ITUC Contribution to Public Consultation on Designing an IMF Strategic Framework on Social Spending

Key messages

- ✓ The ITUC urges the IMF to extend its focus on social protection beyond social spending and cost-curtailment and instead give greater priority to enlarging the coverage of social protection and ensuring adequacy of benefits, in line with UN Sustainable Development Goals (SDG) target 1.3 on ensuring social protection for all. The ITUC has frequently criticised the IMF's narrow focus on the costs of social protection while ignoring the positive social and macro-economic effects of extending social protection, including its ability to support human capital development as well as sustain aggregate demand in times of economic downturn.

- ✓ When approaching social protection in its policies and programmes, the IMF should ensure consistency with international labour standards and agreed international commitments, including ILO Conventions and Recommendations and SDG Target 1.3 to significantly expand social protection coverage.

- ✓ The IMF should enlarge its focus social protection from ''safety nets'' for the poorest, to more comprehensive systems that provide for basic social security guarantees for children, people of working age and older persons, as well as quality services including healthcare in line with ILO Recommendation 202.

- ✓ The IMF's should stop promoting narrow targeting of benefits and services, as this approach has left out many people who are in need of support. The use of proxy means tests promoted by the IMF have been proven to wrongly exclude a large share of the people eligible for these schemes.

- ✓ The IMF's new strategic framework should provide for more regular, structured cooperation with other international organisations with mandates and expertise in the area of social policy, including the ILO and the different UN Economic Commissions, in order to make sure its social policy recommendations with the broader international agenda on social protection.

- ✓ When dealing with social protection issues, the IMF should ensure close consultation with trade unions and civil society on the ground. These actors often understand best the needs and concerns of the population and play important roles in the negotiation, design and delivery of social protection schemes.

- ✓ The IMF should undertake thorough impact assessments of potential social protection reforms before issuing policy advice or policy conditions. Such assessments should consider the potential coverage gaps that could occur as a result of the reform, as well as impacts on poverty, gender, income distribution, and the overall economic situation of the country. Such assessments should be transparent and subject to a thorough independent review.

- ✓ The IMF can play a supportive role in expanding access to social protection by helping countries to identify fiscal space. It could also financially support countries to develop adequate, comprehensive social protection schemes.

Background

Despite not having up until now a systematic framework for addressing social protection issues[1], the IMF has issued numerous policy recommendations and policy conditions in the area of social protection over the past decades, often steering governments towards reducing social spending with the objective of reducing public deficits. This focus on spending reduction has often led to dramatic reductions in the coverage and adequacy of social protection schemes, and has in turn contributed to increased poverty and inequality. These policies have also had unintended negative economic effects: reducing aggregate demand, lowering investments in human capital, increasing informality and overall compromising economic growth. Academics, experts and other international organisations have highlighted the disastrous consequences of the IMF's approach and have cautioned more work by the Fund in this direction. The International Labour Organisation (ILO) has published a working paper which cautions that the approach is not viable, showing that "there is overwhelming evidence that prioritizing fiscal austerity will not help to promote robust employment-generating growth nor will it improve living standards or social cohesion."[2]

Recent examples of the adverse effect IMF policy recommendations can have on social protection can be found in Kyrgyzstan and Mongolia, where the IMF has pressured these governments to dramatically reduce the coverage of child benefits. Mongolia's universal child benefit programme had been very effective, reaching 99% of children, but the IMF insisted that the Mongolian government reform it into a targeted programme, leading to a loss for income support for over 400,000 children.[3] Furthermore, in response to the ILO General Survey on the implementation of Recommendation 202 on social protection floors, several ITUC affiliates have expressed their deep concerns regarding the detrimental effects of austerity measures promoted by the IMF in their countries. In Nicaragua, the IMF proposed cuts to some core social protection benefits of as much as 20%, although the reform did not take place due to wide scale opposition.[4]

While the IMF has encouraged cutbacks in social spending, this approach is not actually economically conducive. Adequate, comprehensive social protection systems have, in fact, been shown to have strong economic benefits through fostering skills development and employability, boosting demand, providing crucial automatic stabilisers, and facilitating participation in the formal economy.[5] In Indonesia, for example, investments in social protection have enabled the government to reform economically inefficient fuel subsidies.[6] Social protection can also make economies more resilient against crises; in Brazil, for instance, the *Bolsa Família* programme had been shown to dampen the impact of the 2008 financial crisis that otherwise could have had disastrous effects for the country.[7] Within the European Union, the existence of adequate unemployment benefits during the economic and financial crisis served as important automatic stabilisers that helped many countries weather the crisis and prevent it from deepening.[8] Extensions to social protection have also been shown to have a positive impact on reducing participation in the informal economy[9], which is why ILO Recommendation 204 on the Transition from the Informal to the Formal Economy sets out the importance of social protection as part of a comprehensive strategy for formalisation.

