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THE IMF AND SOCIAL PROTECTION

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ABBREVIATIONS

ADB	Asian Development Bank
AFR	African Department (IMF)
APD	Asia and Pacific Department (IMF)
CSO	civil society organization
EC	European Commission
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EME	emerging market economy
EUR	European Department (IMF)
FAD	Fiscal Affairs Department (IMF)
G-20	Group of Twenty
GDP	gross domestic product
GFSM	Government Finance Statistics Manual
IDB	Inter-American Development Bank
ILO	International Labor Organization
LIC	low-income country
MCD	Middle East and Central Asia Department (IMF)
MDG	Millennium Development Goal
MONA	Monitoring of Fund Arrangements
OECD	Organization for Economic Cooperation and Development
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SDG	Sustainable Development Goal
SIP	Selected Issues Paper
SPIAC-B	Social Protection Interagency Cooperation Board
TA	Technical Assistance
UN	United Nations
UNICEF	United Nations Children's Fund
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

Over the past decade, the IMF has stepped up its attention to social protection as it has dealt with the aftermath of the global financial crisis and addressed concerns from the impact of food and fuel price shocks and broader stresses on low-income groups and the most vulnerable. Thus, the IMF has moved beyond its traditional “fiscal-centric” approach to recognize that social protection can also be “macro-critical” for broader reasons including social and political stability concerns.

Evaluating the IMF’s involvement in social protection is complicated by the fact that there is no standard definition of social protection or of broader/overlapping terms such as “social spending” and “social safeguards” in (or outside) the Fund. In this evaluation, social protection is understood to include policies that provide benefits to vulnerable individuals or households. Food and fuel subsidies are also covered to reflect that such policies have social protection elements, but the evaluation does not cover broader policies for long-term poverty reduction such as health and education spending.

This evaluation found widespread IMF involvement in social protection across countries although the extent of engagement varied. In some cases, engagement was relatively deep, spanning different activities (bilateral surveillance, technical assistance, and/or programs) and involving detailed analysis of distributional impacts, discussion of policy options, active advocacy of social protection, and integration of social protection measures in program design and/or conditionality. In others, it was more limited, emphasizing the relevance of protecting vulnerable groups and increasing fiscal resources for related expenditures, but with little detailed analysis or follow-up.

This cross-country variation to some degree reflected an appropriate response to country-specific factors, in particular an assessment of whether social protection policy was “macro-critical,” and the availability of expertise from development partners or in the country itself. However, idiosyncratic factors also seem to have played a part, particularly in the context of surveillance, as staff had different views on what kind of work they were expected to do in this area and on the IMF’s role in social protection, as well as varying degrees of interest in these issues. In some cases, staff provided high quality analysis, but at times it seemed that attention to social protection in surveillance devolved into a box-ticking exercise as staff tried to pay due attention to an increasingly broad range of policy issues. Country officials noted that often advice was generic and lacked appreciation of country circumstances.

In the program context, the IMF almost always took account of social protection concerns, albeit with mixed success in implementation. It invariably emphasized the need to mitigate potential adverse effects of program measures on the most vulnerable and generally worked well with development partners to address social protection concerns. However, authorities sometimes found the IMF to be insufficiently attuned to local conditions, and the IMF’s efforts to incorporate social protection concerns in program design and conditionality in some cases met with

implementation challenges due to local capacity constraints and differences in country commitment.

IMF-World Bank cooperation on social protection generally worked well, allowing the Fund to draw effectively on Bank expertise in this area. However, while the IMF's preferred approach of targeting social protection to the poor and vulnerable was aligned with the World Bank's approach, it meshed less well with the rights-based approach to social protection espoused by the International Labor Organization and UN agencies which emphasizes universal benefits and targeting by category (e.g., demographic group) rather than income. This difference in viewpoints posed a challenge to IMF collaboration with such agencies and it may complicate Bank-Fund collaboration going forward as the World Bank moves to adopt the goal of universal social protection.

This difference also affected how civil society organizations perceived the IMF's commitment to social protection and the UN Sustainable Development Goals. Efforts by the IMF's external communications to emphasize the Fund's "human face" did not always convince stakeholders, especially civil society, despite the IMF's genuine increased attention to social protection, in part because of heightened expectations.

Looking forward, concerns about inequality, social and political stability, the impact of trade, immigration, and new technologies on vulnerable groups, as well as the consequences of aging populations seem likely to keep social protection issues high on the global policy agenda. This evaluation concludes with a number of recommendations to further enhance the IMF's effectiveness in this area.

- First, it will be important to establish a clear strategic framework setting the scope, objectives, and boundaries of the IMF's involvement in social protection in the face of multiple competing claims on limited staff resources. The Fund does not have the capacity or expertise to be deeply involved in social protection in all members, and such a framework would allow for a more consistent approach to deciding on the priority to be given to social protection country by country, and help to set appropriate expectations—internally and externally—as to what the IMF will and will not be accountable for.
- Second, for countries where social protection is judged to be a macro-critical strategic priority, the IMF should provide tailored advice based on in-depth analysis of the particular country situation. The advice would draw on work by development partners or country authorities where available, but in its absence, the necessary analysis may need to be undertaken in-house.
- Third, the IMF needs to find more realistic and effective approaches to program design and conditionality to ensure that adverse impacts of program measures on the most vulnerable are mitigated. This effort could build on the analysis and recommendations in

the recent Board paper on social safeguards in low-income country programs but should be extended to cover Fund-supported programs across the membership.

- Fourth, in external communications the IMF should realistically explain its approach to social protection issues and what it can and cannot do in this area given its mandate and limited resources and expertise. This would help to temper the expectations of stakeholders and avoid reputational risk to the Fund.
- Fifth, the IMF should engage actively in inter-institutional cooperation on social protection to find ways to work constructively with development partners, particularly institutions with different mandates and policy priorities.

I. INTRODUCTION

- 1. Social protection has become a central concern in the global policy discourse.** The global crisis in 2008 triggered job losses and financial turmoil, prompting the Group of Twenty (G-20) to call for actions to “mitigate the social impact,” particularly on the poorest and most vulnerable (G-20, 2009). Attention to social protection has also been raised by recurrent commodity price shocks; by concerns about rising inequality and the implications of increasing trade openness and new technologies for displaced workers and their families; by long-running demographic trends such as aging populations; and by regional social and political stresses such as the “Arab Spring” that brought attention to the need for “inclusive growth.” In 2011, G-20 member countries recognized the importance of “social protection floors”—i.e., nationally-defined guarantees ensuring that all in need have access to essential healthcare and basic income security—and urged international organizations to enhance cooperation on the social impact of economic policies (G-20, 2011). In 2015, world leaders adopted the United Nations’ Sustainable Development Goals (SDGs), pledging to achieve, by 2030, “nationally appropriate social protection systems and measures for all,” among other things (UN, 2015).
- 2. Broadly speaking, social protection aims at preventing or alleviating sharp reductions in well-being, particularly for the most vulnerable groups in society.** Social protection policies assume particular importance during recessions or crises when a substantial share of the population may become unemployed and/or fall into poverty, or in the face of sharp movements in the prices of products consumed by lower-income groups. But social protection is also relevant in the face of longer-term trends such as population aging and displacement of workers by new technologies. 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. In all countries, formal public social protection schemes coexist with informal private or community-based schemes, which may also vary quite widely across countries.
- 3. Social protection is not an explicit part of the IMF’s mandate but has received increasing attention from the Fund as an important contributor to macroeconomic stability.** With regard to surveillance, Article IV Section 3(b) directs the IMF to “respect the domestic social and political policies of members.” With regard to the use of Fund resources, similar language was inserted in the 1979 Guidelines on Conditionality (Decision No. 6056-(79/38)).¹ However, social protection has been increasingly recognized as an important contributor to macroeconomic stability, since maintaining social and political support for sustainable macroeconomic policies can depend crucially on avoiding excessive stress on vulnerable groups. In this sense, social protection policies can be “macro-critical” and relevant to Article I(ii) of the Articles of Agreement, which

¹ Decision No. 6056-(79/38) states: “In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems.” This sentence was retained in the 2002 Guidelines on Conditionality, Decision No. 12864-(02/102), which superseded the 1979 Guidelines on Conditionality.

provides that as one of its purposes, by facilitating the expansion and balanced growth of international trade the IMF should “contribute ... 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.” Moreover, as the IMF increasingly focuses on structural reforms that can help boost long-term growth in its member countries, consideration for the social and distributional impact of such reforms is also a crucial element for the relevance and effectiveness of its policy advice.

4. **The IMF has developed only a limited capacity to address social protection policies.**

Social protection has never been regarded as a core part of the IMF’s responsibility and the Fund has historically relied on the expertise of other institutions, mainly the World Bank, for work in this area. The increasing recognition that social protection policies can be “macro-critical” in a broad range of circumstances raises issues about the scope, boundaries, and objectives of IMF’s role in this area.

A. Evaluation Framework

5. **This evaluation examines the IMF’s involvement in social protection in its member countries.**

It reviews the IMF’s involvement in social protection over the past decade (2006–15), in the context of surveillance, programs, and technical assistance (TA). The evaluation period covers the years before and after the global crisis. While the focus is on the period 2006–15, the evaluation goes back further for some questions and looks at the more recent past for others.

6. **The evaluation focuses on three areas:** (i) the IMF’s role in and approach to social protection at the institutional level; (ii) the IMF’s operational work on social protection at the country level; and (iii) the IMF’s collaboration with other institutions that have a more direct role in designing, financing, and assessing social protection policies, strategies, and programs.

7. **Questions examined include the following:** Was there clear direction and guidance at the institutional level regarding the IMF’s role in social protection? How were views on social protection formed within the IMF? To what extent was the IMF involved in social protection in its country work—across countries, across the evaluation period, and across issues? Were the IMF’s public communications on its role in and commitments to social protection consistent with staff’s actual efforts or outcomes? To what extent was the IMF’s involvement in social protection effective and perceived as such by country authorities? How productive was IMF collaboration with other institutions on social protection?

8. **It should be recognized at the outset that there is no official definition of social protection in the IMF.**² The IMF has used a variety of terms over the years to categorize related

² There is no universally accepted definition of social protection. Moreover, while “social protection” is now a commonly used term globally, other terms such as “social security” and “social spending” may also sometimes be used for the same concept. Annex 1 lists some definitions of social protection and related terms and concepts by the IMF and other organizations.

policy and operational work. Some of these terms, such as “social safety nets,” are included within social protection. Other terms, however, such as “social spending” or “social safeguards” encompass broader areas (such as education and health).

9. **For the purposes of this evaluation, and in line with the classification in the 2014 Government Finance Statistics Manual, social protection encompasses a variety of policy instruments providing 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). Other policies that have social protection elements, specifically price subsidies for staple foods or energy, are also addressed in this report. Policies for development and long-term poverty reduction, such as government spending on education and health, and programs to boost job creation and labor force participation, are not considered social protection policies in this evaluation.³ However, broader aggregates of social spending are referred to in this report insofar as they include spending on social protection as defined above.

10. **The evaluation is based on information from desk reviews, interviews, a staff survey, and country visits.** Desk reviews analyzed policy documents, guidelines issued to staff, Article IV consultation staff reports and Selected Issues Papers (SIPs), other surveillance and program documents, 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 in countries where the IMF was involved in social protection issues, as well as with academics and civil society organizations (CSOs) involved in these issues.⁴ The evaluation also drew on previous IEO evaluations, IMF studies, and external studies.

11. **This report integrates the findings, lessons, and recommendations of 21 case studies as well as a number of other background papers/documents.**⁵ The case studies were drawn from advanced, emerging market, and low-income countries where the IMF was involved in social protection over the evaluation period in the context of surveillance, program, and/or TA work. The evaluation also includes background papers on the IMF’s involvement with pension issues and advice on social protection in the context of price subsidy reforms.

³ The Government Finance Statistics Manual (GFSM) classification of government expenditures for the function of social protection does not include healthcare spending although the 2008 European System of Integrated Social Protection Statistics, on which the GFSM classification is based, does.

⁴ All member countries were invited to consult with IEO on this evaluation during the 2016 Spring and Annual Meetings.

⁵ Abrams (2017); Feltenstein (2017); Heller (2017); Klugman and others (2017); Tan and Selowsky (2017); Wagner and Zhou (2017); Wojnilower (2017); Wojnilower and Monasterski (2017); and Zhou (2017).

B. Outline of Report

12. **The report is structured as follows.** Section II discusses internal directives and guidance at the institutional level and reviews external perspectives on the IMF's engagement. Section III addresses the IMF's operational work on social protection at the country level. It takes stock of the motivations, extent, and frequency of the IMF's coverage of social protection issues in bilateral surveillance, lending, and TA. It assesses the IMF's overall effectiveness within these three areas of work with respect to social protection. Section IV assesses the inter-institutional collaboration initiatives on social protection undertaken by the IMF during the evaluation period. Section V concludes with recommendations for enhancing the IMF's work on social protection going forward.

II. THE IMF'S ROLE IN AND APPROACH TO SOCIAL PROTECTION

A. The IMF's Role in Social Protection⁶

13. **Historically, the IMF's involvement in social issues was quite limited.** The Articles of Agreement call for the institution to respect members' domestic social and political policies in its surveillance activities.⁷ The Board took this caveat seriously, as evidenced in its discussions on the issue and reflected in formal guidance to staff. Social issues were not part of the IMF's core areas of responsibility, as laid out in the operational guidelines for surveillance (see IMF, 1991). Staff were not proscribed from addressing such issues but were expected to exercise their judgment as to whether the issue was relevant for macroeconomic conditions and prospects, and to rely, as far as possible, on the expertise of other institutions such as the World Bank. On occasion, particularly since the 1990s, the Managing Director directly instructed staff to pay more attention to concern for the poor and set the tone for greater involvement in social issues by the institution, but this was not built into operational guidelines.⁸

14. **After the global crisis in 2008, IMF Management put increased emphasis on social protection.** Then-Managing Director Dominique Strauss-Kahn promoted the idea of "social

⁶ This section draws on Abrams (2017). The legal framework for the IMF's internal and external activities is laid out in its Articles of Agreement. IMF policy is determined by decisions of the Board of Governors or of the Executive Board, which may be agreed by Executive Directors at a formal meeting or through a lapse-of-time decision. Institutional guidance, an indicative direction for carrying out IMF policies, may stem from various sources. At the highest level is the International Monetary and Financial Committee, an advisory-only body of IMF Governors, which sets out its views in a Communiqué. At the next level is Management's operational guidance for staff.

⁷ Article IV, Section 3(b) states: "[T]he Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies... These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members."

⁸ For example, then-Managing Director Michel Camdessus called for broader IMF engagement in social and distributional policies in a series of memos to staff in the mid-1990s. See Abrams (2017).

conditionality” to help countries develop or maintain a social safety net during an IMF-supported program (Strauss-Kahn, 2010).⁹ Under his leadership, in 2009, the IMF became a collaborating agency in the One UN Social Protection Floor Initiative promoting universal access to essential social transfers and services.

15. **The present Managing Director, Christine Lagarde, has broadened this focus to include “emerging macro-critical issues” outside the IMF’s traditional remit, including inequality.** In a 2012 speech, she stated that “better social protection” was one of the ways through which the IMF could help promote “inclusive growth” (Lagarde, 2012). Since the spring of 2014, the Managing Director’s twice-yearly Global Policy Agenda has included a commitment for the IMF to provide policy advice on “macro-critical structural issues” including inequality. In 2015, the IMF committed to “working with its member countries and international partners in the spirit of global cooperation necessary to achieve the SDGs” (Lagarde, 2015).¹⁰ The Managing Director has declared: “I would like the IMF to have that human face.”¹¹ At the same time, the Board has repeatedly stressed the need to be mindful of the Fund’s core areas of responsibility and competencies, and urged staff to draw on the expertise of other institutions to the extent possible.

16. **Internal surveillance guidelines have evolved to encourage attention to a broader range of “macro-critical issues” but still give staff considerable leeway to decide how to cover social protection issues in Article IV discussions.** Surveillance Guidance Notes continue to call for coverage of structural and institutional issues in general to be “selective” and reflect country-specific circumstances.¹² Until 2010, selectivity was based on the concept of “macro-relevance,” i.e., the extent of the “impact on macroeconomic conditions and prospects” in the country (IMF, 2005).¹³ In 2012, the standard was changed to “macro-criticality,” i.e., the extent to

⁹ See also: “IMF watching out for poor in crisis loan talks,” *IMF Survey*, November 25, 2008; “Changing IMF works hard to combat global crisis,” *IMF Survey*, February 26, 2009; “IMF to step up its engagement, support in Central Asia,” *IMF Survey*, June 22, 2009; IMF (2010a); and IMF (2011).

¹⁰ The factsheet on The IMF and the Sustainable Development Goals states that: “The IMF is committed, within the scope of its mandate, to the global partnership for sustainable development” (IMF, 2016b). It identifies five IMF initiatives to support member countries in meeting the SDGs: (i) increased access to concessional financing for developing countries; (ii) capacity-building for domestic revenue mobilization; (iii) policy support for public infrastructure provision; (iv) support for fragile states; and (v) intensified engagement on policy issues related to inclusion and environmental sustainability.

¹¹ “Christine Lagarde wants softer, kinder IMF to face populist anger,” *The Financial Times*, July 13, 2016.

¹² Surveillance Guidance Notes were issued in 2002, 2005, 2007, 2009, 2010 (Technical Update), 2012, and 2015.

