Proposing a revised PBAS formula
Executive Board PBAS Working Group meeting

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To reconstruct the PBAS formula incorporating agreed changes while providing a base-scenario that meets IFAD’s lending parameters.

The new formula slides n. 3 - 6

The allocations slides n. 7 - 9

Next steps slide n. 10
A PBAS formula more sensitive to multidimensional rural poverty

Proposed new formula:

\[
\left[ (\text{Rural Population})^{0.40} \times \text{GNI}_{pc}^{-0.25} \times (1+\text{IVI}) \right] \times
\left[ (0.65\text{RSP} + 0.35\text{PAR})^2 \right]
\]

Simplicity and current balance between needs and performance as guiding principles

Up to 45% to Sub-Saharan Africa

Two-thirds highly concessional

Considering increased resources to MFS
Rescaling rural population to rebalance elasticities

Too much dispersion: 1500 standard deviations

Option A: current formula

Option C
Maintaining minimum and maximum allocations

India and China
Allocations are normalized around and within the current ceiling

Namibia and Montenegro
Among the countries with minimum allocations that increased the most

Comoros
Receives the new minimum allocation, a 50% increase

Too little dispersion: 2 standard deviations

Option B: log of rural population

Just enough dispersion: 500 standard deviations

Option C: 0.05 point exponent reduction

preferred
Ensuring that IFAD Vulnerability Index (IVI) redirects resources where needs are greater

<table>
<thead>
<tr>
<th>Option A</th>
<th>Incorporating IVI to the PBAS</th>
<th>Option B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WITHIN</strong></td>
<td></td>
<td><strong>OUTSIDE</strong></td>
</tr>
<tr>
<td>As a variable within the formula</td>
<td></td>
<td>As a discount factor outside the formula</td>
</tr>
<tr>
<td><strong>preferred</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results in an increase of 10% allocation to the top two vulnerability quintiles</td>
<td></td>
<td>Results in an increase of 1% allocation to the top two vulnerability quintiles</td>
</tr>
</tbody>
</table>

**Share of total allocations with IVI...**

<table>
<thead>
<tr>
<th>Country</th>
<th>Option A (within formula)</th>
<th>Option B (outside formula)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>1.20%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Sudan</td>
<td>0.91%</td>
<td>0.15%</td>
</tr>
<tr>
<td>Eritrea</td>
<td>0.54%</td>
<td>0.11%</td>
</tr>
</tbody>
</table>

IVI redirects additional US$125 million to most vulnerable countries

- Food security
- Nutrition
- Climate vulnerability
- Inequality
Confirming that the Rural Sector Performance Score (RSP) rewards good performers

The weight of the new RSP equals the combined weight of RSP and CPIA in the previous formula.

On average, it halves the negative impact of eliminating CPIA on top performers.
Base simulation enhances IFAD’s focus on Africa

Distribution of core resources by continent

**Current formula**
- Africa: 49%
- Sub-Saharan Africa: 47%
- Asia: 36%
- Other Africa: 2%
- Latin America and Caribbean: 8%
- Near East and Europe: 7%

**Proposed formula**
- Africa: 52%
- Sub-Saharan Africa: 50%
- Asia: 34%
- Other Africa: 2%
- Latin America and Caribbean: 7%
- Near East and Europe: 7%
With 23% of IFAD 10 allocations going to MFS, increases should match capacity and demand.

<table>
<thead>
<tr>
<th>Increased resources</th>
<th>yet weak demand and absorptive capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>Overall estimated increase using the new PBAS formula</td>
</tr>
<tr>
<td>63%</td>
<td>Percentage of fragile countries within the top 2 quintiles of IVI score</td>
</tr>
</tbody>
</table>

Many MFS have been persistently capped (e.g., Afghanistan and Congo Dem.Rep.)

Most eligible countries never used the post conflict facility, and none used it to its full potential.

**Most Fragile situations (MFS)**
Adjusted redistribution of resources

± 3% – 5%

Most vulnerable countries, most are MFS → IVI → MICs, particularly UMICS

LICs → GNI → Ordinary borrowers

SIDs → Population → Highly populated countries

Allocations
Next steps

- Further adjusting the **coefficients** based on EB WG desired outcome.
- Refining Portfolio at Risk (**PAR**) variable.
- Finalizing Rural Sector Performance Score (**RSP**) questionnaire.
- Streamlining **management** practices, particularly yearly reallocations and alignment with pipeline delivery.
Questions and discussion

Any questions?

Thank you