



July 2018

## **GUIDANCE NOTE ON IMF ENGAGEMENT ON SOCIAL SAFEGUARDS IN LOW-INCOME COUNTRIES**

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**International Monetary Fund  
Washington, D.C.**



June 14, 2018

## GUIDANCE NOTE ON IMF ENGAGEMENT ON SOCIAL SAFEGUARDS IN LOW-INCOME COUNTRIES

### EXECUTIVE SUMMARY

This note provides operational guidance to staff on how to engage on social safeguard issues with low-income countries in both program and surveillance contexts. The note is not intended as a comprehensive guide, and should be used in conjunction with other operational guidance notes, such as those relating to [conditionality](#) and [surveillance](#).

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## INTRODUCTION

**1. The role of social safeguards in protecting vulnerable groups is an important element of the Fund’s engagement with low-income countries (LICs).**<sup>1</sup> Reducing poverty, and more broadly promoting inclusive growth (see Box 1 on key definitions), help support economic and political stability. For these reasons, achieving strong and durable poverty reduction was established as a key objective for Fund programs supported by the Poverty Reduction and Growth Trust (PRGT) and Policy Support Instrument (PSI)—referred to as LIC programs in the rest of this note.<sup>2</sup> Social safeguards represent a key policy tool to achieve this objective, and thus have an important role in both the design of LIC programs and policy discussions with LICs in Fund surveillance.

**2. For the purposes of this note, social safeguards comprise the following:**

- **Commitments to social and other priority spending.** Minimum floors on social and other priority spending should be included, wherever possible, in programs supported by PRGT facilities. Social spending is defined as spending on education, health, and social protection—with social protection comprising social safety nets (or social assistance) and social insurance (see Box 1).<sup>3</sup> Other priority spending generally includes high-priority projects that support national poverty reduction and growth strategies.
- **Specific reforms** designed to protect poor and vulnerable groups, for instance by strengthening social safety nets and improving the tracking and monitoring of spending on such groups.

**3. Many LICs have made progress in strengthening their social safeguards, but challenges persist.** Consistent with the Sustainable Development Goals (SDGs), LICs have developed strategies to address poverty and enhance social outcomes in their national development plans.<sup>4</sup> At the same time, this topic has received increased attention in Fund surveillance, programs, and capacity development (CD). Drawing on the expertise of other institutions, this has involved detailed analysis of macro-structural and emerging macro-critical issues such as gender and inequality, discussion of policy options, active advocacy, and related conditionality in programs. Social and other priority

<sup>1</sup> Vulnerable groups are country specific, and can include, for example, the poor, elderly, disabled, children, youth, and/or women.

<sup>2</sup> This note thus informs the Fund’s engagement via the Extended Credit Facility (ECF), Standby Credit Facility (SCF), and Rapid Credit Facility (RCF), as well as the non-financial Policy Support Instrument (PSI). This note can also be relevant for LICs that engage with the Fund through the Policy Coordination Instrument (PCI). Also, Staff-Monitored Programs (SMPs) for LICs should be consistent with the members’ poverty reduction and growth objectives, and include safeguards on social and other priority spending (see 2017 [Handbook of IMF Facilities for Low-income Countries](#)).

<sup>3</sup> This relates to SDG 1.3, which calls for members to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.

<sup>4</sup> The [SDGs](#) include 17 Goals and 169 targets aimed at eradicating poverty in all its forms and dimensions, and achieving sustainable development in three dimensions—economic, social and environmental—in a balanced and integrated manner.

spending has been protected in the vast majority of LIC programs. Although most LICs have a social protection system, these systems tend to be underdeveloped and underfunded, and cannot be overhauled quickly. Capacity constraints and data gaps in social indicators can also hamper the effectiveness of social spending and the assessment of specific social protection measures. Therefore, early engagement on social safeguard issues with country authorities, development partners (DP)<sup>5</sup> and civil society—especially in the context of surveillance—can help provide the groundwork for the design of policies to protect poor and vulnerable groups.