¹³ The 2005 Guidance Note explicitly stated that social and related issues “such as poverty, income distribution, social safety nets, social expenditure, and unproductive expenditure” should be addressed in accordance with the macro-relevance principle (IMF, 2005). As part of vulnerability assessment and debt sustainability analysis, the Guidance Note encouraged staff to undertake more comprehensive assessments of significant vulnerabilities, where relevant, such as the long-term impact of aging.

which the issue/policy was “critical to the assessment of macroeconomic stability” (IMF, 2012b).¹⁴ Staff were encouraged to “use judgment in selecting the specific issues to cover in greater depth, and take a risk-based approach, leveraging the expertise of other institutions where appropriate” (IMF, 2012b). The 2015 guidance note (issued at the end of the evaluation timeframe) instructed staff to use the criteria of macro-criticality and “Fund expertise or interest from a ‘critical mass’ of the membership” to determine whether to provide analysis or policy advice on structural issues such as social protection (IMF, 2015a) (Figure 1).¹⁵

Figure 1. Criteria for Coverage of Structural Issues in Surveillance

	IMF Expertise	Lack of IMF Expertise
Potentially Macro Critical	Required: Analysis and policy advice Rely on in-house resources	Required: Analysis Rely on external resources
Not Macro Critical	On request: Analysis and policy advice Rely on in-house resources	Leave to others

Source: IMF (2015a).

17. **On the program side, conditionality guidelines were updated in 2014 to incorporate more consideration for social protection.**¹⁶ The existing guidance allowed for program-related (structural) conditions to be established in areas outside the IMF’s core areas of responsibility,¹⁷ as long as there was more detailed explanation of their criticality and—since 2008—“a strong justification”¹⁸ (IMF, 2008a). For such non-core yet critical measures, the IMF would “to the extent possible, draw on the advice of other multilateral institutions, particularly the World Bank, or of bilateral donors that can provide the expertise” (IMF, 2008a). If the necessary expertise was

¹⁴ According to the July 2012 Integrated Surveillance Decision, in its bilateral surveillance the IMF would focus on those policies of members that can significantly influence present or prospective balance of payments or domestic stability, consistent with the mandate in Article I(ii) of the Articles of Agreement. In addition, with the agreement of the member country, the IMF may provide policy advice (as a form of TA) on policies that do not need to be covered in bilateral surveillance.

¹⁵ The final possibility not shown in Figure 1 relates to “macro-critical structural issues that are important to a critical mass of members but where Fund expertise is lacking (e.g., labor market reforms)—in this case, the IMF would “further develop in-house expertise so staff can provide the necessary policy advice, while continuing to draw on other institutions’ expertise” (IMF, 2015a).

¹⁶ Operational Guidance to Staff on the 2002 Conditionality Guidelines was issued in 2003 and revised in 2006, 2008, 2010, and 2014.

¹⁷ The 2002 Guidelines on Conditionality and associated Operational Guidance to Staff defined the IMF’s core areas of responsibility as “macroeconomic stabilization; monetary, fiscal, and exchange rate policies, including the underlying institutional arrangements and closely related structural measures; and financial system issues related to the functioning of both domestic and international financial markets” (IMF, 2002).

¹⁸ “Criticality” in this context is with reference to the achievement of program goals and the monitoring of program implementation.

unavailable or judged inadequate, per the guidance the IMF would have to choose between exposure to reputational and financial risk and not supporting the program (IMF, 2008a). For low-income country (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”¹⁹ (IMF, 2014c). However, it did not elaborate on how this should be implemented.

18. Guidelines on how to work with other institutions on social protection emphasized relying on development partners’ expertise.²⁰ IMF guidance on collaboration with the World Bank has laid out the division of labor between the two institutions. The agreed division of labor on public expenditure issues in 2003 put social protection squarely in the Bank’s bailiwick (IMF, 2003). Additional guidance for Bank-Fund cooperation on social protection was provided in operational guidelines for joint work on pension reforms and for work under the Poverty Reduction Strategy (PRS) approach for LICs. Guidelines for collaboration with the International Labor Organization (ILO) on labor market and social protection issues were issued in 1996.²¹ Interviews with a wide swath of IMF staff revealed awareness of the guidelines on collaborating with the World Bank but not with the ILO. There were no guidelines on collaborating with other institutions with expertise in social protection.

19. Was the IMF’s role in social protection clear to staff? A survey of IMF economist staff conducted for this evaluation found that staff did not perceive that they had received clear guidance on the type of work they were expected to do related to social protection (Figure 2, top panel) (Wojnilower and Monasterski, 2017).²² At the same time, staff generally perceived that work should be selective, with greater attention to assessing the impact of macroeconomic shocks on vulnerable groups and providing policy recommendations on social protection in some circumstances, and even helping country authorities design social protection policies in more restricted circumstances (Figure 2, lower left panel). Staff understood the increased priority being given to social protection issues in recent years (Figure 2, lower right panel). The survey

¹⁹ Feasibility and appropriateness were in the context of the key principles guiding the IMF in designing and setting conditionality, namely: “(i) national ownership of reform programs; (ii) parsimony in program-related conditions; (iii) tailoring of programs to a member’s circumstances; (iv) effective coordination with other multilateral institutions; and (v) clarity in the specification of conditions” (IMF, 2014c).

²⁰ See Zhou (2017).

²¹ According to the guidelines, the IMF’s Policy Development and Review Department (now the Strategy, Policy, and Review Department) would “seek clarification” in the event of a significant difference in views between the two institutions on macroeconomic matters (see Zhou, 2017).

²² The majority of more senior managers (B3 and B4 staff) did feel that they had clear guidance, but this was not the case for A14-B2 staff, let alone A11-A13 staff (Wojnilower and Monasterski, 2017).

also found differing staff perceptions of the role the IMF ought to play in social protection, with about half of respondents referring to “macro-criticality” as a key criterion (Figure 3).

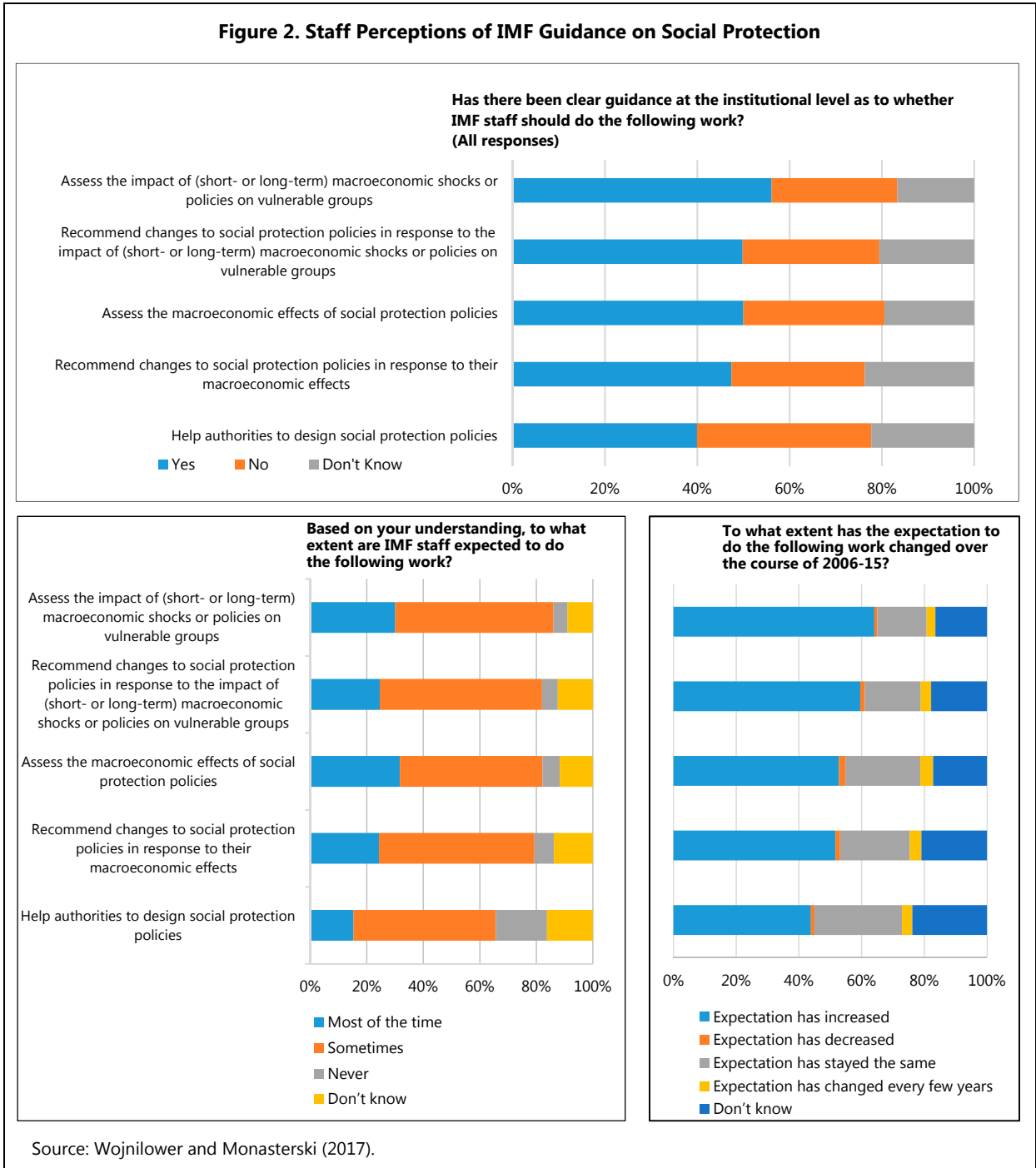
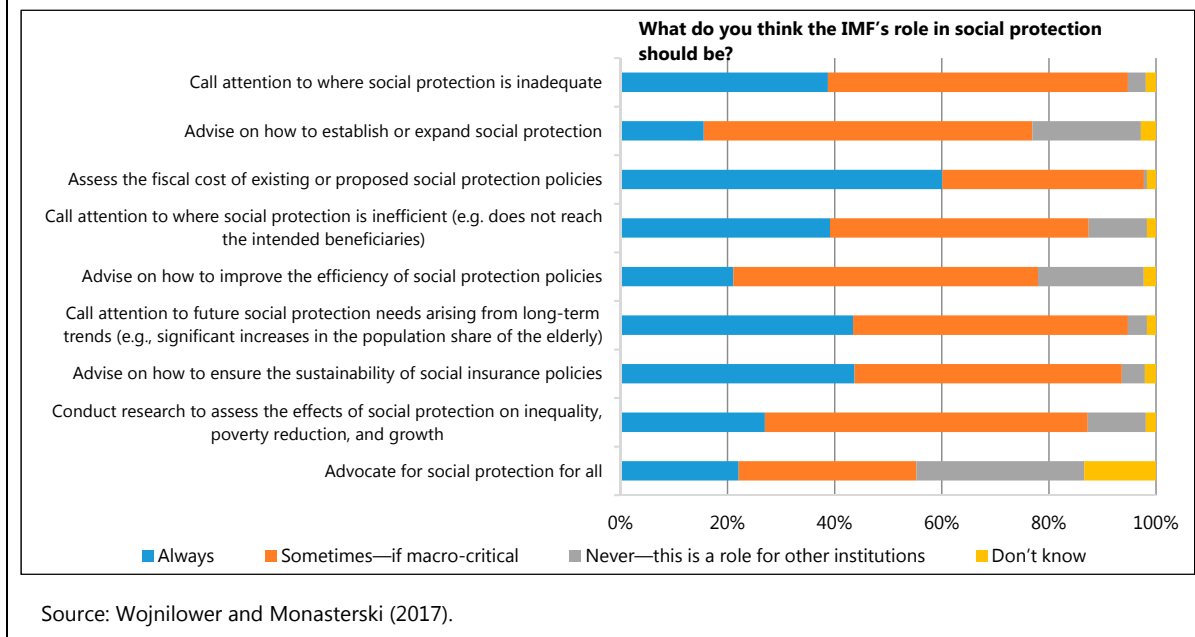


Figure 3. Staff Perceptions of the IMF’s Role in Social Protection

20. **IMF external communications have highlighted the Fund’s role in protecting the vulnerable under IMF-supported programs.**²³ For example, the 2016 factsheet indicated that the IMF “promotes measures to increase spending on, and improve the targeting of, social safety net programs that can mitigate the impact of some reform measures on the most vulnerable in society” (IMF, 2016a). However, CSOs told the IEO they were unconvinced because the factsheet did not explain precisely what role the Fund played to this end in the country examples provided. In public communications, the IMF emphasized its support for increased social spending in LICs and how it protected such spending from cuts in Fund-supported programs by setting specific spending floors—although in many cases these floors covered spending for areas not necessarily focused on protecting the most vulnerable.²⁴

21. **The IMF’s public communications effort has raised external stakeholder expectations for the Fund’s role and responsibility in social protection.** For example: the IMF has highlighted its collaboration with other multilateral institutions on social protection, stating

²³ See Wojnilower (2017) which is based on a review of public speeches by Management and senior IMF officials, as well as official factsheets, blog posts, and other external communications by the IMF’s Communications Department (COM).

²⁴ See, for example: “Creating breathing room in low-income countries,” *IMFdirect*, September 3, 2009, and “Health, social spending vital in IMF-supported programs,” *IMF Survey*, October 26, 2009. In an April 2009 letter to CSOs, the Managing Director noted that about one-third of IMF-supported programs in low-income countries had targets to preserve or increase social spending. In a February 2017 letter to the Huffington Post, the Director of COM cited a 2014 IEO finding that 29 of 30 recent IMF-supported programs incorporated floors for social spending, although many of these floors included other priority spending unrelated to social areas.

on several occasions that it was “working on social spending, social safety nets, and social protection systems, including pension and other entitlement reforms, and social protection floors, in collaboration with the ILO, UNICEF, and other UN agencies”;²⁵ it has committed to the global partnership for supporting the SDG agenda (IMF, 2016b); and IMF Management and staff have emphasized that inclusion and inequality fall under the IMF’s mandate.²⁶ In interviews, CSOs claimed that such statements have implicitly created an “obligation” of the IMF to systematically incorporate social protection into all of its work—including through analyzing the distributional implications of economic policies and recommending measures to mitigate adverse impacts on the vulnerable—absent which they believe the IMF has fallen short of its intended role.

B. The IMF’s Approach to Social Protection

22. **The IMF has traditionally approached social protection from the standpoint of fiscal policy**, insofar as social protection policies or measures mostly entail public expenditures. This approach, which was developed primarily by the IMF’s Fiscal Affairs Department (FAD), centered on efficiency, minimization of distortions, and fiscal sustainability.²⁷ Key considerations for any social protection scheme were that it should provide value for money and be affordable and sustainable in the long run. While the IMF has not expressed any fundamental institutional view on how much and what type of social protection countries need to have, it has generally emphasized the need to focus on the poor and the most vulnerable. A review of Board discussions on social protection issues from the 1980s to the present found consensus on the following ideas:²⁸ (i) Social safety nets are necessary to mitigate adverse short-term effects of fiscal adjustment, economic reforms, or external shocks on vulnerable population groups; (ii) social safety nets should be cost-effective and targeted to the most vulnerable; (iii) social safety nets should be in place before they are needed; and (iv) social insurance programs should be financially viable.

²⁵ “The Future We Want,” June 12, 2012 (<http://www.imf.org/external/np/seminars/eng/2012/rio/>). The 2014 factsheet on The IMF’s Advice on Labor Market Issues advertised the IMF’s “active partnership” with the ILO, including on social protection floor policies (IMF, 2014d). At the 2014 Annual Meetings, the Managing Director also announced that the IMF was “working with the ILO and other international organizations to assess how countries can build effective and sustainable social protection floors” (Lagarde, 2014).

²⁶ See, for example, “In New Tack, I.M.F. Aims at Income Inequality,” *The New York Times*, April 8, 2014, and Loungani and Ostry (2017).

²⁷ FAD’s knowledge was disseminated within (and outside) the IMF in the form of policy papers, research, technical manuals, and guidance notes, among others. Staff papers prepared for informal Board seminars may serve as input for subsequent Board decisions but views expressed by Directors at informal seminars do not constitute IMF policy. IMF Pamphlets, Technical Notes, and/or Manuals do not represent the views of the IMF or IMF policy. While they are often written as technical guidance to member countries on a given topic, such publications are illustrative of the analytical perspectives of staff. Staff Position/Discussion Notes similarly showcase the latest policy-related analysis and research being developed by staff. On occasion, these publications are the result of or the input for Board papers or may contain guidance to staff.

²⁸ See Abrams (2017) for the list of Board discussions.

23. **The IMF has been a strong proponent of targeting social protection benefits to those who need them most.** For example, many countries subsidize the prices of basic commodities such as food and fuels. These price subsidies are not normally classified as social protection policies but they often embody an element of social protection, since low-income and vulnerable groups can spend a high share of their income on such products. The IMF has long held the view that such subsidies are an expensive, distortionary, and inefficient way of protecting the poor, and that direct help to low-income groups would normally be the preferred approach.²⁹ The IMF's Manual on Best Practices in Price Subsidy Reform specifies that a well-designed targeting mechanism should adequately cover the poor while minimizing leakage of benefits to the non-poor.³⁰ However, the 2014 staff paper on fiscal policy and income inequality acknowledged that means-testing "may not be the socially optimal approach" in certain countries (specifically, those with "a strong preference for providing benefits on a universal basis and the capacity to raise high levels of revenues in an efficient manner with broad popular support") (IMF, 2014b).

