



Independent Evaluation Office  
*of the* International Monetary Fund

## **THE IMF AND SOCIAL PROTECTION: SEVEN LOW-INCOME COUNTRY CASES**

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**ABBREVIATIONS**

CCT	conditional cash transfer
CSO	civil society organization
ECF	Extended Credit Facility
EPA	Ex Post Assessment of Longer-Term Program Engagement
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
FAD	Fiscal Affairs Department (IMF)
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries
ILO	International Labour Organization
LIC	low-income country
MDGs	Millennium Development Goals
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	poverty and social impact analysis
RCF	Rapid Credit Facility
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SIP	Selected Issues Paper
TA	technical assistance
UNICEF	United Nations Children's Fund
VAT	value-added tax
WAEMU	West African Economic and Monetary Union
WFP	World Food Programme

## I. INTRODUCTION

1. **This paper examines the IMF’s engagement in social protection issues in seven low-income countries (LICs) over the past decade.**<sup>1</sup> LICs are defined here as the group of IMF member countries that are eligible for IMF concessional financing.
2. **LICs are typically characterized by high rates of poverty, vulnerability to shocks, and a limited social safety net and social risk-management framework.** As shown in Figure 1, in 2012, over 80 percent of LICs had what the International Labour Organization (ILO) classified as “very limited” to “limited” national social protection systems. This was particularly the case in Sub-Saharan Africa, where, according to World Bank (2015), large parts of the population were not covered by any social protection program.<sup>2</sup> However, the focus on social protection in LICs has been growing over time. According to ILO (2014), spending on social protection in LICs increased over the prior decade, from an average of less than one percent of GDP to about three percent of GDP. While most of this spending was on food and in-kind transfers, public works, and school feeding programs, the trend has been to increasingly move toward cash transfers, particularly in Africa. In Latin America, the trend has been to rely on conditional cash transfer (CCT) programs in particular.<sup>3</sup>
3. **The IMF was only one of many players engaged in extending social protection in LICs during the last decade.** The World Bank and other development partners—United Nations (UN) agencies (particularly the ILO and the United Nations Children’s Fund (UNICEF)), regional development banks such as the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB), and international donors, among others—were actively involved. In almost all the LIC cases examined in this paper, during the last decade the World Bank and/or other development partners were present and provided financial and/or technical support on

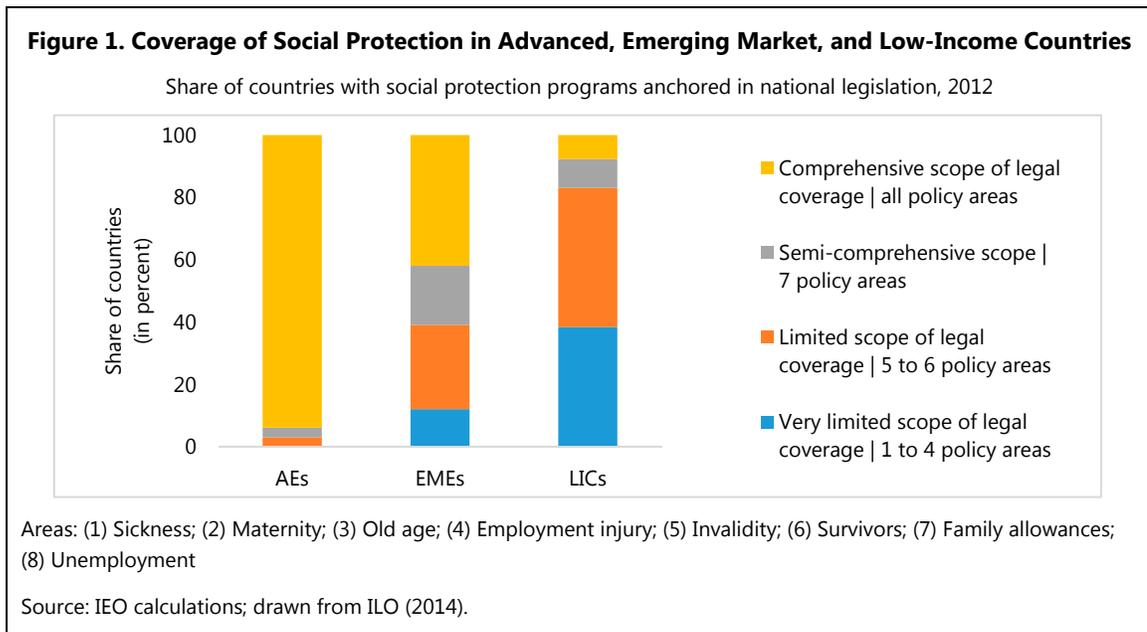
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<sup>1</sup> Social protection encompasses policies that provide cash or in-kind benefits to vulnerable individuals or households, including: (i) social insurance (such as public pension schemes); (ii) social assistance (such as government transfers to the poor); and (iii) labor market interventions for the unemployed (such as unemployment insurance and active labor market policies). Food and fuel subsidies are also covered in this paper to reflect that such policies have social protection elements, but this paper does not assess the IMF’s work on general policies for development and long-term poverty reduction (such as government spending on education and health), or programs to boost job creation and labor force participation.

<sup>2</sup> There are exceptions. According to World Bank (2015) some LICs spend more on a social safety net than the advanced economy average of 1.9 percent of GDP. For example, Sierra Leone and Lesotho committed 4.8 percent and 6.6 percent of GDP, respectively, to social safety nets in 2010–14. This suggests that spending on safety nets reflects not just income, but policy priorities, history, and contextual factors.

<sup>3</sup> Conditional cash transfers are periodic monetary benefits to poor households that require recipients to comply with specific requirements to encourage investments in human capital (such as school attendance, immunizations, and health checkups). Unconditional cash transfers provide cash without particular co-responsibilities for recipients. According to World Bank data, 41 countries in Africa had unconditional cash transfer programs in place in 2015, almost double the number in 2010. According to IDB analysis, 17 Latin America and Caribbean countries had CCTs in 2013 (Robles and others, 2015).

social protection programs, including design and implementation details, as well as monitoring and evaluation.



4. **This paper looks at seven LICs where the IMF was involved in social protection during 2006–15 in the context of surveillance as well as programs and/or technical assistance (TA).** The case study countries are: Burkina Faso, Mozambique, Senegal, Zambia, Georgia, Honduras, and Mongolia. These countries were chosen to be a representative sample based on geography as well as with a requisite level of engagement in social protection-related issues so as to assess and learn from the IMF’s experience.

5. **The paper assesses the IMF’s involvement in social protection in light of the Fund’s mandate and role in social issues as interpreted by the Board and implemented by staff.** As noted in Abrams (2017), relevant Board guidance during the evaluation period did not identify social protection as a required area to be addressed in bilateral surveillance at the level of monetary, exchange rate, fiscal, and financial sector policies; staff were expected to exercise their judgment and to address the issue if it was considered to be macro-critical or potentially so. Similarly, Board guidance allowed for conditionality pertaining to social protection in IMF-supported programs if staff judged such conditionality to be critical for the success of the program.<sup>4</sup> Expertise from the World Bank or other institutions was to be relied upon as far as possible. At the same time, Management, in different degrees, directly called for staff to find ways

<sup>4</sup> For LIC programs, key social and other priority spending aimed at poverty reduction and growth was to be identified by the Poverty Reduction Strategy Paper (PRSP) process and—since 2010—monitored through explicit targets, “typically an indicative floor on social or other priority spending, whenever possible” (IMF, 2012a). In 2014, the guidance added that for all programs, “if feasible and appropriate, any adverse effects of program measures on the most vulnerable should be mitigated” (IMF, 2014g).

to ensure that vulnerable segments of the population were shielded from any adverse impact of adjustment, particularly in the context of IMF-supported programs. All this would be expected to generate significant variability in the extent and nature of IMF involvement in individual countries. Examining that variability and, as far as possible, the factors behind it, is a key part of the evaluation.

**6. The country cases focused on three major sets of questions.**

- (i) Why did the IMF become involved in social protection? Specifically, was IMF involvement consistent with the internal guidelines, i.e., prompted by a macro-critical issue and/or the need to protect the vulnerable from adverse effects of program measures?
- (ii) What was the IMF's contribution in the area of social protection, especially vis-a-vis other institutions that were active in that area (if any)? For example, what specific advice or assistance did IMF staff offer? In countries with an IMF arrangement, what kinds of measures were incorporated to mitigate the effects of adjustment on the vulnerable? Did staff recommendations for and/or conditionality on social protection policies and programs reflect country-specific knowledge of institutional frameworks and implementation capacity? Were they supported with analysis such as poverty and social impact analysis, and were they embedded in the macroeconomic framework? Were they consistent with the advice of other institutions?
- (iii) How effective was the IMF's involvement, including its collaboration with other institutions (if relevant)? Did staff follow up on the outcomes?

**7. The country cases were based on information from desk reviews and interviews.**

Desk reviews analyzed policy documents and guidelines issued to staff, Article IV consultation staff reports and Selected Issues Papers (SIPs), other surveillance and program documents, technical assistance (TA) reports, and advocacy and outreach items. Interviews were conducted with staff from the IMF and other institutions, current and former government officials and other stakeholders.

## **II. MAIN FINDINGS**

### **A. Why Did the IMF Get Involved in Social Protection?**

**8. In the early part of the evaluation period, the IMF's engagement in LICs was underpinned by a commitment to assist member countries in their attainment of the 2015 Millennium Development Goals (MDGs).** Hence, it tended to recommend increases in social spending in general rather than social protection of the most vulnerable in particular. Poverty Reduction and Growth Facility (PRGF)-supported programs often included an explicit spending floor on nationally-defined poverty-reducing (or "pro-poor") social expenditures, monitored as a quarterly indicative target. But given that the focus of the MDGs was on the improvement of

aggregate social indicators, social protection was not an explicit feature of most PRGF-supported programs.

9. **The impact of the food, fuel, and financial crises beginning in 2008 drew the IMF's attention to the need for greater social protection in LICs.** Social unrest triggered by high food and fuel prices and recession in the aftermath of the global financial crisis prompted the IMF to advise LICs, particularly in Sub-Saharan Africa, to expand their social safety nets. The effects of these crises also contributed to an updating of the IMF's LIC facilities. In 2009, the PRGF was replaced by the Poverty Reduction and Growth Trust (PRGT). The Board agreed that PRGT-supported programs should safeguard and, where possible, increase social spending. PRGT-supported programs were therefore required to include explicit program targets, typically an indicative floor, for social and other priority spending, while the definition of what comprised such spending was to be determined by countries in keeping with national poverty reduction strategies.<sup>5</sup>

10. **The IMF was also motivated by increased multilateral efforts regarding social protection across countries, including LICs.** By 2010, the IMF had signed on to collaborate with the ILO and UNICEF on the Social Protection Floor and other initiatives; and by the end of the evaluation period, the IMF announced its commitment to the UN Sustainable Development Goals, which call for, inter alia, implementing nationally appropriate social protection systems and measures for all.<sup>6</sup>

## **B. What Did the IMF Contribute?**

11. **Generally, the IMF's advice on social protection in LICs was at a generic level.** This study finds that, in keeping with the established division of labor between the IMF and World Bank, IMF staff typically provided few details on how social protection might be strengthened or what an adequate social safety net should look like (beyond being "well targeted"), except in limited cases where more specialized TA was provided. In nearly all instances, the World Bank and/or other donor institution was already involved in assisting relevant country authorities (usually the social welfare ministry or equivalent) in setting up or expanding the social safety net, including program design and implementing means-testing mechanisms. Interviews with IMF and World Bank staff usually revealed close cooperation in this area, especially in the field. Thus, Fund staff were aware of and supported the Bank's work in this area although often they did not report on these details in Board documents.

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<sup>5</sup> This requirement became effective in January 2010 and applies to the Enhanced Credit Facility (ECF), Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF) (when the authorities seek to establish a track record for repeated RCF use or to move towards an ECF), as well as the Policy Support Instrument (PSI) and Staff Monitored Program.

<sup>6</sup> See IMF Factsheet on the IMF and the Sustainable Development Goals available at [www.imf.org/external/np/exr/facts/pdf/sdg.pdf](http://www.imf.org/external/np/exr/facts/pdf/sdg.pdf).

12. **The IMF’s key contribution to strengthening social protection in LICs was to serve as an advocate.** This role was not trivial. While the World Bank and/or other development partners may have worked with a relevant ministry on the practicalities of improving the social safety net, it was the IMF that had a direct line to the more powerful finance ministry; and its advocacy among central ministries was important for advancing the social protection agenda. IMF staff interviewees with experience working on African LICs noted that finance ministers were sometimes unenthusiastic about cash transfers and skeptical that targeted schemes could work, and therefore there was a role for the IMF to help by speaking in favor of social safety nets.<sup>7</sup> Staff interviewees from the World Bank and other institutions (such as UNICEF and the ILO) noted that at times they relied on IMF staff (particularly resident representatives) for access to finance ministries and that recommendations from the IMF tended to carry more weight with powerful decision-makers within the government.

13. **Reflective of the IMF’s core expertise, staff’s social protection work was typically focused on finding fiscal space in the macroeconomic framework to accommodate related social expenditures.** Given the lack of well-established social protection systems in most LICs, in identifying expenditures that could be reduced to make room for enhancing the social safety net, IMF staff often zeroed in on energy price subsidies. In many LICs, staff reckoned that explicit and implicit subsidies for fuel products and electricity constituted a heavy drain on the budget and replacing these subsidies with targeted cash transfers could more than pay for an adequate social safety net.<sup>8</sup> Thus, a frequent theme of IMF advice—which was also in line with the World Bank’s approach—was to reduce and eventually abolish energy price subsidies to create fiscal space for a strengthened social safety net.<sup>9</sup> In some cases (e.g., Honduras, Senegal), this recommendation was translated into structural conditionality in an IMF-supported program.

14. **Staff used poverty and social impact analysis (PSIA) to demonstrate that existing (untargeted) energy price subsidies were regressive and an inefficient way of helping the poor.** The idea of replacing untargeted energy subsidies with targeted social transfers often met with resistance. While acknowledging that such subsidies were costly, country authorities contended that they had a social protection component and were politically difficult to remove. As a counterargument, staff provided country-specific analysis to show that existing energy price subsidies were regressive and an inefficient way of helping the poor. Even though the IMF’s PSIA unit was eliminated in 2008 during the IMF’s downsizing initiative, this expertise was mainstreamed within the Fiscal Affairs Division (FAD) and available when needed. This study

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<sup>7</sup> See the staff interview in “Social Safety Nets Key to Helping Poorest in Burkina Faso,” *IMF Survey*, February 11, 2013. The evaluation heard similar views from other staff members.

<sup>8</sup> While direct price subsidies for staple foods were also common in many LICs, these expenditures tended to be much smaller compared to energy subsidies.

<sup>9</sup> See Feltenstein (2017) for examples from Bangladesh, Bolivia, The Gambia, Ghana, and Togo.

found good use of PSIA by FAD TA missions to analyze the distributional impact of existing energy subsidies in Burkina Faso, Honduras, Mozambique, and Senegal.

