

The Role of the IMF in Helping Protect the Poor and Vulnerable in the Face of Shocks and Crises

Workshop on Policy Options for Effective and Sustainable Social
Protection Floors

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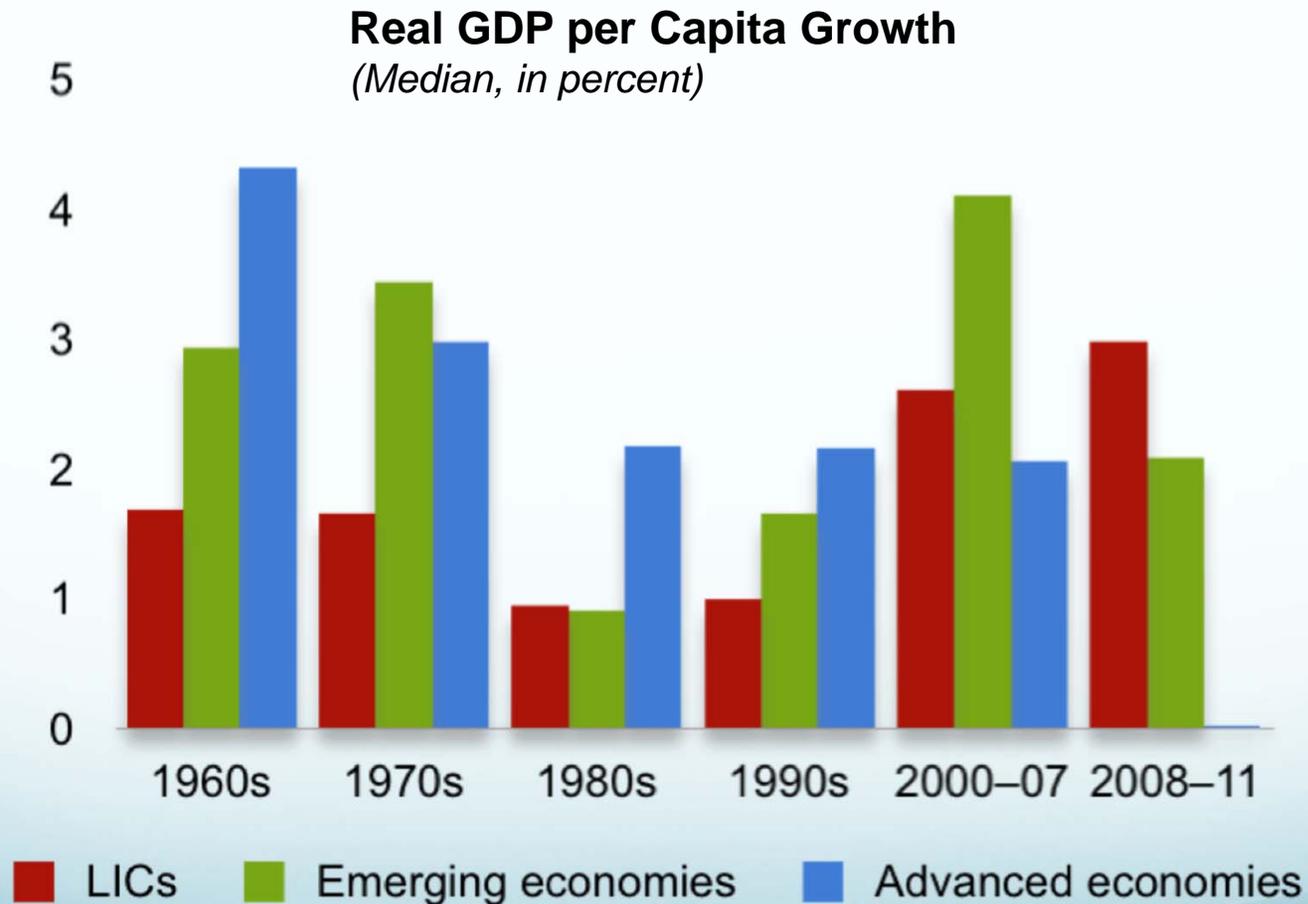


Background



Past Performance

Since 2008, median LIC growth has outpaced both median AM and EM growth.