24. **The IMF has developed expertise in conducting poverty and social impact analysis (PSIA)** that can contribute to its work on appropriate targeting by assessing the distributional and social impacts of policy reforms on different groups of the population, particularly the poor and vulnerable. While a specific unit for PSIA was disbanded in 2008, FAD staff have continued to conduct such analysis in the context of TA or as background for Article IV surveillance.³¹

25. **The IMF has been pragmatic about developing social safety nets.** IMF staff have been well aware of the difficult practical issues involved in targeting benefits based on income, particularly in less advanced economies.³² Where means-testing was not practically feasible, staff were advised to suggest indirect methods of targeting the poor.³³ IMF (1993) recommended that the mix of social safety net instruments be determined by factors such as the composition of vulnerable groups, and administrative and financial constraints in some circumstances. Limited

²⁹ See Gupta and others (2000), IMF (2008b), Coady and others (2010), and Clements and others (2013) for staff's arguments; and IMF (2008c) and IMF (2013b) for the Board's concurrence and Management's affirmation, respectively. At the October 2008 Board seminar on fuel and food price subsidies, Directors noted that in many countries, imperfectly targeted compensatory measures were more cost effective than universal subsidies, and would be a superior alternative to universal subsidies until better-targeted safety nets were in place (IMF, 2008c). In a March 2013 speech, the First Deputy Managing Director noted that energy subsidies were often inefficient and could be replaced with better means of protecting the most vulnerable parts of the population (IMF, 2013b).

³⁰ The Manual was prepared in 2000 by FAD, at the request of Management, to guide staff on how to remove price subsidies with minimal social disruption. It was also published as a guide for policymakers (Gupta and others, 2000).

³¹ While not focused on targeting mechanisms, PSIA can inform reform design options. See Zhou (2017) for further discussion regarding FAD's PSIA Group.

³² See, for example, Ahmad and Hemming (1991), IMF (1993), Gupta and others (2000), and Sdralevich and others (2014).

³³ See, for example, Gupta and others (2000), IMF (2008b), IMF (2014b), and Sdralevich and others (2014).

price subsidies could be helpful in the short term, partly because governments often already had the necessary administrative arrangements in place. Similar guidance was provided in a 2013 staff paper on energy subsidy reform (IMF, 2013a), in the specific context of reforming/eliminating energy subsidies.

26. **The IMF has not adopted a specific approach on cash transfer and minimum income schemes.** FAD guidance generally endorsed (targeted) cash transfers as the “preferred approach to compensation” (IMF, 2013a).³⁴ However, it did not go further on what type of these schemes—e.g., conditional versus unconditional cash transfers—might be appropriate in which circumstances, and why. Instead it referred to World Bank studies on the subject. The IMF has not done much analytical work or elucidated a view on guaranteed minimum income schemes (found in many countries, especially in Europe) or universal/basic income schemes (which have been piloted in a few countries) to date.³⁵

27. **Regarding social insurance programs, e.g., public pension schemes, the IMF’s main focus has been their financial viability.** There has been substantial research activity in the IMF on a wide range of pension reform issues by FAD, and area departments have analyzed reforms in specific countries.³⁶ However, unlike the World Bank which actively promoted a multi-pillar pension framework in the late 1990s to early 2000s, the IMF has not advocated any particular type of pension scheme.³⁷ In terms of analytical tools, IMF staff had access to the World Bank’s Pension Reform Options Simulation Toolkit (PROST) to evaluate the financial sustainability of a pension system and the financial impact of alternative reform options.

28. **In recent years, however, the IMF has highlighted additional considerations for pension reform, notably, equity** (including adequacy at the lower end of the income distribution). A 2013 Occasional Paper noted that the basic objective of public pensions was to provide retirement income security “within the context of a sustainable fiscal framework” but suggested that equity and economic growth also be included as guiding principles for pension reform options (Clements and others, 2013).³⁸ However, unlike with financial sustainability, no framework has been laid out in the IMF for assessing equity in pension systems.

³⁴ IMF (2014b) advocated “introducing and expanding conditional cash transfer programs” as a policy option for achieving distributive objectives in developing economies.

³⁵ In a recent *Finance and Development* article (Berg, Buffie, and Zanna, 2016), IMF staff argued for a (universal) basic income financed by capital taxation. The April 2017 Managing Director’s Global Policy Agenda indicates that the IMF will “study how fiscal policies—including ... the design of social safety nets, and a basic income grant—could help address inequality and other side-effects of economic integration and technology” (IMF, 2017a).

³⁶ FAD has also undertaken substantial analytical work on public health care reform—see, for example, Clements, Coady, and Gupta (2012).

³⁷ See Heller (2017).

³⁸ The same message was highlighted in the October 2014 *Fiscal Monitor* and in Clements, Eich, and Gupta (2014).

29. **The IMF has sought to balance efficiency and equity concerns in its views on social protection/labor market policies such as unemployment insurance and active labor market policies.** The 2013 staff paper on Jobs and Growth (and the related staff guidance note) endorsed the Nordic countries' "flexicurity" model of protecting workers through unemployment insurance and support for job search rather than high employment protection. For advanced economies, the guidance supported "generous" unemployment insurance benefits only if there were effective active labor market policies in place; and advocated income redistribution through a low minimum wage and "well-targeted social transfers (including negative income taxes)" (IMF, 2013c; 2013d). These views were developed in the Research Department, drawing on staff research based mainly on European economies (see Blanchard, Jaumotte, and Loungani, 2013). For developing countries, the guidance advocated "a robust social protection scheme (such as designed under the Social Protection Floor initiative)" as well as "addressing the needs of informal sector workers including women" (IMF, 2013d).

30. **The IMF's approach to social protection continues to be criticized by various external commentators.**³⁹ In the wake of the global crisis, the IMF was 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. Specifically, critics claimed that the IMF's macroeconomic framework did not adequately account for the distributional effects of fiscal and monetary policies, the social costs of inadequate social protection, or the potential long-run growth effects of social protection. While the IMF has pushed back by pointing to its increased attention to providing adequate resources for social protection, critics disagreed with the Fund's preferred approach of targeting the poor. They argued that the time and resources required to properly design and effectively implement targeting (means-testing) meant that in many cases, targeting schemes ended up being more expensive than universal ones and/or ran a high risk of excluding large segments of vulnerable populations.

31. **Going further, some in the development community consider the Fund's preferred targeting approach to be inconsistent with the rights-based approach to social protection espoused by the UN and its related agencies.** The rights-based approach treats social protection as a basic human right and advocates universal coverage and access to social protection.⁴⁰ This approach emphasizes "universal benefits" for specific demographic groups considered to be vulnerable (e.g., children, the aged, and the disabled), regardless of (household) income level. Proponents of this approach such as Kentikelenis, Stubbs, and King (2016), argue that "global policy debates around the Sustainable Development Goals are overwhelmingly focused towards the universal provision of key welfare services." In their view, the IMF's

³⁹ Wojnilower (2017) provides a summary of external perspectives on the IMF and social protection.

⁴⁰ Under the human rights-based approach, social protection policies and programs are anchored in a system of rights and corresponding obligations established by international law, including the Universal Declaration of Human Rights (Articles 22 and 25) and the International Covenant on Economic, Social and Cultural Rights (Article 9 of which recognizes "the right of everyone to social security, including social insurance") (UNRISD, 2016).

preference for targeting social benefits contradicts this ideal and calls into question the IMF's commitment to the SDGs.⁴¹

III. IMF OPERATIONAL INVOLVEMENT IN SOCIAL PROTECTION

A. Bilateral Surveillance

32. **The IMF addressed an extensive range of social protection issues in Article IV consultations with a number of countries during the evaluation period.** To measure coverage, this evaluation examined Board assessments in Article IV Summings Up for advice related to social protection.⁴² Based on Summings Up examined for all Article IV consultations concluded in 2006, 2008, 2010, 2013, and 2015, this evaluation identified seven themes of IMF advice that were closely related to social protection;⁴³ (i) reforming the pension/social security system; (ii) reforming unemployment benefits/minimum wage schemes; (iii) improving the targeting of social benefits/transfers; (iv) protecting vulnerable groups or limiting the social cost of reforms/policies/shocks; (v) protecting or creating fiscal space, i.e., increasing budgetary allocations, for social spending; (vi) strengthening the social safety net/social transfers/provision of social services; and (vii) pursuing active labor market policies. Examples of each theme are provided in Annex 2. Many Summings Up contained advice on more than one theme.⁴⁴

33. **Coverage of social protection issues was high.** On average, around 60 percent of all Article IV Summings Up in the five years examined contained social protection advice in one or more of the seven themes. There were only four countries where no social protection advice appeared in any Article IV Board assessment during the entire 2006–15 period (Afghanistan, Argentina, Kosovo, and Somalia).⁴⁵ Coverage of social protection issues was highest in advanced economies and lowest—but rising—in LICs (Figure 4A.) Coverage varied across regions but was

⁴¹ Social protection receives explicit attention in three of the 17 SDGs: Goal 1 (End poverty in all its forms everywhere), Goal 5 (Achieve gender equality and empower all women and girls) and Goal 10 (Reduce inequality within and among countries).

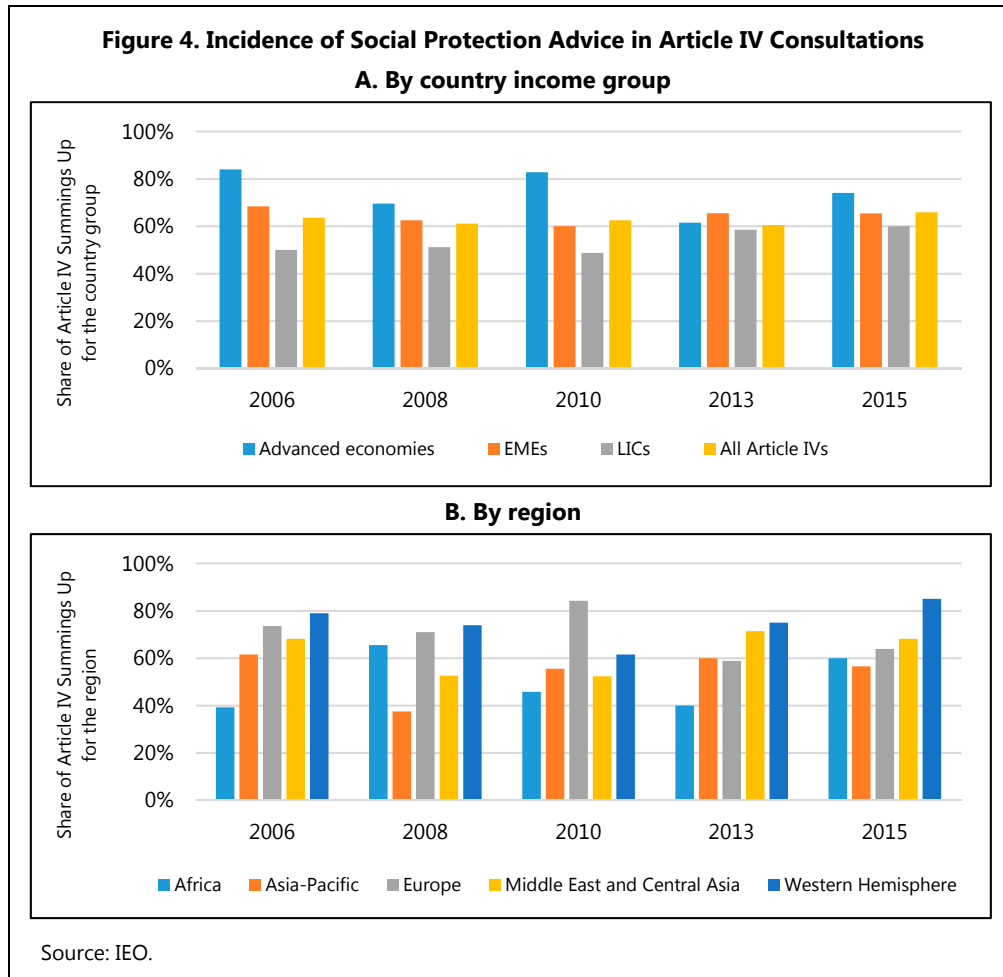
⁴² The Summing Up of a Board discussion of an Article IV consultation provides a broad overview of the key issues raised during the consultation, the view of Directors, and their recommendations. This measure represents a lower bound on the number of Article IV consultations in which social protection issues were discussed, as Summings Up are necessarily parsimonious, reflecting only those issues that the Board regards as most critical. Social protection issues may thus have been discussed with authorities during Article IV missions without ultimately appearing in the Board Summing Up.

⁴³ The years for review were selected to include the first year and last year of the evaluation period and alternate years in between.

⁴⁴ For the analysis in this evaluation, each piece of advice was classified under only one theme.

⁴⁵ Argentina and Somalia had only one Article IV consultation during the period (in 2006 and in 2015, respectively). However, Argentina did have an Article IV consultation in 2016 where the IMF provided advice on reforming the pension system. The 2015 Article IV consultation with Somalia was the first after more than two decades of civil war, and focused on urgent macroeconomic stabilization and capacity building issues.

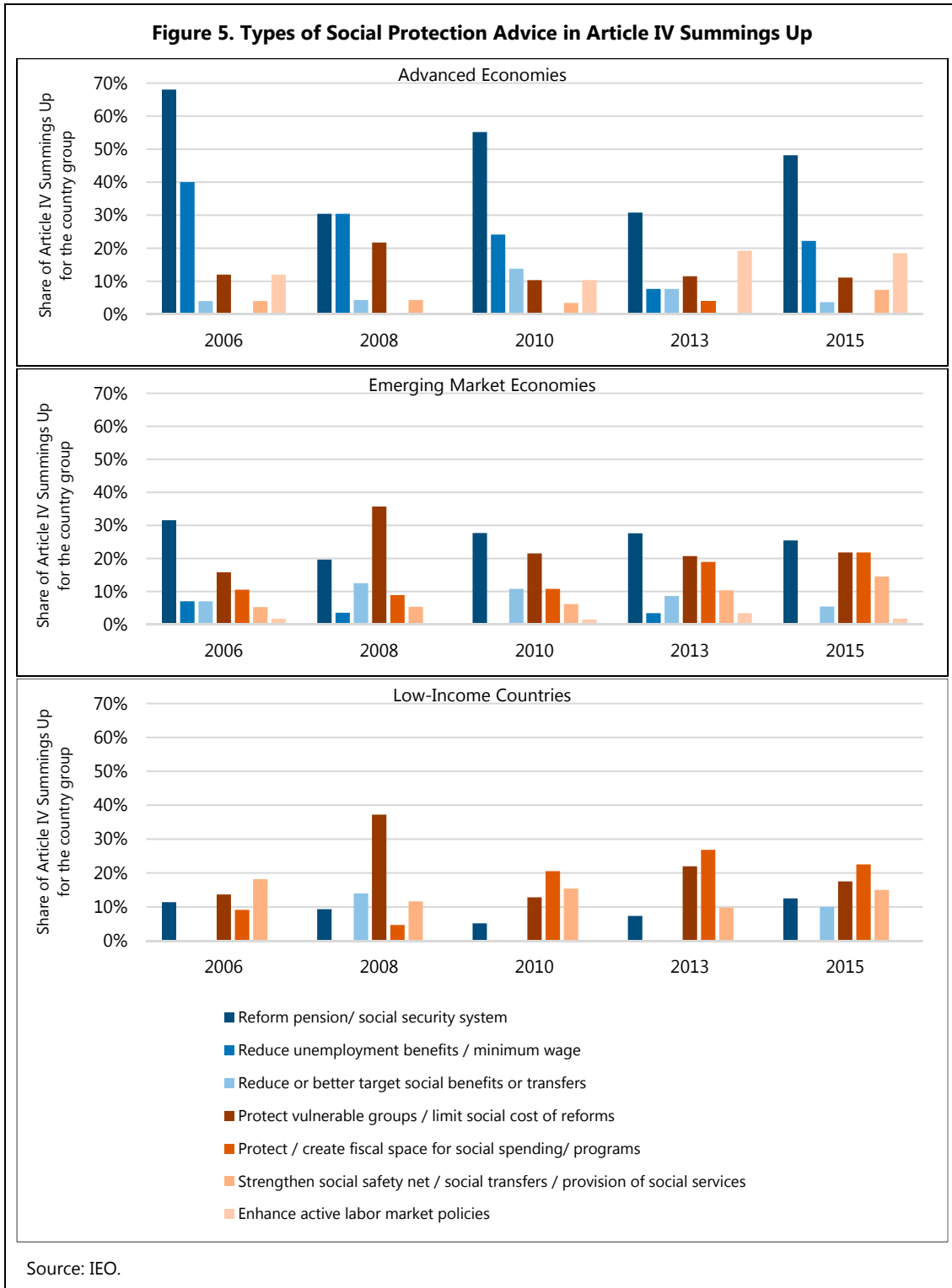
relatively more frequent in countries covered by the Western Hemisphere Department (WHD), the Middle East and Central Asia Department (MCD), and the European Department (EUR) (Figure 4B).



34. **The topics of IMF advice on social protection varied across country income groups and regions.** Most advanced economies have comprehensive social protection systems centered on social insurance schemes, such as contributory pensions and unemployment insurance, whereas most LICs do not.⁴⁶ Not surprisingly, therefore, the IMF's coverage of social protection in advanced economies focused mainly on modifying aspects of the existing social protection system (e.g., reforms to the pension and/or social security system, reforms to unemployment insurance, and greater use of active labor market policies), while coverage in LICs emphasized the need to protect vulnerable groups against the impact of reforms or external shocks and to develop or expand social protection schemes (Figure 5). Coverage in EMEs was more evenly

⁴⁶ As defined in IMF (2014a), social insurance schemes are contributory schemes that require the payment of social contributions by the protected persons or by other parties on their behalf (e.g., employers) in order to secure entitlement to the benefits. In LICs and many EMEs where the informal sector is large, social insurance plays a much smaller part. Many LICs (and EMEs) have price subsidies on food and/or fuel, which they consider to be a form of social protection.

distributed across key identified topics. As for coverage across regions, pension and social security reforms were the dominant theme in EUR countries, while protecting vulnerable groups and expanding social spending were the dominant themes in AFR, APD, and MCD countries.



