2

THE IMF'S ROLE IN AND APPROACH TO SOCIAL PROTECTION

A. THE IMF'S ROLE IN SOCIAL PROTECTION[6]

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 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

---

[6] This chapter 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).

[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).

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 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]

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

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).

[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.

[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.

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 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 Labour 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, middle panel). Staff understood the increased priority being given to social protection issues in recent years (Figure 2, lower panel). The survey 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).

[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.

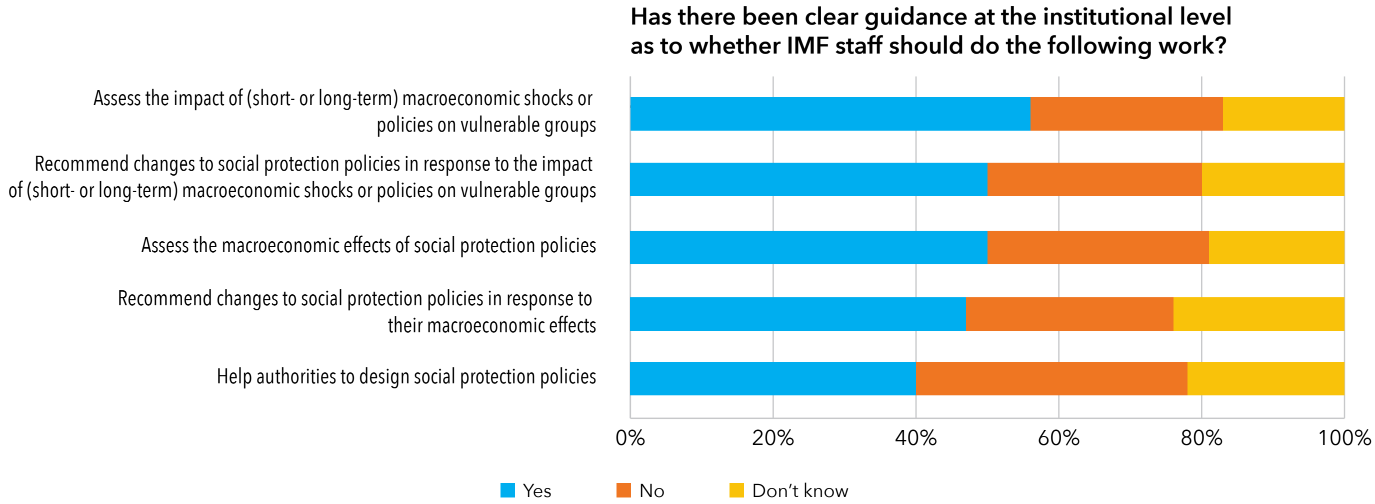
[19] Feasibility and appropriateness were in the context of the key principles guiding the IMF in designing and setting conditionality, namely: "(i) national ownership of reform programs; (ii) parsimony in program-related conditions; (iii) tailoring of programs to a member's circumstances; (iv) effective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

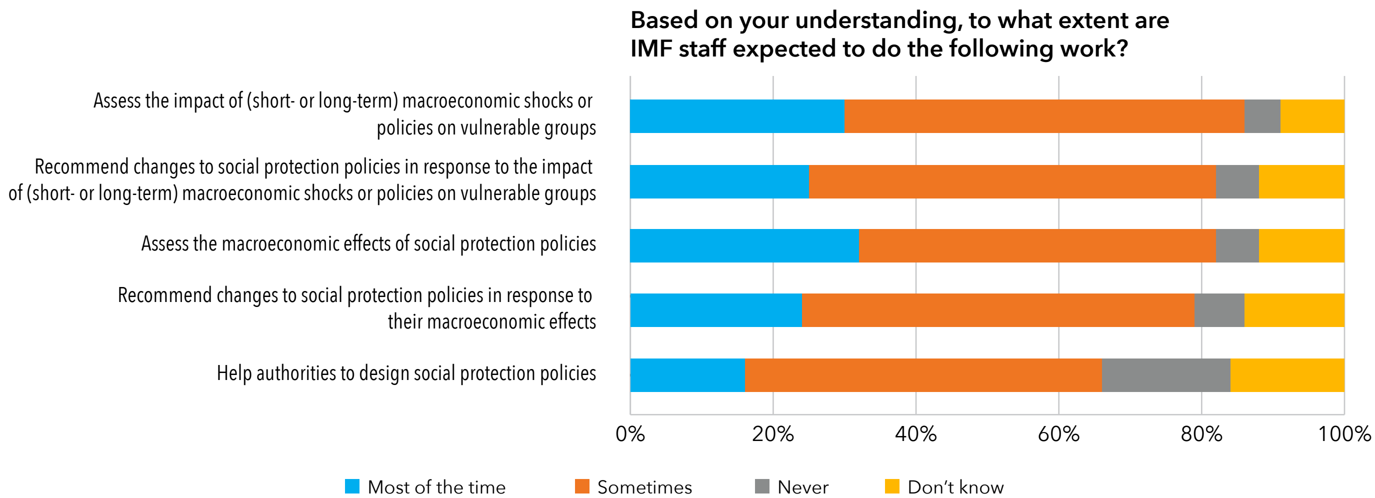
[20] See Zhou (2017).

