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THE IMF AND SOCIAL PROTECTION

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I. INTRODUCTION

1. **Social protection is front and center in the global policy discourse.** The global financial and economic crisis in 2008 triggered job losses and financial turmoil, adding to existing challenges and risks to individuals and societies posed by demographic trends (e.g., aging populations and youth unemployment) and other phenomena. In April 2009, the Group of Twenty (G-20) recognized its “collective responsibility to mitigate the social impact of the crisis” and called on international organizations to monitor the impact of the crisis on the poorest and most vulnerable and to assess actions taken and actions required to support those affected by the crisis (G-20, 2009). In November 2011, the G-20 recognized the importance of social protection floors in member countries and called on international organizations to enhance cooperation on the social impact of economic policies and intensify coordination (G-20, 2011). The United Nations’ post-2015 Sustainable Development Goals (SDGs) call for, inter alia, “[implementing] nationally appropriate social protection systems and measures for all” (UN, 2015).

2. **What is social protection?** Broadly speaking, social protection encompasses policies aimed at preventing or alleviating sharp reductions in well-being, particularly for the most vulnerable groups in society (see Box 1). Social protection policies typically assume particular importance during crises when a large share of the population may become unemployed and/or fall into poverty. They include social assistance (such as government transfers to the poor) and social insurance (such as old-age pensions and health and unemployment insurance), and benefits may be in cash or in kind.¹ Different countries have different social protection systems which vary in scope (the contingencies covered by existing schemes), coverage (the percentage of the population or target group included), and the extent of benefits. Most advanced economies have comprehensive social protection systems, whilst most low-income countries have very limited schemes.

3. **While not an explicit part of its mandate, the IMF has addressed social protection issues.** It has done so mainly in the context of the need to ensure fiscal sustainability in member countries (insofar as social protection policies or measures mostly entail public expenditures); the need to mitigate adverse impacts, particularly on the poor, during periods of economic adjustment (not least to enhance the political sustainability of economic reforms); and the need to improve labor market flexibility and reduce unemployment. In the wake of the crisis, however, the Fund has been criticized for pushing for excessive fiscal austerity without paying adequate

¹ Social assistance provides benefits to all persons in need: eligibility to receive the benefits is not conditional on payment of contributions by the beneficiaries but may be subject to specific criteria such as a means test. Social assistance is also referred to as “social safety nets” (see World Bank, 2015). Social insurance schemes require formal participation by beneficiaries; participation is usually linked to employment, and contributions are payable either by the participant, the employer, or both.

attention to the social costs and without ensuring the presence of needed safety nets for vulnerable segments of the population.²

Box 1. What is Social Protection?

There are various definitions of social protection. The IMF's *Government Finance Statistics Manual* defines social protection as "the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks" where social risks are defined as "events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income" (IMF, 2014a). The social risks covered by social protection vary from country to country; they generally include "lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; lack of (affordable) access to health care; insufficient family support, particularly for children and adult dependents; and general poverty and social exclusion" (ILO, 2014).

Social protection policies can contribute to reducing poverty and inequality and fostering economic growth and development. By ensuring that people enjoy income security and their basic needs are met, social protection policies can enable them to make productive investments and empower them to take advantage of economic opportunities. But social protection policies do not operate in a vacuum—other policies are also needed. For example, social protection measures to facilitate access to social services (e.g., education and health care) need to be accompanied by measures to improve the availability and quality of those services. Similarly, social protection for working-age persons needs to be coordinated with labor market policies and institutions/regulations (e.g., employment policies including employment protection; wage policy including minimum wages and collective bargaining). While these other policies/instruments also play a role in reducing vulnerability—and as such can be considered "socially protecting" (Slater, McCord, and Mathers, 2014)—they are not necessarily social protection policies in the narrower sense. Alternatively, some definitions of social protection include health care (Eurostat, 2008) or minimum labor standards (DFID, 2006).

While "social protection" is now a commonly used term, other terms may also be used for the same concept. For example, "social protection" is sometimes used interchangeably with "social security" (ILO, 2014). Some also refer to it as "social expenditure/spending" (OECD, 2007) although the IMF's usage of the term "social spending" refers to government spending on health and education, which is not the same as social protection.