35. IMF country teams provided advice on social protection policies largely with the aim of addressing fiscal, labor-market, and other core macroeconomic concerns, but also to reduce income inequality:

- Fiscal consolidation and long-term fiscal sustainability:* Concerns about large fiscal deficits and growing public debt in many advanced economies (and some EMEs) prompted the IMF to press for fiscal consolidation in the short and medium term; in pushing for fiscal retrenchment, the IMF often stressed entitlement reform as a key component (e.g., Bulgaria, United States). Long-term fiscal sustainability was the principal factor motivating the IMF's work on reforming public pension schemes in advanced economies and EMEs (e.g., Cyprus, Dominican Republic, El Salvador, Ireland, Japan). As noted in Heller (2017), many of these countries are rapidly aging and will have a high elderly dependency burden by 2050, raising the prospect that they could face social stresses as their public sectors are exposed to significant future explicit or implicit pension liabilities borne by a shrinking active labor force.
- Expenditure efficiency:* In many EMEs and LICs, the IMF recommended targeted social protection policies to improve expenditure efficiency while protecting the vulnerable. For example, a common strand of advice in these countries was to reduce or eliminate generalized food and/or energy price subsidies in favor of "better targeted" social safety net programs. While such price subsidies are not usually categorized as social protection policies, in many countries they have a social protection element. As discussed in Feltenstein (2017), during the evaluation period the IMF recommended food or fuel price subsidy reforms in up to a quarter of all Article IV Summings Up across the membership, with the highest incidence of such advice observed in MCD countries (e.g., Egypt, Jordan, Morocco, Tunisia) (Figure 6A).⁴⁷ The same Summings Up also contained advice to introduce measures to limit the negative impact of price subsidy reform on vulnerable groups in about 50 percent of the cases, and advice to use the fiscal savings from price subsidy reform for social spending in up to 23 percent of these cases (Figure 6B).⁴⁸
- Unemployment, employment, and labor force participation:* The impact of the global financial crisis shifted the IMF's attention toward active labor market policies and unemployment benefit reforms to address protracted, elevated levels of unemployment in many advanced economies and some EMEs. In these countries, the IMF advised reducing employment protection and expanding social protection ("flexicurity") to lessen labor market duality (e.g., Korea); lowering social security contribution rates (reducing the labor tax wedge) to stimulate employment demand (e.g., Bulgaria); supporting job search

⁴⁷ This was based on a review of Board assessments in Article IV Summings Up in 2006, 2008, 2010, 2013, and 2015 for instances where Directors urged the authorities to eliminate, reform, or better target subsidies on food or fuel. Price subsidy reform per se was not counted as one of the themes of social protection advice described in Annex 2.

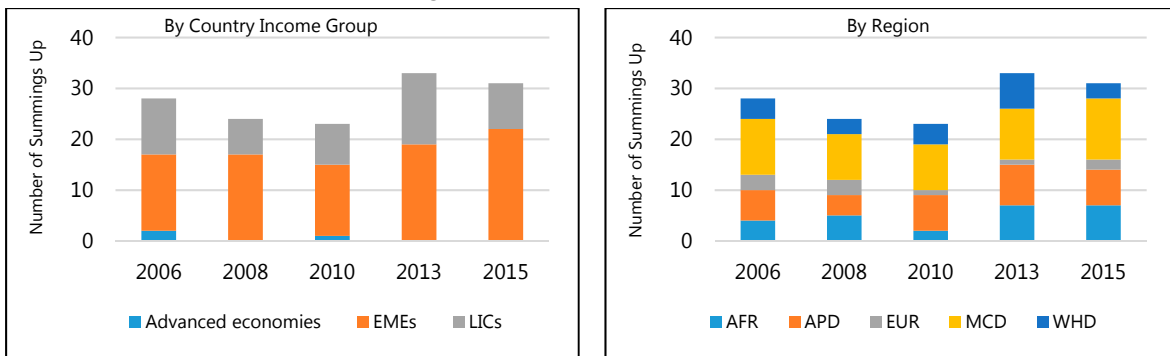
⁴⁸ Given the conciseness of Summings Up, this likely underestimates the extent to which the IMF took account of social protection concerns when advising countries to eliminate/reform food or fuel price subsidies.

and skills acquisition (e.g., Latvia); or changing pension benefit provisions that could contribute to workers dropping out of the labor market or opting to limit their participation (e.g., Japan).

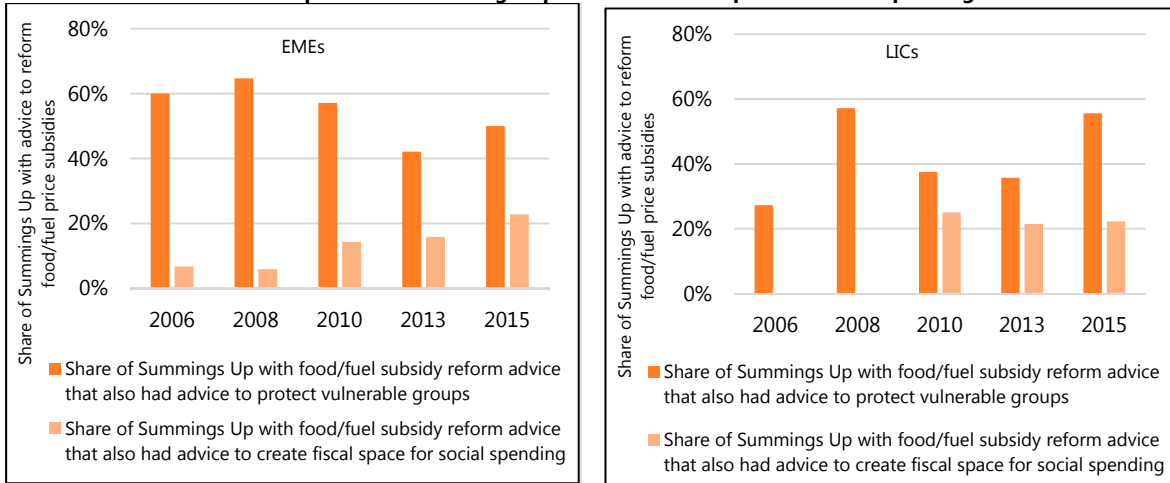
- *Domestic saving:* The IMF encouraged some advanced and emerging market economies to strengthen social safety nets to reduce domestic saving. This motivation—which featured also in multilateral surveillance, notably External Sector Reports—was based on the argument that “weaker safety nets tend to distort saving rates upwards” resulting in excess current account surpluses that contribute to global imbalances (IMF, 2015b). This argument was usually applied to countries in Asia (e.g., China, Korea, Malaysia, and Singapore).
- *Income inequality:* The IMF encouraged some countries to strengthen social safety nets to reduce income inequality (e.g., Bolivia, Ethiopia, Korea). This motivation largely drew on IMF research on inequality and growth, notably Berg and Ostry (2011), and the policy implications suggested therein for improving income distribution, including social protection policies such as social assistance spending and active labor market policies.

Figure 6. Food and/or Fuel Subsidy Reform Advice in Article IV Consultations

A. Article IV Summings Up with advice to reform food/fuel price subsidies



B. Article IV Summings Up that contained food/fuel price subsidy reform advice and advice to protect vulnerable groups or create fiscal space for social spending



Source: IEO.

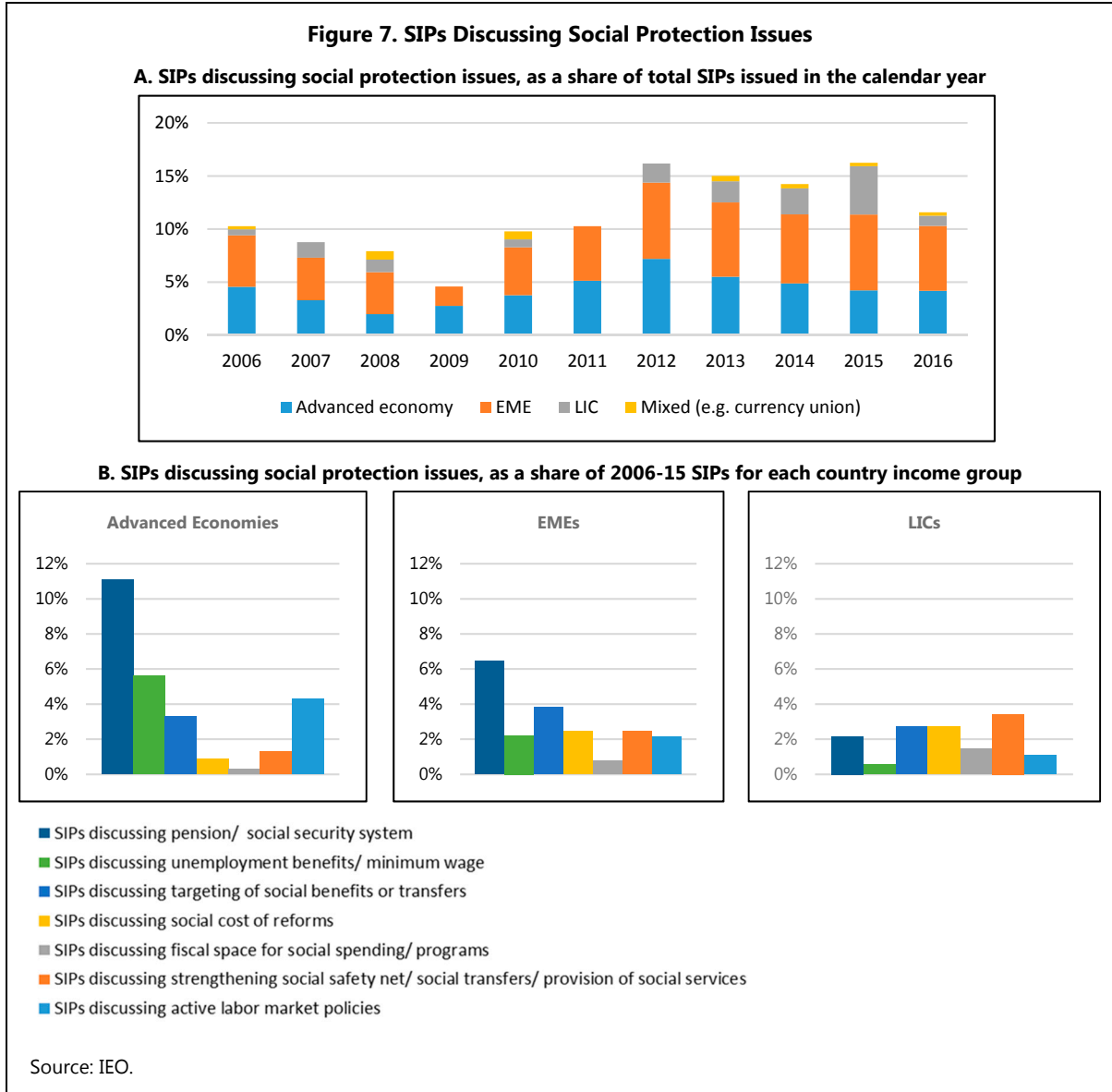
36. **IMF staff have provided increasing background and analysis on social protection issues in Selected Issues Papers as part of Article IV consultations.** On average, over one-fifth of Article IV consultations featuring social protection advice in the Summing Up in 2006, 2008, 2010, 2013, and 2015 had one or more SIPs focusing on social protection issues. The share of Article IV consultations with one or more social protection-related SIPs in the total number of consultations with accompanying SIPs rose from an average of 23 percent in 2006–11 to an average of 45 percent in 2012–15.⁴⁹ In terms of papers, the share of social protection-related SIPs in the total number of SIPs rose from an average of 9 percent in 2006–11 to an average of 15 percent in 2012–15 (Figure 7A). Most of these SIPs were prepared for advanced and emerging-market economies (Figure 7B); some countries had more than one social protection-focused SIP in the same Article IV consultation. By contrast, the share of SIPs discussing social protection issues in LICs was relatively small.⁵⁰

37. **In many advanced and emerging market economies in particular, these SIPs were a way for the IMF to contribute its analysis to an ongoing policy debate in the country.** For example, pension reform loomed large in Article IV discussions during the evaluation period; most advanced economies had one SIP on the topic every few years, and over one-third of EMEs had one or more SIPs on pension reform during the past decade. Labor market reforms were another area where the IMF contributed to the policy debate, particularly in Europe but also increasingly in other advanced and emerging market economies facing high unemployment in the wake of the global crisis. In a number of EMEs, SIPs discussed social protection policies in the context of improving expenditure efficiency and, after 2010, in the context of achieving “inclusive growth.” In LICs, SIPs on social protection were usually part of the discussion on poverty reduction as well as inclusive growth.

38. **In line with its mandate, the IMF’s Article IV analysis of social protection issues generally had a macroeconomic rather than a social focus.** For example, Heller (2017) notes that while IMF staff focused on macro-critical issues associated with existing pension systems, such as fiscal sustainability and the short-term expenditure burden, they typically did not address social issues such as the extent of pension coverage in the population or the adequacy of the pension replacement rate. The social sustainability of the pension system (i.e., the extent to which social protection objectives were accomplished and perceived as satisfactory by citizens) was rarely analyzed. Interviews for this evaluation revealed that often these social issues related to fundamental decisions that were considered by staff and authorities alike to lie outside the IMF’s mandate.

⁴⁹ The number included SIPs prepared for a cluster of countries from different income categories, such as the Eastern Caribbean Currency Union (comprised of EMEs and LICs).

⁵⁰ On average over the past decade, LICs accounted for about 20 percent of all SIPs; advanced economies, around 30 percent; and EMEs, around 45 percent.



39. **Staff’s analysis sometimes lacked much depth as it moved beyond “core macroeconomic” concerns.** IMF staff did quite detailed analytical work on a range of issues, as noted above, but coverage became more formulaic as staff tried to link social protection with some of the newer areas of IMF emphasis, such as addressing income inequality. For example, this evaluation found little useful analysis to support generic exhortations to increase social protection to promote “inclusive growth.” A review of SIPs on inclusive growth for EME Article IV consultations during 2006–15 found very few that substantially addressed the link between growth and poverty or inequality in a specific country, let alone how social protection fit into the

picture.⁵¹ Several papers simply referred to Berg and Ostry's (2011) research on the link between inequality on growth spells without explaining its relevance to the country in question; some relied on rather mechanical aggregate benchmarking against other countries done by others, without providing their own analysis. Staff explained to the IEO that data limitations, specifically the availability of comprehensive household survey data, restricted their ability to conduct a thorough customized analysis in many countries. The first batch of "inequality pilot" Article IVs contained a deeper analysis of inequality and poverty outcomes, but very few (e.g., Bolivia) included a serious attempt to use the analysis to build beyond the rather generic recommendations for social protection offered during the consultations.⁵²

40. **Staff's analysis sometimes lacked sufficient country-specific knowledge.** For example, the evaluation found that IMF staff, in advising some advanced economies (e.g., Korea and Singapore) to reinforce/expand social welfare programs, could have done more to incorporate societal preferences on the size and scope of the social protection system. Similarly, IMF advice to countries to "improve the social safety net" in order to lower the domestic saving rate was not found, in most cases, to be supported by much explanation or analysis as to what kind of social safety net measures should be improved, how they would affect the domestic saving rate, and by approximately how much. Instead, such advice seemed to be simply drawn from a comparison with the "social spending norm" calculated in the IMF's external balance assessments.⁵³ In LICs, outside experts interviewed by the IEO observed that IMF staff tended to "mechanically" recommend conditional cash transfers without analyzing if other types of transfers might be more appropriate for the particular country or situation.

41. **Country authorities interviewed for this evaluation expressed mixed views about the IMF's effectiveness in the surveillance context.** Many country authorities interviewed for this evaluation did not recall having any significant dialogue with the IMF on social protection. Those who did sometimes noted that when the IMF's recommendations on social protection were generic or based on a mechanical application of an empirical methodology or benchmarking, they were often seen as not being particularly relevant in their country circumstances and not sufficiently respectful of their country's social and cultural characteristics and values. In fact, some country authorities indicated that IMF projections, e.g., about long-run fiscal sustainability, that were insufficiently tailored to country circumstances could do more

⁵¹ Most of the SIPs on inclusive growth were written during the second half of the evaluation period, when the Fund began to give this topic some attention. The review included SIPs on Angola (2014), Azerbaijan (2011), Chile (2014), Colombia (2015), India (2008, 2014), Kazakhstan (2014), Lithuania (2013), Morocco (2013), Namibia (2013), Philippines (2015), Suriname (2014), and Uruguay (2015).

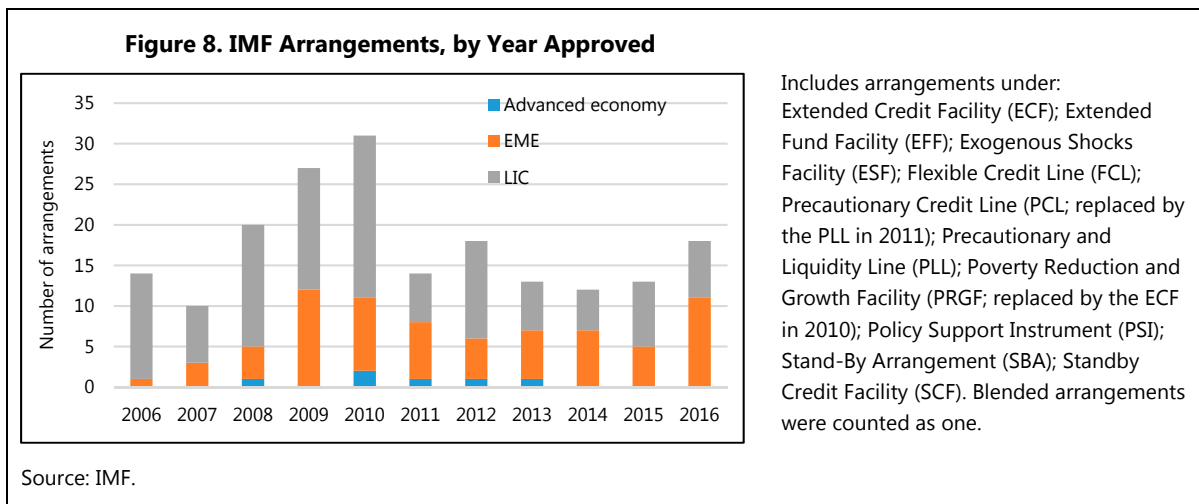
⁵² IMF staff began the first round of the pilot project on mainstreaming "emerging macro-critical issues" such as income inequality in Article IV surveillance in 2015. The "inequality pilots" included Bolivia, Colombia, Ethiopia, Korea, Kyrgyz Republic, Malawi, and the Republic of Congo.

