Proposing a revised PBAS formula

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Today’s presentation

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Refreshing our understanding of the Performance based Allocation System

How many people live in the rural areas?
The bigger the rural population, the higher the allocation

How poor are the countries we work in?
The lower the GNIpc and the higher the vulnerability, the higher the allocation

How good is the enabling environment for rural poverty reduction?
The better the enabling environment over time, the higher the allocation

How is IFAD’s portfolio performing?
The stronger the performance, the higher the allocation
Phase I introduced changes to the variables

\[
\text{NEEDS} \quad \left[ \left( \text{Rural Pop}^{0.40} \times \text{GNIpc}^{-0.25} \right) \times (1 + \text{IVI}) \right]
\]

\[
\text{PERFORMANCE} \quad \left[ (0.65 \times \text{RSP}) + (0.35 \times \text{PAR}) \right]^2
\]

- Reduce the range of variation
- Maintain
- Add a vulnerability measure

- Fold CPIA into RSP and merge their weight
- Simplify and add disbursements: from PAR to PAD
Providing clearer incentives for portfolio management

Proposed PAD features

- Eliminates potential problem projects because it was a perverse incentive for early warning system at the operational level
- Taking into account the portfolio size and age
- Discount applied to reflect disbursement performance: the lower the disbursement ratio, the higher the discount

Three year average PAD will be used to prevent high variations year on year

ADVANTAGES

- From qualitative to quantitative
- Simpler Methodology
- Reinforced incentives

Angola

Old PAR 6.0
New PAD 4.19
Disbursement ratio 9%

6 projects, none at risk

Sri Lanka

Old PAR 5.0
New PAD 5.45
Disbursement ratio 39%

3 projects, none at risk

We have worked on the performance side to increase the elasticity of the performance component, irrespective of the scenario chosen
Sensitivity analysis confirms the stability of the formula on the longer term.

Observed trends in GNIpc and rural population growth do not alter the equilibrium of different country groupings.
Viable scenarios show stability across income groups but variations within fluctuate

<table>
<thead>
<tr>
<th>Needs</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>45%</td>
<td>55%</td>
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</tbody>
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**Scenario 1**
- **Rwanda**
  - Max: $122m Nepal, $34m Rwanda
  - Median: $58.8m Nepal, $35.5m Rwanda
  - Min: $5m

- **Nepal**
  - Max: $122m Nepal, $34m Rwanda
  - Median: $58.8m Nepal, $35.5m Rwanda
  - Min: $5m

**Scenario 2**
- **LICS** (Low Income Countries)
  - Max: $135m Nepal, $36m Rwanda
  - Median: $56.9m Nepal, $35.2m Rwanda
  - Min: $5m

**Scenario 3**
- **LMICS** (Lower Middle Income Countries)
  - Max: $152m Rwanda
  - Median: $69m Nepal, $46.7m Rwanda
  - Min: $5m

**Scenario 4**
- **UMICS** (Upper Middle Income Countries)
  - Max: $152m Rwanda
  - Median: $69m Nepal, $46.7m Rwanda
  - Min: $5m

<table>
<thead>
<tr>
<th>Income level</th>
<th>Median</th>
<th>Min</th>
<th>Max</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>$34m</td>
<td>$5m</td>
<td>$152m</td>
<td>$24m</td>
<td>$5m</td>
</tr>
<tr>
<td>Mexico</td>
<td>$34m</td>
<td>$5m</td>
<td>$132m</td>
<td>$10m</td>
<td>$5m</td>
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<tr>
<td>Rwanda/Nepal</td>
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<td>$5m</td>
<td>$122m</td>
<td>$34m</td>
<td>$5m</td>
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<tr>
<td>Low</td>
<td>$69m</td>
<td>$8m</td>
<td>$152m</td>
<td>$24m</td>
<td>$5m</td>
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<tr>
<td>Middle</td>
<td>$38m</td>
<td>$5m</td>
<td>$152m</td>
<td>$26m</td>
<td>$5m</td>
</tr>
<tr>
<td>High</td>
<td>$47m</td>
<td>$5m</td>
<td>$152m</td>
<td>$5m</td>
<td>$5m</td>
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Although counterintuitive, a larger weight for one variable (or component) does not necessarily imply that countries with better scores in that variable receive more resources, even if that variable scores better than any other variable in the formula.
Strongest focus on needs

Needs

\[0.4 \times \text{RurPop} \times \text{GNIpc} \times (1 + \text{IVI}) - 0.25\]

Performance

\[\left(0.65 \times \text{RSP} + 0.35 \times \text{PAD}\right)^2\]

44% share

Needs Quintiles

Performance Quintiles

Sub-Saharan Africa

Highly Concessional

UMICs 26%

LMICs 37%

LICs 37%

MFS 25%

37% LICs

45% LMICs

LICs 18%

UMICs 26%
Needs still dominate, but performance matters

Scenario 2

Needs share 46%
Performance share 54%

(0.40 X RSP + 0.60 X PAD)
Performance dominates, but needs matter

Needs

Performance

\[ \text{Performance} = 0.20 \times \text{RSP} + 0.80 \times \text{PAD} \]

Needs Quintiles

Performance Quintiles

Sub-Saharan Africa

Highly Concessional

Scenario 3
Strongest focus on performance

\[
\text{0.4 RurPop} \times \text{GNIpc} \times (1 + \text{IVI})
\]

Needs Quintiles

\[
(0.20 \times \text{RSP} + 0.80 \times \text{PAD})
\]

Performance Quintiles

Scenario 4

Sub-Saharan Africa

Highly Concessional
Reallocating resources earlier rewards early planners and good performers

- Countries that have already completed design (QA stage) by the time of reallocations have their full funding secure (incentive to avoid bunching)

- Countries designed with a financing gap can benefit from resources of the redistribution process (facilitates smoother delivery)

- Reallocations in year two and three will also be used to reconcile the accounts and for additional financing (incentive to perform well).
CLE on PBAS recommendations to Management

1. Enhancing PBAS design
2. Streamlining processes for better effectiveness
3. Improving efficiency
4. Adjusting management and governance
5. Generating learning
Next steps

Design PBAS system to automate the calculation process, facilitate simulations and aggregate information in dashboard.

Produce PBAS manual to describe the calculation process and managerial rules to increase consistency and transparency.

Issue procedures and user guidance on the new Rural Sector Performance Scores to be piloted before IFAD 11.

Operationalize the definition of Most Fragile Situations to ensure consistent application and adequate linkages with PBAS.
Questions and discussion

Any questions?

Thank you