Working Group on the PBAS Meeting

To review the key elements in the “Progress report on implementation of the PBAS”

Nigel Brett, Director OPR

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Background

Standard practice → An Addendum entitled **Progress Report on Implementation of the PBAS** is presented to the December Executive Board at the beginning of each replenishment period

- A decision on a delay of the submission of the Addendum was communicated to Members at the December 2021 Executive Board by the President;

  To show the PBAS Working Group the results and options derived from applying PBAS and BRAM for IFAD12, considering this is the first cycle that combines both resources, and to share with Members the different trade-offs emerging.

- In addition, a special session of the Executive Board was proposed to be held prior to the Governing Council to review and approve the final document.

IFAD12 commitments on financial resources

Up to a maximum of 80 countries

Country selectivity and eligibility criteria:

- ✓ Strategic focus
- ✓ Absorptive capacity
- ✓ Ownership
- ✓ Level of debt distress and absorptive debt capacity (BRAM)

Establish the BRAM

100% of core resources to LICs/LMICs

11-20% of PoLG available to UMICs
(from BRAM on demand)

Core resources:

- ✓ 55% to Africa
- ✓ 50% to SSA
- ✓ 25% to countries with fragile situations

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IFAD12 financing model – key features (i)

First time IFAD has a dual resource mechanism

- PBAS
- BRAM

Core resources are available to LICs and LMICs only (not UMICs)

Core Resources composition

DSF resources	Non-DSF resources

Pre-determined DSF grant envelope

Borrowed resources are accessible to all eligible LICs, LMICs or UMICs

Additional criteria for eligibility to BRAM

Level of debt distress and absorptive debt capacity

IFAD12 financing model – key features (ii)

Other principles governing access to BRAM [1/]:

- ✓ Supply of borrowed resources
- ✓ Risk-based country limits
- ✓ Differentiated financing conditions
- ✓ demand-based access.

Upper limit of resources
(combined PBAS and BRAM)

5% of PoLG

Lower limit of resources

US$ 4.5 million

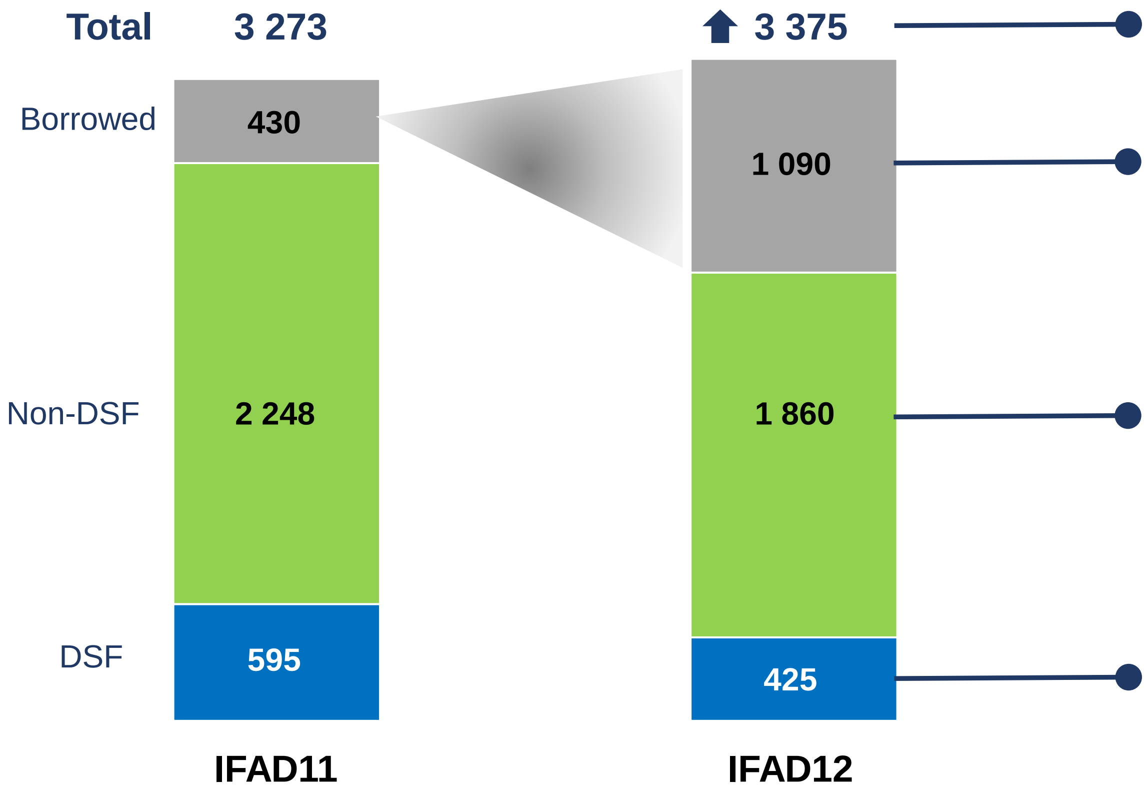
Capping of PBAS country allocations based on absorptive capacity

