0440

IMF PAPER ON POLICY ANALYSIS AND ASSESSMENT

PPAA/93/4

INTERNATIONAL MONETARY FUND

Secretary's Department

Adjusting to Development: The IMF and the Poor

Prepared by Boris Bernstein and James M. Boughton *

March 1993

Abstract

This study examines the evolution of the involvement of the IMF with social aspects of adjustment programs. It summarizes the political limitations of the traditional emphasis on macroeconomic policy tools in the design of programs for poor countries, evaluates the internal and external factors that have led the IMF to give greater stress to the protection of the poor during adjustment, and reviews the various innovations and transformations that have occurred in the past two decades. The paper concludes that more effective targeting of the needs of the poor requires both further research and a broader commitment from the countries concerned.

JEL Classification Numbers:

I32, F33

---

* Boris Bernstein, a graduate student at Georgetown University, worked on this paper as part of an internship at the Fund. We have benefitted from the assistance of many of our colleagues and others; special thanks are due to Ke-Young Chu, Peter Heller, Abdelali Jbili, Omotunde Johnson, Richard Jolly, Jacques Polak, Chanpen Puckahtikom, Joanne Salop, Lesley Simmons, Thomas Morrison, and Vito Tanzi. The views herein are those of the authors and do not necessarily reflect those of the International Monetary Fund or of these individuals.

Contents

> ". . . the fact that adjustment need not conflict with growth and protection of basic human needs does not mean that the latter automatically result from the former. No. The extent to which adjustment is compatible with growth and with an improvement in living standards depends in large part on what <u>form</u> that adjustment takes."
>
> Jacques de Larosière (1986)

> "When I look at the many operations--one could say rescue operations--on behalf of countries in difficulties ... I can say that the essential missing element--despite the admirable efforts of the United Nations and its specialized agencies--is a sufficient regard for the short-term human costs involved during adjustment or transition to a market economy."
>
> *Michel Camdessus (1992)*

I. Introduction

The Fund's Articles of Agreement give the institution a mandate to foster economic development as well as to promote stability and external adjustment. While these are essentially macroeconomic concerns, they cannot be pursued effectively in an economy with serious structural imbalances. Nonetheless, until the late 1970s, the Fund had dealt with both issues primarily with macroeconomic instruments. This emphasis resulted in part from the nature of the IMF as a financial institution, from the existence of its sister institution, the World Bank, with a clearer role in dealing with structural problems, and from the structure of demand for Fund resources. As the number and size of arrangements with developing countries increased in the late 1970s and early 1980s, the Fund was led inexorably into a much greater concern with structural issues in general, and with social aspects of adjustment in particular. While other agencies aim more directly to alleviate poverty in the long run, the role of the IMF in this context is to provide support for adjustment programs that make economic growth sustainable and to mitigate the adverse effects that essential adjustment measures may have on the poor in the short run.

Those seeking to evaluate the social implications of adjustment programs face three basic challenges. The first is to identify the severely disadvantaged, those who would be least able to absorb the transitional costs of adjustment. The World Bank and other development agencies have responded to this challenge by producing and analyzing data on relative income distributions, "basic needs" requirements, and numbers of people living in "absolute poverty"; 1/ the Fund has benefitted from this statistical and analytical work. The second challenge is to assess the effects of conventional macroeconomic adjustment programs on the disadvantaged. Several approaches, each with its own limitations, have been applied: notably, comparison with the country's situation before the measures were taken (which begs the question of how conditions might have evolved in the absence of adjustment), or with a counterfactual experiment (which requires relying on an empirical model). 2/ The Fund has devoted substantial effort to making these comparisons as meaningful as possible. The third challenge is to find alternative strategies that could ameliorate the short-term effects on the poor without sacrificing the longer-run macroeconomic benefits. Meeting that challenge--an important part of the Fund's more recent focus--requires a cooperative approach with the countries concerned.

1/ See IBRD (1990), which provides a comprehensive review of the issues and of the World Bank's work on poverty.
2/ For a general discussion, see Khan (1990).

Since the early 1980s, the Fund has published several staff papers on the social and distributional effects of its programs. Two general policy studies, originally prepared for discussions by the Executive Board in 1985 and 1988, were later published in the Occasional Papers series, one on the effects of Fund-supported adjustment programs on income distribution (IMF, 1986), and the other more specifically assessing the empirical effects of adjustment programs on low-income groups (Heller et al., 1988). A third study, published in Finance & Development, outlined social components of several Fund programs (Gupta and Nashashibi, 1990). Further, the Fund's official position on the institution's role in dealing with poverty has been summarized in two Development Committee pamphlets (1989, 1990). The present article explains how and why the Fund's approach to dealing with poverty has evolved--and is continuing to evolve--over time. As will be seen, both internal and external debate have stimulated changes in the institution's policy framework, but shifts in the nature of the Fund's lending have also been a major catalyst for change.