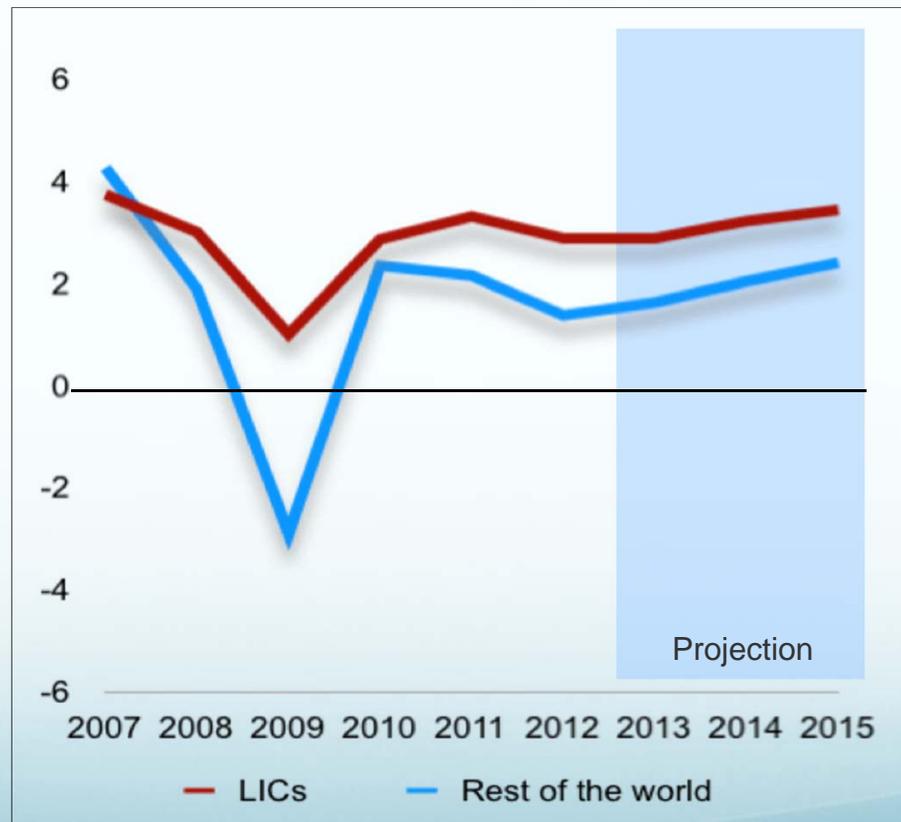
Source: April 2013 WEO, Chapter 4.