### Box 1. Key Concepts

- **Inclusive growth versus pro-poor growth.** While there is no universally agreed definition of the concept of inclusive growth, it generally refers to circumstances where growth is robust and broad-based across sectors, and the benefits are widely shared. Growth is said to be pro-poor in relative terms if and only if the incomes of poor people grow faster than those of the population as a whole. Pro-poor growth can be the result of direct income redistribution schemes, whereas fostering inclusive growth requires effort to boost productivity and measures to mitigate growth-inequality tradeoffs (see [What Is Inclusive Growth](#), World Bank; and [Fostering Inclusive Growth](#), IMF).
- **Social protection consists of social safety nets and social insurance policies:**
  - *Social safety nets* (or social assistance) are defined as “noncontributory measures designed to provide regular and predictable support to poor and vulnerable people.” They can include measures such as cash transfers, school meals, in-kind transfers (such as targeted food assistance), public work programs, and fee waivers (The [State of Social Safety Nets](#), World Bank 2018).
  - *Social insurance policies* are typically financed by contributions and can include old age and disability pensions, maternity, unemployment, and health insurance.
- **Other priority spending** usually includes certain infrastructure spending that can be a development priority but may provide limited or no benefits to the vulnerable in the short term. Due to the country-specific nature of such spending, this note focuses more on social spending. Country teams, in close consultation with the authorities, need to exercise judgment when deciding on whether to incorporate other priority spending into program design.

**4. To support LICs in strengthening their social safeguards, this note provides operational guidance to staff on how best to engage on these issues in both program and surveillance contexts.** It is based on the policy recommendations of the 2017 Board paper on social safeguards in PRGT and PSI-supported programs,<sup>6</sup> and draws on recent analytical work as well as the IEO’s evaluation in 2017 on the Fund’s role in social protection.<sup>7</sup> The ultimate goal is to achieve a

<sup>5</sup> These include the World Bank (WB), United Nations agencies, and regional development banks (for example, the African Development Bank and Asian Development Bank), and bilateral donors.

<sup>6</sup> [Social Safeguards and Program Design in PRGT and PSI-supported Programs](#) (June 2017).

<sup>7</sup> [The IMF and Social Protection](#) (Independent Evaluation Office, July 2017) and IMF [Management Implementation Plan](#) (January 2018). Staff is working on establishing a strategic framework to guide the Fund’s engagement in social spending issues, in response to the Implementation Plan. That paper is planned for Board discussion in early 2019. This present guidance note will provide operational guidance to the IMF’s work on LICs until guidelines can be

more consistent coverage of social safeguard issues in the Fund's program and surveillance work, deeper policy discussions with country authorities, better designed programs that mitigate potential adverse effects of adjustment measures on vulnerable groups, and stronger policies that safeguard health and education spending and strengthen social safety nets. This note has a heavy focus on social safety nets (rather than social insurance) since (i) few LICs have significant social insurance policies, and (ii) strengthening social safety nets can deliver faster support to vulnerable groups, and will also help avert an increase in poverty if shocks occur. At the same time, the development of social insurance policies is important in the medium to long term.

**5. The remainder of the note is organized as follows.** The next section considers how social safeguard issues should be taken into account in the design of programs, and accompanying conditionality. It is followed by a discussion of how to engage in the context of surveillance. The last section provides guidance on strengthening collaboration with DPs and identifying CD needs. Documentation requirements are listed in Box 2.

## DESIGN OF FUND-SUPPORTED LIC PROGRAMS

**6. Programs should seek to support social spending and mitigate the adverse effects of program measures on the poor and vulnerable.** Programs are expected to enhance education and health spending whenever possible and include measures to strengthen social safety nets, recognizing that it takes time to design and implement such reforms. Two general principles apply to program design and setting program conditionality on social safeguards: flexibility in accommodating country-specific circumstances and national priorities, and clarity in the discussion of how program conditionality helps achieve the desired social safeguard goal.<sup>8</sup>

**7. Programs should at least maintain social and other priority spending.** For programs seeking fiscal consolidation, key social and other priority spending should not decline as a share of public spending, and preferably be at least maintained in real per capita terms.<sup>9 10</sup> For programs that entail fiscal expansion, program design should consider expanding social and other priority spending, in line with national development priorities.<sup>11</sup> In policy discussions, staff should consider

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established under the strategic framework. Recent analytical work includes [Macro-Structural Policies and Income Inequality in Low-Income Developing Countries](#) (IMF Staff Discussion Notes No. 17/01, January 2017), and the [Fiscal Monitor Chapter on Tackling Inequality](#) (2017).

