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Investing in rural people

Evaluation synthesis on IFAD's engagement in middle income countries

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For: Review

Evaluation synthesis on IFAD's engagement in middle income countries

Contents

Abbreviations and acronyms

APR	Asia and the Pacific
ARRI	Annual Report of Results and Impact of IFAD Operations
COSOP	country strategic opportunities programme
CLE	corporate level evaluation
CPE	country programme evaluation
DFID	Department for International Development
ESA	East and Southern Africa Division of IFAD
FCS	fragile and/or conflict-affected state
GNI	gross national income
IADB	Inter-American Development Bank
IDA	International Development Association (World Bank group)
IOE	Independent Office of Evaluation of IFAD
LAC	Latin America and Caribbean Division of IFAD
LDC	least developed country
LMIC	lower middle income country
MIC	middle income country
M&E	monitoring and evaluation
NEN	Near East, North Africa and Europe Division of IFAD
ODA	Official Development Assistance
PMD	Programme Management Department
UMIC	upper middle income country
WB	World Bank
WCA	West and Central Africa Division of IFAD

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Executive summary

[To be added]

Evaluation synthesis on IFAD's engagement in middle income countries

Contents

Evaluation Synthesis on IFAD's Engagement in Middle Income Countries

Main report

I. Introduction

1. **Background.** In the context of the Independent Office of Evaluation of IFAD (IOE)'s 2014 work programme, the Executive Board requested IOE to prepare an evaluation synthesis on the opportunities and challenges of IFAD's engagement in middle-income countries (MICs), including IFAD's evolving approaches, lessons learned and good practices in such countries.

2. Middle income countries have been identified as an important issue for four main reasons. First, an increasing proportion of the world's poor people live in middle- rather than low-income countries. Second, an increasing number of IFAD developing country members are middle-income. In some regions, such as Latin America and Caribbean (LAC) and Near East, North Africa and Europe (NEN), the overwhelming majority of countries are MICs. Third, there is a growing perception that IFAD may need to review and revise its approach in MICs in order to adapt to the different and evolving context of these countries. And fourth, a number of multilateral and bilateral development agencies have recently reviewed the scale and nature of their support to MICs. This may have lessons and implications for IFAD.

3. **Objectives.** The evaluation synthesis has the following two key objectives:

   a. Generate lessons and insights on opportunities and challenges for IFAD's engagement in MICs.

   b. Identify issues for further reflection on the strategic directions, priorities and instruments for IFAD's engagement in MICs in the future.

4. **Scope and methodology.** The Concept Note prepared by IOE outlines the evaluation's scope and methodology, processes, timelines and related information. To achieve its objectives, the evaluation synthesis draws on the following components: (i) a literature review; (ii) a synthesis of findings from IOE evaluations; (iii) a review of IFAD strategy and approach for MICs; and (iv) wider learning. These are briefly discussed below:

   a. ***Component 1: A literature review:*** A literature review of research reports from a range of multilateral, bilateral, United Nations and research institutions was undertaken in order to understand the definition of MICs, their characteristics and broad issues regarding the relevance and effectiveness in supporting MICs with development finance. The bibliography is included in Appendix I of this final report.

   b. ***Component 2: Synthesis of findings from IOE evaluations:*** For this component, all country programme evaluations (CPEs) in MICs and the *Annual Reports on Results and Impact of IFAD Operations* (ARRI) prepared since 2003 were reviewed. The team also reviewed key corporate level evaluations (CLEs) notably *IFAD's Institutional Efficiency and Efficiency of IFAD-funded Operations* (2013) and the *Achievements of IFAD Replenishments* (2014). In addition, to complement findings from IOE evaluations, the team also reviewed the *Annual Review of Portfolio Performance* prepared by the Programme Management Department (PMD).

   c. ***Component 3: Review of IFAD Strategy and Approach for MICs:*** This includes:

      (i) Desk review of a range of IFAD management documents, including the paper *IFAD's Engagement with Middle-Income Countries* (approved by the Executive Board in 2011), financial and project information from the *Financial Statements of IFAD* and other internal databases, documents for all new country strategic opportunities programmes (COSOPs) in MICs approved by the Board since 2011 (this will be compared with the COSOPs approved in the same countries before 2011);

(ii) Semi-structured interviews with IFAD Senior Management, selected members of the Executive Board, IOE and other IFAD staff; and

(iii) Five country visits in 5 MICs (Argentina, Brazil, China, India and Tunisia) where semi-structured interviews were conducted with the governments, IFAD staff and other in-country partners. The list of people interviewed is included in Appendix II.

d. ***Component 4: Wider learning:*** In order to deepen the learning, the study has reviewed the strategy and evaluation documents related to the engagement with MICs of other multilateral and bilateral development agencies. Interviews were also undertaken with evaluation and management staff at the World Bank and the Inter-American Development Bank.

5. **Process.** The evaluation synthesis was carried out in five phases: (i) preparatory phase (including the rapid literature review and the preparation of the concept note by December 2013); (ii) desk review phase (review of evaluation reports, relevant IFAD documents and documents from other organizations in January-March 2014); (iii) country visits to Argentina, Brazil, China, India and Tunisia and visit to the World Bank and Inter-American Development Bank (in February-March 2014); (iv) report writing (March 2014); and (v) communication and dissemination.

6. *[A learning workshop was organized in IFAD on 3 April 2014 to collect feedback on the draft report. The final report was presented to the Evaluation Committee and the Replenishment Consultation in June 2014].*

7. **Limitations.** This evaluation synthesis has been prepared to a very tight timetable in order to contribute to the replenishment discussions. This limited the amount of non-IFAD material it was possible to consult, and limited the number of countries where it was possible to conduct interviews.

8. The IFAD evaluation material generated a number of useful insights. However, the number of recent CPEs was limited, and inevitably these *ex post* evaluations were more useful at illuminating past results than at identifying emerging issues. The interviews at IFAD and elsewhere were essential for providing a current perspective.

9. Finally, as is the convention for IOE evaluation synthesis, this report does not make specific recommendations. It aims to identify some of the key issues as a contribution to the debate, makes an assessment of IFAD's current strategy and approach in MICs, but stops short of making specific recommendations.

10. The report is structured as follows. Sections II and III outline some of the general contextual issues with respect to MICs and the recent history of IFAD's engagement. Section IV synthesises the findings from recent IFAD evaluations. Section V looks at the findings and lessons from other agencies as well as from the wider literature. The report concludes with an assessment in Section VI of IFAD's strategy and approaches in MICs, and with conclusions and strategic implications for the future shape and direction of IFAD's engagement in Section VII.

Key points

- MICs have been identified as an important issue. The Executive Board requested IOE to prepare an evaluation synthesis on the opportunities and challenges of IFAD's engagement in MICs as part of its 2014 work programme.
- The evaluation synthesis aims to generate lessons and insights on opportunities and challenges for IFAD's engagement in MICs and identify issues for further reflection on the strategic directions, priorities and instruments for IFAD's engagement in MICs in the future.
- The evaluation synthesis consists of 4 components: (i) a rapid literature review; (ii) a synthesis of findings from IOE evaluations; (iii) a review of IFAD strategy and approach for MICs including country visits; and (iv) wider learning. It draws on extensive desk review, interviews and country case studies.

II. Middle income countries

A. Definition

11. The international community has not agreed upon a universally valid definition for middle-income countries (MICs). However, the World Bank's income classification is the most widely used. This classifies countries into low-income, lower middle-income, upper-middle income and high-income based on the countries' gross national income (GNI) per capita in current prices. The current ranges are shown in Table 1 below.

Table 1
GNI criteria for classifying countries

	Gross National Income (GNI) criteria 2012 (USD per capita)
Low-income	1,035 or less
Lower middle-income	1,036 – 4,085
Upper middle-income	4,086 – 12,615
High-income	12,616 or more

Source: World Bank list of economies (July 2013).

12. As a consequence of economic growth, an increasing number of countries are classified as middle-income, and an increasing number have graduated from lower middle-income to upper middle-income status. The total number of MICs has increased from 85 in 1990 to 104 in 2011 (Table 2). However, graduation is not always permanent. Between 1978 and 2003, 25 countries fell back from MIC to LIC status, and some countries have swapped back and forwards over the years.

Table 2
Number of countries by type

	1990	*2003*	*2011*	*2013*
LIC	48	61	40	36
LMIC	50	56	56	48
UMIC	35	37	48	55
HIC	44	54	69	75
World	177	208	213	214
Total MIC	85	93	104	103

Source: World Bank list of economies.

B. Alternative country classifications

13. There are very significant differences within MICs as a group. The group contains over 100 countries of enormous diversity, from China, India and Brazil to small states such as Antigua and Lesotho. Some MICs have per capita incomes twelve times greater than others. This has led some to challenge the use of income per capita as the primary proxy for development, or LIC/MIC status as a useful categorisation. Least Developed Countries (LDC) or Fragile or Conflict Affected States (FCS) are certainly more homogeneous categories, but both only cover a relatively small subset of developing countries. A more complete alternative of five clusters has been suggested by Vazquez and Sumner (IDS, 2012).

Box 1
Five clusters of developing countries

- Cluster 1: High poverty rate countries with largely traditional economies
- Cluster 2: Natural resource dependent countries with little political freedom
- Cluster 3: External flow dependent countries with high inequality
- Cluster 4: Economically egalitarian emerging economies with serious challenges of environmental sustainability and limited political freedoms
- Cluster 5: Unequal emerging economies with low dependence on external finance

Source: Vazquez and Sumner (2012).

14. Two-thirds of the world's poor live in high poverty rate countries (including India, Bangladesh, Pakistan and Nigeria) with largely traditional and agricultural economies (Cluster 1). A further quarter of world poverty is situated in external dependent countries with high inequality (Cluster 3) such as Indonesia, Philippines and Kenya.

15. An alternative classification was suggested in the 2008 World Development Report (Agriculture for Development, World Bank, 2007). This divided agriculture into three worlds: agriculture-based, transforming and urbanised. There is considerable overlap between these three worlds and LIC, LMICs and UMICs respectively. The merit for IFAD of this classification is the recognition of the very different agriculture-for-development agendas presented by this report. The disadvantage of this classification, and of the five clusters above, is the relative complexity of, and lack of agreement on, the definition and composition. The LIC, LMIC and UMIC classification may be crude, but at least it is simple and agreed.

C. The distribution of global poverty

16. While the number of MICs has increased, and will continue to increase, this is not the key fact. The key fact is that a much larger number of poor people now reside in MICs than in LICs, and is highly concentrated in a small number of countries. In 1990, 90 per cent of the world's poor people (by either US$1.25 or US$2 international poverty lines) lived in LICs. In 2012, 74 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[1]. Half of the world's poor live in two MICs: India and China. A quarter live in other MICs, primarily populous LMICs such as Pakistan, Nigeria and Indonesia. 80 per cent of the world's poor live in just 10 countries.[2]

17. Global poverty is now concentrated in MICs, and specifically in lower MICs. The main reason for this is not that the poor have moved, but because the countries' where most of them live have graduated to MIC status. Indeed, most of this statistical shift is accounted for by the graduation of five very large countries, the so-called PICNIs: Pakistan, Indonesia, China, Nigeria and India. These are home to about 70 per cent of the world's poorest people. Without the PICNIs, the percentage of the poor people living in MICs has changed little since 1990.

[1] The percentage of global poverty in the MICs (excluding China and India) rose from 7 to 22 per cent between 1990 and 2007/2008 (Sumner,2010).
[2] IDS Working Paper No.404 (Vazquez and Sumner, 2012).

Table 3
Estimates of the distribution of global poverty, US$1.25 and US$2, 2008

	US$1.25 poverty line		*US$2 poverty line*	
	Millions of people	*% world's poor*	*Millions of people*	*% world's poor*
LICs	316.7	25.7	486.3	20.6
MICs	917.1	74.3	1,871.1	79.4
LMICs	711.6	57.7	1,394.5	59.2
UMICs	205.5	16.7	476.6	20.2
New MICs (post-2000)	651.7	52.8	1,266.4	53.7
PICNI	785.9	63.7	1,570.0	66.6
China and India	599.0	48.6	1,219.5	51.7

Source: IDS (2012). Data processed from PovcalNet (2012).

18. Projections of where the majority of the poor will live in future depend on the assumptions used. One set of projections estimates that MICs will still account for around half of the remaining US$1.25 and US$2 poor people in 2020 or 2030. The other half of the poor, but possibly as low as one-third, will be in LICs by 2030 (IDS, 2012). An alternative point of view is that, as MICs continue to make progress against poverty, most absolute poverty will again be concentrated in LICs and fragile states (Kharas and Rogerson). Some of the latter will be middle-income. Almost a fifth of people living on less than US$1.25 are in so-called MIFFS (middle–income fragile or failed states) such as Iraq, Nigeria, Pakistan and Yemen (Gertz and Chandy, 2011). That qualification aside, it is likely that MICs will continue to contain very large numbers of poor people for the forseeable future.

19. Within the MICs, deep poverty pockets exist in the rural less accessible regions. For example, in the developing economies of the Near East and North Africa region, large regional discrepancies and geographic pockets of poverty still exist, especially in the rural and mountainous areas. In Latin America and the Caribbean (LAC), while many of the region's countries are moving towards the higher end of the middle-income spectrum, economic and social inequities remain acute, with LAC's overall Gini coefficient about 0.53, the highest among the world's regions (i.e. suggesting the least equitable income distribution). India and China still have the largest rural poor populations in the world. In Indonesia, 50 per cent of the total households remain clustered around the national poverty line, and 70 per cent of the poor live in rural areas. Moreover, the poverty gap index indicates that, although the proportion of Indonesia's people living in poverty has fallen to almost the pre-1997-crisis level, those who are poor now are worse off than before, especially in eastern Indonesia[3].

D. How are middle income countries different?

20. The fact that both MICs and LICs contain, and will continue to contain, large numbers of poor people raises an important question: how different are MICs, either from LICs or from each other? Many agencies and researchers question the categorisation of MICs purely on the basis of their income levels. There is also a view that a single, broad categorisation hides very significant differences within MICs as a group, and that the income thresholds themselves are not particularly meaningful or useful.

21. There are important general differences between LICs, LMICs and UMICs, some of which are shown in Table 4 below. LICs tend to be far more dependent on official development assistance (ODA), more reliant on agriculture as a sector, and less

[3] IFAD's engagement with MICs. May 2011.

urbanised. While still overwhelmingly rural (70-75 per cent), the composition of poverty is more urban in LMICs than in LICs, and a lower proportion of the poor are employed in agriculture. Average per capita income in the LMIC group is typically three times the level of LICs. The overall conclusion is that the LMIC group is, in general, qualitatively different to, and better off than, the LIC group (Sumner, 2012).

Table 4
Differences between LICs, LMICs and UMICs

	LICs	*LMICs*	*UMICs*
Net ODA received (% of GNI)	12.6	1.0	0.1
Net ODA received (% of gross capital formation)	53.1	3.5	0.4
GDP in agriculture (%)	30.8	17.3	8.8
Urban population (% of total)	27.9	39.2	56.8
Agricultural raw materials exports (% of merchandise exports)	9.7	1.9	1.1
Total poverty gap (US$1.25) as a % of GDP PPP	8.4	1.3	0.2
Total poverty gap (US$2) as a % of GDP PPP	25.4	5.5	0.6

Source: Sumner (2012).

22. The relative size of the poverty problem is also much higher in LICs. Extreme poverty rates have fallen at a much slower rate in LICs than in MICs over the past three decades, and the size of the problem relative to their GDP is much higher. The aggregate poverty gap[4] to GDP ratio is 1.3 per cent for LMICs but is still 8.4 per cent for LICs. This means that for MICs, unlike LICs, resources are unlikely to be the main limitation to ending extreme poverty (US$1.25 per day) in most countries. The challenge for MICs 'is not so much the amount of resources required by the poor, but development and implementation of policies and programs that help redirect those resources to the poor' (World Bank, 2013).

23. This general distinction between LICs – where resources are more of a constraint – and MICs – where the direction of resources is more the issue – is a critical one. Poverty will remain a major issue for MICs for the forseeable future. However, the cost of ending that poverty, as a percentage of GDP, will be minimal for those countries that are currently LMICs and UMICs. This means that traditional ODA will be of limited relevance. The core variables will increasingly be national policies, national distribution and national political economy (Sumner, 2012).