BRAM portfolio will be distributed by targeting an average credit rating equivalent to BB.

1/ These principles are spelled out in detail in the document on the creation of the BRAM approved by the Board in April 2021 EB 2021/132/R.9/Rev.1.

An increase in overall resources for IFAD12, but emerging constraints due to type of resources

At the Executive Board session in September 2021, Management updated Members on the sustainable size of the PoLG for IFAD12.



- IFAD12 overall resources are US$102.0 million higher than in IFAD11
- The amount of borrowing, and its share in the total PoLG, has risen substantially, resulting in the increase of total available resources under IFAD12
- The overall amount of non-DSF core resources available in IFAD12 is also lower than in IFAD11
- The amount of DSF resources available in IFAD12 is substantially lower

Note: It should be noted that the replenishment resources needed to reach the sustainable PoLG size described above had not materialized at the time of writing. Hence, there is a risk that the overall amount of core resources may diminish later in the cycle, affecting these values, which have been used in this analysis.

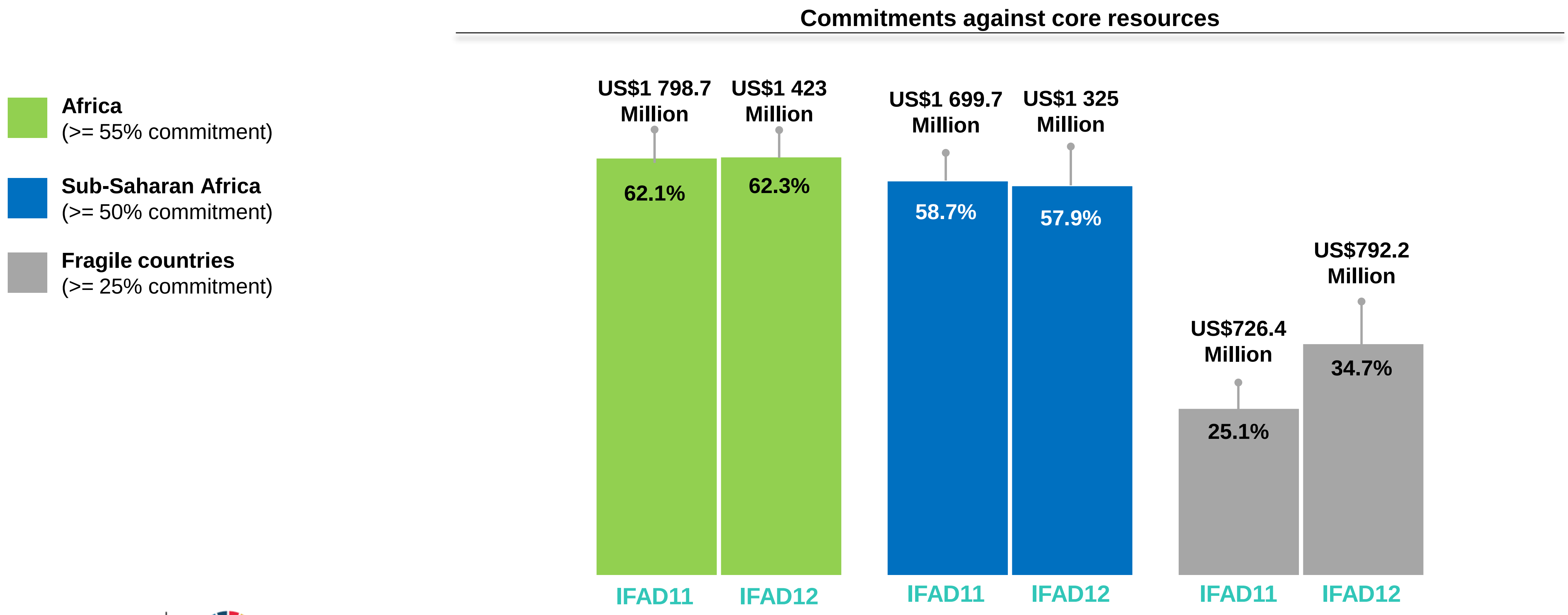
Options for consideration of the PBAS WG

