



THE IMF'S NEW POLICY FRAMEWORK ON SOCIAL PROTECTION A view from the Global Coalition for Social Protection Floors* January 2019

As the International Monetary Fund prepares its new institutional view on how to address social protection in its work with member countries, the Global Coalition for Social Protection Floors (GCSPF) has prepared this note to highlight a number of policy considerations that we believe the Fund should take into account in its deliberations. We first review the failures of IMF policies as seen by its critics and by its own Independent Evaluation Office, which has prompted the Fund's current re-examination of its approach to social protection. Second, we give our view on what the proper scope of social protection should be in the IMF's work with member countries. We argue that the Fund needs to base its social protection perspective on the standards of the international community as a whole, in particular, taking guidance from the 2030 Agenda for Sustainable Development adopted by the United Nations General Assembly and from international agreements forged in the governing body of the International Labour Organization (ILO). We conclude with recommendations that the IMF should adopt to better assist countries to arrive at effective, adequate and fair systems of social protection that are fiscally sustainable in the long run, and that are maintained and can be increased as needed during times of societal stress owing to economic difficulties or natural calamities.

The damages of a narrow focus on fiscal sustainability

Trade unions, civil society organizations and many outside analysts have been critical of IMF policy recommendations and loan conditionality in the area of social protection. A frequent complaint has been that the Fund, in its determination to see governments reduce or even eliminate fiscal deficits, has urged them to rein in spending for social protection while paying little attention to the social and economic consequences of such action for beneficiaries. In our view, there were and are alternatives.

In July 2017, the IMF's [Independent Evaluation Office \(IEO\) issued a report](#) on the Fund's involvement in social protection issues that followed some eighteen months of investigation. The IEO report confirmed many critics' views of IMF actions in this thematic area, namely that the Fund typically issued recommendations or loan conditions with a focus on the fiscal costs of existing or proposed social protection programmes, not their impact on, for example, reducing poverty or inequality. Thus, as regards old-age pensions, the IEO found that the IMF typically was not concerned with "social issues such as the extent of pension coverage in the population or the adequacy of the pension replacement rate" but rather with issues "such as fiscal sustainability and the short-term expenditure burden".

The IEO report notes that Fund staff generally had little expertise in social protection issues, as demonstrated by the fact that "IMF staff often underestimated the time and

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complexities in developing and implementing means-tested benefits” which they advised low-income countries to adopt instead of universal benefits. The report also observes that the IMF’s approach to social protection was frequently at odds with those of other international agencies, notably in its preference for narrowly targeted benefits. It also notes a possible contradiction between the Fund’s preferred options for social protection reform and the 2030 Sustainable Development Goals, in spite of the Fund having endorsed these in 2015: “The IMF’s endorsement of the SDGs has raised questions about consistency with its continued support for targeted (means-tested) social protection schemes.”

Before the IEO made public its report on social protection, in 2015 the ILO, the South Centre and the Initiative for Policy Dialogue at Columbia University published an [analysis of 616 IMF country reports](#) covering 183 countries from 2010 to 2015 with the aim of identifying the main adjustment measures under consideration. The period studied coincided with the widespread promotion by the IMF of austerity policies, which started in 2010 after a brief spell, 2008-2009, during which the Fund encouraged many countries to engage in stimulus policies to counteract the Great Recession.

As the report documents, in early 2010 the IMF’s executive board approved two papers prepared by Fund staff which encouraged governments to unwind stimulus policies that several had applied during the recession, and instead engage in fiscal consolidation. With regards specifically to social protection, the Fund encouraged reform of pension entitlements so as to reduce the State’s obligations, decrease spending on items such as subsidies, and reform safety nets to focus on “the poorest”. The report prepared by the ILO and partners examined austerity-related measures in both developing and high-income countries, but found IMF surveillance to be a “main contributing factor” to subsequent cuts in public spending in developing countries.

The analysis of IMF country reports showed that 132 governments (out of 183) considered reducing subsidies, mostly for fuel but also electricity, food and agricultural inputs; 107 considered rationalizing spending on safety nets and welfare benefits with the effect of reducing coverage, “often by revising eligibility criteria and targeting to the poorest”; and 105 discussed changes to pension systems such as raising contribution rates, eligibility periods and retirement ages or lowering benefits.

The report provides several examples of IMF staff encouraging governments to adopt such expenditure-reducing measures. It states that targeting of social programmes was discussed in 107 countries with apparent support from the IMF, even though some of the Fund’s country reports acknowledge a lack of capacity to target those in poverty, particularly in lower-income countries. The report lists the major problems associated with the means testing techniques used for targeting the “poorest”, including high cost, substantial under-coverage and political unsustainability.