24. While this may be true in general, the extent to which growth is equitable, and the size of the poverty gap, will be factors. Data on inequality is incomplete and depends on whether India and China are included, but the general picture is for the share of GNI to the poorest 20 per cent or 40 per cent to decrease with economic growth; the share of the richest 10 per cent to increase; and the share of the 'middle classes' (the middle five deciles) to remain broadly similar (Sumner, 2012). Where growth follows a more unequal pattern and where the poverty gaps are larger – as may be the case in parts of India and sub-Saharan Africa – the availability of domestic financial resources may be insufficient.

25. The overall picture of MICs, in general, being qualitatively and quantitatively different from LICs – and, in general, UMICs being qualitatively and quantitatively different from LMICs – is correct. However, this is not inconsistent with the observation that there is much in common between LICs and LMICs, and particularly between LICs and those regions and social groups within MICs that

[4] The Aggregate Poverty gap equals the number of extremely poor people multiplied by the depth of poverty (how far the average extremely poor person is from the US$1.25 per day poverty line).

have benefited less from economic growth. For example, two-thirds of India's poor live in states within India that have an average income below the LIC level. Similarly, while the percentage of poverty accounted for by agriculture as an occupation is lower in LMICs than LICs, fully one-third of education, health and nutrition poverty in LMICs is concentrated in agricultural households. The rural characteristics of some LMICs are very similar to those found in LICs.

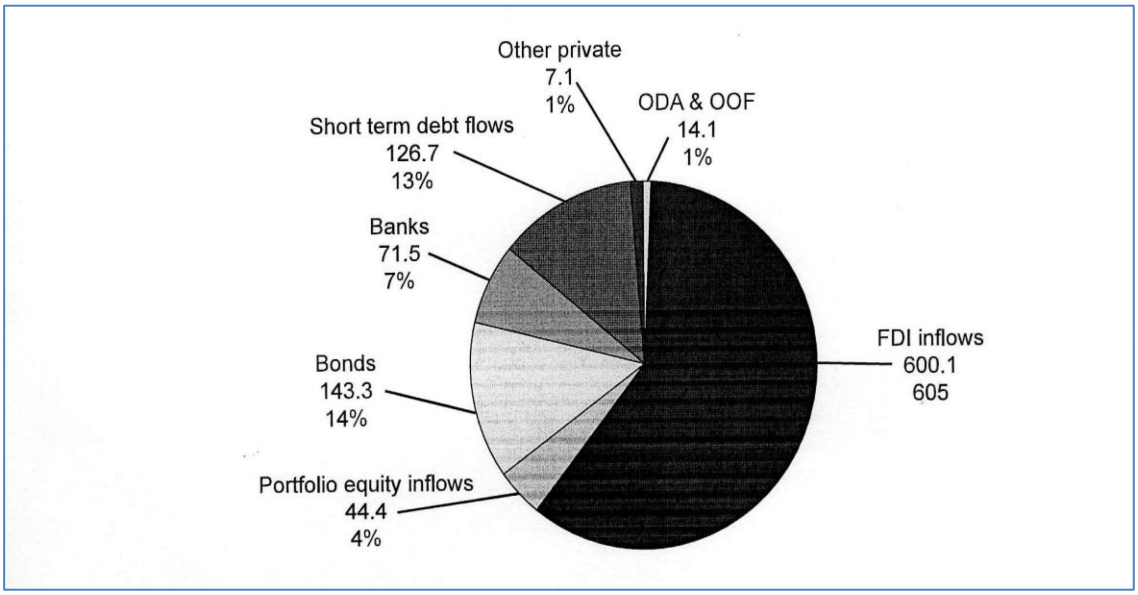
E. Trends in official development assistance and other resource flows

26. As shown in Table 4 above, ODA is much less significant in LMICs, and is even less so in UMICs. Flows of ODA are also changing as donors increasingly focus their support on LICs. Over the ten years 2000-01 to 2010-11 an increasing percentage and volume of ODA went to LDCs and other LICs. The percentage of ODA to LMICs declined by 15 per cent but volume increased by 29 per cent in real terms. The percentage of ODA to UMICs declined by 40 per cent and volume declined by 12 per cent.

27. Data from OECD DAC shows that over the ten years from 2001-02 to 2011-12, the percentage of ODA from OECD DAC countries to LDCs and other LICs increased from 39.6 per cent to 51.1 per cent, to LMICs decreased from 37.8 to 32.4 per cent and to UMICs decreased from 22.7 to 16.4 per cent. However, OECD DAC 2013-16 projections indicate major increases in the volume of ODA to MICs, primarily in the form of soft loans to the populous MICs in Asia.

28. The nature of capital flows and the relative importance of development assistance are changing rapidly. As recently as 2000, most development assistance was provided by traditional bilateral and multilateral donors. Since then, other non-traditional sources have grown fast. These plus remittances and foreign direct investment (FDI) now dwarf ODA[5]. FDI to MICs are much higher than to LICs: US$ 207 billion in 2012 to MICs compared to around US$ 81 billion to LICs[6].

Figure 1
International Capital Flows to Developing Countries, 2012
(US$ billions and as a % of total flows)[7]



Source: World Bank (2013).

29. In summary, while the diversity of MICs is important and incontrovertible, there are some important characteristics that, as national income increases, progressively

[5] UK International Development Committee: The Future of UK Development Cooperation: Phase I: Development Finance (2014).
[6] http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88.
[7] World Bank, Financing For Development Post-2015 (2013).

distinguish them from lower income countries. These include less tangible characteristics such as the capacity of government and non-government institutions, the size and structure of the private sector, and attitudes towards north-south and south-south cooperation. These and other characteristics, particularly the relative importance of external resources and internal policies, have important implications for the demand for IFAD services, as well as for the design and implementation of development assistance strategies.

Key points

- The international community has not agreed upon a universally valid definition for MICs. However, the World Bank's income classification is the most widely used.
- Global poverty is now concentrated in MICs. There are deep pockets of poverty at sub-national level, and large income inequalities.
- There is wide diversity within MICs, but MICs as a group is still qualitatively and quantitatively different in general from LICs.
- There is also diversity within the same MIC country. There is much in common between LICs and those regions and social groups within MICs that have benefited less from economic growth.
- Percentage of ODA to MICs is declining and has become relatively insignificant compared to other capital flows. Foreign direct investments in MICs are much higher than LICs.

III. IFAD's engagement with middle income countries

30. When IFAD was established in 1976, only a small percentage of its developing country members were classified as middle-income. In 2004, 57 per cent of the developing country members were MICs. By 2013 the percentage had reached 72 per cent (Table 5 below). Nine countries, mainly UMICs, ceased to be developing country members between 2004 and 2013. Almost half (46 per cent) of the UMIC members in 2013 had no ongoing IFAD projects. If current trends continue, the proportion of LIC members will continue to decrease; the proportion of MIC members will increase; and more HMICs will either cease to have IFAD projects or cease to be developing country members.

Table 5
IFAD's Developing Country Membership, 2004 and 2013

	Number 2004	*% 2004*	*Number 2013*	*% 2013*
Non-Fragile States				
LIC	30		16	
LMIC	39		36	
UMIC	28		43	
Fragile and Conflict Affected States				
LIC	30		20	
LMIC	9		9	
UMIC	2		5	
All countries				
LIC	60	43 %	36	28 %
LMIC	48	35 %	45	35 %
UMIC	30	22 %	48	37 %
MICs	78	57 %	93	72 %
Total	138	100 %	129	100 %

Source: Compiled by the Evaluation Team based on IFAD PPMS, World Bank list of economies, and World Bank Harmonized list of Fragile Situations.

A. IFAD's strategy in middle income countries

31. A short paper on IFAD's role in MICs was prepared in 2008 for the consultation on the eighth replenishment[8]. At that time one-third of the world's poor lived in MICs. The paper reaffirmed both that IFAD had made an important contribution in MICs and that its mandate to address rural poverty remained highly relevant to MICs. It also recognised that the rapid growth of many MICs, and their increasing ability to access resources from the international capital markets, had forced other IFIs to review the attractiveness of their financial products and to deepen the knowledge content of their initiatives. The paper concluded that IFAD needed to make a similar adaptation in order to enhance its contributions to MICs.

32. A follow-up strategy paper on IFAD's engagement with MICs was presented to the Board in 2011. This recorded broad support for IFAD's engagement in MICs, albeit with some concerns about whether this support detracted from its servicing of LICs[9]. The thrust of the paper was that, in view of the heterogeneity of MICs, a single all-encompassing policy for MICs would neither be effective nor efficient. IFAD should recognise that its Strategic Framework and polices applied as much to MICs as to other countries; that MICs and LICs needed to be treated in the same manner (except for lending terms, see below); and that the extreme diversity of MICs required a diverse response customised to each country's needs. The paper recommended some enhancements to IFAD's financial and knowledge products and services, and an elaboration of an approach to graduation. The extent to which these recommendations have been implemented since 2011 is considered in Section VI below.

B. IFAD financial support to middle income countries

33. The main way that IFAD provides support to MICs is via long-term loans for investment projects. Since 2013, IFAD has offered three loan products: highly concessional, blend, and ordinary. The terms and eligibility criteria for these are summarised in Table 6 below. Four types of loan product had previously been offered: highly concessional, hardened, intermediate and ordinary. Blend terms replaced hardened and intermediate terms as step in the progression from highly concessional to ordinary terms.

[8] IFAD's Role in Middle-Income Countries. October 2008.
[9] IFAD's Engagement with Middle-Income Countries, 2011, para.2

Table 6
IFAD loan products – term and eligibility, 2014

Type	*Eligibility*	*Maturity period (years)*	*Grace Period (years)*	*Interest Rate (%)*	*Service charge (%)*	*Concessionality charge (grant element)*[c]
Highly concessional	GNP per capita of US$805 or less in 1992 prices or classified as IDA-only countries.	40	10	-	0.75	65%
Blend terms	Eligible for IDA blend terms.	25	5[a]	1.25	0.75	50%
Ordinary	GNP per capita of US$1,306 or above in 1992 prices.	15-18	3[a]	0.85[b]	-	16%[d]

[a] The Executive Board may vary the grace period and amount for each instalment for the repayment of loans on blend and ordinary terms

[b] As of January 2010, IFAD resets its annual reference interest rate each semester on the first business days of January and July. The IFAD reference rate applicable to loans on ordinary terms is based on a composite SDR LIBOR six-month rate of the four currencies that constitute the SDR basket (USD, Japanese yen, euro and UK pound sterling) plus a variable spread. The spread applied by IFAD is a weighted averge of the spreads applied by IBRD to its variable lending rate for the same semester. The interest rate of 0.85 as listed in the table is the rate applied in January-June 2014.

[c] Calculated using the IDA methodology for concessionality and applying current discount rates

[d] Ordinary terms have variable interest rates and the IDAD methodology cannot be readily applied to calculate the inherent grant element. To calculate approximate comparative figures, the variable interest rate has been converted to fixed rates by applying market-interest-rate swap premiums and aligned to the maturity profile of the IFAD loans plus the current IFAD spread. The grant element for loans on ordinary terms is based on a 15-year maturity.

Source: Review of the Lending Policies and Criteria (IFAD, 2013); IFAD Intranet information on lending rates http://www.ifad.org/operations/projects/lending.htm.

34. In addition to the above, in the context of the Debt Sustainability Framework, countries with high risk of debt distress (red-light) receive 100 per cent of their allocation in the form of grants and those with a medium risk (yellow light) receive 50 per cent in the form of grants. Table 7 below provides the number of countries (by type) eligible for different lending terms in IFAD, including the Debt Sustainability Framework.

Table 7
Countries eligible for different types of IFAD financial products

Type	*No. of countries eligible*		
	LICs	*LMICs*	*UMICs*
Highly concessional	13	7	4
Debt Sustainablity Framework	8	5	2
Highly concessional/Debt sustainabily Framework	15	6	1
Blend terms	0	17	2
Ordinary	0	9	39

Source: Compiled by the Evaluation Team based on information from IFAD Intranet (http://intranet.ifad.org/guides/manuals/lgs/lending.pdf) and the World Bank list of economies.

35. IFAD's Lending Policies and Criteria state that the total amount of highly concessional loans provided each year should amount to approximately two thirds of the total amount lent annually. In 2012 highly concessional terms applied to

71 per cent of total loans[10]. In line with the eligibility criteria, most of the highly concessional loans were for LICs. However, as can be seen in Table 7, some MICs are eligible for highly concessional loans.

36. Since 2005 funds available for loans have been allocated according to the Performance- Based Allocation System (PBAS). Within the overall limits set out in IFAD's Lending Policies and Criteria, and a framework of regional allocations, the PBAS takes into account three key factors: national per capita income, rural population, and the institutional and policy framework for sustainable rural development. A system of 'floor' and 'ceiling' allocations also applies[11]. The PBAS allocation by country classification is shown in Table 8. Over half (58 per cent) of the 2013 PBAS allocation was for MICs, including a 17 per cent allocation for UMICs. The advantage of the PBAS is that it provides an agreed, explicit and transparent allocation system. However, the effect of the PBAS is that the most populous countries (largely LMICs) receive much lower allocations per poor person; many countries receive a small 'floor' allocation; and many MICs, such as those in Latin America, receive a smaller allocation than they want.

Table 8
PBAS allocation

	2013 PBAS allocation (US$ m)	*2013 PBAS allocation (%)*
LICs	370	42.3%
LMICs	355	40.6%
UMICs	149	17.1%
All MICs	504	57.7%

Source: Progress report on implementation of the PBAS, IFAD (2013).

37. The PBAS provides an ex ante measure of the distribution of IFAD loan funds. Disbursements provide a better measure of the actual distribution between country types, as well as revealing how the distribution is changing over time. Table 9 below shows disbursements by country type in 2004 and 2012. In 2004 almost two-thirds (62 per cent) of IFAD funds were disbursed to LICs. In 2012 over two-thirds (70 per cent) of funds were disbursed to MICs[12]. The percentage disbursed to UMICs increased from 7 per cent in 2004 to 16 per cent in 2012.

[10] Review of Lending Policies and Criteria (IFAD, 2013).
[11] The structure and operation of a PBAS for IFAD (IAFD, 2003).
[12] Figures to October 2013 show 58 per cent to MICs. The IFAD 2012 Annual Report states that 70 per cent of new commitments in 2012 were to LICs, possibly helped by the Adaptation for Smallholder Agriculture Programme (ASAP).

Table 9
IFAD Loan Disbursements by Country Type, 2004 and 2012

	USD m 2004	*% 2004*	*USD m 2012*	*% 2012*
Non-Fragile States				
LIC	163		164	
LMIC	87		195	
UMIC	23		108	
Fragile and Conflict Affected States				
LIC	33		45	
LMIC	8		23	
UMIC	0		3	
All countries				
LIC	196	62%	209	30%
LMIC	95	30%	370	54%
UMIC	23	7%	111	16%
All MICs	118	38%	481	70%
Total	314	100%	690	100%

Source: Elaborated by Evaluation Team based on data provided by IFAD's Controller's and Financial Services Division.

38. The available data on grants is given in Table 10 below. This includes Debt Sustainability Framework grants mentioned earlier, which explains the large increase since 2004. This shows a declining percentage of grants to MICs, but that these countries received 25 per cent of grants in 2012. IFAD's policy on grants is discussed further below (see paragraph 85).

Table 10
IFAD Grant Disbursements by Country Type, 2004 and 2012

	USD m 2004	*% 2004*	*USD m 2012*	*% 2012*
Non-Fragile States				
LIC	0.23		48.6	
LMIC	0.3		15.6	
UMIC	0		2.5	
Fragile and Conflict Affected States				
LIC	0.21		42.8	
LMIC	0.03		12.7	
UMIC	0		0	
All countries				
LIC	0.44	57%	91.4	74.8%
LMIC	0.33	43%	28.3	23.2%
UMIC	0	0	2.5	2.0%
All MICs	0.33	43%	30.8	25.2%
Total	0.77	100%	122.2	100%

Source: Elaborated by Evaluation Team based on data provided by IFAD's Controller's and Financial Services Division.

