Document:	EB 2016/117/R.3
Agenda:	4
Date:	16 March 2016
Distribution:	Public
Original:	English

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Investing in rural people

Update on IFAD's Engagement with Middle-Income Countries

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Executive Board — 117th Session
Rome, 13-14 April 2016

For: Review

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Abbreviations and acronyms

CLPE	country-level policy engagement
COSOPs	country strategic opportunities programmes
DSF	debt sustainability framework
GRIPS	Grants and Investment Projects System (GRIPS)
HICs	high-income countries
IOE	Independent Office of Evaluation
LICs	low-income countries
LMICs	lower-middle-income countries
MICs	middle-income countries
PBAS	performance-based allocation system
PMD	Programme Management Department
RSP	Rural Sector Performance
SSTC	South-South and Triangular Cooperation
UMICs	upper-middle-income countries

Executive Summary

1. In 2011, the document "IFAD's Engagement with Middle-Income Countries" was presented to the Executive Board. The document reflected the strategy that guided IFAD's work in these countries during the Eighth and Ninth Replenishments of IFAD's Resources (IFAD8 and IFAD9). During the IFAD10 Consultation, Member States requested an update on IFAD's work in middle-income countries (MICs). This paper traces the evolution of IFAD's work with MICs through the financial and knowledge products and services that it has provided to these countries since 2011.
2. IFAD classifies countries according to their borrowing terms, i.e. on whether they access loans on highly concessional, blend or ordinary terms. While there is a significant degree of overlap between these categorizations and income-based classifications, the match is not perfect.
3. IFAD does not categorize countries according to their income; however, it draws on the World Bank's income classification assessment which groups countries into low-income countries (LICs), lower-middle-income countries (LMICs), upper-middle-income countries (UMICs), and high-income countries (HICs). Numerous IFAD corporate documents produced since 2011 concur on the fact that MICs are a dynamic and heterogeneous group.
4. IFAD resources are channelled primarily to LICs or LMICs, and 50 per cent of the resources provided under the performance-based allocation system (PBAS) are dedicated to Africa. Achieving a MIC status does not necessarily preclude strengthening development assistance as there is significant overlap between the categories of MIC (particularly LMIC) and countries with fragile situations, which have received around half of IFAD financing during the IFAD8 and IFAD9 replenishment cycles.
5. IFAD recognizes the need to maintain a differentiated approach to address the diverse needs of its developing Member States. To that end, it is striving to enhance its value proposition to MICs, especially those currently borrowing on the least concessional terms (i.e. ordinary terms) to tackle persistent rural poverty. Efforts are ongoing to improve and consolidate IFAD's engagement with MICs through a strategic mix of financial and knowledge products and services. This has included a series of initiatives on financial products, including single currency lending and reimbursable technical assistance, which are more tailored to the specific developmental needs of MICs.
6. In relation to knowledge products and services, IFAD is pursuing country-level policy engagement as a way of scaling up and leveraging systemic changes in the conditions of poor rural people. Policy engagement is a tool being used increasingly in MICs, either embedded in loan programmes or as a stand-alone activity to complement project financing. IFAD has also enhanced its engagement in global policy processes, knowledge management and South-South and Triangular Cooperation.
7. This paper describes IFAD's evolving partnership with MICs. As middle-income countries develop, they tend to become more proactive in their engagement with IFAD: the cofinancing that they provide to IFAD projects is greater than that of LICs, and their contributions to IFAD's replenishments have been growing steadily. All of this while accessing a limited amount of IFAD's core resources, largely on ordinary terms.

Update on IFAD's Engagement with Middle-Income Countries

I. Introduction and background

1. In 2011, the document "IFAD's Engagement with Middle-Income Countries" was presented to the Executive Board. The document reflected the strategy that guided IFAD's work in these countries during the Eighth and Ninth Replenishments of IFAD's Resources (IFAD8 and IFAD9). During the IFAD10 Consultation, an update on IFAD's work in middle-income countries (MICs) was requested. Management agreed to submit such updated information to the Executive Board in December 2015. Subsequently, Management requested that the update be postponed until April 2016 in order to have access to the draft corporate-level evaluation (CLE) on the performance-based allocation system (PBAS) undertaken by the Independent Office of Evaluation of IFAD (IOE).

2. Since the MICs strategy was presented, IFAD has largely focused on strengthening its operational model to incorporate two necessary and related components for middle-income countries: expertise and financing. IFAD is providing knowledge, expertise and technical know-how on complex issues related to rural poverty and rural development. This blended package of technical knowledge and financing has supported governments in using new strategies to address rural poverty. It has also allowed IFAD to learn from the innovative approaches taken by MIC governments to reduce rural poverty, and then transfer that experience to its work with low-income countries (LICs).

