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Report of the Special Rapporteur on extreme poverty and human rights

Note by the Secretariat

The Secretariat has the honour to transmit to the Human Rights Council the report of the Special Rapporteur on extreme poverty and human rights, Philip Alston, prepared pursuant to Council resolution 35/19, focusing on the International Monetary Fund and its impact on social protection.

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Contents

I. Introduction

1. The present report of the Special Rapporteur on extreme poverty and human rights, Philip Alston, has been prepared pursuant to Human Rights Council resolution 35/19, focusing on the International Monetary Fund (IMF) and its impact on social protection.[1]

2. The majority of low-income developing countries are already included in IMF programmes or are likely to be so in the near future,[2] yet fewer than one in five of the poorest 20 per cent of people in those countries is covered by any form of social protection. And any assistance they receive will only cover a mere 13 per cent of their consumption needs. Even in lower-middle-income countries, fewer than half of those living in poverty receive such assistance. Since the vast majority of the hundreds of millions of people thus living in penury and without any form of social protection are unable to enjoy most of their human rights,[3] the question arises as to what their own Governments are doing in response, and what role the international community plays.

3. No international institution exerts greater influence than IMF over issues such as distribution, including social protection. But for many years, it took the position that these issues were not its concern; it could take account only of macroeconomic issues narrowly defined. Other institutions were left to pick up the pieces in the social area, but could only do so within the confines of the fiscal space, if any, left open after IMF prescriptions had been adopted.

4. IMF has long been criticized for its disregard of "social issues" and its impact thereon. In 1987, when a ground-breaking and devastatingly critical report entitled *Adjustment with a Human Face*[4] was published by the United Nations Children's Fund (UNICEF), IMF subscribed to the original Washington Consensus, which prioritized "prudent macroeconomic policies, outward orientation and free-market capitalism".[5] The "imposition" of structural adjustment policies on many countries in Africa, Asia and Latin America were said by human rights groups and others to have further immiserated the living conditions of the poor.[6]

5. Such criticism, combined with political pushback, led to an "augmented Washington consensus" with a new emphasis on social safety nets and "pro-poor growth".[7] The advice subsequently proffered by IMF during the 1997 Asian financial crisis was widely faulted by Governments and commentators and, as the Asian recession abated and the developing country debt crisis was resolved, IMF receded into the background and underwent significant staff cutbacks. But the global financial crisis of 2007–2008 returned it to the centre of international economic governance. At its 2009 summit, the Group of 20

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[1] The Special Rapporteur is grateful to Christiaan van Veen for his superb research and analysis for the present report.

[2] According to IMF, 40 per cent of the 59 low-income developing countries now face significant debt-related challenges, and 60 per cent are at low or moderate risk. See IMF, "Macroeconomic Developments and Prospects in Low-Income Developing Countries — 2018" (15 February 2018), para. 72.

[3] The Special Rapporteur has elaborated on these linkages in previous reports.

[4] G. Cornia, R. Jolly and F. Stewart (eds.), *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth* (1987).

[5] J. Williamson (ed.), "What Washington Means by Policy Reform", in *Latin American Adjustment: How Much Has Happened?* (April 1990).

[6] "[T]he fact that even in times of severe resources constraints whether caused by a process of adjustment, of economic recession, or by other factors, the vulnerable members of society can and indeed must be protected", Committee on Economic, Social and Cultural Rights general comment No. 3 on the nature of States parties' obligations, para. 12.

[7] J. Williamson, "An Agenda for Restarting Growth and Reform", in *After the Washington Consensus: Restarting Growth and Reform in Latin America*, P. Kuczynski and J. Williamson, eds. (March 2003). See also A. Abrams, "The IMF's Role in Social Protection: Fund Policy and Guidance", Background Document No. BD/17-01/01 (5 July 2017).

committed $750 billion to expand IMF operations, leading its Managing Director to proclaim with justification that “the IMF is back”.[8]

6. Earlier criticism, combined with the nature and scale of the new global crisis, prompted an internal reassessment at IMF,[9] including revisiting parts of the “neoliberal agenda”.[10] This included developing the theory of “macro-criticality”, explained below, to justify the possible inclusion of an expanded range of issues, such as social protection, in its analyses and prescriptions. As a result of those various changes, IMF considers that it has fundamentally changed its approach, as illustrated by a response to a question by its Managing Director, Christine Lagarde, at a press conference in 2014: “[S]tructural adjustments? That was before my time. I have no idea what it is. We do not do that anymore.”[11] By 2016, some leading IMF economists were even conceding that neoliberalism had been oversold and that “the short-run costs [of austerity] in terms of lower output and welfare and higher unemployment have been underplayed”.[12]