1	Basecase scenario – Applying PBAS and BRAM
2	Management proposed scenario – Seeking to respond to some of the constraints in the basecase

1 Basecase scenario

Applying PBAS and BRAM

IFAD exceeds all IFAD12 commitments on the distribution of core resources, both in terms of performance against IFAD12 targets and compared to IFAD11. Africa receives over 62% of core resources and sub-Saharan Africa almost 58%. Fragile countries' share of core resources increases substantially to over 34%.

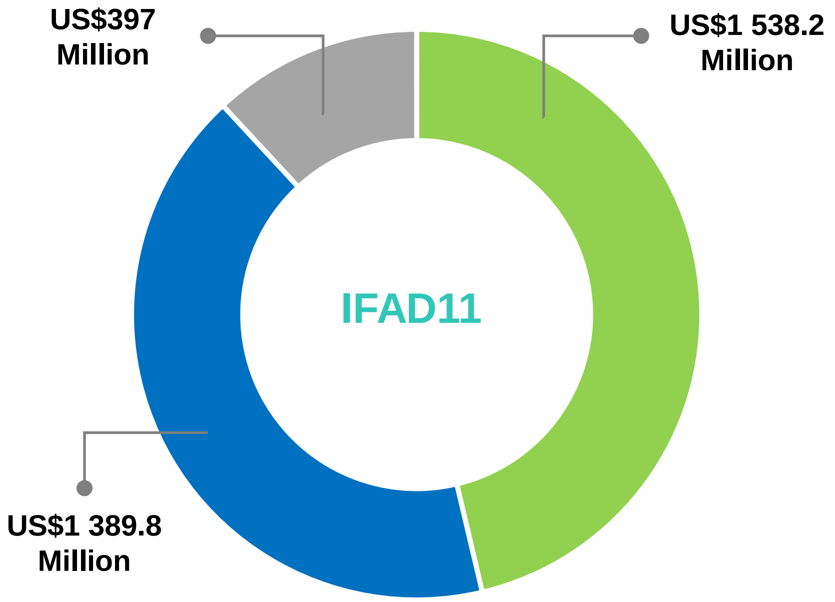


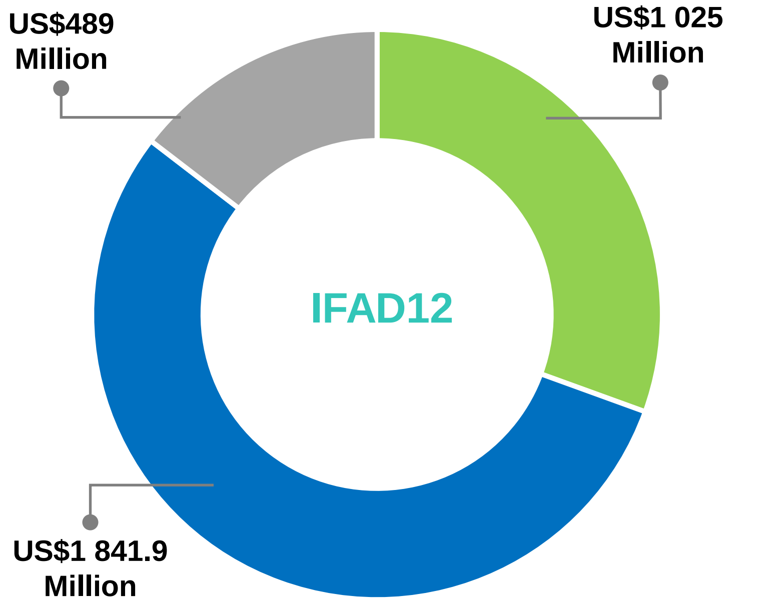
1 Basecase scenario

Total resources

Distribution by income category

UMICs out of PoLG (US$3.5 billion) → **13.97%**





- LICs
- LMICs
- UMICs

US$3 325 Million

US$3 356 Million

1 Basecase scenario

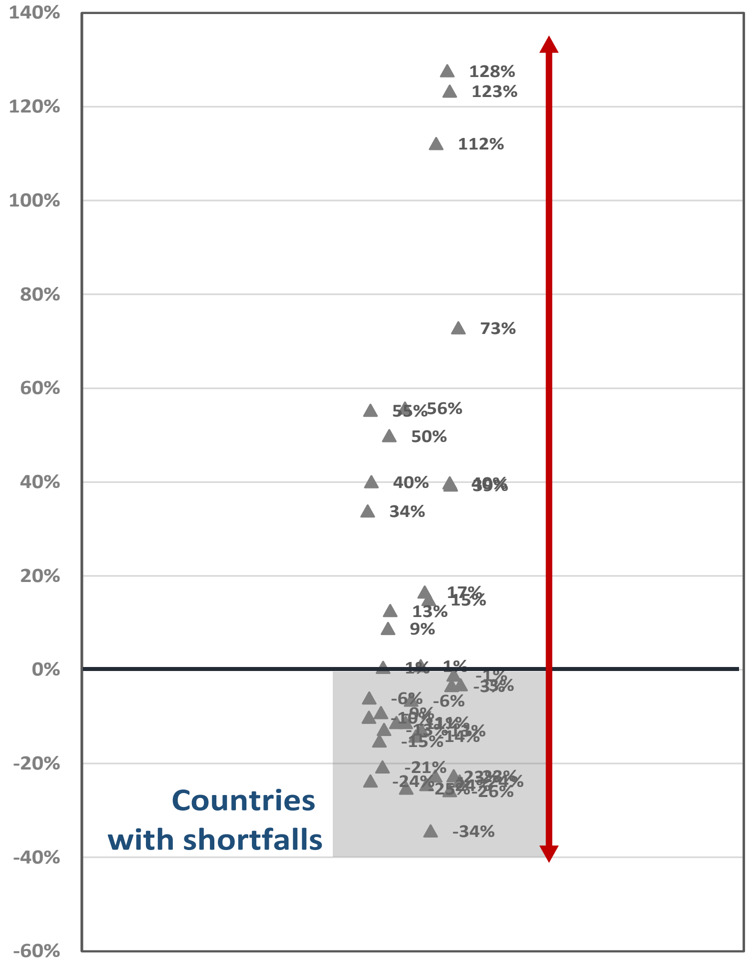
Wide variations in resource availability

Volume of resources available to individual countries varies widely between IFAD11 and IFAD12

Difference in resource availability for individual countries ranges from -34% to +128%.

22 countries with shortfalls compared to IFAD11

Basecase scenario: IFAD12 countries' total resources availability compared to IFAD11, % deviation



excluded DSF countries, UMICs (not PBAS eligible), management capped countries, newly added countries in IFAD12

1 Basecase scenario

Strengths and weaknesses

All corporate commitments under IFAD 12 are met

- Volume of resources available to individual countries varies widely between IFAD11 and IFAD12
- Resources are lower for:
  (i) Most LICs (DSF and non-DSF)
  (ii) Most LMICs that are not BRAM eligible
  (iii) Some of the LMICs that are BRAM-eligible

Q & A

2 Management proposed scenario

Management option

In order to address concerns in basecase, Management has explored an alternative option to:

- **Ensure that the poorest countries (LICs) receive a greater share of overall resources**
- **Reduce the severity of some of the reductions faced by individual countries, aiming at a maximum reduction of 5%**