3. IOE has undertaken a series of evaluations both related to and containing references to MICs. A number of recommendations emerged on how to maximize IFAD's impact in MICs through both financial and non-financial products. These include: taking advantage of country strategic opportunities programmes as an entry point to define IFAD's relationship with MICs; mobilizing alternative sources of funding; and increasing partnerships with bilateral and multilateral organizations, including the Rome-based agencies (RBAs), while also strengthening relationships with the private sector.

4. The IFAD Strategic Framework for 2016-2025 foresees an important role for IFAD in supporting MICs in reducing rural poverty, given its mandate and the significant number of rural poor in such countries. IFAD's engagement will focus on helping governments address issues of rural-urban inequality, uneven rural-urban growth, and youth unemployment by supporting enhancement of pro-rural poor policies, strategies, programmes and institutions. Its engagement will consist of lending and non-lending activities, with a wide offering of knowledge management, policy development and South-South and Triangular Cooperation (SSTC) services, including reimbursable technical assistance programmes for MICs that seek only technical support.

5. Lower-middle-income countries (LMICs) borrow extensively from the Fund, on both ordinary and highly concessional terms. However, there is significant overlap between the countries classified as LMIC and those with fragile situations. Moreover, as will be discussed in this document, LMICs are a dynamic set of countries moving in and out of low-income country status.

6. In contrast, MICs, or more specifically upper-middle-income countries (UMICs), account for a small proportion of IFAD's overall lending. UMICs borrowed 14.6 per cent of IFAD's total lending in IFAD8, and this percentage declined to 12.6 per cent in IFAD9.

7. IFAD's resources are channelled primarily to low-income countries or lower-middle-income countries, and 50 per cent of resources provided under the PBAS are committed to Africa.

8. Section II of this document presents IFAD's approach to MICs, starting with an analysis of the relationship between poverty and income-based classifications; it will also look at the trends in lending to MICs, and explain IFAD's relevance in these countries. Section III describes IFAD's blend approach, consisting of financial and knowledge services and products, since the strategy was approved; and section IV presents conclusions on actions taken by IFAD with respect to middle-income countries.

II. IFAD's approach to MICs

A. Poverty and MICs

9. In 1990, 10 per cent of the people living under the US$2 international poverty line lived in MICs. By 2012, 79 per cent of the world's poor lived in MICs.[1] This jump is associated with the shift by a number of countries from LIC to LMIC status over the last two decades. China, India, Indonesia, Pakistan and Nigeria have all been categorized as MICs since 1990; they also account for 65 per cent of the world's poor. China and India alone account for 50 per cent of the world's poor.

10. IFAD does not categorize countries according to their income, instead it draws on the World Bank's income classification assessment which groups countries as follows: low-income, lower-middle-income, upper-middle-income and high-income. These classifications are based solely on the countries' gross national income (GNI) per capita. The current range for middle-income countries is a GNI per capita of between US$1,045 and US$12,736, while that of LMICs is between US$1,046 and US$4,125.

11. The various corporate documents produced by IFAD over the last 10 years on the topic of MICs all share the argument that these countries constitute a grouping that is both dynamic and heterogeneous. Currently the World Bank's classification of middle-income countries includes more than 100 countries, encompassing countries with a GNI per capita as low as US$1,080 (Bangladesh) to one as high as US$11,530 (Brazil).[2]

12. However, there is also turnover in the categories in the opposite direction, with some countries moving from middle-income status back to low-income status. Between 2005 and 2014, nine countries moved down into the UMIC, LMIC or LIC category, and four countries moved from LMIC to LIC status. These statistics demonstrate that MIC status is not permanent, and that it requires consolidation in order to be maintained. On average over the past 10 years, 5 per cent of countries have been reclassified, either upward or downward (see annex II).

13. It is noteworthy that a parallel corporate process is also under way with regard to IFAD's approach to engagement in countries with fragile situations, and that there is significant overlap between the categories of MICs (particularly LMICs) and countries with fragile situations. For example, Yemen, Sudan and the Republic of the Congo are all classified as both LMICs and fragile, whereas Angola is classified as both a UMIC and fragile. Particular and continued attention needs to be paid to countries that are classified in both groups, and also to the more general phenomenon of middle-income countries frequently being challenged by institutional weakness. Countries facing fragile situations received about 50 per cent of IFAD financing during IFAD8 and IFAD9.