7. Many of the critics, however, are not convinced that the basic policy paradigm has changed. Some have characterized the changes at IMF as “a smokescreen designed to deflect criticism” and part of its “escalating commitment to hypocrisy” and have pointed to evidence that “structural conditionality remains alive and well”, suggesting a return to the “old” IMF.[13] But IMF staff characterized such criticisms as “shadowboxing with neoliberal ghosts from the past”, rather than acknowledging the deep changes that had occurred.

8. Although these questions are vitally important in terms of social protection and thus of human rights, a necessarily brief report, such as the present one, cannot aspire to do justice to the broader debate over whether IMF has reformed or been “born again” or is “still neoliberal”.[14] Instead, the more modest, but still ambitious, goal is to examine the impact of IMF on the human rights of the poor through its work on social protection. At the outset, it should be noted that IMF, for all its homogeneity and hierarchy, is not a monolithic institution without any internal diversity of views or differences in operational practice. As with any complex international organization, its approach is evolving. The current Managing Director, like her predecessor, has championed major changes, including a newfound focus on issues such as inequality, gender equality, governance, climate change and social protection. Much of the new discourse, and the research underpinning it, is welcome from a human rights perspective, but the real test is whether it will be fully translated into operational reality, which is where new ideas meet entrenched institutional culture, vested interests and ideology.

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8 A. Walker, “The International Monetary Fund returns”, BBC, 24 April 2009, available at http://news.bbc.co.uk/2/hi/business/8015979.stm. The evolution of IMF in taking poverty eradication and related social issues more seriously over these years can be traced through the rebranding of its “Structural Adjustment Facility” to the “Enhanced Structural Adjustment Facility” in 1987, then to the “Poverty Reduction and Growth Facility” in 1999, renamed “Extended Credit Facility” in 2009.

9 C. Ban and K. Gallagher, “Recalibrating Policy Orthodoxy: The IMF Since the Great Recession”, in *Governance: An International Journal of Policy, Administration, and Institutions* (vol. 28, No. 2, April 2015), p. 141.

10 As the below article points out, the “neoliberal” label is used more by critics than the architects of these policies, but it is a useful container term nevertheless. The neoliberal agenda generally refers to policies intended to increase market-based competition and decrease the role of the state in an economy. J. Ostry, P. Loungani and D. Furceri, “Neoliberalism: Oversold?”, in *Finance & Development* (June, 2016).

11 See transcript of the International Monetary and Financial Committee press briefing (12 April 2014), available at www.imf.org/en/News/Articles/2015/09/28/04/54/tr041214b.

12 Ostry, Loungani and Furceri “Neoliberalism: Oversold?”, p. 40.

13 A. Kentikelenis, T. Stubbs and L. King, “IMF Conditionality and Development Policy Space, 1985–2014”, in *Review of International Political Economy* (vol. 23, iss. 4, 2016), p. 556.

14 S. Babb and A. Kentikelenis, “International Financial Institutions as Agents of Neoliberalism”, in *The SAGE Handbook of Neoliberalism*, D. Cahill et al (eds.) (SAGE Publication, 2018) p. 16; and A. Broome, “Back to Basics: The Great Recession and the Narrowing of IMF Policy Advice”, in *Governance: An International Journal of Policy, Administration, and Institutions* (vol. 28, No. 2, April 2015), p. 161.

9. The Special Rapporteur is grateful to IMF for its willingness to organize meetings with key actors, including member of its Executive Board, a Deputy Managing Director and senior staff of the Research Department, Strategy, Policy and Review Department, Fiscal Affairs Department, Legal Department, Communications Department, all five Area Departments, and the Independent Evaluation Office. With the exception of the Legal Department, which provided virtually no information, he is very satisfied with the cooperation of IMF.