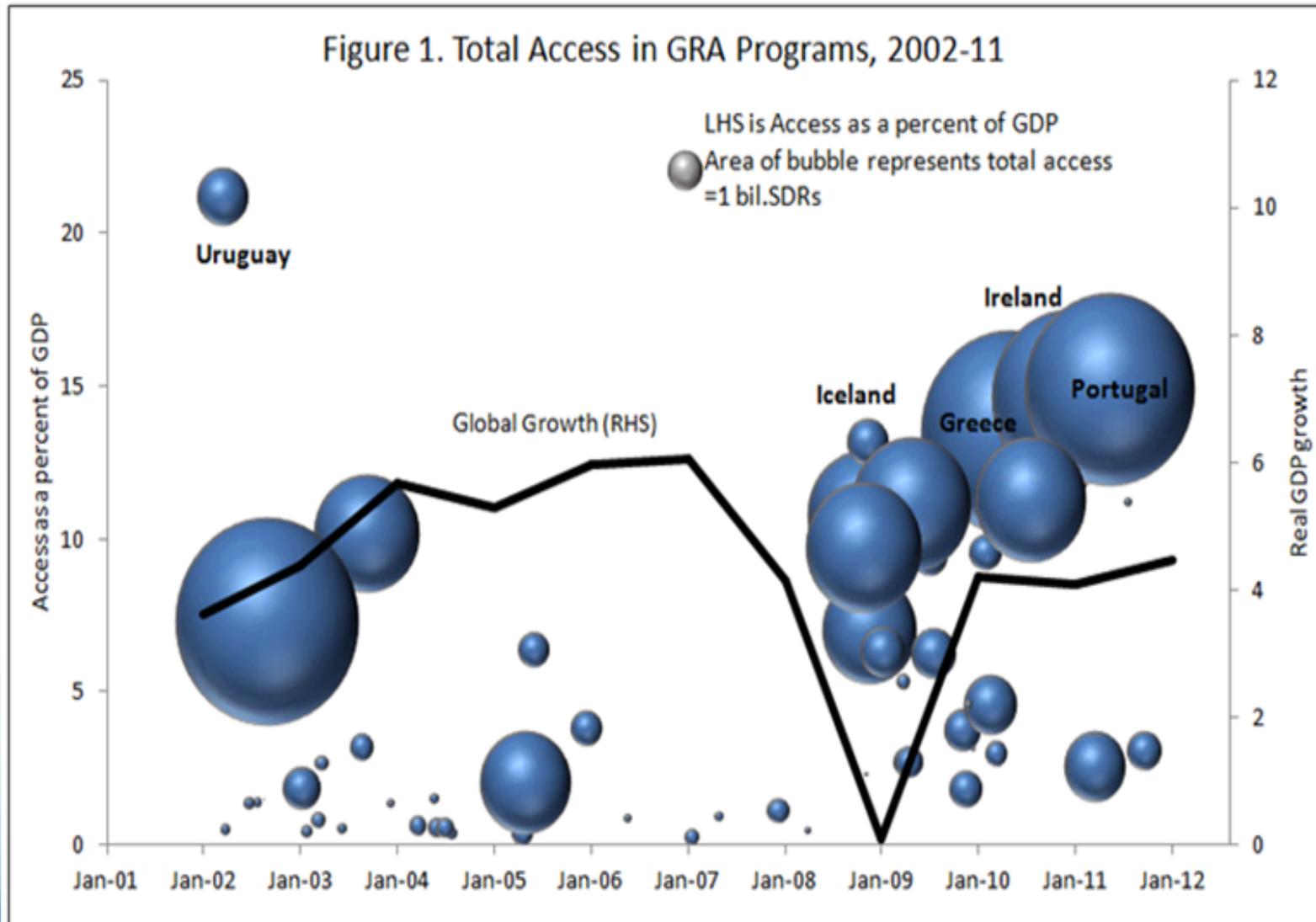
Outlook

Going forward, LICs are expected to maintain continued