<sup>8</sup> These complement the principles set in the [Conditionality Guidelines](#) (September 2002), and [Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines](#) (July 2014). The *2018 Review of Conditionality and the Design of the Fund-Supported Programs* (ongoing) will also explore the effectiveness of conditionality designed to help achieve more growth-friendly consolidation and protect social spending in all Fund-supported programs.

<sup>9</sup> In cases where a large fiscal adjustment makes it hard to maintain social spending as a share of overall spending, additional donor support should be sought to avert undue hardship.

<sup>10</sup> Staff should identify the size of on- and off-budget spending in program documents and present in a table whenever feasible (Box 1 on documentation requirements).

<sup>11</sup> Best practices set out in Box 2 of [Guidance Note for Surveillance Under Article IV Consultations](#) broadly apply here.

reform measures to protect vulnerable groups and strengthen social safety nets (e.g., increase social transfers to the poor and vulnerable).

**8. The authorities' implementation capacity should be taken into account.** The depth and scope of reform measures to protect poor and vulnerable groups and the pace at which social safety nets are expanded should be aligned with the authorities' implementation capacity. In particular, LICs that are also fragile states may have different social safeguards needs than other LICs, while facing significant institutional and policy implementation weaknesses as well as resource constraints.<sup>12</sup> For such countries, the program should aim to identify achievable, short-term objectives that can deliver rapid success, and consider building or improving basic social safety nets, creating jobs, reducing poverty, increasing spending on education and health, and promoting inclusive growth in the medium term.

**9. Over the course of the program, staff should periodically re-evaluate the design of social safeguards and appropriateness of associated conditionality.** This would help ensure that the program remains consistent with the economic environment (such as external shocks), and adequate to achieve the overarching objectives of protecting the vulnerable and reducing poverty. If the conditionality seems well-designed but targets are often missed, measures to strengthen implementation should be considered, such as enhancing public financial management (PFM).

## A. Quantitative Conditionality

**10. Targets for social and other priority spending should be carefully defined.** Country authorities should take the lead in defining social and other priority spending, with analytical support from the staff. Specific factors for consideration could include:

- **Defining spending floors to help ensure that the needs of the poor and most vulnerable are covered, especially where economic reforms are expected to have adverse distributional consequences.** In many programs, social and other priority spending is based on the aggregate budgets of key ministries, such as education and health.<sup>13</sup> However, there is merit in defining spending floors more narrowly if this would help ensure that the needs of the most vulnerable are covered.<sup>14</sup> The authorities and country teams have flexibility in defining the program target narrowly or more broadly—only on social spending or on social and other priority spending combined—depending on country circumstances: a narrow definition may do

<sup>12</sup> For details, see [Staff Guidance Note on the Fund's Engagement with Countries in Fragile Situations](#) (April 2012).

<sup>13</sup> Staff should also consider including spending at the local government level in cases of fiscal decentralization.

<sup>14</sup> Experience suggests that if the spending definition is too broad, it can be difficult for the authorities to meet a target in the event of shocks such as revenue shortfalls; if the definition is too narrow, it may do little to promote social safeguards. Over the past decade, most LICs have put in place policies and programs to provide coverage with essential health services and financial protection from large health expenditures for the poor and vulnerable (see [Universal Health Coverage Study Series](#)). These programs are critical for progress toward the SDG target of universal health coverage and ending poverty. Defining spending floors of these programs rather than of the whole health sector can be beneficial.

less to promote social safeguards, while it can be harder to meet targets that are defined more broadly.