The concerns raised by targeted rather than universal social benefits in developing countries are also discussed in a report on the IMF’s involvement in social protection issued in May 2018 by the [UN Special Rapporteur](#) on extreme poverty and human rights. The report cites research showing that in sub-Saharan Africa the proxy means tests frequently favoured by the IMF as a targeting mechanism resulted in 80 per cent of poor

households, on average, being declared non-poor and thus ineligible for targeted assistance.

Noting the IMF's preference for targeted measures in replacement of price subsidies, the Special Rapporteur underlines the "tension between the short-term focus of IMF [on achieving fiscal savings] and the significant time it takes to ... build up a proper social protection system." The report also comments on the shortcomings of policies to create or expand social spending floors included in IMF lending programmes for most low-income countries in the past decade. It observes that their aims have generally not been met in sub-Saharan Africa, perhaps because the floors are included in the programmes as non-binding indicative targets, not full-fledged loan conditions.

Failures of the Fund's past approach

Several recent examples of IMF loan conditionality and policy advice, notably in staff reports on country missions, indicate that the problems with the IMF's approach on social protection highlighted in the three reports cited above are of continuing concern. In two Asian borrowing countries, [Mongolia and Kyrgyzstan](#), the IMF obliged the governments in late 2017 and early 2018 to introduce targeting of what had previously been universal child cash allowances in both countries, despite the success the universal programmes had had in reducing poverty, especially in rural areas.

In [Iran](#), the IMF similarly urged the government during its annual Article IV consultation in April 2017 to shift a universal cash transfer programme, originally introduced to replace fuel subsidies, to a programme targeted on the poor in order to create fiscal space for other expenditures such as bank recapitalization. The IMF made this recommendation even though it had [earlier touted the success of the universal transfer](#) in reducing income inequality and admitted that "administrative difficulties" would make it very challenging to determine who should be eligible for the targeted benefit. The Iranian government announced the end of the universal benefit in late 2017, an action that was [praised by the IMF](#) but set off several days of protests throughout the country in late 2017 and early 2018.

As already mentioned, so-called social spending floors were included in several low-income country programmes in the past several years. However, these have been non-binding indicative targets and typically covered so broad an array of social spending, including education, as to be close to meaningless. One middle-income country that had such a floor in its IMF loan programme, Tunisia, spent 14 per cent less than its targeted floor over the 30-month period of its IMF loan ending in 2015. A [Fund report on the Tunisian loan](#) attributed the under-spending to "issues" in the delivery mechanism of transfers to vulnerable households.

The largest loan in IMF history, the [current US\\$57 billion loan to Argentina](#), broke new ground by including a social assistance spending floor as a "performance criterion". This has the same status as the primary fiscal balance, currently in deficit, which the government committed to eliminate in 2019. The spending floor is thus a full loan condition, which could lead to suspension of loan disbursements if not met – although in practice the IMF's executive board frequently grants waivers to countries that do not meet

certain conditions. However, it is important to note that the floor applies to a very limited array of social programmes, collectively called ‘Asignaciones familiares’ (family allowances) that represent about 1.3 per cent of gross domestic product (GDP). While the programme would allow for breaching of agreed deficit limits for one of four categories of allowances, covering some conditional child benefits and a pregnancy allowance, they could together not exceed a maximum additional borrowing of 0.2 per cent of GDP, a very small amount.

Most ‘big-ticket’ social protection programmes in Argentina are not covered by the IMF loan’s social assistance spending floor. On the contrary, one can fear increased pressure from the Fund to reduce spending for those types of social programmes, such as old-age pensions, if the government fails to meet its stated objective of eliminating the primary fiscal deficit in 2019. A December 2018 [IMF press release](#) alluded to such reductions when it urged the government to take action for “putting the pension system on a sustainable financial footing”. Among the deficit-cutting measures already announced by the Argentine government is the decrease of federal government transfers to the provinces, which devote a significant portion of their spending to health care.