4. **This evaluation will examine the IMF's involvement in social protection issues across its main lines of business**—surveillance, lending, and capacity development. It will take stock of the main social protection issues the IMF has addressed in each line of business, and it will assess in greater depth areas such as pension reforms and social assistance measures to mitigate the impact of food and energy subsidy reform and public expenditure rationalization more broadly.

² See, for example, Van Waeyenberge, Bargawi, and McKinley (2010), Ortiz and Moreira Daniels (2012), Cavero and Poinasamy (2013), Salomon (2015), and Ortiz and others (2015)—echoing criticism that dates back to the 1980s (see Cornia, Jolly, and Stewart, 1987).

II. HOW DO SOCIAL PROTECTION ISSUES ENTER THE WORK OF THE IMF?

5. **The IMF has long understood its engagement in social protection to be mainly indirect.** The IMF's mandate, as laid down in its Articles of Agreement, is essentially to promote international monetary cooperation and stability although Article I does mention "the promotion and maintenance of high levels of employment and real income."³
6. **The Fund's policy on how to incorporate social protection considerations into its policy advice and program design calls for relying on the expertise of relevant leading institutions for necessary inputs** (see Box 2). For example, the World Bank has traditionally been expected to take the lead in advising on poverty assessments, the design of sectoral strategies, the provision of social safety nets and basic social services, and improving the effectiveness and pro-poor orientation of public expenditures. The International Labour Organization (ILO) is seen as leading in the area of labor market and related social policy reform; and the World Health Organization (WHO) on health-related issues. Main areas of Fund involvement have been social safety nets and their financing, the fiscal consequences of publicly mandated pension and health insurance schemes in countries with aging populations, and the impact of food and energy subsidy reforms on vulnerable groups.
7. **Over the past few years, the IMF has given greater attention to social protection issues.** In 2009, it became a collaborating agency in the One UN Social Protection Floor Initiative and in 2010 it agreed to work with the ILO to help develop a minimum social protection floor for the most vulnerable in all countries (see Box 2). In its *2011 Review of Conditionality*, the IMF recognized the need to consider "macro-social aspects" more consistently in Fund-supported programs and in its engagement with members (IMF, 2012b).⁴ The Operational Guidance Note on Conditionality for Fund-supported programs (2014) explicitly states that: "Where feasible and appropriate, policy measures to mitigate adverse impacts on the most vulnerable should be included in program design" (IMF, 2014b). The Fund is also expanding its analytical work on issues related to social protection—notably, income inequality—and a pilot program is underway to bring policy messages from this analytical work into Article IV consultations in a sample of countries.

³ Specifically, Article I (ii) lists as a purpose of the IMF "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" (see <http://www.imf.org/external/pubs/ft/aa/index.htm>).

⁴ "Macro-social aspects" include other issues besides social protection, such as education and health spending. For low-income countries, Fund policy since 2010 has been that "social and other priority spending" should be safeguarded and, whenever appropriate, increased under most Poverty Reduction and Growth Trust (PRGT)-supported programs and this should be monitored through explicit program targets, typically an indicative floor, whenever possible (IMF, 2012a).

8. **The various channels of the Fund’s work enable broad engagement in social protection issues across the membership.** Under IMF-supported programs, the Fund can help governments protect and increase social assistance and improve the design of social safety net programs that can mitigate the impact of some reform measures on the most vulnerable in society; programs may include conditionality in this regard.⁵ The Fund provides policy advice to member countries on social protection in its bilateral surveillance and conducts research and analysis related to social protection. It carries out training and technical assistance related to social protection measures, policies, and systems. Along with the work it conducts independently, the Fund also collaborates with the World Bank and other multilateral agencies that have a more direct role in designing, financing, and assessing social protection policies, strategies, and programs.