C. MIC financial contribution to IFAD

39. From 1997 to 2012 replenishment commitments covered about one-third of IFAD's loans and grants, with two-thirds covered by internal resources (loan reflows, loan cancellations and investment income)[13]. Total contribution of member states (pledges) to IFAD9 replenishment is around 1 386 million USD out of which high income countries contribute 1 241.6 million or around 89.6 per cent, MICs contribute 141.7 million USD, or around 10.2 per cent and LICs contribute 2.96 million USD, or 0.2 per cent. 7 out of 12 List B members pledged funds to IFAD9, as did more than 50 List C members. India, China and Brazil are the leading List C donors.

40. Table 11 below provides information on reflow (both principal and interests) from countries to IFAD. MICs as a group provide over two-thirds (68 per cent) of reflows in 2012, up from a half (53 per cent) in 2004. This is particularly significant given the high proportion of the work programme funded from internal resources such as reflows. Lending to MICs is thus a crucial part of the IFAD financial model. Any reduction in reflows from MICs arising either from self-graduation or from amendment to the PBAS will have long-term financial implications, unless replaced by other loan reflows.

[13] CLE on the achievements of IFAD replenishments. Revised draft (January 2014).

Table 11
Reflow from countries to IFAD by Country Type, 2004 and 2012

	USD m 2004	*% 2004*	*USD m 2012*	*% 2012*
Non-Fragile States				
LIC	78		58	
LMIC	81		103	
UMIC	20		69	
Fragile and Conflict Affected States				
LIC	19		28	
LMIC	6		9	
UMIC	0		2	
All countries				
LIC	97	47%	86	32%
LMIC	87	43%	112	42%
UMIC	20	10%	71	26%
All MICs	107	53%	183	68%
Total	204	100%	269	100%

Source: Elaborated by Evaluation Team based on data provided by IFAD's Controller's and Financial Services Division.

41. Table 12 below shows the financing of IFAD projects by country type. This shows a progressively greater average percentage national contribution by MICs, and a progressive average reduction in the grant percentage to MICs. However, these averages hide considerable country-to-country variation. Interestingly, the average percentage of cofinancing and the average percentage made up by an IFAD loan show less variation across country types.

Table 12
Financing of IFAD projects by Country Type, 2011-2013

2011-2013	*No. of projects approved*	*Average size of project $m*	*Average % national contribution*	*Average % of beneficiaries and other domestic contribution*	*Average % cofinancing*	*Average % IFAD loan*	*Average % IFAD grant*
LICS	31	66.6	11.2%	13.0%	22.8%	29.0%	24.0%
LMICS	40	53.8	15.0%	18.9%	18.2%	42.6%	5.3%
UMICS	21	68.9	32.6%	17.4%	18.5%	30.7%	0.8%
All MICS	61	59.0	22.1%	18.3%	18.3%	37.8%	3.5%

Source: Elaborated by Evaluation Team based on data from PPMS.

Key points

- IFAD has become a largely MIC institution. An increasing percentage of IFAD's developing country members are MICs (72 per cent in 2012 up from 57 per cent in 2004). An increasing percentage of IFAD disbursements go to MICs (70 per cent in 2012 up from 38 per cent in 2004).
- Reflows from MICs (68 per cent of total reflows in 2012) are a crucial part of IFAD's financial model.
- MIC contributions to replenishments are increasing (10 per cent for IFAD9).
- IFAD produced a strategy paper on MICs in 2011. In view of the diversity of countries it does not have a single policy or approach for MICs. COSOPs are tailored to the country context.

IV. IFAD evaluation findings

42. This section of the report synthesises the findings from IFAD's own evaluations. It draws on the project and country programme evaluation reports produced by the IOE as well as the Annual Review of Portfolio Performance produced by PMD. The lessons and findings from the non-IFAD literature are considered in the next section.

A. Project performance

43. IOE has evaluated 196 projects since 2002. A summary of the ratings for LICs and MICs (classified at the time of project completion) is contained in Table 13. This shows little difference in ratings between LICs and MICs as a whole. However, ratings for LMICs as a group are slightly higher than for LICs, and those for UMICs are lower, with the qualification that the number of UMIC projects rated is considerably smaller than for the other groups. One of the arguments for continuing to give ODA to MICs is that, because in general they have better institutions and policies, aid is more likely to be used effectively: 'as countries move from LIC to LMIC to UMIC status, their need for aid reduces, but its effectiveness may increase'[14]. The data in Table 13 lends support to the first part of that statement (LIC to LMIC) but not the second (LMIC to UMIC). The relatively small sample of projects evaluated in UMICssuggests that IFAD-supported projects are less relevant, less effective, less efficient and less sustainable in UMICs than in LICs or LMICs. This is therefore an area which requires close monitoring, and a better understanding of the explanatory factors that lie behind the performance data, given the increasing proportion of IFAD UMIC members (37 per cent in 2013, Table 5). It is also interesting to note that the Annual Portfolio Performance Review by PMD (ESA) also found that projects in MICs had lower average Project Status Report scores than those in LICs (please refer to sub-section IV D below).

[14] See, for example, The Role of Aid to Middle-Income Countries: a contribution to evolving EU development policy. Glennie, J. (ODI, 2011)

Table 13
Percentage of projects rated satisfactory or better

	LICs	*All MICs*	*LMICs*	*UMICs*
Relevance	95	90	92	85
Effectiveness	71	73	78	60
Efficiency	56	57	62	40
Project performance	77	78	81	70
Rural poverty impact	73	80	83	72
Sustainability	51	56	59	47
Innovation and scaling up	73	71	76	53
IFAD performance	66	73	75	56
Government performance	64	72	73	67
Overall project achievement	74	76	79	65
Number of projects with ratings[15]	112	83	63	20

Source: Elaborated by the evaluation team based on the IOE Independent Evaluation Database (as of December 2013).

B. CPE findings

44. This sub-section presents a synthesis of the findings from 19 CPEs in MICs prepared by IOE between 2005 and 2014. A list of the CPEs is contained in Appendix III. The findings focus on the performance of the lending portfolio and non-lending activities. Many of these are not materially different from the findings in CPEs of LICs. This is an important finding in itself: in many respects IFAD programmes face similar challenges in all types of countries. Programmes in MICs are not necessarily different from those in LICs. That said, there are some issues that are particularly important in MICs and/or are likely to become more so as national income increases.

Portfolio performance

45. **IFAD's mandate remains highly relevant for MICs.** All but one of the 19 CPEs found that the overall support provided by IFAD was moderately satisfactory or better. This reflects the fact that rural poverty is persistent in MICs, and agriculture is still central in the lives of most of the rural poor. In Vietnam, for example, 90 per cent of the poor live in rural areas, and agriculture provides 60 per cent of all employment. In Argentina, in the northern region, where rural poverty is most concentrated, more than 50 per cent of the rural population lives below the poverty line.

46. IFAD's relevance also stems from its unique position as the only international development institution dedicated exclusively to eradicating rural poverty. In spite of its modest financial contributions, IFAD has a distinct and catalytic role in supporting achievement of the MDGs relating to the elimination of poverty and hunger. In several MICs, IFAD has enhanced its relevance by promoting pro-poor innovations, and served as a 'demonstrator' of how to methodically design, implement, supervise, monitor and evaluate pro-poor agriculture and rural development projects. Its exclusive focus on rural poverty, bottom up and innovative approaches, commitment to increasing the involvement of civil society and NGOs in decision-making and resource allocation as well as its organizational flexibility is noted as distinguishing IFAD from other international organizations. This is as true in MICs as it is in LICs.

[15] Refers to the number of projects with ratings for Overall Project Achievement. The number of ratings for other criteria can be slightly less or more.

47. Three features have particularly enhanced IFAD's relevance in MICs. First, IFAD's clear emphasis on the poor has helped to address inequality, which is a major issue in most MICs.[16] The CPEs confirm that IFAD's approach at targeting was in general appropriate in most countries. This is discussed further below. Second, the recent shift to strengthening the links between the rural poor and markets has enhanced relevance, although implementation has remained challenging. In Nigeria, Vietnam and Zambia, the introduction of support for value chains has increased the relevance of IFAD support for vulnerable groups such as landless labourers, farmers with very limited land and unemployed youth. Third, the use of local expertise and the participation of local stakeholders in the design and implementation of IFAD-supported interventions has enhanced the relevance of IFAD support for some MICs such as China.

48. While the overall picture with respect to the past and current relevance of IFAD is very positive, a number of CPEs point out that **IFAD will need to adapt if it is to retain its relevance and niche in future, especially in UMICs**. A common finding is that clients are becoming more interested in IFAD's global expertise, knowledge and experience.It is the package of knowledge plus resources that is increasingly in demand. The limited resources that IFAD can bring makes it even more important that there is close collaboration with the Government in determining the nature of IFAD support, the allocation of its resources, and in explicitly defining the complementary roles and responsibilities of sub-national governments, national institutions, and IFAD.

49. Three areas warrant particular attention. First, **targeting needs to be both consistent with IFAD's objectives and appropriate**. This is not always straightforward. Many CPEs discuss the tensions between addressing the poorest and the objective of increasing productivity. When poverty is predominantly focused in certain geographical areas, and when disadvantaged groups such as ethnic minorities are similarly concentrated, CPEs point to the advantages of geographical targeting.

50. However, geographical areas with a high incidence of poverty often face other limiting factors such as markets that operate, access to financial services, good transportation, availability of water and inputs, or other supporting programmes. As the Bolivia CPE noted, poor communities may also lack the familiarity and capacity to access, and operate successfully within, such markets that do exist.

51. Several CPEs in MICs have therefore argued for a more nuanced approach to targeting, especially in countries where food security is less of an issue. A focus on the 'productive poor' may be preferable to a focus on the poorest. In Moldova, this lead IFAD to target somewhat better-off farmers who had the skills and entrepreneurship to enter commercial farming. In China, IFAD's target groups under the latest COSOP were the economically active, with capacity to exploit economic opportunities, but living in the poorest and more remote provinces. In Zambia, the target consisted of smallholder farmers and other rural people who were already organized or who had the potential to join local organizations through which they could be linked to markets and services.

52. A key finding, irrespective of the targeting approach adopted, is the need for clarity and transparency in targeting. Targeting can be more complex in MICs where the rural poor are a small minority and distributed amongst a relatively better-off population. During implementation, transparency and clarity in targeting leads to better acceptability among the public. Lack of clarity was a factor in Nigeria, where the CPE found target group definitions too general and descriptive. In Bolivia and Ecuador, the CPE attributes some of the weak performance to a lack of clarity in targeting. In India, on the other hand, the CPE found that 16 of the 18 projects

[16] Vietnam provides an example of a country where inequalities among the ethnic minorities is on the increase. The 2013 CPE for Indonesia notes that the Gini coefficient, a measure of consumption inequality, has increased from approximately 32 in 1999 to 35 in 2009. Regional disparities in poverty also persist: eastern Indonesia lags behind other parts of the country, notably Java.

evaluated were rated as moderately or fully satisfactory partly because of the selective and clear focus on two broad target groups among those living below the poverty line: women and tribal communities.

53. Another common finding, also not restricted to MICs, is the need for greater geographical focus. The CPEs for Bolivia and Zambia concluded that projects and resources were spread too thinly over too large an area. In India, the wide and and fragmented programme coverage posed challenges to program co-ordination, monitoring, supervision, efficiency and the sustainability of benefits.

54. Second, **enhanced relevance in MICs will require more careful and customised portfolio design**. Four CPEs (Mexico, Zambia, Morocco and Pakistan) stressed the need for a more strategic approach to portfolio design that went beyond the sum of the individual projects. Cohesive programmes with synergies between the component interventions, both lending and non-lending including grants, were required. While this point is not specific to MICs, it is particularly pertinent given the increasing demand for knowledge relative to loans.

55. Another strategic design issue is the importance of IFAD sticking to its comparative advantage in agriculture. In Indonesia, for example, the CPE found a limited focus on agricultural productivity aspects, which is IFAD's comparative advantage and specialization. In Nigeria and India, the CPEs found that the Fund has not devoted adequate attention to agricultural activities commensurate with the centrality of agriculture as the main means of income and food security of the rural poor in these countries.

56. The ownership of interventions at different levels is essential, particularly because of the small amount of funds that IFAD brings to many of these countries. Convergence of IFAD assistance with much larger government schemes is critical, as is ensuring ownership at all levels. Working at the sub-national level is already a feature of many IFAD programmes and is likely to become even more important in future, particularly in the larger MICs. However, building national ownership of projects, when IFAD is concentrated at the subnational levels, raises challenges that must be addressed. The Vietnam CPE found that, while the programme worked primarily at the provincial level, it has been important to engage with the national government on issues important for the effectiveness of the overall country programme. Working with the right national counterpart was an important lesson in Bolivia and Nigeria.

57. Finally, **improvements are required in results-based management.** Although CPEs note an improvement in monitoring after the introduction of the results-based COSOPS, monitoring and evaluation (M&E) was consistently noted as weak (12 CPEs) or in needing of strengthening (7 CPEs). CPEs noted the need for explicitly articulated results frameworks (Mexico, Senegal) and for improvement in the design and implementation of M&E frameworks more generally. The M&E of grants was also weak (China, Egypt, Ghana, Indonesia, Moldova, Nigeria). These are not new criticisms, nor are they specific to MICs.

58. **IFAD lending for projects in MICs has generally been effective**. The performance of IFAD portfolio has been rated in the satisfactory range in almost 90 per cent of the cases[17]. Overall, despite the relatively small scale of its support, CPEs record many successful results.

59. As in the case of the projects (paragraph 43 above), **there is some evidence of poorer performance in UMICs compared to LMICs**. In 3 of the 6 UMICs, effectiveness was rated as moderately unsatisfactory (Argentina, Ecuador, and Mexico), and in 2 it was moderately satisfactory (Brazil and Jordan). Only in China and India was it rated as satisfactory. The poorer performance is attributable to weak institutional capacity in the areas where IFAD was working; greater

[17] The Egypt CPEs did not include ratings, as was the practice when it was prepared. Ratings were inserted by the evaluator based on the CPE findings.

difficulties in targeting the poor (Ecuador and Mexico); and weak government ownership (Mexico). None of these were issues in China where convergence with government programs generated significant government commitment.

60. **Implementation delays and challenges are cited in all CPEs.** Only in three countries (China, Nigeria and Vietnam) has implementation been broadly satisfactory. The implementation challenges vary by country, but are generally related to weak institutional and human capacity, particularly in rural areas, and a lack of familiarity with IFAD processing guidelines, resulting in delayed procurement and processing.

61. **Despite their UMIC status, counterpart funding is still a problem in some countries.** The China CPE reported suggested counting the government's investment in poverty reduction activities as part of parallel financing and waiving the requirement for counterpart funding. The Indonesia and Vietnam CPE took a different view. It suggested that, in view of its newly acquired MIC status, the Government should provide a higher level of counterpart funding. This is likely to be the normal view.

62. **The impact on poverty was moderate in most cases**. Adequate data to assess the impact of IFAD-supported programmes is often lacking. That aside, a variety of reasons explain the overall moderate performance. In some cases achieving increases in the agricultural productivity of poor farmers has proved challenging, sometimes because this was given insufficient priority (India, Indonesia). In Ecuador and Mexico short-term project interventions were not an effective way of addressing long-term poverty. In Mexico the impact on rural poverty was marginal because the size of the group receiving direct benefits was very small in relation to the poor population. In Moldova a significant part of the programme support was not directly targeted at the rural poor but went to middle- and large-scale farmers. The rural poor may have benefited indirectly via increased employment and other 'trickle down' effects, but the evidence for this was inconclusive.

63. **Most CPEs support the focus on value chains as potentially an effective way of linking the poor to markets in MICs, but stress the need for careful design.** This approach is being introduced in the majority of the 19 country programmes evaluated, but with different degrees of success. The overall finding is that designing the linkages between poor beneficiaries and markets is challenging and requires a considered approach. Careful design is needed in the form of preliminary studies, careful diagnostics, ensuring a connection with other IFAD support, building capacity among stakeholders and beneficiaries, and identifying and addressing risks or unintended impact on IFAD's desired beneficiaries. The Zambia CPE, for example, found that strengthened value chains can have adverse impact on some section of smallholders that fit within IFAD's target group. In Ghana, the challenge is to reach poorer farmers who are not members of producer groups, and to address the wider market failures that constrain value chain development in the north of the country: weak producer associations, inadequate commodity-chain infrastructure, poor agriculture support services, and insufficient access to financing facilities. Other challenges noted in CPEs include an over-reliance on weak government agencies and limited private sector partnerships.