- **Prioritizing social spending with the greatest impact on poverty.** This would involve, where feasible, focusing on critical sectors with a large benefit, and delivering assistance to poor and vulnerable groups through social safety nets. It might entail extending the existing social safety nets or introducing new programs, noting that it is administratively easier to extend existing programs than to create new ones. If targeting capacity is low and financial resources are available, country authorities might choose to combine universal access to key social protection with targeting of scarce resources to fill existing education, health and social protection gaps among poor and vulnerable groups.<sup>15</sup> Spending floors can be based on total public spending on education and health, if financial resources are available and when adverse effects of fiscal adjustment have been effectively mitigated and social safeguards to the most vulnerable are considered adequate.<sup>16</sup>

**11. The spending floor should be tailored to country circumstances.** Stronger fiscal adjustments, including cases when reforms trigger redistributive effects without reducing the fiscal deficit, are generally expected to be accompanied by efforts to strengthen social safeguards including via higher social spending floors. The availability of fiscal space, including via financial support on social spending from DPs, should also be taken into account. Fiscal space to accommodate such increased spending can be created, for example, through domestic resource mobilization or increasing spending efficiency (e.g., by eliminating inefficient spending such as on energy subsidies). Country teams should also explore ways to improve efficiency of social safeguards such as by reallocating within social spending, to the extent possible drawing on work by DPs.<sup>17</sup> For countries with budgetary resources for social and other priority spending, the floors should be designed such that they can be met through those budgetary resources that the authorities have adequate control over. Country teams should also be mindful of the positive macro impact of social spending, via relatively high fiscal multipliers.<sup>18</sup>

**12. When foreign funding finances social and other priority spending through the budget, program adjustors can help ensure that the program adjusts appropriately when foreign funding deviates from projections.** The adjustors should be uncapped on the upside, so if foreign

<sup>15</sup> [PMT-based Social Registries. Measuring Income and Poverty Using Proxy Means Tests](#) (Social Protection & Labor team, Dhaka, Bangladesh) provides an introduction to proxy means testing. However, recent research has highlighted the drawbacks of using means tests to target resources to the poorest households in LICs (for example, see [A Poor Means Test? Econometric Targeting in Africa](#) by Brown, Ravallion, and van de Walle, 2017).

<sup>16</sup> Programs such as Burkina Faso (2010 and 2013 ECFs), Liberia (2012 ECF), Mozambique (2010 PSI, 2013 PSI, and 2015 SCF), and Senegal (2010 and 2015 PSIs) included spending in the entire health and education sectors.

<sup>17</sup> See, for example, [UNICEF's Engagements in Influencing Domestic Public Finance for Children: A Global Programme Framework: UNICEF](#), New York 2017.

<sup>18</sup> For example, the World Bank (The [State of Social Safety Nets](#) 2015) found that targeted cash transfer programs have positive spillover effects on the local economy, with income multipliers ranging from \$1.08 to \$2.52 for each dollar transferred.



funding exceeds projections, expenditure can increase by the full excess provided that a country can meaningfully absorb the additional expenditure. The design of adjusters on the downside would depend on country circumstances. Ideally, they should, be capped—i.e., if there are foreign funding shortfalls, social spending would not be cut and could be accommodated by an increase in the deficit up to the limit set by the cap, consistent with debt sustainability, or by reallocation of expenditures, if feasible. But beyond that cap, the authorities would need to fill the gap with domestic resources to prevent an excessive decline in social and other priority spending.

**13. The floor on social and other priority spending is usually established as an indicative target (IT).**<sup>19</sup> An IT is assessed in the context of overall program performance, including progress at addressing poverty. A waiver is not required if the IT is not observed. However, given the critical importance of poverty reduction, staff should seek to understand why the target was missed, and especially if this happens repeatedly, revisit the design of the IT and discuss implementation weaknesses. If a country cannot effectively monitor social and other priority spending and hence an IT cannot be established, the program documents should explain why and include measures to build the necessary capacity. Conversely, if improvements in the quality of social spending could be associated with lower spending levels, the program documents should explain the circumstances (Box 2 for documentation guidelines).

**14. The floor can be established as a quantitative performance criterion (PC) when necessary for effective monitoring of the program.** If, however, a PC is missed, the authorities would need to request a waiver of non-observance and undertake corrective actions unless the deviation is minor or temporary. Measures to avoid recurrence of the slippage should be discussed and agreed with the authorities. PCs should not be used, however, if there are concerns about the quality of data. During the program, an IT can also be turned into a PC if data are adequate for monitoring purposes, and if the social situation of vulnerable groups warrants closer monitoring.

## B. Structural Conditionality

**15. Well-designed structural measures can protect the poor and vulnerable groups in the short term and strengthen the social safety net in the medium term.** For example, as program conditionality on eliminating energy subsidies or tax hikes (notably indirect taxes) is likely to have direct adverse effects on poor and vulnerable groups, it is important that programs include mitigating measures. The savings derived from the elimination of subsidies should be used to the extent possible to introduce or strengthen social safety nets. If a country does not have any social protection programs to channel this social assistance to poor and vulnerable groups, the program should seek to establish measures to develop such social assistance, with help from DPs. It could take time to implement such measures, and the appropriate phasing and sequencing of reform measures is essential in such circumstances (see Box 3 for best practices).

<sup>19</sup> ITs and performance criteria refer to conditionality under the ECF- and SCF-supported programs. In the case of the PSIs the discussion refers to Assessment Criteria (ACs) and quantitative targets. For the RCF, the discussion refers to informal monitoring targets if these are set by the member to build a track record.

**16. Structural social safeguards measures are usually established as commitments in the Memorandum of Economic and Financial Policies (MEFP) or, when needed, structural benchmarks.** They can be included as prior actions when upfront implementation of such measures is instrumental to the successful implementation of the program. Other policy objectives and commitments can be articulated in the Letter of Intent/MEFP, including specific timelines for implementation.

## SURVEILLANCE

**17. As for other Fund members, the core objective of Article IV surveillance—to assess domestic and external stability—applies to LICs.** Macro-social issues such as poverty, unemployment, and gender inequality are often critical for domestic stability in LICs, underscoring the importance of staff analyzing these issues during Article IV consultations and providing advice on social safeguards where relevant.<sup>20</sup> Early engagement on social safeguards through Article IVs can also help give the authorities time to prepare policies and programs to protect vulnerable groups that can be implemented promptly when needed in the context of fiscal adjustment programs.

**18. A clear diagnostic of the major social issues is essential for effective policy advice.** Drawing on the expertise of DPs, staff should seek to understand the key macro-social challenges, including their interlinkages. Country-specific analysis is crucial to find solutions to the most critical challenges and address the others with a clear prioritization (Box 4 for available tools). This often requires filling data gaps and strengthening data collection to improve reporting and analysis of social issues.

**19. The topics for policy discussions should be tailored to country circumstances, and could include the following:**

- *Adequacy of existing education, health, and social protection systems.* It can be helpful to assess the risks of contingent liabilities if social safety nets are inefficiently managed or underfunded. Drawing on technical assistance, staff can provide advice to establish and strengthen such programs with the aim of complementing other reforms such as domestic resource mobilization and improving tax efficiency, or steps to strengthen public financial management (PFM) systems.
- *Fiscal sustainability and distributional impact analysis.* The design of social safeguards can benefit from ex-ante technical analysis of fiscal sustainability and the likely social and distributional impact of policies such as tax or fuel subsidy reforms or social protection reforms (see Box 3 for best practices and Box 4 for available tools). Such analysis takes time and resources, underscoring the case for doing such work during surveillance discussions. Other topics could include diagnostic studies or research on the extension of education, health, and

<sup>20</sup> See [Guidance Note for Surveillance Under Article IV Consultations](#) (03/20/2015).

social protection in accordance with national development plans, and on education and health spending and outcomes, drawing on expertise from DPs as needed.

## COLLABORATION AND CAPACITY DEVELOPMENT

**20. Close collaboration with DPs and other stakeholders is warranted.** Article IV surveillance provides an opportunity for Fund staff to consult early with DPs and other relevant stakeholders (such as trade unions and employer associations), drawing on their in-depth knowledge of the needs of vulnerable groups, and their understanding of analytical frameworks and tools. Collaboration can also involve coordinated CD by the Fund and DPs to help country authorities' address weaknesses in social spending. In a program context when analytical work often needs to be undertaken quickly, analytical methods and tools developed by other institutions could help staff assess which forms of spending will have the greatest impact on the poor and vulnerable groups. Specific structural measures included in the program, such as those that establish an adequate reporting, tracking, and monitoring system and/or strengthen social protection systems, can also benefit from the expertise of other institutions.

**21. CD is crucial.** For countries where social protection systems are at an early stage of development and not yet fully functioning—or weaknesses have been identified in public health and education spending—staff should identify CD needs and strive to ensure that they are covered by the Fund or DPs. Closing data gaps that hinder the tracking and monitoring of quantitative conditionality, and/or assessment of programs and policies is particularly beneficial.

## Box 2. Documentation Guidelines

Social safeguard issues, including the design and implementation of relevant measures, should be thoroughly discussed with the authorities and consistently documented in staff reports. Policy relevant points should be discussed in the main text of policy notes and staff reports, with technical details presented in annexes.

### Program and surveillance documents

- Analyze social safeguard issues as needed, by taking stock of social and other priority spending, including existing social safety nets; identifying safeguards gaps; and exploring the social and distributional impact of the authorities' macroeconomic policies in the context of debt sustainability.
- Refer to the engagements with country authorities, DPs, and other external stakeholders, and highlight key achievements of these engagements.
- Refer explicitly to relevant studies by DPs, and indicate a timeline if such analysis is ongoing.
- Explain how capacity constraints or data gaps are being tackled, even if this requires a more medium-term approach, or needs CD from the Fund and DPs.

### Program request documents

- Explain how social safeguard measures have been designed to support the authorities' national poverty reduction priorities, and the authorities' overall strategy to achieve the SDGs. The link between program design, conditionality and social safeguards should be spelt out, especially where it is not obvious, for instance through a discussion of the key social spending programs covered by quantitative conditionality.

### Program request and review documents

- Explain the process for arriving at the definition of social and other priority spending, note which segments of the population are covered under the program conditionality, and identify the methodologies used to guide what constitutes social spending whenever possible. The Technical Memorandum of Understanding (TMU) should clearly define social and other priority spending, as well as any adjusters.
- Discuss trade-offs in defining social and other priority spending and explain how the other priority spending helps the authorities deliver on their national poverty reduction strategy, and achieve the SDGs.
- Explain whether adverse effects of fiscal adjustment have been effectively mitigated and if vulnerable groups have been protected. Discuss the availability of financial resources when spending floors are based on total spending on education and/or health.
- Establish reporting requirements in the TMU for the authorities to provide relevant social spending data. In addition, spending efficiency should be monitored through regular reporting on intermediate social objectives (e.g., school enrollment rate, access to health services, social protection coverage).
- Explain how financial resources for social and other priority spending will be made available, for example, through budget or donor support.
- Discuss the challenges in designing and monitoring spending targets, such as data gaps and imperfect tracking systems to monitor such spending, capacity, financial resources, or presence of well-functioning social safety nets.
- In cases when quantitative conditionality cannot be established, for instance due to serious data gaps, explain why and discuss how the challenges will be addressed by building capacity and strengthening PFM. In cases where improvements in the quality of social spending could lead to a reduction in the volume of such spending, elaboration should be provided.

### Program review documents

- Explain realized outcomes and corrective policy measures in response to missed ITs and PCs. When quantitative conditionality is repeatedly missed, program review documents should explain why and propose a re-design of the conditionality as needed.
- Justify any proposed changes to conditionality on social safeguards, including if improvements in the quality of social spending could be associated with a lower overall volume of such spending.

### Box 3. Good Practice Examples of Social Safeguards in LICs

This Box summarizes selected good practice examples in IMF staff reports of the treatment of social safeguard issues in LIC program and surveillance cases. 1/

#### **LIC Programs**

**Social and Other Priority Spending Indicative Target.** The social and other priority spending IT should be designed such that all elements of social and other priority spending are clearly defined, targeted, and country-specific. For instance, in [São Tomé and Príncipe's ECF Request \(2015\)](#), pro-poor treasury-funded capital spending is defined as that deemed to have a direct impact on alleviating poverty in the following areas: education, health, social safety nets, agriculture and fisheries, rural development, youth and sports, provision of potable water, and electrification. This definition of pro-poor spending was discussed and agreed with the WB and the IMF. Staff could discuss the detailed definition and respective ministries and expenditure codes of the social safety net program. For example, in [Bangladesh's ECF Request \(2012\)](#), expenditure under the safety net program is grouped into four categories including (i) cash transfer programs (e.g., old age allowance); (ii) food security programs (e.g., open market sales); (iii) micro-credit and miscellaneous funds (e.g., funds for climate change); and (iv) development sector programs (e.g., school feeding program). Other good practice examples include [Honduras \(2014 SBA-SCF Request\)](#).

