explained how the reallocation process functions and highlighted that allocating resources earlier has enabled the early delivery of funds that remain unused by the countries that had originally received them. This has allowed for a smoother planning and delivery of the IFAD10 PoLG. At the same time, while to date Management has undertaken three reallocation exercises, it is already clear that at least a fourth reallocation will need to take place before the end of IFAD10. Therefore the planning and delivery issues that early reallocations sought to tackle remain, in part. This poses a challenge in relation to IFAD11, given the commitment to limit reallocations to a maximum of 10 per cent of the PoLG. It is expected that the country selectivity criteria introduced for IFAD11 will further streamline the pipeline planning and delivery process, helping to reach the reallocation target.

10. The PBAS review is a process that requires ample time. The second lesson Management highlighted relates to the PBAS review process itself. The review of the PBAS formula for IFAD11 required more time than expected. This was due only partially to the technical aspects of the review; mostly it was due to the political aspects of the conversation and its strategic implications. As a result, every small change took a significant amount of time, involving a thorough analysis. Therefore any change to the PBAS in anticipation of IFAD12 will require careful planning.
11. Moreover, IFAD has made some historic commitments regarding how it allocates its resources, to which further commitments were added as a result of the CLE on PBAS and the discussions at the IFAD11 Consultation. These commitments are: (i) 45 per cent of resources are allocated to sub-Saharan Africa and 50 per cent to Africa; (ii) two thirds of IFAD resources shall be allocated to highly concessional borrowing countries; (iii) no country shall receive more than 5 per cent of all resources allocated; (iv) minimum allocations shall be of US\$4.5 million per cycle; (v) the balance between country needs and performance shall be maintained, or shifted towards performance; (vi) 90 per cent of core resources shall be allocated to low-income countries and lower-middle-income countries, and 10 per cent to upper-middle-income countries; and (viii) a selection must be made among the countries entering the cycle, using specific selectivity criteria. The combination of all these commitments makes the review process rather challenging and limits the formula's flexibility. This is to be taken into account moving forward.
12. Further reviews to the PBAS process must take into account IFAD's evolving financial architecture. IFAD's financial architecture is changing, and many of the aspects of this change are yet to be defined. However, such changes must be taken into account and reflected in the PBAS review. Should a decision be made to establish two different financing windows, in a similar fashion to other international financial institutions (IFIs), IFAD would maintain the PBAS as a means for distributing resources solely for the concessional window. The new financing window would have a separate and ad hoc allocation mechanism. In this eventuality, the review of the PBAS should start by assessing, first of all, whether limiting the number of countries accessing PBAS resources has an impact on the validity of the current PBAS formula, including its capacity to capture country specificities within a more homogeneous group of countries.
13. Next steps. Management explained that the PBAS review would follow a similar methodological process as that of the recently completed review: first a normative phase in which the individual formula variables are reviewed, followed by a quantitative phase in which the weights of the variables are assessed. Management also highlighted that further reflection and clarity are needed on IFAD's future financial strategy before this can happen. This would involve not only the potential development of two separate financing windows (for more concessional and less concessional countries respectively) but also the development of additional, specific financing windows for regional operations or countries with fragile situations. Should these separate financing windows be created, a decision would be needed as to how to allocate the resources. In addition, an assessment of these additional windows' potential impact on the overall PBAS formula and financial implications would need to be carried out.
14. Management would present a more detailed workplan and timeline at the next Working Group meeting.
15. In response to questions about the predictability of allocations, Management clarified the "additionality" feature of reallocations and explained the mechanisms put in place to ensure that allocations are stable and do not see high variations year-on-year, so as to permit good planning.
16. Members enquired regarding the intersection between the work of the Working Group on the Transition Framework (TFWG) and that of the PBAS Working Group. Management acknowledged that – depending on the decisions made – there may

be such an intersection between the IFAD Transition Framework and the PBAS. For example, it is foreseen that during phase III of the IFAD Transition Framework, IFAD will rethink its financing terms structure. Given that one of the current commitments is that the PBAS shall ensure that two thirds of resources are allocated to countries borrowing on highly concessional terms, any decision regarding the financing terms will have an impact on the capacity of the PBAS to do so. In addition, should a decision be made to develop two separate financing windows, this will be relevant not only to the work of the PBAS, but also to the work of the TFWG. Lastly, should a decision be made to develop special financing windows (a discussion that is taking place within the TFWG), decisions will also have to be made as to how to allocate resources within each of these windows, together with an assessment of the overall impact on the PBAS.

17. Some members asked for further clarification on the IFAD Vulnerability Index (IVI). Management provided an overview of the IVI, its development process and the challenges associated with the development of such an index, such as those related to data availability and continuity. If members were to express an interest, Management would hold a dedicated session on the IVI in order to provide more information. Regarding country selectivity, Management clarified that the IFAD11 business model does not exclude countries, but rather ensures a better sequencing for the countries that receive fresh financing, while continuing to support ongoing operations in the remaining countries.
 18. Lastly, Management reiterated that in the final analysis, the PBAS is a tool to implement the organization's vision. The PBAS does not drive the vision, but rather supports it. As such, the IFAD11 PBAS formula is in line with the IFAD11 business model and its focus on the poorest countries. Modifying the PBAS formula would be challenging in the absence of a vision. Decisions regarding IFAD's financial architecture will need to be made, and the vision for the IFAD12 period will need to be in place, before embarking on the PBAS review for that period. Experience from other IFIs shows that they modify their PBAS formulas during Replenishment Consultations. These are not overall reviews like the one IFAD recently completed, but are rather small adjustments that enable alignment between the resource allocation mechanism and the IFI's vision.
- Agenda item 5: Other business
19. The Working Group agreed to hold the joint meeting with the TFWG on 8 October 2018, and its next Working Group meeting on 29 October.