15. **The IMF's focus on fiscal sustainability drove staff's push for greater targeting of social protection under IMF-supported programs to the most vulnerable.** Where staff did manage to carve out fiscal space for social protection, the amounts were typically modest—under 1 percent of GDP, for example. Energy price subsidy reforms were often promoted by the IMF to finance better targeted social protection while also seen as necessary in their own right for improving allocative efficiency and ensuring fiscal sustainability. The IMF also actively addressed the viability of public pension schemes—in Honduras and Zambia, for instance—because of the risk they posed to the sustainability of public finances.<sup>10</sup> In Georgia and Mongolia, the IMF urged the authorities to shift from universal to targeted social transfers; and in the case of Mongolia, lending assistance was conditional on these reforms.

### C. How Effective Was the IMF's Involvement?

16. **The IMF's advocacy role in promoting social protection was rated highly by its partners.** Staff interviewees from other institutions including the World Bank, UNICEF, and the ILO indicated that the IMF's involvement in social protection brought greater visibility to the issue within the country and, more importantly, helped to secure budgetary funding for reform efforts. In Burkina Faso and Mozambique, for instance, the resident representatives played important behind-the-scenes roles helping to persuade the government to devote more attention and commit more resources to expanding social safety nets. While some external commentators have criticized the IMF for paying "lip service" to social protection by way of the now-ubiquitous phrase "... while protecting the most vulnerable in society," development partners and civil society organizations (CSOs) interviewed for this evaluation said that strong advocacy by the IMF for providing budgetary resources for social protection was sufficient and appropriate. Many of them, in fact, suggested that the IMF should stop there and not go further to recommend "well-targeted" policies, given differences in views on the appropriate design and targeting.

17. **IMF staff worked closely on social protection with staff of the World Bank and other institutions in the field.** IMF resident representatives in LICs were in frequent contact with their counterparts in other institutions and aid agencies. They were usually well informed about (and sometimes closely involved in) social protection initiatives in the country, even if not all of their work on these issues filtered into formal staff reports. In Burkina Faso, for example, the IMF resident representative worked closely with UNICEF counterparts under a pilot IMF-UNICEF initiative to improve social protection. In Mozambique, the IMF country team worked closely with

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<sup>10</sup> The IMF was not the lead institution on pension reform in either case. In Zambia, it was the World Bank and in Honduras, it was the IDB and World Bank jointly.

the ILO social protection specialist to successfully persuade the government to adopt a social protection floor.

**18. The IMF's efforts to promote better targeting of social protection had mixed results.** IMF staff generally underestimated the time and complexities involved in developing and implementing means-tested benefit programs and instruments (in particular, beneficiary registries), as well as administrative and political challenges.

- Energy price subsidy reform was (and remains) a politically charged issue in many LICs and the IMF's goal to replace energy subsidies with "a better targeted social safety net" was seldom achieved as originally envisaged. The IMF generally relied on the World Bank for the design and implementation of social safety nets. In some cases, IMF staff did not follow up consistently on the development of a better targeted social safety net to accompany price subsidy reform, which some mission chiefs saw to be outside their domain. In almost all cases for this study, country authorities chose to retain certain subsidies such as those on fuel products commonly used by the poor, lifeline electricity tariffs for low-usage consumers, and public transportation vouchers, while IMF staff usually did not object. Further, staff were not in a position to assess the overall outcome of efforts to replace energy price subsidies with a better targeted social safety net. This would have required an analysis of a number of variables, such as how different measures (e.g., price subsidies and cash transfers) complemented or substituted for each other; the relative efficiency in reaching different types of vulnerable consumers (e.g., urban versus rural); and relative sustainability.
- In some cases, the IMF's attempt to move to targeted schemes met with not only political but also cultural resistance. Some staff interviewees recalled instances where it was difficult to convince authorities in the face of a lack of ownership or interest, while some authority interviewees noted that the IMF tried to replicate approaches from other countries that did not fit their local context. In Mongolia, program conditionality calling for a shift from universal benefits to more targeted social transfers did not have lasting effects due to prevailing cultural norms and preferences.

**19. Social spending floors in LIC programs were generally an ineffective means for safeguarding social protection expenditures.** Social spending floors (indicative targets) were found in all the case study countries with concessional arrangements during the evaluation period. However, the spending categories usually were defined very broadly to include capital and/or current expenditures of a slew of line ministries. Staff interviewed for this evaluation were well aware of the shortcomings of using social and other priority spending targets as a proxy for social protection and the box-checking nature of the monitoring exercise. In the case of Mozambique, staff simply stopped monitoring the indicative target after 2013, explaining that it was basically of no use in protecting critical social spending; however, no new indicator could readily be found.

20. **However, some good practices in safeguarding social protection expenditures were identified.** For example, in the 2010 program supported by the Stand-By Arrangement (SBA)/Standby Credit Facility (SCF) in Honduras, staff supported the new narrower spending floor indicator proposed by the authorities (covering the flagship CCT program and other specific social protection programs) and included an adjustor in the program whereby a portion of any excess tax revenue over the projected amounts would be allocated to such spending. In the case of Georgia, even though no social spending floor was included in the 2008 SBA, staff quantified and tracked the government's social assistance spending every quarter and drew the authorities' attention to the effect of proposed public spending cuts on social assistance recipients.

### III. COUNTRY CASES

#### A. Burkina Faso

21. **Burkina Faso had a succession of IMF-supported programs during the 2006–15 evaluation period.** These included a PRGF arrangement from 2007 to 2010, followed by two consecutive three-year Extended Credit Facility (ECF) arrangements beginning in 2010 and 2013, respectively.<sup>11</sup> The World Bank was also very active in Burkina Faso during this period, with more than 50 projects in a range of areas such as health, education, and infrastructure investment (roads and water supply), and six Poverty Reduction Support Credit programs (amounting to more than US\$500 million) including to strengthen social protection and enhance public finance management. The Bank and the Fund shared responsibilities in public financial management and private sector development.

22. **Fund-supported programs in Burkina Faso were geared towards poverty reduction.** The country ranked among the world's poorest, with most of its population living in rural areas and relying on subsistence agriculture. Prior to the evaluation period, a primary objective of the 2003–06 PRGF-supported program was to support country efforts to reach the MDGs; but by the end of the program, the poverty rate had declined only marginally and progress towards the MDGs was judged to be slow (IMF, 2007f).

23. **The 2007 PRGF-supported program introduced a quarterly indicative target for "poverty-reducing social expenditures,"** defined by the authorities as spending for over ten ministries including those responsible for social protection (IMF, 2007c).<sup>12</sup> The authorities committed to increase such expenditures from the 2006 level of CFAF 173 billion (5.5 percent of GDP) to CFAF 204 billion (5.9 percent of GDP) in 2007. Per the division of responsibilities with the

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<sup>11</sup> The PRGF was replaced by the ECF in 2010.

<sup>12</sup> Poverty-reducing social expenditures were defined by the authorities as "all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment" as well as "rural roads and HIPC resources for infrastructure spending and for the Justice Ministry and the Ministry of Economy and Development" (IMF, 2007c).

World Bank set out in the PRGF guidelines, IMF staff did not delve into why the level of social spending was low, which specific priority expenditure components were inadequate, or how to protect the most vulnerable. Rather, the IMF's focus was on improving the business environment and increasing private investment to boost growth, which in turn was expected to reduce poverty (IMF, 2007c). The indicative target on social expenditures was met after a few revisions to the program and improvements in the tracking of poverty-reducing expenditures.

24. **The IMF took an active role in advising the authorities on measures to mitigate the impact of the 2007–08 food and fuel price shocks.** The price shocks had led to demonstrations and general strikes in the first half of 2008, and the government had responded by adopting temporary measures such as suspending the automatic oil pricing mechanism, exempting a few basic products from customs duties and the value-added tax (VAT), and providing food aid using food reserves.<sup>13</sup> The second PRGF review mission did not oppose these measures, attributing the policy response to the lack of well-developed social programs (IMF, 2008e). FAD staff, with the help of the IMF resident representative in Burkina Faso, assessed the effectiveness of the measures by carrying out a PSIA in 2008. The study concluded that the measures were “not well-targeted, benefiting the wealthier groups of the population rather than the poor” and recommended “[m]ore effective policy measures, such as a conditional cash transfer system, which [was] already being implemented on a pilot basis in urban areas” (Arze del Granado and Adenauer, 2011).<sup>14</sup> According to staff interviewees, the authorities were highly appreciative of the PSIA.

25. **The 2008 PSIA helped to focus the subsequent dialogue on social protection.** The third PRGF review mission used the results of the PSIA to discuss with the authorities measures to reach the poor more effectively, such as: targeting through the provision of school lunches, maternity-related health services, and cash transfers for HIV/AIDS-affected families; and expanding the donor-funded food voucher pilot program then being administered in Ouagadougou and other cities (IMF, 2009b). For the longer run, staff encouraged the authorities to consider developing a CCT system. The authorities responded positively to staff's recommendations and committed to follow up with the IMF and the World Bank on “the ongoing analysis of further policy measures for protecting the poorest households from food and energy price inflation” (IMF, 2009b). A 2010 staff report indicated that poverty reduction measures were intensified under the PRGF-supported program and that “key pro-poor programs included school lunches, financial support to the elderly, and a cash transfer program for the two major cities, implemented in collaboration with Burkina Faso's development partners” (IMF, 2010e).

26. **During the three-year ECF arrangement approved in 2010, the IMF's role in social protection was largely confined to voicing support for the authorities' efforts in that area.**

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<sup>13</sup> The automatic pricing mechanism for petroleum products was established in early 2001 to adjust domestic retail prices monthly in line with international prices. To mitigate the adverse effects on poor and vulnerable households, subsidies were retained for butane gas and cooking oil.

<sup>14</sup> No TA report was produced. The study was published later as an IMF Working Paper (Arze del Granado and Adenauer, 2011).

Like the PRGF arrangement before it, the 2010 ECF arrangement included an indicative target on poverty-reducing expenditures;<sup>15</sup> program reviews focused mainly on increasing expenditures for education and health to reach the MDGs. In a separate effort, the authorities initiated the preparation of a social protection strategy, in collaboration with UNICEF, the World Bank and other development partners, with participation by IMF staff (Box 1). A new Poverty Reduction Strategy Paper (PRSP) was adopted in December 2010 which included the development of a social protection system as a policy objective.

**Box 1. Burkina Faso: IMF-UNICEF Collaboration on Social Protection in 2010–11**

Burkina Faso was one of 11 countries selected for a pilot IMF-UNICEF collaboration initiative launched after the food, fuel, and financial crises in 2008. The collaboration entailed enhanced staff contacts in the field and in-depth discussions on protecting core social spending in the country.

Under the chairmanship of UNICEF, all relevant donor representatives (including the IMF resident representative) met regularly to exchange information on respective social protection activities and the progress on dialogue with the authorities on social protection issues. At that time, the IMF had just conducted a PSIA of the government's policy measures in response to the 2007–08 food and fuel price shocks, and the World Bank had just completed a comprehensive report on social safety nets in Burkina Faso. The working group's input was reflected in the PRSP adopted by the authorities in December 2010.

Discussions between IMF and UNICEF in-country staff centered on reducing healthcare costs (e.g., exemptions to cover treatment of children under the age of five), developing a National Social Protection Policy, initiating a cash transfer program, and improving the equity of existing food and fuel subsidies. According to internal memos by and interviews with IMF and UNICEF staff, the "pro-active partnership" was instrumental in integrating social protection directly into the IMF's agenda, creating a direct line to the Minister of Finance and enabling advocacy for a larger deficit ceiling for increased poverty spending which was formally expanded from 5.7 percent to 6.5 percent in 2010–11.

However, there was seemingly no link between the IMF's country work and the pilot initiative. IMF surveillance and program documents during that period did not make any references to the collaboration with UNICEF or its outcomes.

**27. The IMF did not provide much policy advice on social protection as new shocks affected Burkina Faso in 2011 and 2012.**

- In the first half of 2011, the escalation of a crisis in neighboring Cote d'Ivoire caused disruptions in the power supply; global food and fuel prices spiked again; and there was social turmoil as students, labor unions, cotton producers, opposition parties, and the armed forces took to the streets for various reasons. In response, the government introduced mitigating measures such as a reduction in the prices of rice, sugar, and cooking oil for three months and higher subsidies on petroleum products for vulnerable groups (cooking gas) and on fuel oil used by the power company. The second ECF review mission called for "increased caution and vigilance ... in executing the 2011 budget" in the context of the volatile social situation and rising fuel and food prices (IMF, 2011h). The 2011 Article IV and third ECF review mission urged the authorities to "maintain

<sup>15</sup> Poverty-reducing social expenditures were defined in the same way as in the 2007 PRGF-supported program.

revenue mobilization efforts, and to prepare a medium-term revenue strategy to underpin their objectives under the PRSP” which included plans to “intensify poverty reduction measures and prepare social protection systems” (IMF, 2012d).

- In 2012, a drought in the Sahel caused serious food shortages, and conflict in Mali led to an influx of refugees into Burkina Faso. The government introduced measures to address food security, such as providing food at below-market prices in public local shops; distributing food and cash transfers to the most vulnerable; providing cash or in-kind payments in exchange for work; setting up early warning systems to monitor food shortages in the provinces; and distributing high yield seeds and subsidized inputs for the 2012/13 grain harvest. Concerned that resources committed to achieving the MDGs would be diverted to meet crisis spending needs, the IMF approved the authorities’ request for an increase of access under the existing program in June 2012.

28. **The IMF reported that it had played a strong role in helping the poor in Burkina Faso.** In a February 2013 *IMF Survey* interview, staff said the Burkinabe authorities had asked for help from the IMF (and the World Bank) to “design a more comprehensive and cohesive social safety net system,” which would “identify the poor directly, then transfer monies to individuals in need, rather than disbursing funds through universal subsidies.”<sup>16</sup> The 2013 Ex Post Assessment of Longer-Term Program Engagement (EPA) Update concluded that the 2007 PRGF and 2010 ECF programs had “met key objectives of the authorities’ poverty reduction and growth strategy” and that poverty-reducing social expenditures had risen as a share of GDP from 5.5 percent in 2006 to an estimated 7.5 percent in 2012, even while it noted that the number of people affected by hunger had increased over the last two decades (IMF, 2013c). The EPA Update concluded that “the factors behind the challenge to deliver more uniformly strong gains in poverty reduction under recent IMF-supported programs require[d] further study” (IMF, 2013c).

29. **By 2013, IMF staff began to promote “inclusive growth” in Burkina Faso.**<sup>17</sup> In May 2013, IMF staff and the authorities co-hosted a stakeholder conference on the topic in Ouagadougou, and identified priority policy areas as infrastructure and human capital investment and reforms to improve the business climate. The seventh ECF review mission acknowledged that progress in reducing income poverty had been “elusive” despite sustained high growth, and called for “transforming high growth into more inclusive growth;” suggested that agriculture—the cotton sector in particular—had served as an “effective social safety net” by providing employment for the rural population; and supported the authorities’ measures to “tighten social safety nets” and create more diverse jobs through education and job training (IMF, 2014b).