strong growth, ...

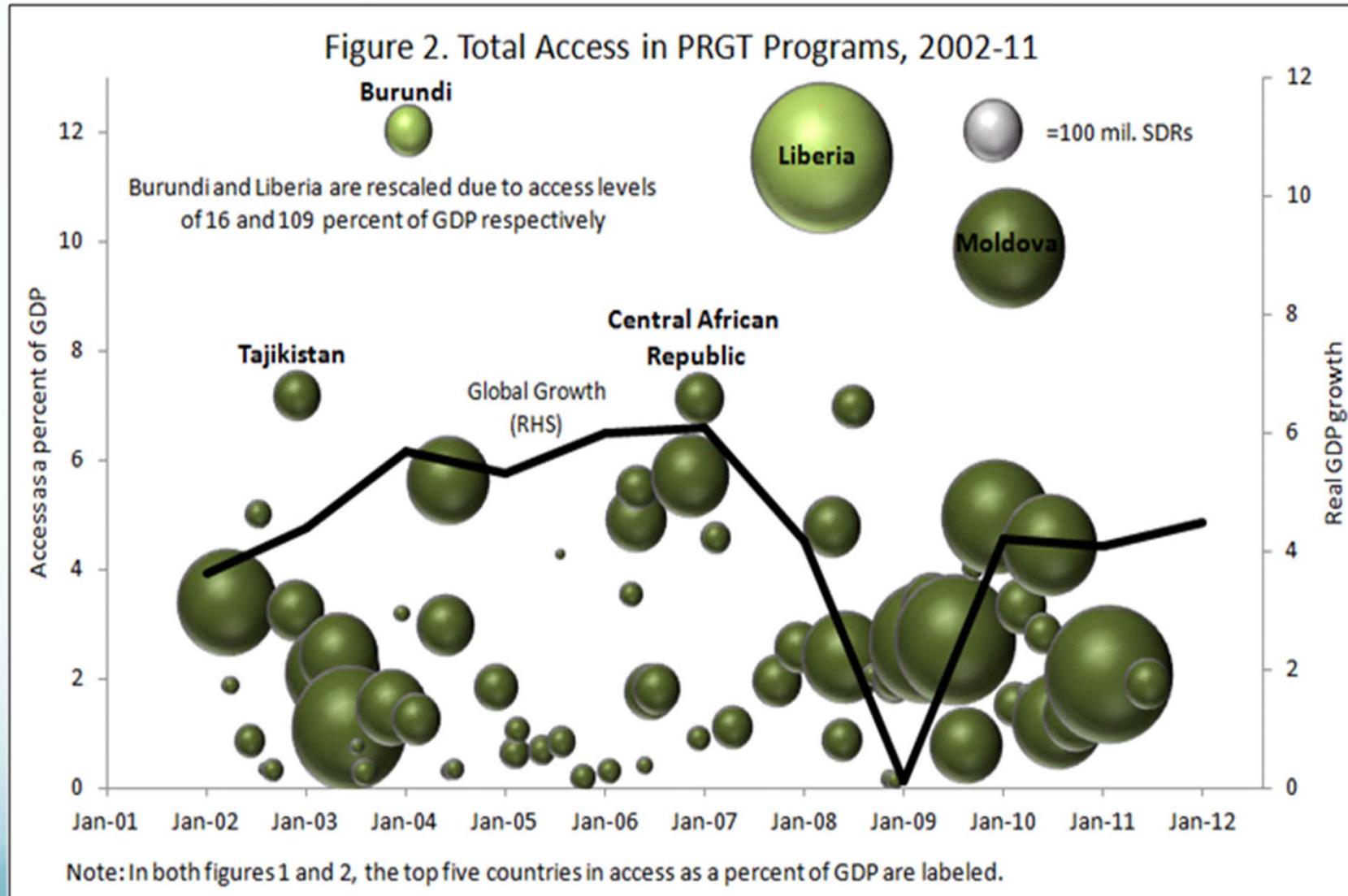
Real GDP per Capita Growth
(Median, in percent)