Box 2. The Roles of Other Multilateral Agencies in Social Protection

The World Bank published its first Social Protection and Labor (SPL) strategy in 2001. During its first decade, the Bank’s SPL work focused on five main areas: labor markets and job creation; pensions and old-age income support; social safety nets; social funds; and disability. To date, SPL engagement—encompassing both lending and analytical work—has been concentrated in middle income countries, particularly in Latin America and the Caribbean, and Europe and Central Asia. The World Bank’s current SPL strategy, launched in 2012, calls for greater coordination within and across the main SPL areas in order to create “SPL systems;” emphasizes the central role of jobs and enhanced productivity as the pathway to opportunity; and aims for increased engagement in low-income countries (World Bank, 2012).

The ILO and the WHO co-lead the One-UN Social Protection Floor (SPF) initiative. The initiative was adopted by the UN Chief Executives Board in 2009 in response to the global economic and financial crisis and is supported by numerous collaborating agencies including the IMF and the World Bank. Social protection floors are nationally defined sets of basic social security guarantees ensuring that all in need have, at a minimum, access to essential health care and basic income security over their life cycle. Following a joint high-level conference in Oslo in 2010, the ILO and the IMF agreed to work together to explore the idea of a minimum social protection floor for the most vulnerable in all countries, focus on policies to promote employment-creating growth, and promote social dialogue.

Other multilateral agencies engaged in various aspects of social protection include the Organisation for Economic Co-operation and Development (OECD); the Food and Agriculture Organization, the UN International Children’s Emergency Fund (UNICEF), and other UN agencies; and regional development banks.

III. PERSPECTIVES OF THE IMF’S WORK ON SOCIAL PROTECTION

9. **Past IEO evaluations have included ancillary findings related to social protection issues, mainly in the context of Fund-supported programs.** The 2003 evaluation of *Fiscal Adjustment in IMF-Supported Programs* found that programs did not squeeze aggregate public spending on health and education but could not say that they effectively shielded the most vulnerable groups; and the evaluation suggested that the IMF become more active in assisting middle-income countries establish social protection mechanisms for periods of budgetary

⁵ The IEO evaluation of *Structural Conditionality in IMF-Supported Programs* (IEO, 2008) found that a small share of structural conditionality in Fund-supported programs during 1995-2004 focused on “social policies” (social safety nets, education and health, and poverty assessment issues).

retrenchment (IEO, 2003). The 2004 evaluation of *The IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility* (PRGF) similarly found that expenditures designated as poverty-reducing increased significantly under the PRGF but could not conclude that all of them were truly pro-poor (IEO, 2004). On the other hand, the 2007 evaluation of *The IMF and Aid to Sub-Saharan Africa* highlighted Sub-Saharan African authorities' concerns that Fund staff had focused too much on pro-poor spending for safety net programs at the expense of pro-growth spending for infrastructure (IEO, 2007). Both IEO (2004) and IEO (2007) found limited use of poverty and social impact assessments as a means to identify potentially adverse social and distributional impacts and thus provide a basis for program measures to offset these impacts. A recent joint revisit of these two evaluations concluded that while the Fund has made clear progress in including protections for social and other priority expenditures in low-income country programs, less analysis has been done on the quality of these expenditures, program implementation, and results (IEO, 2014).

10. **Recent external and internal reviews of Article IV consultations and IMF-supported programs have also identified areas for improvement in the Fund's work on social protection issues.** Martin and Watts (2012) found little or no analysis of the social, distributional, or poverty reduction impact of programs supported by the Poverty Reduction and Growth Trust (PRGT), "even though increasingly reliable tools for analyzing such issues are available outside the Fund." IMF (2012) similarly noted that analysis of the social impact of policy measures in programs needed to be strengthened and considered in a broader context. Regarding Fund surveillance, Islam and others (2012) noted that 2009–10 Article IV staff reports for developing countries gave insufficient attention to expansion of social protection, employment generation, and poverty reduction; and IMF (2011) likewise called for more coverage in Article IV consultations of social issues important for members' stability, such as employment and inequality. IMF (2013) reviewed Article IV documents and program requests in 2011–12 for their approach to growth, labor markets, and inclusion, and found, among other things, scope for "[m]ore systematic integration of policy advice on tax and expenditure policy reform to create conditions to encourage ... greater protection for the most vulnerable."