[1] IMF Independent Evaluation Office (2017) The IMF and Social Protection

[2] Ortiz, I., Cummins, M., Capaldo, J. & Karunanethy, K. (2015) The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries

[3] Kidd, S. (2018) Mongolia and Kyrgyzstan lose out in their struggle with the IMF over the targeting of child benefits

[4] TUCA observations in preparation of the ITUC's reply to the ILO General Survey (2018)

[5] See ILO World Social Protection Report 2017-2019; European Commission (2013) Evidence of Demographic and Social Trends: Social policies' contribution to inclusion, employment and the economy; ILO (2011) Decent Work and the Inrecc Economy; ILO (2014) Monotax: Promoting formalization and protection of independent workers

[6] Mathers, N. & Slater, R. (2014) Social protection and growth: Research synthesis

[7] Berg, J. (2009) Brazil - Conditional Transfers as Response to the Crisis: The Bolsa Família Programme

[8] See European Commission (2013) Evidence on Demographic and Social Trends: Social policies' contribution to inclusion, employment and the economy

[9] See for instance the example of how reforms to extend social protection in Uruguay, coupled with measures to streamline taxation, provided powerful incentives for workers to formalise their activities

The ITUC, together with other members of the Global Coalition for Social Protection Floors, recently called on the IMF's board of directors to review the Fund's approach to social protection and shift its priority from a short-term cost-saving one to a positive approach that encourages social and economic investments.[10] Even in low-income countries with limited fiscal space, there are opportunities to sustainably raise government revenue to finance social protection schemes; for instance through introducing new, progressive forms of taxation, combatting tax evasion, expanding contributory schemes or exploring innovative financing mechanisms.[11] The IMF could play a valuable role in supporting countries to identify these alternative financing possibilities and provide direct short-term financial assistance in some cases. It could also financially support countries to develop adequate, comprehensive social protection schemes.

Responses to specific consultation questions

1. *Do you agree that a broader focus on social spending is warranted given the importance of education and health for inclusive growth?*

The ITUC emphasises that a comprehensive approach to social protection that goes beyond the provision of mere safety nets is essential. Social protection systems need to be extended both vertically and horizontally in order to ensure basic social security guarantees for all, that provide both poverty relief and adequate income replacement, as well as quality essential services such as health care and education. A comprehensive social protection system based on ILO Convention 102 and Recommendation 202 is a precondition to realising sustainable, inclusive economic growth. However, the ITUC also cautions that a broad focus on social spending, that includes investments in human capital in the form of education and healthcare, should not come to the detriment of other types of social spending such as old-age pensions or unemployment benefits.

2. *When do you think IMF should engage on social spending issues? When should it rely on other international organizations, and how can it better leverage their expertise and resources?*

The IMF should allow countries the necessary freedom and actively encourage them to finance social protection systems in a manner that guarantees adequate support available to all. The Fund should moreover refrain from interfering with states' social protection policies when not strictly necessary, as was the case in Kyrgyzstan and Mongolia.[12] Furthermore, the ITUC highlights once more that international organisations with mandates and expertise in the social policy field, including the ILO and the different UN Economic Commissions[13], must be closely involved in any work the IMF is doing on social protection as they can contribute important technical expertise and can help to ensure coherence with international labour standards and international agreements.

3. *How should the Fund engage on social spending issues? (e.g. by helping countries sustainably finance increased social spending; support countries in understanding the trade-off involved in choosing between different policy options; enhancing coordination with other international organizations).*

The IMF could play a positive role with regard to social protection by assisting countries in identifying opportunities for expanding fiscal space. The Fund should consider alternative means to ensuring the sustainability of social protection systems than simply reductions in benefit levels or coverage, but consider also ways to generate additional revenue through introducing or increasing progressive forms

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[10] See the The Global Coalition for Social Protection Floors' Statement to the IMF on the findings of the evaluation report and the IMF's approach towards social protection

[11] Ortiz, I., Cummins, M. & Karunanethy, K. (2017) Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 countries

[12] Kidd, S. (2018) Mongolia and Kyrgyzstan lose out in their struggle with the IMF over the targeting of child benefits

[13] These include the UN Economic Commission for Latin America and the Carribean (CEPAL/ECLAC), the UN Economic and Social Commission for Asia-Pacific (ESCAP), and the UN Economic Commission for Africa.

of taxation, raising social security contributions, tackling tax evasion and closing tax loopholes, investigating innovative sources of financing, and boosting employment.

Moreover, the Fund's engagement on social protection should involve systematic consultation with trade unions and civil society organisations. These actors often understand best the needs and concerns of the population and play important roles in the negotiation, design and delivery of social protection schemes.

In addition, the IMF could also provide financial support for the extension of current or the development of new social protection schemes. Again – the ITUC stresses the importance of consulting with international organisations to ensure coherence with labour standards and other relevant international agreements.