**Social Safeguard Reforms.** To complement a social and other priority spending target, programs could also include social safeguard reforms. In countries with fuel subsidies, program conditionality may include subsidy reforms, which could free up significant resources, reform of taxation of petroleum products, a new pricing system for domestic fuel prices, and adoption of an automatic fuel price adjustment mechanism. The impact of eliminating fuel subsidies can be mitigated if they are phased out gradually and social protection programs are strengthened so as to protect vulnerable groups at the program design stage. Targeted cash or near-cash transfers are usually the preferred approach to compensate the vulnerable for the impact of energy subsidy removal ([2013 IMF energy subsidy reform paper](#)). Other social protection and poverty reduction methods could be considered. For instance, to implement a subsidy reform, [Burkina Faso \(2010 ECF Request\)](#) strengthened the monitoring of poverty reduction expenditure, extended school lunch programs, introduced measures to lower the price of basic consumer goods in areas affected by food insecurity, reduced the cost for maternal care for pregnant women, and took steps to promote youth employment. The [2015 Haiti ECF Request](#) included conditionality to streamline spending categories covered under poverty reducing expenditure with the goal of better protecting the vulnerable. The [2015 Madagascar SMP](#) includes conditionality on social safety nets and the [2014 Yemen ECF request](#) includes conditionality to increase Social Welfare Fund allocations to the poor. Coordination with the WB and other DPs can support effective restructuring of the energy sector and social protection system.

**Social Safety Nets.** Good practice examples typically analyze the existing social safety net in some detail, and discuss the incidence of poverty and inequality, building on work with the WB and other DPs (such as the ILO, UN, and UNICEF). Staff could provide advice to the authorities to leverage fiscal space to design sustainable social protection policies. Good examples include [Mauritania \(2010 ECF Request\)](#) and [Mozambique \(2011 Article IV and 2<sup>nd</sup> Review of PSI\)](#). If program countries are considering subsidy reforms, they could seek to mitigate the impact on the vulnerable, and design a path of social spending over the course of the program. For instance, [the 2014 Honduras SBA-SCF Request](#) had a prior action on fuel price reform, and the staff report called to complete a review of a recently established social spending program *Vida Mejor* that consolidated existing social programs and sought to improve targeting. Other good practice examples include [Bangladesh \(2012 ECF Request\)](#) and [Kyrgyz Republic \(2015 ECF Request\)](#).

### Box 3. Good Practice Examples of Social Safeguards in LICs (concluded)

#### **LIC Surveillance Work**

**Social Safety Nets.** Good practice examples typically analyze social safety net programs and their impact on poverty and inequality, and discuss the authorities' reform plans. With the assistance of DPs, staff could review the social protection system, assess its covers of vulnerable groups, and outline possible strategies to strengthen the system (e.g., [Senegal 2014 Article IV SIP](#)). The staff report could also discuss social programs targeted at specific issues. Good practice examples include [The Federal Democratic Republic of Ethiopia \(2015 Article IV\)](#) which analyzed inequality using a dynamic general equilibrium model calibrated to Ethiopia; [Republic of Congo \(2015 Article IV SIP\)](#) on fuel subsidy and universal health coverage program using benefit incidence analysis; and [Malawi \(2015 Article IV SIP\)](#) on the Farm Input Subsidy Program using the general equilibrium model developed in partnership with DFID mentioned in Box 3.

1/ See [Social Safeguards and Program Design in PRGT and PSI-supported Programs](#) (June 2017).

### Box 4. Research, Tools, and Data on Social Safeguards

The Fund and DPs have developed a wide range of research products and analytical tools to help analyze social safeguard issues. This Box raises awareness of some of these tools, but does not intend to provide a comprehensive list nor establish requirements to use these particular tools. There also is considerable scope for staff to innovate including by developing their own analytical methods.