[1] IOE's Evaluation synthesis on IFAD's engagement in middle-income countries (EC 2014/83/W.P.3).
[2] World Bank data.

B. Lending programme in MICs

14. More than 85 per cent of IFAD's programme of loans is targeted at low-income and lower-middle-income countries (see table 1). For the purposes of its lending programme, IFAD does not directly utilize the income categorizations provided by the World Bank. Instead, IFAD classifies countries according to their borrowing terms, i.e. countries can access loans on highly concessional, blend or ordinary terms. While there is significant overlap between these categorizations and the LIC/MIC categories, the match is not perfect. For example, as Bangladesh belongs to the LMIC category, it borrows from IFAD on highly concessional terms. A total of four UMICs borrow on terms other than ordinary, and 38 LMICs borrow either on blend terms, on highly concessional terms or on special terms related to their Debt Sustainability Framework (DSF) eligibility. Annex I highlights the cases in which IFAD's categorization of lending terms differs from the income-based classification.

Table 1
Distribution of borrowing by income category

IFAD7	*Countries*	*Loans*	*Total lending (in millions of United States dollars)*	*Percentage of total loans*
UMIC	9	10	110.8	6.1
LMIC	31	36	670.6	37.0
LIC	37	48	1 030.2	56.9
Total	**77**	**94**	**1 811.6**	**100.0**
IFAD8				
UMIC	16	19	389.6	14.6
LMIC	35	44	1 043.1	39.2
LIC	29	35	1 227.7	46.1
Total	**80**	**98**	**2 660.4**	**100.0**
IFAD9				
UMIC	14	17	328.4	12.6
LMIC	34	40	1 141.6	43.8
LIC	25	32	1 139.3	43.7
Total	**73**	**89**	**2 609.3**	**100.0**

Source: IFAD's Grants and Investment Projects System (GRIPS).

15. In the case of UMICs, despite the rather limited resources allocated, there is a strong cofinancing effect from IFAD's funding. As established in the IFAD10 Consultation intersessional paper "Trends in replenishment contributions and cofinancing" (IFAD10/3/R.6/Add.4), projects approved in MICs generate the highest ratio of domestic cofinancing to IFAD investment, and this is particularly the case for UMICs (1:2.11 in IFAD9).[3]

16. MICs are also playing a notable and increasing role in IFAD's medium-term financial sustainability and impact through reflows from past IFAD loans (US$1 billion for the period 2003-2013, i.e. 38 per cent of total reflows), through gains from the spread on loan charges, and from replenishment contributions. Reflows to IFAD from loans (on ordinary and blend terms) provided to MICs are projected to amount to US$560 million in 2016-2018.

17. The role of MICs in IFAD's replenishments is also growing. Borrowing and non-borrowing MICs have stepped up their core contribution from approximately US$80 million to IFAD7 to more than US$145 million for IFAD9 (see annex III).

[3] In the case of LMICs the ratio is 1:1.32 and for LICs is 1:0.49.

C. IFAD's relevance in MICs

18. IFAD recognizes the need for a differentiated approach to address the diverse conditions in developing countries as it plays a major role in supporting the efforts of countries borrowing on ordinary terms in order to overcome rural poverty.

19. For instance, as reported by IOE, a considerable number of IFAD's projects in these countries are located in poorer, remote regions. MICs also provide a testing ground for developing new models and approaches, as seen in the provision of microfinance to rural poor people in India, Yemen, Ghana and Jordan; in community participation and local capacity-building in Argentina, Nigeria, Republic of Moldova, Viet Nam and Senegal; and in the value chain focus as a way of linking poor people to markets in MICs (in the majority of the 19 country programmes evaluated by IOE). More recently, in Mexico, IFAD has engaged in an innovative rural development project that aims at providing productive investment opportunities to recipients of conditional cash transfers.

20. On targeting, IFAD has a policy that is applicable to all countries regardless of income category. Nevertheless, in MICs that have well-developed social protection systems, project targeting can leverage existing detailed information on household income status to identify social assistance beneficiaries and use direct targeting to help move them out of poverty and transition from social assistance to employment or self-employment. In so doing, IFAD's engagement contributes to addressing rural-urban inequality.

21. As will be further discussed below, IFAD's delivery model in MICs – consisting of financial and knowledge products and services – has progressed in line with the orientation of the 2011 strategy and subsequent lessons derived from its implementation.

22. In relation to financial products and services, suggestions from IOE included: provision of lending comparable to that of other international financial institutions; a wider range of financial products (e.g. changes in grace periods and maturities, currency options, a dedicated facility to handle operations with the private sector, among others); reduction in transaction costs of borrowing from IFAD by making greater use of national systems; and reduction in the costs of preparing country strategies in MICs with small programmes.