⁵³ According to Phillips and others (2013), social spending in the external balance assessment methodology is captured by public health spending as a ratio to GDP.

harm than good (by “scaring the public” in the words of one Executive Director). On the other hand, when IMF country teams delved more deeply into the issues (including meeting with the appropriate country experts on such matters) and presented critical analysis in a sensitive way, pointing out inequities, misallocations, and best practices, their work was considered to have value-added in informing the policy debate in the country. That said, however, not many country authorities interviewed were familiar with staff analyses contained in SIPs, and it is not clear that these analytical contributions were followed through with much broader outreach.

B. Programs

42. **The IMF approved over 170 arrangements during 2006–15** (Figure 8). In 2008, Iceland became the first advanced economy in more than three decades to receive IMF financial support. As the crisis spread in Europe, the IMF extended financial support to four euro area members. Among EME member countries, almost 40 percent had IMF-supported programs approved during the evaluation period, most of them to help cope with the effects of the global recession. Just over half of all low-income member countries had IMF-supported arrangements approved during the evaluation period. Most of these countries had multiple arrangements, and most of the arrangements were concessional, funded by the Poverty Reduction and Growth Trust (PRGT).



43. **On average, around 10 percent of IMF-supported arrangements approved during 2006–15 included structural conditionality explicitly to strengthen or better target social protection** (Figure 9). This number is based on a review of the IMF Monitoring of Fund Arrangements (MONA) database for prior actions, structural performance criteria, or structural benchmarks classified under “other social sector reforms (e.g., social safety nets, health, and

education).^{54,55} These measures typically sought to improve the targeting of social protection programs and/or increase their coverage to protect the vulnerable during fiscal adjustment. They were found in advanced economy, EME, and LIC programs. Examples include structural benchmarks to implement a new (better targeted) social protection system (Armenia: 2009 SBA; Cyprus: 2013 EFF); increase the coverage of the public conditional cash transfer system (Dominican Republic: 2009 SBA; Paraguay: 2006 SBA); and design a strategy to strengthen the social safety net (Latvia: 2008 SBA; Pakistan: 2008 SBA).

44. An increasing share of LIC programs included social and other priority spending floors, though the objective of these targets typically went much beyond supporting social protection.

- In the earlier part of the evaluation period, half of the 36 PRGF-supported arrangements approved during 2006–09 included an explicit floor on nationally-defined poverty-reducing (or “pro-poor”) social expenditures, monitored as a quarterly indicative target. These spending floors were motivated by countries’ commitments to attain the 2015 UN Millennium Development Goals (MDGs), although social protection was not explicitly part of the MDGs.⁵⁶
- The share of arrangements with social and other priority spending floors rose to 93 percent of the 57 arrangements approved during 2010–15 under the post-2009 LIC facilities.⁵⁷ However, only 19 percent of these arrangements (10 arrangements in 7 countries) contained indicative targets defined to focus primarily and specifically on social protection.⁵⁸ The definitions of the indicative targets in the rest of the arrangements either did not include expenditures on social protection or were too broad or insufficiently specific to determine if social protection expenditures were a meaningful component.

45. A few EME arrangements also included an indicative target (floor) on social spending (see Figure 9). In most cases, the floor applied to spending on specific social protection programs, reflecting the intention to protect these programs (and the vulnerable

⁵⁴ Measures related to social security and health insurance reforms classified in MONA under “other social sector reforms” were reclassified under “pension reforms” for this evaluation.

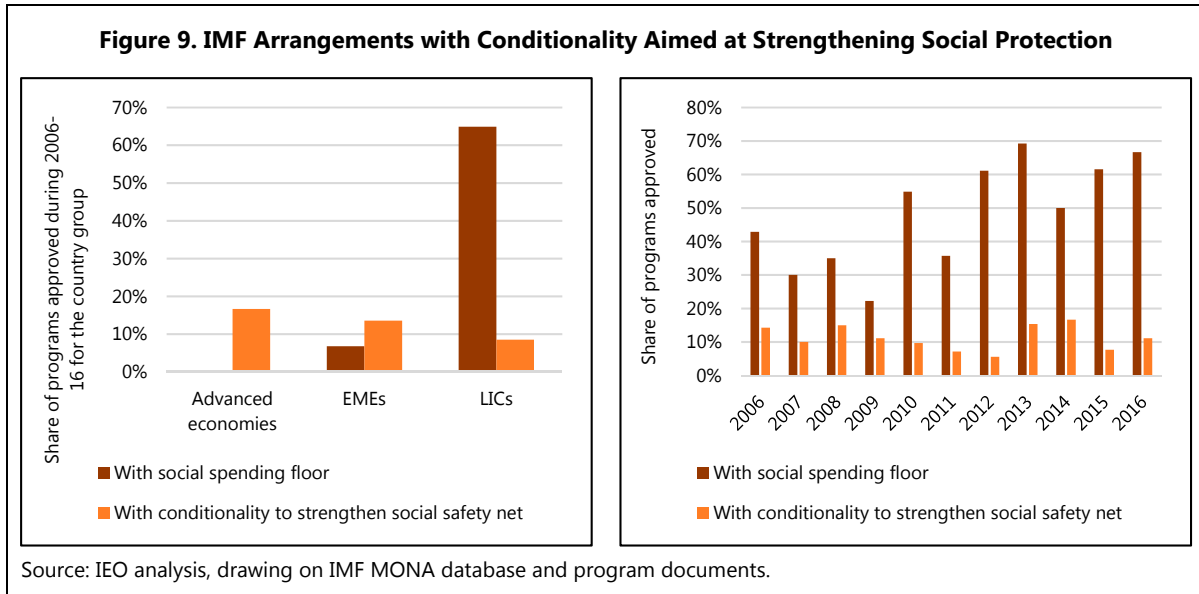
⁵⁵ Structural performance criteria were abolished in 2009.

⁵⁶ The main objective of the MDGs was the improvement of aggregate social indicators in areas such as primary education and health (reducing child mortality, improving maternal health, and combating diseases such as HIV/AIDS and malaria).

⁵⁷ ECF, SCF, and PSI.

⁵⁸ Armenia: 2010 ECF/EFF; Ghana: 2015 ECF; Honduras: 2010 and 2014 SCF/SBA; Kenya: 2011 ECF and 2015 SCF/SBA; Kyrgyz Republic: 2011 and 2015 ECF; Lesotho: 2010 ECF; Moldova: 2010 ECF/EFF.

populations they served) in the face of budgetary retrenchment (e.g., Armenia: 2014 EFF; Jamaica: 2013 EFF; Pakistan: 2013 EFF). There were no social spending floors in the advanced economy programs. Some advanced economy and EME programs explicitly incorporated social safety net expenditures in the macroeconomic framework without specifying formal conditionality (e.g., Iceland: 2008 SBA; Romania: 2009 SBA; El Salvador: 2010 SBA).



46. **In advanced economy programs, the IMF mainly played a supportive rather than lead role in efforts to minimize the social costs of adjustment.** IMF press releases for the programs in Greece, Ireland, Portugal, and Cyprus emphasized the need to protect vulnerable groups and/or strengthen social safety nets. In Iceland and Ireland, the two cases where program ownership was highest, the authorities themselves played a key role in designing a fiscal adjustment plan consistent with their social objectives including the maintenance of universal benefits. The IMF was generally supportive of the authorities' plans, although it endorsed Iceland's Nordic welfare state model but urged Ireland to move away from universal benefits towards targeted support to the most vulnerable groups.⁵⁹ In the other countries, IMF staff addressed macro-critical social protection issues (e.g., pension reform in Greece) in coordination with the European Commission (EC). Only in Cyprus was the IMF actively involved through structural conditionality and related TA to reform the social protection system (with assistance from World Bank experts).

47. **In EME programs where the IMF played an active role on social protection, it did so in collaboration with partner institutions.** In all the EME program country cases studied for this evaluation, specific social safety net measures were designed with the assistance of the World Bank or other institution(s). The IMF's main contribution was to embed the measures in its

⁵⁹ See Wagner and Zhou (2017) for case studies on Iceland and Ireland.

program design and to insert structural benchmarks in the programs if necessary to keep the reforms on track (e.g., in the Dominican Republic's 2009 SBA). In interviews for this evaluation, World Bank staff were uniformly appreciative of the IMF's support and rated highly their cooperation with IMF staff.

48. **In LIC programs, the IMF sometimes played a significant advocacy role in favor of strengthened social safety nets.** In most cases, the World Bank and/or other institutions were already involved in assisting the country authorities in setting up or expanding the social safety net, including designing and implementing means-testing mechanisms. Interviews with Fund and Bank staff usually revealed close cooperation in this area, especially in the field. Fund staff were aware of and generally supported the Bank's work in this area although they did not always report on its details in staff reports. IMF staff with experience in African LICs noted that finance ministers were sometimes unenthusiastic about cash transfers and skeptical that targeted schemes could work.⁶⁰ Importantly, while the World Bank and/or other development partners may have worked with the relevant ministry on the practicalities of improving the social safety net, the IMF had a direct line to the more powerful finance ministry. Staff of the World Bank and other institutions (such as UNICEF and the ILO) noted that recommendations from the IMF tended to carry more weight with those in power within the government.

49. **Concretely, the IMF's role in many LIC programs was to try to find fiscal space in the macroeconomic framework for social protection expenditures.** In identifying expenditures to cut to make room for enhancing the social safety net, IMF staff often zeroed in on energy price subsidies.⁶¹ Thus, a frequent theme of IMF advice—which was in line with the World Bank's approach—was to reduce and eventually abolish energy price subsidies to create fiscal space for a well-targeted social safety net.⁶² Where staff did manage to carve out fiscal space for social protection, the amounts were typically modest—well under 1 percent of GDP, for example. In one case (Mongolia), the IMF-supported program included conditionality to shift from universal to targeted social transfers.

50. **How effective was the IMF's involvement in social protection in the program context?** This evaluation did not undertake an impact assessment of IMF interventions on the welfare of vulnerable groups, which would have required a much larger study. Instead, it focused more narrowly on the authorities' perceptions of the usefulness of the Fund's advice on social protection and the extent to which the advice was implemented. On this basis, among advanced economies, the IMF's involvement was more effective in Cyprus, where a guaranteed minimum

⁶⁰ 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.

⁶¹ While direct price subsidies for staple foods were also common in some LICs, these expenditures tended to be much smaller compared to energy subsidies.

⁶² In some cases (e.g., Bangladesh, Honduras, and Senegal), this recommendation was translated into structural conditionality in a Fund-supported program. See Feltenstein (2017) and Klugman and others (2017).

income scheme was introduced to support vulnerable groups affected by the crisis (a structural benchmark under the 2013 EFF-supported program) than in Portugal and Greece. According to Portuguese authorities interviewed for this evaluation, IMF staff were primarily focused on fiscal consolidation during the program and they evinced little interest in the social impact of reform measures, preferring to leave such matters to the European institutions. Former Greek authorities criticized the IMF for lacking sufficient understanding of the country's social protection system (see Heller, 2017).

51. **In EMEs, the IMF's involvement helped to strengthen social protection in some cases but not in others.** Country authorities were pleased when the IMF supported their proposals to scale up social protection during an adjustment program (e.g., in the Dominican Republic and El Salvador). However, the IMF's efforts to protect the vulnerable from adverse effects of program measures were not always well-received by authorities and conditionality to that effect was not always met. In some countries (e.g., Latvia), the authorities pushed back against the IMF's advice to raise social spending, arguing that the existing social safety net was adequate and that a slower fiscal adjustment would only prolong the pain. In others (e.g., Tunisia), implementation capacity constraints and administrative delays led to the indicative target on social spending being missed repeatedly. Country authorities interviewed for this evaluation said they were surprised to see the IMF taking such an active interest in protecting social spending in Fund-supported programs and some felt that the indicative targets placed an unwelcome additional constraint on their ability to meet what were usually already ambitious fiscal balance targets.

52. **In LICs, the IMF's advocacy of social protection was generally highly appreciated by its development partners.** Staff of other institutions including the World Bank, UNICEF, and the ILO indicated to this evaluation that the IMF's involvement in social protection gave greater visibility to the issue in the country and more importantly, helped to secure budgetary funding for their proposed reforms (see Klugman and others, 2017). While some commentators criticized the IMF for paying lip service to social protection—in the form of the now ubiquitous phrase "... while protecting the most vulnerable in society"—many development partners and CSOs interviewed for this evaluation said that this was sufficient and appropriate as a contribution from the Fund. Many of them, in fact, suggested that the IMF should stop there and not go on to recommend "well-targeted" policies. On the other hand, some IMF staff told the IEO that they were not entirely comfortable advocating what seemed to them a "black box" of social protection measures.

53. **However, the IMF's efforts to promote better targeting of social protection in LICs had mixed results on the ground.** IMF staff often underestimated the time and complexities involved in developing and implementing means-tested benefits and the administrative and political challenges inherent in excluding population groups from benefits. Staff did not always follow up consistently on the country's progress in developing a better targeted social safety net, which some mission chiefs saw to be outside their domain. Sometimes the degree of attention to

social protection in an IMF-supported program would shift over time, as other issues rose in urgency. The view from LIC authorities who spoke to the IEO was that their countries usually implemented social safety net programs independently of the IMF, with the assistance of the World Bank, UNICEF, and/or other development partners. In some cases, replacing universal benefits with targeted schemes met with not just political but also cultural resistance and even when implemented, did not have lasting effects (e.g., Mongolia).

54. **Social and other priority spending floors in IMF-supported LIC programs were generally not very useful for safeguarding social protection expenditures.** As noted earlier, while over 90 percent of arrangements approved during 2010–15 under the post-2009 LIC facilities included social and other priority spending targets, these included a broad range of spending items and less than 20 percent of these spending targets focused primarily and specifically on social protection.⁶³ Previous IEO evaluations also saw room for improvement in focusing these spending targets.⁶⁴ Staff interviewed for this evaluation were well aware of the shortcomings of this indicator and the box-ticking nature of the monitoring exercise. In one case (Mozambique), staff simply stopped monitoring the indicative target, explaining that it was basically of no use in protecting critical social spending. But there were better experiences too, e.g., in Honduras, where staff supported a new indicator more narrowly focused on social protection that was proposed by the authorities in the 2010 SBA/SCF-supported program, and included an adjustor to allocate a portion of any excess tax revenue over projected amounts to such spending.

55. **Did IMF-supported programs inadvertently “do harm” to social protection?** This evaluation did not assess whether social protection increased or decreased as a result of IMF-supported programs due to conceptual and measurement problems.⁶⁵ However, the evaluation did find that the IMF, in pressing for social protection-reducing reforms (such as pension reform or energy price reform) in a program context, often sought to mitigate potential adverse impacts on vulnerable groups.

- *Pension reforms:* As shown in Figure 10, conditionality pertaining to reforms of the pension and/or social security system was a feature of many programs. These reforms

⁶³ According to IMF (2017b), the social and other priority spending targets were met in more than two-thirds of PRGT- and PSI-supported programs during 2010-16. However, the effect on actual spending on social protection is unclear given the broad coverage of most of these targets.

⁶⁴ IEO (2004) concluded that expenditures designated as poverty-reducing under the PRGF were not all truly pro-poor; IEO (2007) noted that authorities in Sub-Saharan Africa preferred to focus pro-poor spending on infrastructure more than on social safety net programs; and IEO (2014a) found insufficient analysis by IMF staff on the quality of these expenditures and the shortfalls in meeting the expenditure targets.

