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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 climate change, among other phenomena. In the wake of the crisis, the IMF has been criticized for pushing for excessive fiscal austerity without paying adequate attention to the social costs and without ensuring the presence of needed safety nets for vulnerable segments of the population.¹ The international community's post-2015 policy agenda—the United Nations' Sustainable Development Goals (SDGs)—calls for, inter alia, “[implementing] nationally appropriate social protection systems and measures for all” (United Nations, 2015),² and at the United Nations (UN) Sustainable Development Summit in September 2015, the IMF Managing Director declared: “The IMF is working with its member countries and international partners in the spirit of global cooperation necessary to achieve the SDGs. We have done so, we are doing so, and we will continue to do so” (Lagarde, 2015).

2. **What is social protection?** Broadly speaking, social protection encompasses policies aimed at preventing or reducing poverty; often this protection is particularly sought for the most vulnerable 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 generally include social assistance (such as transfers, subsidies, and social services for at-risk groups) and social insurance (such as old-age pensions and health and unemployment insurance);³ they may also include policies to support human capital formation in vulnerable groups, such as active labor market policies for the unemployed and conditional cash transfers for poor families. Different countries have different types of social protection policies. It is important to note, however, that although there are overlaps, policies for development and poverty reduction, such as government spending on education and programs to boost job creation and labor force participation, are not necessarily social protection policies.

¹ See, for example, Ortiz and Cummins (2013) and Ortiz and others (2015).

² The 17 SDGs include: “end poverty in all its forms everywhere;” “ensure healthy lives and promote well-being for all at all ages;” “ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;” “achieve gender equality and empower all women and girls;” “promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all;” and “reduce inequality within and among countries;” among others.

³ 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 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.

3. **While not an explicit part of its core mandate, the Fund 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—and 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).

Box 1. What is 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... [i.e.] 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 and from scheme to scheme; social protection can be organized as social assistance or social insurance schemes. This statistical definition is in line with the World Bank's early Social Risk Management framework which defined social protection as “public interventions to (i) assist individuals, households, and communities better manage risk, and (ii) provide support to the critically poor” (Holzmann and Jørgensen, 2000).

In the past decade or so, however, the concept of social protection has been broadened beyond the provision of minimum well-being and the protection of risk to include the promotion of human and social potential and opportunities. The so-called 3P framework, related to the life-cycle approach to work and social protection developed by the International Labour Organization (ILO), identifies the functions of social protection as: (i) protection from destitution and catastrophic human capital loss; (ii) prevention against income shocks and drops in well-being; and (iii) promotion of opportunities and livelihoods (Bonilla and Gruat, 2003; World Bank, 2011). Building on that framework, the World Bank now conceptualizes social protection in the following way: “Social protection and labor programs directly improve *resilience* by helping people insure against drops in well-being from different types of shocks, and *equity* by reducing poverty and destitution and promoting equality of opportunity. But these policies also promote *opportunity* by building human capital, assets, and access to jobs and by freeing families to make productive investments because of their greater sense of security” (World Bank, 2012).

An even broader concept adds a fourth element to the 3P framework, namely transformation, which aims to address concerns of social equity and social exclusion (Devereux and Sabates-Wheeler, 2004).

Transformative social protection includes policies to protect socially vulnerable groups (e.g. minority ethnic groups) from discrimination and abuse and to transform public attitudes to enhance social equity.

4. **This evaluation will examine the IMF's work on social protection in 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 in which the Fund has had substantial involvement, such as pension systems and food and energy subsidies.

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 ensure global macroeconomic and financial stability although Article I does mention “the

promotion and maintenance of high levels of employment and real income” as an intended outcome of the institution’s work.⁴

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; aging populations and the fiscal consequences of publicly mandated pension and health insurance schemes; and reform of price subsidies, particularly food and fuel/energy subsidies.

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 issues more consistently in Fund-supported programs and in its engagement with members; the latest conditionality guidelines for Fund-supported programs for the first time explicitly state 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 potentially related to social protection—including inequality, access to finance, and the economic impact of gender inequities—and a pilot program is underway to bring policy messages from this analytical work into Article IV consultations in a sample of countries.