10. Regrettably, the World Bank, despite repeated requests, refused to facilitate any meetings between the Special Rapporteur and World Bank social protection experts. It must be assumed that this was in retaliation for his 2015 report to the General Assembly, in which he concluded that the World Bank was, for most purposes, a "human rights-free zone".[15] It is nonetheless gratifying to see that the World Bank has now begun to change its approach in this regard in some areas.[16]

11. The Special Rapporteur is also grateful to civil society organizations, academic experts, other international officials and many others who provided inputs for the present report. He has also benefited greatly from the detailed IMF reports on social protection and published by its Independent Evaluation Office and by the International Organizations Clinic at New York University School of Law.[17]

II. Legal framework and IMF mandate

12. The Articles of Agreement of IMF confer on it the powers of oversight and to provide financial assistance and advice. Its stated purposes include contributing to "the development of the productive resources of all members as primary objectives of economic policy" and providing resources to countries with balance-of-payment issues so that they do not resort to "measures destructive of national or international prosperity". The Articles also require IMF to "respect the domestic social and political policies of members" in its surveillance and lending.[18] After reviewing these and related provisions, the General Counsel of IMF, François Gianviti, concluded that IMF was "a monetary agency, not a development agency", and that its task was thus "to maintain orderly exchange rates and a multilateral system of payments free of restrictions on current payments".[19]

13. In stark contrast to such formalism, a review of the mandate of IMF performed in 2010 after the financial crisis, acknowledged that the purposes in the Articles "speak to the issues of a bygone era", while the powers conferred "do not even reference today's most compelling issues". Where Mr. Gianviti had concluded that, if IMF wished to integrate human rights considerations in its decisions, the Articles should be amended, the 2010 review acknowledged the difficulty of the amendment process and concluded instead that "the Articles are sufficiently flexible to accommodate major reforms".[20]

14. A companion analysis, prepared by the Legal Department, starts with the formal position that the powers of IMF "are generally limited to those explicitly identified in the Articles", but then observes that it is authorized "to adopt decisions of general applicability ('policies') to provide more specific content" to its powers. Provided that they are consistent with the text of the Articles, those policies may adjust over time to take into consideration changing circumstances. But having set the scene for a degree of policy flexibility, the Legal Department then notes that, "since all of the enumerated purposes are

15 See A/70/274, para. 68.

16 Compare the heavy reliance on the Convention on the Elimination of All Forms of Discrimination against Women in World Bank, *Women, Business and the Law 2018* (Washington, D.C., 2018), with the determined non-engagement with the Convention in the same report in 2016.

17 IMF, *The IMF and Social Protection* (Washington, D.C., 2018). Available at www.ieo-imf.org/ieo/files/completedevaluations/SP%20-%202017EvalReport.pdf.

18 See article IV, section 3 (b); and the Guidelines on Conditionality (Decision No. 6056-(79/38)).

19 F. Gianviti, "Economic, Social, and Cultural Human Rights and the International Monetary Fund" in P. Alston (ed.), *Non-State Actors and Human Rights* (2005) p. 135.

20 See www.imf.org/external/np/pp/eng/2010/012210a.pdf.

of an economic nature, IMF is precluded from using its powers for political objectives”.[21] That division of the IMF universe into matters that are either economic or political goes to the core of the problem of locating issues such as social protection, which are both economic and political but much else besides. In practice, the Legal Department seems not to have used its considerable influence to restrict or inhibit the developments described below, even though they amount to a major reinterpretation of the Articles and of the range of issues that may be considered to be within the mandate of IMF.

15. Policy evolution has been reflected mainly through “operational guidance”.[22] A 2015 Guidance Note on Surveillance specifies that, while exchange rate, monetary, fiscal and financial sector policies are always expected to be covered by IMF surveillance, other issues are only to be assessed if they are macro-critical, which means that the issue “affects, or has the potential, to affect domestic or external stability, or global stability”.[23] Little additional guidance is offered and IMF staff are encouraged to “exercise judgment”, and to note that “there is scope … to innovate and push the analytical content beyond current practices”.[24] There has indeed been much innovation, with account being taken of policies relating to jobs and growth, infrastructure, labour markets, social safety nets, public sector enterprises, governance, gender and climate change.[25] The position in practice appears to be that, where there is a will, and provided an issue is not problematically politically contentious, it can be treated as being macro-critical, thus falling within the mandate of IMF.

16. In the lending context, staff also enjoy “broad latitude”[26] when assessing the “criticality” of conditions imposed.[27] This applies in relation to issues within the “core areas of expertise” of IMF, but also outside that core provided that the determination of criticality is accompanied by “detailed explanations … along with a strong justification”.[28] For non-core issues, staff are urged to draw, as far as possible, on the expertise of “other multilateral institutions, particularly the World Bank”.[29]

III. Mandate flexibility in practice

17. Before focusing on how the potentially very flexible notion of macro-criticality has been approached in practice in relation to social protection, it is instructive to consider the macro-criticality of human rights, military expenditure, corruption, inequality and gender equality. The present analysis shows that the sole taboo at IMF seems to be human rights, although IMF analyses do in fact note the relevance of political conflict, violence and social unrest.