⁶⁵ Conceptually, there are always tradeoffs in policymaking, and *all* policies—not just social protection policies—have distributional impacts and consequences for social welfare. Even if one could objectively measure social welfare pre- and post-program, it would not be possible to determine how much of the change could be attributed to specific actions by the Fund in the absence of a counterfactual.

were usually motivated by short- and medium-term budgetary pressures in the context of fiscal adjustment, and benefit cuts essentially involved reducing protection for certain population groups. In many cases, staff addressed distributional concerns by proposing that reforms protect the pensions received by the bottom group of pensioners and/or limit the pensions received by the top group or “privileged pensioners” although the authorities did not always agree with staff (Heller, 2017). Program measures involving pension cuts were usually very contentious—Greece being one of the most challenging cases for the IMF—and, in several European countries, ended up being reversed by the Constitutional Court because they were judged to violate the acquired rights of pensioners.⁶⁶

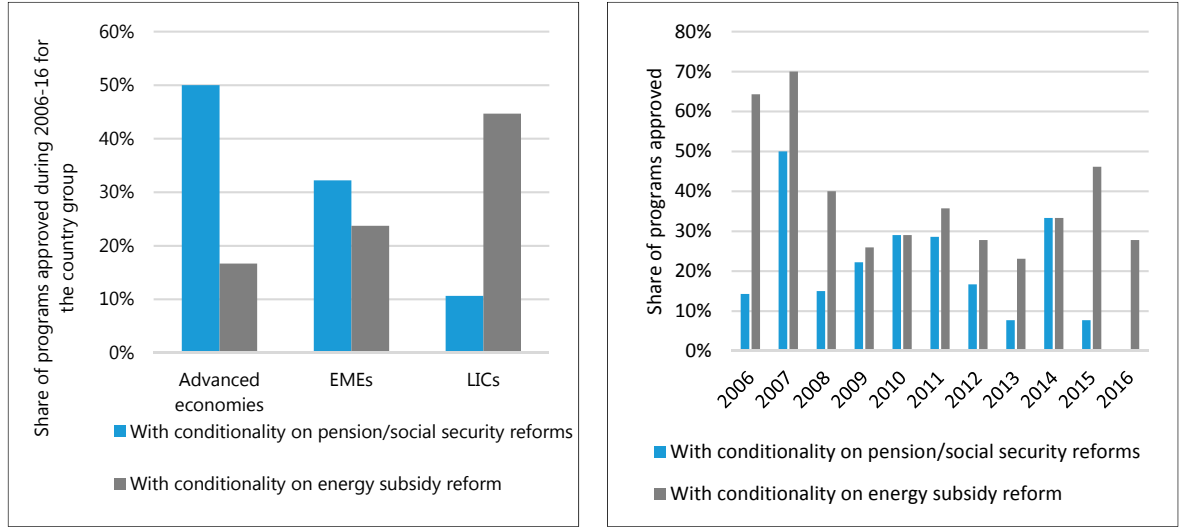
- *Energy price reforms:* While reforms of generalized energy price subsidies were often promoted by the IMF to finance more efficient social protection (i.e., expenditure reallocation), in many LIC and EME programs they were needed first and foremost for expenditure rationalization (see Figure 10). These energy subsidy cuts were often viewed by governments as weakening social protection.⁶⁷ This evaluation found, based on case study evidence, that even when expenditure rationalization was the primary reason for reducing energy price subsidies, IMF staff also paid attention to the social implications and suggested targeted mitigating measures for the poor.⁶⁸ In most cases in practice, 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, public transportation vouchers, etc., and IMF staff, recognizing their pragmatic benefits, did not object (Feltenstein, 2017).⁶⁹

⁶⁶ See Heller (2017); Tan and Selowsky (2017); and Wagner and Zhou (2017).

⁶⁷ One-third of IMF arrangements approved during 2006-15 contained structural conditionality pertaining to price subsidy reform (categorized in the MONA database under “public enterprise pricing and subsidies” and “price controls and marketing restrictions”). These program conditions were related to price subsidies for energy (fuels and electricity); there were no program conditions related to food price subsidies.

⁶⁸ See Feltenstein (2017); Klugman and others (2017); and Tan and Selowsky (2017).

⁶⁹ As noted in Feltenstein (2017), many countries did manage to effectively eliminate energy price subsidies through a step adjustment in prices and/or when international oil prices dropped, but few followed the Fund’s recommendation to institute an automatic price adjustment mechanism and those that did, did not keep it for long.

Figure 10. IMF Arrangements with Conditionality on Pension Reform and Energy Subsidy Reform

Source: IEO analysis, drawing on IMF MONA database.

C. Technical Assistance

56. **During the evaluation period, FAD provided TA related to social protection issues to over 60 countries.**^{70,71} Some countries received multiple TA missions. The provision of TA by the IMF reflects both demand (for assistance by country authorities) and supply (of resources in FAD).⁷² Although historically IMF TA was concentrated in EMEs and LICs and rarely needed in advanced economies, during the evaluation period, the IMF provided TA in these areas to some crisis-struck advanced economies (Figure 11). About 9 percent of TA reports addressing social protection issues were for advanced economies, with the rest roughly equally divided between EMEs and LICs. On average, around 45 percent of TA reports addressing social protection issues were prepared in the context of an ongoing program.

57. **The IMF was by no means the central player providing TA on social protection.** The World Bank and other development partners—UN agencies (particularly the ILO and UNICEF), regional development banks such as the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), and bilateral aid agencies, among others—were much more actively involved in LICs and EMEs, with specific agendas for poverty reduction, sectoral policies, and the

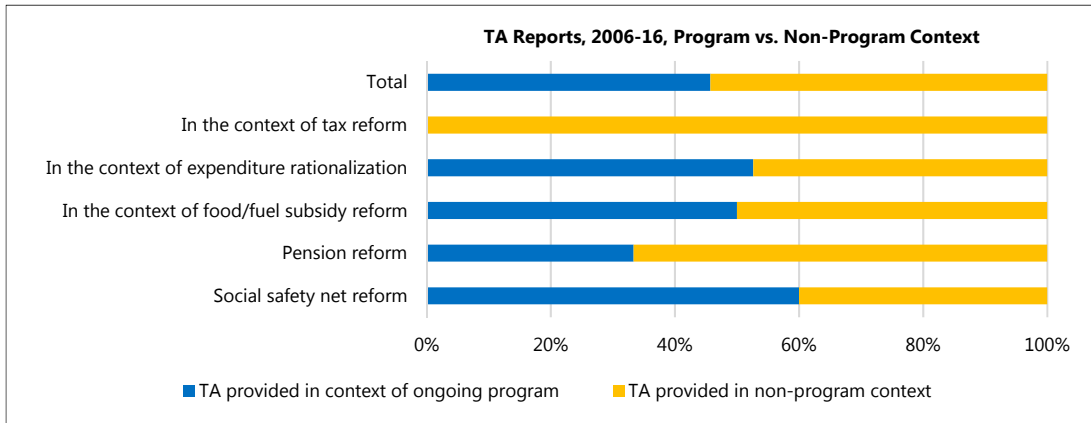
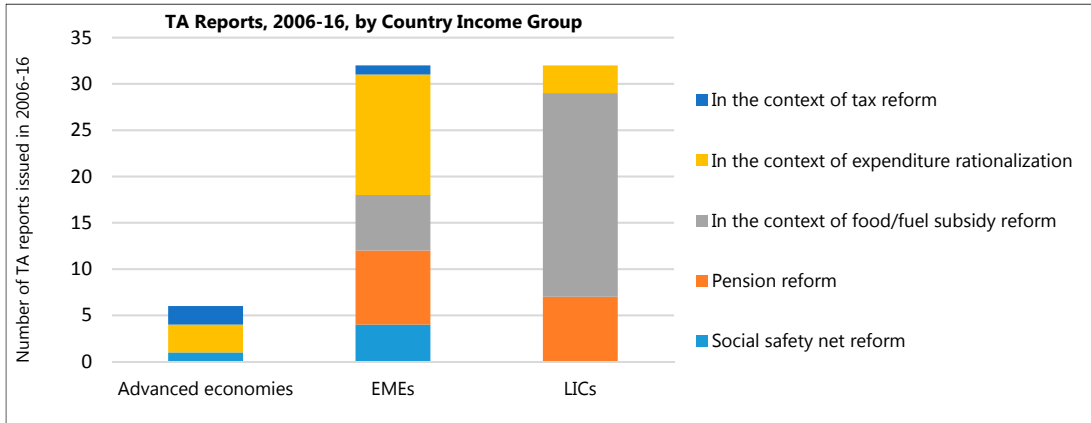
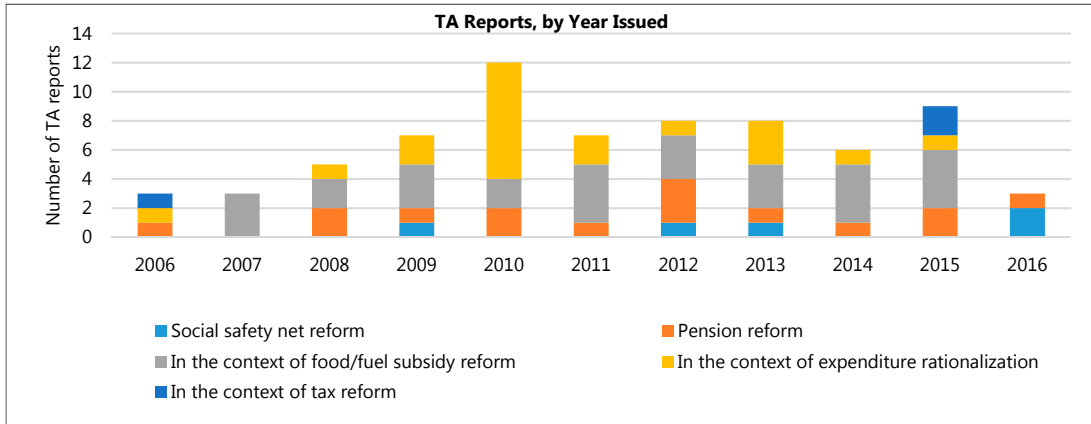
⁷⁰ This figure is based on TA reports completed during the evaluation period. Since not all TA was provided through headquarters-based missions or involved the preparation of a TA report, this understates the number of countries receiving Fund TA on social protection policies.

⁷¹ The IMF also offers training courses for member country officials on energy subsidy reform and on policies for inclusive growth. These courses are not tailored to individual countries' situations.

⁷² See IEO (2014b) for a further discussion of TA allocation in the Fund.

extension of social protection. These institutions provided technical support on social protection programs, including design and implementation details, as well as monitoring and evaluation. Most advanced economies and many EMEs had sufficient domestic capacity and/or access to other resources (e.g., private consultants) to analyze social protection issues without IMF support.

Figure 11. IMF TA Reports Addressing Social Protection



Source: IEO.

58. **IMF TA missions addressed social protection policies both directly and indirectly.**

The direct focus included assistance on reforming the pension system or the social safety net. In addition, TA missions whose primary purpose was to advise on options for expenditure rationalization, food or energy price subsidy reform, or tax reform sometimes touched on social protection policies as well. Both types of TA focused primarily on the fiscal dimension. They typically looked at distributional implications but did not dig deep into specific design aspects of social protection programs or questions such as the adequacy of program coverage or benefits. In that respect, there was little overlap with the World Bank's work.

- Expenditure rationalization (usually in the context of an ongoing program) was the main avenue through which TA addressed social protection policies in advanced and emerging market economies (see Figure 11). TA reports on expenditure rationalization were essentially mini versions of World Bank Public Expenditure Reviews. They typically provided a brief background, outlined the main issues, and discussed some reform options for improving expenditure efficiency, including in social protection categories such as pension/social security and social assistance. Equity implications of reform options were usually considered as well, but not with a full poverty and social impact analysis (PSIA) of each option.
- Energy subsidy reform was the main avenue through which TA addressed social protection policies in LICs, in both a program and non-program context. These TA reports usually (but not always) included an analysis of the distributional impact of existing energy subsidies and suggested some possible measures for mitigating the impact of subsidy removal on vulnerable groups. This evaluation found good use of PSIA by FAD TA missions on energy subsidy reform in several countries (e.g., Bangladesh, Bolivia, Burkina Faso, Ghana, Honduras, Mozambique, and Senegal).
- Pension reform was the main topic in over one-fifth of social protection-related TA in EMEs and LICs. Most of these TA reports included pension outlay projections. About half of them addressed distributional and allocation issues. Similarly, about half of them discussed alternative pension reform options. TA reports on pension-related issues further from the social protection realm, such as pension administration, were not included in this count.⁷³

⁷³ For example, there was a series of TA missions to Greece in 2010–15 on improving the collection of social security contributions; and in the early part of the evaluation period the IMF's Monetary and Financial Systems Department provided TA to Fiji on enhancing prudential supervision of the pension fund.

- Social safety net reform was often addressed (though not in detail) by TA missions on expenditure consolidation or energy subsidy reform. Dedicated TA missions on social safety net reform were relatively unusual.⁷⁴
- In a small number of cases, at the request of the authorities, TA missions on tax reform explicitly addressed social protection concerns, e.g., introducing a negative income tax (Korea, Thailand) or reforming personal income tax credits to assist needy households (Iceland).

59. **IMF TA was always appreciated by the authorities that requested the assistance.**⁷⁵

Interviews with country officials and FAD staff indicated that the authorities were appreciative of the TA missions' efforts to bring social protection issues into the policy debate and/or contribute to capacity building, even if the mission's policy recommendations were not implemented. As noted in IEO (2014b) and according to FAD staff interviewed for this evaluation, "there is always excess demand" for IMF TA—the IMF does not have the resources of the World Bank for PSIA and energy subsidy reform. A former Greek Finance Minister reflected that notwithstanding "the very good technical assistance from the IMF," the Fund lacked the capacity of the World Bank to provide the needed "serious support for institutional reform" as part of the 2010 SBA and 2012 EFF-supported program in Greece.⁷⁶

60. **FAD has found ways to address the "excess demand" for TA within its existing resource envelope.**

TA support was effectively provided through participation by FAD economists/experts in area department missions;⁷⁷ through mobility by FAD economists to area departments; by using World Bank and outside experts—notably, in Cyprus and Portugal, where the World Bank did not take the lead on social protection TA; and through "knowledge expansion," i.e., internal and external training (including a massive open online course on energy subsidy reform), and tools, materials, and other resources available on the IMF website.

⁷⁴ One example was the 2013 FAD TA mission to Cyprus to develop a proposal for reforming the social protection system (a structural benchmark under the 2013 EFF-supported program)—a task normally led by the World Bank in the vast majority of countries where similar program conditionality was established (Wagner and Zhou, 2017). The Cyprus TA team included current and former World Bank social protection experts.

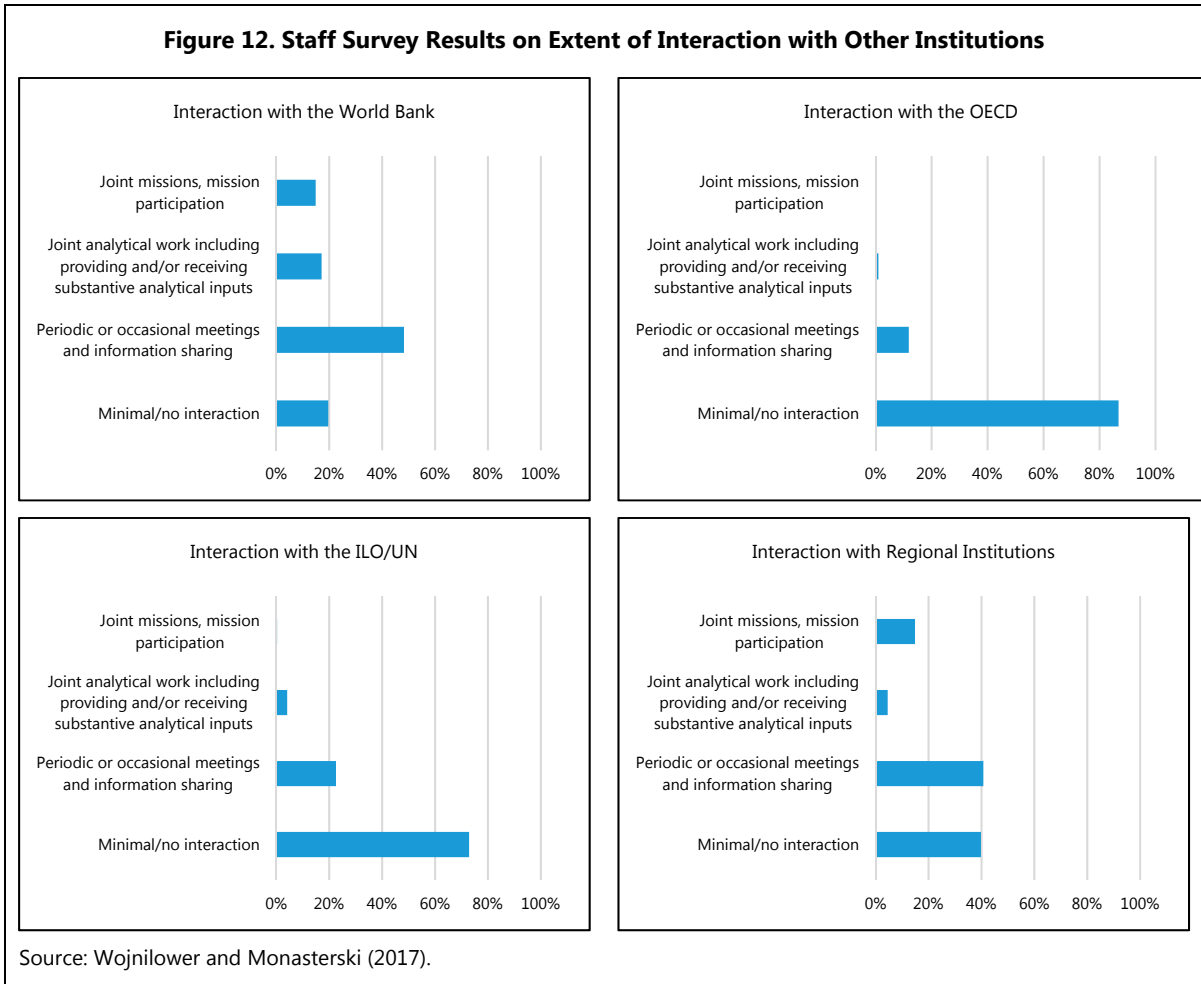
⁷⁵ The requesting authorities were usually in the Ministry of Finance or related agencies, and not those directly in charge of designing or implementing social protection programs or policies.

⁷⁶ "Greece is a case for poverty-solving World Bank, not IMF, says ex-minister," *The Guardian*, February 25, 2017.

⁷⁷ According to FAD staff interviewed for this evaluation, distributional analysis and awareness of social protection issues are now "routine" in the department.

IV. INTER-INSTITUTIONAL COLLABORATION ON SOCIAL PROTECTION⁷⁸

61. **To incorporate social protection considerations into IMF operational work, the Board has consistently called on Fund staff to rely on the expertise of other relevant institutions** (Abrams, 2017). According to economist staff surveyed by this evaluation, the World Bank was by far the IMF’s major partner on social protection issues: 80 percent of survey respondents reported interactions with Bank staff ranging from periodic or occasional meetings and information-sharing to joint missions. On the other hand, almost 75 percent and 90 percent of survey respondents respectively reported minimal to no interaction with UN agencies (including the ILO) and the OECD (Figure 12).⁷⁹



⁷⁸ This section draws on Zhou (2017).