Reduced benefits, increased pension eligibility ages and more stringent eligibility criteria for public pension systems were the most important austerity measures carried out by Greece during the period starting with its first ‘troika’ (European Central Bank-European Commission-IMF) loan in 2010 until the expiration of its last programme in 2018. While the IMF and other creditors were critical of the high level of spending for pensions compared to other jurisdictions, the high costs of the system relative to the size of the economy were due in large part to the drastic austerity package imposed on Greece from 2010, which led to the country’s GDP shrinking by about one quarter, the unemployment rate climbing to 28 per cent by late 2013 and the departure of many working-age Greeks to seek employment elsewhere. It was estimated in 2017 that, due to a series of restrictions and benefit cutbacks applied since 2010, slightly more than [half of Greek pensioners](#) – 1.5 million out of 2.9 million – received income below the poverty level. After the IMF’s role as monitor of a European Stability Mechanism loan ended in August 2018, the Greek parliament voted in December to [cancel an additional round of pension cuts](#) that the IMF had asked be implemented in 2019.

[Reform of Ukraine’s public pension system](#) was identified by the IMF as a key component of the fiscal consolidation efforts the government needed to undertake when a new loan was announced in March 2015. With apparent reluctance, the Ukrainian government only followed through on its commitment to the IMF two and a half years later. The parliament approved a [reform in October 2017](#) consisting of measures that would reduce expenditures for the pension system including cutbacks in early retirement options and restricted eligibility to pensions in terms of the number of years of work required to qualify. It also approved an increase of pension levels: in early 2018 two-thirds of Ukraine’s retirees were receiving the minimum pension of about US\$50 per month, well below the poverty threshold. However, the government did not enact a statutory increase of the retirement age demanded by the IMF, and this failure is among the reasons that the Fund ceased loan disbursements after April 2017. (A new IMF loan to Ukraine for a considerably reduced amount compared to the 2015 agreement was approved in December 2018.)

In some countries, IMF loan conditionality or policy advice to cut back on pension spending in order to address fiscal challenges has been just as controversial as the Fund's recommendations to do away with universal allowances or consumer subsidies. In [February 2018, an IMF mission to Nicaragua](#), a country that is not currently a borrower but has had three loans in the past two decades, recommended that the government enact "a comprehensive reform of the Social Security" system. The government proceeded with a pension reform two months later. The announced cutbacks in pension benefits were accompanied by increased contributions and followed a termination of reduced electricity tariffs for retirees, also supported by the IMF. The actions set off mass protests throughout the country in April 2018. The government cancelled the pension reform shortly after the protests began, but they continued for several weeks after other grievances came to the fore.

In the examples cited here, it seems clear that the IMF formulated its conditions or policy advice on the basis of achieving fiscal consolidation objectives first and foremost. Strong resistance against the Fund's proposals, leading to their failure in many instances, reflect perceptions that the reforms did not balance equity and financial sustainability and undermined the primary objective of pension systems to provide income security for older persons. Likewise, the elimination of popular universal entitlements and their replacement by means-tested benefits that are costly to administer and exclude most of those who should be eligible, indicates the need for the IMF to develop a new approach towards social protection.

Rethinking the IMF's approach

The Fund should take into account the human cost of its policy advice and conditionality, the impact on poverty and inequality and the impact on economic growth, as well as 'fiscal sustainability'. IMF operations staff tend to interpret fiscal sustainability in a very narrow fashion, attaching little importance to the macroeconomic effect of adjustment measures and ignoring the Fund's own research showing the [negative impact of increased inequality on economic growth and stability](#) as well the [recessionary impact of fiscal consolidation measures](#), particularly in slow-growth contexts. Both of these impacts can make it near impossible for countries to reach short-term fiscal consolidation targets.

The IMF has acknowledged that it lacks adequate expertise in social protection and has relied heavily on the World Bank for advice on reforms of social protection, as well as health and education, but the Bank's approach to social protection is controversial and often exacerbates inequality by eroding social protection coverage. In past years, the IMF deferred to the Bank's expertise when it actively promoted partial or total privatization of public pension systems in Eastern Europe and Latin America. As described in a [report published in 2018](#), governments subsequently reversed most of these privatizations because of stagnant or declining coverage, inadequate benefits, lower pensions paid to women than men and unforeseen increases in the State's fiscal costs.

The World Bank often supports [poverty-targeted social protection](#) schemes that offer low-value transfers under the guise of being 'pro-poor', and the Bank's interventions in areas such as low-fee for-profit education have proved [highly controversial](#). Moreover, senior

Bank staff responsible for social protection have [backed](#) the notion of “progressive universalism”, meaning targeted approaches with the aim of eventual expansion. The IMF should be wary of proposals that do not challenge the introduction or continuance of the expensive and inefficient infrastructure of poverty targeting, including its reliance on proxy means tests that exclude a large proportion of poor households.