More Fund support to AMs during crisis



..but also to LICs



Fund Initiatives to help LICs in crisis

- Zero interest rates on concessional assistance
- Made facilities more flexible
- Special SDR allocations
- Supported LICs in their drawing down of policy buffers



Impact of Fund Programs in LICs

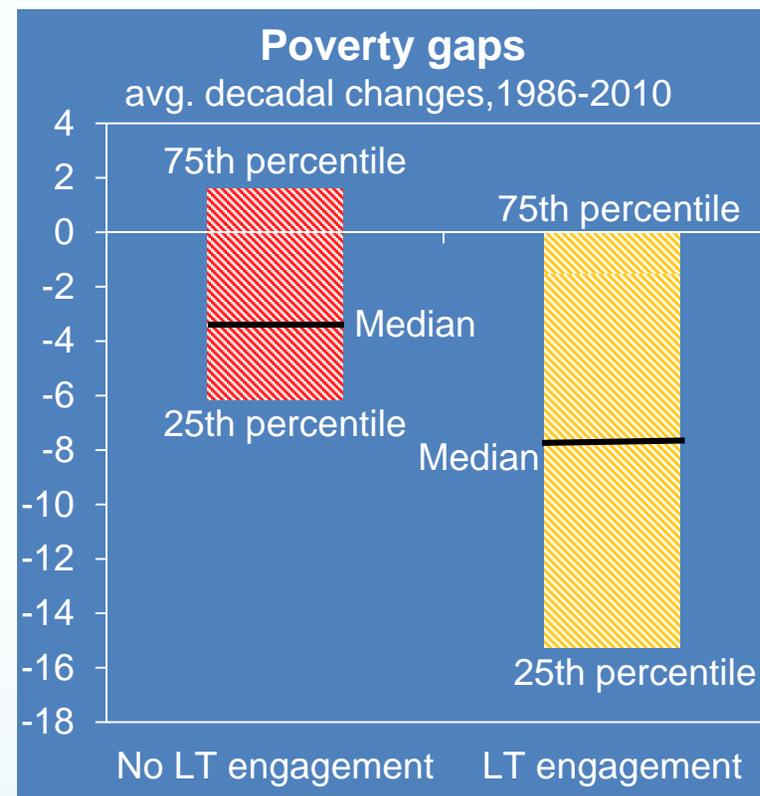
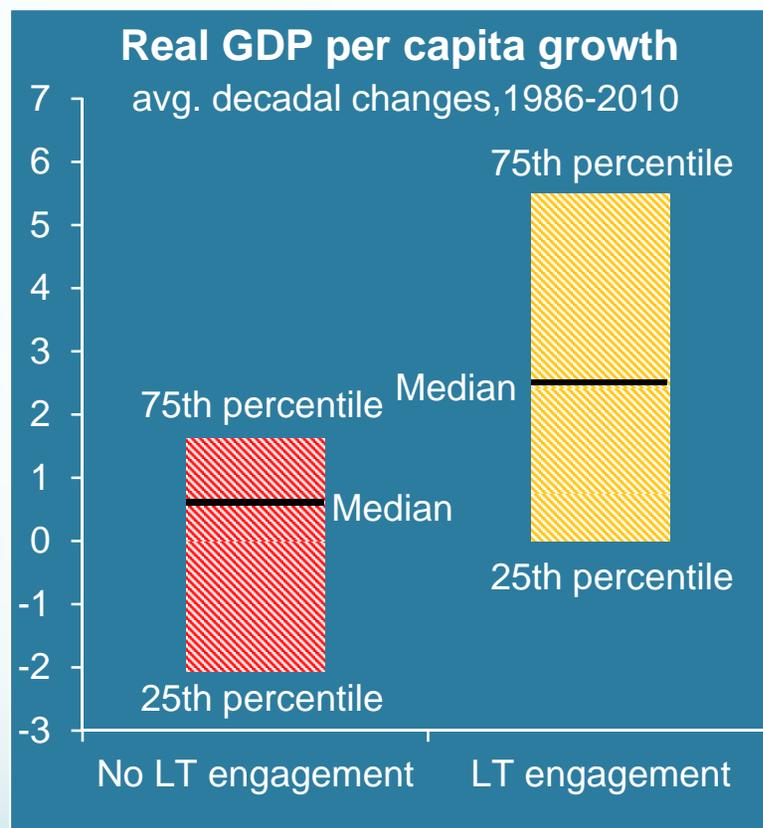
- September 2012 staff paper, *Review of Facilities for Low-Income Countries*, looks at experience of Fund support for LICs since 2009 reforms
- Paper was complemented by new analytical work on short- and long-term impact of IMF programs (financial and policy support)
- Review showed that macroeconomic impact of most programs was generally positive
- Social spending was largely protected and in some cases it increased