64. A related finding is that investments in rural infrastructure that help link poor farmers to markets can be very beneficial, but only where other supporting services exist or are developed. This was the case in China where benefits included savings in transport time and costs, and improved access to markets, services, and information. In Nigeria by contrast, the CPE found that inadequate market linkages were a significant constraining factor, followed by deficiencies in roads and transport conditions, storage, access to credits, and market information. In Ghana, flood roads have been repaired and improved in one district, but the lack of production planning and marketing channel support has prevented local producers from taking full advantage of the improved infrastructure.

65. **IFAD has contributed significantly to developing new and successful models for the provision of micro-finance to the rural poor, the lack of which was identified as a key constraint in almost all the CPEs.** This was particularly true in India, where IFAD-funded operations have contributed to developing new models and helped link the rural poor and their organizations to commercial banks. However, further development is needed to ensure an even wider impact on poverty and to address the challenges in some situations. In Ghana, matching grants were found to be a promising tool, but require more testing and adaptation before scaling up. In Yemen, group lending was introduced as one approach to reducing the cost and risk of delivering credit to a dispersed population of small rain-fed farmers and artisanal fishers. In Jordan, the credit component has been important for non-farm income-generation but lacked an appropriate institutional design to be able to reach IFAD's target groups**The Fund has not made the most of its unique position to address the effects of climate change, and environmental risks more generally, on the poor.** While projects have supported activities related to natural resources management and climate change, the approach has been mostly ad hoc and project-based. In China, while the portfolio has made many positive contributions in this domain, results were localized and were unable to influence national extension messages and strategies. In Egypt, IFAD has supported integrated pest management that has reduced the use of agro-chemicals, as well as improved irrigation technologies that have reduced water consumption and the risk of salinization. However, the CPE notes that environmental issues have not been addressed systematically and the interventions in these areas are too recent to have had a visible impact.

66. **IFAD has promoted new approaches in community participation and helped to build the capacity of local governments and civil society**. In Argentina IFAD has contributed to radical change in the institutions responsible for rural development and family farming. Positive results were also achieved in Nigeria, Moldova, Vietnam, and Senegal. Capacity in many countries is particularly weak at the subnational levels. In the case of Indonesia, insufficient capacity strengthening at the subnational levels led to moderately unsatisfactory results. The CPE notes that the lending operations did not adequately address the capacity deficit of the national and subnational authorities to enable small farmers to gain better access to technology, inputs, value chains for inputs and outputs, and knowledge.

67. **In the majority of countries, IFAD has made a meaningful contribution to gender equality, particularly in the later phases covered by the CPEs.** Satisfactory results were achieved in China, India and Mexico. However, most of the other CPEs add that the results appear to be localized and the overall impact is assessed as modestly satisfactory. In a few countries little attention was given to the different needs of men and women in earlier phases.

68. Only one of the 19 CPEs assessed likely **sustainability** as strong. There are a variety of reasons for the weak sustainability. Some are more within IFAD's control, such as the partnerships or project design. In Moldova and Senegal, weak attention to exit strategies during the design stage was one reason for low sustainability. Another was the need to ensure sustainability at national, regional and local levels, even for projects that are local in scope. This is likely to be particularly important for sub-national projects in larger countries. In Zambia, the sustainability of some components of IFADs intervention is limited, in part because of weak central government commitment to future financial obligations. Mechanisms that have worked in some places include embedding the project in a successful institution[18], working with NGOs or other relevant agencies (including other donors) with a long-term presence, or building up viable grass roots institutions. The latter approach

[18] The two most successful examples of this, in the India portfolio, are the two micro-finance projects (Maharashtra Rural Credit Project and National Micro-finance Support Programme). CPE India, Para 167.

has paid dividends in Yemen, although several other CPEs note the challenge of achieving sustainability in community-based organizations.

69. Several CPEs found that the country programme has been **innovative** in its use of participatory processes, its support for decentralization, and the enhancement of agricultural products (Brazil, India, Nigeria, Senegal, Vietnam). However, for a variety of reasons, only two CPEs (Nigeria and Vietnam) rate **scaling up** as strong. All other CPEs assess scaling up as moderately satisfactory or in need of strengthening. Overall, scaling up is typically ad hoc, without due consideration for linkages with knowledge management, policy dialogue and partnership building. A more strategic and systematic effort might have ensured a wider replication and scaling up of successful innovations. COSOPs need to define a clear pathway for promoting innovation and achieving scaled up impact.

70. Partnerships are critical for scaling up, particularly given IFAD's scarce resources. In most cases this means working with appropriate national-level counterparts. This is a problem in China where there is no central government technical partner in the current partnership structure which can help scale-up an innovation piloted at province/county level. Similar issues constrained innovation and scaling up in the larger decentralized countries like India and Mexico. In Mexico, for example, public policy formulation is very concentrated at the highest levels of government with very few institutions being involved. Accordingly, any policy dialogue conducted with sector institutions at lower levels has little chance of bearing fruit.

71. A common CPE finding is that **an IFAD country presence helps to enhance the development effectiveness of IFAD support**, and the lack of it has an adverse impact (eg. Indonesia). Almost all CPEs where there has been recent in-country posting comment on the benefits of having direct and regular supervision capacity within the country. That said, local offices need to be better resourced and staffed if they are to make a significant contribution. The CPEs for Ghana, Nigeria, and Yemen all suggest strengthening of the local office in order to allow it to play the necessary role in policy dialogue and knowledge management. The China CPE reported that delivery of the knowledge cooperation was significantly constrained by a shortage of professional staff and operational budget.

Non-lending activities

72. **Non-lending activities have been the weakest area of IFAD's support, but show signs of improvement after 2011.** These activities – knowledge management, policy dialogue and partnerships - are particularly important in MICs. The main reasons for the limited achievement are the lack of a strategic approach and the limited resources deployed for this purpose in partner countries.

73. **Policy dialogue** was rated as moderately satisfactory in under half of the CPEs. In Bolivia, as in other countries, the reasons for this weak performance include the relatively small size of IFAD operations; the lack of an in-country office (since rectified in most cases); the failure to articulate clearly in COSOPs the areas for policy dialogue; and the weak synergies between different elements of IFAD programmes, such as loans and grants. As an example of the latter, grants were not used to influence policies in a timely or appropriate way.

74. There are, however, examples where policy dialogue has helped enhance the impact of IFAD support. In Moldova, IFAD is the main partner for agricultural micro-finance and has provided important inputs into policy. In Argentina, although not a big player, IFAD has made a significant contribution to improving rural development institutions and policies. It supported and promoted policy discussions at the subregional level, facilitated the participation of organizations of the rural poor in policy dialogue and supported the generation and dissemination of knowledge concerning rural development and family farming. These activities helped to generate debate on rural poverty in Argentina and increased the visibility of the sector in a country traditionally oriented towards agro-industry for export. In

Zambia, IFAD has actively participated in policy dialogue and was able to influence some key rural development issues.

Box 2
REAF: building a forum for policy dialogue in MERCOSUR

MERCOSUR (Southern Common Market) now has five full members (Argentina, Brazil, Paraguay, Uraguay and Venezuela) and two associate members (Bolivia and Chile). Although five million family farms account for 80 per cent of agricultural production in the MERCOSUR area, public policies have traditionally been tailored to export-orientated, large scale agribusiness.

Between 2004 and 2011 IFAD supported REAF (Specialized Meeting on Family Farming) as a platform where public policies and programmes are shaped through a consultation process involving both governments and small-scale farmers' associations. REAF has met in sixteen regional sessions, over 200 sessions of the respective national sections, and over 20 workshops and seminars. REAF is now functioning without IFAD support.

The main result of REAF has been to formalise the existence of the family farming sector and to create new *fora* for public policy dialogue on family farming within the countries of MERCOSUR. Specific results include new or strengthened institutions – such as the State Secretariat for Rural Development and Family Farming in Argentina and the General Directorate for Rural Development in Uruguay – and changes to regional and national policy agendas.

REAF succeeded in creating a long-term space for policy dialogue involving a wide range of public and private participants. IFAD is acknowledged to have played a significant role in supporting an efficient regional technical secretariat that was trusted and respected by all the players, and as a reliable and neutral partner that could articulate and facilitate dialogue.

Source: Differential Policies for Family Farming in MERCOSUR – contribution of political dialogue in the design of public policies and institutionalisation. Susana Marquez and Alvaro Ramos.

75. Country offices can contribute to better knowledge management. This was the case in Vietnam where the local office launched a country portfolio website in 2010 which described (in Vietnamese) the experience, events and lessons learned from various projects, and provided source material on learning issues for project staff. Positive experiences were also noted in Pakistan and Zambia, but not in Indonesia where the CPM is based in Rome and there is not yet a country office.

76. IFAD's global experience is currently largely transferred through the lending programme. There is growing need, particularly for UMICs, for knowledge cooperation programmes that are independent of the lending programme. The problem is that there are limited grant resources to develop these, particularly for UMICs such as China. The CPE's for Bolivia, Brazil, China, Indonesia, Nigeria and India all reported that grant resources for such non-lending activities were scarce. The Mexico CPE highlighted the challenge IFAD faces in MICs where national ministries find it tedious to deal with IFAD given its small financial contribution.

77. The increasing trend towards sub-national projects also presents a challenge for knowledge management. The China CPE commented that sub-national governments may rightly ask why they should take on more debt to finance activities that benefit other regions, let alone other countries. Its primary focus is understandably on the project and the areas within its boundaries.

78. The limited availability of grant resources[19] makes it even more important that they are carefully deployed. This has not always happened. The lack of a strategic approach towards grants is noted by a majority of CPEs as having reduced the benefits that accrued. In India, Indonesia and Senegal, CPEs note that while many of the grants have been useful and most were given for worthwhile activities, an overall guiding strategic vision for the design and use of these grants was largely absent. Many CPEs note a disconnect between grants and other parts of the country programme, and suggest that grants need to be better linked to both lending and non-lending activities. A high degree of alignment of national level grants with both national objectives and with IFAD's priorities was only noted in the Ecuador CPE. Most CPEs comment on the need to utilize grants more effectively for

[19] Grants account for around 6 per cent of IFAD's programme of work in 2004-13 (Draft Grants CLE, March 2014).

testing innovative solutions, which can then be applied more broadly through loan operations. Grants need to better complement operations and be utilized for effective knowledge management.[20]

79. Strong partnerships at different levels are critical for IFAD, given the generally weak capacity in its target area (rural and often remote areas) and its relatively limited level of resources. As the Nigeria CPE concluded, this makes effective partnerships and cofinancing essential for replication, scaling up and joint pro-poor policy dialogue. In Zambia, capacity constraints can be mitigated only through strong partnerships with a set of relevant government and non-government actors.

80. Partnership with government in general is found to be very good, as it is with civil society and the NGO community. But as the Nigeria and Indonesia CPEs found, it is important to identify the right partner, and to avoid too many partnerships adding to the complexity of implementation. Partnership with the private sector has been less strong, though there are recent signs of improvement in Indonesia, Morocco, Vietnam and Zambia. In Indonesia, IFAD is collaborating with a private company (Mars) to improve the cocoa grown by the smallholders. Global agricultural and food companies are increasingly influential players in MICs, where many commodity supply chains originate. Large numbers of poor smallholders are involved. For example, there are an estimated 1.5 to 2 million cocoa farms in West Africa, and more than 4.5 million worldwide.

81. Partnership with other IFIs and UN organizations (including the Rome-based agencies) in general is weak and not systematically pursued at the country level. In Viet Nam, the CPE notes that no IFAD-supported project has been co-financed with the World Bank or AsDB, even though both have financed several projects in the agriculture sector in the country. Likewise in China, meetings and cooperation with the AsDB and World Bank are rare and ad-hoc and there has been limited cooperation with FAO and UN agencies. In Brazil, the CPE notes that there is no engagement between IFAD and donors on policy issues or any systematic efforts for exchanging good practices and knowledge on rural poverty matters. The same holds true in India. Such partnerships are desirable in order to build on each agency’s comparative advantage, reduce transaction costs, avoid duplication of effort and better coordinate development interventions.

Box 3
IFAD’s experience in Sao Tome and Principe

During the period 2003-2012, IFAD, the Government of Sao Tome and Principe, local cooperatives of cocoa and coffee producers, and the private sector developed key partnerships for sustainable cocoa and coffee value-chain development. These efforts produced partnerships with four companies: KAOKA (France), which imports organic cocoa; Cafédirect (UK), which imports Fairtrade certified cocoa; Hom&Ter/Agrisud International (France), which imports organic pepper; and Malongo (France), which imports organic coffee. In addition, 5,500 smallholders were involved in the partnerships that resulted in the export of 700 metric tons (MT), 9 MT of dried coffee beans and 4 MT of pepper in 2011.

Before the project activities began in 2003, about 700 farmers were producing and locally trading only 50 MT tons of cocoa beans. Owing to the partnerships that were developed, nearly 2,200 farmers are now growing cocoa certified as organic or Fairtrade for the international chocolate industry, and due to the average increase in annual income, farmers who were living at 25 per cent below the poverty line are now living at 8 per cent above the poverty line. About 8,000 people have directly or indirectly benefited from the creation of new jobs. The experience of Sao Tome and Principe demonstrates the importance of building long-term partnerships with private companies that are willing to work within ethical frameworks and to provide know- how to and share experiences with organized farmers.

Source: IFAD: Small-scale producers in the development of cocoa value-chain partnerships (2103).

[20] A CLE on IFAD’s Policy for Grant Financing is in preparation. This looks at grants in all types of countries and does not specifically consider MICs.

C. CLE findings

82. The CLE of IFAD's efficiency contains a number of relevant findings[21]. A major conclusion was that IFAD was spreading itself too thin and that greater selectivity – thematic, country and strategic - was required. It noted that the number of countries with active IFAD programmes had expanded from 90 to 118 between the Seventh and Eighth Replenishments, and that 30 countries – 80 per cent of them were MICs - had three year allocations (2010-2012) had $5 million or less: 'maintaining meaningful lending relationships with these countries has implications for IFAD's institutional efficiency'[22]. Strategic partnerships, rather than IFAD stand-alone operations, might be a better option in countries with very small PBAS allocations.

83. The CLE made two other important points. First, while concluding that current country allocations 'reflect adequate poverty focus', the CLE suggested that higher cost sharing from MICs would be a reasonable expectation. Second, it noted that IFAD's core in-house technical skills are already insufficient to allow adequate participation on key missions; the high dependence on consultants with negative effects on in-house learning; the significant workload implications on CPMs arising out of new initiatives, not all of which are funded (scaling up, policy dialogue, private sector partnerships); and the cost pressures resulting from the expansion of IFAD's country presence. Taken together, these reinforce the case for greater focus and selectivity. IFAD cannot be expected to do more, and to do better, in all the places it currently works. However, the CLE recognised that greater country selectivity might be inconsistent with IFAD's universal mandate.

84. A CLE on the achievements of IFAD replenishments has been finalized. Key points from this are, first, that ODA in absolute terms has declined, and that a further decrease is expected, but that ODA to agriculture shows an increasing trend. Food security continues to remain a significant concern. Second, the share flowing through the multilateral system is projected to decline. This has lead to increased efforts to diversify the sources of multilateral funding to include MICs and the private sector. New sources of funding are emerging and rapidly expanding. Third, competition for funds and donor earmarking (non-core funding) are on the increase. The EUR300 million Spanish Trust Fund, and the proposed USD500 million loan from KfW, are examples of supplementary funds allocated outside the PBAS, mainly or exclusively for MICs. This is happening at the same time as OECD projections already indicate major increases in ODA projected for MICs – probably in the form of soft loans - and for significant reductions in ODA for the poorest countries where concessional resources are more important[23].

85. A CLE on IFAD's Policy for Grant Financing is currently under preparation. This looks at grants in all types of countries and does not specifically consider MICs. However, it appears that the current system of country grant allocation, although tied to the PBAS, favours MICs. Poorer countries are ineligible for receiving grants from the grants facility on the grounds that they are already receiving grants for their country programmes and through the DSF. This may change if, as recommended by the draft CLE, country and regional allocations are replaced by an IFAD-wide competitive process.