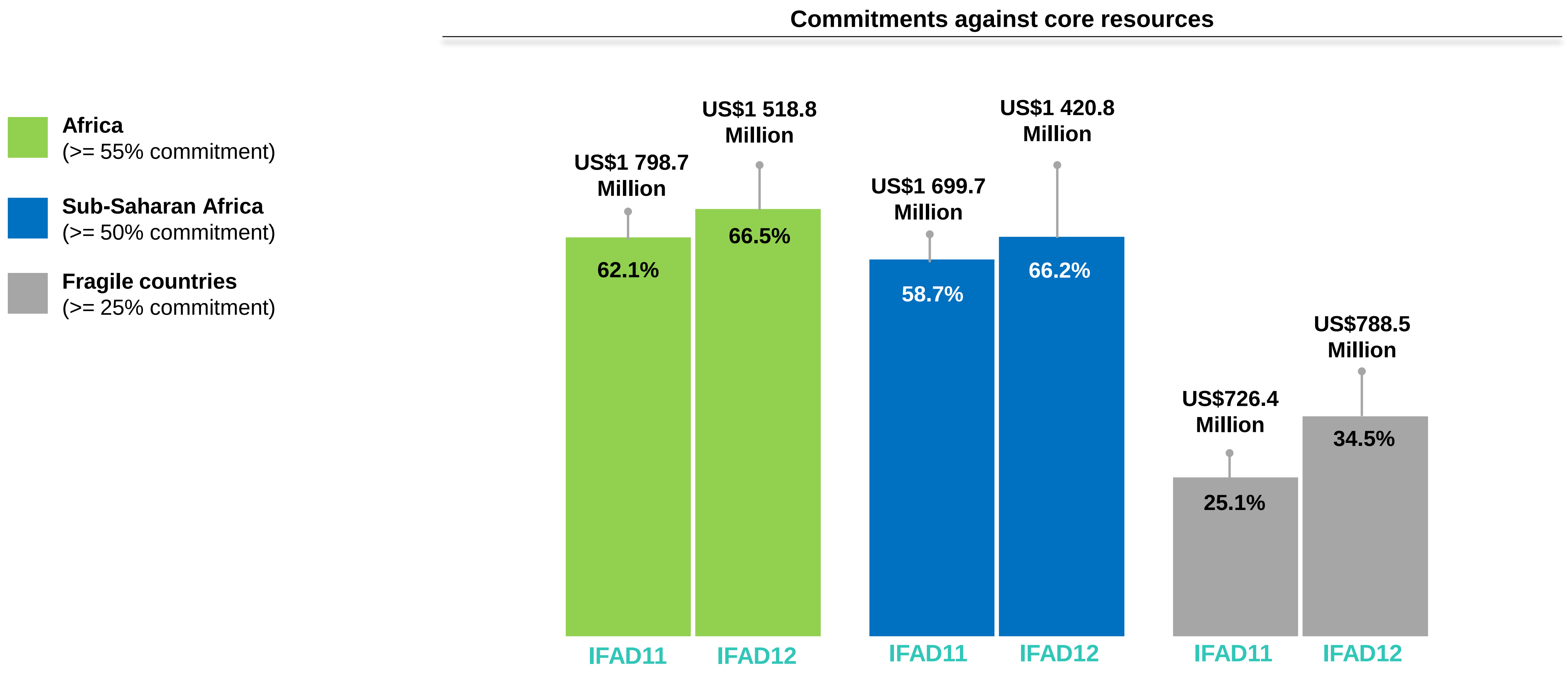
In undertaking this exercise, Management was constrained when it comes to the DSF countries, as the DSF resource amount has been fixed.

2 Management proposed scenario

Management has explored an option to address the key limitations in the basecase scenario, with the aim of seeking to minimize the inter-cycle variation in resource availability at country level for non-DSF LICs and LMICs. To do this, the following steps were taken:

1. **Application of capping of PBAS allocations (as done in previous cycles). Setting up a PBAS reserve.**
2. **Identifying countries that see a reduction in resource availability**
3. **Using the funds in the reserve** (and additional PBAS funds from capping) **to enhance resource availability for the poorest countries (LICs) and those countries that cannot access BRAM.**
4. **Prioritizing offering of BRAM finance in favour of those LMICs that see a reduced overall offer in comparison to IFAD 11.**