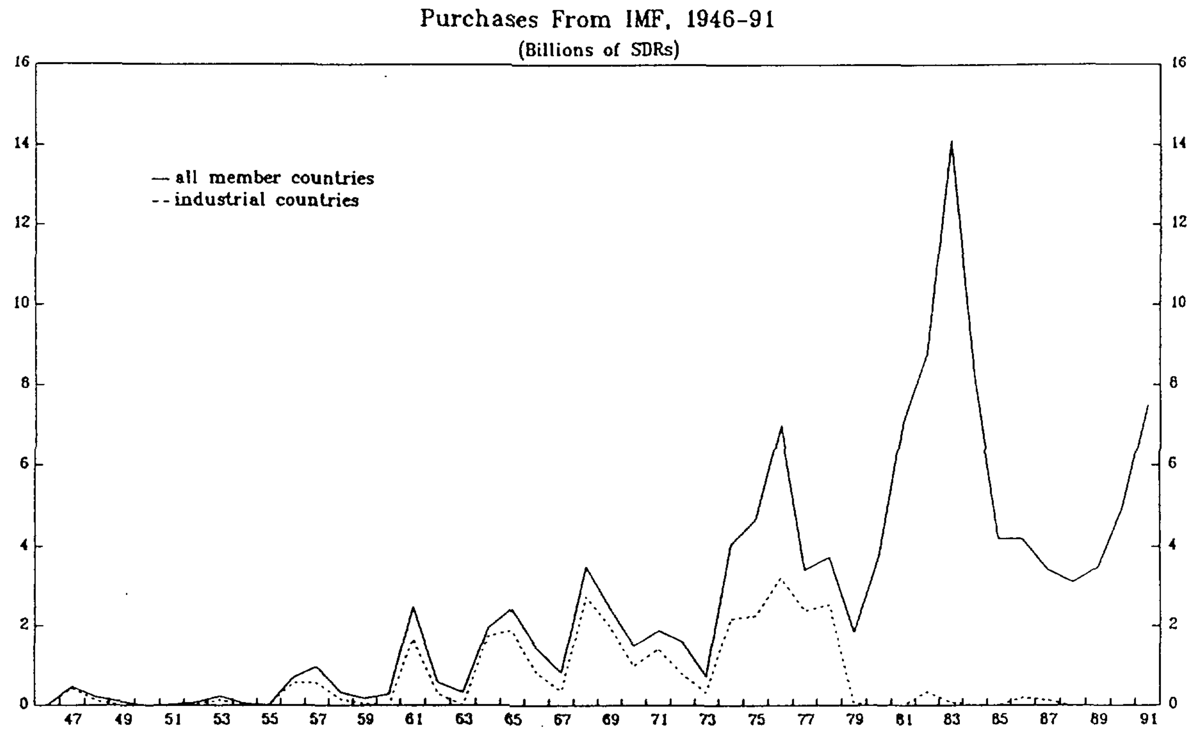
II. Internal and External Influences

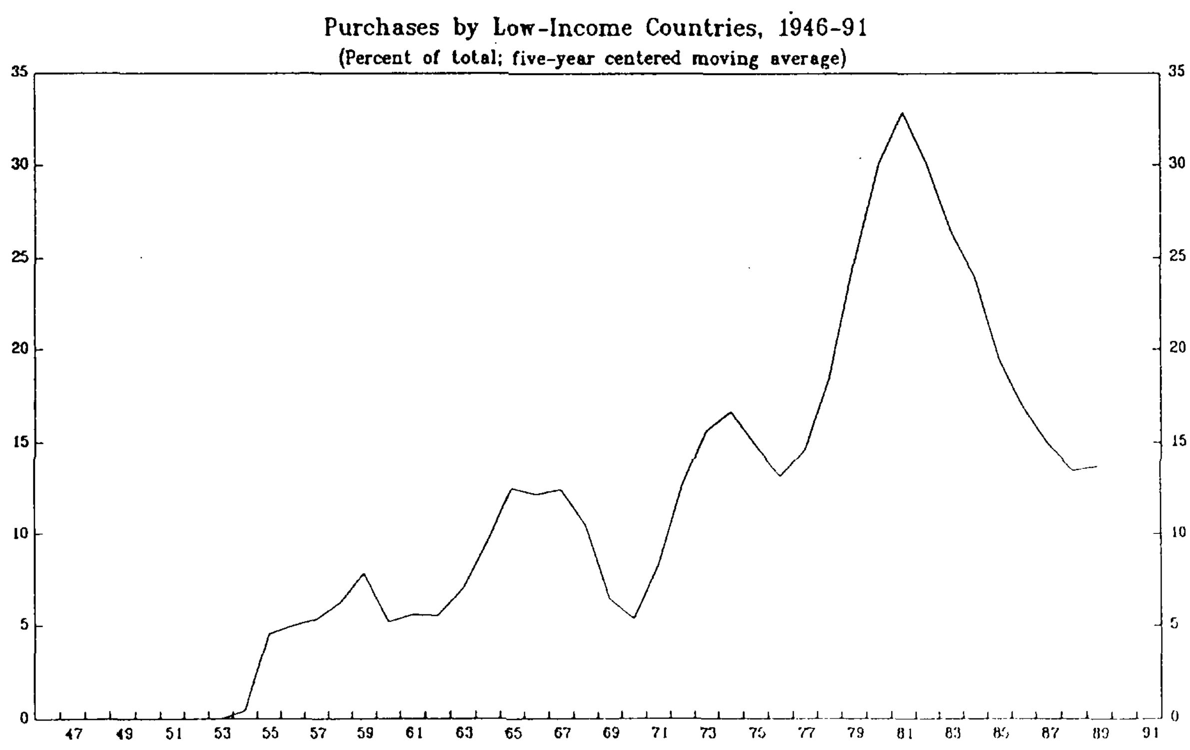
The effects of a gradual shift in Fund activities

Several developments converged in the 1970s to bring about a gradual evolution in the Fund's activities. First, private capital markets began to play an ever-increasing role in financing international payments, especially for the more developed economies. Second, conflicting approaches to macro-economic policy among the large industrial countries first weakened and then pulled down the par value currency system that had prevailed since the end of World War II. By the end of the 1970s, these two factors together virtually eliminated the role played by the IMF in financing imbalances among the industrial countries (top panel of Chart 1). Third, a combination of adversities--the slowdown in growth in industrial countries, worsening terms of trade, and the failure of many countries to adjust promptly to disturbances--heightened the financing needs of less developed economies as well. The poorer countries that lacked access to private capital markets increasingly turned to the Fund as well as to other multilateral agencies for help in the 1970s and even more so in the 1980s. Furthermore, many developing countries that borrowed heavily from commercial lenders in the 1970s came to the Fund after 1982 when that source of financing suddenly dried up in the wake of the debt crisis. Consequently, the portion of Fund resources being drawn by the poorer countries rose sharply in the 1970s and remained substantial in the 1980s (bottom panel of Chart 1).

Developing countries drawing on Fund resources have faced daunting conditions: large fiscal and external deficits and debt, high unemployment often combined with chronic inflation, low growth aggravated by structural problems, and weak demand for exports exacerbated by protectionism. The Fund has provided credit and policy advice to many members in such conditions, often in an environment of crisis, and has made those credits conditional on reforms in macroeconomic policies. To provide sufficient time for those policies to work and for lasting structural reforms to be implemented, special facilities such as the Extended Fund Facility (EFF), the Structural Adjustment Facility (SAF), and the Enhanced Structural

CHART 1





Source: International Financial Statistics.

Adjustment Facility (ESAF) have been established over the years. 1/ Adjustment, however, remains no less difficult, and many countries have found it necessary to cut expenditures on basic programs such as education, health, and social services in order to meet the required fiscal targets. 2/

Political pressures

The political difficulty of undertaking adjustment is aggravated by the need to reconcile the needs of various domestic groups that could be adversely affected by the program. If an adjustment program is designed without regard to its effects on the poor, its insensitivity may become the subject of protests, and it will be unlikely to command the broad support (either within the country or among potential creditors and donors) that is essential for sustained success. On the other hand, targeting the poor for protection may impose substantial short-term costs on other groups that are better off economically but that have greater political power; in many cases, ignoring the needs of the influential urban middle class could undermine the program just as greatly as ignoring the needs of the poor. This point has been a recurring theme in internal discussions at the IMF over the years, and it is a political reality that missions face in negotiations with program countries. Nonetheless, the management of the IMF has come down squarely and clearly on one side of this debate. The Fund's growing emphasis on targeting the poor has emerged from an explicit

---

1/ The EFF is described in Johnson (1977); the SAF and the ESAF, in Landell-Mills (1992).

2/ For an analysis of the political constraints on implementing structural adjustments under the EFF, see Haggard (1986).

recognition that great importance must be attached to equity and to the full development of human resources if programs are to be viable in the long run.

On several occasions in the late 1970s and 1980s, the political pressures from conventional adjustment programs based principally on macroeconomic measures erupted in violent protests. In many cases the IMF felt the brunt of the attack. 1/ Jahangir Amuzegar, a former Executive Director at the Fund, writes (1986) that "national strikes, riots, political upheavals, and social unrest in Argentina, Bolivia, Brazil, the Dominican Republic, Ecuador, Egypt, Haiti, Liberia, Peru, Sudan, and elsewhere have been attributed directly or indirectly to the implementation of austerity measures advocated by the IMF." Often cited as an example are the "bread riots" in Egypt. In January 1977, the Egyptian government--in the midst of negotiations with the IMF over the terms of a possible stand-by--announced that it had determined that the only way it could resolve the budgetary crisis was to reduce outlays for subsidies of a number of basic goods. The cuts would have resulted in retail price increases approaching 50 percent for some commodities that were important for low-income groups. During the following two days, demonstrators protested in major cities throughout Egypt; tragically, at least 79 people died in the ensuing violence. The budget was withdrawn, the Fund assisted the authorities in devising a plan under which the subsidies could be reduced more gradually, and a stand-by arrangement incorporating the new budget was approved a few months later.

1/ Political pressure to impose conditionality based on the distributional effects of programs and the protection of basic needs also came occasionally from creditor countries. For a review of such pressures emanating from the U.S. Congress, see Gerster (1982).

In April 1984, the Government of the Dominican Republic reformed its exchange rate and interest rate policy in the context of an IMF program. The government's policy changes implied sharp increases in domestic prices, most notably for imported fuel and basic foodstuffs. Immediately following Easter, organized protest culminated in serious rioting in which at least 50 people died. As in the Egyptian case, the Dominican negotiations with the Fund had been widely publicized in the national press. Demonstrators vented their frustration therefore not only at the government's austerity policies, but also at a perceived foreign imposition of harsh economic terms.

In responding to these and similar cases in other countries, the Fund emphasized that the formulation of specific adjustment policies was an internal matter for the member country and could not be imposed by the Fund. There is a clear delineation of responsibilities, in which the role of the Fund is to provide technical advice and assistance to the authorities in developing an effective adjustment program that avoids imposing undue costs on the most vulnerable groups, and to both provide and catalyze financing in support of such a program. As the Managing Director, Michel Camdessus, wrote in an open letter to Carlos Andrés Pérez, the President of Venezuela, following an outbreak of rioting in that country in 1989, "It is a prerogative of sovereign states to decide themselves what measures are required for recovery, however unpleasant those measures may be." Nonetheless, he also reaffirmed the importance of ensuring that the needs of the poor were adequately safeguarded in any adjustment program.

External criticism of the focus on macroeconomics.

Literature on the social costs of adjustment burgeoned in the early 1980s, reflecting the growing importance of the subject as more countries faced the need to implement painful policy changes. Tony Killick's work at the Overseas Development Institute (1984) is representative of academic critiques. He recognized both the Fund's insistence on prudent economic policy mandated by its Articles of Agreement and the domestic political constraints faced by governments assisted by the IMF. Though he noted that the specific impacts of an adjustment program could not be predicted or even determined afterward, he held that the Fund should realize that its recommendations might considerably increase inequalities. To enhance the institution's effectiveness, therefore, Killick urged Fund staff to consider the socio-political context of economic disequilibria and to explore the distributional effects of its programs. Similar criticisms are made in Helleiner (1987) and Helleiner et al., (1991).

The World Bank launched a more fundamental critique of conventional adjustment paradigms in its World Development Report of 1984. The Report noted that the emphasis given to increased taxation and higher interest rates in many programs could lead to a squeeze on the private sector and restrict long-term investment and growth. At the same time, reducing or eliminating subsidies for food, education, and health would decrease real income--worsening the plight of the poorest--while damaging the country's growth potential. The Bank's analysis questioned the foundations of the Fund's long-held view that orderly adjustment necessarily benefitted the poor in the long run, a view that Jacques Polak (1991) has characterized as a "trickle down" approach that is no longer adequate. 1/ A study sponsored by UNICEF (Cornia et al., 1987), similarly encouraged a reorientation to more "people sensitive" adjustment programs.

More recently, Jeffrey Sachs (1989) has considered the distributional impacts of Fund programs. He noted that many of the same critics who attack the effect of adjustment programs on income distribution would also object to the Fund meddling in countries' internal affairs. Yet he writes that there are compelling reasons for the IMF to pursue work in the area. The long-run viability of an adjustment program "may well depend on an adequate distribution of income." Many governments, he holds, may want to pursue adjustment programs that minimize the long-run costs of adjustment, and Fund staff should be able to design such programs.

Internal debate.

The Fund's traditional approach to conditionality has focused on the importance of orderly and timely adjustment. This approach has been based implicitly on the assumptions that a comprehensive adjustment program would protect the interests of the most vulnerable in the short run, by preventing the inevitable chaotic adjustment process arising from suppressed macroeconomic imbalances; and in the long run would aid the poor, by fostering sustainable growth. The distribution of income, in this approach, is left primarily to the country concerned, to be determined in the light of the country's political and social structure. In countries where the authorities have recognized and have been sensitive to the needs of the poor, there

---

1/ Broad (1988) offers a detailed criticism of what he views as the IMF's trickle-down approach in the Philippines in the mid-1970s.

has always been room in this approach for Fund-supported adjustment programs to include income-supporting measures such as increases in producer prices and improvements in access to credit by the agricultural sector.

Notwithstanding the fact that orderly adjustment is a prerequisite for sustainable growth, experience with financial programming has made it increasingly clear that the traditional approach is insufficient in cases where a country's long-term interests are subsumed under shorter-term social hardship and political realities. The Fund's management therefore has initiated and encouraged a number of internal studies since the late 1970s to focus attention more specifically on the protection of the interests of the poor. These studies have comprised both post mortem evaluations of programs for individual low-income countries--which have amply demonstrated the difficulties posed for program viability when the poor are unduly affected--and general studies of the links between program design and income distribution.

The first of the general studies was that of Johnson and Salop, undertaken at the request of Managing Director Johannes Witteveen in 1977. Witteveen initially was concerned that proposals for lending strategies favoring projects that aimed to provide "basic needs" to the poorer segments of the population raised the risk of softening the loan portfolio, which would defeat the purpose of the adjustment program. Yet he also recognized the dangers of ignoring distributional issues, and he called on the Fund staff to study the problem more carefully. Consequently, Johnson and Salop (1980) analyzed the effects of policies most commonly adopted in Fund-supported programs using a simple tradables/nontradables model. They concluded that stabilization programs "necessarily had distributional repercussions," but that the specific effects could be positive or negative and would depend on the structure of the economy. 1/ In an economy where the export sector was large and marked by small-scale operators, as in Ghana, a devaluation might have egalitarian effects. In others, implications were not as favorable. In Bolivia, for example, much of the primary export--mineral products--was produced in public enterprises while lower-income segments of the population largely produced nontraded agricultural products and simple manufactures. The shift in internal terms of trade required by adjustment therefore would tend to disadvantage poorer groups in Bolivia. The study gained wide publicity, and, though it contained no policy recommendations for the Fund, grew to be considered by academics as the Fund's response to the question.

Another more theoretical internal study, Borpujari (1980), drew the favorable attention of Managing Director Jacques de Larosière. Borpujari's work (see also his published 1985 paper) developed a framework for incorporating financial constraints into a model in which development depends essentially on an economy's ability to provide for the population's basic production and consumption needs. In this framework, macroeconomic financial programming is appropriate only for economies for which development is not constrained by a shortage of production of basic goods. In economies that are so constrained, a given inflow of foreign exchange will strengthen development potential only if it is utilized to import investment

1/ Blejer and Guerrero (1990) drew similar conclusions on the basis of an empirical study of the Philippines.

goods or basic consumption goods. Although this particular model did not become part of the mainstream of financial programming at the Fund, it did point the way toward modifying the traditional focus on macroeconomic adjustment.

Some years later, the Fund's Fiscal Affairs Department undertook a more comprehensive study of the distributional effects of adjustment programs (IMF, 1986; also see Sisson, 1986). The authors surveyed fiscal economists for 78 IMF program missions to create a stylized, typical Fund-supported program. They compared this program with a synthetic counterfactual experience depicting what would have happened in the absence of a stabilization program, focusing on short-term effects. The paper concluded that there was no basis for concluding that Fund-supported adjustment programs were more damaging to income distribution than practical alternatives. But it did identify several policies that could have relatively beneficial distributional effects in the context of a comprehensive program. These included elimination of restrictive exchange practices, expansion of access to credit markets, broadening of the tax base, restructuring of indirect taxes, limiting expenditures on defense and "grandiose public works," and--in some circumstances--correction of an overvalued exchange rate.

III. Developing and Implementing a Policy Framework

Operational Studies.

The Fund's Executive Board discussed the effects of adjustment programs on income distribution in July 1985, using the Fiscal Affairs study described above as background. Two basic messages crystallized from this meeting. First, there was uneasiness about the difficulty of drawing firm conclusions about the effects of traditional programs without specifying viable alternatives. As had already been apparent after the Johnson-Salop study, there was insufficient evidence to conclude that a typical program would have positive or negative effects on income distribution. To firm up the conclusions would require asking whether some other adjustment program would have been as effective at promoting sustainable growth but with more favorable distributional effects. The second message was that, whatever conclusions might emerge from this and further research, policies toward the distribution of income were essentially a domestic matter and should not be subjected to Fund conditionality. The Fund's role should be to assist member countries to determine the likely effects of their adjustment policies, including distributional effects. To further that objective, more detailed staff research would be warranted, as would a strengthening of cooperation in this field with development institutions such as the World Bank.

As a follow-up to the Executive Board meeting, case studies were prepared on seven countries: Chile, the Dominican Republic, Ghana, Kenya, the Philippines, Sri Lanka, and Thailand. The results were analyzed in Heller et al., (1988). The methodology underlying the case studies was eclectic; in some cases, the authors used a "before-after" approach while in others they drew comparisons with a reasonable alternative. The studies focused on the effects on poverty, reflecting a concern for those groups least capable of bearing the burden of adjustment. The study concluded that the poverty effects of adjustment depended on the choice of policy instruments--the *policy mix*--and on the *structure* of domestic poverty. The cases demonstrated that supply-side policies and compensatory assistance could effectively mitigate the effects of demand restraint.

In 1988, the implications of these case studies were considered in several ways. First, the Executive Board reviewed the analysis and approved the development of additional expertise within the Fund both through continuing research and by calling on the experience of other UN agencies such as UNICEF, ILO, UNDP, and the World Bank. Second, the subject was considered in the context of the Board's major review of conditionality; that review reaffirmed the 1985 decision not to impose conditions on the use of Fund resources related to the distribution of income, but rather to assist members in evaluating distributional effects of policy changes. Third, the Development Committee urged both the Fund and the World Bank to intensify their efforts, working closely together, to help design adjustment programs and adopt, as needed, well-targeted compensatory measures. 1/

Following the operational discussions in the Executive Board and the recommendations of the Development Committee, interdepartmental groups met on several occasions to discuss work on poverty, and Mr. Camdessus directed the staff to expand the consideration of social costs to all Fund-supported programs. Subsequently, he undertook to publicize the Fund's efforts, most notably in his annual addresses to the Economic and Social Council of the United Nations. Within the Fund, the Fiscal Affairs Department was designated to coordinate the institution's initiatives on poverty.

1/ For a summary of staff recommendations to the Development Committee, along with related papers by the World Bank staff and the Committee's conclusions, see Development Committee (1989, 1990).

In addition to the studies prepared for the Executive Board, the Fund has held a number of seminars on poverty for staff working on countries with adjustment programs, starting in 1988. Contributors, including Fund staff, experts from universities, and staff of other UN agencies, particularly UNICEF and the World Bank, have examined conceptual and practical questions regarding poverty. In one such meeting in 1990, presentations on social aspects of particular recent Fund-supported programs examined the incidence of domestic poverty and outlined known poverty effects. They related varied country experience with compensatory measures and presented models for the future study of poverty at the Fund. Several of the studies were subsequently circulated as IMF working papers. 1/ In the most recent seminar, discussion focused on the establishment of social safety nets in the economies in transition.

Coordination with Other Agencies.

The Fund's liaison with the United Nations has been strengthened in a number of related ways. The Managing Director participates regularly in meetings of the UN's Administrative Council Committee, a forum in which he frequently exchanges views with the heads of agencies that work more centrally with poverty-related issues. As an outgrowth of one such meeting in 1984, Mr. de Larosière asked the Executive Director of the International Labor Organization, Mr. Francis Blanchard, to help set up informal meetings between ILO and IMF staff to discuss means of ensuring that adjustment programs do not entail unnecessary social costs and do not sap economic

---

1/ Ahmad (1991) on Jordan; Gotur (1991) on Bangladesh; Gulde (1991) on Sri Lanka; Hicks and Brekk (1991) on Malawi; Liuksila (1991) on Colombia; and Lopes and Sacerdoti (1991) on Mozambique.

development. Shortly thereafter, the Managing Director also invited the Executive Director of UNICEF, Mr. James Grant, to meet with him and with Fund staff to try to strengthen the social content of adjustment programs. The ensuing contacts led eventually to an initiative under which UNICEF would encourage governments of selected countries to redesign adjustment programs so as to include more measures targeted at the poor, and the IMF would assist governments in that effort. 1/

More generally, the IMF's empirical work on poverty has benefitted from access to several UN agencies' data bases, and there have been numerous inter-agency staff meetings. During a seminar held at the Fund in October 1990, for example, representatives of the World Bank and 12 other UN agencies met with IMF officials to discuss ways to enhance cooperation on social and sectoral aspects of adjustment. Seminar participants recognized the need for cooperation among agencies from the very beginning of the adjustment process and agreed to increase open communication and dialogue, as well as to share data and assessments. There is now an ongoing exchange of information and analysis between the Fund staff and the various UN agencies.

Collaboration between the IMF and the World Bank was greatly intensified following the launch of the SAF in 1986 and the ESAF in 1987 (see Gupta and Nashashibi, 1990; and Nashashibi et al., 1992). Since the Bank and Fund's programs and institutional expertise complement each other, the two organizations have worked closely together to design programs under

1/ See Jolly (1991) for more background. The position paper prepared by UNICEF for the initial meetings with the IMF in 1984 was published much later as Helleiner et al. (1991).

these two facilities, both of which provide financial support on concessional terms for countries with very low per capita incomes but which differ in the source of their funds and in the terms of their support. IMF staff also have participated in World Bank missions on poverty in other program countries. 1/

The primary vehicle for collaboration under both facilities is the policy framework paper (PFP), designed as a framework for medium-term programs of policy reform agreed among the country, the Bank, and the Fund. Most PFPs include a section on the social implications of the adjustment program, and some also include a discussion of mitigating measures and requirements for social safety nets. Such measures could be divided into four categories: targeted subsidies of essential goods; cash transfers to vulnerable groups; direct support for wages, producer prices, and targeted public works; and protection of education and health expenditures. According to a recent internal review of Fund experience, while only one of five ESAF-supported programs in place by 1989 contained specific social measures, five out of the subsequent 12 ESAF-supported programs in place by April 1991 contained such measures.

The dominant constraint on the Fund's work in this area is its dependency on cooperation from the countries concerned. As Killick and Malik (1992, p. 613) noted recently, "The priorities of the government in power, rather than those of the IMF, are probably the principal determinant of the ways in which programmes impinge upon the poor." Because the poor

1/ The study by Blejer and Guerrero (1990) arose from a World Bank mission on poverty in the Philippines; Guerrero was the mission chief, and Blejer participated on behalf of the IMF.

are not the only group--and almost certainly are not the most politically powerful group--that could be affected adversely by the need for adjustment, governmental support for measures targeted at the poor may not be easy to secure. 1/

Perhaps the most well-publicized example of the use of the structural adjustment facilities to promote programs that protect the interests of the disadvantaged is the case of Ghana. The Ghanaian adjustment programs--supported by the Fund for four years starting in 1987--were initially implemented under the EFF and the SAF (1987-88), and later under the ESAF (1988-91). Throughout this period, the government sought to improve its social policy, especially beginning in 1988 with the implementation of a "Program to Mitigate the Social Costs of Adjustment," or PAMSCAD (see Kapur et al., 1991). The objective of this Program has been to enhance the delivery of basic services to the poor, raise the productivity of lower-income workers, and enhance their employment opportunities. PAMSCAD is financed externally, in large measure through support pledged from bilateral donors at an international conference convened by Ghana in Geneva in February 1988. The Fund's assistance via the ESAF arrangement was designed not only to ensure the viability of macroeconomic policies, but also to support the establishment of a "Special Efficiency Fund" for the retraining, relocation, and redeployment of public employees displaced by the restructuring of the economy.