A. Human rights taboo

18. IMF has not adopted an official legal opinion in relation to human rights. When asked about its legal position, it points to a paper written in 2002 by Mr. Gianviti, and subsequently published in an academic volume.[30] The Special Rapporteur was informed that nothing had been published since then, either officially or as an academic paper, by any member of the sizeable Legal Department with any bearing on the approach of IMF to human rights. Mr. Gianviti’s paper, although never officially endorsed by IMF and written

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[21] See www.imf.org/external/np/pp/eng/2010/022210.pdf.

[22] While operational guidance is produced by staff and not endorsed by the Executive Board, both surveillance and conditionality guidance notes are discussed and approved by the Board.

[23] IMF, “Guidance Note for Surveillance under Article IV” (May 2015), p. 36.

[24] Ibid, Executive Summary.

[25] Ibid, p. 39.

[26] Abrams, “The IMF’s Role in Social Protection”, p. 6.

[27] IMF, “Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines” (August 2014).

[28] Ibid, p. 10.

[29] Ibid.

[30] Gianviti, “Economic, Social, and Cultural Human Rights”, p. 113.

16 years ago, thus assumes surprising importance. The thrust of the paper can be summarized as follows: the International Covenant on Economic, Social and Cultural Rights is not applicable to IMF; its provisions have not attained customary international law status that would make them applicable independently of the Covenant; IMF promotes economic and social rights indirectly by contributing to conducive economic conditions; and IMF cannot promote human rights directly without contravening the Articles of Agreement.[31] The Deputy General Counsel of IMF informed the Special Rapporteur that this position remained unchanged. He reiterated that it was not bound by human rights norms, "except perhaps in cases of genocide".

19. Mr. Gianviti's paper does not address the question of civil and political rights, but IMF seems to assume without further explanation that the same analysis would apply to the two sets of rights. Essentially, the paper is an anachronism and serves IMF badly as a statement of current policy. It is rooted in the history of the 1950s and 1960s and focused heavily on the Heavily Indebted Poor Countries Initiative, which was important in 2002. And it long predates the fundamental changes that are said to have occurred since the global financial crisis of 2007–2008.

20. Mr. Gianviti's appeal to the analogy of European law to strengthen the position of IMF underscores its anachronistic nature. The paper notes that "the European Community, not being a party to the European Convention on Human Rights [the Convention for the Protection of Human Rights and Fundamental Freedoms], is not bound by its provisions". But today, the European Union considers itself bound by the provisions of the Convention, which have the status of general principles of law.

21. Mr. Gianviti's focus on whether IMF is formally bound under international law by the Covenant's provisions has been much criticized.[32] In fact, his paper has very little to say about the crucial issue of how IMF should, in practice, take account of human rights considerations in their many diverse manifestations. The consistent practice of IMF has been to sidestep them and assume they are simply not relevant to macroeconomic policy.[33] However, this is not the occasion for a wide-ranging review of such matters, which IMF itself should undertake.

B. Grey zones: corruption and military spending

22. IMF first addressed corruption in depth in a 1997 guidance note on "governance issues".[34] Increased attention to the issue at IMF and the World Bank at that time reflected a realization on the part of the proponents of the Washington Consensus that corruption had undermined the institutions that had been key to successful policy reform and economic development.[35] The note followed the World Bank's definition of corruption as the "abuse of public office for private gain". The IMF approach mainly involved advocacy of "policies and the development of institutions and administrative systems that aim to eliminate the opportunity for rent seeking, corruption and fraudulent activity".[36] It would only respond to specific instances of corruption when there was "reason to believe they could have significant macroeconomic implications", such as when "the amounts involved are

[31] For a recent reiteration of position of IMF on human rights, see www.ohchr.org/Documents/Issues/IEDebt/impactassessments/IMF.pdf.

[32] For important critiques see: Statement by the Committee on Economic, Social and Cultural Rights (E/C.12/2016/1); M. Darrow, *Between Light and Shadow: The World Bank, the International Monetary Fund and International Human Rights Law* (Hart Publishing, 2003); B. Ghazi, *The IMF, the World Bank Group and the Question of Human Rights* (Transnational Publishers, 2005); and A. McBeth, *International Economic Actors and Human Rights* (Routledge, 2009).

