Performance Based Allocation System

24 July 2017

Lisandro Martin, Chief,
Operational Programming and Effectiveness Unit (OPE), PMD
Today’s presentation

<table>
<thead>
<tr>
<th>Topic</th>
<th>Slides</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBAS funding and use</td>
<td>3 - 5</td>
</tr>
<tr>
<td>Proposed scenario</td>
<td>6 - 8</td>
</tr>
<tr>
<td>PBAS and IFAD’s future</td>
<td>9 - 10</td>
</tr>
</tbody>
</table>
Towards a bigger pie for all to reinforce universality

<table>
<thead>
<tr>
<th>IFAD8</th>
<th>IFAD9</th>
<th>IFAD10</th>
<th>IFAD11</th>
<th>IFAD12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External funding sources</strong></td>
<td>Contributions</td>
<td>Contributions</td>
<td>Contributions</td>
<td>Contributions</td>
</tr>
<tr>
<td></td>
<td>SB</td>
<td>SB+CPLs</td>
<td>Market borrowing</td>
<td></td>
</tr>
<tr>
<td><strong>Allocations mechanism</strong></td>
<td>PBAS</td>
<td>IFAD11 PBAS</td>
<td>IFAD12 PBAS</td>
<td></td>
</tr>
<tr>
<td><strong>Growth of the funds</strong></td>
<td>+55%</td>
<td>+19%</td>
<td>+7%</td>
<td>+25 / 40%</td>
</tr>
</tbody>
</table>

Proposed PBAS scenario only for IFAD11

A bigger IFAD for all clients
Efficient use of ODA, in line with AAA

External Funding Sources

ODA

Borrowing

Total resources

PoLG

PBAS
Flexibility is embedded in the PBAS

Allocations are updated on a yearly basis

\[ \pm 8\% \]

Resulting from updating variables of the formula, with wide standard deviation within and across income groups

Reallocations take place multiple times

US$139M

Reallocated among countries:
- 49% to LICs
- 37% to LMICs
- 15% to UMICs

Allocations are indicative and subject to changes
Scenarios evolution and proposal

**IFAD10**
- Africa 46.4%
  - FS 55% - MFS 22%
  - LICs + LMICs 81.0%
  - UMICs 19.0%

- Too inward looking
- Less poverty focus
- Reassess between needs and performance

**Scenario 3D**
- Africa 52.6%
  - FS 62% - MFS 30%
  - LICs + LMICs 85.0%
  - UMICs 15.0%

- RSP/PAD
- Increased LIC+LMICs
- Rebalanced needs and performance
- Regional imbalances
- Too volatile

**Scenario 3D adjusted**
- Africa 51.7%
  - FS 61% MFS 26%
  - LICs + LMICs 83.4%
  - UMICs 16.6%

- IVI leading influence
- PAD updated
- Management capping included
- More targeted toward neediest and best performing
Proposed scenario captures the multidimensionality of poverty

Share of allocation by indicator by two bottom quintiles (Total resources)
Both needs and performance are actionable and meaningful

<table>
<thead>
<tr>
<th>IVI</th>
<th>Most influential needs variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest elasticity to ensure high relevance in country scores</td>
<td></td>
</tr>
<tr>
<td>High reaction to new situations of fragility</td>
<td></td>
</tr>
<tr>
<td>Considers multi-dimensional poverty aspects</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PAD</th>
<th>Most influential performance variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second-largest elasticity to capture changes in performance</td>
<td></td>
</tr>
<tr>
<td>Computation accounts for portfolio and country-related dynamics</td>
<td></td>
</tr>
<tr>
<td>Creates virtuous incentives</td>
<td></td>
</tr>
</tbody>
</table>
IFAD11 Business Model provides the strategic direction, with no uncertainties.

IFAD11 Business Model

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

The proposed PBAS is compatible with the proposals of the BM on shares of allocations of core resources.

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.
Alternative timelines

**PBAS approved**

- Available resources defined before beginning of new cycle
- All allocations defined through PBAS
- Ordinary borrowers get a share of total
  - Successful replenishment will allow for a 4.5 PoLG; all borrowers will benefit.
  - PBAS instrumental for good rating: transparent allocation mechanism and sound financial forecast.

**Rating**

- Ordinary borrowers get resources in line with demand within allowable exposure
  - Replenishment will fund only concessional borrowers.
  - Market funds will fund ordinary borrowers; only constraints will be demand and capital adequacy.

**PBAS not approved**

- Available resources defined before beginning of cycle
- All allocations defined through PBAS
- Ordinary borrowers get a share of total
  - Allocations defined based on current PBAS formula
  - Rating process endangered

**Rating**

- Ordinary borrowers get only share of total, and no market borrowing
  - Market borrowing delayed
  - Supply of resources constrained by ODA
  - No demand consideration

**IFAD11**

- Application of same PBAS as in IFAD11
- No availability of market resources
- Ordinary borrowers get only share of total

**IFAD12**

- Available ODA resources defined before beginning of cycle
- Available market resources defined through financial covenants
- Ordinary borrowers get resources in line with demand within allowable exposure
  - Replenishment will fund only concessional borrowers.
  - Market funds will fund ordinary borrowers; only constraints will be demand and capital adequacy.
Any questions?

Thank you for your attention