...But review also concluded that more can be done to

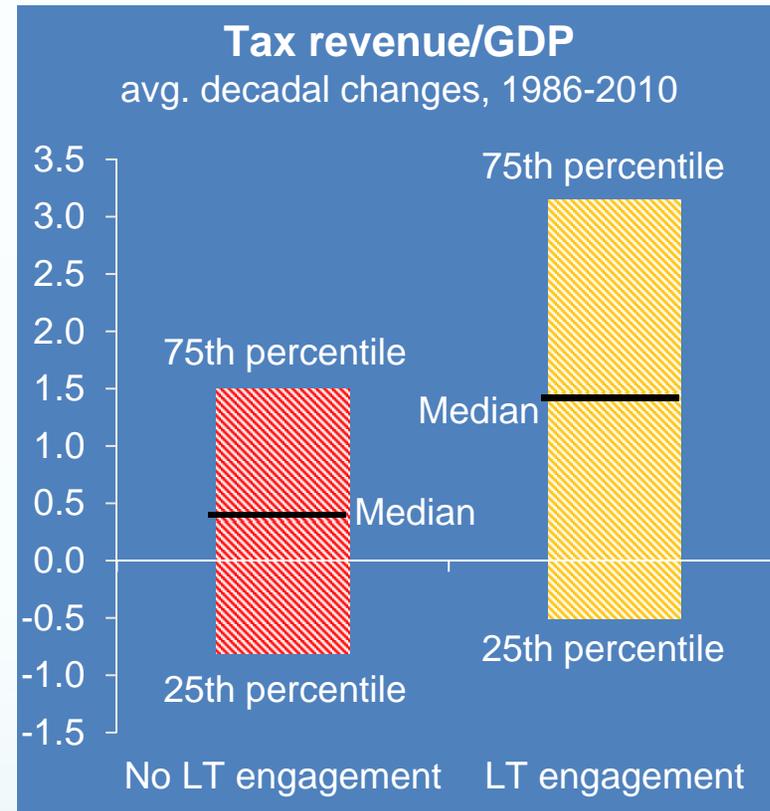
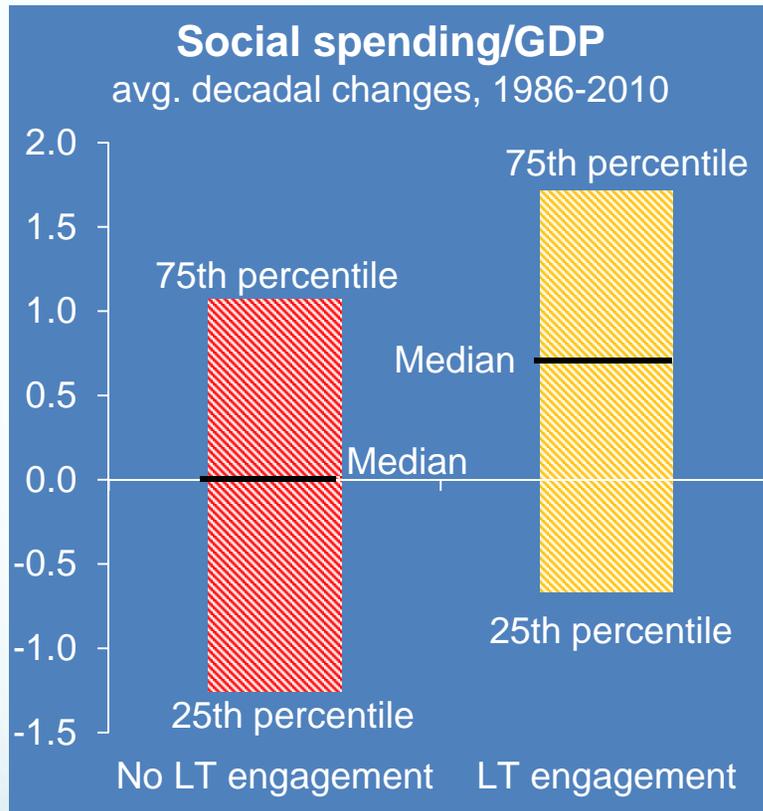
- Conduct more analysis of macro-social issues to mitigate social impact in program design
- Enhance discussion of macro-social issues in program documents
- Ensure inclusion in program design, where feasible and appropriate, of policy measures to mitigate adverse short-term impacts on the most vulnerable

LICs with intensive IMF program engagement had stronger economic growth and poverty-reduction records...