⁷⁹ See Wojnilower and Monasterski (2017) for further details.

A. The World Bank

62. **This evaluation generally found an effective division of labor and good cooperation between the IMF and the World Bank on social protection issues.** In areas such as social safety nets and pension reform (as well as energy subsidy reform), it was well understood that the World Bank would take the lead, and the IMF by and large agreed with the Bank's approach. In the LIC and EME case studies examined for this evaluation, what sometimes appeared to be a low degree of IMF involvement in social protection issues was often explained by the fact that the World Bank was already actively engaged in that area.⁸⁰ IMF staff almost always deferred to the Bank when it came to the design and implementation of social protection schemes.⁸¹ In interviews for this evaluation, IMF staff almost without exception expressed appreciation for the input and assistance of their World Bank colleagues; and World Bank staff likewise expressed appreciation for the IMF's efforts to mobilize support for social protection issues and maintain the momentum of reforms. In the staff survey, 32 percent of respondents rated their cooperation with World Bank staff as "highly effective" and 55 percent rated it as "moderately effective" (Wojnilower and Monasterski, 2017).

63. **While past IEO evaluations expressed concern at the lack of collaboration between the IMF and the World Bank on PSIA, in practice the IMF was able to undertake the analysis needed over the past decade largely using its own resources.**⁸² Since 2008, PSIA has been "mainstreamed" into FAD's expenditure policy work, particularly in the context of food and fuel subsidy reforms, and staff has not had to rely on the World Bank for such analysis. According to staff interviewed for this evaluation, FAD continues to field over 10 PSIA-related TA missions per year, and the number of staff familiar with this methodology has grown. This evaluation heard no complaints within the IMF about any difficulty in getting PSIA done on a timely basis by FAD during the evaluation period.

64. **However, the World Bank's approach to social protection may be evolving, which could complicate future collaboration.** In 2015 the World Bank joined the ILO in support of universal social protection. A joint statement by the heads of the two institutions announced that they shared the objective to increase the number of countries that can provide universal social

⁸⁰ See Feltenstein (2017), Klugman and others (2017), and Tan and Selowsky (2017).

⁸¹ See Klugman and others (2017), and Tan and Selowsky (2017), as well as Feltenstein (2017) and Heller (2017). Heller (2017) noted only one instance where the IMF went against the World Bank's advice on pension reform.

⁸² Under the PRGF, the social impact of major macroeconomic adjustments and structural reforms was expected to be analyzed (by the World Bank) and taken into account in the formulation of the program. The IEO evaluation of The IMF and Aid to Sub-Saharan Africa found that Bank-Fund collaboration on PSIA (for PRGF-supported programs) during the 1999–2005 period was "stymied by unrealistic expectations," leading the Fund to focus on in-house analysis instead of relying on the Bank (IEO, 2007). The subsequent IEO revisit of issues raised in that evaluation found still "limited Bank-Fund collaboration on PSIA in the post-2007 period" (IEO, 2014a). Under the Fund facilities for LICs introduced in 2010, the requirement to incorporate PSIA of adjustment or reforms was dropped.

protection by supporting countries in designing and implementing universal and sustainable social protection systems (World Bank Group and ILO, 2015).⁸³ Given the ILO's grounding in the rights-based approach to social protection, it is not clear what the implications are for the World Bank's longstanding approach of targeting social protection and for future Bank-Fund collaboration in this area. World Bank staff informed this evaluation that they are currently working with the ILO on a number of practical issues involved in achieving the goal of universal social protection that would have direct implications for targeting, fiscal costs, and choosing the right combination of instruments for a given context.⁸⁴ IMF staff contacted by this evaluation indicated that they have not seen a departure from the Bank's standard advice on designing and implementing social safety nets so far.

B. Other Institutions

65. **The IMF's collaboration with the ILO on the Social Protection Floor Initiative in 2011–13 was not very successful.** The initiative aimed to ensure a basic level of social protection (access to essential services and social transfers for the poor and vulnerable) in every country.⁸⁵ The idea for IMF-ILO collaboration originated at a 2010 conference in Oslo jointly hosted by the IMF Managing Director and the ILO Director-General (IMF, 2010b). Three countries—El Salvador, Mozambique, and Vietnam—were chosen as pilot cases. Of the three pilots, this evaluation found effective collaboration only in Mozambique, where the IMF country team strongly believed in the need for greater social protection and worked closely with the ILO social protection specialist to successfully persuade the government to adopt a social protection floor.⁸⁶ In the other two pilots, there was very little interaction, let alone collaboration, between IMF and ILO staff. According to IMF and ILO staff involved, there was no buy-in from Fund staff or the country authorities for the ILO's social protection floor proposals.

⁸³ In September 2016, the heads of the World Bank Group and the ILO jointly announced a new Global Partnership for Universal Social Protection (World Bank, 2016).

⁸⁴ According to World Bank staff, the Bank's approach to achieving universal social protection could continue to prioritize schemes/programs that target the poor and gradually expand coverage to new areas of social protection and to the less poor; while the ILO's approach would prioritize schemes/programs that provide universal benefits for various demographic groups (e.g., those in the formal sector) and gradually expand coverage to new areas of protection and to new groups (e.g., those in the rural sector).

⁸⁵ The Social Protection Floor Initiative was a key element of the Global Jobs Pact adopted by ILO member states in 2009 to address the social and employment impact of the global financial and economic crisis. The initiative, led by the ILO jointly with the WHO, was adopted by the UN Chief Executives Board in April 2009.

⁸⁶ The ILO specialist was responsible for designing and costing various social protection floor proposals (e.g., which social assistance programs to include and how to implement them) and the IMF team was responsible for finding fiscal space in the budget and embedding the expenditures in the macroeconomic framework of the program supported by the Fund's Policy Support Instrument (PSI).

66. **Yet it was decided to scale up the Social Protection Floor pilots in 2014.** Within the IMF, response to the successful Mozambique pilot was lukewarm. While the Communications Department (COM) highlighted the pilot in a factsheet, neither SPR, FAD, nor AFR considered using the case as a good-practice example of how to implement social protection measures within a sustainable macroeconomic policy framework.⁸⁷ According to IMF staff interviewed for this evaluation, there was lingering skepticism among staff of the relevance of the initiative to the Fund's mandate or department work programs and a broad sense that collaboration was difficult because IMF and ILO staffs "did not speak the same language." Nonetheless, an unpublished joint IMF-ILO stocktaking in April 2014 concluded that the pilots had been very successful and proposed expanding the number of countries covered by the exercise. The IMF proposed some additional countries to the ILO in 2014, and the Managing Director's Global Policy Agenda in the fall of that year included a commitment to "[continue] to analyze—jointly with the International Labor Organization—social protection floors, particularly for Africa, ACTs [Arab Countries in Transition], and Latin America" (IMF, 2014e). However, the momentum for IMF-ILO collaboration stalled shortly after that and no new exercises were initiated. Senior IMF and ILO staff interviewed for this evaluation could not explain why the decision was made to scale up the pilots and why the effort was subsequently abandoned.

67. **The IMF has not been an active participant in the ILO- and World Bank-led Social Protection Interagency Cooperation Board (SPIAC-B).** The SPIAC-B was established in 2012 in response to the G-20 request for international organizations to improve coordination of their efforts to provide social protection financing and technical advisory services to developing countries. The SPIAC-B met nine times between July 2012 to April 2017 to discuss, among other things, ongoing social protection initiatives; inter-agency joint work at the country level; collaboration on social protection assessment tools; and cooperation in the field of social protection statistics. However, the IMF was represented in only three meetings, in only one of them by a senior official. SPIAC-B member representatives told the IEO that the IMF's absence was felt as there were areas where its input would have been constructive.

68. **The IMF's collaboration with UNICEF during the evaluation period was also not very successful.** The two institutions had had a thorny relationship since the 1980s, when UNICEF called on the IMF (and the World Bank) to achieve "adjustment with a human face" (Jolly, 1991).⁸⁸ In 2008, following the food and fuel price shocks and the financial crisis, IMF staff agreed to collaborate with UNICEF on achieving "recovery with a human face." The collaboration took place at two levels: (i) the headquarters (or institutional) level—involving an exchange of views in joint meetings of senior staff from both institutions; and (ii) the country level—involving enhanced

⁸⁷ The Mozambique example was dropped from the 2016 version of the IMF factsheet on Protecting the Most Vulnerable Under IMF-Supported Programs.

⁸⁸ According to Jolly (1991), the Fund responded that "[c]ooperation between the World Bank and the IMF on adjustment ... was difficult enough without the complications of bringing in UNICEF and/or others of the United Nations, let alone extending adjustment policy and program concerns to include issues such as nutrition."

staff contacts in the field with the aim of protecting core social spending in 11 pilot countries.⁸⁹ According to interviewees, collaboration at the headquarters level was interrupted by a clash of viewpoints (and personalities) after UNICEF staff published research on the extent fiscal consolidation in low- and middle-income countries resulted in cuts in social protection for children and poor households, which IMF staff saw as a “betrayal of trust” (in the words of one interviewee).⁹⁰ Collaboration at the country level fared somewhat better, with about half of the 11 pilots able to point to some tangible results, even if it was just a mention in a staff report or in the authorities’ Memorandum of Economic and Financial Policies or PRSP.

69. **The IMF-UNICEF collaboration was not sustained after 2011, even though both institutions rated the experiences of the pilot countries as “overwhelmingly positive” overall.**⁹¹ According to IMF and UNICEF staff involved, contributing reasons included: staff turnover in both institutions; change in country circumstances; change in external circumstances (food and fuel prices fell and the financial crisis abated, hence some of the initial concerns became less urgent); and change in focus (the IMF turned its attention to its collaboration with the ILO, and UNICEF turned to other partners as well).

70. **The IMF did not have any formal collaboration with the OECD on social protection during the evaluation period.** As noted in the staff survey results (Wojnilower and Monasterski, 2017), IMF staff did draw on OECD data and research in their work, mostly in the context of surveillance. However, there were few cases in which staff consulted with the OECD on social protection issues in the handful of OECD member countries that had an IMF arrangement during the evaluation period.⁹² OECD staff interviewed for this evaluation confirmed that their views on social protection issues were rarely sought by the IMF during the euro area crisis, and suggested that this was a missed opportunity for closer collaboration between the two institutions.

71. **Cooperation with regional institutions on social protection issues took place mainly at the country level.** Among the regional development banks, IMF missions worked with the ADB and the IDB in several countries in a program and/or TA context during the evaluation period. This evaluation did not encounter any problems with the cooperation. In European Union (EU) member countries, IMF missions collaborated with the EC on social protection issues in the context of programs (particularly on issues of pension reform) but the experience was not always smooth. As noted in Heller (2017), two principal challenges that arose in the program context

⁸⁹ Armenia, Bolivia, Burkina Faso, Mauritania, Nepal, Nicaragua, Pakistan, Paraguay, the Republic of Congo, Tajikistan, and Togo.

⁹⁰ Ortiz, Chai, and Cummins (2011). See “Austerity measures risk irreversible impact on children, warns UNICEF,” *The Guardian*, September 25, 2011. Deacon (2013) provides an account of this episode from UNICEF’s perspective.

⁹¹ This assessment was expressed at the fourth joint IMF-UNICEF meeting in December 2011.

⁹² OECD members that had an IMF arrangement during the evaluation period were Greece, Hungary, Iceland, Ireland, Poland, and Portugal. As noted in Wagner and Zhou (2017), IMF staff consulted with OECD pension experts in the course of Ireland’s EFF-supported program.

were: (i) differences in the decision-making time frame, where the EC negotiating team confronted different institutional clearance requirements that complicated IMF staff's discussions with the authorities; and (ii) differences in policy priorities, where the EC had to consider, for example, that some policy reforms might set a precedent that would apply to other EU members.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

72. **Traditionally, the IMF's role in social protection was limited and its approach fiscal-centric.** Social issues were understood to lie outside the IMF's core areas of responsibility. Formal guidance gave staff some latitude to decide when such issues were sufficiently important to warrant attention in surveillance or programs, and IMF involvement generally aimed to improve expenditure efficiency and/or to ensure medium- or long-term fiscal sustainability. Within this fiscal approach, staff addressed concerns for the poor and the vulnerable by recommending that social benefits be effectively targeted to those most in need. On more specialized issues, such as the design and implementation of social protection schemes, the IMF relied on the World Bank or other institutions with the relevant expertise, per the Board's direction.

73. **Starting in the 1990s but particularly over the past decade, the IMF has given greater attention to social protection from a widening perspective.** This shift has responded to a range of challenges: dealing with the aftermath of the global financial crisis, addressing concerns from the impact of food and fuel price shocks, and recognizing the social and political threats to macroeconomic stability arising from strains on low-income groups and the most vulnerable. Thus, social protection has increasingly been seen as "macro-critical" going beyond purely fiscal concerns. This increased concern for social protection has been evident in IMF surveillance, programs, and TA, most notably in the number of SIPs in surveillance and related conditionality in programs. Social protection issues have often been on the table in policy advice and program design, while the IMF continued to rely on partner institutions for the detailed design and implementation of social protection policies.

74. **While recognizing the increased overall attention to social protection issues, this evaluation found various levels of IMF involvement across countries and over time.** In some cases, engagement was quite intensive and spanned different activities (surveillance, TA, and/or programs): country teams analyzed the possible adverse impact of policy measures, reforms, or shocks on vulnerable population groups; discussed possible policy options to mitigate such adverse impacts; pressed the authorities to enhance social protection; incorporated additional spending on social protection measures in the design of IMF-supported programs and/or specified program conditionality based on these measures; monitored progress in implementing social protection measures; and followed up when implementation fell short. In other cases, IMF engagement was much more limited, confined to emphasizing to the authorities the relevance of paying attention to the need for protection of vulnerable groups and increasing fiscal resources for related expenditures, but with little detailed analysis or follow-up.

75. **This variation to some degree reflected an appropriate response to country-specific factors, but also idiosyncratic factors.** The extent of existing social tensions and stresses on vulnerable groups, as well as fiscal problems arising from the need for more efficient public expenditures and fiscal risks arising from medium- to long-term demographic changes, played a role in determining if social protection was judged to be macro-critical in a particular country context, triggering IMF involvement in these issues. The availability of expertise from development partners and within the country itself also affected the extent of IMF involvement. However, idiosyncratic factors seem also to have played a part, particularly in the context of surveillance, as staff had different views as to what kind of work they were expected to do in this area and on the IMF's role in social protection, and had varying degrees of expertise and interest in these issues. Thus, attention to social protection sometimes shifted over time with changes in country team members as well as country circumstances.

76. **In the program context, the IMF almost always took account of social protection concerns but efforts to mitigate potential adverse effects of program measures on the most vulnerable had mixed success in implementation.** The most effective implementation outcomes were in cases where the IMF lent its support to a package of measures that the authorities themselves had developed (often with the assistance of the World Bank or other partners) to shield the vulnerable; but this was clearly not a variable within the IMF's control. Particularly challenging for the IMF were situations where existing social protection systems were not well developed to start with or where political resistance was high and/or implementation capacity was low. In some cases, program conditions to maintain or increase social protection expenditures were not well received by country authorities who viewed such requirements as an additional constraint on their already limited degrees of freedom to meet fiscal targets. In some cases, it took much longer than anticipated to build needed institutional capacity, e.g., for well-targeted transfer programs. The nationally defined social and other priority spending floors required in IMF-supported LIC programs were often too broad or insufficiently specific to be very useful in protecting critical spending for social protection.

77. **In surveillance, as the IMF moved beyond the fiscal-centric approach to reflect broader considerations for addressing social protection, its policy advice was of varying depth.** To be sure, the increasing number of SIPs on social protection sometimes contained excellent analysis. However, at other times, it seemed that attention to social protection devolved into a box-ticking exercise as staff tried to pay due attention to an increasingly broad range of policy issues. Staff often relied on a mechanical benchmarking of social expenditures (e.g., against OECD averages), or citing IMF cross-country research on income inequality and growth performance, without substantial analysis or explanation to make a solid link to policy recommendations on social protection. Many country authorities interviewed for this evaluation indicated that the IMF's recommendations on social protection often did not reflect sufficient knowledge of local conditions or their specific cultural norms and societal preferences.

78. **The IMF’s preference for targeting social protection to those most in need was broadly in line with the World Bank’s approach during the evaluation period, which made for generally good cooperation between the two institutions.** The evaluation found an effective division of labor between the Fund and the Bank. The Bank had the lead in the design and implementation of social protection schemes, and the Fund provided valuable support by highlighting the need for such measures at Finance Ministries and helping authorities identify space in fiscal programs to ensure that fiscal sustainability was not compromised.

79. **However, the targeting approach meshed less well with the rights-based approach to social protection espoused by UN agencies including the ILO.** This difference in viewpoints—rooted in different mandates of and different legal frameworks applying to the respective institutions—posed a challenge to the IMF’s attempts at institutional-level collaboration with the ILO and UNICEF. To those promoting the rights-based approach, the IMF as an institution often came across as dismissive of the approach and uncooperative. At the end of the evaluation timeframe, as part of its undertakings on the SDGs, the World Bank joined the ILO in support of universal social protection, which could lead to complications for Bank-Fund collaboration going ahead depending on how this commitment is implemented at the Bank. Moreover, the IMF’s endorsement of the SDGs has raised questions about consistency with its continued support for targeted (means-tested) social protection schemes.

80. **The IMF’s external communications tried to emphasize the Fund’s “human face,” but this created heightened expectations among external stakeholders regarding the IMF’s role in social protection that were sometimes disappointed.** Against such expectations, some external commentators concluded that the IMF’s claims regarding its increasing attention to social protection often were not matched by the level or intensity of its efforts on the ground. This may have reduced recognition of the greater efforts the IMF has made to enhance its involvement in social protection over the past decade.