30. **Inclusive growth was a key plank of the successor ECF-supported program approved at the end of 2013.** The program’s stated objectives were to support the authorities’ efforts

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<sup>16</sup> “Social Safety Nets Key to Helping Poorest in Burkina Faso,” *IMF Survey*, February 11, 2013.

<sup>17</sup> In 2011, the Fund adopted an “inclusive growth” agenda to be incorporated in its work program across the membership. This agenda was not limited solely to Burkina Faso.

toward fiscal sustainability, macroeconomic stability and “a broader distribution of the dividends of high growth” (IMF, 2014b). In the face of mounting social pressure for more redistribution of public resources, the government had introduced a large package of inclusive growth spending measures (of 1 percent of GDP) in September 2013, including spending on new university infrastructure, regional shops offering social prices for staple goods, public works programs, housing allowances for public workers, as well as (a relatively smaller amount on) transfers to vulnerable segments of the population (IMF, 2014b; 2014e). The documentation for the ECF program request did not offer an assessment of the package composition; instead, it stated only that the program framework accommodated the supplemental spending in 2013 as well as additional spending to expand coverage of the social safety net over the medium term (IMF, 2014b). Staff advised the authorities to communicate to the public that the current and planned increases in social spending were the “quid pro quo” for eliminating fuel subsidies and reinstating the automatic pricing mechanism for petroleum products (IMF, 2014b).

31. **As in previous programs, the indicative target for poverty-reducing social expenditures in the 2013 ECF-supported program was broadly defined.**<sup>18</sup> Staff attributed shortfalls in poverty-reducing spending in the first three reviews partly to political events. The 2016 Article IV and sixth ECF review mission reported that poverty-spending targets were “universally missed in 2014 but the downward revision of the targets in 2015 enabled them to be met throughout 2015, albeit on occasion by narrow margins” (IMF, 2016d).

32. **By the end of the evaluation period, staff reports contained very little on social protection.** The staff report for the 2013 ECF program request indicated that a National Social Protection Plan had been launched in 2012 “providing targeted income protection, including via cash transfers” (IMF, 2014b), but the 2014 Article IV and first ECF review mission reported that the plan had “yet to take off” (IMF, 2014e).<sup>19</sup> The fourth and fifth ECF reviews reported that there had been “good progress ... in social protection” under the government’s 2011–15 PRSP, although the examples provided did not all specifically relate to social protection.<sup>20</sup> Social

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<sup>18</sup> Poverty-reducing social expenditures were defined as “all spending categories for the following ministries: Promotion of Women and Gender Issues; Health; Social Action and National Solidarity; National Education and Literacy; Agriculture and Food Security; Animal Resources; Environment and Sustainable Development; Youth, Professional Training and Employment including the labor and social security components of Civil Service, Labor, and Social Security; Water, Hydraulic Improvements, and Sanitation” as well as “spending on rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for Infrastructure, Integration, and Transport; and HIPC expenditures only for Communication; Justice and Human Rights; Economy and Finance; and Mines, Quarries, and Energy ministries” and “the allocation under section 98 ‘transfers to subnational governments’ from Health, Agriculture and Food Security as well as National Education and Literacy” (IMF, 2014b).

<sup>19</sup> In 2014, the World Bank approved a US\$55 million Social Safety Net project designed to provide income support to poor households via cash transfers and to lay the foundations for a basic safety net system in the country. No mention of this was made in IMF staff reports.

<sup>20</sup> The examples included programs to support employment creation and vocational training, improvements in education and healthcare provision (including “free provision of certain medications and care”), and improved access to water and sanitation facilities (IMF, 2016b).

protection was not one of the three pillars under the 2016–20 PRSP which focused on economic governance, human capital development, and structural transformation of the economy and private sector development. The 2016 Article IV staff report cited the World Bank’s Country and Policy Institutional Assessment of Burkina Faso showing it was “strong in terms of ... policies for social inclusion” but needed to improve “social protection and labor market regulations,” without any elaboration (IMF, 2016d).<sup>21</sup>

## B. Mozambique

### 33. **In Mozambique, the IMF covered social protection issues during the evaluation period in the context of poverty reduction, subsidy reform, and the Social Protection Floor.**

The IMF provided financial support through a three-year PRGF arrangement from 2004 to 2007 and a one-year arrangement under the Exogenous Shocks Facility (ESF) from 2009 to 2010; a two-year arrangement under the SCF was approved at the end of 2015. In between, and at times overlapping with the financing arrangements, Mozambique had three three-year programs under the Policy Support Instrument (PSI) beginning in 2007, 2010, and 2013, respectively.<sup>22</sup> The World Bank, UNICEF, the ILO and many donors were also actively engaged in Mozambique during the evaluation period. Between 2006 and 2015, the World Bank completed nine Poverty Reduction Support Credit programs and led the policy dialogue on public expenditure management, sectoral structural reforms, civil service reform, as well as on social safety nets. The ILO has supported the expansion of the social protection system in Mozambique as part of its Decent Work Agenda since 2005.<sup>23</sup>

### 34. **At the beginning of the evaluation period, the IMF’s main concern on the social front was achieving sustained poverty reduction under the MDGs.**

At that time, the country was midway through a three-year PRGF arrangement that had begun in July 2004. Mozambique was considered on track to meet some of the MDG targets (e.g., poverty, infant and maternal mortality, access to safe drinking water) but not others. The IMF urged the authorities to reallocate additional resources from the Multilateral Debt Relief Initiative and aid inflows to expand the absorptive capacity of “the most economically (infrastructure) and socially productive (education, health,

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<sup>21</sup> Burkina Faso scored 3.6 (out of 6) in the category of “policies for social inclusion and equity” in 2015, down from 3.7 in 2012, but better than the 2015 average for the West African Economic and Monetary Union (WAEMU) and for Sub-Saharan Africa (3.2 in both cases). Within the category of policies for social inclusion and equity, Burkina Faso scored 3.0 on “social protection and labor” in 2015, down from 3.5 in 2012, but better than the 2015 average for WAEMU (2.8) and for Sub-Saharan Africa (2.9) (IMF, 2016d).

<sup>22</sup> The PSI is designed for LICs that may not need IMF financial assistance but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks.

<sup>23</sup> Mozambique is a flagship country for the One UN Initiative, which promotes increased coordination between clusters of UN agencies. Since 2007, the ILO, UNICEF, and the World Food Program (WFP) have jointly collaborated with the authorities to develop and expand the social protection system.

HIV/AIDS) areas” to help achieve the MDGs (IMF, 2006f). But as with the 2004 PRGF program, the 2007 PSI did not contain any conditionality on priority social spending.

35. **The IMF (together with the World Bank) facilitated the authorities’ efforts to mitigate the impact of food and fuel price shocks in 2008.** Early that year, large domestic fuel price increases had led to higher transportation fares, triggering riots in a number of cities. The government revoked the fare increase and subsidized fuel for minibuses operators, at a cost of 0.15 percent of GDP. The second PSI review mission characterized the response as a “temporary and well targeted transportation subsidy” and revised the fiscal framework to accommodate this expenditure (IMF, 2008c). To assist the government on how to mitigate the social impact of further increases in oil and food prices, IMF and World Bank staff organized a high-level meeting in Maputo in May 2008 to discuss best-practice policy responses. Broad agreement was secured at the meeting to avoid sweeping price subsidies and tariff reductions in favor of “well targeted subsidies and higher safety net cash transfers and measures to raise agricultural production” (IMF, 2008c). In June 2008, as oil import prices increased again, the government reduced fuel-related taxes to limit pressures on domestic prices and launched the Food Production Action Plan to boost domestic food output. These measures were largely financed by reductions in non-priority spending and additional World Bank budget support.

36. **The IMF also provided financial assistance to cushion the impact of the global financial crisis and economic slowdown on Mozambique.** Concerned that the global recession would lead to a balance-of-payments deterioration and shortfalls in aid disbursements, IMF staff encouraged “somewhat more expansionary fiscal and monetary policies” in 2009 (IMF, 2009e), and in July of that year the Board approved a 12-month, SDR 114 million (about US\$176 million) arrangement under the ESF.<sup>24</sup> The staff report referred to “the recent adoption of a new law on social protection” and noted that the authorities intended to strengthen the social security and supplementary pension system with the World Bank’s support, without going into detail (IMF, 2009g).

37. **An indicative target (floor) for “priority social spending” was set in the PSI arrangement approved in mid-2010, but it included little by way of social protection spending.** Priority social spending was defined by the authorities as total spending in seven sectors: (i) education; (ii) health; (iii) HIV/AIDS; (iv) infrastructure development; (v) agriculture; (vi) rural development; and (vii) governance and the judicial system.<sup>25</sup> It was envisaged that such spending would be raised to 19 percent of GDP in 2010 (from around 17 percent during 2007–09), equivalent to about 62 percent of total spending.

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<sup>24</sup> The ESF is designed to provide policy support and financial assistance on concessional terms to eligible LICs facing temporary exogenous shocks. The Board discussed the authorities’ request for an ESF arrangement at the same time as the 2009 Article IV consultation and the fourth review under the 2007 PSI.

<sup>25</sup> Based on program categories in the government’s PRSP (PARPA II) covering the period 2005–09.

38. **The IMF subsequently extended its involvement in social protection during the 2010 PSI arrangement, when social stability was threatened by the second round of food and fuel price increases.** The first PSI review mission arrived shortly after a string of violent street riots had broken out in major cities in September 2010 in protest against increases in administered prices for bread, water, and electricity. Food prices had risen by 25 percent in one year and domestic fuel prices by more than 50 percent due to the removal of fuel subsidies and the depreciation of the exchange rate (Box 2). In response, the authorities introduced a bread subsidy, rescinded the tariff increases for electricity and water for low-usage households, and maintained subsidies for urban transportation. Staff supported the measures, noting that they were “better targeted than the blanket fuel subsidy and believed to benefit the most vulnerable segments of the population” (IMF, 2010h). At the same time, staff explicitly urged the authorities to “consider expanding the existing social safety nets in a well-targeted way,” (IMF, 2010h) suggesting that doing so could enhance long-term growth, and indicating that development partners were ready to assist them in this undertaking.

39. **Achieving “inclusive growth” became the dominant short- and medium-term policy priority for the country.** Staff analysis confirmed that growth in Mozambique had not been as pro-poor as in other high-growth Sub-Saharan African countries and that it had become less pro-poor over time (IMF, 2011f). In February 2011, the authorities organized a three-day high-level conference together with the IMF, the World Bank, and other development partners, to discuss how to broaden the country’s development strategy to make economic growth more inclusive. The discussions were reflected in the new PRSP (*Plano de Acção para Redução da Pobreza*, or PARP) for 2011–14, which was adopted in May 2011. Fund and Bank staff especially welcomed the PARP’s “strong commitment to developing more focused and better-designed social protection programs in substitution of ad-hoc measures adopted in response to recent exogenous shocks” (IMF, 2011i). Consistent with the PARP’s focus, the definition of “priority social spending” (indicative target) in the PSI was later expanded to include social action, labor and employment (IMF, 2012c).

#### **Box 2. Mozambique: Fuel Subsidies**

Mozambique meets all of its fuel consumption needs through imports. Fuel imports are controlled by the government through a central tender to suppliers. A decree set in 2006 (and reviewed in 2012) specifies an automatic pricing mechanism to adjust the retail price every six months, following a market-based formula.

The automatic pricing mechanism was suspended at the peak of the food and fuel price shock in February 2008 when the government introduced an adjustment factor that kept fuel prices below market prices for social reasons. In April 2009, the government locked pump prices and asked fuel importers to continue to provide fuel below market prices.

In 2010, the government gradually raised prices to market levels for all petroleum products except for diesel, which continued to be subsidized for retail consumption (but not for megaprojects, construction, public works and other large consumers). Fuel prices were raised again in April 2011.

40. **Staff advised the authorities to create fiscal space for a sustainable social protection system by eliminating fuel subsidies.** The authorities decided to replace the emergency subsidies introduced in the wake of the September 2010 unrest with new basic food and transport voucher programs for the urban poor in mid-2011. The IMF mission expressed concerns about the level of coverage, administrative obstacles and costs of the proposed voucher programs and recommended that the authorities “seek the expertise of development partners and other stakeholders to get any expansions to the social safety net right, so as to truly target the most vulnerable and contain risks to social peace” (IMF, 2011f). The mission emphasized that removing the fuel subsidy would create a unique opportunity to redirect public resources towards “perennial and better targeted social protection schemes” and urged the authorities to “seize this momentum to become a ‘front runner’ in sustainable social protection in Sub-Saharan Africa” (IMF, 2011f).

41. **Staff collaborated with the ILO and other partners to advocate for a Social Protection Floor for Mozambique** (Box 3 and Zhou, 2017). A joint pilot exercise was initiated in 2011 which involved: (i) a World Bank-led review of existing social security programs and expenditure;<sup>26</sup> (ii) a costing exercise of different scaling-up options, led by the ILO; and (iii) an IMF-led assessment of available fiscal space consistent with the macroeconomic framework; and (iv) a simulation of the impact of policy options on the poverty gap, led by UNICEF (IMF, 2011f). IMF staff (together with the ILO, UNICEF, and the World Bank) actively advocated for expanding social protection programs, including addressing the full Cabinet at one point. According to IMF, ILO, and World Bank staff interviewees, despite initial skepticism, the government ultimately agreed to roll out a basic social protection initiative (Social Protection Floor) in 2012 by revamping the cash transfer system and introducing a labor-intensive public works program in urban and rural areas. The plan was to increase the number of beneficiary households from 309,000 in 2012 to 815,000 by 2014 (IMF, 2012c). Staff estimated that this would require an annual resource allocation of 0.4-0.8 percent of GDP over the subsequent few years—an amount well within the projected fiscal space available and thus consistent with a sustainable medium-term fiscal framework and macroeconomic stability (IMF, 2012c). Staff also noted that further expansion of the social protection floor over the longer term would need to compete with other government priorities such as infrastructure investment.

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<sup>26</sup> The World Bank’s 2012 Social Protection Assessment for Mozambique found “major gaps”: the major social assistance programs and the pension plan for the private sector had limited coverage, the targeting accuracy of programs for the poor was weak, and the major programs were not cost-effective (World Bank, 2012). Taking into account the government’s capacity and resources, the Bank recommended: (i) consolidating the basic social assistance system and implementing a labor-intensive public works program, improving processes and mechanisms to increase the cost-effectiveness of interventions, and deepening the social security reforms; (ii) introducing an unconditional transfer program for poor families with children; and (iii) evaluating the new programs, tightening the links between programs and services, and strengthening coordination mechanisms with non-governmental organizations.

### Box 3. Mozambique: The Social Protection Floor

The UN Social Protection Floor initiative, led by the ILO and the World Health Organization (WHO), pursues a normative approach to social protection among countries, including a basic set of essential social rights and transfers, in cash and in kind, to provide a minimum income and access to essential goods and services.

