

IFAD's Engagement in Middle-income Countries Evaluation Synthesis

Executive Summary

1. This evaluation synthesis report has been prepared by the Independent Office of Evaluation of IFAD (IOE), as agreed with the Executive Board in December 2013. The two key objectives of the report are to: (i) generate lessons and insights on opportunities and challenges for IFAD's engagement in middle-income countries (MICs); and (ii) identify issues for further reflection on the strategic directions, priorities and instruments for IFAD's engagement in MICs in the future.
2. The report draws on the following sources:
(i) a synthesis of findings from IOE evaluations; (ii) a review of the IFAD strategy and approach for MICs; (iii) wider learning from the literature and from other international financial institutions (IFIs) and bilateral donors; (iv) visits to five MICs; and (v) interviews with IFAD staff and selected Board members.

Middle-income countries

3. Over 100 countries with GNI per capita of US\$1,036 to US\$12,615 are classified as MICs. They range in size from China, Brazil and India to Antigua and Lesotho. The group includes a number of countries with democratic governments, but also some with less stable political and institutional environments. Some have fragile and conflict-affected areas (in fact, some MICs are also classified as fragile states). A number of resource-rich countries are classified as MICs, since their GNI per capita is marginally above the US\$1,036 mark.
4. A key fact is that most of the world's poor people now live in MICs. For instance, 74 per cent (around 900 million) people live on less than US\$1.25 per day in these countries. This figure increases to around 80 per cent (around 1.8 billion) when considering people who live on less than US\$2 per day. Around 65 per cent of all poor people live in just five MICs: China, India, Indonesia, Pakistan and Nigeria.
5. The diversity within MICs as a group makes generalization difficult and poses challenges to IFAD's overall approach and strategy. It is therefore not appropriate to consider all MICs as a single group, and it is worth reflecting if GNI per capita alone should be used as the main basis for determining the nature of development activities to be funded in MICs. MICs face other important constraints such as weak rural infrastructure, wide rural-urban disparity and limited institutional capacity at the local level that have a critical impact on livelihoods and should therefore be carefully considered in decisions about IFAD's future engagement.
6. The differences between low-income countries (LICs) and many lower middle-income countries (i.e. those with GNI per capita of US\$1,036 to US\$4,085) can be slight. There is much in common between LICs and those regions and social groups within MICs that have benefited less from economic growth, or where distribution of wealth is uneven and there is a wide rural/urban disparity. This is particularly true for many oil/mineral-dependent economies in Africa. It should also not be assumed that all MICs have adequate national capacity and enabling institutional and policy frameworks for poverty reduction. In fact, project areas covered by IFAD operations in MICs often have similar policy and institutional characteristics to those of LICs or fragile states, a factor that has major implications for IFAD's engagement and effectiveness in MICs.
7. Notwithstanding these constraints, in general, MICs are less dependent on official development assistance (ODA), are more urbanized and have a lower proportion of poor people dependent on agriculture. The private sector is playing an increasing

role in agriculture, meaning that resources are less likely to be the main limitation to ending poverty.

8. The percentage of ODA to MICs has been declining and is now relatively small as compared to other capital flows. This is also attributable to the fact that traditional donors are increasingly focusing their grant support on LICs and fragile states. However, at the same time, foreign direct investment in MICs is much higher than in LICs.
9. The changing global context and the evolving characteristics of MICs have important implications for the design and implementation of development assistance strategies. These implications are greater for upper middle-income countries (UMICs) than for others because UMICs generally have more domestic resources that could be used for rural poverty reduction. In any case, the evolving global scenario and the wide diversity across MICs imply that development organizations will have to customize their approaches and assistance more carefully to suit the specific country contexts in MICs.

IFAD's engagement with middle-income countries

10. A large number of IFAD's recipient Member States are currently classified as MICs (72 per cent in 2012 as compared to 57 per cent in 2004), where a significant number of poor people live. If current trends continue, the proportion of LIC Member States will continue to decrease and the proportion of MIC members will increase.
11. As a consequence, most IFAD-funded projects are in countries classified as MICs and a large amount of IFAD's funds are channelled to MICs. For instance, IFAD disbursed around 70 per cent of its resources to MICs in 2012, as compared to 38 per cent in 2004. The percentage disbursed to UMICs also increased, growing from 7 per cent to 16 per cent over the same period.
12. From 1997 to 2012 replenishment resources covered about one third of IFAD's loan and grant commitments and two thirds were met by internal resources (loan reflows, loan cancellations and investment income). MICs contributions to replenishments (e.g. the Ninth Replenishment of IFAD's Resources [IFAD9]) are increasing as compared to past replenishments. Therefore, reflows from MICs and their increasing contributions to replenishments are important to the financial sustainability of the Fund.
13. In 2011, the Executive Board approved a specific paper providing the overall strategy for IFAD's engagement in MICs. The paper correctly emphasized that IFAD must ensure that individual COSOPs are tailored to the contexts in the various MICs. It also appropriately underlined that a "one-size-fits-all" approach would not yield the desired results.

Assessment of IFAD strategy and approach in middle-income countries

14. IFAD is an organization on the move and progress has been made since 2011. For example, new financial sources and products are being explored. Knowledge management is receiving greater attention, as is the scaling-up agenda. More IFAD country offices are being established, and some attention is also being devoted to South-South and triangular cooperation, though there is room for stepping up such activities moving forward.
15. As mentioned above, the IFAD strategy underlined the importance of tailoring country strategies to specific contexts. This continues to be the right approach to follow, given the diversity within MICs. However, evaluations have revealed opportunities for IFAD to better differentiate among MICs and to further customize its development approach and assistance. COSOPs can provide the starting point for defining IFAD's engagement in MICs, taking into account the specific circumstances and needs of individual countries.

16. The country visits undertaken for this synthesis report confirm that IFAD remains a relevant and valued partner in MICs. There is extensive demand for IFAD assistance by MICs, in terms of both loans and non-lending activities. Its focus on poor and vulnerable farmers in less advantaged, remote and/or challenging areas is still highly relevant in MICs. IFAD's flexibility and targeting approaches are also appreciated.
17. However, taking into account the vast demand for IFAD assistance in all country categories, inequality, and the wide-ranging challenges to reducing rural poverty, the amount of resources available to the Fund is relatively limited. Given global trends in aid flows and the magnitude of rural poverty, it is important that IFAD continue its ongoing efforts to mobilize funding from alternative sources – whether in the form of cofinancing, borrowing at the institutional level from governments or other sources.
18. Partnerships with multilateral and bilateral organizations, including the United Nations Rome-based agencies, are increasingly being pursued and remain a priority, yet there is scope for further enhancement. Similarly, efforts are being made to partner with the private sector, however this is another area where more can be achieved in the future.

Findings from IFAD evaluations

19. IFAD-supported activities on the whole have made significant positive contributions to developing new and successful models for rural poverty reduction, for example in microfinance, rural infrastructure, community participation, local capacity-building, and gender equality and women's empowerment. The more recent focus on value chains is an effective way of linking poor people to markets, provided the approach is carefully designed.
20. However, overall, the performance of IFAD-funded operations is no better in MICs than in LICs, and no better in UMICs than in LMICs. In this regard, it is important to make two qualifications: (i) the projects evaluated by IOE in MICs were designed approximately a decade ago and therefore did not benefit fully from important reforms introduced in recent years (e.g. wider country presence, direct supervision, enhanced leadership of country programme managers in project design processes); and (ii) the sample is relatively small and therefore more data and close monitoring to validate and understand the differences in performance between UMICs and LMICs are needed.
21. Non-lending activities – knowledge management, policy dialogue and partnerships – are particularly important in MICs. Historically the weakest area of IFAD's support, they have been showing signs of improvement since 2011. The main reasons for the limited achievement in the past are the lack of a strategic approach and the limited resources and incentives for this purpose. There is already evidence that IFAD's increased country presence – especially with outposted country programme managers – and direct supervision and implementation support are enhancing non-lending activities – and development effectiveness in general. However, it is important that non-lending activities are closely linked to IFAD-funded operations: the latter generate the experiences and lessons to inform the organization's work in policy dialogue, knowledge management and partnership building.
22. Operating in close to 100 countries has efficiency implications for IFAD, although it is to be recognized that as a specialized agency of the United Nations, IFAD has a universal mandate to help poor people in all countries. However, as the corporate-level evaluation on IFAD's institutional efficiency and the efficiency of IFAD-funded operations (CLEE) concluded, greater thematic and country selectivity would help to improve institutional efficiency. In this regard, it is important to stress that the MIC category (LMIC or UMIC) or GNI should not be the only, or even the main, criteria used to select countries for engagement. Other factors such as the financial

absorptive capacity, portfolio performance and the number of rural poor will need to be considered as well.