B. Recommendations

81. **Looking forward, concerns about inequality, social and political stability, the impact of trade, immigration, and new technologies on vulnerable groups, and the consequences of aging populations seem likely to keep social protection issues high on the global policy agenda.** This evaluation concludes with a number of recommendations to further enhance the IMF’s effectiveness in this area.

Recommendation 1: The IMF should establish a clear strategic framework to guide its involvement in social protection among multiple competing priorities.

82. **The Executive Board should endorse a clear strategy setting the scope, objectives, and boundaries of IMF engagement in social protection.** Board endorsement of a strategy for the IMF’s role in social protection would be an important signal to staff to guide priorities at a moment when many new institutional initiatives are being raised as potentially “macro-critical”

and deserving attention. Without such clarity, staff risk losing focus in their country work and the IMF risks appearing inconsistent in its policy advice or insensitive to local conditions.

83. **To support the discussion, staff should prepare a paper laying out the overarching issues for the Board's consideration.** The purpose would be to reach an institutional view endorsed by the Board setting out the scope, boundaries, and objectives of IMF engagement in social protection that would serve to guide staff's operational work and dialogue with country authorities.

84. **Key issues would include the following:**

- *The definition/scope of social protection relevant for the IMF.* The first step would be to adopt a common understanding and usage of the term "social protection" within the IMF. This would eliminate the variety of terminology that now exists as well as assist in determining which policy areas fall under the rubric and which do not. In turn, this would provide clarity and transparency for internal and external discourse.
- *The objective(s) of IMF involvement in social protection.* That there are instances where the IMF should be involved in social protection is beyond doubt. However, while macro-criticality has been the operative criterion for determining IMF engagement on structural policy issues, it remains a somewhat nebulous standard that does not provide a clear working guide for when the IMF should or should not become involved in social protection. Staff need clearer strategic direction on how to identify those instances where social protection should be prioritized among multiple competing potentially macro-critical issues, and where it can be given less attention. A relatively narrow approach would be to focus on two well-established (macroeconomic) objectives of IMF involvement: to ensure that a country's social protection policies are efficient and fiscally sustainable and to mitigate short-run adverse effects of IMF-supported adjustment programs on vulnerable groups that could erode public support for the programs. A broader approach would be to provide advice on policies to support vulnerable and low-income groups where concerns about social and political strains and inequality are judged to be material risks to economic growth and stability. A central challenge would be to assess when IMF involvement on this broader scale should be given priority, taking account of local conditions and preferences and limits on staff resources and expertise.
- *The boundaries of IMF involvement in social protection.* A central issue to address is the appropriate boundaries of IMF involvement in social protection, including to consider how the Fund's work in this area fits within its legal framework. Social protection is a multi-dimensional issue, where the social and political dimensions are just as, if not more, important than the macroeconomic dimension. Questions to consider include: to what extent should IMF advice be guided or constrained by domestic social and political preferences? To what extent should the IMF embrace an overarching aspiration such as "universal social protection"? Should the IMF address social protection issues in the

absence of an obvious or foreseeable fiscal/macroeconomic problem, for example, should staff be expected to advise countries on the size of the social welfare system or to assess the social sustainability of a country's public pension system (including questions of inter- and intra-generational equity) in the absence of fiscal sustainability concerns? Clarifying the boundaries of IMF involvement in social protection would facilitate the setting of appropriate expectations—internally and externally—as to what the IMF will and will not be accountable for, and it would allow staff to better focus their efforts in this area.

Recommendation 2: When social protection is determined to be a macro-critical priority under the strategic framework, the IMF should provide tailored policy advice based on in-depth analysis of the particular country situation. The advice would draw on work by development partners or country authorities where available, but in its absence, the necessary analysis may need to be undertaken in-house.

85. **Given the extent to which the nature and scope of social protection vary across the membership, the IMF's advice on social protection issues must necessarily be based on country-specific analysis.** For example, if reducing income inequality is identified as a macro-critical objective, the analysis should show, in the context of the country concerned, how the social protection system has contributed to inequality, how proposed social protection reforms might be expected to help, and whether there are more effective or less distortionary ways of achieving greater equity. Simply pointing out the risks to social stability of excessive inequality based on international experience is not sufficient to convince country authorities to embark on politically sensitive reforms. Similarly, listing examples from the rest of the world is of limited usefulness to countries seeking IMF advice on relevant reforms. A more coherent analysis tailored to country specifics is necessary if the IMF is to make a constructive contribution on social protection. And since reforms take time to put in place, such discussions should best take place in the surveillance context rather than in a program context in the midst of a crisis.

86. **To the extent possible, advice on social protection should draw on work by development partners or by country authorities, but in-house expertise will sometimes be needed where social protection is judged to be a macro-critical priority.** Institutions like the World Bank have much more experience and expertise on social protection and are often engaged on these issues in a given country context. Country authorities may have access to relevant data sets and will know well social, political, and legal constraints. However, there will be times when outside support will not be easily available on a timely basis, and the Fund will need to find the necessary resources in-house or to catalyze external partners to avoid the risk that macro-critical social protection issues are neglected in countries where they are judged to be a priority.

87. **Resource implications of Recommendations 1 and 2 would need to be considered.** Addressing social protection issues from a broader perspective and/or in greater depth in a significant number of members would require expertise and experience well beyond what is

currently available (or can be easily repurposed) in the Fund. A relatively “resource-lite” approach to social protection by the Fund would work best with full commitment and a compatible approach by partner institutions like the World Bank or the availability of own resources in the country concerned, neither of which may be taken for granted.

Recommendation 3: The IMF needs to find more realistic and effective approaches to program design and conditionality to ensure that adverse impacts of program measures on the most vulnerable are mitigated.

88. **The next Conditionality Review should consider how program design and conditionality can be more effectively applied to mitigate the impact of adjustment on vulnerable groups.** The present evaluation—pointing to the mixed implementation record of social protection policy measures in the face of capacity constraints and political obstacles—suggests the need for the IMF to be more realistic in assessing implementation constraints. Building on the recent Board paper on “social safeguards” in LIC programs (IMF, 2017b), the Review should also examine IMF-supported programs in EMEs and advanced economies, covering the full range of social protection policies, and suggest how program design and conditionality can more effectively fulfil the purpose of protecting vulnerable groups. The proposed guidance note for staff on social safeguards put forward in IMF (2017b) should include good practices for addressing social protection concerns not just in LIC programs but in Fund-supported programs across the membership.

Recommendation 4: In external communications, the IMF should realistically explain its approach to social protection issues, and what it can and cannot do in social protection, given its mandate and limited resources and expertise.

89. **The IMF would be better placed to receive greater recognition for its genuine efforts to tackle social protection issues if it sets realistic expectations.** The IMF should be clear on how its approach to social protection issues fits with its mandate and available resources, and how its emphasis on targeting meshes with the rights-based approach. Clear external communications of the objectives, scope, and boundaries of the IMF’s involvement in social protection following the Board review recommended above will help to temper expectations of stakeholders and avoid reputational risk to the Fund.

Recommendation 5: The IMF should engage actively in inter-institutional cooperation on social protection to find ways to work constructively with development partners, particularly institutions with different mandates and policy priorities.

90. **In an area such as social protection where the IMF is not a global leader and must rely heavily on other agencies for in-depth expertise, there is no alternative to the Fund cooperating, and being seen to cooperate, with others willingly and constructively.** For the IMF to play a more effective role in social protection, at the least it needs to ensure continued close working relations with the World Bank, and it should also be willing to work constructively

with other partners based on realistic assessments and agreement on common goals at the institutional level. The IMF should commit to regular attendance by senior-level staff at relevant inter-institutional meetings such as those of the SPIAC-B where efforts are being made to reconcile the targeting approach and the rights-based approach to reaching the goal of universal social protection. Such involvement would be helpful not just for good public relations but to keep up with developments in the field, to maintain open lines of communication with institutions that have different mandates and policy priorities, and to allow for the IMF's particular perspective on social protection to be influential in the broader debate.

ANNEX 1. DEFINITIONS OF SOCIAL PROTECTION AND RELATED CONCEPTS/TERMS

Social Protection

“Social protection is the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks. 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. Needs may occur due to sickness, unemployment, retirement, housing, education, or family circumstances ... Social protection can be organized as social assistance or social insurance schemes, with the latter organized as social security schemes or employment-related social insurance schemes.” (IMF, Government Finance Statistics Manual, 2014)

“Generally, social protection and labor refer to the set of policies and programs aimed at preventing or protecting all people against poverty, vulnerability, and social exclusion throughout their life cycles, with a particular emphasis on vulnerable groups. Social protection can be provided in cash or in kind, through noncontributory schemes, providing universal, categorical, or poverty-targeted benefits such as social assistance or social safety nets, contributory schemes with social insurance being the most common form, and by building human capital, productive assets, and access to productive jobs.” (World Bank, The State of Social Safety Nets, 2015)

“In the context of this report, social protection is broadly understood as a set of public and private policies and programs undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; to provide assistance for families with children as well as provide people with health care and housing.” (UN ECOSOC, Enhancing Social Protection and Reducing Vulnerability in a Globalizing World, 2000)

“UNICEF understands social protection as a set of public and private policies and programs aimed at reducing and eliminating economic and social vulnerabilities to poverty and deprivation.” (UNICEF, Social Protection Strategic Framework, 2012)

“Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.” (Asian Development Bank, Social Protection Strategy, 2001)

“Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is, by convention, as follows: 1. Sickness/Health care; 2. Disability; 3. Old age; 4. Survivors; 5. Family/children; 6. Unemployment; 7. Housing; 8.

Social exclusion not elsewhere classified.” (Eurostat, The European System of Integrated Social Protection Statistics (ESSPROS) Manual, 2011)

“[I]n many contexts the two terms, ‘social security’ and ‘social protection’ may be largely interchangeable, and the ILO certainly uses both in discourse with its constituents and in the provision of relevant advice to them. In this report, reference is made to ‘social protection’ both as an alternative expression for ‘social security’ and to denote the protection provided by social security in case of social risks and needs.” (ILO, World Social Protection Report, 2014)

“Social protection refers to policies and actions which enhance the capacity of poor and vulnerable people to escape from poverty and enable them to better manage risks and shocks. Social protection measures include social insurance, social transfers and minimum labor standards.” (OECD, Promoting Pro-Poor Growth: Social Protection, 2009)

“DFID takes a narrower definition of social protection that focuses on a sub-set of public actions that help address risk, vulnerability and chronic poverty. These comprise three sets of instruments: social insurance—refers to the pooling of contributions by individuals in state or private organizations so that, if they suffer a shock or change in circumstances, they receive financial support; social assistance—comprises non-contributory transfers that are given to those deemed vulnerable by society on the basis of their vulnerability or poverty; and, the setting and enforcing of minimum standards to protect citizens within the workplace.” (DFID, Social Protection in Poor Countries, 2006)

“Social protection describes all public and private initiatives that provide income or consumption transfers to the poor; protect the vulnerable against livelihood risks; maintain and build productive assets and livelihoods activities; and enhance the social status and rights of the marginalized, with the overall objective of reducing the economic and social vulnerability of poor, vulnerable and marginalized groups.” (ODI, Guidance Note for DFID: Exploiting the Synergies Between Social Protection and Economic Development, 2014)

“Social protection consists of policies and programs designed to protect people from shocks and stresses throughout their lives... At a minimum, social protection systems include safety nets, labor market policies, insurance options and basic social services, as in education, health and nutrition.” (WFP, Two Minutes on Social Protection, 2015)

Social Security

“Social security arrangements refer to social insurance and social assistance programs. The former (e.g., pensions and unemployment insurance) may not necessarily be targeted to the poor, while the latter generally are targeted to the poor.” (IMF, Social Safety Nets in Economic Reform, 1993)

“Social security is provided through (a) social insurance (generally covering pensions, unemployment benefits and health care), and (b) social assistance (comprising various in-kind

and cash transfers to the entire population or to some specific target groups). While the objectives of social insurance are income smoothing and insurance against risks, social assistance is provided to households which are either not covered by any insurance, or are very poor and vulnerable to shocks." (World Bank and IMF, Social Security Reforms and Social Safety Nets in Reforming and Transforming Economies, 1993)

"Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units. These schemes cover a wide variety of programs, providing benefits in cash or in kind for old age, invalidity or death, survivors, sickness and maternity, work injury, unemployment, family allowance, health care, etc." (IMF, Government Finance Statistics Manual, 2014)

"The notion of social security adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from: 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; general poverty and social exclusion." (ILO, World Social Protection Report, 2014)

Social Safety Nets

"Social safety nets are defined broadly in this paper to include a range of transfer instruments aimed at mitigating possible adverse effects of reform measures on the poor. These instruments include temporary arrangements, as well as existing social protection measures reformed and adapted for this purpose, such as limited food subsidies, social security arrangements for dealing with various life-cycle and other contingencies (e.g., old-age, disability, unemployment, sickness, and drought), and targeted public works." (IMF, Social Safety Nets in Economic Reform, 1993)

"Social safety nets consist of a combination of measures aimed at protecting the poor from the adverse consequences of economic shocks and structural reforms, and helping them escape poverty." (IMF, Fiscal Adjustment for Stability and Growth, 2006)

"Social safety nets are noncontributory measures designed to provide regular and predictable support to poor and vulnerable people. They are also referred to as safety nets, social assistance, or social transfers, and are a component of larger social protection systems... The review does not consider generalized subsidies as part of safety nets, which in most cases include regressive interventions tied to fuel and energy consumption." (World Bank, The State of Social Safety Nets, 2015)

"Safety nets are programs designed to provide people who are vulnerable to poverty, living in poverty or who are facing food insecurity and other forms of deprivation with predictable and reliable support through food, cash or vouchers. Safety nets are best understood as part of the

larger social protection system in any given country...” (WFP, Two Minutes on Social Protection, 2015)

Social Spending/Expenditure

“Social spending is defined here as public spending on education and health.” (Clements, Gupta, and Nozaki, What Happens to Social Spending in IMF-Supported Programs? 2011)

“Social spending includes social protection, education, and health care.” (IMF, Fiscal Monitor, April 2014)

“Social expenditure comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered ‘social,’ programs have to involve either redistribution of resources across households or compulsory participation.” (OECD, Glossary of Statistical Terms, 2007)

Social Safeguards

“In this paper, all measures aimed at safeguarding social spending and protecting the most vulnerable are referred to as ‘social safeguards.’ Social safeguards include (i) minimum floors for social and other priority spending, typically established using indicative targets (IT), and (ii) specific reform measures designed to protect vulnerable groups, sometimes established as prior actions or structural benchmarks under Fund-supported programs. In the context of spending floors, social spending is generally defined to include spending on health, education, and social safety nets (e.g., increase social transfers to the poor). Vulnerable groups are defined in a country context and would include, for example, the poor, the elderly, the youth and women.” (IMF, Social Safeguards and Program Design in PRGT and PSI-Supported Programs, 2017)

ANNEX 2. SOCIAL PROTECTION ADVICE IN ARTICLE IV CONSULTATIONS

Social protection advice in IMF surveillance could be grouped into the following themes:

1. Reforming the pension/ social security system

Examples: "Directors emphasized that the sustainability of public finances will require substantive pension reform;" "Directors emphasized the importance of pension reforms to address looming demographic pressures;" "Directors also cautioned that the envisaged changes should not make public sector pensions fiscally untenable;" "Directors cautioned that a declining balance of the social security fund pose long-term challenges."

2. Reforming unemployment benefits/minimum wage schemes

Examples: "Directors emphasized the need to curtail the long duration of unemployment benefits;" "Directors called for tightening eligibility for unemployment benefits for those unwilling to work;" "Directors noted that in view of looming labor supply shortages, reforms of early retirement schemes and of sickness and disability leave benefits are also a priority;" "On wage protection, some Directors noted that alternative measures such as expanding in-work benefits for low income workers could be preferable to introducing a minimum wage."

3. Improving the targeting of social benefits/transfers

Examples: "To improve public sector efficiency and spending discipline, Directors encouraged better targeting of social spending;" "Directors called for further efforts to rationalize social assistance to target the poor;" "Directors saw scope to reduce generous social benefits."

4. Protecting vulnerable groups or limiting the social cost of reforms/policies/shocks

Examples: "Directors advised the authorities to accelerate fuel subsidy reforms, while protecting the most vulnerable segments of the population;" "Directors supported the budget's mildly expansionary stance, particularly in the light of the need to address the social impact of higher food prices;" "Directors saw scope for further cuts in public spending, complemented with measures to protect the poor;" "Directors supported steps to further reduce wage and subsidy spending, while protecting the most vulnerable segments of the society"

5. Protecting or creating fiscal space, i.e., increasing budgetary allocations, for social spending

Examples: "Directors stressed that continued fiscal consolidation is needed to create room to raise social spending;" "Directors noted the importance of using fiscal space for priority social spending;" "Directors encouraged the authorities to prioritize expenditures and keep them in line with available resources, while protecting social spending."

6. Strengthening the social safety net/social transfers/provision of social services

Examples: "Against the backdrop of continued high poverty, Directors encouraged the authorities to strengthen the social safety nets;" "Directors also encouraged the authorities to cooperate closely with the World Bank and other donors to develop an adequate and well-targeted safety net;" "Directors supported the authorities' medium term priorities including enhancing social services for the poor;" "Directors encouraged the authorities to consider new approaches to alleviate poverty, including well-targeted cash grants."

7. Pursuing active labor market policies

Examples: "Directors supported the authorities' strategy to reduce unemployment among low-skilled workers through training programs and job placement assistance;" "Directors also recommended additional active labor market policies, including more effective training programs, as well as reforms to reduce skills mismatches and boost incentives to work."

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