[33] A speechwriter for Ms. Lagarde is reported as saying "[y]ou cannot put human rights in a speech, it'll be taken out". T. Reinold, "The Path of Least Resistance: Mainstreaming 'Social Issues' in the International Monetary Fund", in *Global Society,* vol. 31, iss. 3, 2017, p. 401.

[34] IMF, "Guidance Note on the Role of the IMF in Governance Issues" (August 1997).

[35] D. Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion?", in *Journal of Economic Literature*, vol. 44, No. 4 (December 2006), pp. 973–987.

[36] "Guidance Note", p. 2.

potentially large or the corruption may be symptomatic of a wider governance problem”.[37] Recent examples of countries where IMF considered corruption to be “macro-critical” are Mozambique,[38] where enormous loans made to State-owned enterprises were concealed,[39] the Congo, where authorities recently announced plans to arrest corrupt officials in order to meet IMF loan conditions,[40] and Ukraine.[41] But in other States experiencing major corruption scandals, IMF has confined itself to general observations about the desirability of something being done. Such timidity contrasts with its strong measures to combat money laundering and the financing of terrorism,[42] in relation to which it has provided technical assistance to 120 countries.[43]

23. IMF is currently in the midst of a major review designed to make its corruption policy more effective.[44] Challenges include the risk of becoming involved in politically charged debates and of not being perceived as “even-handed”,[45] how to determine macro-criticality and what information sources to rely upon,[46] and the need for specialized staff with appropriate expertise. While none of those issues is straightforward, failure to take a strong line on an issue such as large-scale or systemic corruption, which has major macroeconomic ramifications, leaves a large dent in the credibility of IMF.[47] A stronger anti-corruption policy would also enable IMF to contribute to the realization of target 16.5 of the Sustainable Development Goals.

24. At IMF, military expenditure is an even more sensitive topic than corruption. However, despite the clear links between reigning in military spending on the one hand, and promoting fiscal consolidation while creating fiscal space for social protection on the other,[48] there is an almost complete absence of the subject from IMF macroeconomic analyses. This represents a major strike against its claims to be above politics and to go wherever the economic facts lead it. It is true that isolated examples of IMF engagement with military spending can be found,[49] and relevant military spending data are made available through its *Government Financial Statistics Yearbook*. But, in general, Governments still seem to believe that “national security, and judgments regarding the appropriate level of military expenditures required to assure that security, [are] a sovereign prerogative of national governments and ... not in the domain of the work of the Fund”.[50]

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37 Ibid, p. 5.

38 IMF, “Republic of Mozambique: 2017 Article IV Consultation” (March 2018).

39 See www.bbc.com/news/world-africa-36158118.

40 “IMF Staff Concludes Visit to The Republic of Congo”, press release (20 December 2017); and www.bloomberg.com/news/articles/2018-03-06/congo-steps-up-battle-against-corruption-after-imf-criticism.

41 IMF, “Ukraine 2016 Article IV Consultation” (April 2017).

42 See, e.g., IMF, “Malta: 2017 Article IV Consultation” (January 2018), para. 26.

43 C. Lagarde, “Stepping up the Fight against Money Laundering and Terrorist Financing”, IMF blog (26 July 2017).

44 Shortly before the present report was finally submitted, IMF published a new policy paper that devotes extensive attention to policy in relation to corruption. IMF “Review of 1997 Guidance Note on Governance” (April 2018). The content of the present report is not reflected in that analysis.

45 C. Lagarde, “Corruption Disruption”, IMF blog (8 December 2017).

46 In calling for stronger anti-corruption legislation in Ukraine, IMF relied on an opinion by the European Commission for Democracy through Law (the Venice Commission) on the draft law on anti-corruption courts, available at www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2017)020-e.

47 The same might, of course, be said in relation to a failure to take account of large-scale human rights violations when they also have clear-cut macroeconomic consequences.

48 I. Ortiz, M. Cummins and K. Karunanethy, “Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries”, Extension of Social Security Working Paper No. 48 (2017). Available at www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=51537.