D. Portfolio review reports

86. The five Annual Portfolio Performance Reports (APPR) for 2012-13 provide some interesting insights on MICs. For the Latin America and the Caribbean Division (LAC), where 96 per cent of its countries are MICs, a major challenge has been how to meet the increasing demand for investment resources in the context of a shrinking PBAS allocation (cut from 18 per cent to 12 per cent from 2000 to 2012)

[21] IFAD's institutional efficiency and efficiency of IFAD-funded operations (July 2013).
[22] It is important to note that the PBAS allocations for 2013-2015 have changed: 13 countries (92 per cent of them are MICs) have allocations of $5 million or less.
[23] http://www.oecd.org/newsroom/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm.

and declining ODA more generally. The Spanish Trust Fund has allowed the Division to respond to this demand in a way that would not have been possible with replenishment resources alone. Such ‘alternative’ financing models are essential if IFAD is to be able to engage effectively with MICs such as those in LAC.

87. A second challenge has been delivering the sophisticated knowledge, innovation and policy work requested by MICswithout the necessary staff resources The grant portfolio helps to close this gap by financing policy-orientated work from specialised agencies and think tanks in the region. The 2013 grant budget approved for the region has been reduced by 45 per cent compared with 2012.

88. The small-island states in the English Caribbean poses a third challenge for LAC. As identified in the Efficiency CLE, there are high administrative costs involved in designing and delivering many small loans to many small states. LAC is exploring a multi-country programme approach as a possible solution.

89. The Near East North Africa and Europe Division (NEN) also has a high proportion of MICs (89 per cent). Large regional disparities and geographic pockets of poverty still exist in these countries, especially in the rural and mountainous areas. According to the APPR, IFAD is recognised as being willing and able to support programmes in these difficult areas, and to be able to provide an added value beyond financing: its specialist knowledge; a focus on the local level; innovative project designs; and the quality of project supervision. The APPR noted some reluctance among MICs to continue borrowing IFAD’s traditional financial products. Some countries have exceeded their foreign debt ceiling or are demanding technical assistance instead of investment projects. The new Reimbursable Technical Assistance (RTA) may be attractive for these reasons.

90. Most of the poor in Asia and the Pacific now live in MICs. These comprise 83 per cent of the countries covered by the Asia and Pacific Division (APR). This is leading to a demand for a new range of support and services from IFAD apart from traditional low interest loan financing. For example, China and Indonesia have expressed interest in IFAD playing a lead role as a knowledge broker on rural poverty reduction options and models. Declining ODA to the rural sector also means that the mobilisation of co-financing continues to be a challenge. This is forcing APR to look at mobilising cofinancing from non-traditional resources, notably the private sector.

91. Government co-financing is also a challenge in West and Central Africa Division (WCA) although in this case it is the predominance of LICs that is the issue. With less than half of the countries classified as MIC (mostly LMIC), and the highest concentration of fragile states in IFAD, mobilising adequate counterpart funds during implementation is a challenge and impacts negatively on performance.

92. The East and Southern Africa Division (ESA) similarly has a minority of MICs (41 per cent). As in 2012, the 2013 APPR found that projects in MICs had lower average PSR scores than those in LICs. Results and impact achieved in MICs has been ‘limited’. For ESA, this underlines the particular challenges, and differerent needs, of MICs with respect to implementing ‘classic’ IFAD project designs. One reason may the disconnect between the focus on MIC governments on large agro-enterprises, and IFAD’s focus on smallholder agriculture and poverty reduction. According to the APPR, those MICs with access to alternative funding ‘feel that the non-financial costs and rigidities associated with project lending outweigh the benefits associated with IFAD involvement’. Technical assistance to support government policies that effectively empower marginalised groups and improve their access to productive assets may be a better niche for IFAD in MICs.

Key points

- IFAD remains highly relevant in MICs. IFAD programmes have made significant positive contributions.
- There is some evidence that IFAD peformance in MICs – specifically UMICs, though the sample is small – is not necessarily better than in LICs.
- IFAD will need to adapt and improve in order to maintain its relevance and niche in MICs. Programmes need to be more strategic and poverty targeting needs to be clearer.
- Non-lending activities – knowledge management, policy dialogue and partnerships – are particularly important in MICs. These have been the weakest area of IFAD's support, but show signs of improvement since 2011.

V. Wider evaluation findings and lessons

93. Section II of this report presented an overview of MICs. The key points made related to the changing landscape of poverty and finance, and the enormous diversity within MICs as a group. Global poverty is now concentrated in MICs, and specifically lower MICs. Non-traditional development assistance, foreign direct investment and remittances has grown fast and now dwarf ODA. There is increasing pressure on traditional ODA as well as questioning about the appropriate scale and shape of ODA to MICs.

94. This section draws on this wider debate, two non-IFAD evaluations that have specifically addressed ODA to MICs, and recent changes in selected donors (World Bank, Inter-American Development Bank, European Union, and the United Kingdom Department for International Development). It addresses two questions:

    a. What is the case for continuing development assistance to MICs?

    b. How does development assistance to MICs need to change?

95. There is a respectable argument that MIC status should not be used to guide the allocation or implementation of development assistance. 'Middle income' is a statistical line. The middle-income threshold has stayed broadly the same in real terms for the past 40 years; is based on market exchange rates rather than relative purchasing power (unlike the US$1.25/day threshold); and as an average per capita figure takes no account of the distribution of income, other dimensions of poverty, or the national/international resources available for tackling poverty[24]. It also takes no account of governance, the policy and institutional context, and the likelihood that external resources will be well used to reduce poverty. And as previously mentioned, MICs are a very heterogeneous group of countries.

96. While all these points are valid, the fact remains that average per capita income has to be one factor that is considered in the allocation of ODA. The LIC/LMIC/UMIC classification is widely used and there are general and meaningful differences between MICs and LICs, and between LMICs and UMICs. Alternative classifications and criteria may well be required, but MIC/LMIC/UMIC are valid groupings that will continue to be used.

A. The case for continuing development assistance to MICs

97. There are three main arguments for continuing development assistance to MICs. The first, and arguably most persuasive, argument is that the MICs are where most of the poor live, and the poor matter wherever they are. Three-quarters of the poorest people live in MICs, and many will continue to do so. According to one study, there will still be a 50:50 split between poverty in LICs and MICs in 2020 and 2030[25]. Many of those who have escaped extreme poverty remain relatively

[24] Investments to End Poverty. Development Initiatives, 2013, p.23.
[25] Sumner, A. (2012).

poor and vulnerable to shocks. Transitioning to middle-income status does not mean the end of poverty.

98. The second argument is the persistence of high inequality within MICs. Even in MICs with relatively small numbers of extremely poor people, inequality can be high. Significant pockets of poverty, often correlated with socially excluded goups and/or remote areas, persist. While overall economic progress has been strong, progress in sharing prosperity has been mixed. A steady increase in inequality may eventually choke off growth by causing political instability, distorting incentives and reducing social mobility[26].

99. The third argument is the potential for positive and negative global and regional spillovers from MICs. Knowledge transfer from MICs to LICs – south-south learning – is one example of a positive spillover. LICs may have much to learn from how MICs crossed the poverty threshold, and how the higher level of income is being maintained and enhanced. Development assistance agencies can support and broker this knowledge transfer. MICs also have the potential to negatively effect the prospects of LICs, as in the case of greenhouse gas emissions. Climate change will negatively affect the poorest countries and the poorest people within them. Targeted development assistance to identify and tackle specific negative spillovers from MICs could be justified[27].

100. There are two main arguments for reducing development assistance to MICs. The first is that development assistance should be focussed on low-income countries and fragile states where it is most needed. Compared to MICs, LICs are more dependent on ODA, and the depth of poverty is generally greater (see para. 21 above). The numbers of extremely poor people may also be greater. One study estimates that, while MICs currently contain most of the world's poor, by 2015 80 per cent of the poor will again be in fragile, mainly low-income states in Africa[28]. MICs have relatively more resources, and the responsibility, to tackle poverty and inequality within their own countries. In an era of flat or declining ODA, it can therefore be argued that development assistance should be re-directed from (non-fragile) MICs, and particularly UMICs, to LICs and fragile states.

101. This argument is linked to the pursuit of efficiency. Most non-UN donors recognise the high costs of having a programme in every country, and of spreading themselves too thinly. If it makes sense to focus development assistance on a sub-set of countries, relative need should be an important criterion.

102. The second and related argument is that MICs have the resources to tackle poverty and inequality themselves. Many are successfully doing so. MICs have more domestic resources, and more access to other international resources, than LICs.

103. The counter-argument is that some MICs cannot, or will not, make sufficient progress towards eradicating poverty and addressing inequality themselves. Some countries do not have the potential to end poverty through restributive taxation. Those that do have a large enough tax base may not be targeting poor and vulnerable groups, may face real governance problems, or may lack capacity in poor provices/states. Nor is middle-income status necessarily permanent. Between 1978 and 2003, 25 countries fell back from middle-income to low-income status[29]. And as already menetioned, a number of MICs are either fragile states or have fragile and conflict-affected regions. Middle-income status, fragility, conflict and poverty overlap in many places.

104. Whatever the merits of the arguments for continuing development assistance to MICs, and particularly the LMICs with large number of extremely poor people, the reality is that there is pressure to reduce ODA to MICs, and especially to UMICs. To the extent that development assistance continues, concessionality is also likely to

[26] World Bank Group Strategy (October 2013).
[27] Kanbur, R. The Role of the World bank in MICs (2010).
[28] Kharas, K. and Rogerson, A. (2012).
[29] BOND. Do middle-income countries need aid? (2013).

decline. Assistance will increasingly be in the form of loans at near-market rates. Access to grants from bilateral donors is likely to decrease. Recent experience with the United Kingdom Department for International Development (DFID) and the European Union (EU) aid programmes bear this out. Over the last decade, DFID has increasingly tried to focus its aid on LICs, and to reduce the number of countries receiving aid. In 2008/09, 140 countries received some form of bilateral aid, 87 received some aid from DFID, and 43 had substantial DFID bilateral programmes. The most recent review of bilateral aid in 2011 sought to refocus bilateral aid on fewer places where DFID could have the greatest impact. A combination of objective and political criteria were used, including a 'needs-effectiveness' index for LICs and LMICs. UMICs were not looked at as most DFID aid to these had already been cut, including aid to Russia and China.

105. The bilateral review decided to focus on 27 country programmes, and to close its programmes in 16 countries, 12 of which were middle-income. More recently, following extensive political debate, an end to bilateral UK aid to India and South Africa was announced. Further refocussing UK development assistance on LICs and fragile states is likely. The proportion of DFID non-humanitarian bilateral aid going to low-income countries fell from 85 per cent in 2006-07 to 65 per cent in 2011-12, largely because several countries with large numbers of poor people have recently graduated to MIC status. There is pressure from parliament for DFID to maintain spending on LICs as its priority, and to examine the scope for reallocating bilateral aid from MICs to LICs. A recent parliamentary report concluded that 'it is getting increasingly difficult to make the case for giving aid in the form of grants to MICs grants to MICs should only be used where no other form of finance is possible'[30].

106. Development assistance from the European Union (EU) is set to follow a similar trend. The EU institutions are the second largest donor behind the USA, but less than half of aid disbursed through European institutions goes to LICs. According to the DFID Multilateral Aid Review, 85 per cent of ODA from the European Commission went to MICs. This has been severely criticised, particularly in the UK which channeled 16 per cent of its aid budget through the EU in 2010: 'every time the UK transfers £1 from the bilateral aid programme to Brussels, 26p is taken from low income countries and given to middle or upper income countries'[31]. These pressures, the shifting patterns of global poverty and trade, and post-2008 austerity, have all contributed to the new EU policy of 'differentiation'. The objectives of this policy are to target resources where they are most needed; to target resources where they could have greatest impact and value for money; to provide new forms of 'differentiated development partnerships' for middle-income countries that graduate from grant-based aid; and to shift relations with some emerging countries towards a partnership based on development cooperation rather than development cooperation[32]. After two years of prolonged and contentious negotiations, the EU is in the final stages of adopting the aid differentiation policy. This will refocus aid on the poorest countries and is expected to lead to significant cuts in development assistance to middle-income countries. UMICs and countries with more than 1% of the world's GDP are set to 'graduate' out of development cooperation entirely.

B. How does development assistance to MICs need to change?

107. On the assumption that there is a good case for some continuing development to some MICs, and particularly to those LMICs with large pockets of extreme poverty, the next question is whether and how assistance needs to change.

108. There is some concern among IFIs that, as more countries graduate to middle-income status and gain access to international capital markets, the demand for

[30] House of Commons International Development Committee The Future of UK Development Cooperation: Phase 1: Development Finance (2014).
[31] House of Commons International Development Committee: EU Development Assistance (2012).
[32] European Commission, Agenda for Change (2011).

their loans and services will decline. This was a particular concern in the World Bank (WB) prior to the global financial crisis in 2008. The WB recognised that the environment in MICs had changed significantly: institutional capacity was strengthening; the role of the private sector was increasing; and alternative sources of development finance and knowledge were expanding. New lending to MICs from the WB represented a small and declining share of national investment, and repayments on existing WB loans exceeded new disbursements by a large margin in the previous decade[33].

109. An IEG evaluation of WB support in middle-income countries was completed in 2007. This concluded that WB support in fostering growth and reducing poverty had been appreciated by MICs, and that the WB had made a contribution to the considerable progress in these areas. Less progress had been made in important issues beyond the growth agenda: rising inequality, corruption and environmental challenges. The WB had not been as agile as it could have been, nor kept pace with the speed at which MIC client needs and demands had been changing. The evaluation recommended more attention to arrangements for knowledge transfer across countries; quicker adaptation of WB services and areas of focus to meet MICs evolving needs; and an expansion in the choice of services it offers. These could include new financial products for sub-national challenges and new arrangements for fee-for-service technical expertise[34].

110. Strategic concern about the role of the WB in relation to MICs is now less acute. A major reason for this was the financial crisis, which brought many countries back to the IBRD and IMF out of necessity. FY10 was the largest IBRD lending year ever. The poverty case for continued involvement in MICs such as India, with its large number of extremely poor, has also been widely accepted. Simple categorisations such as LIC, LMIC and UMIC have been replaced with a more nuanced view that reflects the heterogeneity of MICs and the need for tailored solutions. The WB continues to have a substantial lending programme in several MICs. In others, WB lending is decreasing or has ceased, and/or demand for knowledge and advisory services is increasing.

111. Another reason for the reduced concern has been the expansion in reimbursable advisory services, which have expanded far faster than envisaged. 40 countries have reimbursed the WB in part or in full for knowledge and advisory services. The WB has a unique breadth and depth of knowledge that is globally recognised, as is its potential role as a knowledge broker between MICs and LICs.

112. The WB has also introduced more differentiation in the terms and conditions of its loans since 2007 in order to make them more attractive. Single Borrower Limits – such as the one for India – have been relaxed. The aim is to provide more customised development solutions that are flexible and responsive to MIC needs.

113. While the MIC issue has faded somewhat within the WB, it has not gone away. This is reflected in the new WB Strategy, which introduces a new goal of particular relevance to MICs: promoting shared prosperity. This aims to foster income growth of the bottom 40 per cent in every country, thereby seeking to maintain WB relevance in countries with relatively small number of people living on less than $1.25 per day.

114. Nor has the financial challenge presented by the long-term decline in IBRD lending necessarily gone away. In 2012, for the first time ever, IDA lending exceeded IBRD lending. A major cost-cutting exercise is in progress. The jury is still out on whether the shift to 'global practices' will be equal to the challenge of providing MICs with the staff with the skills and experience that they require. These countries require rapid access to the highest quality staff. While reimbursable advisory services has been a success, it is concentrated in a few regions and is heavily dependent on third-party grant funding with an uncertain future (eg. from the EU).

[33] IEG WB Development Results in MICs (2007).
[34] IEG WB Development Results in MICs (2007).

