Performance Based Allocation System: enhancements

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Today’s presentation

- **Proposed scenarios**: slide: 3 - 9
- **IFAD11 and beyond**: slide: 10 - 12
- **Q&A**: slide: 13
A more balanced and stable formula…

- **Scenario 3**
  - Needs: 49% needs - 51% performance
  - High dispersion of allocations: 27% of countries with minimum allocations

- **Scenario 3**
  - Needs: 49% needs - 51% performance
  - High dispersion of allocations: 26% of countries with minimum allocations

- **Scenario 3**
  - Needs: 54% needs - 46% performance
  - High dispersion of allocations: 44% of countries with minimum allocations
  - Balanced elasticity across variables

- **Scenario 3**
  - Needs: 45% needs - 55% performance
  - Lowest dispersion of allocations: 10% of countries with minimum allocations
  - Focus on GNIpc and PAD: formula prone to volatility
…that strengthens the focus on the poorest countries.
The proposed scenario’s ability to capture the multidimensionality of poverty…

Share of allocation by indicator by two top quintiles (Total resources)

**HDI**
- **Djibouti** + 54%
- **Gambia** + 36%

**Agri GDP**
- **Grenada** + 50%
- **Liberia** + 39%
…is confirmed by diverse measures.

Share of allocation by indicator by two top quintiles (Total resources)

**Infant mortality**
- Chad: + 64%
- Cameroon: + 46%

**School enrolment**
- Niger: + 53%
- Guinea: + 25%

Bar chart showing the share of allocation by indicator by two top quintiles (Total resources).
IFAD11 cross-cutting priorities are adequately captured

Share of allocation to countries with lower performance by two top quintiles (Total resources)
Most resources are concentrated on countries that need the most and perform the best.

**IFAD10** Current

**IFAD11** Proposed

Scenarios
Balanced elasticity across variables

Comparison of elasticities – current and proposed formula

- POP: IFAD10 (19%) vs. Scenario proposed (18%)
- GNI: -10% vs. -15%
- IVI: 47%
- CPIA: 26%
- RSP: 18% vs. 33%
- PAR/PAD: 31% vs. 33%
IFAD11 Business Model provides the strategic direction, with no uncertainties.

- IFAD11 country selectivity criteria preserve the formula’s macro-stability.

- The proposed PBAS allows IFAD to maintain its commitment on shares of allocations of core resources (90% to LICS and LMICS, 10% to UMICS).

- The size of the PoLG (3.3, 4, 4.5) does not influence the PBAS allocation shares by income level, lending term or any other breakdown. Therefore, the PBAS would remain valid for any PoLG level.
Different sources of funding require different resource allocation systems

**IFAD11**

- The **PBAS** is a mechanism for the fair distribution of resources to neediest and best performing countries
- Allocations are determined by the formula
- Recipient countries are allocated financing regardless of their creditworthiness

**Beyond**

- **Bond issuance** is a tool for increasing IFAD’s funding base at cheap funding costs through high credit rating
- To obtain a high credit rating allocations of loan portfolio funded by bonds must be driven by risk management considerations:
  - Single borrower concentration
  - Borrower credit rating
Way forward: preparing for IFAD11 and beyond

IFAD10

2017

Q4 2017

- Feasibility study on market borrowing
- Internal rating assessment begins
- Production of PBAS Manual
- Revised RSP testing

Q1-Q2 2018

- Development of PBAS IT system

Q2 2018

- IVI data collection and production
- RSP scores production
- PAD production
- IFAD11 PBAS allocations

Q3 2018 – Q2 2020

- Definition of IFAD approach to loan pricing

IFAD11

2019

Q1 2019 – Q4 2020

- Formal rating process

Q1-Q4 2020

- Review of PBAS

IFAD12

2021

2022

2022

- Inaugural bond issue

2023

2024

2024
Any questions?

Thank you for your attention
Testing the new Rural Sector Performance Assessment

WHAT  mock scoring of countries with the new questionnaire

WHY  assess the potential impact of newly made scores on allocations

HOW  use current RSP, CPIA, and other data sources to score countries

RESULTS

Reduced repetition between indicators

The new RSP scores countries slightly lower, with an average reduction of 3%

Limited impact on allocations