



POLICY BRIEF



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Development Partnerships with Middle-Income Countries

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While there are now more middle-income countries (MICs) than low-income countries (LICs) in the Global South, 62 per cent of the world's poor live in the former. This brief proposes a framework for partnerships between donors and MICs that promotes country-owned, inclusive and sustainable development.

WHAT'S AT STAKE?

International development aid is being provided in dramatically changed circumstances since its origins in the post-World War Two period.

- There are now more MICs (111) than LICs (34) in the Global South.
- Despite their wealth, MICs like Iraq and Syria are among the growing number of fragile and conflict-affected states.
- There are many new development actors -- businesses, global coalitions, large southern philanthropies, Arab and other new donors, and mature indigenous organizations – who are challenging traditional donors.
- Most MICs have greater access to a wider range of financial flows. Some are issuing international bonds. Numerous innovative financing mechanisms have also emerged.

KEY RESULTS

- **There are more MICs than LICs; many MICs contain significant poverty and are fragile.**
- **The ODA system should be recalibrated to reflect MICs' status - traditional donors need to evolve from being aid providers to being true development partners. This requires a “whole of government” strategy with an emphasis on knowledge-based programming.**
- **Many fragile MICs continue to require humanitarian assistance, to complement specialized forms of capacity development and policy dialogue.**

Yet as the SDGs demonstrate, the international development community is still grappling with the core challenges of economic growth, social inclusion, peace and environmental sustainability.

The traditional donor focus on targeted poverty reduction, by adapting LIC-based programming mechanisms, is driving them towards irrelevance in MICs. Though some donor strategies acknowledge the new status of MICs, their aid programs remain more appropriate for LICs.

This brief proposes a framework that captures the diversity of development situations and appropriate approaches to development cooperation. It is not only about how donors could adapt to a changing environment; it is also about how some MICs can find their own ways of meshing official development assistance (ODA) with other forms of cooperation to achieve their strategic priorities.

Income is used here a measure of economic ability. It is not the sole measure of development. As the examples of Bangladesh and Colombia illustrate, many other factors including fragility, inequality, governance and accountability and sustainable growth considerations affect a country's ability to eliminate poverty. True development partnership programming requires a fundamental understanding of the partner country.

The brief is based on extensive research conducted by University of Ottawa researchers Syed Sajjadur Rahman and Stephen Baranyi and on two case studies of new development partnerships -- Colombia and Bangladesh.

KEY FINDINGS

The Global South is more heterogeneous than ever; it now contains more MICs than LICs

In 1990, 93 per cent of the world's poor people lived in LICs. Now, 62 per cent live in MICs. The urban population is 3.9 billion with one billion living in slums, a number that is growing by 25 million annually. Despite those challenges, the MICs' increased economic abilities have enabled many of them to take ownership of their development processes.

The ODA structure has to be recalibrated to reflect the countries' development status (see *Development Partnership Matrix* below)

There is no consensus on whether aid should be given to poor people or poor countries or a combination of the two. Several other factors may be more important: for example, levels of fragility and windows of opportunity, rather than income, may shape a country's need for aid.

- A variety of development partnerships are already emerging between MICs, traditional donors and other actors. Those partnerships can be divided into two types: (1) support for national development and (2) joint investment in global public goods.

A Development Partnership Matrix

Country Status	Development Needs	Partnership Possibilities	Funding Mechanism	External Funding Sources
Fragile	Humanitarian Basic Needs Governance	Emergency Relief Capacity Building	Grants	Official Aid Agencies NGOs INGOs
Low-Income	Basic Needs Governance	Poverty Reduction Capacity Building Infrastructure	Grants	Official Aid Agencies NGOs INGOs
Low Middle Income	Limited Basic Needs Governance Economic Growth	Capacity Building Private Sector Development (enabling environment, enterprise support, infrastructure) Targeted Poverty Reduction	Concessional Loans Commercial Funds Limited Grants	DFIs Commercial Funds Official Aid Agencies
Middle Income	Economic Growth Fiscal Redistribution Governance	Enterprise Support Policy Development Capacity Building	Concessional Loans Commercial Funds	DFIs Commercial Funds Repayable Technical Assistance
High Middle Income	Policy Implementation	Dialogues Trade and Investment	Commercial	Commercial

LIC development cooperation mechanisms are not appropriate in MICs. Poverty reduction in MICs will not depend mainly on aid, but rather on appropriate support for capacity development and for integration into trade, investment and other global public goods like adaptation to climate change. Donors need to take a whole-of-government approach based on provision of knowledge-intensive products and services.