4. *Are social protection floors and other measures currently implemented in IMF programs effective at protecting or even increasing social spending? What are the key factors that affect their effectiveness? How could the design and implementation of these measures be enhanced?*

In the past, IMF policy recommendations have often compromised the coverage and effectiveness of social protection. Under the objective of enhancing fiscal sustainability, the IMF has often encouraged large cutbacks to benefit levels and promoted measures to dramatically reduce coverage of benefits through changes to eligibility criteria – such as in the case of its recent recommendations related to social spending in Colombia and Brazil.[14] IMF policy advice has also focussed on narrowing the targeting of social assistance benefits through developing proxy means-tests for assistance, with the end result of a large share of eligible beneficiaries being left out.[15] Going forward, the ITUC recommends that the IMF undertake thorough impact assessments of potential social protection reforms before issuing policy advice or policy conditions, in order to avoid adverse social and economic consequences. Such assessments should consider the potential coverage gaps that could occur as a result of the reform, compliance with international labour standards and coherence with international commitments to expand social protection, as well as impacts on poverty, gender, income distribution, and the overall economic situation of the country. Such assessments should be transparent, involve other relevant international organisations with experience conducting such assessments, and be subject to a thorough independent review. These could also be used to inform dialogues with governments and stakeholders on the planning of such reforms.

5. *What are the key challenges faced in targeting transfers to lower-income households or in moving towards greater universality (e.g., universal child benefits, universal social pensions, universal basic income)?*

Social assistance schemes targeted towards the poor can be helpful, but its existence alone cannot ensure sufficient protection to the population against the full range of risks that people experience across their lifetimes. It would be important to ensure vertical and horizontal extensions of social protection in order to achieve universal access to the full range of income guarantees and services guaranteed under ILO Recommendation 202 on Social Protection Floors and Convention 102 on Social Security.

Some states have achieved universal access through 'universal' eligibility criteria for some benefits and services. For example in Bolivia, the *Renta Dignidad* is a universal non-contributory old-age protection scheme for all citizens over the age of 60, regardless of their employment history.[16] However, universal access might also be effectively achieved through a complementary mix of statutory social insurance and social assistance, to make sure no one is left out. For instance, in Kenya there are contributory pensions that provide a percentage of one's previous income as well as non-contributory pensions for those who have not been able to build up sufficient contributions for a contributory pension (e.g., informal

[14] TUCA observations in the preparation of the ITUC reply to the ILO General Survey on Social Protection Floors
[15] IMF (2017) Social Safeguards and Program Design in PRGT and PSI-Supported Programs
[16] ILO and World Bank Group (2016) Universal Social protection: Country cases

economy workers), thus providing these individuals a basic income guarantee.

6. *Please provide examples of countries where you believe IMF engagement on social spending: (i) helped to support this spending, or (ii) undermined this spending? Please provide a description of why this was the case.*

The ITUC positively acknowledges that the IMF has recently taken measures to preserve some spending on social protection by setting 'indicative targets' for social spending floors. However, this approach has often been applied in very broad terms, making no distinction between spending on health, education, social protection and sometimes even infrastructure.[17] It is also not clear whether such spending targets are adapted to the specific country situation, and thus developed after conducting a thorough assessment of the social protection needs of the country –beyond social assistance - and the associated costs of financing such needs. Furthermore, in the past, these spending floors have always been of a voluntary nature and not linked to repercussions for non-compliance, as was the case in Tunisia in 2015 and 2016.

Moreover, within the new loan agreement recently concluded with the government of Argentina, the Fund has set a new minimum social spending benchmark for Argentina, safeguarding expenditure for means-tested social assistance.[18] While it is positive that the IMF is taking measures to preserve social assistance expenditure, there is nevertheless a concern that such a focus on spending for social assistance should not come to detriment of other aspects of social protection.

7. *How should social spending be financed, especially in countries with limited resources or high budget deficits?*

As outlined in ILO Recommendation 202, the state has the primary and overall responsibility for the provision of social protection. Governments are therefore responsible for creating sufficient fiscal space for social protection. Different financing modalities may be more or less appropriate for different types of schemes. Social security schemes, financed through contributions from employers and workers are an effective way to ensure income replacement, whereas social assistance schemes, which intend to alleviate poverty, are better suited to be financed through general tax revenue, since the beneficiaries of such schemes are likely not able to make contributions. For both types of schemes, the administrative and organisational role of the government is essential to ensure effective access.

Additional strategies to promote the sustainable financing of social protection could be considered by governments, such as combating tax evasion, introducing or increasing progressive methods of taxation and supporting increases in formal employment to raise tax revenue– for instance through removing barriers to women's labour market participation and by fostering the formalisation of informal economy workers.[19] The IMF could play a supportive role by helping governments explore these ways of expanding their fiscal capacity.

For questions on this contribution, please contact Evelyn Astor at Evelyn.Astor@ituc-csi.org

[17] UN Human Rights Council (2018) Report of the Special Rapporteur on extreme poverty and human rights
[18] IMF (2018) IMF Executive Board Approves US$50 Billion Stand-By Arrangement for Argentina
[19] Ortiz, I., Cummins, M. & Karunanethy, K. (2017) Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries