International Fund for Agricultural Development (IFAD)
Statistics and Studies for Development Division
Perspectives on IMF Support to Low Income Countries

IMFs new instruments for growth and poverty reduction in Low Income Countries (LICs) builds in social conditionality into its traditional fiscal and monetary policy approach. Adjustments in the IMF model include the following i) overhauling its lending instruments, especially to address more directly countries' needs for short-term and emergency support, ii) doubling resources available to low-income countries to up to $17 billion through 2014 and iii) zero interest on all concessional lending through 2011 and reviewing concessionality every two years thereafter. This adjustment is a positive development in so far as IMF policy advocates for growth in pro-poor sectors.

Lessons from the global financial, fuel and food crises show the need for sound financial and developmentally sustainable growth models in LICs - which help to reduce risk and vulnerability. Today we are witnessing the opening up of global markets, with LICs becoming better integrated into global markets. However, under the prevailing context of high food prices and rising volatility in commodity markets, LICs continue to be under threat.

Imperative in the post-crisis period are policies and instruments that help LICs to take advantage of the plethora of initiatives that promote pro-poor growth. IMF should work with LICs governments to advise on fiscal policies and public spending in the sectors that promote human, social, economic and physical growth. The multi-dimensionality of poverty binds organizations aspiring to contribute towards poverty reduction in poor countries to address the various facets. Economic growth is a significant determinant of poverty reduction as well as improved livelihoods - the history of growth patterns in developed and emerging economies has shown that growth in some sectors is more effective in reducing poverty and promoting inequality than growth in other sectors.

One of the more important factors determining the extent to which the poor benefit from growth is the pattern of growth: if growth takes place in sectors to which the poor have few linkages (such as, for instance, heavy industry), their benefit is likely to be smaller than if growth takes place in, say, small-scale agriculture. Evidence on the multiplier effect of the agriculture sector in low income developing countries is strong. Chen and Ravallion (2007), on a study in China found that agriculture is 3.5 times more effective in reducing poverty while Christiansen and Demery (2007) found that in Africa, overall GDP growth coming from agriculture is 2.7 times more effective in reducing poverty. This is further corroborated in the World Development Report (2008) - agriculture sector is twice as effective in reducing poverty than growth generated by other sectors. At the same time, agricultural growth has been the pre-cursor to overall economic growth: Europe and North America (in the early part of the 20th century), in Japan a little later, and more recently in China and India.

If IMF is serious about reducing poverty, it cannot be neutral on policies. There is a growing recognition that public policy can play a significant role in promoting food production and stabilizing food commodity markets. IMF can leverage its resources to promote public policies that create a stable market environment, stimulate food production and reduce poverty (particularly in rural areas). Much ground can be gained by leveraging IMF resources to influence policies in LICs. For example, IMF conditionality can align with pro poor initiatives such as the CAADP in SS Africa. African countries pledged to allocate 10 percent of national budgets to agriculture, however to date, only 17 countries have met or surpassed the target.

Moving beyond the traditional IMF focus on debt payments and restrictive government spending, there is scope to reflect policies with redistribution impact. It is widely agreed that poverty reduction is fostered through macroeconomic policies that are 'distributional and allocational' in nature. Contemporary thinking on poverty reduction in LICs suggests significant distributional payoffs in the revitalization of rural areas. Agriculture emerges as a central sector in revitalizing the rural economy and diversifying incomes. In the face of risk, some level of social protection is vital to building resilience. IFADs *Rural Poverty Report 2011* elaborates on the need to put proper appreciation of risks and shocks at the centre of growth and poverty reduction efforts. The agriculture sector holds promise in mitigating some of these factors - raising yields, labour opportunities in agricultural value chains, environmental protection.

Economic growth tends to be higher and more broadly shared when people have equitable and secure access to land, IMF should consider promoting policies that emphasize the formation of individual and collective identity. For example, land reform in China, in the late 1970s and early 1980s, contributed to the largest and fastest rate of rural poverty reduction in history. Building on IMFs capacity to provide policy advice, there is scope to leverage this function to promote good governance arrangements that promote equitability.

For further information please contact:

Ms Bernadette Mukonyora

b.mukonyora@ifad.org