23. As for knowledge products and services, a number of options have been identified, such as: the use of analytical studies, conferences and regional knowledge-sharing events; regional networks; greater use of corporate analytical documents such as those produced by IOE (e.g. thematic, country and project-level evaluations, and the Annual Report on Results and Impact of IFAD Operations); development of a knowledge management strategy; increasing IFAD's presence in the field to deepen its understanding of its countries of operation in order to produce better designs and strengthen supervision with a thematic focus; selective use of funds to promote capacity-building in MICs and knowledge-brokering among developing countries; greater partnering with other international financial institutions (IFIs) to mainstream or replicate approaches in MICs; and increased intra-institutional knowledge-sharing in MICs and in other countries.

24. The evaluation conducted by IOE in 2014 also makes recommendations aimed at maximizing IFAD's impact in MICs through non-financial products such as: taking advantage of country strategic opportunities programmes (COSOPs) as a point of entry to define IFAD's relationship with MICs; mobilizing alternative sources of funding; and increasing partnerships with bilateral and multilateral organizations, including RBAs, while also strengthening relationships with the private sector.

25. Looking ahead, the IFAD Strategic Framework for 2016-2025 states that IFAD will play an important role in supporting MICs in reducing rural poverty, given its mandate and the significant number of rural poor people in such countries.

III. Financial and knowledge products and services: a blend model

A. Financial products and services

26. As noted in the previous section, MICs represent an increasing proportion of the world's developing countries. A growing number of IFAD Member States are also borrowing on ordinary terms (28 countries at present, of which seven are LMICs). Despite this, the allocation of resources to countries borrowing on ordinary terms has remained at about one third of total resources.

27. With the approval of the Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions in April 2015 (EB 2015/114/R.17/Rev.1) by the Executive Board, IFAD can expand its programme of loans and grants by borrowing from sovereign lenders. The framework was introduced because it seemed unlikely that IFAD could continue to meet the increasing demand for financing by relying exclusively on increased core contributions and its internal resources. Although internal resources are forecasted to grow, they are not expected to grow fast enough or be sufficient to meet additional funding needs.

28. An internal analysis and discussions are currently taking place in IFAD in relation to the use and country allocation of its core resources. This has included a corporate-level evaluation of the PBAS. Although this evaluation was not undertaken exclusively for MICs, various preliminary recommendations[4] have the potential to increase IFAD's efficiency and effectiveness in middle-income countries by, for example: strengthening the rural poverty focus of the country needs component of the formula, in particular by assessing how to include vulnerability, income inequality and non-income poverty indicators and Human Development Index ratings therein; discontinuing the practice of tying Rural Sector Performance (RSP) scores to Country Policy and Institutional Assessment (CPIA) scores to encourage country programme managers to conduct a thorough process for RSP scoring; and establishing a standing interdepartmental committee on the PBAS to discuss, inter alia, RSP scores, the list of countries to be capped, reallocations and lessons learned in the implementation of the PBAS.

29. With respect to more specific financial products and services, IFAD has been implementing and discussing a series of initiatives which, despite being of relevance to all of IFAD's borrowing Member States, will likely be tested in MICs given their appetite for financing and their capacity to manage more complex financial products. For instance, on the issue of single-currency lending, the Financial Operations Department (FOD) and Programme Management Department (PMD) have been exploring the possibility of introducing single-currency loans, building on the experience of the Spanish Food Security Cofinancing Facility Trust Fund and KfW Development Bank financing.

[4] Corporate-level evaluation on IFAD's performance-based allocation system (DRAFT: 08 January 2016).

Bangladesh

Building on its remarkable social and economic performance over the past 20 years, Bangladesh has recently been classified as a lower-middle-income country. For the last 10 years, the greater part of IFAD's portfolio in Bangladesh has been concentrated on: (i) rural infrastructure; (ii) rural financial services; and (iii) agriculture, aquaculture and livestock development activities. In Bangladesh IFAD has a history of replicating and scaling up successful innovations, many of which have now been mainstreamed into the activities of government agencies. A good example of this is found in the Microfinance for Marginal and Small Farmers Project (MFMSFP). IFAD has provided funds and technical assistance for piloting two new financial products: (i) seasonal loans; and (ii) agricultural microcredit. Thanks to IFAD's global experience in rural finance and the national expertise of the Ministry of Finance and the Palli Karma-Sahayak Foundation (PKSF) (a government-established apex development organization), monitoring and analysis were started in a pilot organized with 35 producer organizations (POs). Under the MFMSFP, 200,000 marginal and small farmers in Bangladesh benefited from access to vital agricultural financial services. Given the success of the pilot, these two agricultural financial products were mainstreamed into PKSF's core programme and are now provided by 236 POs across the country. The United States Department of the Treasury selected this IFAD-supported project as the winner of its Development Impact Honors award 2014. The Government of Bangladesh and IOE rated the relevance of the IFAD country programme as being well in line with Bangladesh's goal to become an upper-middle-income country by 2021.