49 S. Gupta, L. De Mello and R. Sharan, “Corruption and Military Spending”, IMF Working Paper (2000); J. Stevenson, “IFIs and military expenditures”, in *Adelphi Papers* (vol. 40, iss. 336), p. 29 (2000); and H. Davoodi et al, “Military Spending, the Peace Dividend, and Fiscal Adjustment”, *IMF Staff Papers* (vol. 48, No. 2), p. 290 (2001).

50 See www.imf.org/external/SelectedDecisions/Description.aspx?decision=EBM/91/138.

25. But such views are surely “macro-incompatible”, especially after a decade in which military expenditures have risen 64 per cent in Asia and Oceania, 48 per cent in Africa, 19 per cent in the Middle East and 6 per cent in Europe.[51] In the years ahead, even more dramatic increases look likely. While the issue is a potential minefield for IMF, its impact on the overall macroeconomic equation is so great that it can hardly be ignored. It is the proverbial elephant in the room, and it behoves IMF to engage with it and to explore what options might be feasible to draw the attention of Governments and others to the macroeconomic significance of military spending.[52]

C. Precedents for change: economic and gender inequality

26. The work of IMF on social protection is closely linked to its work on tackling growing inequality and promoting gender equality.

27. Oxfam has praised IMF for becoming a global leader in highlighting the economic inequality crisis in recent years.[53] Indeed, comments by the Managing Director have attracted much attention, and IMF research has shown that “lower net inequality is robustly correlated with faster and more durable growth” and “redistribution appears generally benign in terms of its impact on growth.” Those findings challenge the orthodox views about an inevitable trade-off between redistribution and growth,[54] and have implications for IMF policy advice.[55] But considerable tensions remain between that theory and IMF practice, which is still more likely to be preoccupied with efficiency and targeting than redistribution aimed at lowering inequality.[56] While change might be afoot, it has not yet consistently made its way into policy advice.[57] One observer has suggested that the focus of IMF on inequality “is beginning … to have an impact through pilot analysis in 25 countries”,[58] but others are less persuaded. Thus, Oxfam concludes that those “pilots” fail to “fully explore alternatives to rapid fiscal and monetary tightening”, “focus on compensating ‘losers’ rather than questioning the structural reforms themselves”, and tend to see social protection “as a Band-Aid to compensate for the negative effects of other measures”.[59] IMF has not responded publicly to any of those criticisms, except in staff comments at the annual meeting’s Civil Society Policy Forum.

28. Until around 2013, “gender” had not been a term that could easily be found in IMF documents.[60] Initially, IMF had focused on female labour force participation and income inequality.[61] In 2015, gender was included as a structural issue that staff could consider in Article IV surveillance,[62] and gender pilot studies were then undertaken in Article IV

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51 See http://visuals.sipri.org/.

52 Research suggests that moving towards gender parity among IMF economists might lead to greater attention being paid to the negative economic and social consequences of high levels of military spending. M. May, G. McGarvey and D. Kucera, “Gender and European Economic Policy: A Survey of the Views of European Economists on Contemporary Economic Policy”, in *Kyklos International Review for Social Sciences*, (vol. 71, No. 1), February 2018, pp. 162–183.

53 Oxfam, “Great Expectations: Is the IMF turning words into action on inequality?” (October 2017), p. 2.

54 J. Ostry, A. Berg and C. Tsangarides, “Redistribution, Inequality, and Growth”, IMF Staff Discussion Note (February 2014).

55 P. Loungani and J. Ostry, “The IMF’s Work on Inequality: Bridging Research and Reality”, available at https://blogs.imf.org/2017/02/22/the-imfs-work-on-inequality-bridging-research-and-reality/.

56 IMF Policy Paper, “Fiscal Policy and Income Inequality” (2014), p. 22 and 30–32.

57 “Tackling Inequality”, *Fiscal Monitor* (October 2017).

58 J.A. Ocampo, J.M. Griesgraber, M. Martin and N. Coplin, “Are the Multilateral Organizations Fighting Inequality?” (Friedrich Ebert Stiftung, July 2017), pp. 10–11.

59 “Great Expectations”, p. 21.

60 Bretton Woods Project, “The IMF and Gender Equality: A Compendium of Feminist Macroeconomic Critiques” (October 2017), p. 12.

61 K. Elborgh-Woytek et al, “Women, Work, and the Economy: Macroeconomic Gains from Gender Equity”, IMF Staff Discussion Note (2013); and C. Gonzalez et al, “Catalyst for Change: Empowering Women and Tackling Income Inequality”, IMF Staff Discussion Note (2015).