IV. EVALUATION QUESTIONS AND METHODOLOGY

11. **This evaluation will center on three broad themes directly relevant to the operations of the Fund:** "Has there been clear direction and guidance at the institutional level regarding the IMF's role in social protection? Has the IMF collaborated effectively with other agencies on social protection issues? And to what extent have social protection concerns been adequately integrated into the Fund's macroeconomic analysis and policy recommendations?" The evaluation will cover program, surveillance, and capacity development activities across advanced, emerging market, and low-income countries. It will cover the last ten years, from 2006 to 2015, but may go back further for some questions and focus on the more recent past for others.

(a) **The Fund's role in social protection:** Is there an established policy or position with regard to the Fund's role in social protection? How have views on social protection issues

been formed within the IMF, i.e., what has driven the selection of social protection issues being covered and specific positions taken on them? Have policies and internal guidelines provided clear direction for staff for engagement in this area? Do staff have sufficient expertise and/or available tools to analyze social protection and distributional issues? From the perspective of a sample of country authorities and other close observers, has the level of IMF engagement in social protection issues been sufficient where warranted—or, conversely, excessive?

- (b) **Fund collaboration with other multilateral agencies:** Are IMF guidelines sufficiently clear on the role of the Fund vis-à-vis other agencies, and on the expected output and intermediate outcome(s) of collaboration with regard to social protection? What issues, if any, have arisen in coordinating operational work or positions with other organizations on social protection? To what extent may such issues have resulted in analytical gaps or conflicting signals for authorities?
- (c) **Integration of social protection considerations in IMF policy advice:** Have social protection issues been analyzed in sufficient detail when necessary (macro-critical) and omitted when not?⁶ Where the IMF has provided policy recommendations on social protection, have these recommendations been supported by relevant research and analysis that has taken into account actual experiences in member countries?⁷
- *Programs:* Is the design of social protection elements in IMF-supported programs, including conditionality on and related monitoring of social protection, relevant to the authorities' goals? Does the Fund help country authorities to understand and assess policy trade-offs between social protection and other expenditures and between alternative social protection measures in program design? Do IMF-supported programs adequately and consistently take into account implications for vulnerable groups in their design? Do programs provide for mitigating measures in their design as may be necessary?
 - *Surveillance:* Does the Fund help member countries to assess the macro- and microeconomic implications and trade-offs of social protection policies as part of its Article IV consultations? For example, does the Fund examine the implications of (different degrees of) benefits targeting or pension system design on fiscal sustainability, relative prices, economic distortions, and incentives? Has the Fund

⁶ Assessment of the scope of the Fund's policy advice on social protection issues would need to be made with due consideration of the Fund's mandate, resources, and expertise in the area.

⁷ The evaluation will look into IMF research activities insofar as they contribute to IMF views on social protection, but will not evaluate IMF research on social protection issues per se. IMF research was the subject of evaluation in IEO (2011).

been sufficiently forward-looking in identifying policy challenges for social protection that could emerge over the medium to long term?

- *Capacity development:* Are social protection reform strategies advocated by IMF training and technical assistance (e.g., pension reforms, social safety net reforms, etc.) relevant and appropriate to country circumstances?

12. **Evaluation tools will include desk reviews, interviews, a staff survey, and country visits.** Desk reviews will cover policy documents and guidelines issued to staff, Article IV consultation staff reports and Selected Issues Papers, program documents, technical assistance reports, and advocacy and outreach items. The evaluation will also draw on previous IEO evaluations, Fund studies, and external studies. We will conduct interviews of staff from the IMF and other multilateral agencies, as well as government and other stakeholders in a sample of countries where there has been Fund involvement in social protection issues.

13. **There will be case studies on the IMF's involvement with individual countries (or country clusters) and of policy issues that cut across countries (or country clusters).** Background papers for the evaluation will address specific topics including: the evolution of Fund involvement in social protection; collaboration with other organizations in the area of social protection; Fund work on social protection in different country groups (advanced, emerging market, and low-income); and Fund work on specific issues such as pension systems and social protection recommendations in conjunction with the removal of food or fuel subsidies.

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