- **Inequality and distributional issues.** The 2018 IMF guidelines on [How To Operationalize Inequality Issues in Country Work](#) summarize good practice and resources available to staff. [Macro-structural Policies and Income Inequality in Low-income Developing Countries](#) (2017) explores how reforms aimed at boosting growth affect income inequality in LICs, and how policy measures can help offset adverse distributional effects. The Fund has developed a general equilibrium model in partnership with DFID to analyze the macroeconomic and distributional impact of policies (such as fiscal consolidation, financial liberalization, subsidy reforms, or commodity cycles) and the impact of revenue mobilization policies to finance selected spending programs (such as cash transfers and infrastructure investment). Country examples include [Malawi \(2015 SIP\)](#) on the authorities' farm input subsidy program, and [Paraguay \(2017 SIP\)](#) on pension and health systems. FAD has also undertaken analytical work, e.g., [Inequality and Fiscal Policy](#) (2015) and the [Fiscal Monitor Chapter on Tackling Inequality](#) (2017).
- **Social protection systems.** The IMF's Fiscal Affairs Department (FAD) supports members in designing social protection systems. User-friendly templates and tools have been developed to help IMF country teams in their policy dialogue with members, including tools for analyzing the distributional analysis of subsidy reforms, the fiscal sustainability of public pension systems, and long-term projections of public pension and health spending. On energy subsidy reform, these toolkits together with supporting databases and other resources are available on FAD's [energy subsidy reform website](#). FAD has undertaken substantial analytical work on social protection issues. This includes books on [The Economics of Public Health Care Reform in Advanced and Emerging Economies](#) (2012), [Energy Subsidy Reform](#) (2013), and [Equitable and Sustainable Pensions](#) (2014). See also [Social Safeguards and Program Design in PRGT and PSI-Supported Programs](#), Box 4.

#### Box 4. Research, Tools, and Data on Social Safeguards (concluded)

- The WB has conducted extensive research on social safeguards and safety nets issues. For example, its [Poverty and Social Impact Analysis](#) (PSIA) is an approach to assess the distributional and social impact of policy reforms on various social groups (see [PSIA User's Guide](#)). [Safety Nets How To](#) is a resource for practitioners involved in the design and implementation of social protection systems. The WB 2012–2022 Social Protection and Labor Strategy, [Resilience, Equity, and Opportunity](#), highlights the need for a strong evidence base to inform the design and implementation of social protection programs in Africa. Publications including [The State of Social Safety Nets](#) (2018) report and [Reducing Poverty and Investing in People: The New Role of Safety Nets in Africa](#) also contribute to that goal. Many research papers on identifying poor households have been published, such as [A Poor Means Test? Econometric Targeting in Africa](#) (2016) and [Safety Nets in Africa: Effective Mechanisms to Reach the Poor and Most Vulnerable](#) (2015). [Energy Subsidy Reform Assessment Framework](#) is an analytical toolkit and assessment framework to help countries quantify energy subsidies, understand their impact, and evaluate the enabling environment for reform. Other data include [education statistics](#), and [Service Delivery Indicators](#) on health and education.
- [Interagency Social Protection Assessments](#) (ISPA) tools have been developed by social protection specialists from more than 20 international organizations and DPs. ISPA tools include the Core Diagnostic instrument and tools on Public Works, Identification Systems, and Payments. ISPA tools can help analyze the state of the country's social protection system and delivery aspect through tools such as a questionnaire and assessment matrix. These assessments can help countries by providing a framework to analyze the strengths and weaknesses of social protection systems.
- The [SDG Indicators Global Database](#) provides access to data compiled through the United Nations system for the purposes of monitoring and reviewing the implementation of the 2030 Agenda for Sustainable Development, and informing policies and ensuring accountability of stakeholders.
- The ILO's [social protection platform](#) contains material such as data, tools, research, maps of joint UN work on social protection and more. Publications include the [Manual on Financing Social Protection](#) and [Manual on Social Budgeting](#). The [World Social Protection Report 2017-19](#) provides country data on social protection coverage and more disaggregated data by type of program/vulnerable groups (for children, maternity, disability, unemployed, elderly) to be used to monitor SDG 1.3 on implementing nationally appropriate social protection systems.