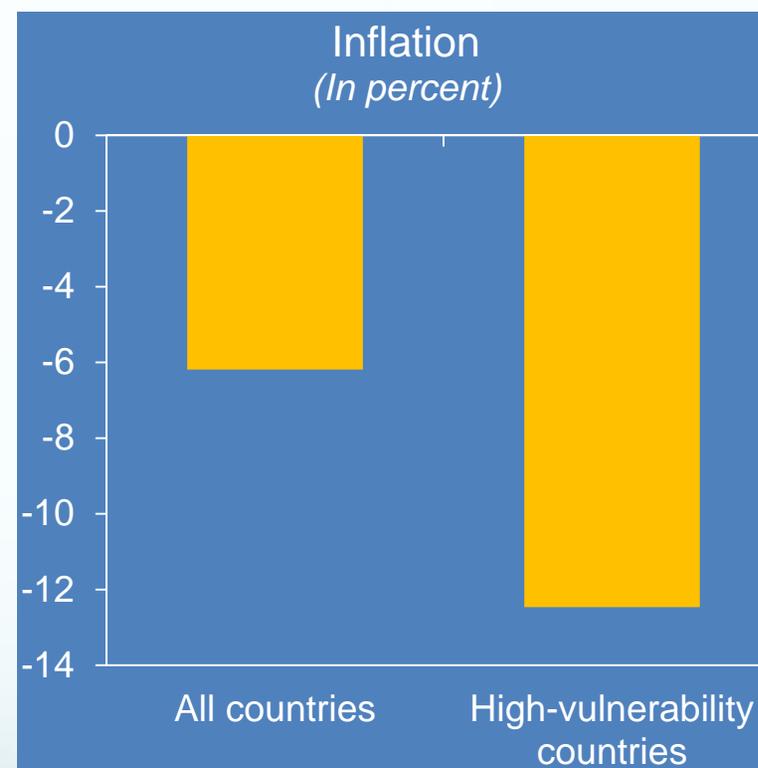
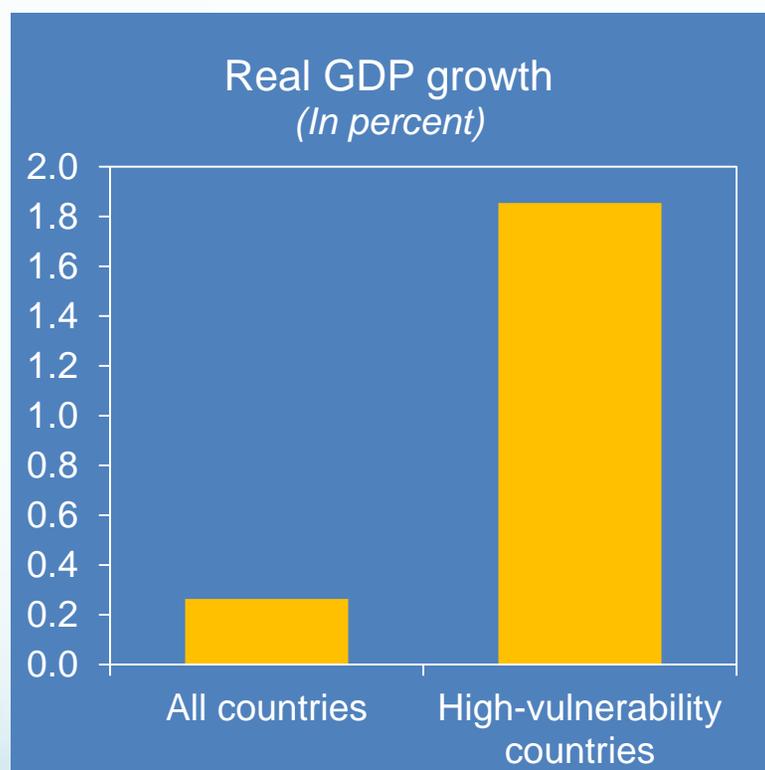
Notes: The sample is composed of 75 LICs and four overlapping decadal period averages: 1986-95; 1991-00; 1996-05; 2001-10. A country is considered to have longer-term (LT) engagement in a given decade if in 5 or more years it had a financial arrangement or a PSI in place, for at least six months. The chart shows the distribution of decadal changes across countries by quartiles.

... as well as social spending and tax revenue



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LICs receiving shock-related financing by the Fund fared better than control group on growth and inflation



Notes: Estimated impact of shock-related Fund engagement to address immediate balance of payments needs on changes in macroeconomic outcomes relative to the control group having similar propensity scores. High-vulnerability countries are those with propensity scores above 0.7, indicating high likelihood of Fund programs addressing immediate balance of payments needs. The sample is composed of 58 LICs and covers 1980-2010.



The Fund's role in Social Protection



Overview

I. Mandate

- Collaboration with other institutions

II. Social Protection Floors – IMF Perspective

- Preserving gains in poverty reduction against shocks
- Macroeconomic Stability
- Inclusive and Sustainable Growth
- Challenges (Design Issues, Financial Sustainability and Scaling Up)
- Fiscal Space

III. Collaboration on Social Protection Floors



IMF's Role in Social Protection—Link to its Macroeconomic Mandate

- The Fund's role in social protection derives from its macroeconomic mandate:
 - Promotion and maintenance of high levels of employment and real income of its members;
 - **high quality growth**, which encompasses a wide range of elements, including social policy. Increasingly, the focus is on **Inclusive Growth**;
 - Some macroeconomic adjustments can temporarily adversely affect poor and vulnerable groups: → promote access to basic social services by providing for adequate public social expenditures.



IMF's Role in Social Protection

- The IMF's activities in the area of social protection draw primarily on analysis and work done by other agencies (World Bank, ILO, etc.)
- Social protection issues are covered in all three core areas of the IMF's interactions with members.
 - Surveillance
 - Financial Support
 - Technical advice
- IMF also does some work on its own in core areas of expertise.