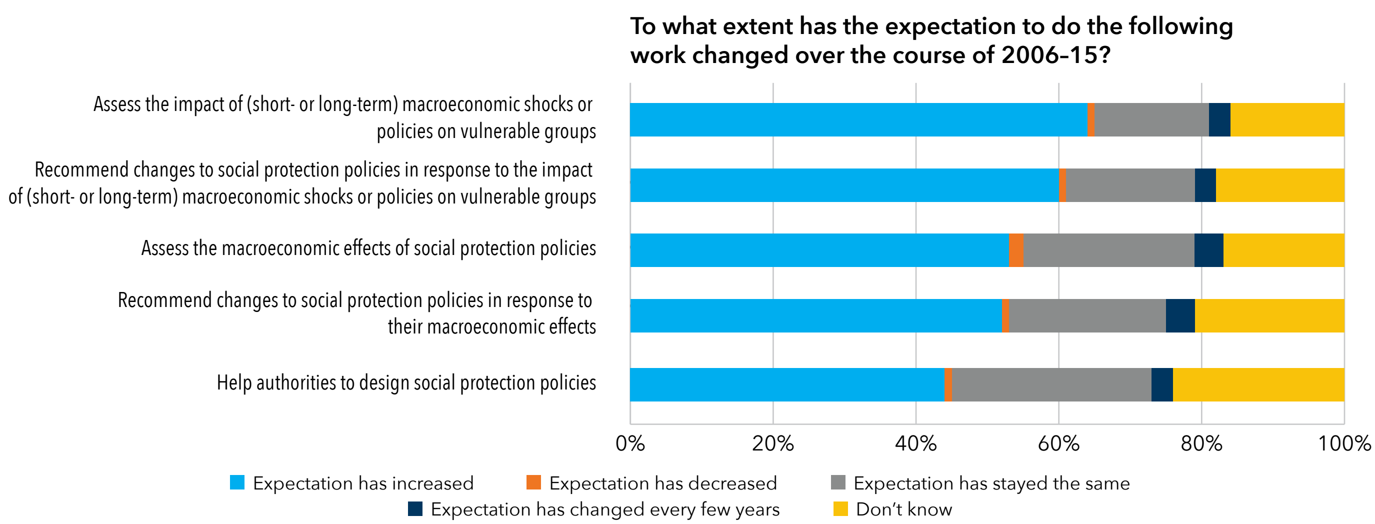
[21] According to the guidelines, the IMF's Policy Development and Review Department (now the Strategy, Policy, and Review Department) would "seek clarification" in the event of a significant difference in views between the two institutions on macroeconomic matters (see Zhou, 2017).

[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).

FIGURE 2. STAFF PERCEPTIONS OF IMF GUIDANCE ON SOCIAL PROTECTION

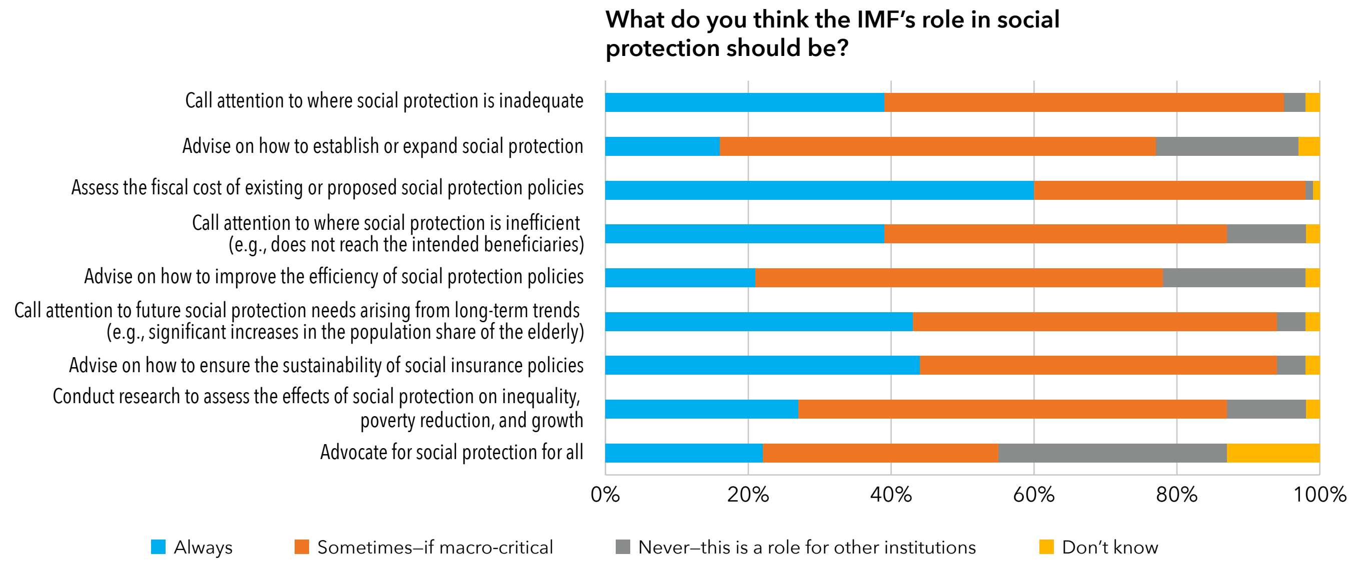






Source: Wojnilower and Monasterski (2017).

FIGURE 3. STAFF PERCEPTIONS OF THE IMF'S ROLE IN SOCIAL PROTECTION



Source: Wojnilower and Monasterski (2017).

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 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

[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.

[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).

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.

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 nonpoor.[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,

[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.

[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.

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 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 (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.

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).

[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).

[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).

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

[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).

[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).