The development of a Social Protection Floor in Mozambique took place in two phases. The first phase, from 2005 to 2010, established a legal and strategic framework for basic social protection, enshrined in the *National Strategy for Basic Social Security* (ENSBB) adopted in April 2010. The second phase, beginning in 2011, focused on the implementation of the ENSBB to expand the coverage of eligible households through: (i) the Basic Social Subsidy Program (PSSB), providing cash transfers to extremely poor households with no adult able to work; (ii) the Productive Social Action Program (PASP) involving direct employment in public works projects and provision of training programs and other active labor market policies; and (iii) the Direct Social Action Program (PASD) providing short-term support to temporarily vulnerable households.

An ILO costing exercise explored alternative scenarios for expanding the coverage of the Social Protection Floor over a ten-year timeframe from 2012 to 2022. The simulations concentrated on the non-contributory pillar of a Social Protection Floor. Under the baseline scenario, it was estimated that the PASP, PSSB, and PASD could expand to cover over 1.5 million households by 2022 at a cost of 0.8 percent of GDP. Under more ambitious plans, e.g. with higher transfer amounts for the PASP and PSSB and scaling up the PASP in urban areas, it was estimated that these programs could reach almost 2 million households in 2022 at a cost of 1.6 percent of GDP (Cunha and others, 2013).

The projected costs from the ILO exercise were consistent with fiscal space projections provided by the IMF. IMF staff estimated that in total, 2.3 percent of GDP in additional fiscal space could be created during 2012–22—1.2 percent of GDP from net revenue increases and 1.1 percent of GDP from expenditure consolidation, “mainly through the phasing out of the costly and ill-targeted fuel subsidy”—for the government’s priority spending programs (Cunha and others, 2013).

42. **The IMF was not involved in designing the social protection floor; its role was to assess the available fiscal space and recommend that a portion be allotted to social protection programs.** It was agreed that the World Bank would take the lead through TA and project support for designing and putting in place the building blocks of the Social Protection Floor.<sup>27</sup> The IMF continued to monitor spending on the Social Protection Floor and on the broader group of priority social expenditures (an indicative target under the PSI) for the remainder of the PSI arrangement.<sup>28</sup> ILO and UNICEF staff and country authorities interviewed acknowledged the important role played by the IMF—particularly the mission chief and the

<sup>27</sup> In 2013, the World Bank approved a US\$50 million multi-year Social Protection Project for Mozambique to: (i) strengthen institutions and build capacity to support the implementation, monitoring, and evaluation of the national strategy for basic social security; and (ii) implement labor-intensive public works in rural and urban areas.

<sup>28</sup> The fifth review mission (in December 2012) reported that pilot programs for public works initiated in the second half of the year had reached about 9,600 households and that the authorities were aiming to reach some 900,000 beneficiaries and to raise the level of cash transfers towards the poverty line over the next few years. The sixth review mission (in May 2013) reported that the government had “substantially increased the budget for social protection” to 0.4 percent of GDP for 2013 (with additional World Bank funding for public works programs) and was committed to increasing the allocation further to 0.8 percent of GDP over the medium term (IMF, 2013b). With regard to priority social spending, the mission reported that the end-2011 and end-2012 indicative floors were exceeded and that spending for priority sectors would “continue to rise, from 55 percent to 58 percent of expenditures excluding net lending” (IMF, 2013b).

resident representative—in identifying fiscal space for the country to expand social protection and in helping to mobilize budget and donor support for social protection programs. According to the authorities, the number of beneficiaries under the Social Protection Floor programs increased by 23.5 percent between 2013 and 2014 (IMF, 2014c).

43. **The IMF’s focus on social protection dropped off after 2013.** The third three-year PSI approved in mid-2013 continued to include an indicative floor on priority spending which included spending on the Social Protection Floor. However, staff reports made no mention of the Social Protection Floor, and monitoring of the indicative target on priority spending stopped after the third review. Staff explained that the defined scope of priority spending limited the effectiveness of the indicative target to protect critical social spending: (i) it was too broad (comprising about 60 percent of total spending on average) and did not prioritize across spending within a given sector; (ii) monitoring was difficult due to the lack of comprehensive and timely data; and (iii) meeting the target depended on donor disbursements that were beyond the control of the authorities (IMF, 2015f). At the Board meeting for the fourth review, staff indicated that the indicative target would be redefined for the next review to reflect only the most important social programs. However, attention shortly after that turned to the deterioration in macroeconomic performance and no new priority spending indicator was identified, while almost no one on the Board seemed to notice the omission.<sup>29</sup>

44. **But the IMF continued to pursue the issue of fuel subsidy reforms to create fiscal space for priority expenditures.** During the 2010 PSI, the IMF had repeatedly urged the authorities to follow through on their commitment to eliminate “the ill-targeted and costly fuel subsidy” (IMF, 2011j). The authorities raised prices for gasoline and diesel—effectively eliminating the subsidies—in 2011, but kept pump prices fixed as global oil prices continued to fluctuate. Mindful of the riots that occurred in 2008, staff supported the payment of separate fuel subsidies to private minibuses operators which provided the bulk of transport services to the public but encouraged the government to apply an automatic price-setting formula for all petroleum products over the medium term. A December 2015 TA mission from FAD presented some options for reforming fuel subsidies, drawing on international experience. The TA report included some recommendations for mitigating the social impact of the subsidy reform, such as enlarging the coverage of the existing cash transfer system, scaling up other programs within the ENSSB, and introducing transportation subsidies. According to staff interviewed for this evaluation, these recommendations were made in consultation with the World Bank but they were not discussed in detail with the authorities given that the Ministries requesting the TA were concerned more with the price-setting formula and its budgetary implications. ILO and UNICEF representatives interviewed in Mozambique felt, however, that the IMF should have sequenced its policy advice

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<sup>29</sup> At the Board meeting discussing the fifth PSI review, only one Director commented on the absence of an indicative target for priority spending, noting that it did not “bode well” for accomplishing the program’s objective of inclusive growth.

to ensure that the appropriate social protection measures were in place first before removing any subsidies.

### C. Senegal

45. **The IMF's interest in social protection in Senegal over the evaluation period surfaced primarily in the contexts of poverty reduction and food and energy subsidy reforms.** Senegal had three successive PSI arrangements during the evaluation period: the first from 2007 to 2010, the second from 2010 to 2014, and the third approved in June 2015.<sup>30</sup> Midway through the first PSI in December 2008, a one-year arrangement under the ESF was approved to help Senegal finance the balance of payments impact of higher world food and energy prices.<sup>31</sup>

46. **At the beginning of the evaluation period, a key focus was on poverty reduction and meeting the MDGs.** In 2006, Senegal had just completed the third in a series of multi-year programs under the Enhanced Structural Adjustment Facility (ESAF) and the PRGF. According to the EPA issued that year, the country had made limited progress in reorienting spending—including of resources freed by Heavily Indebted Poor Countries (HIPC) debt relief—toward priority sectors, which the authorities had identified as health, education, justice, and social development (IMF, 2006b). The 2006 Article IV mission reported that while poverty and social indicators had improved, “the poverty reduction agenda underlying the PRSP remain[ed] largely unfulfilled, reflecting absorptive capacity constraints and weaknesses in public expenditure management” (IMF, 2007g). The new PRSP covering 2006–10 (PRSP-II) revolved around four strategic pillars: (i) wealth creation; (ii) access to basic social services; (iii) protection of vulnerable groups and risk management; and (iv) good governance. Commenting on this strategy, the Bank-Fund Joint Staff Advisory Note (JSAN) opined that the third pillar—social protection—had been “neglected so far” and would require “greater allocation of budgetary resources to vulnerable groups, notably the handicapped and elderly, and toward development of infrastructure benefiting the poorest segments of the population” (IMF, 2007e).<sup>32</sup>

47. **Senegal was hit hard by the 2007–08 global food and fuel price crisis.** Inflation reached 6 percent in 2007, the highest level in over a decade. The sharp rise in food and fuel prices triggered street demonstrations and prompted the government to adopt policy measures

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<sup>30</sup> Prior to the PSIs, Senegal had a three-year SDR 24 million (US\$33 million) arrangement under PRGF that expired in April 2006.

<sup>31</sup> The ESF was extended by six months and expired in June 2010.

<sup>32</sup> Specifically, the JSAN indicated that this would involve consolidating various transfers to vulnerable groups into a coherent set of interventions and transitioning from unconditional transfers to “a tighter focus on the truly vulnerable, use of improved targeting tools and more systematic monitoring of outputs and impacts” (IMF, 2007e). Per the established division of labor between the Bank and the Fund, this section of the JSAN was prepared by World Bank staff.

to protect the poor: the VAT and customs duties on staple food items (rice, wheat, powdered milk, and bread) were suspended in mid-2007, the subsidy on butane gas was gradually raised, and subsidies for petroleum products were introduced in late 2007.

48. **The three-year PSI approved in November 2007 contained no targets for social spending but articulated a medium-term objective of allocating 40 percent of total expenditures to priority sectors by 2010.** These sectors were defined even more broadly than under the earlier PRGF arrangement to include “environment, rural hydraulics, and waste management” (IMF, 2008b). Noting that energy sector subsidies had crowded out priority spending in 2006, the IMF emphasized that energy sector reform was crucial for freeing up fiscal space to meet the priority spending objective.<sup>33</sup> And noting that the measures to protect the population from food and fuel price increases had crowded out other spending in 2007, the IMF advised the authorities to “consider affordability, aim for better targeting, and minimize economic distortions” (IMF, 2008b). To ensure that expenditure reprioritization took place, administrative orders were issued from the Prime Minister and Finance Minister in May 2008 to limit the ability of line ministries to commit new non-priority spending, which was a structural condition (prior action) required to be met for the first review of the PSI arrangement (IMF, 2008b).

49. **A PSIA conducted by FAD in early 2008 found that existing food and fuel subsidies were not well targeted and suggested alternative short-term measures to protect the poor** (Box 4). The 2008 Article IV and first PSI review mission discussed the PSIA findings, which were detailed in an SIP (Adenauer, 2008), and urged the authorities to identify alternative policy measures in consultation with development partners and other countries in the region. In concluding the Article IV consultation, Directors reinforced the message that measures to shield the vulnerable from food and fuel price increases should be better targeted and affordable while minimizing economic distortions (IMF, 2008b). They further recommended the introduction of a social safety net for the longer term. Consistent with the IMF’s advice, the authorities decided to phase out subsidies and tax suspensions on food and fuel items and requested TA from the World Bank to analyze the operational feasibility of introducing a CCT program.<sup>34</sup>

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<sup>33</sup> Energy subsidies (more than half of them for electricity) reached over 3 percent of GDP in 2006. Publication of the government’s decision to raise electricity prices (by 6 percent in November 2007) was a prior action for the program request. At that time, the World Bank and other donors were negotiating a reform program to restructure and recapitalize the energy sector, refine pricing formulas, and introduce cost-cutting measures, among other things.

<sup>34</sup> In the second half of 2008, the authorities reinstated taxes on core food products, discontinued the rice subsidy (which was introduced in March 2008), and ended the protective tax on vegetable oil which had been in place since 2006—the latter a longstanding Bank and Fund staff recommendation. At the same time, the authorities expanded the school meals program and looked into the feasibility of a public transportation subsidy. The butane gas subsidy was eliminated in mid-2009. In late 2010, the World Bank initiated a TA program on social protection in Senegal, with a focus on safety nets.

#### **Box 4. Senegal: Findings and Recommendations of the 2008 PSIA**

With regard to food subsidies, the PSIA concluded that the tariff suspension for rice benefited the two poorest quintiles of the population more whereas the tariff suspension for powdered milk and bread benefited richer population segments more. With regard to fuel subsidies, the PSIA concluded that exempting kerosene (lamp oil) from taxation benefited the bottom two quintiles of the population more whereas the subsidy on butane gas benefited the richer segments of the population more.

The TA mission suggested the following short-term policy options: (i) shifting subsidies from butane gas to kerosene; (ii) keeping some of the existing tax suspensions, especially for rice; (iii) instituting a subsidized rate for small electricity users; (iv) redirecting existing agricultural subsidies towards increasing farm productivity and broadening rural job opportunities; and (v) targeting relatively poor groups directly through measures such as school lunches, public works programs, or transport subsidies.

In the long run, staff recommended implementation of a CCT system. Adenauer (2008) explored in detail how such a system could be designed and implemented in Senegal and concluded that its cost could be kept at 1 percent of GDP, which would be less than the cost of the existing tax exemption on kerosene and the butane subsidy.

50. **“Social spending” increased under IMF-supported arrangements during 2008–10 but it is not clear how much of it went to social protection.** The IMF provided additional financial assistance for the food and fuel crisis through a one-year SDR 49 million (US\$76 million) ESF arrangement approved at the end of 2008. In 2009, like many other LICs, Senegal was affected by the global recession and falling domestic revenues, and the IMF supported a temporary fiscal policy relaxation to help bolster the economy and protect social and infrastructure spending. The ESF arrangement ran in parallel with the PSI arrangement that was approved in 2007. At the 2010 Article IV, fifth PSI review, and third ESF review discussions, the authorities indicated that social spending as a share of total spending was set to increase from 33 percent in 2008 to almost 35 percent in the government’s budget for 2010; the staff report defined this spending as “expenditures on health, education, environment, the judiciary, social development, sewage, and rural irrigation” (IMF, 2010d).

51. **The 2010 PSI arrangement set an indicative target (floor) on social spending of 35 percent of total spending; this was defined explicitly to include social safety nets.**<sup>35</sup> Staff reported that the authorities were “advancing well-targeted programs (including conditional cash transfers) instead of general price subsidies” (IMF, 2010g). A World Bank program of TA on social protection was underway by that time, and the authorities indicated that they would continue the school meals program and would “evaluate the pilot program of conditional cash transfers to the poorest households, in conjunction with the World Bank” (IMF, 2011e) (Box 5).

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<sup>35</sup> The Technical Memorandum of Understanding defined social spending as “spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply” (IMF, 2010g). The same indicative target was maintained in the 2015 PSI arrangement (IMF, 2015g).

### Box 5. Senegal: Social Safety Nets

With support from the World Bank, the government of Senegal developed the *National Social Protection Strategy 2005-2015* after the elaboration of the first PRSP in 2002. The strategy was used as the basis to develop the third pillar of PRSP II (on social protection) covering the period 2006–10. The objectives of the social protection pillar were to: reform and strengthen social security; extend social protection, particularly for vulnerable groups such as at-risk children; and improve risk and disaster prevention and management.

In late 2010, the World Bank initiated a TA program on social protection, with a focus on social safety nets. Bank staff noted that Senegal's social protection system was fragmented and afforded little effective coverage. A dozen social safety net programs were in operation at the time, including: (i) food programs, such as the National School Lunch Program (which had the largest coverage and accounted for 70 percent of social safety net expenditures) and smaller programs supported by the World Food Program (WFP); (ii) programs targeted at children, such as the pilot Cash Transfers for Child Nutrition Program providing cash grants to mothers of vulnerable children under 5 years old to mitigate the negative impact of food price increases; and the Social Protection Initiative for Vulnerable Children providing cash grants to households to help them maintain vulnerable children and ensure access to health and education services; (iii) programs targeted at other groups, such as the Old Age Support Program to assist the vulnerable elderly; and the Poverty Reduction Program providing grants for income generating activities for vulnerable groups, primarily women, the disabled and HIV-AIDS affected populations; and (iv) the National Solidarity Fund, providing financial, medical and material support crisis and emergency situations (World Bank, 2013).