62 “Guidance Note for Surveillance”, p. 39.

reports.[63] More recently, a number of IMF loans, including to Egypt and Jordan, have included "gender conditionalities".

29. These are very important steps forward, but much remains to be done. Observers have criticized IMF for focusing too much on labour-market participation and micro-level gender budgeting decisions.[64] An example of IMF ignoring gender in the broader macroeconomic context is the constitutional amendment passed by the Government of Brazil in 2016, capping public spending for 20 years, which has been characterized as "the mother of all austerity plans".[65] IMF very publicly supported the initiative. Brazilian researchers claim that, subsequent to the amendment, "expenditures specifically benefitting women were reduced by 58 per cent".[66] Unsurprisingly, Oxfam has called on IMF to focus on the gender impact of its core macroeconomic advice, as well as on the creation of fiscal space to support quality public care services and the discontinuation of "policy advice that is shown to have negative impacts on gender equality".[67]

30. In dealing with an issue like gender equality, IMF also needs to overcome its aversion to ever mentioning human rights. Even a study showing convincingly that legal restrictions strongly hinder female labour force participation in low-income countries, calling for their elimination, advocating "constitutionally guaranteed equity between men and women [as] the absolute minimum" and ideally the "guarantee [of] legal equality to women in all dimensions" made no reference at all to human rights, women's human rights or the Convention on the Elimination of All Forms of Discrimination against Women. It did, however, repeat several times, that its recommendations "should be considered against the backdrop of countries' broadly accepted cultural and religious norms".[68] No comparable caveat was included in relation to the 189 States that had ratified and accepted the Convention's binding legal obligations. As noted above,[69] the World Bank has now managed to move beyond this form of "airbrushing" human rights obligations out of the picture and it is to be hoped that IMF will follow suit.

IV. Social protection

Introduction

31. In the aftermath of the global financial crisis and in response to the increasing backlash against neoliberalism, IMF has gradually moved over the past few years to accept the macro-criticality of some elements of social protection. Five recommendations emerging from a 2017 report of the Independent Evaluation Office of those initiatives were subsequently supported by the Executive Board.[70] Given the inconsistent and contingent past practice at IMF and the uncertainty of its staff about its role, the report's key message was the need for a clear strategic framework to guide IMF involvement in social protection. In January 2018, a management implementation plan[71] announced the preparation of a paper to be discussed by the Executive Board in February 2019 that would address a definition of social protection, the macro-criticality of social protection, the affordability and efficiency of social protection systems, potential forms of IMF engagement with social

[63] ActionAid, "Women as 'underutilized assets'" (October, 2017).

[64] K. Donald and N. Lusiani, "The IMF, Gender Equality and Expenditure Policy" (Bretton Woods Project and the Center for Economic and Social Rights, 2017).

[65] S. Sims, "Brazil passes the mother of all austerity plans", *The Washington Post*, 16 December 2016.

[66] G. David, "The impacts of IMF-backed austerity on women's rights in Brazil", in *Bretton Woods Observer* (Spring 2018), available at www.brettonwoodsproject.org/2018/03/impacts-imf-backed-austerity-womens-rights-brazil/.

[67] "Great Expectations", p. 7.

[68] C. Gonzales et al, "Fair Play: More Equal Laws Boost Female Labor Force Participation", IMF Staff Discussion Note (February 2015).

[69] IMF, *The IMF and Social Protection*.

[70] Ibid.

[71] IMF, "Implementation Plan in Response to the Board-endorsed Recommendations for the IEO Evaluation Report — 'The IMF and Social Protection'" (January 2018).

protection, the position of IMF on universal access to and targeting of social programmes and collaboration with other institutions. The strategic framework would also provide guidance on effective programme design, covering both the General Resources Account Arrangements and concessional lending. The latter would draw on a June 2017 IMF policy paper,[72] a guidance note to be issued in the first half of 2018 and the 2018 Review of Conditionality and the Design of IMF-Supported Programmes.

32. The report of the Independent Evaluation Office and the response of the Executive Board drew mixed reactions from external stakeholders. Some special procedure mandate holders, as well as a group of 53 economists, academics and development experts, were strongly critical.[73] IMF has committed to consult with civil society on the development of its new social protection strategy, but that process has to date been relatively opaque[74] and formalistic, reflecting the culture of control at IMF and the relatively few civil society organizations that focus on scrutinizing its activities.

