

Document: PBAS 2020/13
Date: 18 November 2020
Distribution: Public
Original: English

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

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Working Group on the Performance-Based Allocation System –
Thirteenth Meeting

Rome, 23 October 2020

For: Information

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

1. The discussions at the thirteenth meeting of the Working Group on the Performance-Based Allocation System (PBAS) held on 23 October 2020 are summarized in this document.

Agenda item 1: Opening of the meeting

2. The meeting was attended by Working Group members from Nigeria (Chair), Angola, Canada, Dominican Republic, Japan, the Republic of Korea, Switzerland and the Bolivarian Republic of Venezuela. Executive Board observers from China, France and the United States were also in attendance. Management was represented by the Associate Vice-President, Programme Management Department; the Director, Operational Policy and Results Division; the Director, Financial Management Services Division; the Treasurer; the Secretary of IFAD; and other IFAD staff.

Agenda item 2: Adoption of the agenda

3. The provisional agenda contained the following items: (i) opening of the meeting; (ii) adoption of the agenda; (iii) minutes of the twelfth meeting of the Working Group on the Performance-Based Allocation System (PBAS); (iv) discussion and validation of a three-year (replenishment cycle) approach to allocations; (v) Borrowed Resources Access Mechanism (BRAM); and (vi) other business.
4. Members adopted the provisional agenda with one amendment (now revised as document PBAS 2020/13/W.P.1/Rev.1), namely the removal of agenda item (iv) on the discussion and validation of a three-year (replenishment cycle) approach to allocations, which would be considered at a future meeting.

Agenda item 3: Minutes of the twelfth meeting of the Working Group on the Performance-Based Allocation System

5. The minutes of the twelfth meeting of the PBAS Working Group were approved with one correction, which will be reflected in a revised document to be posted on the Member States Interactive Platform.

Agenda item 4: Borrowed Resources Access Mechanism

6. At the outset, Management recalled that the BRAM was intended to support IFAD in expanding its programme of loans and grants (PoLG) by accommodating higher levels of borrowing while guaranteeing financial sustainability and adherence to the principles of development effectiveness. As a complementary mechanism to the PBAS, the BRAM could facilitate scaling up of successful interventions in low- and lower-middle-income countries as well as offering universality in access to resources for upper-middle-income countries.
7. Management proposed a time line that would allow for the mechanism to be in place at the start of the Twelfth Replenishment of IFAD's Resources (IFAD12) period. The time line envisaged the presentation of the BRAM to the Audit Committee and the Executive Board in April 2021. Amendments to the Policies and Criteria for IFAD Financing would be required in order to implement the BRAM and such amendments would be submitted to the Governing Council for approval in February 2022.
8. Responding to questions, Management reassured members that the BRAM mechanism would be aligned with IFAD's mandate and that the allocation and implementation process would mirror that already in place for the PBAS. As such, the availability of resources would be reviewed; country eligibility would be determined based on, inter alia, creditworthiness, capacity to absorb debt and single country limits; eligible countries would be informed and requested to confirm their interest in accessing the borrowed funds; projects would be designed according to existing IFAD design processes with a focus on

development effectiveness – using the development effectiveness matrix – and aligned with IFAD policies, procedures and rigorous review mechanisms. Reporting and monitoring would be in accordance with the IFAD12 Results Management Framework.

9. Resources would be distributed in accordance with agreements reached during the IFAD12 Consultation and Executive Board processes, for example, agreed distribution levels per income categories and total share of PoLG allocated to sub-Saharan Africa, etc. These parameters would also play a role in prioritizing allocations.
10. Noting the need to ensure competitive onlending terms, Management noted that the issue of pricing was proposed for consideration together with the BRAM, precisely because of the interlinkages between these issues. Pricing would be competitive, differentiate between countries by group of borrowers based on their income category, presence of fragility and transition stage of development. Furthermore, the borrowed resources would be onlent in such a way as to ensure that IFAD recovered the costs of its own borrowing. As such, Management suggested introducing a commitment fee and an up-front fee. The outcome of ongoing discussions around graduation, currently taking place in the context of the IFAD12 Consultation, would influence further developments in this regard.
11. Management acknowledged that IFAD’s credit rating was a significant milestone with respect to establishing pricing but it would take time to set a predictable and reliable price reference that was IFAD’s own. Until such time, the pricing benchmark of the International Bank for Reconstruction and Development would be used.
12. Management confirmed that the necessary risk architecture was in place to manage and monitor the creditworthiness of countries, assess the impact of potential unexpected credit loss on the portfolio and consistently monitor the construction of the portfolio.
13. In answer to a query as to the applicability of the BRAM to borrowed resources, irrespective of their source (sovereign or bond market), Management confirmed that all borrowed resources would be combined to provide a portfolio of debt that would be looked at on a weighted average basis in terms of both maturity and cost, after which consideration would be given to the appropriate onlending terms that would ensure competitiveness and cost recovery.
14. Responding to a question on the Development Effectiveness Framework, Management confirmed that it would be updated in line with an IFAD12 commitment. The update would ensure alignment with best practices but no significant changes to the development effectiveness matrix were foreseen.
15. Members suggested that more tangible examples, illustrative cases and access mechanisms would be welcome at a future session.
16. Members queried whether the role and scope of the PBAS Working Group needed to be reviewed. It was agreed that the Working Group would continue its review of the BRAM and would further discuss a possible revision of its terms of reference and composition. Additional expertise would be employed to assist in this task.
17. The Working Group suggested that another meeting be convened before the end of the year. The Secretariat committed to identifying scheduling options and reverting in due course.

Agenda item 5: Other business

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