30. The World Bank was commissioned to carry out a study on IFAD's currency risk hedging framework and implications for IFAD's single currency loans. The aim of the study was to review the feasibility of IFAD offering single-currency lending, in accordance with the revised General Conditions for Agricultural Development Financing, given IFAD's current risk management framework. The analysis concluded that IFAD is operating within a framework that allows for the implementation of a phased approach for single-currency lending without significantly adding to the risks being taken (assuming that the single currencies offered are those currently in the special drawing rights basket). The application of a single-currency lending programme is likely to attract the interest of MICs, in particular, given their borrowing terms and other characteristics of their public finances.

31. A joint paper prepared by FOD and PMD will be submitted in the first quarter of 2016 to the Investment and Finance Advisory Committee (FISCO) to address the issue of single-currency lending and offer suggestions for mainstreaming it into the rest of the portfolio.

32. Additionally, in 2012, the Executive Board approved an instrument establishing a reimbursable technical assistance (RTA) programme to serve Member States seeking only technical support from IFAD (EB 2012/105/R.28). The instrument was designed to facilitate the countries' access to IFAD expertise in cases where IFAD financing is not needed. While not exclusively intended for MICs, this instrument was expected to be taken up mostly by countries with more domestic resources to dedicate to development projects in need of know-how. The first project under this programme is currently under development in Mauritius, and discussions are also taking place in Chile, Kazakhstan and Costa Rica. Under IFAD10, IFAD will further develop procedures related to the RTA instrument and will expand its use to respond to the demand of Member States.

Turkey

Turkey, an upper-middle-income country, has seen its engagement with IFAD evolve towards a genuine programmatic approach transcending individual investment projects. IFAD's focus has been on the productive poor and vulnerable men and women farmers in socio-economically disadvantaged and agro-ecologically challenging areas and it has strengthened the emphasis on public-private-producer partnerships. While IFAD's overall financial commitments to Turkey amount to US$170.7 million, this has been matched by nearly US$440 million in domestic financing, representing a leverage factor of 2.6, well exceeding the overall cofinancing ratio of the Near East, North Africa and Europe Division (NEN) portfolio. Turkey is not only a recipient of IFAD support; it is also a significant contributor to the Fund's replenishments, with overall contributions increasing more than fourfold, from IFAD9 to IFAD10. Beyond financial resources, there has been a growing demand for IFAD non-lending engagement. More specifically, emphasis has been placed on harnessing IFAD's expertise and its in-country presence in support of Turkey's nascent involvement in South-South and Triangular Cooperation (SSTC). The Turkish Cooperation and Development Agency (TIKA) has singled out SSTC as a key strategic objective for the country's official development assistance. TIKA is partnering with IFAD to sponsor capacity-building interventions by IFAD-supported project staff from Morocco, Tunisia, Sudan, Yemen, Georgia and Somalia, and has recently offered to scale up such interventions within the framework of the IFAD/NEN region-wide initiative on SSTC, with Turkey spearheading one of the three thematic exchange corridors.

33. Decentralization has also played an important role in the strengthening of IFAD's operations. IFAD Country Offices (ICOs) – a substantial number of which are based in MICs – have enabled the Fund to establish an enabling framework for new country-level responsibilities, e.g. direct supervision and implementation support, leading to a positive impact on portfolio performance.

34. In order to lower transaction costs in MICs with greater institutional capacity, IFAD is committed, along with other donor partners, to operationalizing the aims of international agreements with respect to enhancing aid effectiveness by encouraging the use of country systems and institutions where appropriate.

B. Knowledge products and services

35. Significant progress is being made in increasing the range and quality of available knowledge products and services that meet the needs of Member States, including MICs, since the 2011 MIC strategy was approved. This includes country-level policy engagement (CLPE), SSTC, the creation of specific knowledge management products and strategies, and the revision of corporate policies and procedures such as those related to results-based COSOPs.

