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## **Progress report on the implementation of the performance-based allocation system and the Borrowed Resource Access Mechanism**

### **Addendum**

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# Progress report on the implementation of the performance-based allocation system and the Borrowed Resource Access Mechanism

## Addendum

1. The Executive Board is invited to take note of the additional information relating to the progress report on the implementation of the performance-based allocation system (PBAS) and the Borrowed Resource Access Mechanism (BRAM), as contained in document EB 2022/137/R.3, as at the first year of the Twelfth Replenishment of IFAD's Resources (IFAD12). Members are also invited to take note of the progress on the implementation of the IFAD Graduation Policy.

### I. Implementation of the PBAS and BRAM in IFAD12 (2022-2024)

2. **Commitment implementation status.** During the IFAD12 Consultation, several commitments were made in relation to the allocation of the Fund's resources to ensure the highest possible level of efficiency and an increased focus on the poorest countries. Country selectivity, based on agreed criteria aimed at increasing the likelihood of initial allocations being taken up, first introduced in IFAD11, has been maintained. Similarly, the number of countries entering the IFAD12 cycle has remained at up to 80. Commitments were also made on the share of core resources to be allocated to various country groupings:
  - (i) Commitment 17: Allocate 100 per cent of core resources to low-income countries (LICs) and lower-middle-income countries (LMICs), ensuring that 55 per cent are allocated to Africa, and 50 per cent to sub-Saharan Africa.
  - (ii) Commitment 15: Allocate at least 25 per cent of core resources to countries with fragile situations.
3. In addition, Management made commitments related to the creation of a financing mechanism for borrowed resources and their utilization:
  - (i) Commitment 18: Upper-middle-income countries (UMICs) access between 11 and 20 per cent of the IFAD12 programme of loans and grants (PoLG) through the use of borrowed resources.
  - (ii) Commitment 40: Present a proposal for establishment of an access mechanism for borrowed resources to the Executive Board.
4. Management complied with commitment 40 in 2021, with the approval of the creation of BRAM at the April Executive Board session. In December 2021, Management also shared with the Executive Board an operationalization framework for the BRAM. Compliance with commitments 15 and 17 on the share of core resources reaching LICs, LMICs, Africa, sub-Saharan Africa and countries with fragile situations was also achieved when core resources were distributed at the beginning of the IFAD12 cycle, as reported at the special session of the Executive Board in February 2022. This is shown in table 1.

Table 1

#### IFAD12 allocation commitments (percentage of core resources distributed through the PBAS)

<i>Share of core resources</i>	<i>IFAD12 share of core resources</i>	<i>Commitment</i>
Africa	66%	>=55%
Sub-Saharan Africa	62%	>=50%
LICs and LMICs	100%	100%
Fragile countries	35%	>=25%

5. Compliance with commitment 18 on the share of the PoLG accessed by UMICs will be reported on at the end of IFAD12. The achievement of this target is dependent on eligible countries' demand for borrowed resources. IFAD will closely monitor BRAM demand to ensure that the range of resources accessed by UMICs is in line with the commitment made for the IFAD12 cycle.
6. **Financial assumptions.** The financial assumptions underlying the figures referenced in this addendum – i.e. the amount of core resources allocated through the PBAS and amount of borrowed resources that can be accessed through the BRAM – are reflected in table 2. The splitting of core resources into Debt Sustainability Framework (DSF) and non-DSF core resources means, in PBAS methodology-related terms, that the formula was applied to two sets of countries: LICs and LMICs that are DSF-eligible, and LICs and LMICs that are not DSF-eligible. This ensures that the DSF resources distributed are in line with resources available.<sup>1</sup>

Table 2

**PBAS and BRAM resources for IFAD12**

(Millions of United States dollars)

<i>Type of resources</i>	<i>Amount</i>
DSF (core)	425
Non-DSF (core)	1 860
BRAM (borrowed)	1 090
<b>Total</b>	<b>3 375</b>

7. **PBAS and BRAM implementation as at the time of writing.** In February 2022, Management presented to a special session of the Executive Board the list of countries accessing PBAS and BRAM resources in IFAD12. It also shared the individual country allocations deriving from the application of the PBAS formula, and indicative amounts of BRAM resources that eligible countries could access based on demand. The list included a total of 78 countries: 66 LICs and LMICs, and 12 UMICs.
8. The following sections outline the progress made to date<sup>2</sup> in delivering PBAS and BRAM resources in terms of approvals and the pipeline of operations for 2023 and 2024. It should be noted that the pipeline information is fluid and constantly evolving, as pipeline planning firms up, operational design processes move forward, and in-country situations change. A complete overview of the implementation of the PBAS and BRAM will be provided at the end of the cycle.
9. As mentioned above, in early 2022, 78 countries were identified for accessing IFAD12 funding. Of these, 52 countries were assessed as being eligible<sup>3</sup> for BRAM resources: 11 LICs, 29 LMICs and 12 UMICs. Since then, IFAD has received confirmation of interest to borrow under the BRAM by the majority of those countries. Only six countries have indicated that they do not wish to access BRAM (Bhutan, Iraq, Jordan, Mongolia, Solomon Islands and Vanuatu). Two countries (Comoros and Malawi) are no longer eligible due to changes in their fiscal landscape. To date therefore, BRAM resources are available to 44 countries. Table 3 shows the distribution of countries accessing BRAM across income categories.

<sup>1</sup> In the September 2021 update (EB 2021/133/R.13), Management confirmed this PoLG size and distribution. In the September 2022 PoLG update (EB 2022/136/R.10/Rev.1), Management noted a shortfall of US\$21 million of core resources due to lower than expected pledges as of 14 July 2022. While no reduction in grants is envisaged with this outcome, the current shortfall of US\$21 million would need to be accommodated within the non-DSF core resources distributed through the PBAS. Should the expected pledges not materialize, these funds will be compensated for by using funds that become available for reallocation in the final year of the cycle.