The election of a new President in 2012 brought a major new push for social safety nets. With support from the World Bank and development partners such as UNICEF, UNDP, the ILO, and the WFP, the government launched a CCT program, the Family Security Allowance (*Bourse de Sécurité Familiale*, or BSF), to provide cash transfers to poor households conditional on school enrollment and health care for school-age children.

The third PRSP (covering the period 2013–17, and renamed the National Strategy for Economic and Social Development), built on PRSP II and revolves around three strategic pillars: (i) economic growth, productivity, and wealth creation; (ii) human capital, social protection and sustainable development; and (iii) governance, institutions, peace and security. In 2014, the World Bank approved a US\$40 million Social Safety Net Project for Senegal to establish the building blocks for a national social safety net system (including an ID registry) and provide targeted cash transfers to poor and vulnerable households, using tools and instruments developed under the BSF.

#### 52. **Throughout the 2010 PSI arrangement, the IMF repeatedly recommended that social safety nets be expanded and food and energy subsidies phased out.**

- The first PSI review in June 2011 took place in the wake of a second round of food and fuel price increases, to which the government had responded by freezing retail prices of six food staples and temporarily limiting petrol price increases. Staff advised against those steps and repeated the recommendations made during the earlier episode of high food and fuel prices in 2007–08.
- The second review mission (in December 2011) argued that existing electricity subsidies tended to benefit richer households and crowd out more pro-poor expenditures; and staff introduced a structural benchmark for end-April 2012 calling for the adoption of an action plan on subsidies for electricity consumers.

- The third review mission (in June 2012, two months into a new administration) stressed the high cost of energy subsidies (about 2 percent of GDP) and moved the deadline for the authorities' action plan on electricity subsidies by four months to give the new administration more time to design an alternative scheme that was better targeted to the poor. The authorities also indicated that subsidies on rice, sugar, and cooking oil introduced earlier in the year would be temporary (IMF, 2012e).
- The 2012 Article IV and fourth review mission (in November 2012) argued—and the Board agreed—that enhancing social safety nets was an “important objective” because limited social safety nets were the main reason why the authorities had relied on food and fuel price subsidies to such a large extent as a form of social protection (IMF, 2012f). Staff (again) stressed that those subsidies were poorly targeted—drawing on a 2008 World Bank study which showed that electricity subsidies did not benefit the rural poor who were typically not connected to the electricity grid—and argued for “more cost-effective support to the most vulnerable segments of the population” (IMF, 2012f). The authorities responded that they intended to cap electricity subsidies (an action plan on electricity subsidies was adopted in October 2012) and introduce broader and better-targeted social safety nets in 2013 (IMF, 2012f) (Box 5).
- The 2014 Article IV consultation and eighth review mission (in December 2014) directly incorporated the World Bank's work on social safety nets through a joint Bank-Fund staff-authored SIP (Coudouel and Newiak, 2015). The staff report noted that overall spending on social safety nets in Senegal was substantially below many other Sub-Saharan African countries; urged the authorities to “gradually expand the social safety net whilst promoting empowerment and emphasizing conditional cash transfers;” and suggested creating fiscal space for social spending by “increasing revenue—particularly collecting tax arrears, freezing public consumption in real terms, and improving the composition of spending” (IMF, 2015a). In concluding the consultation, the Board likewise urged the authorities to give priority to strengthening social safety nets (IMF, 2015a).<sup>36</sup>

53. **The IMF did not provide advice on how Senegal's social safety nets should be strengthened**—this was left to the World Bank and other development partners. The IMF's advice was mainly directed at finding fiscal space for strengthening the country's social safety nets rather than providing recommendations on specific policy designs.<sup>37</sup> Some World Bank staff

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<sup>36</sup> The Managing Director did not mention strengthening social safety nets in a press statement during her visit to Senegal shortly after the conclusion of the 2014 Article IV consultation, and instead highlighted job creation and financial inclusion as the keys to inclusive growth (IMF, 2015c).

<sup>37</sup> On the other hand, some Bank experts, in commenting more generally on the IMF's involvement in social protection, noted that while Fund staff usually had “the right instincts,” there was the tendency occasionally to recommend specific approaches without fully analyzing the implications (e.g., “mechanically” recommending CCTs when other types of cash transfers would be more appropriate).

interviewees felt that the IMF's involvement in social protection discussions in Senegal was "fruitful" and that Fund staff had played an important role by channeling the Bank's input on reforms to authorities. Others, however, did not recall collaborating closely with IMF staff on social protection. Senegalese authorities interviewed for this evaluation felt that the IMF's primary objective was to eliminate energy subsidies, and recommending social protection measures such as CCTs was seen as a "way out" to overcome resistance to this reform. In their view, the IMF focused only on the budgetary impact of untargeted fuel subsidies and presented only one solution—eliminate the subsidies and introduce CCTs—without attempting to discuss alternative ways to protect the vulnerable.

54. **Few references to social protection reforms were included in the third PSI arrangement approved in June 2015.** The PSI supports a three-year program of macroeconomic reforms designed to advance the *Plan Sénégal Emergent*, the authorities' national development plan to transform Senegal into an emerging market by 2035. In interviews with the IEO and in the staff report for the second review, staff emphasized that achieving the *Plan Sénégal Emergent* targets required, first and foremost, actions to reduce rent-seeking and encourage private sector investment in order to create economic opportunities for all (IMF, 2016a).

#### D. Zambia

55. **During the evaluation period Zambia faced major development challenges on the macroeconomic and structural fronts.** On the macroeconomic side, fluctuating copper prices and the need to manage currency flows and coordinate fiscal and monetary policies were major issues. On the structural side, key issues included the need to increase spending in the social sectors and on infrastructure, as well as to promote economic diversification. Improving agricultural efficiency was also seen as critical, given the high concentration of employment and poverty in this sector. Historically, Zambia provided a large share of government subsidies to agriculture in the form of floor prices and fertilizer subsidies. These subsidies were aimed at increasing agricultural output and incomes and not at social protection as such.

56. **Zambia had two PRGF arrangements during this time** (2004–07; 2008–11). A key concern under the 2004 PRGF-supported program had been to increase social (poverty-reducing) expenditures to meet the MDGs. This mainly involved new hiring in the education and health sectors. The World Bank was actively involved in Zambia at the same time and took the lead in the social sectors, including on social protection. By the start of the evaluation period, the Bank had undertaken a PSIA of key reforms in the agricultural sector, a study examining the income distribution and growth consequences of macroeconomic policies, a Poverty and Vulnerability Assessment, a Social Safety Nets and Social Protection Strategy Note, and a Health

Sector Review.<sup>38</sup> The IMF's dialogue with Zambia was centered on issues of macro-stability and addressing the budget deficit.

57. **IMF attention to social protection was initially limited to fiscal concerns, particularly with public sector pensions.** At the end of 2005, the IMF warned that two public sector schemes—the Public Service Pension Fund (PSPF) and the Local Authorities Superannuation Fund (LASF)—were insolvent and posed a serious risk to public finances (Box 6).<sup>39</sup> In the fourth review of the 2004 PRGF-supported program in mid-2006, staff reiterated its concerns regarding the insolvency of Zambia's two public sector schemes but did not raise the issue again for the remainder of the PRGF-supported program. The 2007 Article IV mission warned that the financial difficulties of the PSPF could leave less fiscal space for investments and stressed that until the system could be reformed, budget allocations to the PSPF would need to increase to ensure that pension obligations were met in full.

#### **Box 6. Zambia: Public Pension System**

There are three public sector schemes: (i) the Public Service Pension Fund (PSPF) for central government workers; (ii) the Local Authorities Superannuation Fund (LASF) for subnational government and public utility workers; and (iii) the National Pension Scheme Authority (NAPSA), the largest of the three. They are defined-benefit schemes. In 2000, the PSPF and LASF were closed to new entrants and all new formal sector workers including public sector employees were enrolled in the NAPSA.

At the end of 2005, the Fund warned that the PSPF and LASF were insolvent—with actuarial deficits equivalent to about 9 percent of GDP—and posed a serious risk to the public finances (IMF, 2006c). Both pension funds were also owed considerable amounts in contribution arrears. As the number of pensioners increased while the membership base declined, the annual cash-flow deficit of the PSPF rose. The government was responsible for financing the operational deficits of the PSPF (about 0.5 percent of GDP a year). The benefit levels in these schemes were high relative to contributions and protected in the constitution. A constitutional amendment (linked to civil service pay reform) was needed to achieve a financially sound benefit-contribution ratio in the future.

The NAPSA had a benefit ratio closely aligned with contributions and was operating with large surpluses at the beginning of the evaluation period. However, it faced challenges with respect to capacity building in asset management.

58. **Social protection issues were not pursued in depth throughout the 2008 PRGF-supported program.** Staff and the authorities discussed reforms in electricity tariffs and

<sup>38</sup> The World Bank's PSIA found that fertilizer subsidies were not well targeted. The poor had limited access, while those with access did not always use the fertilizer efficiently.

<sup>39</sup> The World Bank had the lead on, and had attached conditionality under its Economic Management and Growth Credit for, reform of the PSPF and the National Pension Scheme Authority (NAPSA). To ensure adequate resources for meeting the government's obligations on the cash-flow deficit of the PSPF over the medium term (while the reform of the public pension scheme was being implemented), the 2004 PRGF-supported program included an additional budget allocation (0.3 percent of GDP in 2006) for paying down outstanding arrears on the government's contributions to the PSPF. At the conclusion of the 2005 Article IV consultation, Executive Directors urged the authorities to proceed expeditiously with a fundamental reform of the pension system to avert a major risk to the public finances (IMF, 2006c).

fuel pricing to reflect underlying costs, but while such reforms were incorporated in structural conditionality under the program, there was no discussion of possible compensatory measures for vulnerable households reflected in the staff report.<sup>40</sup> Pension reforms were not mentioned in staff reports after the first and second reviews in April 2009. The third review of the program in December 2009 introduced an indicative target (floor) on social spending—defined as “central government domestically financed expenditure on health and education”—that remained for the duration of the program (IMF, 2010a). Staff interviewed for this study indicated that this spending floor was not strictly on social protection, per se, but rather encompassed a broader category that could be more easily monitored by the authorities.<sup>41</sup>

59. **In the post-program period (2011–on), the IMF’s fiscal focus was complemented with concerns about inclusive growth.** The 2011 EPA concluded that “[d]espite strong growth and the overall success of Zambia’s 2004–11 IMF-supported programs, extreme poverty remain[ed] high (IMF, 2011g). In the 2012 Article IV staff report, the main policy challenge as described by staff was how to make growth more inclusive; and staff interviewees corroborated the primacy of the IMF’s inclusive growth agenda in Zambia by this time.

60. **Pension reform re-emerged as an issue, and the IMF provided advice through TA as well as in the surveillance context.** The 2012 Article IV mission urged the authorities to quickly implement the proposed PSPF reforms being considered with the assistance of the World Bank, such as reducing lump-sum benefits paid up front and accepting new entrants into the pension scheme without jeopardizing the solvency of the NAPSA, the largest pension fund in Zambia (Box 6). In 2013, an FAD TA mission provided a detailed assessment of options for reforming the public pension system and recommended several short-term measures to manage the transition to a sustainable system while reducing budget risks, as well medium-term measures to put the public sector pension system on a sound footing.<sup>42</sup> Based on the recommendations of the TA mission, the 2013 Article IV mission advised the authorities to: transfer PSPF and LASF members to NAPSA under a dual-benefit system; gradually raise the statutory retirement age from 55 to 65; reduce the bias towards lump sum payments by lowering the commutation rate, introducing penalties for early retirement, and indexing benefits to inflation; raise the contribution rates of PSPF and LASF workers to the NAPSA rate of 10 percent; and strengthen NAPSA’s collection capacity. However, the reforms did not transpire at this time. At the conclusion of the 2015

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<sup>40</sup> The government raised electricity tariffs in 2009. In 2010, the government instituted full cost recovery pricing of petroleum products and reinstated the automatic fuel pricing mechanism.

<sup>41</sup> The authorities’ PRSP for 2006–10 identified the following public spending priorities: “enhancing the quality of education provision, skills development and employment, better health service delivery, addressing the problem of frontline personnel and the lack of requisite working implements in the two critical sectors of education and health” (IMF, 2007d).

<sup>42</sup> The TA mission acknowledged extensive cooperation and exchange of data and information with World Bank staff who were supporting the Zambian authorities on a pension reform project.

Article IV consultation, Directors repeated their call for sustained efforts to “put the pension system on a sustainable footing” (IMF, 2015e).<sup>43</sup>

**61. The IMF’s policy advice in the latter part of the evaluation period explicitly linked subsidy reform to social protection.**

- The 2012 Article IV mission recommended accelerating the implementation of the multi-year electricity tariff framework aimed at raising tariffs to full cost-recovery levels, and introducing lifeline tariffs to protect the most vulnerable customers.
- The 2013 Article IV mission supported the authorities’ decision to reduce fuel, fertilizer, and maize production subsidies and noted that the government was planning on scaling up social cash transfers to better assist the poor (Box 7).<sup>44</sup> According to senior IMF staff interviewed for this study, the IMF team worked with the World Bank and the authorities to find fiscal space in the budget to accommodate an expansion of pilot cash grant schemes.
- The 2015 Article IV mission pointed out that subsidies were costly (2 percent of GDP in 2014) and not well targeted towards the poor, and explicitly urged the government to scale up the Social Cash Transfer program by rationalizing farm subsidies. The staff report cited assessments by the World Bank and other development partners indicating that shifting resources from subsidizing the operations of the Food Reserve Agency (FRA) and the Farmer Input Support Program to the better targeted social cash transfer program would be more effective in reducing poverty.<sup>45</sup> The Board endorsed this advice in the Article IV Summing Up (IMF, 2015e).

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<sup>43</sup> The 2015 Article IV mission reported that the government had decided at the end of 2014 to increase the retirement age for civil servants from 55 to 65, but subsequently announced its intention to change the retirement age to 60 and introduce the option for early retirement at age 55 (IMF, 2015e). Staff highlighted the need to continue with pension reforms to ensure the financial sustainability of the system, including by revising the formula for calculating benefits and reviewing commutation factors.

<sup>44</sup> The staff report noted that the budgeted allocation to social cash transfers would be increased almost tenfold in 2014 (to about 0.1 percent of GDP) “to provide some 143,000 of the poorest households with about \$12 a month” (IMF, 2014a). According to the staff report, “the program [would] cover approximately 13 percent of those in extreme poverty, and for the average recipient household the transfer should boost consumption by 20 percent and eliminate almost half of the gap to the food poverty line” (IMF, 2014a).

<sup>45</sup> The role of the government in the maize market was a longstanding issue in Zambia. The Food Reserve Agency (FRA) traditionally purchased surplus maize (the staple food crop in Zambia) from smallholder farmers at preannounced prices to on-sell during the lean period and maintain a strategic reserve. During bumper-crop years, the FRA did not have the capacity to finance these purchases on a commercial basis and had to rely on government assistance. IMF staff interviewees involved in the PRGF programs noted this practice stood to possibly negatively affect the incomes of smallholder farmers and recalled being “deeply involved” with the World Bank (which shared the IMF view that the government’s role in maize pricing and marketing had to be reassessed in order to better predict budgetary exposure), the WFP, and Catholic Relief Services on this issue.

### Box 7. Zambia: Social Cash Transfers

The Social Cash Transfer Program has operated in Zambia since 2003 and comprises the following schemes: (i) the 10 percent Inclusive Scheme, which targets incapacitated and destitute households (the poorest population decile in each community); (ii) the Child Grant Program, piloted in 2010, which targets households with at least one child under the age of five or disabled child under 14 years; (iii) the Multiple Categorical Targeting Scheme, piloted in 2011, which targets households headed by women with at least one orphan, households headed by an elderly person with at least one orphan, and households with at least one disabled member; and (iv) the Social Pension Scheme, which targets individuals aged sixty-five years and above.

In October 2013, the Zambian Government announced the expansion of the Social Cash Transfer program to almost 190,000 recipients in 50 districts 2014, with plans to further scale up nation-wide in the future. A new harmonized targeting methodology was introduced with eligibility criteria based on residency, incapacity, and welfare level.

Impact evaluations commissioned by UNICEF in 2015 found net benefits for both the Child Grant Program and the Multiple Categorical Targeting Scheme.

62. **An attempt to collaborate with the ILO on the Social Protection Floor initiative near the end of the evaluation period did not materialize.** In 2014 the ILO approached the IMF resident representative regarding possible collaboration on the Social Protection Floor initiative.<sup>46</sup> The IMF team reportedly was keen on getting involved. Staff prepared an internal note arguing that increasing spending on social assistance by as little as 0.5 percent of GDP could in principle cover about 1 million of the most vulnerable households and 100 percent of the extremely poor, making a significant dent in poverty.<sup>47</sup> Together with ILO and UNICEF staff, they initiated discussions with the Ministry of Finance about the possibility of supporting capacity to undertake a cost-benefit analysis and simulations on the effect of social protection policy reform on poverty reduction.<sup>48</sup> It was envisaged that IMF assistance could be provided via the resident representative's office, complemented by TA on macroeconomic forecasting from the IMF's regional TA center in Southern Africa. However, the collaboration did not move beyond the initial concept note, due to factors beyond the country team's control.<sup>49</sup> In interviews, IMF staff expressed mixed views on this outcome. Some staff believed that this incipient effort had brought attention to social protection issues and was a good reflection of the IMF's engagement

<sup>46</sup> The IMF had previously collaborated with the ILO on the Social Dialogue pilot in Zambia. The two organizations co-sponsored a two-day high-level international conference in May 2012 to discuss policies to support employment growth and reduce unemployment and underemployment in Zambia (IMF, 2012b).

<sup>47</sup> World Bank analysis around that time had found that while there was a good base in several existing safety net programs, they were "miniscule", most covering only 1-2 percent of the extreme poor. The Bank had estimated that a larger-scale program to cover between 7.5 percent to 25 percent of the poorest population could range in cost between US\$37 million to \$102 million (equivalent to 0.4 percent to 0.9 percent of GDP) per year (Tesliuc, Smith, and Sunkutu, 2013).

<sup>48</sup> The internal memorandum outlining this initiative cited the positive experience of IMF-ILO collaboration in Mozambique.

<sup>49</sup> See Zhou (2017) for a discussion of the IMF-ILO Social Protection Floor collaboration initiative.

with other donors in supporting social assistance in Zambia. These staff were disappointed that this initiative did not materialize. Other staff, however, seemed less convinced; they saw the Fund's more appropriate role in Zambia to be emphasizing inclusive growth more generally and rather than advocating for enhanced social protection.

### E. Georgia

63. **The evaluation period was characterized by major economic challenges in Georgia,** with volatile growth rates (for example, real growth exceeded 12 percent in 2007, plummeted to 2 percent in 2008, and contracted by 4 percent in 2009) and a spike in defense spending associated with the conflict with Russia in 2008. As a former Soviet republic, Georgia had a broad set of social programs (at least by low-income country standards), of which pensions accounted for the bulk.

64. **The IMF had a series of program arrangements in Georgia over the evaluation period:** a three-year PRGF arrangement (2004–07), a two-year exceptional-access SBA (2008–11), a two-year blended SBA/SCF arrangement (2012–14), and a three-year SBA approved in July 2014. The World Bank was also active in Georgia through a series of Poverty Reduction Support Operations (PRSOs) from 2006–09 followed by three Development Policy Operations from 2009 to 2012. The established division of labor between the IMF and the World Bank called for the Fund to lead on issues of macroeconomic policy, and the Bank on structural policies and social assistance, including targeting and scaling up of the social safety net system, pensions, and improving health coverage for the poor.

65. **Social protection featured prominently in the 2004 PRGF-supported program.** The main goals of structural reforms under the program were to consolidate the fiscal position, as well as to enhance growth prospects, social protection, and the provision of basic services. With the help of the World Bank, the authorities planned to (i) introduce a means-tested poverty benefit called Targeted Social Assistance (TSA) to replace numerous in-kind benefits, with the objective of covering at least 60 percent of those identified as extremely poor; and (ii) design a pension reform program.<sup>50</sup> These actions were incorporated as structural conditions in the PRGF-supported program (Table 1).

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<sup>50</sup> The World Bank's PRSO focused on four reform themes: (i) enhancing public sector accountability and efficiency; (ii) improving electricity and gas sector services; (iii) improving the environment for private sector development; and (iv) improving health and education and alleviating poverty and vulnerability.

Structural benchmark (unless otherwise specified)	Date introduced	Result
<i>Targeted poverty benefit program:</i>		
1. Introduce a targeted poverty benefit to replace numerous in-kind benefits; by end-December 2005.	Second review (July 2005)	Implementation of the benefit scheme was postponed until July 2006.
2. Introduce a poverty alleviation program targeted on households living in extreme poverty (Structural Performance Criterion); by end-June 2006.	Third review (March 2006)	Full implementation of the targeted poverty benefit program began in September 2006.
<i>Pension reform:</i>		
1. Publish a strategy paper on pension reform to put the social security system on a sounder fiscal footing; by end-December 2005.	Second review (July 2005)	Met.

66. **The IMF strongly supported the introduction of the targeted poverty benefit scheme** (Box 8). A 2005 staff report described the TSA as a “highly commendable initiative” for reducing extreme poverty (IMF, 2005) and included a structural benchmark in the second program review to be implemented by end-2005. When this benchmark was missed (“delayed by inflation concerns and the complexities of proper targeting”), staff expressed concern that safety nets were not in place at the “critical juncture” when broad support was needed for the market-based reforms under the program (IMF, 2006e), and upgraded the action to a structural performance criterion during the third review. In concluding the 2006 Article IV consultation, Directors “encouraged the authorities to strengthen the social safety nets, including by introducing the targeted poverty benefit as planned” (IMF, 2006d). The TSA was reported as fully implemented three months late, in September 2006. Staff supported the authorities’ request for a waiver for nonobservance of the structural performance criterion, but did not provide details on the implementation of the TSA other than to report that it covered over 200,000 people (IMF, 2007b). The sixth (final) review of the PRGF arrangement made no reference to the TSA in the body of the staff report.<sup>51</sup>

<sup>51</sup> The annex on IMF-World Bank Relations noted that a poverty benefit targeted for the extreme poor was being implemented under the PRSO program. This was classified as an area in which the World Bank led and there was no direct IMF involvement.

### Box 8. Georgia: Targeted Social Assistance

Prior to the evaluation period, social protection programs in Georgia consisted of state pensions, various payments to vulnerable groups, and assistance to internally displaced persons. Pensions were the largest social transfer program, accounting for about 3.2 percent of GDP or three-quarters of social protection spending. As described by the World Bank, at the outset of the PRSO series, the social protection system suffered from a number of fundamental problems including shortage of funds, corruption, and policy and institutional deficiencies. The government was in substantial arrears to pensioners and social assistance recipients. Resources spent on social assistance programs were spread over many fragmented programs, targeted mostly based on status (internally displaced persons), merit (veterans and other deserving citizens) or social category (disabled, orphans, elderly, etc.). Program implementation was reportedly weak.

The key principle of the TSA was to move away from categorical targeting of social assistance and to provide cash benefits to all households living below the extreme poverty line. According to the government's Memorandum of Economic and Financial Policies under the 2004 PRGF-supported program, the main outcome indicator was for at least 60 percent of those identified as extremely poor to be covered by the TSA. The original target was for 600,000 needy households to receive the benefit by the end of 2005, at a cost of about 0.9 percent of GDP a year (IMF, 2005). The revised target was for 90,000 households to receive the TSA benefit by the end of 2006 (World Bank, 2009). According to the World Bank, by September 2007, 118,627 households (about one in eight households) received the benefit, averaging GEL 42.6 per month.

The World Bank rated the TSA as "[o]ne of the greatest successes of the PRSO series," being "very effectively targeted to the poor" and having a "significant poverty-mitigating impact" (World Bank, 2009). The TSA is based on proxy means tests including over 100 indicators. A representative household survey at the end of 2007 showed that some 70 percent of beneficiaries were pre-TSA poor, indicating a reasonable error of inclusion of only 30 percent. The TSA was found to have reduced the extreme poverty rate by 17 percent. The key to success seemed to have been the establishment of the Household Registry (under the Ministry of Labor, Health, and Social Affairs) which provided the capacity to develop an effective proxy means targeting mechanism for use in various targeted government assistance programs.

67. **The 2008 SBA did not include specific actions related to social protection.** The Georgian economy was seriously affected by the August 2008 armed conflict with Russia and then by the global financial crisis. External imbalances were large, and official inflows—which partly replaced falling private capital inflows—financed a large fiscal deficit. In September 2008, the IMF approved an 18-month SBA in the amount of SDR 477 million (about US\$750 million or 317 percent of quota) that sought to replenish international reserves and restore investor confidence.<sup>52</sup> The program discussion was dominated by the repercussions of the conflict and associated economic downturn. Staff stressed the need to prioritize spending in favor of the most pressing reconstruction and social needs, and the Director of the Middle East and Central Asia Department stressed the importance of "protecting the most vulnerable groups" during his visit to Georgia in February 2009 (IMF, 2009a).

68. **However, while there were no floors on social or priority spending in the program, IMF staff tracked the government's social expenditures.** As fiscal policy was set to shift from an expansionary stance to expenditure containment in 2010, staff were reassured by the

<sup>52</sup> At the third review in August 2009, the Board approved an extension of the SBA to June 2011 and an augmentation of SDR 270 million (about US\$423.5 million, equivalent to 180 percent of quota).

authorities' plan to reallocate resources to social (and capital) spending from other areas, noting that it would help to ensure the social sustainability of the fiscal adjustment strategy. Beginning with the third review in July 2009, staff tracked the government's social expenditures (on health programs, pensions, social assistance, assistance to internally displaced persons, etc.) as well as planned changes in social expenses in the fiscal adjustment program, every quarter. In the fifth review in March 2010, staff noted that a reduction of public spending of the magnitudes required in Georgia would have "substantial implications for the welfare of a large number of beneficiaries of public spending" and used international evidence on successful fiscal consolidations to highlight the importance of providing adequate social safety nets for those affected by reform (IMF, 2010c). In the seventh and eighth reviews in December 2010, the mission explicitly questioned the sustainability of spending cuts implemented in 2010 and envisaged in 2011, noting that they entailed a significant real reduction of benefits for social assistance recipients. The authorities argued, however, that: the impact would be mitigated by the economic recovery; coverage of the most vulnerable was already quite extensive and had been improved through efficiency gains in the health insurance sector; and the World Bank had begun exploring ways to improve the effectiveness of the social safety net through the consolidation process (IMF, 2011a).<sup>53</sup>

69. **As the economy continued to recover in 2011, staff saw a case for a real increase in social spending, focused on targeted rather than untargeted programs.** The steep rise in food and fuel prices was creating pressure for increases in social spending, particularly in pensions. Elections in 2012 and 2013 were expected to generate new spending pressures. Staff acknowledged that the expenditure-based fiscal adjustment strategy chosen by the authorities would require some difficult decisions among competing priorities, but emphasized the importance of carving out sufficient fiscal space to strengthen the social safety net. Drawing on World Bank information on social programs in Georgia, the 2011 Article IV mission recommended directing the largest portion of any increase in the social budget to targeted rather than untargeted programs because of the relative efficiency of the TSA compared to the universal minimum pension (IMF, 2011d).

70. **Around the same time, the IMF turned its attention to pension reform.** The state pension system provided a universal monthly benefit to all persons of pension age (65 for men and 60 for women) who were no longer working. It was not financed by contributions but by the state budget. The government had promised to increase the GEL 80 monthly minimum pension to GEL 100 in 2011 and further to GEL 165 in 2012, and was also considering options for a broader reform of the pension system including the possibility of introducing a contributory pension scheme. In June 2011, an FAD TA mission estimated the cost of increasing pensions under several scenarios; evaluated the broader pension reform under consideration; and

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<sup>53</sup> During the period 2009–12, the World Bank had a further series of three concessional budget support operations (amounting to \$175 million), which included structural policy reforms to improve the effectiveness of the social safety net to cushion the impact of the downturn on the vulnerable. The social safety net reforms focused on two areas: (i) improving the effectiveness of social transfers, including particularly the TSA program; and (ii) strengthening the healthcare financing system.

suggested other ways to meet the short-term spike in costs implied by the pension increases (Box 9). Based on the TA recommendations, the ninth SBA review mission urged the authorities not to rush into a costly reform of the state pension system. The authorities heeded the advice and chose not to overhaul the pension system and to limit and target the increase in old-age pensions so as to contain its fiscal cost.<sup>54</sup>

**Box 9. Georgia: Recommendations of the FAD TA Report on Pension Reform**

The 2011 FAD TA mission concluded that budgetary impact of a one-time increase in the universal pension to GEL 165 (approximately US\$100) a month for all beneficiaries would be significant, and the increase could persist for a decade or more. To reduce the impact on the budget, the mission suggested a few options, namely: aligning the pension ages for women and men at 65, limiting the full increase of US\$100 to poorer pensioners, or stretching out the time over which the increase was implemented.

As for the proposed reform of the pension system, the TA mission concluded that it would be an extremely large policy change with significant medium- and long-term risks. The reform under consideration entailed: shifting 5 percentage points of income tax to pension contributions; imposing an employer pension contribution of 5 percent of labor income (growing to 10 percent by 2020); and developing the administrative infrastructure necessary to run the system. The mission's advice was that such a comprehensive reform should be carefully analyzed and planned, and not rushed into implementation to solve medium-term budgetary pressures. No reference was made to the earlier strategy paper on pension reform prepared and approved by Parliament under the 2004 PRGF-supported program (structural benchmark).

71. **IMF staff and the authorities differed on social spending approaches under the 2012 SBA/SCF-supported program, which ultimately went off-track.** The two-year (precautionary) SBA/SCF-supported program aimed at completing the macroeconomic adjustment process initiated under the 2008–11 SBA. When the election of a new government in 2012 brought a stronger domestic focus on social policy, staff took note that the government planned to pursue “more socially balanced policies” and placed a high priority on reducing unemployment and poverty and enhancing social protection (IMF, 2013a). The 2013 budget provided for an increase in basic pensions and social allowances, the introduction of universal health insurance, and a reduction in the income tax burden on low-income workers. The first and second review mission cautioned, however, that increases in social expenditure would need to be reconciled with the need for further fiscal consolidation (IMF, 2013a). While agreeing on the need to strengthen the social safety net (including by establishing universal health insurance and expanding social assistance), the mission discouraged across-the-board pension increases and stressed that any increase in social spending should be targeted to the most vulnerable. As growth slowed and revenues fell short in 2013, the higher social spending could not be accommodated within the existing fiscal framework and the SBA/SCF-supported program went off-track.

<sup>54</sup> Basic pension benefits were increased by 22 percent in September 2011 and by an additional 27 percent in September 2012 (to the equivalent of about US\$85 per month). To limit its cost, the latter increase was limited to pensioners aged 67 and over.

72. **The IMF subsequently increased its concern for social protection in the context of inclusive growth.** In the 2013 Article IV consultation, staff became more explicitly critical of Georgia's record on inclusive growth and social protection, arguing that while there was a "rudimentary" social safety net, total social expenditure (on pensions, health, and education) was among the lowest in the region. IMF (2013d) noted that "pensions remain below subsistence, half the population lacks health insurance, and there are no unemployment benefits"). An SIP for the Article IV mission (Kolerus, 2013) analyzed the authorities' plans to spend an additional 3 percent of GDP on scaling up social expenditures, which included introducing a universal healthcare system, doubling TSA allowances, and raising old-age and disability pensions. The analysis was grounded in country specific conditions and concerns and drew on existing studies including the World Bank's 2012 Public Expenditure Review for Georgia. It concluded that the additional spending might have limited effects on inequality since 80 percent of it was on universal transfers. Based on this analysis, the mission considered that the additional spending "might have been better targeted," specifically by giving greater priority instead to broadening the coverage of the TSA, "in line with World Bank recommendations" (IMF, 2013d). At the conclusion of the Article IV consultation, the Board also called on the authorities to "strengthen and appropriately target social programs" (IMF, 2013e).

73. **The IMF's emphasis on inclusive growth carried over into the 2014 SBA and beyond.** A 36-month SDR 100 million (about US\$154 million, or 67 percent of quota) SBA arrangement approved in 2014 aimed to reduce macroeconomic vulnerabilities, increase policy buffers and support inclusive growth, while making the economy more resilient to external shocks.<sup>55</sup> The program targeted a budget deficit of 3 percent of GDP in 2015, with a ceiling on general government expenditure, and as with earlier arrangements, did not include a floor on social expenditures. After increases in 2013 and 2014, the authorities planned to keep TSA benefit levels constant in 2015. Staff, however, questioned this decision, arguing that it could be regressive and difficult to sustain (IMF, 2014f). The first (and only) review mission again emphasized the need for better targeting of pensions and social assistance. Staff argued against ad hoc pension increases and suggested that "better targeting of the most vulnerable pensioners" (IMF, 2015b) would allow for larger benefit increases and more effective poverty reduction.<sup>56</sup> The mission supported the authorities' plans to "improve targeting of social assistance" by introducing, with the World Bank's assistance, a cascading benefit system that would phase out social assistance those above the threshold so as not to create work disincentives. The mission also disapproved of the elimination of the personal income tax threshold because staff believed it would disproportionately affect low-income households. The authorities acknowledged that the measure was regressive but pointed to potential problems with evasion and work disincentives for those earning above the threshold (IMF, 2015b).

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<sup>55</sup> Georgia graduated from PRGT eligibility in April 2014.

<sup>56</sup> The 2016 Article IV mission reported that the authorities intended to introduce a pension reform law establishing a funded pension pillar in 2017.

## F. Honduras

74. **The IMF’s involvement in social protection issues in Honduras during the evaluation period was mainly in the context of poverty reduction, pension reform, and energy subsidy reform.** Honduras is one of the poorest countries in Latin America.<sup>57</sup> During the evaluation period the country’s economic policies were adversely affected by terms-of-trade and weather-related shocks as well as volatile political developments and governance problems which created social unrest on several occasions. Prior to the evaluation period Honduras had a series of PRGF arrangements with the IMF; the last one, approved in 2004, focused on fiscal consolidation but went off track in 2006 after a change of government. IMF engagement and policy discussions during the evaluation period took place mainly through Article IV consultations interspersed with three IMF arrangements: a 12-month precautionary SBA approved in 2008; an 18-month precautionary SBA/SCF arrangement approved in 2010; and a three-year SBA/SCF arrangement approved in 2014.

75. **The World Bank and the IDB were active in Honduras during the evaluation period.** The World Bank had several projects in the areas of social and structural reforms, including two multi-year social protection projects approved in 2005 and 2010, respectively; it also provided TA in areas such as budgetary management and monitoring and evaluating the targeting and efficiency of social expenditures. The IDB supported the country’s financial and fiscal reforms and financed several social and agricultural programs during the evaluation period. A number of staff interviewees recalled that the IMF’s engagement in social protection was very limited in the first half of the evaluation period. They noted that the IMF’s focus was principally on fiscal dimensions, while social protection issues were the focus of the IDB.

76. **Early in the evaluation period, the IMF emphasized poverty reduction as a key challenge for Honduras and homed in on the issue of energy subsidies.** On a visit to Tegucigalpa and in a published commentary in early 2006, the Managing Director emphasized the opportunity for the new administration to “entrench economic stability while ensuring that the benefits [were] more widely shared” by preserving fiscal discipline and improving the targeting of social spending, among other things (IMF, 2006a; De Rato, 2006). He encouraged the government to return to a flexible pricing mechanism for petroleum products, noting at the same time that it had introduced targeted subsidies and an expanded social safety net to cushion the impact of high oil prices on vulnerable groups. In August 2006, FAD fielded a TA mission to Honduras to analyze the fiscal and distributional effects of reforming energy subsidies and made some specific suggestions (Box 10). The 2006 Article IV consultation—which included an SIP summarizing the TA report’s conclusions (Yackovlev, 2007)—reinforced the Managing Director’s message, urging the authorities to align electricity and telephone tariffs with costs, curtail net lending, reduce and better target subsidies, and reduce nonpriority spending.

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<sup>57</sup> According to World Bank (2014), in 2007, 58 percent of Hondurans lived in poverty, and 38 percent in extreme poverty.

**Box 10. Honduras: Energy Subsidies in 2006**

Honduras imports all of its fuel, and the bulk of its electricity generation is based on petroleum. Historically, the government made regular adjustments to the retail prices for fuel products and electricity based on pricing formulas. In 2006, steep increases in international oil prices led the authorities to freeze petroleum product prices and suspend the adjustment of electricity tariffs to protect households from high energy prices. The government compensated petroleum product distributors for the difference between the import parity price and the price charged to retailers, and made transfers to the state electricity distribution company for its losses. In addition to the implicit subsidy for electricity, there were also direct subsidies: electricity customers consuming less than 300 kWh per month received a direct subsidy plus a cash transfer “bonus” (*bonochenta*) of up to L135 per month; and elderly customers received a 25 percent discount on their bills.

The 2006 TA mission concluded that the subsidies for electricity and petroleum products were costly (totaling around 2.3 percent of GDP in 2006) and could not be justified on equity grounds, as only one-tenth of the benefits accrued to the poorest 20 percent of households. The mission advised the authorities to permanently eliminate subsidies on all fuel products except kerosene; for electricity, it recommended: (i) replacing the direct electricity subsidy with a single flat L120 benefit for households consuming less than 100kWh, financed by the budget; and (ii) replacing the electricity tariff structure with a single tariff sufficient to cover costs. Finally, the mission recommended using some of the savings from reduced subsidies to increase funding for social safety net programs.

A follow-up mission in November 2006 (which overlapped with the 2006 Article IV mission) noted that subsidies for petroleum products had been largely eliminated by drop in world prices and advised the authorities to adhere strictly to the pricing formula going forward. Electricity subsidies, however, remained a problem.

77. **Strengthening the energy sector was one of the key objectives of the one-year precautionary SBA approved in April 2008.** The 2008 SBA aimed to correct the imbalances caused by the expansionary policies of 2006–07 and serve as a bridge to a new PRGF arrangement. Fuel subsidies had re-emerged in 2007 as domestic fuel prices were kept fixed below international prices; overall energy subsidies, including losses of the state electricity distribution company, *Empresa Nacional de Energia Electrica* (ENEE), were estimated at over 2 percent of GDP in 2007. Staff urged the authorities to rein in the cost of energy subsidies and improve their targeting along the lines advised by the 2006 TA mission. The authorities agreed to: (i) limit the direct electricity subsidy and the *bonochenta* to users consuming less than 150 kWh per month (see Box 10); (ii) cap the fuel subsidy at L1000 million (0.4 percent of GDP) for 2008 and target it to the poor; and (iii) appoint a technical group to prepare a report identifying schemes to better target fuel subsidies. The program included as a structural performance criterion implementation of an electricity tariff policy to ensure ENEE’s operational cost recovery. In the event, average electricity tariffs were adjusted by 30 percent (more than envisaged under the program), direct electricity subsidies were better targeted to the poor, and fuel subsidies were phased out in 2008 (IMF, 2009c).<sup>58</sup>

78. **As in the earlier PRGF arrangement, the 2008 SBA included a floor on “anti-poverty spending” as an indicative target**, where anti-poverty spending was defined as “all spending on programs and projects of the Poverty Reduction Strategy (whether financed by domestic savings, HIPC debt relief, grants, and external loans), as defined in the relevant annex of the 2003 PRSP

<sup>58</sup> However, the automatic fuel price adjustment mechanism was not reinstated until much later, in December 2014.

and the latest update to the PRS” (IMF, 2008d). In keeping with the PRSP, the definition of anti-poverty spending under the indicative target was very broad, including on rural development, water and sanitation, education (including teacher salaries), and community development programs, amounting to about 7 percent of GDP. It is not known whether staff discussed with the authorities which spending categories were of greatest relevance to vulnerable households. In the event, the SBA was short-lived—it went off track due to “large deviations in monetary and exchange rate policies” without any reviews being completed (IMF, 2009c).

79. **The SBA/SCF arrangement approved in October 2010 set the indicative target more narrowly as a floor on “social investment spending”** (IMF, 2010f). The 18-month arrangement (also precautionary) was put together to support the new incoming administration and help the country recover from the effects of the global slowdown and the domestic political crisis of 2009.<sup>59</sup> The program was anchored in fiscal consolidation and aimed to reallocate public expenditures to priority areas. The authorities proposed the inclusion of the spending floor to signal their commitment to protecting social expenditures (IMF, 2010f). Social investment spending was defined as “programs and projects of social content that are financed with domestic resources, debt relief, grants and loans,” namely, the *Bono 10,000* CCT program and other specific expenditures (Box 11).<sup>60</sup>

**Box 11. Honduras: The *Bono 10,000* CCT Program**

The national CCT program, *Bono 10,000*, was launched in 2010, with assistance from the World Bank, IDB, and Central American Bank for Economic Integration (CABEI). It consolidated two CCT programs—one conditional on health check-ups for infant children (*Bono Solidario*) and the other on primary school enrollment for children aged 6–13 years (*Bono Escolar*)—which were limited in coverage and budget. At its inception, the *Bono 10,000* covered extremely and moderately poor families with children under five, children in primary school (Grades 1–6), and pregnant mothers, conditional on regular health check-ups and enrollment in and attendance at school. The program expanded rapidly from 150,000 registered beneficiary households in 2010 to 315,000 in 2013, mainly rural (80 percent of total). In 2013, 75.1 percent of its beneficiaries were classified as extremely poor. According to World Bank (2014), program benefits were up to US\$500 per year (quite large by international standards for CCT programs) and almost all of *Bono 10,000* resources were financed through international development loans.

80. **Under the program, the government planned to increase social protection as part of its anti-poverty strategy.** The authorities planned to spend the equivalent of 1.6 percent of GDP on social investment in 2011, mainly on *Bono 10,000*—to increase coverage, strengthen

<sup>59</sup> In 2009, the economy of Honduras was severely affected by the global financial crisis and a coup which resulted in the suspension of international assistance. Real GDP shrank by almost 2 percent. According to a 2010 mission, “social tensions were high, as internal polarization intensified in the aftermath of the political crisis of 2009” (IMF, 2010f).

<sup>60</sup> Other social investment expenditures comprised: The Honduran Social Investment Fund (FHIS), the Community Education Program, the Family Allowances Program (PRAF), the Healthy Schools Program (providing free school meals), free tuition schemes, school transportation bonus, social aid to persons, *Patronatos Aldeas y Caseríos*, social work scholarships, academic excellence scholarships, and other scholarships and programs.

monitoring and control mechanisms, and expand the provision and access to health and education services to beneficiaries.<sup>61</sup> The SBA/SCF program included an adjustor whereby at least half of any excess tax revenue over the projected amounts in 2010 and 2011 would be allocated to the *Bono 10,000* (IMF, 2010f).

81. **The IMF was also concerned with the sustainability and governance of the public pension system.** The system was fragmented and included separate pension funds for the military, university staff, civil servants, private workers, and teachers (Box 12). The IMF repeatedly warned about net lending by the public pension institutes—pension fund revenues were often used to finance the government as well as to provide loans to certain groups. Drawing on IDB analysis, the 2009 and 2010 Article IV missions called for comprehensive reforms of public pension funds to ensure their financial viability. The 2009 Article IV mission also urged the authorities to “exercise firm control over net lending of pension funds” and make the funds “less subject to political interference” (IMF, 2009c).

**Box 12. Honduras: Social Security Schemes**

There are several contributory social security schemes in Honduras for workers in the formal sector. According to World Bank (2014), however, social security coverage is low compared to other countries in the region: although contributory pensions dominate Honduras’ social protection spending, only 13 percent of the elderly aged over 65 years receive pensions.

The largest social security scheme is managed by the Honduran Institute of Social Security (IHSS), which covers old age, health, and other benefits for public and private sector employees. Other main schemes include: The National Retirement and Pension Institute for Public Officials and Government Employees (INJUPEMP), which covers public employees; the National Pension Institute for Teachers (IMPREMA), which covers primary and secondary school teachers in the public and private sectors; and the National Autonomous University of Honduras Employee Pension Institute (INPREUNAH), which covers the university’s teaching and administrative personnel.

According to World Bank (2014), large disparities in benefits paid by the different schemes: in 2009, the IHSS paid an average pension paid of US\$47 a month, compared with the substantially more generous INJUPEMP (which paid US\$253 a month on average) and IMPREMA (US\$410 a month). INJUPEMP and IMPREMA had actuarial deficits. The 2012 Article IV mission also reported that the health system administered by the IHSS was in chronic deficit and partly funded with loans from other pension funds.