36. As noted in the Report of the Consultation on the Tenth Replenishment of IFAD's Resources, one important vehicle for scaling up and leveraging systemic changes in the conditions of poor rural people is CLPE. In January 2013, IFAD Management approved an action plan for policy dialogue which provides a framework for IFAD-wide involvement in this initiative. The action plan sets out steps to increase the integration of policy engagement into COSOPs and projects, to introduce (and finance) new products such as policy analyses, and to increase the capacity to monitor and evaluate policy engagement. As such, CLPE is being increasingly used in middle-income countries, either embedded in loan programmes or as a stand-alone activity to complement project financing.

37. With regard to global policy engagement, IFAD has become an increasingly active player in influencing the agenda in favour of the interests of both smallholder farmers and rural women and men more broadly. IFAD brings to this dialogue the knowledge drawn from its operational experience with the aim of mining IFAD's expertise in a more methodical manner.

38. In 2014, IFAD adopted a knowledge management framework to be applied between 2014 and 2018. The framework has several core objectives that aim to increase the

extent to which MIC countries are able to access and utilize IFAD as a source of knowledge. The first is to strengthen country-level knowledge and uptake of effective approaches for agriculture and rural development. To do this, IFAD has committed to improving monitoring and evaluation systems at the project level, and to providing evidence of results and impact. The second objective is to strengthen IFAD's strategic positioning, relevance and visibility. This requires IFAD to capitalize on its strengths and core competencies, and to respond to demand for knowledge products by providing quality information on rural development and high-quality, practice-based knowledge products based on in-depth analysis. Finally, the third objective is related to IFAD's capacity to learn, adapt and improve, which requires strengthening the capacity to manage information.

39. Both the IFAD9 and the IFAD10 Consultation Reports commit IFAD to further expanding its role in facilitating SSTC, and emphasize the importance of this mechanism in working with middle-income countries. An ongoing corporate-level review of IFAD's approach noted that, since 2012, South-South and Triangular Cooperation has become progressively more organized and high-level because of its activities. While it was initiated by regional divisions and their directors, SSTC is managed in conjunction with the Strategy and Knowledge Department, which also managed resources under the Initiative for Mainstreaming Innovation which were dedicated to further expanding South-South activities. Those resources were utilized for a number of capacity-building interventions and events, as well as to advocate for smallholder agriculture at Global South-South Development Expos.

Brazil

Brazil is a large upper-middle-income country in which IFAD has a significant country programme focused on the semi-arid north-eastern territories. Brazil also works with IFAD on topics such as CLPE and SSTC, all of which contribute to a successful, knowledge-based partnership founded on technical know-how combined with financing. A successful example of South-South cooperation is the Agricultural Innovation MKTPlace programme undertaken with the Brazilian Agricultural Research Corporation (EMBRAPA). The programme established partnerships between Brazil and African research centres to solve specific problems by identifying technological solutions to challenges faced by smallholders, taking advantage of results in Brazil; and by promoting policy dialogue between decision-makers and research and development institutions in the two regions. The MKTPlace programme is now continuing with larger grant funds from bigger players such as the United Kingdom's Department for International Development, the World Bank and the Bill & Melinda Gates Foundation. Additionally, IFAD and EMBRAPA collaborated on a new proposal called "Adapting Knowledge for Sustainable Agriculture and Access to Markets Programme" to set up a collaborative mechanism through which family farmers in the Latin America and the Caribbean region will benefit from the multiple agricultural technologies already developed by EMBRAPA. The proposal was recently approved and will become operational in 2016.

40. With respect to decentralization, since 2011 the country presence strategy has evolved and now addresses a much broader agenda that includes: policy engagement, knowledge management, scaling up and partnership-building. These activities facilitate the transition from individual projects to a programmatic approach and, even further, into subregional and regional initiatives through the hub model. Currently, out of IFAD's 40 operational ICOs, 3 are based in UMICs (Brazil, China and Peru), 22 in LMICs, and 15 in LICs. To date, the hub model has been pioneered in MICs: in LAC, the Guatemala hub serves the Central American countries and the Peru hub coordinates the Andean subregion. The Asia and the Pacific regional office in Viet Nam is the hub for South-East Asia. In Africa, IFAD's only regional office is based in Kenya, a LMIC.

41. Finally, new COSOP guidelines were published at the end of 2015, which helped to streamline the COSOP process and make the tool useful for defining IFAD's engagement in countries, including MICs, over a fixed period of time. The guidelines

focus on learning from experience and on flexibility, and on providing the necessary resources to finance the pipeline required to achieve the COSOP's strategic objectives. COSOPs now contain specific sections on scaling up, country-level policy engagement, natural resources and climate change, and targeting for nutrition improvement. The guidelines also clarify when country strategy notes should be prepared in lieu of COSOPs, such as in the case of countries with programmes of loans and grants of less than US$5 million and countries experiencing extraordinary circumstances. These revisions should improve the capacity to identify strategic priorities and act upon them.

IV. Conclusions

42. This paper provides an update on IFAD's engagement in MICs since the strategy was presented in 2011. It has highlighted the important role that IFAD plays in MICs, combining financing, expertise and innovation to contribute to the development of middle-income countries. Experience gained through engagement in MICs also informs IFAD's work in low-income countries.

43. Consistent with previous IFAD corporate documents, the paper notes that MICs are a heterogeneous and dynamic group, calling for a differentiated approach. It also reiterates the limitation of the per capita income metric for categorizing countries, not least because the MIC category ranges from countries with strong institutional capacity to countries with fragile situations.

44. It has shown that middle-income countries cofinance a large percentage of IFAD projects, while accessing a limited amount of IFAD's core resources on ordinary terms. Despite the rather limited resources allocated to upper-middle-income countries, IFAD commitments during IFAD9 garnered an overall domestic cofinancing ratio of 1 to 2.11. MICs' contributions to IFAD replenishments have grown steadily from US$80 million in IFAD7 to more than US$145 million for IFAD9, while accessing a limited amount of IFAD's core resources on ordinary terms.

45. IFAD's interventions in MICs have expanded to take in a substantial amount of country-level policy engagement and an increasing emphasis on South-South and Triangular Cooperation, in addition to a general focus on knowledge management.

46. Programmatic, rather than project-driven approaches are increasingly the norm in upper-middle-income countries. In lower-middle-income countries, IFAD has achieved excellent results in scaling up through close collaboration with government and non-governmental partners, and has helped to build knowledge and contribute to policy discussions.

47. While IFAD's current approach of combining lending with knowledge products and services in MICs (blending loans and grants with technical know-how and policy engagement) is of great value, there is an ongoing need to further diversify and refine the range of financial and knowledge products available for IFAD to engage effectively with MICs.

World Bank income classification versus IFAD lending terms

Table 1
Matrix of number of countries by current income classification and current lending terms*

	Ordinary	Intermediate	Highly concessional	DSF/Highly concessional	Blend	DSF grant	Hardened	**Total**
Upper-middle income	21		1		1	1	1	**25**
Lower-middle Income	7	1	15	9	8	5		**45**
Low-income			9	9	1	8		**27**
Total	**28**	**1**	**25**	**18**	**10**	**14**	**1**	**97**

* Lending terms provided by Controller's and Financial Services Division (CFS) for fiscal year 2016.

Table 2
Sum of approved loans across lending terms and income category
(In millions of United States dollars)*

		Ordinary	Intermediate			Highly concessional (HC)			
		Ordinary	Intermediate	Blend	Hardened	HC	DSF/HC	DSF grant	Total
IFAD7	UMIC	110.8							110.8
	LMIC	74.0	185.7		13.7	331.5	34.8	31.0	670.7
	LIC					561.6	199.5	269.1	1 030.2
	Total	**184.8**	**185.7**		**13.7**	**893.1**	**234.3**	**300.1**	**1 811.7**
IFAD8	UMIC	354.3			32.9			2.5	389.7
	LMIC	82.7	197.2		14.0	610.2	35.9	103.1	1 043.1
	LIC					510.4	353.9	363.4	1 227.7
	Total	**437.0**	**197.2**		**46.9**	**1 120.6**	**389.8**	**469.0**	**2 660.5**
IFAD9	UMIC	317.3		11.1					328.4
	LMIC	301.8		222.8		418.6	121.1	77.4	1 141.7
	LIC			7.7		655.7	336.8	139.0	1 139.2
	Total	**619.1**		**241.6**		**1 074.3**	**457.9**	**216.4**	**2 609.3**

* Source: IFAD's Grants and Investment Projects System (GRIPS).

Table 3
Percentage of sum of approved loans across lending terms and income category*

		Ordinary	Intermediate			Highly concessional			
		Ordinary	Intermediate	Blend	Hardened	HC	DSF/HC	DSF Grant	Total
IFAD7	UMIC	6.1							6.1
	LMIC	4.1	10.3		0.8	18.3	1.9	1.7	37.0
	LIC					31.0	11.0	14.9	56.9
	Total	**10.2**	**10.3**		**0.8**	**49.3**	**12.9**	**16.6**	**100.0**
IFAD8	UMIC	13.3			1.2	0.0		0.1	14.6
	LMIC	3.1	7.4		0.5	22.9	1.3	3.9	39.2
	LIC					19.2	13.3	13.7	46.1
	Total	**16.4**	**7.4**		**1.8**	**42.1**	**14.7**	**17.6**	**100.0**
IFAD9	UMIC	12.2		0.4					12.6
	LMIC	11.6		8.5		16.0	4.6	3.0	43.8
	LIC			0.3		25.1	12.9	5.3	43.7
	Total	**23.7**		**9.3**		**41.2**	**17.5**	**8.3**	**100.0**