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 targeting 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

⁴ 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>).

⁵ The 2008 evaluation of *Structural Conditionality in IMF-Supported Programs* found a small share of conditionality in the area of social policies “where the World Bank has greater expertise than the IMF” (IEO, 2008).

conducts research and analysis related to social protection. It carries out 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 evaluating 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 Organization for Economic Cooperation and Development; 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 touched on 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 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 questions directly relevant to the operations of the Fund:** “Has the IMF’s role in social protection been appropriate given its mandate in member countries? How well has the IMF addressed social protection issues in its work? And to what extent has its work on social protection been effective and perceived as such by member 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. The evaluation will cover both program work as well as regular surveillance and capacity development activities.

12. **The assessment will utilize the standard results-chain framework of inputs, outputs, and outcomes.** Inputs consist of IMF internal processes such as the guidance provided for such work by the Board and Management; research and analysis that support the IMF’s advice on social protection policies; and tools available to staff for analyzing social protection issues. Outputs are defined as IMF assessments, policy advice, and program conditionality embedded in surveillance reports, program documents, technical assistance reports, policy dialogues, and public statements, among others. Both inputs and outputs are, to a large extent, within the control of the IMF; thus, IMF accountability for their quality is important. Moving along the results chain, the degree of IMF accountability for results becomes increasingly influenced by other factors. Outcomes depend critically on the degree of country authorities’ receptivity to and implementation of IMF policy advice and program

conditionality related to social protection. The evaluation will not undertake an impact assessment of IMF interventions on poverty reduction and the welfare of vulnerable populations in member countries, which would require a much larger study.

13. **The evaluation will center on four broad themes:**

- (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 to cover and specific positions taken on them? Have policies and internal guidelines provided clear direction for staff for engagement in this area?
- (b) **Fund collaboration with other multilateral agencies:** Do IMF guidelines provide a clear and effective delineation of the role of the Fund vis-à-vis the World Bank and other multilateral organizations? What issues, if any, have arisen in coordinating operational work or positions with other organizations? To what extent may such issues have resulted in analytical gaps or conflicting signals for authorities?
- (c) **Scope, relevance, and technical quality of the Fund’s policy advice on social protection:** Is the IMF’s policy advice on social protection appropriate in scope, i.e., consistent with the interpretation of the mandate and pertinent guidance? Have social protection issues been analyzed in sufficient detail when necessary and omitted when not?⁶ Key questions with regard to quality are whether the IMF’s policy advice on social protection is sufficiently well thought-out, applicable to the member country in question, and supported by relevant research and analysis that has taken into account actual experiences in member countries.⁷ Specifically:
- Is the design of social protection elements in *IMF-supported programs*, including structural conditionality on and related monitoring of social protection, well grounded and relevant? 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?

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).

- 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, pension system design, and social spending policies on fiscal sustainability, relative prices, economic distortions, and incentives? Has the Fund been sufficiently forward-looking in identifying policy challenges for social protection that could emerge over the medium to long term?
 - Are social protection reform strategies advocated by Fund *technical assistance* (e.g., pension reforms, subsidy reforms, social safety net reforms, etc.) relevant and appropriate to country circumstances?
- (d) **Effectiveness of Fund interventions in social protection:** Has the IMF's work on social protection been effective in terms of the objectives that the Fund set for itself in this area (to the extent that it has done so)? From the perspective of a sample of country authorities and other close observers, has there been sufficient engagement by the IMF on social protection issues where warranted—or conversely, has there been too much engagement—and has the Fund been sufficiently involved in building ownership and domestic support for the associated social protection policies or their reform? Have countries followed IMF policy advice or found it helpful in spurring debate and developing political consensus for difficult changes? To what extent has IMF advice been consistent with subsequent changes in a country's social protection policies and/or system? Has IMF policy advice in other areas (e.g., tax reform or expenditure cuts) led to adverse consequences in member countries?

14. **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. 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. The evaluation will also draw on previous IEO evaluations, Fund studies, and external studies.

15. **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; Fund work on social protection in different country groups (advanced, emerging market, and low-income); and Fund work on specific social protection policies such as pension systems and food and fuel subsidies.

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