Donors can now work with many new development partners and form new coalitions. The question will be whether they will learn to be facilitators or primary players. Innovative financing mechanisms will be increasingly important as will finding common causes with other groups of donors. Donor countries can use their credibility and sovereign guarantee abilities to facilitate (lead) the design and implementation of a development program involving multiple partners including multilateral agencies, governments and non-government organizations. One example could be a DFI becoming the underwriter for a blended financing arrangement. MICs have also become significant actors in the expanding domain of South-South cooperation (SSC). Through triangular cooperation, northern partners can provide financing or other forms of support to SSC, as Canada did for language training for south-east Asian officials in Singapore and for Brazilian health cooperation in Haiti.

Fragile and conflict-affected MICs like Colombia require humanitarian assistance; they also require support in areas like inclusive governance and peacebuilding.

CASE STUDIES

Bangladesh: Transitioning to a MIC Context

Context

- Reached LMIC status in 2014 (per capita GDP in 2018 in current US \$ = 1698)
- Still home to 16.2 million people living in extreme poverty (down from 22 million in 2015)
- Expected to meet SDG 1 by 2030

Development needs

- Accelerating economic growth: moving up the value-chain, improved infrastructure especially energy
- Promoting social inclusion: providing basic social services to the poor through distribution of the dividend of economic growth, strengthening social protection
- Stable governance: Accountable pro-poor governance system
- Climate change mitigation and adaptation: "glocalization" = finding local solutions for global issues

Possible Development Partnerships

- Building infrastructure (PPP, blended financing)
- Private sector development (DFIs)
- Redistributive policy formation (sharing best practices)
- Supporting global climate change initiatives (glocalization)
- Whole of government efforts including development partnerships (not aid), trade, investment and diplomacy

Colombia: Building Peace in a MIC Context

Context

- Colombia has been a MIC for a generation (per capita GDP in 2018 in current US \$ = 6,668)
- Though poverty rates have declined in recent decades, it is still home to 23 million persons living in poverty and 6 million living in extreme poverty

Development Needs

- Building peace: implementing the 2016 peace accords by extending the benefits of peace, justice and development to conflict-affected rural areas
- Reducing inequalities and promoting social inclusion: enacting measures ranging from progressive tax reform to targeted poverty reduction
- Green growth: reconciling extractive industries with environmental protection and renewal

Possible Development Partnerships

- Implementing key peace accord provisions, in areas such as transitional justice and territorial development (financial and technical support)
- Policy dialogue and other support for domestic resource mobilisation for poverty reduction and gender equality (sharing best practices)
- Green and rights-respecting growth, particularly in the oil, gas and minerals sector (technical and financial support, sharing best practices)
- Participation in triangular cooperation in third country contexts

POLICY INSIGHTS

Given the increased economic ability, needs, and possible development partnerships of MICs, traditional donors need to retool to be effective development partners in MICs. Strategies can include:

Building whole of government relationships

Development, trade, investment and diplomacy should be integrated in a single bilateral country strategy. The concept should be one of partnership, not aid, and should explicitly acknowledge the MIC's leadership.

Selectively engaging in bilateral and global programming

Bilateral mechanisms could include building public-private partnerships and using trade to enhance supply and demand chains. Donors should engage in extremely limited social service (health, education) delivery programming other than in extenuating humanitarian crises. Funding core social services absolves MIC governments of their responsibilities to take care of their own citizens.

Support for global public goods could include investments in goals like climate change and the creation of favorable international trade and investment environments. Partnership with MICs needs to be framed in terms of knowledge-based products and services in which the donor country may have a comparative advantage and for which there is an explicit demand in the MICs – such as the promotion of gender equality by Canada.

Knowledge-based programming involves moving from a service-delivery concept to a knowledge sharing partnership where the knowledge requirements to be met are country-specific. For example, it could be sharing best practices about redistributive practices to reduce inequality of access to social services (like implementing progressive tax regimes, establishing institutions to support SMEs, or formulas about energy pricing and clean energy incentives).

Using the right financing instruments

Grant financing to MICs should gradually diminish to be replaced by concessional and blended financing. Development Finance Institutions will become important, if not the pre-eminent financing mode in the form of equity participation and term financing.

The most important element here would be to acknowledge that the MICs have taken true ownership of their development processes. The transition from grants to loans is easily made through the (re-)creation of a loan window able to provide concessional and non-concessional loans. Most northern countries and IFIs have both windows.

Working in new development coalitions

There is an opportunity to forge partnerships with coalitions with organizations based in MICs. In MICs, civil society advocacy can be quite productive if it is evidence-based and if it informs concerted action to convert legitimate citizen demands into smart policies augmented by shared accountability. Finding ways to work with new donor groups can be arduous, but promising.

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