***** Source: GRIPS.

Table 4
Number of approved loans across lending terms and income category*

		Ordinary	Intermediate			Highly Concessional			
		Ordinary	Intermediate	Blend	Hardened	HC	DSF/HC	DSF Grant	Total
IFAD7	UMIC	10							10
	LMIC	5	8		1	15	3	4	36
	LIC					20	10	18	48
	Total	**15**	**8**		**1**	**35**	**13**	**22**	**94**
IFAD8	UMIC	16			2			1	19
	LMIC	5	5		1	20	3	10	44
	LIC					15	10	10	35
	Total	**21**	**5**		**3**	**35**	**13**	**21**	**98**
IFAD9	UMIC	16		1					17
	LMIC	8		9		13	5	5	40
	LIC			1		16	10	5	32
	Total	**24**		**11**		**29**	**15**	**10**	**89**

* Source: GRIPS.

Table 5
Percentage of number of approved loans across lending terms and income category*

		Ordinary	Intermediate			Highly Concessional			
		Ordinary	Intermediate	Blend	Hardened	HC	DSF/HC	DSF Grant	Total
IFAD7	UMIC	10.6							10.6
	LMIC	5.3	8.5		1.1	16.0	3.2	4.3	38.3
	LIC					21.3	10.6	19.1	51.1
	Total	**16.0**	**8.5**		**1.1**	**37.2**	**13.8**	**23.4**	**100.0**
IFAD8	UMIC	16.3			2.0	0.0		1.0	19.4
	LMIC	5.1	5.1		1.0	20.4	3.1	10.2	44.9
	LIC					15.3	10.2	10.2	35.7
	Total	**21.4**	**5.1**		**3.1**	**35.7**	**13.3**	**21.4**	**100.0**
IFAD9	UMIC	18.0		1.1					19.1
	LMIC	9.0		10.1		14.6	5.6	5.6	44.9
	LIC			1.1		18.0	11.2	5.6	36.0
	Total	**27.0**		**12.4**		**32.6**	**16.9**	**11.2**	**100.0**

* Source: GRIPS.

Flow of countries across income classifications

Flow of countries across income classifications over the last 10 years*

Income classification
(In United States dollars)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
LIC	<= 875	<= 905	<= 935	<= 975	<= 995	<= 1,005	<= 1,025	<= 1,035	<= 1,045	<= 1,045
LMIC	876-3,465	906-3,595	936-3,705	976-3,855	996-3,945	1,006-3,975	1,026-4,035	1,036-4,085	1,046-4,125	1,046-4,125
UMIC	3,466-10,725	3,596-11,115	3,706-11,455	3,856-11,905	3,946-12,195	3,976-12,275	4,036-12,475	4,086-12,615	4,126-12,745	4,126-12,735
HIC	> 10,725	> 11,115	> 11,455	> 11,905	> 12,195	> 12,275	> 12,475	> 12,615	> 12,745	> 12,735

Number of countries per income classification

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
HIC	56	60	65	66	68	70	71	76	76	80
UMIC	39	39	39	44	46	52	53	54	54	52
LMIC	57	55	54	54	55	55	53	47	49	50
LIC	54	53	49	43	40	35	36	36	34	31

Promotions

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
UMIC → HIC		3	6		2		1	6		4	22
LMIC → UMIC		3	5	8	3	6	3	6		2	36
LIC → LMIC	5	1	3	6	4	5		1	2	4	31

Demotions

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
HIC → UMIC				1		1					2
UMIC → LMIC				1		1	1				3
LMIC → LIC					1		1	1		1	4

* World Bank data

Replenishment contributions*

Summary of replenishment contributions by income group between IFAD7 and IFAD9
(In millions of United States dollars)

	IFAD7	IFAD8	IFAD9	Percentage change IFAD7 – IFAD8	Percentage change IFAD8 – IFAD9
High-income	547.5	928.6	1 289.7	69.6	38.9
Upper-middle-income	29.5	59.3	72.8	101.0	22.8
Lower-middle-income	49.3	66.0	73.1	33.9	10.76
Low-income	12.9	2.6	3.5	-79.8	34.6

* Source: Controller's and Financial Services Division (CFS) data.