Developing a new policy framework on the Fund’s involvement in social protection initiatives and reforms, which calls on regular collaboration with agencies and experts that have a full understanding of social protection systems, their role and their impacts, must be seen as an urgent necessity. The ILO, UNICEF and other UN agencies have recognized knowledge and expertise on social protection. We ask that the IMF seek active collaboration with these agencies on the matter of social protection and establish clear boundaries on its own role. The following pages offer some proposals on what should be included in the new framework.

A desirable shape of social protection in the IMF’s new institutional view

The IMF’s forthcoming institutional view on social protection will need to specify the scope and shape of the government social spending programmes to which it will apply. While discussion remains as to what social protection encompasses, internationally agreed definitions exist and should be adhered to. Social protection or social security is a human right whose implementation is [defined](#) as “the set of policies and programmes designed to reduce and prevent poverty and vulnerability throughout the life cycle. Social protection includes benefits for children and families, maternity, unemployment, employment injury, sickness, old age, disability, survivors, as well as health protection. Social protection systems address all these policy areas by a mix of contributory schemes (social insurance) and non-contributory tax-financed benefits, including social assistance.”

This is the concept of social protection that the GCSPF embraces, while focusing attention on the social protection floor. The latter is understood to be a nationally-defined set of basic social security guarantees that should ensure, at a minimum, that over the life cycle all in need have access to essential health care and to basic income security, as per ILO recommendation No. 202 on social protection floors adopted in 2012.

Social protection, including floors, is an important component of the [2030 Agenda for Sustainable Development](#), including SDG target 1.3, which reflects the collective pledge to “implement nationally appropriate social protection systems for all, including floors” for reducing and preventing poverty. Moreover, target 1.3 commits all UN Member States to “achieve substantial coverage of the poor and the vulnerable” by 2030.

The UN Secretary-General’s 2018 report on the progress in implementing the SDGs [states](#) that, “while extreme poverty has eased considerably since 1990, pockets of the worst forms of poverty persist. Ending poverty requires universal social protection systems aimed at safeguarding all individuals throughout the life cycle. It also requires targeted measures to reduce vulnerability to disasters and to address specific underserved geographic areas within each country,” noting further that based on 2016 estimates, only 45 per cent of the world’s population was effectively covered by at least one social protection cash benefit.

Social protection inescapably belongs in the public sector and as a part of public finance, since governments are uniquely qualified to oversee and enforce it. The outcomes of privatized social protection systems have been deeply flawed. For example, an ILO [report](#) cited above on the experience with privatized pension systems in Eastern Europe and Latin America concludes: “With sixty per cent of countries that had privatized public mandatory pensions having reversed the privatization, and with the accumulated evidence of negative social and economic impacts, it can be affirmed that the privatization experiment has failed.”

Targeted versus universal social protection schemes

While universal social protection schemes may only reach specific groups, this is not determined by income or wealth. For example, a universal child benefit is only given to children, an entitlement determined by age, not economic status. One of the most well cited illustrations of a universal social protection system is that of the National Health Service in the United Kingdom, which for that reason boasts the slogan ‘from the cradle to the grave’ in that it is there for anyone and everyone whenever they should need it.

Universalism is based on a commitment to a redistributive economic framework where taxation is used as a means to rebalance economies and reduce levels of inequality while reducing the economic anxiety often experienced by people in precarious or vulnerable situations. Well-designed social protection will redistribute income from those with higher lifetime earnings to those with lower lifetime earnings, and from the healthy and able to those sick, disabled or unable to work, in order that they may live a life of dignity and to safeguard their human rights.

In refusing to differentiate eligibility between rich and poor, the stigmatization of class barriers is alleviated by avoiding policies that separate social protection recipients from others. For this reason, renowned sociologist Peter Townsend argued in 1976 that a poverty-targeted social protection system “fosters hierarchical relationships of superiority and inferiority in society, diminishes rather than enhances the status of the poor, and has the effect of widening rather than reducing social inequalities ... It lumps the unemployed, sick, widowed, aged and others into one undifferentiated and inevitably stigmatised category.”

Research by [Development Pathways](#) shows that poverty-targeted schemes have low budgets and, as a result, the demands on those at higher incomes to finance them from taxes are much less than when universal schemes are implemented. In addition, high [rates of exclusion](#) accompany means-tested programmes, thereby actively hurting the social contract and hindering social mobility.

In calling for universal social protection systems, the GCSPF is not calling for a “universal basic income”. Much of the discussion in recent years around UBI – sometimes referred to as citizens’ income – has conflated universal social protection with UBI. The distinction is well made in a [2018 report published by the ILO](#) that defines UBI as a periodic cash payment unconditionally delivered to all citizens/residents, without exclusion, means test or work requirement. The impact of UBI depends on funding and its ability to suit the

needs of the people that it seeks to cover. Regressive budget-neutral UBI proposals, for example, are not in line with ILO standards and will lead to further inequalities.

The IMF should eschew making recommendations to slash employers' social insurance contributions – so-called labour taxes – as they would severely undermine social insurance systems by constraining their resources and making them unsustainable. Those recommendations have been made with a view to stimulating enterprise, as in the [IMF Paper on fiscal policy and long-term growth, 2015](#) and [World Economic Outlook, April 2016](#). There are other ways to promote entrepreneurship.

How the IMF should approach social protection issues

Governments have mandated the IMF to oversee the macroeconomic policies of its member countries in the interest of global financial and economic stability. At the same time, every national government has a fundamental responsibility based on human rights and – in most cases – its political constitution to provide a basic level of social protection to its people. The IMF needs to respect the social responsibilities of governments while carrying out its macroeconomic mandate, which exists at both country-focused and systemic levels.

The development by the IMF of an institutional view on social protection should involve a comprehensive evaluation of the Fund's current approach and take into account the points raised in this note and by others. Critically, this process should not be viewed as an opportunity for the IMF to increase loan conditionality. Instead, the Fund should support the efforts of governments to develop an adequate, effective and fair social protection system that is fiscally sustainable. When working on the country level, the appropriate focus of the IMF in the realm of social protection is in protecting its financing. We call for strengthening the Fund's effectiveness in helping countries to identify and mobilize adequate resources for their social protection floors and in protecting these floors as inviolable.

As noted earlier, the IMF should cooperate intensively with the specialized agencies of the United Nations that do have deep expertise in social protection, including the ILO, UNICEF, Food and Agricultural Organization and with other international centres of expertise. This process should involve a clear understanding – both within the IMF and between institutions – of where the IMF's boundaries are with regards to involvement in social protection in line with its institutional mandate.

To deepen ongoing linkages in this regard, IMF should inform the ILO and other UN agencies when social protection is expected to be a significant factor in new country programmes or policy advice, notably during Article IV missions. Relevant staff from these agencies should be invited to join the country missions when they request it. To bolster the prospects of deeper staff interaction with fellow international agencies at country level, the IMF should actively participate in the Social Protection Inter-Agency Cooperation Board (SPIAC-B), as recommended by the IEO report discussed earlier.

It is also important that the IMF engage intensively with local civil society, trade unions and academic experts when undertaking country missions, as well with line ministries and relevant legislators, including at the sub-national level when appropriate. The point is not to check off consultation boxes on a mission report form, but rather to deepen IMF staff understanding of the domestic economic, social and political situation than might be formed from discussions exclusively with finance ministry and central bank interlocutors.

The GCSPF's insistence on adequate social protection systems is grounded in the human right to social protection, but it is also important to underline its positive developmental impacts. Child and maternity benefits increase productivity and help to incorporate women into the labour market; disability and old-age pensions support household income; unemployment support assists those without jobs and has a counter-cyclical function during economic downturns. Adequate social protection benefit levels reduce poverty and inequality, are critical for sustainable economic growth, promote human development, social cohesion and political stability.

IMF staff should be aware that, when advising governments on policies for sustainable social protection systems, they must take account of the net impact on the livelihoods of all parts of the population not only resulting directly from the envisaged social protection policies but also from tax policy and related policy changes taken to assure fiscal sustainability.

In addition to helping countries plan sustainable financing for adequate, effective and financially sustainable social protection systems, including floors, the IMF needs to focus on helping member governments protect their ability to maintain and as needed increase their social protection programmes during times of economic difficulty or natural disaster. Undertaking austerity or rolling back emergency support of vulnerable populations in the early stages of recovery should never be recommended, not only for humanitarian reasons but also to avoid undermining the recovery itself. In the past, IMF has often been excessively optimistic about the economic resiliency of some of its member countries after an economic crisis.

As shown in this note, past IMF practice of involving itself in national social protection systems primarily in order to meet short-term fiscal consolidation goals has led to highly problematic policy advice and loan conditionality. The traditional approach has led to the adoption of adjustment measures that have weakened social protection systems, increased inequality and heightened social polarization, not to mention imposing immense human and economic costs. In its new framework on social protection policy, the IMF should adopt an approach that is consistent with and supportive of the scope and objectives of social protection as defined by the international community, notably in the SDGs. The key role the IMF should play is in protecting social protection systems as part of its mandate to prevent crises and assist countries recovering from crises.

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