1/ For an elaboration of the political dimensions of this problem, see Nelson (1989) and Graham (1992).

Technical assistance and policy advice.

The IMF offers technical assistance to member governments desiring advice on social safety nets and on other distributional issues. A good example of this type of assistance is the recent stand-by arrangement with Poland (1990-91). Because of severe dislocations associated with the transition to a market economy, the authorities--with strong support and encouragement from the Fund--decided to underpin the macroeconomic reforms by creating a social safety net to shield the most vulnerable from the effects of adjustment. These social programs were financed by a reallocation of resources previously devoted to subsidies on food, agricultural inputs, and coal. The program targeted three groups: the unemployed, pensioners, and the poorest. A Labor Fund to assist the unemployed, for example, was financed by a levy on enterprise payrolls and by budgetary transfers. External concessional assistance was also sought, in order to strengthen the authorities' ability to implement these measures.

On an experimental basis, the staff have begun to prepare poverty profiles on selected countries to supplement those of the World Bank. Poverty profiles are intended to aid the preparation of policy recommendations by summarizing succinctly the available statistical and quantitative evidence on the characteristics of poverty in the country. Staff rely on detailed World Bank poverty profiles for data, distilling information needed to evaluate Fund-supported programs. In cases where more specific macroeconomic information is required, or if a Bank profile does not exist, Fund staff have relied on other sources as well.

IV. Conclusions

The evolution of Fund policy on poverty has reflected the changing needs of its membership as well as a growing awareness and concern within the institution. Over time, the Fund has developed an approach to poverty that seeks to balance its mandate to achieve balance of payments viability and growth--and avoid interfering in members' social and political affairs--with a greater flexibility to address short-term social concerns. In the long run, poverty reduction is achieved primarily through sustainable growth, supported by a favorable external environment.

While the Fund has eschewed conditionality related to income distribution, concern with social costs has increasingly become a priority. This evolving approach has three prongs. First, the Fund has begun to endorse a more gradual application of measures that might have a negative impact on the most vulnerable groups. The applicability of this approach is limited, however, because in many cases the rapid correction of gross distortions in relative prices is crucial for the program, and because rapid adjustment may be essential in severe cases. Second, the Fund supports efforts to seek additional aid from other international institutions or donors. Third, government expenditures are being targeted more specifically to aim directly at the needs of the poor and to provide effective social safety nets. This last prong cuts to the heart of the "essential missing element" to which the quotation at the top of this article refers. That it needs further sharpening is beyond doubt. To do so effectively requires not only further research into the design of cost-effective social safety nets, but also a broader commitment from governments as well as from the Fund.

References

Ahmad, S. Ehtisham U., "Jordan: Restructuring Public Expenditure and Protecting the Poor," IMF Working Paper 91/82 (Washington: International Monetary Fund, September 1991).

Amuzegar, Jahangir, "The IMF Under Fire," Foreign Policy, Vol. 64 (Fall 1986), pp. 98-119.

Blejer, Mario I., and Isabel Guerrero, "Impact of macroeconomic policies on income distribution: an empirical study of the Philippines," Review of Economics and Statistics (U.S.), Vol. 72 (August 1990), pp. 414-23.

Borpujari, Jitendra G., "Toward a Basic Needs Approach to Economic Development with Financial Stability," IMF Departmental Memorandum DM/80/16, (February 28, 1980).

_________, "Savings Generation and Financial Programming in a Basic Need Constrained Developing Economy," in Financing Problems of Developing Countries, Proceedings of a Conference held by the International Economic Association in Buenos Aires, Argentina, ed. by Armin Gutowski, A.A. Arnaúdo and Hans-Eckart Scharrer (New York: St. Martin's Press, 1985) pp. 59-82.

Broad, Robin, Unequal Alliance: the World Bank, the International Monetary Fund, and the Philippines (Los Angeles, California: University of California Press, 1988).

Camdessus, Michel, International Monetary Fund Speeches (92/14), Address at the Economic and Social Council, New York, July 7, 1992.

Cornia, Giavanni Andrea, Richard Jolly, and Frances Stewart, eds., Adjustment with a Human Face: Vol. I Protecting the Vulnerable and Promoting Growth (New York: Oxford University Press, 1987).

de Larosière, Jacques, Address before the Economic and Social Council of the United Nations, Geneva, July 4, 1986.

de Vries, Margaret Garritsen, The International Monetary Fund 1972-1978: Cooperation on Trial (Washington: International Monetary Fund, 1985).