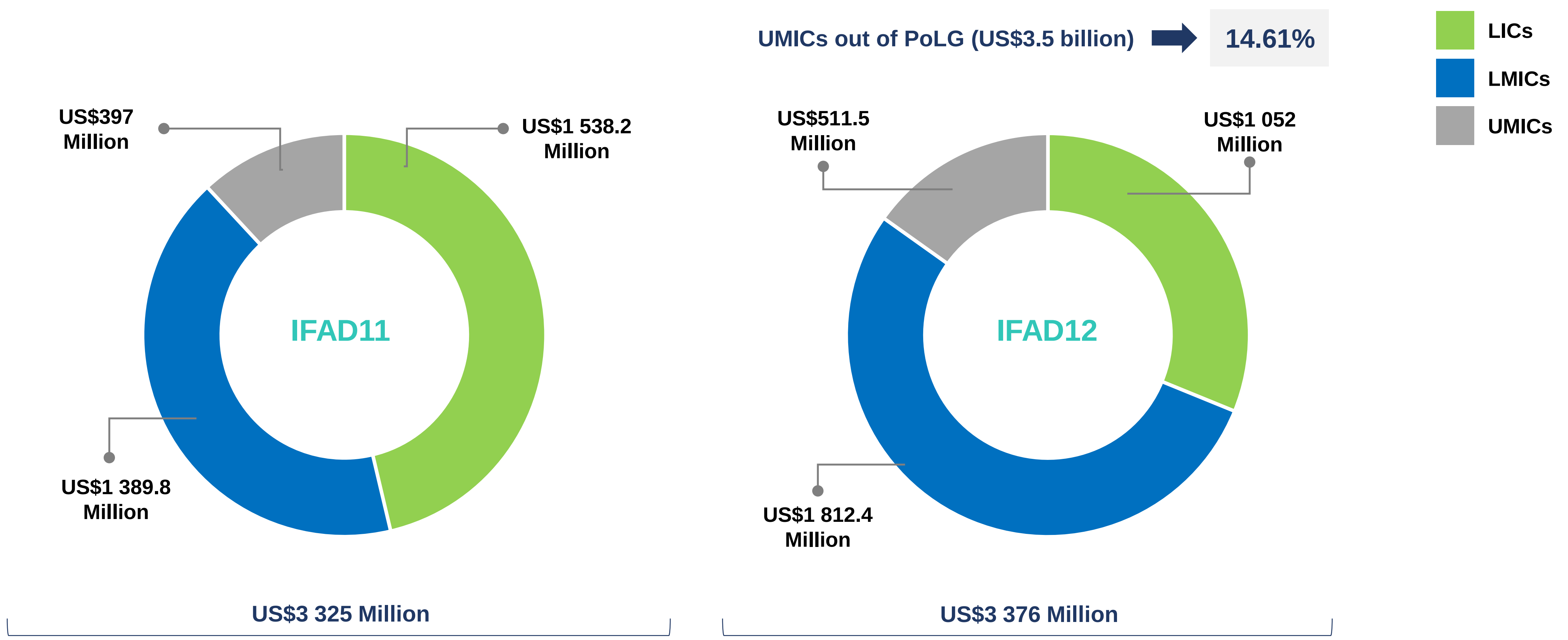
2 Management proposed scenario



2 Management proposed scenario

Total resources

Distribution by income category



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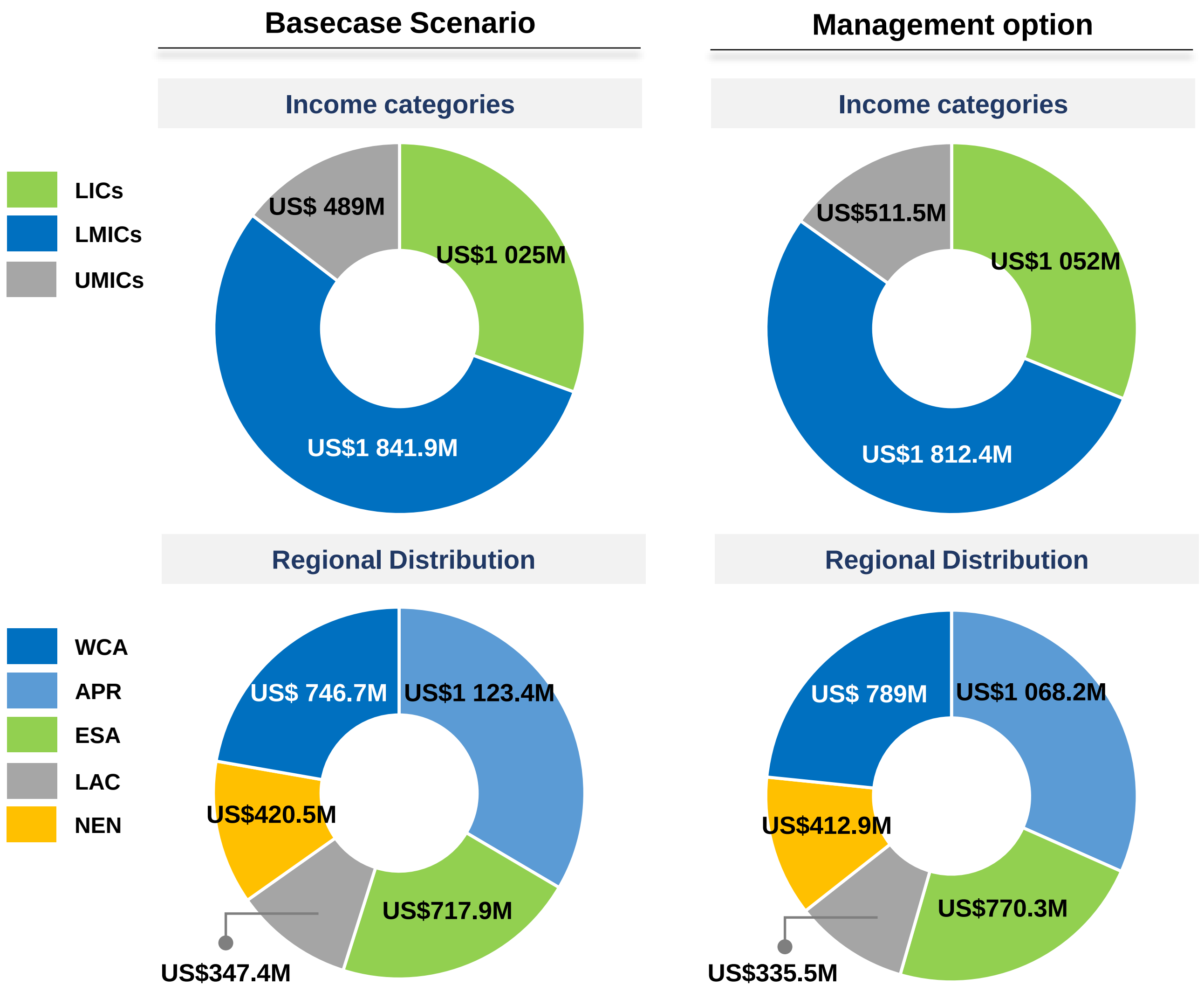
Conclusions (i)

- Both the base case scenario and the alternative Management option ensure IFAD12 commitments are met.
- The Management option succeeds in providing a greater amount of resources to non-DSF LICs, provided that demand for BRAM resources materializes as per illustrative distribution of BRAM adjusted portfolio.
- The Management option also succeeds in alleviating the reductions in overall resources at individual country level, benefiting 22 individual countries.
- At regional level, the shares of resources shift slightly across the two scenarios for most regions. Under the Management option, WCA and ESA both receive slightly more funds.



Conclusions (ii)

- Overall deviation (standard deviation) is halved under the Management option, the variance is 4x lower
- The severity of inter-cycle reductions for LICs and LMICs is alleviated
- Number of countries with significant reduction of offered financing (>5% reduction) are reduced from 19* in the Basecase scenario to zero under the Management option

Basecase and Management Scenario: IFAD12 countries' total resources availability compared to IFAD11, % deviation

* Excluded DSF countries, UMICs (not PBAS eligible), management-capped countries, newly added countries in IFAD12.

Questions for the working group

1. Should IFAD be seeking to maximize PBAS funding availability for non-DSF LICs?

2. Should IFAD be suggesting Management driven adjustments to the PBAS, given the severity of inter-cycle variation in resource availability at country level?

Thank you!

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