

STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON THE IMF AND SOCIAL PROTECTION

EXECUTIVE BOARD MEETING

JULY 19, 2017

I welcome the report of the Independent Evaluation Office (IEO) on the IMF and Social Protection. This is an area in which the Fund has broadened its engagement in recent years, responding to the needs of the membership. The conclusion that I draw from the report—that the Fund has made strong progress—is therefore an encouraging one, even as I recognize that there is scope to do better. The IEO’s analysis and findings have much in common with recent work by Fund staff, while providing a broader perspective that is very valuable. Overall, I find the IEO’s recommendations for refining the Fund’s approach to social protection to be well-judged, and the proposals have my support.

As noted in the IEO report, social protection can be macro-critical, meriting engagement by the Fund in its bilateral surveillance, program design, and technical assistance. The growing attention given to links between inequality and overall macroeconomic performance across the membership underline the role of the Fund in social protection issues.

I welcome the findings in the IEO report of widespread IMF involvement in social protection across countries, with relatively deep engagement in some cases, involving detailed analysis, discussion of policy options, and active advocacy. It is similarly encouraging that the IEO finds that, in a program context, the IMF almost always took account of social protection concerns, including by integrating social protection measures into program design or conditionality.

These findings confirm some of those in the recently published staff paper on “*Social Safeguards and Program Design in PRGT and PSI-Supported Programs*.” The paper found important progress in developing social safeguards, with indicative targets included in virtually all PRGT-supported programs for social and other priority spending, and with these targets met in more than two-thirds of cases. In addition, staff found that health and education spending have typically been protected in low-income country programs. Reviewing the staff paper, Directors welcomed the findings that Fund-supported programs with low-income countries had helped to safeguard social spending in most cases.

The IEO findings are also consistent with the Fund’s expanded attention to social protection issues in advanced economies and emerging markets, including in the context of the Fund’s bilateral surveillance of macro-structural and emerging macro critical issues such as gender and inequality.

The IEO report also finds, however, that there is scope for further progress: by expanding the Fund’s analysis of vulnerable populations and how they would benefit from additional fiscal resources; by strengthening engagement on social protection during bilateral surveillance; by better reflecting local conditions in program design and conditionality; and by working even more closely with other development partners. In making these recommendations, the IEO report draws lessons from the breadth of the Fund’s engagement, going beyond the focus of the April 2017 staff

paper on low-income country program engagement. That said, the IEO report again confirms some of staff's recent findings and recommendations on scope for progress. For example, the April 2017 staff paper recommended strengthening the effectiveness of indicative targets for social and priority spending, including by tailoring targets to cover the most vulnerable groups and the spending that has the largest impact on their livelihoods. Given differences in local conditions, this process will require close consultation with country authorities. The staff paper also saw scope for greater emphasis in the Fund's policy advice on strengthening social safety nets. Given that existing social safeguards are often not well-developed in low-income countries, staff recommended that discussions start early, ideally as part of bilateral surveillance. Staff also underlined the importance of close collaboration with development partners on social safeguards issues.

RESPONSE TO IEO RECOMMENDATIONS

The IEO makes five recommendations in this report. Below is my proposed response to each of these.

Recommendation 1: 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 key elements of a framework for guiding Fund involvement in social protection issues are in place, including the integrated surveillance decision and its associated 2015 guidance note, and the 2014 guidelines on conditionality. I recognize, however, that these sources do not provide specific and full operational guidance to staff on how to assess the macro-criticality of social protection, the forms that the Fund's engagement could take, and the appropriate boundaries between the work of the Fund and other organizations. On these issues, the Board may wish to have an opportunity to provide strategic guidance. As recognized by the IEO, notwithstanding the enhanced importance of the Fund's engagement on social protection issues, it will need to balance multiple policy priorities for its surveillance and calls on its limited resources, as well as the societal and policy preferences of its member states. More forthright guidance to staff, including on how to manage competing demands, can help strengthen the effectiveness of the Fund's engagement on social protection issues, and hence I support this IEO recommendation.

Recommendation 2: Provide tailored advice based on in-depth analysis of the particular country situation, for countries where social protection is judged to be a macro-critical strategic priority.

I support the principle that the IMF's advice should be based on in-depth analysis and tailored to country conditions. These are important principles that should inform the work of the Fund, where it engages, and I therefore support this recommendation. In practice, the appropriate depth of analysis by the Fund in a country will depend on the extent to which the World Bank or other organizations with greater social protection expertise than the Fund are already engaged, and consideration should also be given to issues of sequencing with other aspects of policy engagement. This reinforces the need to engage with the authorities, and the World Bank and other institutions, at an early stage on the nature and adequacy of the social protection system. Anticipated traction may also be a factor. The strategic framework on the scope, objectives, and boundaries for Fund involvement discussed above can provide helpful guidance on these points.

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

I concur with the need to consider the adverse effects of program measures when designing programs and establishing conditionality. Indeed, the guidelines on conditionality note that "...if feasible and appropriate, any adverse effects of program measures on the most vulnerable should be mitigated." Our own analysis and that of the IEO suggests that programs vary in their success in achieving this goal, and there is always scope to identify, and encourage the adoption of good-practice approaches consistent with country-specific circumstances, including the effectiveness of the existing social protection system and country administrative capacity. Staff's April 2017 paper reviews experience with social safeguards measures in PRGT and PSI-supported programs, and makes recommendations for more effective approaches for program design. To provide comprehensive guidance to staff, we will consider how to extend this analysis to GRA-supported programs.

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

I agree with this recommendation. External communications play a critical role in building awareness and support for the Fund's engagement on social protection. Communications need to be nuanced, given that there are limits to what the Fund can do, and because engagement will differ between countries with good reason. The IEO's primary recommendation to establish a clear strategic framework setting the scope, objectives, and boundaries of the IMF's involvement in social protection will help to frame the communications message.

Recommendation 5: 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.

We agree that collaboration with other organizations is important to complement the skills and expertise of Fund staff,

and this principle is emphasized in the 2015 staff guidance on surveillance. To do justice to the growing importance of social protection issues, including for surveillance in advanced economies, Fund staff will need to leverage the expertise of other international organizations with greater involvement in this area. Accordingly, I support this recommendation. The IEO's recommendation to address the boundaries of the IMF's involvement in social protection issues as part of a broad strategic framework will help clarify the importance of collaboration and the conditions for successful outcomes. In this connection, the conclusion I draw from the IEO report is that the IMF's cooperation with the World Bank has been strong, and that much of the collaboration with other institutions has also been constructive. It will be important to build on these achievements, clarifying in the broad strategic framework under what circumstances, in what types of engagement, and with which types of institution the Fund staff should seek to further strengthen collaboration.

I look forward to the discussion of the report's findings. Subsequently, I will work with staff to implement the recommendations endorsed by the Executive Board.

TABLE 1. THE MANAGING DIRECTOR'S POSITION ON IEO RECOMMENDATIONS

RECOMMENDATION	POSITION
(i) 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.	SUPPORT
(ii) Provide tailored advice based on in-depth analysis of the particular country situation, for countries where social protection is judged to be a macro-critical strategic priority.	SUPPORT
(iii) Find more realistic and effective approaches for program design and conditionality to ensure that adverse impacts of program measures on the most vulnerable are mitigated.	SUPPORT
(iv) In external communications, realistically explain the IMF's approach to social protection issues and what it can and cannot do in this area, given its mandate and limited resources and expertise.	SUPPORT
(v) 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.	SUPPORT