115. A recent evaluation by the Inter-American Development Bank (IDB) of its engagement with higher middle-income countries presents a consistent picture with the earlier WB evaluation. These countries account for most of IDB's lending portfolio. The evaluation concluded that IDB remained a valued and trusted development partner in most of the case study countries, and that it remained financially competitive, especially during the financial crisis. However, UMICs wanted greater agility and speed from IDB (eg. speed of project preparation); a review of the role and content of country strategies; clearer engagement with the private sector; and some expansion in the financial products offered. Better accessibility to IDB's knowledge products, and more direct engagement with sub-national entities, was also required. Fee-based services had potential, but would need to be agile and efficient if they were to meet UMIC needs.

116. Interviews at the IDB confirmed the need for lending products that were relevant, flexible and competitive in terms of price and service. Clients wanted maximum speed and minimum transaction costs. Some reservations about the potential for rapidly expanding fees-for-services were expressed. This is a new policy at the IDB. While the demand for knowledge and technical assistance was recognised, meeting that demand was likely to be challenging. Finally, some caution was expressed about the extent to which there were parallels between the experiences of large IFIs, such as the IDB and WB, and small, specialist agencies such as IFAD.

Box 4
The age of choice

'Traditional donors need to recognise that, in the age of choice, countries are likely to have more options when it comes to sources of development assistance. Ensuring assistance supports country ownership and is well aligned will be critical in ensuring that traditional assistance is still in demand. Donors may also need to be clearer on their own 'niche' in relation to other kinds of providers. They need to improve the speed of disbursement, which has emerged as a key government priority.'

Source: ODI Working Paper 364 (2013).

117. The most important message of this section is that development agencies need to recognise that the aid landscape has fundamentally changed. MICs now have more choice, and traditional donors (multilateral and bilateral) are now in a more competitive market for their funds and services. ODA has become a relatively less important source of investment finance for MICs, particularly for UMICs. There are now alternative sources of finance, and alternative providers of knowledge. Developing countries welcome the greater choice available, not least because it allows them to prioritise between alternative sources in relation to the terms and conditions. Greater choice allows developing countries to prioritise ownership, alignment with national priorities, and speed. It also allows them to be more selective about who they want to work with, and what loan and knowledge products they want. Even grants may be rejected if there are conditions and safeguards attached, or if the approval process takes too long. Development agencies need to adapt their products and approach if they are to remain relevant to MICs.

Key points

- The use of MIC as a category can be questioned, but there is broad agreement that MICs are a different, diverse and important group.
- The wider literature contains respectable arguments for and against continued development assistance to MICs. On balance there is a strong poverty case for continued support.
- ODA plays an increasingly minor role compared to other capital sources. ODA (particularly grants) to MICS (particularly UMICs) from bilateral donors is likely to shrink.
- There is some concern among IFIs about the change in nature of the demand for loans and services from MICs. Products and services are being adapted in response.
- Development agencies need to recognise that the aid landscape has fundamentally changed. MICs now have more choice, and are able to be more discriminating. The private sector is an increasingly important actor.

VI. Assessment of IFAD's strategy and approach in MICs

118. This section assesses IFAD's strategy and approach in MICs in four areas: relevance, business model, financial products and services, and non-financial products and services. It draws on a review of recent COSOPs; interviews with IFAD country and regional staff; interviews with selected members of IFAD Executive Board; and five dedicated country visits (Argentina, Brazil, China, Tunisia and India) undertaken in the context of the preparation of this synthesis report.

119. Reference has already been made to the paper on IFAD's Engagement in MICs approved by the Executive Board in May 2011 (paragraph 32). IFAD does not have a single policy or approach for MICs.Rather, the approach recommended in the 2011 strategy paper was to customise IFAD's approach to each country's specific situation, and to make some enhancements to IFAD's financial and knowedge products in order to make them more attractive to MICs. An approach to graduation was also to be elaborated.

A. Relevance

120. IFAD's relevance in MICs was covered in the review of CPE findings in Section IV above. This found that IFAD remains highly relevant for MICs of all types, with the possible exception of highly urbanised countries such as Jordan where there is limited potential for rural poverty alleviation via agricultural interventions. The findings from the interviews and country visits reinforce these evaluation findings.

121. IFAD's focus on poor and vulnerable farmers in less advantaged, remote and/or challenging areas is highly relevant in MICs and is much appreciated by all the countries visited. Many of these have substantial socio-economic and/or geographical pockets of rural poverty. In large countries, IFAD's overall development contribution might be considered as relatively marginal. However, in its niche area IFAD is seen as a crucial partner, not least because these are areas that larger financing institutions are unwilling or unable to enter. It has demonstrated models and innovations to help poor and marginalised groups in these areas. Its work on women's development, tribal development and micro-finance has been very important. In Brazil, its clear targeting helps prevent the political diversion of resources, something that is said to happen with other IFI projects. In Argentina, IFAD provided window of opportunity for government to engage and experiment with approaches that were later scaled up with funds from other sources. Its other significant value added was capacity building at subnational and national level. More generally, IFAD is seen as a leader in incorporating a participatory approach in its projects and has had considerable success in working with community-based organisations.

122. The overall approach proposed in the 2011 strategy of tailoring IFAD's interventions to the specific needs of each MIC – rather than have the same package for all countries in the income group (LMIC or UMIC) – is the right one. This is borne out by the CPEs and COSOPs reviewed. IFAD programmes show considerable country-specific variation.

123. While MIC views of IFAD relevance are generally very positive, it can be questioned whether IFAD's global allocation of resources is necessarily appropriate. A mandate of addressing rural poverty wherever it exists would suggest a wide dispersion of effort regardless of country income category. However, a goal of maximising the total impact on poverty (as implied by the IFAD9 targets) would suggest that resources should be allocated in line with the distribution of rural poverty, and in a way that maximises the likely impact of those resources. The PBAS does not do this. First, the PBAS over-allocates resources to MICs and MIC regions with relatively small numbers of extremely poor people (Tables 14 and 15 below). Although some MICS have large numbers of poor people (as defined by the international $1.25 and $2 per day benchmarks), many such as Jordan and Moldova do not (see Appendix V). 25 per cent of the 2013 PBAS allocation goes to two largely MIC regions – LAC and NEN – containing 1.7 per cent to 2.3 per cent of the rural people living in extreme poverty ($1.25/day) or poverty ($2/day) respectively.

Table 14
Number of poor people by regions

	No. of rural people in extreme poverty <$1.25/day (millions)	*%*	*No. of rural people in poverty <$2/day (millions)*	*%*
Sub-Saharan Africa	306	30.3	433	24.0
Asia & the Pacific	687	68.0	1325	73.6
Latin America & the Caribbean	11	1.1	24	1.3
Middle East & North Africa	6	0.6	19	1.0
World	1010	100	1801	100

Source: Rural Poverty Report (IFAD, 2011).

Table 15
IFAD PBAS allocation by region

Region	*LICs*	*LMICs*	*UMICs*	*All MICs*	*Total*	*% MICs*	*PBAS 2013 allocation (USD)*	*PBAS 2013 allocation (%)*
LAC	1	7	18	25	26	96.15%	101 815 269	11.62%
NEN	3	11	14	25	28	89.29%	118 864 535	13.57%
APR	5	15	9	24	29	82.76%	280 101 170	31.98%
ESA	13	3	6	9	22	40.91%	190 724 602	21.77%
WCA	12	9	1	10	22	45.45%	184 494 424	21.06%

Source: IFAD (2013).

124. Second, by spreading IFAD's loans, grants and staff over 97 countries, many countries (especially MICs) end up with very limited resources. The financial resources on offer may be too little to make a significant difference – or even to be of interest - and the country presence will either be non-existent or very limited. As the efficiency CLE pointed out, greater country selectivity would ensure that IFAD

was able to deploy a mimimum 'critical mass' of resources wherever it worked. This is not the case at present[35]. The difficulty with this is that IFAD is a global organisation with a mandate to lend to all member states.

125. This is related to the issue of graduation. At present there is no policy of mandatory graduation. Countries self-graduate by opting not to borrow or not to renew their membership. Subject to the PBAS and grant allocation rules, replenishment resources are available to all List B and C members regardless of their income level. This is different to World Bank IDA, where replenishment resources are only available to a sub-set of IDA qualifying countries (currently those with GNI per capita up to US$ 1,205).

B. Business model

126. The CPEs reviewed found positive impacts from an IFAD country presence, as did the country visits for this synthesis. IFAD's focal point in Tunis facilitates good communication between the government and IFAD headquarters. In Brazil, the country office provides valuable support, facilitating links between projects and government. The country office was also appreciated in India but, as concluded in the CPE, needs to be reinforced if it is to be properly effective. Project design should make greater use of local knowledge, institutions and research, and entail greater interaction with state and local governments. If international expertise is needed, it needs to be outstanding and preferably IFAD headquarters staff.

127. A comparison of 11 COSOPs prepared before and after the 2011 Board paper on MICs found few evident changes, except in China and more widely in respect of non-lending activities and climate change. There is broad support for COSOPs as a useful framework for discussing and providing a framework for IFAD interventions. In India it was felt that it would be helpful if the COSOP could be aligned with the five year planning exercise, but otherwise there were few criticisms.

128. The role of supervision and support missions, and the quality of projects in general, is appreciated by countries visited. The process intensity that leads to this quality needs to be maintained. As frequently observed in CPEs, IFAD's strengths are its flexible procedures (which lowers transaction costs) and its clear targeting (which ring-fences resources). The continuity and flexibility of IFAD staff was praised in Brazil and Argentina. In Tunisia, while the use of country systems for local procurement was appreciated, IFAD's use of project implementation units was viewed less favourably[36]. IFAD needs to work for greater convergence with government programmes in India.

C. Financial products and services

129. Country visits and interviews raise two related but distinct issues: the scale of funding available to MICs, and the terms and conditions of that funding. As particularly observed in the LAC Portfolio Review, the demand for IFAD loan and grant resources from MICs greatly exceeds the available supply from replenishment resources. The additional resources provided by the Spanish Trust Fund has been invaluable in this regard. The proposed loan from KfW is viewed similarly.

130. All the MICs visited wanted a higher level of funding than is allowed by the current PBAS. The quality of IFAD loans is appreciated, and can be very effective if used strategically, but quantity still matters. In Tunisia, IFAD lending is seen as small compared to the urgent needs. In order to supplement its resources, IFAD will need to actively explore co-financing with the private sector and other non-traditional funding partners, and/or secure further loans from public sources for on-lending to MICs.

131. Unsurprisingly, there is a continued high demand for grant funding, but an appreciation that this needs to be better integrated in the country programme. A

[35] 'He who defends everything defends nothing' (Frederick the Great).
[36] This is an ongoing debate. Project management will be the learning theme in the 2014 ARRI.

number of CPEs have made the same comment. Unfortunately, grant funds are likely to be increasingly limited.

132. The financial terms of IFAD loans are not seen as an issue - apart from in India where a longer grace period was mentioned - and are broadly competitive with other IFIs (see Appendix VI). IFAD loans complement other national and international resources. A number of changes have also been made following the 2011 Board paper on engagement with MICs. For example, the General Conditions have been amended to facilitate lending in currencies other than SDR. There was some mention of the need for 'other financial instruments' - such as direct lending to the private sector or sub-national public entities – but no specific demand or proposals were identified during discussions. This does not appear to be a priority issue, not least because of the constrained supply of funds for existing instruments.

133. The non-financial terms and conditions of IFAD loans may be an area where improvements could be made. As mentioned earlier, MICs are increasingly sensitive to the conditions and speed of loans. Tunisia commented that IFAD needed to continue to shorten the time from project request to implementation, and to speed up the release of funds. In India, the project approval process is regarded as too long winded. Funding delays are said to be compounded by IFAD's complex accounting and, contrary to the view in some other countries, procurement procedures are viewed as too rigid and time-consuming.

D. Non-financial products and services

134. MICs, and particularly UMICs, represent a different context for IFAD. There is increasing demand for knowledge products and services (including southsouth and triangular cooperation) as well as, and increasingly instead of, finance. This has been observed by other IFIs as well.

135. IFAD's knowledge of agriculture is widely respected. It is a recognised, if not highly visible, leader in demonstrating new models and approaches to help poor and marginalised people in difficult geographical locations. It also has the global reach to mobilise the required expertise.

136. While there is a demand for IFAD knowledge, and a supply of IFAD knowledge (albeit often fragmented and tacit), the challenge for IFAD is how to join these in an effective and affordable way. Knowledge management has not been one of IFAD's strengths. One reason for this has been the lack of a strategic approach, and the limited resources allocated to this in both country programmes and at headquarters.

137. MICs present an especially acute challenge for IFAD for two reasons. First, MICs are increasingly knowledgeable in there own right. Any knowledge or technical assistance provided by IFAD has to be clearly superior to that available nationally, as well as timely. This is recognised as a challenge by the World Bank, whose depth and breadth of knowledge resources is unparalleled. Second, most IFAD knowledge has tended to be provided via the lending programme or via grants. As more and more MIC request IFAD services beyond lending programmes, – and as grant resources become even more scarce for MICs, IFAD will need to find new ways of delivering, and being paid for, knowledge. Reimbursable Technical Assistance (RTA) provides one potential model. The first RTA projects are due to start in Algeria and Mauritius, and there are plans to expand the number of these. Similar services have been a qualified success in the World Bank, but the jury is still out on whether these present a sustainable long-term model. Such services require spare capacity in highly qualified and experienced staff.

138. South-South learning has recognised potential. Knowledge gained in MICs could be of great value to other developing countries, and MICs could benefit much more than they have done from IFAD's global knowledge and experience (eg. on rural micro-finance). There is largely unrealised potential in making such global and regional knowledge available, although good examples exist (eg. with EMBRAPA in

Brazil). But as with knowedge services more generally, the challenge will be to find the necessary staff and resources, and to realise the potential in a way that has not happened previously.

Box 5
IFAD as a knowledge organization

'The assessment team sees the Fund emerging as a 'knowledge organisation' … The Fund must see itself as more than an innovator. It bears the responsibility, and has the potential, to be the world's leading repository of information on rural development, and the world's most influential adviser in this challenging, complex activity. This will require a major change in the corporate culture of the Fund, [and] a significant increase in human and financial resources.'

Source: Report of the Rapid External Assessment of IFAD (1994).

139. Policy dialogue at the country level is another area where IFAD's track record is mixed, and where MICs represent an even more demanding context. Historically, IFAD has influenced official policy less by dialogue than by demonstration. As a relatively small lender, with limited overall visibility in country, IFAD's direct influence on national policy is understandably limited especially in large countries. However, the demonstration effect of its projects has impacted on specific policy areas, and IFAD has been able to 'nudge' central or state level governments to allocate counterpart funds to marginalised groups and areas. There is also potential for IFAD to work on strengthening the access of, and links between, poor rural households/communities to existing national policies and programmes aimed at the poor.

140. Once again, this is going to become more demanding in MICs. If lending programmes shrink, so the opportunity for IFAD project-based policy influence will decline and disappear. MICs such as China are also increasingly confident and some are more resistant to any external influence on national policy. Policy dialogue was explicitly written out of the 2011 COSOP for this reason. And as with knowledge, MICs are increasingly capable, which means that any policy work that IFAD supports will have to be world class.

141. MICs are a diverse group but appear to split into three sub-groups: (a) those that still want IFAD loans for projects (often state-level), sometimes more than PBAS can provide. This is the majority at present; (b) those that want IFAD expertise and knowledge rather than loans; (c) those that no longer want anything from IFAD. This is the minority at present . Unless current trends are reversed, sub-groups (b) and (c) are likely to increase. The long-term market for sub-national projects can be questioned. National policies and social programmes matter more than projects.

142. None of the above contradicts the positive findings regarding IFAD's general relevance in MICs, its strong reputation in its niche, and the high regard in which its products and staff are generally held. It does, however, present a challenge. MICs are a changing and more demanding market. IFAD needs to respond and adapt accordingly.

Key points

- Country visits and interviews confirm that IFAD remains a relevant and valued partner in MICs. Its focus on poor and vulnerable farmers in less advantaged, remote and/or challenging areas is still highly relevant in MICs. Its flexibility and targeting are appreciated.
- The global context, and IFAD's MIC clients, are changing fundamentally. IFAD needs to adapt faster than it has done.
- The PBAS has an insufficient poverty focus. It over-allocates resources to MICs and MIC regions with relatively small numbers of extremely poor people, but does not meet the demand for loans. Additional loan resources (as provided by the Spanish Trust Fund) are needed.
- The non-financial terms and conditions of loans could be improved. MICs are increasingly sensitive to the conditions and speed of loans and grants.
- Improving IFAD non-lending performance is a priority, but will be challenging. IFAD needs to improve in areas that have historically been weak, and in a market that is increasingly demanding. Knowledge and policy work in MICs needs to be world class.
- As the CLE on IFAD's efficiency concluded, spreading IFAD's resources over so many countries is not efficient. Greater selectivity and differentiation is needed in order to achieve the critical mass and quality required.