Perspective on Social Protection *Floors* *...Preserving Gains in Poverty Reduction*

- Poverty reduction gains often tenuous and vulnerable to shocks
 - loss of income, purchasing power
 - withdrawing children from school
 - loss of access to basic essential services
 - unsustainable coping strategies
- Social Protection Floor cushions direct impact of shock
 - helps maintain minimum income, consumption and nutrition levels;
 - provides continuing access to basic essential services
 - protection of those least able to cope successfully, reducing burdens on family and communities.



Perspective on Social Protection *Floors* *...Preserving Macroeconomic Stability*

- Automatic Stabilizer Function
 - Preserves purchasing power → helps maintain levels of aggregate demand
 - Lessens impact of shocks
 - Can enable more rapid reaction, as no need for policy decision
 - Political decisions on where to target counter-cyclical efforts not necessary
- Facilitates necessary adjustments to shocks
 - Fosters buy-in and greater ownership because social consequences more manageable
 - Helps maintain social cohesion and stability
 - More flexibility for individual adjustment and recovery
 - (e.g. unemployment insurance facilitates job search)



Perspective on Social Protection Floors

...Inclusive and Sustainable Growth

- Three dimensions
 - ✓ Decent work
 - ✓ Reducing inequality, and
 - ✓ Social Protection
- Social Protection
 - ✓ Individual resilience to shocks
 - ✓ Helps maintain social cohesion and stability, contributes to more equitable outcomes
 - ✓ More flexibility for individual adjustment and recovery



Perspective on Social Protection Floors ...

But...Challenges of Design and Implementation

- **Coverage**
 - What types of social protection (income transfers, school feeding, access to basic health care, social pensions?)
- **Targeting and Efficiency**
 - How to reach the most vulnerable? Calculating the minimum benefit ...
- **Financial Sustainability**
 - Ensuring the benefits are available when needed, particularly during shocks
 - Balance between contributory and non-contributory schemes
 - Sources of financing through budget
 - General domestic revenue <-> External financing
- **Scaling up** above the minimum—a question of....



... *Fiscal Space*

- Availability of discretionary resources
 - Domestic and external
 - Predictability and volatility concerns
 - Ability to project over the medium term to calculate scope for scaling up
- Each addition to the social protection system constrains future fiscal space
 - Since social protection schemes must be maintained over time to be effective
 - To be taken into account when considering debt financing (also reduces future fiscal space)
 - Problems of depending on external funding (even as grants)
 - Will funding flows be maintained?
 - Is a scaling up of these flows to be expected?
 - The volatility of aid within periods and over years (relative to domestic funding sources)



Collaboration on Social Protection Floors

- How does this translate into IMF engagement in the SPF-I?
 - The IMF is not a labor market or social protection agency, but
 - A lot of technical support to members in relevant areas:
 - Increasingly design our policy advice and our program support to protect key social expenditures, especially in periods of fiscal consolidation.
- The SPF approach overturns the notion that social protection is intrinsically unaffordable for poor countries
 - But it is social assistance/non-contributory
 - Depends on sustainable financing through the budget.
- SPF Pilot Project with the ILO and other UN agencies
 - ILO team identifies and costs a minimum social protection floor in a country
 - IMF team analyzes and projects the country's fiscal space
 - Combined analysis of what can be introduced and scope for scaling up over time.



Collaboration on Social Protection Floors (2)

- The IMF's Role in the Pilots – Ensuring Financial Sustainability
 - Medium-term fiscal framework, and analysis of present and planned policies
 - **Establishes the available and projected fiscal space over the near-to medium term**
- Longer-term projections
 - Necessary to establish a potential path for scaling up
 - Based on long-term projections and assumptions within the DSA
 - Ensures that the SPF expenditures remain consistent with debt and fiscal sustainability even as they are scaled up.



Collaboration on Social Protection Floors (3)

- Caveats

- Identifying actual or potential fiscal space is only the first step
- It may not be possible to identify feasible measures to increase fiscal space in the short term.
- Expenditure reallocation/greater expenditure efficiency
- Increasing domestic resource mobilization requires political will and time
- Caution in using external resources





Thank you