Findings from other organizations

23. A review of documents from other organizations and discussions with their staff revealed a great deal of overlap with the findings of IFAD's own evaluation. For example, there is a common understanding among other organizations that the use of MICs as a single category is not particularly useful or even appropriate. Moreover, it is generally agreed that MICs are an important and progressively diverse group, and that the GNI per capita thresholds should not be used as the overarching criteria to determine the scale and nature of development assistance they receive. This diversity also means that MICs should not be treated as a single group.
24. The wider literature contains convincing arguments for and against continued development assistance to MICs. On balance, there is a strong poverty case for continued support to selected MICs, through a mix of products and instruments that are customized to specific circumstances. For instance, in some MICs, loan-funded projects will continue to be critical for the provision of rural infrastructure, improving rural livelihoods and promoting food security through climate-smart agriculture, whereas in other MICs, a mixture of loan-funded operations complemented by non-lending activities, technical assistance and South-South and triangular cooperation would be more appropriate.

Conclusions

25. For the foreseeable future, IFAD will continue to play a relevant role in supporting MICs to reduce rural poverty given its mandate and the significant number of rural poor people and inequality in such countries. Taking into account the heterogeneity of MICs, however, there are opportunities for IFAD to further sharpen some of its existing products and instruments for greater effectiveness.
26. The enormous diversity within MICs as a group makes generalization difficult and poses a challenge to IFAD's approaches and activities. In fact, a significant number of IFAD recipient Member States are currently classified as MICs, some of which are also fragile states or include areas affected by conflict. As such, MICs should not be treated as a single group, nor should GNI per capita alone be used to determine IFAD's engagement. Other characteristics of MICs – such as inequality, limited rural infrastructure, weak subnational capacities, climate change and the number of rural poor people – should also be considered in determining the nature and extent of IFAD's development assistance in such countries.
27. It is equally clear that what MICs need from IFAD is changing. While loan-funded projects are still a priority in many MICs, others need IFAD's wider involvement in non-lending activities such as knowledge management, policy dialogue and partnership building or IFAD support in the area of South-South and triangular cooperation and technical assistance. These are aspects in which IFAD has made progress but more can be achieved in the future.
28. IFAD for its part remains dependent on both replenishment resources and on reflows from lending to MICs, and needs new and additional funding sources to meet demand. This implies that IFAD will need to intensify its ongoing efforts to mobilize alternative resources as well as further enhance its internal capacities, processes and skills in this area.
29. IFAD is now at a crossroads. Its role, and the allocation of resources within its large and very diverse MIC membership, need to be reflected upon. In LMICs, much less needs to change, given that the immediate context for IFAD's work in these countries is little different from that in LICs. In better-off MICs, and particularly UMICs, the need for change is greater. And in both categories, a more

differentiated, focused and tailored approach to IFAD engagement would be desirable.

30. As per the convention for IOE evaluation synthesis reports, this report does not make recommendations. However, five priority areas are suggested as a contribution to the ongoing discussion:
- New and substantial funding sources (public and private) are needed to support IFAD's work in MICs. Promising efforts are ongoing in that direction, but further work will be required in the future.
 - Gearing up the knowledge management, policy and investment partnership/brokering services that MICs require for scaled-up impact; and developing a financial model to support these. RTA is one model. 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 of operations funded by IFAD.
 - Development of a more differentiated model of engagement with MICs in COSOP and project design that is customized to country context and demand.
 - Expansion of IFAD's engagement with the private sector, including large private companies in the agriculture and food sector, especially at the country level.
 - Adaptation of IFAD's evaluation methods to ensure that they address the crucial issues for IFAD's work in MICs that are identified in this report, such as a systematic approach to assessing scaling up activities.