IFAD
Investing in rural people

profile

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EVALUATION SYNTHESIS ON IFAD'S ENGAGEMENT IN MIDDLE-INCOME COUNTRIES

Different countries, different lenses: working in middle-income countries

According to the World Bank's income classification, currently over 100 countries worldwide are categorized as middle-income countries (MICs), i.e. with a Gross National Income (GNI) per capita ranging from US$1,036 to 12,615. They are an extremely diverse group of countries, ranging in size from countries like China, Brazil and India to others like Antigua and Lesotho; and ranging in GNI per capita from lower middle-income countries (LMICs), with a GNI per capita of US$ 1,036 to 4,085, to upper middle-income countries (UMICs), with a GNI per capita of US$4,086 to 12,615. They include countries with democratic governments and others with less stable political and institutional environments. Some have fragile and conflict-affected areas, and other are formally classified as fragile states.

Such diversity – in size, in governments, in resources – makes generalizations difficult. It is therefore not appropriate to consider all MICs as a single group and GNI per capita alone should not be used as the main basis for determining the kinds of development initiatives for financing and technical support. MICs also face other constraints such as weak rural infrastructure, severe inequality, wide rural-urban disparity and limited institutional capacity. All of these issues have a critical impact on livelihoods and need to be carefully considered as IFAD determines the nature of its future engagement with MICs.

Nevertheless, at the same time, in the absence of agreed alternative definitions, most of the world's poor people, according to the World Bank's income classification, now live in MICs: in 2012, 75 per cent and 79 per cent of the world's poor living on less than US$1.25 and US$2 per day lived in MICs. In general, in MICs many poor people live at sub-national level, and income inequalities are significant. Projections vary, but it is likely that MICs will continue to contain very large numbers of poor rural people for the foreseeable future, and this means that there still is a strong poverty case for IFAD's continued engagement in these countries.

In 2011, the Executive Board approved a paper providing the overall strategy for IFAD's engagement in MICs. It correctly emphasized that IFAD must ensure that individual country strategic opportunities programmes

Mexico - Community-based Forestry Development Project in the Southern States. Indigenous women from a Maya community in Campeche work with wood leftovers only, such as tree bark and small pieces that don't get sold in the market. They contribute to the mitigation of climate change by taking advantage of their natural resources and avoiding forest exploitation.

KEY FACTS ABOUT MICs (*)

MICs average classification (Gross National Income per capita): **LMICs: US$1,036 - US$4,085**
UMICs: US$4,086 - US$12,615

Poverty levels in MICs (percentage of total, 2008): **79% below the US$2 poverty line, 75% below the US$1.25 poverty line**

Urban population (percentage of total, 2012) **39.2% in LMICs, 56.8% in UMICs**

Gross Domestic Product from agriculture (percentage, 2012): **17.3 in LMICs, 8.8 in UMICs**

Net Official Development Assistance received (percentage of Gross National Income, 2012): **1.0 in LMICs, 0.1 in UMICs**

IFAD financial support to MICs (2013): **US$504 million**

MIC financial contribution to IFAD (2012): **US$141.7 million**

(*) Using the World Bank classification.

Sources: World Bank List of Economies (July 2013); Institute of Development Studies (IDS), Data processed from PovcalNet (2012); Sumner, Andy, Where do the World's Poor Live? A new Update. Brighton, IDS (2012); Progress report on implementation of the Performance-Based Allocation System, IFAD (2013); Corporate-level evaluation on IFAD's Replenishments (2014).

(COSOPs) are tailored to the contexts of each MIC, underlining that a "one size fits all" approach would not yield the desired results.

The evaluation synthesis report notes, given the heterogeneity of the countries involved, that the performance of IFAD operations is not particularly better in MICs as compared to lower income countries (LICs), which is something that could be expected as MICs normally have stronger institutions and policies as compared to LICs. However, it is important to note that: (i) the majority of IFAD operations in MICs are located in remote rural areas, where the context is often similar to that in LICs; and (ii) the projects evaluated by IOE that informed the synthesis were designed about a decade ago, and thus have not fully benefitted from the recent reforms introduced by IFAD (e.g., undertaking of direct supervision and implementation, country presence, greater attention to scaling up, and so on).

A continued engagement in MICs is also important for IFAD's financial model. In particular, MICs are providing increasing financial contributions to IFAD's periodic replenishments as compared to the past. Loan repayments from MICs to IFAD are also important, because many MICs borrow loans from IFAD on ordinary or blend terms, which generate greater reflows as compared to loans on highly concessional terms (which are provided mostly only to LMICS and LICs).

Therefore, taking into account the continued huge demand for IFAD's assistance from all developing member states and the relatively limited amount of resources at IFAD's disposal, the Fund will need to strengthen its ongoing efforts to mobilize additional resources to continue the evolving financing needs of members. This could be in the form of co-financing operations, or borrowing from governments or other sources, including the private sector. This will require IFAD to further strengthen and expand its capacities and skills in this area.

Nevertheless, it is equally clear that what MICs need from IFAD is changing. Loan-funded projects are still a priority in many MICs, especially those countries whose GNI per capita is just above the line to classify them as MICs. However, other countries need IFAD to become more broadly involved in non-lending activities, such as knowledge management, policy dialogue and partnership building. In other MICs, more emphasis will be needed on creating a better balance between non-lending activities, technical assistance and South-South and triangular cooperation, linked to an adequate lending programme.

Priority areas

In its future work with MICs, inter-alia, IFAD will need to:

1. **Develop a more differentiated model of engagement** in COSOP and project design that is customized to each country's context and demand. In general, however, IFAD's work in MICs should focus in introducing innovative solutions to rural poverty reduction as well as in promoting 'demonstration effects'. For example, in terms of demonstration efforts, MICs can benefit from IFAD's wide knowledge and expertise in how to rigorously design, monitor, supervise and evaluate smallholder agriculture projects in remote rural areas.

2. **Gear up non-lending activities (knowledge management, policy dialogue and partnership-building)** that are fundamental to scale up impact in MICs. It is also important that COSOPs ensure that non-lending activities, technical assistance and South-South and triangular cooperation are explicitly anchored in the experiences generated through IFAD operations. A better balance between lending (for investment projects) and non-lending activities will also be required in the future.

3. **Find new and substantial funding sources** (public and private). IFAD needs to intensify its ongoing efforts to mobilize additional resources as well as strengthen its internal capacities, processes and skills in this area.

4. **Expand its engagement with the private sector**, including large private companies in the agriculture and food sectors, especially at the country level.

Further information:

IFAD's Engagement in Middle-income Countries, Evaluation Synthesis, Report No. 3422, June 2014, ISBN 978-92-9072-500-8, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 44, 00142, Rome, Italy. The full report and Profile are available online at: www.ifad.org/evaluation; email: evaluation@ifad.org.