VII. Conclusions and strategic implications

A. Conclusions

143. Middle-income countries are a highly diverse group of over 100 countries with gross national income (GNI) per capita of US$1,036 to US$ 12,615. They range in size from China, India and Brazil to Antigua and Lesotho. The group includes stable democracies as well as a number of countries with fragile and conflict affected areas (FCAs). The key fact is that most of the poor (<US$2/day) and extremely poor (<US1.25/day) people now live in MICS. Around 70 per cent of the poor live in just five MICs: India, China, Pakistan, Nigeria and Indonesia.

144. Despite this diversity, this group of countries is qualitatively different from low-income countries (LICs) and becomes increasingly more so as GNI increases. Generally and progressively, **MICs represent a fundamentally different context for development assistance.** On average,they are less dependent on official development assistance (ODA), more urbanised, and have a lower proportion of the poor dependent on agriculture The institutional and policy context is normally stronger, and resources are progressively less likely to be the main limitation to ending poverty. That said, in some respects MICs, and especially the LMIC below the IDA threshold (US$ 1,205), are not so different from LICs. Many MICs contain significant pockets of rural poverty and have high income inequality.

145. MICs used to be a minor component of IFAD's work. This is no longer the case. Indeed, **MICs have become the major part of IFAD's work.** Most of of its members are MICs. Most of its projects are in MICs. Most of its funds are dispersed to MICs. In 2004 62 per cent of IFAD funds were disbursed to LICs. In 2012 70 per cent were disbursed to MICs.

146. The findings of IFAD project and country programme evaluations show that **IFAD's mandate remains highly relevant in MICs.** Projects have generally been effective and IFAD has contributed significantly to developing new and successful models for rural poverty reduction (eg. micro-finance), community participation, building local capacity, and gender equality (particularly in later phases). The more recent focus on value chains is appropriate as an effective way of linking the poor to markets, provided it is carefully designed. IFAD also has much to contribute to MICs based on its global experience with rural project design and management.

147. But overall, **IFAD's performance in MICs has been moderate and no better in MICs than in LICs, and no better in UMICs than in LMICs.** If anything, there is evidence from project evaluations, country programme evaluations and self-evaluations that IFAD performance may be less good in MICs, and less good in UMICs than LMICs. However, the sample is small and therefore more data and close monitoring to validate and understand this is needed. Non-lending activities – policy dialogue, knowledge and partnerships – have been the weakest area of IFAD's support, but show signs of improvement after 2011. These activities are particularly important in MICs as they are critical for scaling up, emphasis on which is essential for a wider impact on poverty.

148. Despite an appropriate approach to targeting the poor, the impact on poverty was moderate or insufficiently well evidenced in most cases. **Pathways to poverty reduction need to be even clearer in MICs**, particularly when the absolutely poor (<US$2 per day) are not direct beneficiaries. The PBAS is insufficiently poverty focussed. It over-allocates resources to regions with relatively small numbers of poor and extremely poor people, but provides fewer resources than the MICs in those regions want.

149. The approach suggested in the 2011 strategy on MICs – country strategies tailored to the specific context – was and remains the right one given the diversity within MICs. There is no case for a single strategy to guide work in MICs. In view of the increasingly limited scale of IFAD's support in MICs compared to other agencies (government, private sector and international), it is even more important that COSOPs are extremely strategic. Programmes need to be agile so that they can contribute to key policy issues at the right moment in time.

150. **Wider evaluations show other IFIs having to work hard to maintain their role and relevance in MICs, particularly UMICs**. As countries graduate to middle-income status and gain access to other sources of capital and advice, there is a concern that fewer of them will need the money and expertise that the IFIs have to offer. IFIs are having to adjust their products and services to compete. At the same time, there are clear signs that bilateral donors are set to reduce grant aid to MICs.

151. Country visits and interviews suggest that IFAD remains relevant and valued in MICs, even in UMICs. It has an excellent reputation in its niche, and a strong brand. However, **the economic and institutional changes broadly associated with rising GNI risk making IFAD progressively less relevant to MICs unless it can adapt fundamentally and fast.** Country programmes need to be more strategic. It needs to do some of the same things – lending and partnerships for innovative projects – on a larger scale and consistently better. It needs to gear up to some different things - knowledge and investment partnership and brokering – or at least to do these more proactively and effectively than it has in the past. The traditional LIC product (stand-alone loan projects in challenging areas) needs to be progressively replaced by more MIC-relevant products (knowledge, strategic initiatives linked to government policy and/or the private sector, and south-southcooperation).

152. In order to do this, **IFAD needs new and additional funding sources and partners for its work in MICs.** All the changes would matter much less if there were sufficient funding for what IFAD could provide in MICs. Unfortunately this is not the case. Potential demand far outstrips supply. IFAD's financial model was built around project financing to stable LICs. Grant funds from traditional donors were on-lent as concessional loans. Grant funds, plus repayments from past loans, covered IFAD's administrative expenses. But most of the poor now live in MICs. Replenishment funds are either insufficient to meet MIC demands, and/or MICs are less interested only in project loans from IFAD. Changes in donor attitudes will make it increasingly hard to access grant funds for MICs. Concessional loans will be available, but these have a lower profit margin if on-lent at the same terms. Operating as a 'bank' as well as a 'fund' will require different skills and processes.

153. Efficiency must also be a consideration. Operating in more or less the same way (COSOP – loans – grants – non-lending) in 97 countries (mostly MICs), and with small country offices in 39 of these, is expensive. As the CLE on efficiency concluded, greater selectivity is required.

154. **There is a good poverty case for providing grants and highly concessional loans for MICs, particularly to LMICs below the IDA threshold.** Within these countries there is a significant demand in IFAD's core niche: projects for poor rural people in poor regions. Although there is a weaker case for development assistance on grant terms to non-IDA MICs, there is a case for some grants because of the potential for positive and negative spillovers from MICs to LICs. The potential for enhanced south-south learning is one example of a positive spillover. A good 'shared prosperity' (inequality) case can also be made for working in all MICs including UMICs, but this should be loan funded.

155. Although large in some MICs, and a major continuing niche for IFAD, 'pockets of poverty projects' are arguably a declining market. Policies and social programmes matter more than projects. Some MICs are already less interested only in the (relatively small) loan-financed projects that IFAD can offer, and more interested in the investment partnerships and knowledge that it has or can broker. IFAD needs to be able to do these different things, and do them very well. MICs represent a progressively more demanding and discriminating market for development assistance. Anything that is not first rate, or that involves too many conditions or delays, will not be accepted. There is potential to access a large volume of loan funds from public and private sources, and a large volume of private sector investment in smallholder-related agriculture. **IFAD needs to expand its engagement with the large-scale private companies in the agriculture and food sector.** IFAD's experience with smallholders and value chains equips it well for partnerships aimed at ensuring socially and environmentally responsible commodity supply chains. Many of these originate in MICs.

156. In summary, **how IFAD continues to engage with MICs is now a hugely important issue**. Most of the rural poor are in MICs and IFAD remains highly relevant. But the demand for IFAD products and services in MICs is changing, and development assistance is changing. MICs increasingly want different things from development assistance, and delivered in a different way. MICs have much greater choice in their sources of finance and advice. Multinational and national companies are increasingly influential players. Traditional donors are under domestic pressure to restrict ODA and reduce the provision of grant funds to MICs. The combination of these trends presents a fundamental challenge to IFAD's business model in middle-income countries.

B. Strategic implications

157. Going forward, there are two alternative views of how IFAD should adapt to the new reality of MICs and development assistance:

- It can hope that the context has not changed significantly, and that the old model can more or less be continued. IFAD remains highly relevant in MICs, and there is good potential for it to work effectively with sub-national entities. Projects can help pilot solutions to alleviating the large pockets of rural poverty that exist in MICs. Reflows from MICs are crucial to the IFAD financial model. Replenishment resources supplemented by loans from public sources may be sufficient for some work to continue in most MICs, albeit at a smaller scale, to address relative poverty and inequality.
- It can recognise that the context has changed fundamentally, will change further, and that the old model will not work in future. Replenishment funds for work in non-IDA MICs will not be provided to the same extent, particularly if not clearly targeted at the poor (<US$2/day). MIC demands are changing. IFAD needs to access or broker large amounts of additional funding from public and private sources, and to gear itself up to do different things more

effectively in fewer MICs. Reflows from a 'second window' need to gradually replace existing reflows from MICs. If it cannot find a new model for MICs, IFAD's work will increasingly be concentrated in LICs and FCAs.

158. These are, of course, extreme views. A middle way or transition may well be possible or likely. Four priority areas are suggested for discussion :

- New and substantial funding sources (public and private) are needed to support IFAD's work in MICs regardless of the IFAD10 replenishment. The setting up of a 'second lending window' , separate from replenishment funds, is something member states may wish to reflect upon for the future. This should be accompanied by a review of the PBAS and its universal coverage.
- IFAD needs to gear up to provide the knowledge, policy and investment partnership/brokering services that MICs require for scaled up impact; to make effective partnerships with other development agencies; and to develop the financial model to support these. Reimbursable technical assistance is one model.
- Serious consideration needs to be given to a more differentiated model of engagement with MICs so that IFAD can provide a critical mass of products and services in a smaller number of MICs.
- IFAD needs to expand its engagement with large private companies in the agriculture and food sector.

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24. Ms. Louise McDonald, Evaluation Officer, IOE and Former Country Programme Manager, ESA
25. Mr. Mattia Prayer Galletti, Policy and Technical Advisory Division

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28. Mr. Henrique Pissaia de Souza, Executive Board Representative, Brazil
29. Mr. Hideya Yamada, Executive Board Representative, Japan
30. Mr. Mchael Bauer, Executive Board Representative, Germany
31. Mr. Wierish Ramsoekh, Executive Board Representative, Netherlands
32. Mr. Zhengwei Zhang, Executive Board Representative, China
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Country visit Argentina

34. Aicardi, Margarita, Ministry of Economy and Finance
35. Aparicio, Susana (former consultant with IFAD's IPDERNOA grant in Tucumán and independent researcher)
36. Campos Bilbao, Carla , Secretary for Rural Development and Family Agriculture
37. Catalano, José A., INTA Director
38. Ferreyra, Silvina FAO knowledge management
39. Gaggero, Elba, World Bank specialist on environment and rural issues
40. Jacobs, Eduardo, Chief of Cabinet of the Ministry of Agriculture
41. León, Carlos, former director of Fontar, currently adviser to UCAR rural competiveness clusters
42. Márquez, Susana, UCAR's Director of strategic planning and management
43. Martínez Nogueira, Roberto, expert in public administration and public policies
44. Neiman, Guillermo, Director of CEIL
45. Nussbaumer, Beatriz, former World Bank specialist for rural development, currently university professor and independent researcher
46. Patrucchi, Maria, Dirección Nacional de Proyectos con Organismos Internacionales de Crédito, Ministerio de Economía y Finanzas Públicas
47. Persico,Emilio, Undersecretary for Family Agriculture
48. Raposo, Daniela, UCAR staff dealing with IFAD and other IFIs supported projects
49. Soverna, Susana, researcher/staff of the Ministry of Agriculture
50. Villalobos Ruy de, Rural development expert and IFAD's Project Controller (PCM) for Argentina in the early 80's, former Undersecretary of Agriculture and former IFAD consultant

Country visit Brazil:

51. Avila Flavio, EMBRAPA Impact evaluation expert
52. Belluco Benvindo, SEAIN Secretario Adjunto
53. Brasileiro Angela, IFAD grant SEMEAR, manager, Bahia
54. Buainain Antonio, WB and IFAD consultant, rural development expert
55. Butto Andrea, Secretary of state for territorial development, MDA
56. Damiani Octavio, IFAD Direct Supervision consultant
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60. Mendonça Vivaldo, Presidente da CAR, Bahia
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73. Mr He Yupeng, Deputy Director General, Department of Rural Economic Studies, Development Research Centre of the State Council (DRC)
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86. Mr Lv Shenshen, Monitoring and Evaluation Division, FCPMC
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98. Mr Liu Ke, Associate Country Programme Officer, IFAD

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99. Sindushree Khullar, Secretary, Planning Commission
100. Vineet Tuhil, Joint Secretary, Planning Commission
101. Arvind Mayaram, Secretary, Dept. of Economic Affairs, Ministry of Finance
102. Sigy Thomas Vaidhyan, Deputy Secretary, Dept. of Economic Affairs, Ministry of Finance
103. Ashish Bahuguna, Secretary, Dept. of Agriculture & Cooperation, Ministry of Agriculture
104. Sanjeev Chopra, Joint Secretary, Dept. of Agriculture & Cooperation, Ministry of Agriculture
105. Vijay Kumar, Additional Secretary & Mission Director, National Rural Livelihoods Mission, Ministry of Rural Development
106. Sadhana Rout, Joint Secretary, Ministry of Tribal Affairs
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111. Meera Mishra, ICO, IFAD

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List of countries with CPEs reviewed

Table 1
List of countries by IFAD regions and date of CPEs

	Region	*CPEs*	*Date*
1	Asia and Pacific	China	2013
2		Indonesia	2013
3		Vietnam	2012
4		India	2010
5		Pakistan	2008
6	West and Central Asia	Senegal	2013
7		Ghana	2012
8		Nigeria	2009
9	East and Southern Africa	Zambia	2013
10	Latin American and Caribbean Division	Argentina	2010
11		Bolivia	2013
12		Brazil	2008
13		Ecuador	2012
14		Mexico	2006
15	Near East, North Africa, and European Division	Yemen	2012
16		Moldova	2012
17		Jordan	2012
18		Egypt	2005
19		Morocco	2008

Table 2
List of countries with some selected indicators

Member States	*GNI per Capita*	*Type*	*GINI Index*	*Income Gini coeffi.*	*Gender Inequality Index*	*% of IFAD Financing*	*% of co - financing*	*% of Domestic Financing*
Senegal	1,040	LMIC	40.3	39.2	0.540	47.01	29.23	23.76
Pakistan	1,260	LMIC	30.0	30.0	0.567	22.73	17.51	59.75
Yemen	1,270	LMIC	37.7	37.7	0.747	32.51	40.37	27.11
Zambia	1,350	LMIC	57.5	54.6	0.623	65.51	8.35	26.14
Vietnam	1,400	LMIC	35.6	35.6	0.299	70.46	8.55	20.98
Nigeria	1,430	LMIC	48.8	48.8	N.A.	33.08	26.04	40.87
India	1,530	LMIC	33.9	33.4	0.610	34.92	15.71	49.37
Ghana	1,550	LMIC	42.8	42.8	0.565	33.20	34.20	32.60
Bolivia	2,220	LMIC	56.3	56.3	0.474	53.41	20.00	26.59
Moldova	2,250	LMIC	33.0	33.0	0.303	61.65	9.01	29.34
Morocco	2,950	LMIC	40.9	40.9	0.444	12.96	21.72	65.32
Egypt	3,000	LMIC	30.8	30.8	0.590	48.48	7.62	43.90
Indonesia	3,420	LMIC	38.1	34.0	0.494	49.54	23.17	27.29
Jordan	4,720	UMIC	35.4	35.4	0.482	37.71	24.29	38.00
Argentina	5,170	UMIC	44.5	44.5	0.380	29.80	20.56	49.64
Ecuador	5,200	UMIC	49.3	49.3	0.442	39.60	29.48	30.93
China	5,680	UMIC	42.1	42.5	0.213	40.08	4.88	55.04
Mexico	9,600	UMIC	47.2	48.3	0.382	50.49	6.80	42.71
Brazil	11,630	UMIC	54.7	54.7	0.447	35.66	8.87	55.47