Development Committee Pamphlet No. 19, "Strengthening Efforts to Reduce Poverty," Joint Ministerial Committee of the Boards of Governors of the World Bank and of the International Monetary Fund, Washington, D.C., April 1989.

Development Committee Pamphlet No. 26, "Development Issues, Presentations to the 39th Meeting of the Development Committee," Joint Ministerial Committee of the Boards of Governors of the World Bank and of the International Monetary Fund, Washington, D.C., September 1990.

Gerster, Richard, "The IMF and Basic Needs Conditionality," Journal of World Trade Law, Vol. 16 No. 6 (November-December 1982), pp. 497-517.

Gotur, Padma, "Bangladesh: Economic Reform Measures and the Poor," IMF Working Paper 91/39 (April 1991).

Graham, Carol, "Politics of Protecting the Poor During Adjustment: Bolivia's Emergency Social Fund," World Development, Vol. 20 (September, 1992), pp. 1233-51.

Gulde, Anne-Marie, "Sri Lanka: Price Changes and the Poor," IMF Working Paper 91/46 (May 1991).

Gupta, Sanjeev, and Karim Nashashibi, "Poverty Concerns in Fund-Supported Programs," Finance & Development (Washington), Vol. 27 (September 1990), pp. 12-14.

Haggard, Stephan, "The politics of adjustment: lessons from the IMF's Extended Fund Facility," in The Politics of International Debt, ed. by Miles Kahler (Ithaca, NY: Cornell University Press, 1986).

Helleiner, Gerald K. "Stabilization, Adjustment, and the Poor," World Development, Vol 15 (December 1987), pp. 1499-1513.

Helleiner, Gerald K., G.A. Cornia, and R. Jolly, "IMF Adjustment Policies and Approaches and the Needs of Children," World Development, Vol. 19 (December 1991), pp. 1823-34.

Heller, Peter S., et al. The Implications of Fund-Supported Adjustment Programs for Poverty: Experiences in Selected Countries, IMF Occasional Paper No. 58 (Washington: International Monetary Fund, 1988).

Hicks, Ronald P., and Odd Per Brekk, "Assessing the Impact of Structural Adjustment on the Poor: the Case of Malawi," IMF Working Paper 91/112 (Washington: International Monetary Fund, 1991).

International Bank for Reconstruction and Development, World Development Report 1984 (New York: Oxford University Press, 1984).

__________ World Development Report 1990 (New York: Oxford University Press, 1990).

International Monetary Fund, Fund Supported Programs, Fiscal Policy, and Income Distribution IMF Occasional Paper No. 46 (Washington: International Monetary Fund, 1986).

Johnson, Omotunde, "Use of Fund Resources and Stand-By Arrangements," Finance & Development (Washington), Vol 14:1 (March 1977), pp. 19-21.

__________, and Joanne Salop, "Distributional Aspects of Stabilization Programs in Developing Countries," Staff Papers, International Monetary Fund, Vol. 27:1 (March 1980), pp. 1-23.

Jolly, Richard, "Adjustment with a Human Face: a UNICEF Record and Perspective of the 1980s" World Development, Vol. 19, No. 12 (December 1991), pp. 1807-1821.

Kapur, Ishan, et al., "Ghana: Adjustment and Growth, 1983-91," IMF Occasional Papers, Vol. 86 (1991).

Khan, Mohsin, "The Macroeconomic Effects of Fund-Supported Adjustment Programs," Staff Papers, International Monetary Fund, Vol. 37:2 (June 1990), pp. 195-231.

Killick, Tony, ed. The Quest for Economic Stabilization: The IMF and the Third World, London: Heinemann Educational Books, 1984.

__________, and Malik, Moazzam "Country Experiences with IMF Programmes in the 1980s," The World Economy, Vol. 15, No. 5 (September 1992), Blackwell Publishers, Oxford, UK and Cambridge, USA.

Landell-Mills, Joslin, Helping the Poor: the IMF's New Facilities for Structural Adjustment, IMF External Relations Department (Washington, D.C., April 1992).

Liuksila, Claire, "Colombia: Economic Adjustment and the Poor," IMF Working Paper 91/81 (August 1991).

Lopes, Paulo S., and Emilio Sacerdoti, "Mozambique: Economic Rehabilitation and the Poor," IMF Working Paper 91/101 (October 1991).

Nashashibi, Karim, et al., "The Fiscal Dimensions of Adjustment in Low-Income Countries," IMF Occasional Papers, Vol. 95 (1992).

Nelson, Joan M., "The Politics of Pro-Poor Adjustment," in Joan M. Nelson (Editor), Fragile Coalitions: the Politics of Economic Adjustment. New Brunswick: Transaction Books, 1989.

Polak, Jacques J., The Changing Nature of IMF Conditionality, Essays in International Finance, No. 184. (Princeton, N.J.: Princeton University, 1991).

Sisson, Charles A., "Fund-Supported Programs and Income Distribution in LDCs," Finance & Development (Washington), Vol. 23:1 (March 1986), pp. 33-36.