82. **Pension reform was a key element of the 2010 SBA/SCF-supported program, which included two related structural benchmarks.** The first called on the authorities to present to Congress reform proposals to rationalize the scope of benefits provided by three major pension funds serving public and education sector employees (Table 2). After delays due to technical consultations and protracted negotiations with unions, the reform laws were approved by early

<sup>61</sup> The World Bank approved a US\$40 million Social Protection project in 2010 that aimed to strengthen management of the *Bono 10,000* through the development of transparent mechanisms for targeting, monitoring compliance, and payments to beneficiaries.

2012.<sup>62</sup> The second was to undertake an independent assessment of the largest provider of pension and health coverage, the Honduran Institute of Social Security (IHSS). The IDB financed the audit and assisted in designing reforms to strengthen the management and financial position of the IHSS.

Structural benchmark (unless otherwise specified)	Date introduced	Result
<i>2010 SBA/SCF:</i>		
1. Present a law reform proposal that allows changing the bases of defined benefits, to reduce the actuarial deficit of IMPREMA, INJUPEMP and INPREUNAH; by end-December 2010	Initial request (October 2010)	Reforms to INPREUNAH's statutes were presented to its Board of Directors in March 2011. The draft law reforming INJUPEMP was submitted to Congress in April 2011. The draft law reforming IMPREMA was submitted to Congress in June 2011.
2. Contract an administrative, technical and financial assessment of the IHSS; by end-September 2011	First review (April 2011)	The IDB agreed to finance a comprehensive audit of the IHSS and assist in developing a reform program.
<i>2014 SBA/SCF:</i>		
1. Submit to Congress legislation to reform the IHSS to strengthen its actuarial position and improve its governance; by end-March 2015	Initial request (November 2014)	The draft law was submitted to Congress in February 2016.
2. Approval of the law reforming the IHSS; by end-June 2015	Initial request (November 2014)	Postponed to end-December 2016.
3. National Banking Commission to issue prudential regulations for the investments of public pension funds in line with IMF recommendations; by end-March 2017	Third and fourth reviews (October 2016)	

83. **The IMF put a much stronger emphasis on containing the fiscal implications of social protection programs after the 2010 SBA/SCF expired.** The 2012 and 2014 Article IV missions were concerned with the fiscal deficit and stressed the need to finance pro-poor programs without raising the overall level of overall public expenditure, which was considered to be high by regional standards. The government introduced a package of fiscal adjustment measures at the end of 2013, which included expenditure reductions of over 0.6 percent of GDP and additional social spending of 0.4 percent of GDP under a new program, *Vida Mejor*, which encompassed *Bono 10,000* (at 0.7 percent of GDP), for a total 1.1 percent of GDP in 2014. The three-year SBA/SCF arrangement approved in 2014 included an indicative floor on social investment spending (including the *Vida Mejor* program), which the authorities planned to keep

<sup>62</sup> The reforms included changes to key parameters (e.g., increases in contribution rates, the retirement age, and minimum years of service) designed to reduce the actuarial deficits of the pension funds.

at 1.6 percent of GDP in 2014–15.<sup>63</sup> Staff welcomed the government’s plan to reform and widen the social safety net—notably by moving to universal health and pension coverage and introducing basic unemployment protection—but found it too costly and called for amendments to the new social protection bill to “limit its costs, safeguard the fiscal program’s targets, and make the reform sustainable over time” (IMF, 2014h).

**84. Under the 2014 SBA/SCF arrangement, the IMF continued to push for electricity sector and pension reforms from the standpoint of fiscal sustainability.**

- By this time, the IMF had become very concerned with the financial position of the ENEE. Like the 2010 SBA/SCF, the 2014 arrangement included a continuous benchmark to adjust electricity tariffs to reflect changes in costs. The 2014 Article IV mission reported that as part of the authorities’ end-2013 fiscal adjustment package, the electricity subsidy for households consuming between 75Kwh and 150Kwh per month was reduced substantially and, for households with consumption of up to 75Kwh, was replaced by a cash transfer of L120 (US\$6) per month (IMF, 2014d).<sup>64</sup>
- Staff encouraged the authorities to strengthen the investment policies of pension funds to align them more closely with best international practices.<sup>65</sup> The 2014 SBA/SCF-supported program established a ceiling on net lending of the combined public sector as a performance criterion but as noted in IMF (2016c), the ceiling ultimately was “missed by a wide margin.”
- The 2014 SBA/SCF-supported program included structural benchmarks to reform the IHSS (see Table 2). The IDB and the World Bank had the lead in designing the reforms to move the pension and healthcare systems gradually towards a multi-pillar system with universal coverage. The IMF, however, was concerned that the proposed reforms did not fully take into account the short- and medium-term financing implications. As a result, submission to Congress of the legislation reforming the IHSS was delayed a few times until February 2016.

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<sup>63</sup> As with the 2010 SBA/SCF, the 2014 SBA/SCF program also included an adjustor whereby up to half of any tax revenues in excess of projections for 2015 would be allocated to social investment spending.

<sup>64</sup> Staff interviewees noted that the program did not contain any other countervailing measures because global oil prices had resulted in a reduction in the consumer price as well as due to restructuring of ENEE.

<sup>65</sup> In 2013, the authorities took a US\$300 million loan from the Central American Bank for Economic Integration (CABEI) to retire high-interest, short-maturity domestic debt held by the pension funds and invest in the CABEI’s portfolio. Staff encouraged the authorities to “strengthen pension fund regulations governing investment decisions to limit risks, including from investing in CABEI-financed projects” (IMF, 2014h).

## G. Mongolia

85. **The IMF’s engagement with Mongolia on social protection spanned the entire evaluation period and centered on one issue—universal social transfers.** According to ILO (2016), Mongolia has one of the most comprehensive social protection systems in Asia. Its flagship program, the Child Money Program, was introduced in 2005 as a CCT program for poor households and transformed into a quasi-universal program in 2006 when budget revenues ballooned on the back of soaring copper and gold prices (Box 13). In the decade that followed, the Mongolian economy experienced a boom-bust cycle. It was hit hard by the global economic crisis in 2009, due to its high dependence on mineral exports. Annual real GDP growth dropped from an average of 15 percent in 2006–07 to -1.3 percent in 2009, then rebounded to double digits again in 2011–13. During the evaluation period Mongolia had an exceptional access SBA in 2009–10.

### Box 13. Mongolia: The Child Money Program

The Child Money Program was launched in January 2005 as a targeted CCT program providing a monthly cash allowance of Tögr3,000 (US\$2.50) per child under the age of 18 to all families with three or more children living under the minimum subsistence level (an official measure defined annually by the National Statistical Office of Mongolia). The decision to focus the program on large families was partly motivated by the idea to provide an incentive for having children to counter the downward trend in the fertility rate. The procedures for enrolling in the program and receiving benefits were based on provisions in the Social Welfare Law adopted in December 2005. In 2005, the Child Money Program covered 350,000 children.

In 2006, the provision of “child money” was made a universal entitlement for all children under 18 years of age living at home and attending school. In 2007, the benefit level was raised over two and a half times to Tögr25,000 (around US\$21) per quarter per child. The number of children covered under the Child Money Program rose to 932,000 (ILO, 2016).

Research by UNICEF (Hodges and others, 2007) found that the initial targeted program resulted in very high leakage to non-poor households and substantial exclusion of poor households, due to flaws in the proxy means test and implementation problems, whereas the universal benefit resolved most of the exclusion error, further reduced the child poverty headcount and was progressive along the entire household expenditure distribution due to the heavier concentration of children in the lower deciles.

86. **The IMF consistently favored targeted (means-tested) benefits over the universal Child Money entitlement.** A 2005 FAD TA mission examining options for expenditure savings and efficiency improvements concluded that resolving Mongolia’s widespread poverty through the Child Money Program and the social assistance system far outstripped the resources available to the government. It recommended that those resources instead be narrowly targeted to the neediest. The 2006 Article IV mission argued, and the Board agreed, that “poorly targeted social welfare programs, such as the universal child allowance and lump-sum awards to newlyweds and newborns, seriously diluted resources for poverty alleviation” and that means-testing should be reintroduced (IMF, 2007a). A PSIA mission in 2007 confirmed that the major

social transfer programs were progressive but not well targeted.<sup>66</sup> The 2008 Article IV consultation and Board discussion highlighted concerns about pro-cyclical policies in the midst of high economic growth, including “a proliferation of overlapping and virtually universal social welfare programs” and urged the authorities to consolidate and improve the targeting of social welfare programs to “facilitate the protection of the vulnerable groups from the impact of food price hikes” (IMF, 2008a). A 2009 FAD TA mission advising on expenditure rationalization in the context of falling mineral revenue reiterated the advice of previous TA missions to target social transfers more efficiently. According to Mongolian authorities interviewed for this evaluation, the government decided not to follow the IMF’s recommendations for fear of reducing the coverage of social assistance. As recalled by one former senior government official, since 2005 the most important social protection principle emphasized by politicians in Mongolia has been universality, with limited to no targeting of benefits.

**87. Targeting of social transfers became part of structural conditionality in the SBA that was approved in 2009.** The global economic crisis and collapse in copper prices in 2008 hit the Mongolian economy hard. The 18-month SDR 153 million (about US\$229 million or 300 percent of quota) exceptional-access SBA aimed to “address the social consequences of the economic downturn, in particular on the more than one-third of the population living below the poverty line” (IMF, 2009d). Under the SBA-supported program, the authorities agreed to “improve the system of social transfers through better targeting” by the end of the year, and two structural benchmarks were set to that end (Table 3) (IMF, 2009d). Staff had, in fact, argued for an immediate rationalization of untargeted social transfers, but the authorities demurred while noting that, given the complex, overlapping social assistance system, it would take time to identify which transfers were truly protecting the poor and to institute a reliable targeting mechanism (IMF, 2009d).<sup>67</sup> They agreed to work with the World Bank and the ADB to design a reform of the social transfer system.<sup>68</sup> The SBA also included a structural benchmark for adopting a fiscal responsibility law to help prevent a repeat of the pro-cyclical policies that contributed to the balance-of-payments crisis.

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<sup>66</sup> The mission was requested by the authorities to analyze the distributional impact of fiscal policy. No TA report was produced.

<sup>67</sup> One interviewee recalled objecting to the Fund’s recommendation to cut benefits for those who could not work (mainly the disabled) and for their caregivers, noting that those were in fact the best targeted of Mongolia’s social protection transfers and that inflation had already eroded their value substantially.

<sup>68</sup> The World Bank was updating its 2006 Poverty Assessment for Mongolia based on new 2007–08 household survey data; it also examined the pension system and social welfare/transfer schemes in the context of a Public Expenditure and Financial Management Review. The ADB launched a US\$60 million Social Sector Support Program in 2009 to assist the Mongolian authorities in improving the efficiency and effectiveness of social transfers to the poor and to supplement the financial assistance provided by the IMF and other development partners.

**Table 3. Mongolia: Structural Conditionality on Social Protection in the 2009 SBA-Supported Program**

Structural benchmark (unless otherwise specified)	Date introduced	Result
1. [Undertake] a comprehensive review of transfer programs resulting in a revision of the relevant laws to streamline transfer programs and safeguard the social safety; by end-June 2009.	Initial request (March 2009)	The review was completed in late June 2009 and the reform plan approved by a Cabinet-level Working Group.
2. Pass a comprehensive social transfer reform that saves money and protects the poor through better targeting; by end-November 2009.	Second review (September 2009)	The Social Welfare Law was amended in 2012.

88. **The envisaged social welfare reform did not materialize under the SBA.** With the help of the World Bank and the ADB, a reform was designed in mid-2009, which included a consolidation of social benefits (from over 60 to less than 20), a reduction in untargeted (universal) transfers, and the introduction of a new targeted poverty benefit. However, the government was reportedly concerned that implementation of the reform could worsen poverty in the absence of an effective targeting mechanism and it actually significantly increased universal social transfers (IMF, 2010b). In January 2010, it replaced the Child Money Program with an annual cash transfer of Tug120,000 (US\$90) to all citizens, delivering on a campaign promise that had been made by both major political parties. The universal transfer was funded with earmarked mineral revenues through the Human Development Fund set up at the end of 2009 to redistribute wealth equally among all citizens of Mongolia. Staff called this move “a step in the wrong direction” that would further reduce fiscal flexibility (IMF, 2010b). Meanwhile, the World Bank and the ADB continued to help the authorities to build the capacity for means-testing needed for the introduction of the targeted poverty benefit. However, passage of the social welfare reform law was repeatedly postponed due to a lack of political consensus, and remained pending at the expiration of the SBA in October 2010.

89. **The IMF’s internal and external messages regarding the SBA’s role in advancing social protection were inconsistent.** The Ex Post Evaluation of Exceptional Access Under the 2009 Arrangement was critical, noting that “the program made the least progress in welfare reform” as it failed to achieve the desired adoption of a targeted poverty benefit and to obtain a durable commitment from the authorities to implement and/or sustain reforms that were achieved under the program (IMF, 2011c). The Ex Post Evaluation, which reflected the views of the authorities, attributed resistance to the targeted poverty benefit to a “cultural and political reluctance to identify and treat the poor differently” which “severely handicapped the influence of the IMF and other international financial institutions” and did not bode well for the passage of a comprehensive social welfare reform (IMF, 2011c). In an *IMF Survey* article, however, staff said the program illustrated how the IMF had “refocused its lending” in Mongolia and highlighted

that the fact that “[s]ocial transfers were increased during the program period in order to shield the most vulnerable from the impact of last year’s recession.”<sup>69</sup>

90. **Staff continued to argue for social welfare reform in the post-program period, with little success.** The 2011 Article IV mission underscored the benefits of introducing a targeted poverty benefit to “strengthen the social safety net, increase fiscal flexibility, and replace the inefficient system of universal transfers” (IMF, 2011b). The mission also tried a new argument: citing econometric evidence from Mongolia that demand-side factors contributed to higher food prices, it argued that the increase in universal transfers planned for 2011 could push up inflation, which would impose significant economic and social costs, particularly on the poor. The new Social Welfare Law was finally approved in 2012 and the government agreed to cut universal transfers in the second half of that year. But parliamentary elections were held in mid-2012, and the new government that came in sidelined the new Social Welfare Law and reintroduced the Child Money Program, providing a cash transfer of Tog20,000 (US\$15) per month to all children under 18 years, financed from the Human Development IMF. Subsequent Article IV missions continued to press for implementation of the new Social Welfare Law and returned to the many of the same themes pursued in the beginning of the evaluation period, for example, “phasing out large untargeted subsidies and in favor of programs (like food stamps) that more directly reach the poor” (IMF, 2015d).<sup>70</sup>

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<sup>69</sup> “Mongolia stages dramatic turnaround,” *IMF Survey*, September 13, 2010.

<sup>70</sup> The ADB supported the development of means-testing (based on income and assets) for the food stamp program that was introduced in 2010. According to ADB staff, by 2014, data had been collected for 86 percent of Mongolian households, and provides a means for identifying potential beneficiaries.

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