List of countries with COSOPs reviewed

Member states	*Region*	*GNI per Capita*	*Year of obtaining MIC status*	*Classification*	*Previous COSOPs (Approved Date)*	*Latest COSOPs (Approved Date)*
China	APR	5,680	1999	UMIC	Dec-05	Sep-11
India	APR	1,530	2007	LMIC	Dec-05	May-11
Viet Nam	APR	1,400	2009	LMIC	Sep-08	Apr-12
Laos	APR	1,260	2011	LMIC	Sep-05	Sep-11
Zambia	ESA	1,350	2011	LMIC	Apr-04	Sep-11
Honduras	LAC	2,070	1998	LMIC	Apr-07	Dec-12
Nicaragua	LAC	1,650	2005	LMIC	Dec-05	Dec-12
Ghana	WCA	1,550	2011	LMIC	Apr-06	Dec-12
Egypt	NEN	3,000	Before 2000	LMIC	Apr-06	Sep-12
Bosnia and Herzegovina	NEN	4,650	Before 2000	UMIC	Sep-05	Dec-13
Sudan	NEN	1,450	2007	LMIC	Apr-09	Dec-13

Data on poverty in MICs

No	IFAD Member States	IFAD Region	Total population	GNI per Capita (USD)	Classification	% of population living below $1.25 PPP per day *	Rural population	Poverty headcount ratio at rural poverty line (% of rural population)**
1	Albania	NEN	3 162 000	4 090	UMIC	0.6	1 440 417	NA
2	Algeria	NEN	38 480 000	4 110	UMIC	NA	10 118 280	NA
3	Angola	ESA	20 820 000	4 580	UMIC	NA	8 347 740	NA
4	Argentina	LAC	41 090 000	5 170	UMIC	0.9	3 023 751	NA
5	Armenia	NEN	2 969 000	3 720	LMIC	1.3	1 064 012	36
6	Azerbaijan	NEN	9 298 000	6 030	UMIC	0.4	4 287 211	NA
7	Belize	LAC	324 100	4 180	UMIC	NA	179 562	NA
8	Bhutan	APR	741 800	2 420	LMIC	10.2	472 239	16.7
9	Bolivia	LAC	10 500 000	2 220	LMIC	15.6	3 440 283	66.4
10	Bosnia and Herzagovina	NEN	3 834 000	4 650	UMIC	0	1 962 467	NA
11	Botswana	ESA	2 004 000	7 430	UMIC	NA	756 424	NA
12	Brazil	LAC	198 700 000	11 630	UMIC	6.1	30 053 874	NA
13	Cabo Verde	WCA	494 400	3 810	LMIC	21	181 326	NA
14	Cameroon	WCA	21 700 000	1 170	LMIC	9.6	10 273 039	NA
15	China	APR	1 351 000 000	5 680	UMIC	13.1	651 364 560	NA
16	Colombia	LAC	47 700 000	6 990	UMIC	8.2	11 656 291	46.8
17	Congo	WCA	4 337 000	2 550	LMIC	54.1	1 558 051	74.8
18	Costa Rica	LAC	4 805 000	8 740	UMIC	3.1	1 676 971	25.8
19	Cuba	LAC	11 270 000	5 440	UMIC	NA	2 798 466	NA
20	Djibouti	NEN	859 700	1 030	LMIC	18.8	196 336	NA
21	Dominica	LAC	71 684	6 460	UMIC	NA	23 442	NA

No	*IFAD Member States*	*IFAD Region*	*Total population*	*GNI per Capita (USD)*	*Classification*	*% of population living below $1.25 PPP per day **	*Rural population*	*Poverty headcount ratio at rural poverty line (% of rural population)***
22	Dominican Republic	LAC	10 280 000	5 470	UMIC	2.2	3 061 796	49.4
23	Ecuador	LAC	15 490 000	5 200	UMIC	4.6	4 960 096	49.1
24	Egypt	NEN	80 720 000	3 000	LMIC	1.7	45 444 639	32.3
25	El Salvador	LAC	6 297 000	3 580	LMIC	9	2 188 546	43.3
26	Fiji	APR	874 742	4 200	UMIC	5.9	414 388	44
27	Gabon	WCA	1 633 000	10 070	UMIC	4.8	221 089	NA
28	Gaza and West Bank	NEN	4 047 000	1 340	LMIC	NA	NA	NA
29	Georgia	NEN	4 512 000	3 280	LMIC	15.3	2 121 466	30.7
30	Ghana	WCA	25 370 000	1 550	LMIC	28.6	12 043 540	NA
31	Grenada	LAC	105 483	7 110	UMIC	NA	63 825	NA
32	Guatemala	LAC	15 080 000	3 140	LMIC	13.5	7 505 699	71.4
33	Guyana	LAC	795 400	3 410	LMIC	NA	568 776	NA
34	Honduras	LAC	7 936 000	2 070	LMIC	17.9	3 751 671	65.4
35	Hungary	NEN	9 944 000	12 370	UMIC	0.2	2 992 414	NA
36	India	APR	1 237 000 000	1 530	LMIC	32.7	845 151 713	25.7
37	Indonesia	APR	246 900 000	3 420	LMIC	18.1	119 858 489	15.1
38	Iran	APR	76 420 000	4 290	UMIC	1.5	23 518 552	NA
39	Iraq	NEN	32 580 000	5 870	UMIC	2.8	10 922 952	NA
40	Ivory Coast	WCA	19 840 000	1 220	LMIC	23.8	9 522 564	NA
41	Jamaica	LAC	2 712 000	5 140	UMIC	0.2	1 297 577	NA
42	Jordan	NEN	6 318 000	4 720	UMIC	0.1	1 077 181	NA
43	Kazakhstan	NEN	16 800 000	9 750	UMIC	0.1	7 803 831	NA
44	Kiribati	APR	100 786	2 260	LMIC	NA	56 373	NA

No	IFAD Member States	IFAD Region	Total population	GNI per Capita (USD)	Classification	% of population living below $1.25 PPP per day *	Rural population	Poverty headcount ratio at rural poverty line (% of rural population)**
45	Laos	APR	6 646 000	1 260	LMIC	33.9	4 298 268	NA
46	Lebanon	NEN	4 425 000	9 190	UMIC	NA	559 324	NA
47	Lesotho	ESA	2 052 000	1 380	LMIC	43.4	1 470 945	NA
48	Libya	NEN	6 155 000	12 930	UMIC	NA	1 359 741	NA
49	Macedonia	NEN	2 106 000	4 700	UMIC	0	853 975	NA
50	Malaysia	APR	29 240 000	9 800	UMIC	0	7 788 932	3.4
51	Maldives	APR	338 400	5 750	UMIC	NA	195 507	NA
52	Marshall Islands	APR	52 555	4 140	UMIC	NA	14 639	NA
53	Mauritania	WCA	3 796 000	1 110	LMIC	23.4	2 209 734	NA
54	Mauritius	ESA	1 291 000	8 570	UMIC	NA	751 423	NA
55	Mexico	LAC	120 800 000	9 600	UMIC	1.2	26 119 249	63.6
56	Moldova	NEN	3 560 000	2 250	LMIC	0.4	1 837 606	30.3
57	Mongolia	APR	2 796 000	3 160	LMIC	NA	857 139	35.5
58	Morocco	NEN	32 520 000	2 950	LMIC	2.5	13 852 056	NA
59	Namibia	ESA	2 259 000	5 640	UMIC	31.9	1 379 052	37.4
60	Nicaragua	LAC	5 992 000	1 650	LMIC	11.9	2 524 868	63.3
61	Nigeria	WCA	168 800 000	1 430	LMIC	68	84 029 583	52.8
62	Pakistan	APR	179 200 000	1 260	LMIC	21	113 678 524	NA
63	Panama	LAC	3 802 000	9 850	UMIC	6.6	920 783	50.4
64	Papua New Guinea	APR	7 167 000	1 790	LMIC	NA	6 265 945	41.6
65	Paraguay	LAC	6 687 000	3 290	LMIC	7.2	2 512 067	44.8
66	Peru	LAC	29 990 000	5 880	UMIC	4.9	6 724 164	53
67	Philippines	APR	96 710 000	2 470	LMIC	18.4	49 201 307	NA

No	IFAD Member States	IFAD Region	Total population	GNI per Capita (USD)	Classification	% of population living below $1.25 PPP per day *	Rural population	Poverty headcount ratio at rural poverty line (% of rural population)**
68	Romania	NEN	21 330 000	8 150	UMIC	0.4	10 055 721	NA
69	Saint Lucia	LAC	180 870	6 530	UMIC	NA	150 178	NA
70	Saint Vincent and the Grenadines	LAC	109 373	6 380	UMIC	NA	55 017	NA
71	Samoa	APR	188 889	3 220	LMIC	NA	151 694	NA
72	Sao Tome and Principe	WCA	188 100	1 320	LMIC	NA	69 009	59.4
73	Senegal	WCA	13 730 000	1 040	LMIC	33.5	7 842 005	57.1
74	Seychelles	ESA	87 780	11 640	UMIC	0.3	40 370	NA
75	Solomon Islands	APR	549 598	1 130	LMIC	NA	434 647	NA
76	South Africa	ESA	51 190 000	7 610	UMIC	13.8	19 233 051	NA
77	Sri Lanka	APR	20 330 000	2 920	LMIC	7	17 235 745	9.4
78	Sudan	NEN	37 200 000	1 450	LMIC	19.8	24 777 161	57.6
79	Suriname	LAC	534 500	8 480	UMIC	NA	159 721	NA
80	Swaziland	ESA	1 231 000	2 860	LMIC	40.6	969 455	73.1
81	Syrian Arab Republic	NEN	22 400 000	2 610	LMIC	1.7	9 751 694	NA
82	Thailand	APR	66 790 000	5 210	UMIC	0.4	43 750 230	16.7
83	Timor-Leste	APR	1 210 000	3 670	LMIC	37.4	862 543	NA
84	Tonga	APR	104 941	4 240	UMIC	NA	80 212	NA
85	Tunisia	NEN	10 780 000	4 150	UMIC	1.4	3 607 186	NA
86	Turkey	NEN	74 000 000	10 830	UMIC	0	20 473 673	38.7
87	Tuvalu	APR	9 860	6 070	UMIC	NA	4 834	NA
88	Uzbekistan	NEN	29 780 000	1 720	LMIC	NA	18 970 236	NA
89	Vanuatu	APR	247 262	3 080	LMIC	NA	184 914	NA

No	IFAD Member States	IFAD Region	Total population	GNI per Capita (USD)	Classification	% of population living below $1.25 PPP per day *	Rural population	Poverty headcount ratio at rural poverty line (% of rural population)**
90	Venezuela	LAC	29 950 000	12 500	UMIC	6.6	1 888 469	NA
91	Vietnam	APR	88 780 000	1 400	LMIC	16.9	60 653 020	27
92	Yemen	NEN	23 850 000	1 270	LMIC	17.5	16 003 154	NA
93	Zambia	ESA	14 080 000	1 350	LMIC	68.5	8 500 543	77.9

Source: UNDP Multidimentional Poverty Index (https://data.undp.org/dataset/MPI-Population-living-below-1-25-PPP-per-day-/ehe9-pgud) and World Development Indicators (http://data.worldbank.org/indicator/SI.POV.RUHC).

Summary of comparative lending terms

	Type of loan	Interest rate	Service charge for credits	Maturity	Grace period	Commitment fee	Currency	Principal repayment terms
IFAD	Highly concessional terms	NA	0.75 per cent per annum	40 years	10 years	NA	SDR	6 monthly
	Blend terms	1.25 per cent	0.75 per cent per annum	25 years	5 years	NA	SDR	6 monthly
	Regular: Country with a high risk of debt distress (red-light) receive 100 per cent of their allocation in the form of grants and those with a minimum risk (yellow light) receive 50 per cent in the form of grants. Grants are not subject to repayment fees, but carry a 20 per cent volume discount on the country's allocation.	NA	0.75 per cent p.a. of disbursed and outstanding credit balance	40 years	10 years	0.-0.5 per cent of the undisbursed balance. Reviewed annually. Often fully or partially waived.	SDR	6 monthly - Year 11-20: 2.0 per cent - Year 21-40: 4.0 per cent
IDA	Blend: Countries with GNI per capital above the operational cut-off for more than two consecutive years	1.25 per cent	0.75 per cent p.a. of disbursed and outstanding credit balance	25 years	5 years	0.05 per cent of the undisbursed balance. Reviewed annually. Often fully or partially waived	SDR	6 monthly - Year 5-15: 3.3 per cent - Year 16-25: 6.7 per cent
	Hard-term lending: Countries receiving loans on blend terms are eligible for hard-term credits	Fixed interest rate set on an annual basis as the fixed rate equivalent of IBRD interest rates less 200 bps	0.75 per cent p.a. of disbursed and outstanding credit balance	25 years	5 years	0-0.5 per cent of the undisbursed balance	SDR	6 monthly - Year 5-15: 3.3 per cent - Year 16-25: 6.7 per cent
	(IDA credits include an acceleration clause providing for doubling of principal payments from creditworthy borrowers where per capita income remains above eligibility thresholds)							

	Type of loan	Interest rate	Service charge for credits	Maturity	Grace period	Commitment fee	Currency	Principal repayment terms
AsDF	Asian Development Fund Sovereign or sovereign-guaranteed borrowers		1.5 per cent p.a. of disbursement and outstanding credit balance	40 years	8 years	0	SDR	6 monthly
AfDF	African Development Fund		0.75 per cent p.a.			0	SDR	Equal instalments of principal. Frequency: semi-annually for US$, EUR, and JPY, quarterly for ZAR.
			Project loan	50 years	10 years			
			Line of credit	20 years	5 years			

	Type of loan	Interest rate	Maturity	Grace period	Commitment fee	Currency
IFAD	Ordinary terms	Variable reference interest rate determined semi-annually	15-18 years	3 years (Grace period may be increased up to six years by exception for ordinary terms)	NA	SDR
		Spread over reference interest rate:				
IBRD	Flexible loan. Fixed spread (6 month LIBOR) US$*	Average maturity 12 years or less: 60bps Average maturity 12-15 years: 80 bps Maturity 15-18 years: 105 bps	Average 12-18 years. Final maturity 30 years max		Commitment fee 0.75 per cent p.a. Front end fee 1 per cent	US$, Euro, Yen
	Flexible loan. Varibale spread (6 month LIBOR) US$*	Average maturity 12 years or less: 29 bps Average maturity 12-15 years: 39 bps Maturity 15-18 years: 49 bps	Average 12-18 years. Final maturity 30 years max.		Commitment fee 0.75 per cent p.a. Front end fee 1 per cent.	US$, Euro, Yen
	*: Loans are also offered in EUR and JPY for which spreads vary. Reference rate for Euro-denominated loans is EURIBOR					
AsDB	LIBOR-based loan					
	Sovereign or sovereign-guaranteed borrowers	Floating lending rate consisting of a cost-base rate (6-month LIBOR for US$ and JPY, 6-month EURIBOR for EUR) plus an effective contractual spread (40 basis points) and a maturity premium (10 basis points for loans with a maturity period of 13-	19 years		15 basis points on flat amounts of undisbursed balances	EUR, JPY, US$, and other currencies in which ADB can

	Type of loan	*Interest rate*	*Service charge for credits*	*Maturity*	*Grace period*	*Commitment fee*	*Currency*	*Principal repayment terms*
		16 years, 20 basis points for loans with a maturity period of 16-19 years) Fix lending rate: Fixed-rate funding cost of the ADB for the relevant maturity payable by ADB under the related hedge swap transactions						efficiently intermediate
		For floating rate loans, the lending rates will be reset every 6 months. The floating lending rate may be converted to a fixed rate, or vice versa, for the residual maturity of the loan or part thereof.						
AfDB	Sovereign-guaranteed loan	Base rate (floating: 6-month LIBOR for US$ and JPY, 6-month EURIBOR for EUR, 3-month JIBAR for ZAR) Fixed: calculated as the swap market corresponding to the principal amortization schedule of a particular tranche of a loan) + funding margin (the Bank's cost of borrowing relative to LIBOR, reseting every 6 months) + lending margin (60 basis points)		20 years	5 yrars	Time-dependant graduated commitment fee for policy-based loans	US$, EUR, JPY, ZAR	
IDB	Ordinary capital	Rate based on 3-month LIBOR, automatically fixed when the outstanding loan balance reaches 25 per cent of the financing or US$3 million		30 years	6 years		US$	

Source: Review of the lending policies and criteria (IFAD, 2013).