<sup>2</sup> Analysis of situation as at 31 October 2022.

<sup>3</sup> In addition to complying with the three criteria for accessing both core and borrowed resources (strategic focus, absorptive capacity and ownership), countries accessing BRAM are assessed based on their level of indebtedness and risk status.

Table 3

**Countries accessing BRAM by income category**

(Number of countries – as at time of writing)

<i>Income status</i>	<i>Number of countries</i>
LIC	10
LMIC	24
UMIC	10
<b>Total</b>	<b>44</b>

10. **PBAS and BRAM programming.** The bulk of IFAD12 resources (96 per cent) have already been programmed. As shown in table 4, this is the case for both core and borrowed resources. Programmed resources include approvals in 2022 as well as investment projects in the 2022-2023 operational pipeline. Only 4 per cent of available resources remain to be programmed. Demand for such resources exists and, as IFAD is currently entering the second year of the IFAD12 cycle, Management is confident that the full volume of resources available will be programmed by cycle-end.

Table 4

**IFAD12 programming: core and borrowed resources**

(Millions of United States dollars)

<i>Type of resources</i>	<i>IFAD12 resources</i>	<i>Programmed resources</i>
DSF (core)	425	423
Non-DSF (core)	1 860	1 814
BRAM (borrowed)	1 090	1 002
<b>Total</b>	<b>3 375</b>	<b>3 239</b>

## II. Implementation of the IFAD Graduation Policy

11. The Executive Board approved the IFAD Graduation Policy (EB 2021/133/R.5) in September 2021 as one of the IFAD12 commitments. The Graduation Policy is guided by the principle of universality and IFAD's mandate to serve its developing Member States, while focusing on poor, food-insecure and vulnerable rural people. The policy comprises four pillars and provides more clarity on the distribution of IFAD's financial resources (pillar 1) and the financing conditions and pricing of borrowed IFAD resources (pillar 2). Pillars 3 and 4 articulate in detail the criteria and process that would lead to a country's graduation and also address situations of possible reversal of the socio-economic development of an IFAD Member State.
12. Following the approval of the Graduation Policy, IFAD updated the guidelines and procedures for country strategic opportunities programmes (COSOPs) to provide guidance to country teams on the preparation of new COSOPs for countries that are approaching graduation. As envisaged in the policy, Management also liaised with the Independent Office of Evaluation of IFAD (IOE) to prioritize the undertaking of country strategy and programme evaluations (CSPEs) for countries approaching graduation. This was to ensure that, to the extent possible, new COSOPs are informed by the recommendations emanating from CSPEs.
13. As outlined in the annex of the policy, a total of eight Member States were above the Graduation Discussion Income (GDI) threshold for 2021 (US\$7,155) consecutively from 2018 to 2020. This list included Argentina, Brazil, China, Cuba, Dominican Republic, Mexico, Montenegro and Türkiye. The planning of CPSEs and new COSOPs for the eight countries moving towards graduation is interlinked, and consultation on graduation will begin when the new COSOP designs are started. New COSOPs are programmed for preparation in 2023 and 2024 for all eight countries, with COSOP approvals and presentations to the Executive Board scheduled in either 2024 or 2025.

14. In the case of Dominican Republic and Türkiye, in order to benefit from the CSPEs due to be undertaken in 2023 and 2024, the new COSOPs are proposed for design in 2024 with approvals in 2025. In the case of Mexico, given that the most recent CSPE was undertaken in 2019 and that a COSOP for 2020-2025 is in place, it is proposed that the new COSOP be delayed for approval in 2025.
15. By the end of IFAD12, four out of eight countries (Argentina, China, Dominican Republic and Türkiye) will have undergone a CSPE, with recommendations feeding into new COSOPs. With respect to Brazil, a discussion was held with IOE on the possibility of a CSPE, but given that a new COSOP design process had already been scheduled for early 2023 with the incoming Government, the timing was not conducive.
16. In addition to CSPEs, a number of countries on the list have either had a recent project performance evaluation (PPE) or are due for one before the end of IFAD12. This includes Dominican Republic, where a PPE was undertaken for the Rural Economic Development Project in the Central and Eastern Provinces in 2020, and Cuba where a PPE for the Cooperative Rural Development Project in the Oriental Region was completed in 2022.
17. As envisaged in the policy, changes may occur in country situations, for example due to economic shocks. One such potential case, which is being monitored, is Cuba. An assessment will take place in early 2023 to ascertain if the country has dropped back below the GDI threshold, and if so, the graduation process for Cuba would be paused.
18. The COSOPs for graduation countries will be prepared in line with the COSOP guidelines updated in 2022, which reflect the criteria and process set in the Graduation Policy. IFAD country teams and technical specialists will prepare the COSOP in close consultation with the Member State. IFAD is committed to support partner countries throughout the whole COSOP process; at the completion of the COSOP period, both IFAD and the Member State will assess the country's readiness for graduation. Graduation will not be automatic, rather the decision on graduation at the end of a COSOP period will be taken mutually by the concerned Member State and IFAD on the basis of the criteria of the Graduation Policy. The universality principle governs IFAD's relationships with its Member States, and countries that graduate from IFAD's financial support remain important partners of the Fund. They will continue to have access to diverse support and services related to the sharing of knowledge, technical expertise and policy engagement, including through instruments such as the South-South and Triangular Cooperation and reimbursable technical assistance.<sup>4</sup>

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<sup>4</sup> GC 44/L.6/Rev.1.