33. The report of the Independent Evaluation Office, along with its annexes and background papers, is nonetheless very helpful and informative. Its main shortcomings are its acknowledged failure to address two key issues: (a) the impact of IMF interventions on the welfare of vulnerable groups; and (b) whether social protection has increased or decreased as a result of IMF-supported programmes.[75] By way of justification, the Office claimed that the first would have required a much larger study and the second was not feasible due to “conceptual and attribution problems”. And IMF officials with whom the Special Rapporteur spoke argued strongly that there were too many variables at play for that analysis to be done meaningfully. However, comprehensively avoiding such central issues calls into question the certainty with which IMF makes various policy prescriptions. Some attempt to evaluate impact is essential if it is to be seen to be acting responsibly and in an evidence-based manner.[76]

Defining social protection

34. The report of the Independent Evaluation Office defines social protection as a variety of policy instruments providing cash or in-kind benefits to vulnerable individuals or households, including: (a) social insurance (such as public pension schemes); (b) social assistance (such as government transfers to the poor); and (c) labour market interventions for the unemployed (such as unemployment insurance and active labour market policies). The report also addresses food and energy subsidies, but not broader development or poverty reduction policies, such as education and health policy.[77] Its annex lists different definitions of social protection used by IMF and other organizations.[78] Work currently under way to identify a uniform definition for the purposes of IMF is essential since the Special Rapporteur’s interviews confirmed considerable uncertainty and disagreement within IMF about what social protection means.

35. The most important issue is the overall philosophy underpinning social protection. The main debate in defining social protection has been between a “social safety net” approach and a human rights or “social citizenship” approach.[79] The definition of a social

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72 IMF, “Social Safeguards and Program Design in PRGT and PSI-Supported Programs”, Policy Paper (June 2017).

73 See www.ohchr.org/Documents/Issues/Development/IEDebt/Open_Letter_IMF_21Dec2017.pdf; www.networkideas.org/news-analysis/2017/12/53-economists-write-to-imf-directors-on-approach-to-social-protection/; and www.brettonwoodsproject.org/2017/09/ieo-finds-imf-follows-nebulous-standard-social-protection-engagement/.

74 In strong contrast to the World Bank’s lengthy consultations over the updating of its social safeguard policies in 2016.

75 IMF, *The IMF and Social Protection*, pp. 23–24.

76 On the importance of evaluation, see M. Ravallion, “The World Bank: Why it is Still Needed and Why it Still Disappoints”, in *Journal of Economic Perspectives*, vol. 30, No. 1, Winter 2017, pp. 82–84.

77 IMF, *The IMF and Social Protection*, p. 4.

78 Ibid, annex 1.

79 See report of the Special Rapporteur on extreme poverty and human rights (A/69/297), para. 21.

protection floor, according to the International Labour Organization (ILO), World Health Organization (WHO) and the United Nations, as demonstrated in the Social Protection Floor Initiative, reflects a human rights approach.[80] This is not, as many economists assume, a rigid one-size-fits-all approach that purports to have all the answers as to how hard choices on resource allocation are to be made. Rather, it identifies an overall set of objectives and offers elements of an accountability framework. Thus, while the Initiative views social protection in terms of human rights, the scope and coverage of each State's floor is nationally defined while respecting principles such as non-discrimination, gender equality and social inclusion. The aim is to ensure universal protection, but that does not mean that every person receives the same benefit. Rather, the goal is to prevent or alleviate poverty, vulnerability and social exclusion, and the floor should include basic social security guarantees for health care, as well as income security for children, older persons and those unable to work, especially in cases of sickness, unemployment, maternity and disability.

36. By contrast, the social safety net approach generally adopted by IMF is often so minimal that it barely warrants the term "social protection". In the words of the Independent Evaluation Office, the view of IMF is that "[s]ocial safety nets are necessary to mitigate adverse short-term effects of fiscal adjustment, economic reforms, or external shocks on vulnerable population groups".[81] In essence, social protection is a short-term fix to help the "most vulnerable" to overcome temporary economic hardship. Often, that group is not coterminous with the worst-off in society, but with those hit by the economic adjustments IMF is promoting. Furthermore, affordability is the overriding consideration, defined in almost circular terms that assume that responsible fiscal consolidation will be unable to provide a genuine floor to ensure the survival of those living in extreme poverty. The interest of IMF is in mitigation, not transformation, and social protection is embraced for largely pragmatic programmatic considerations, rather than for the principled reason that any macroeconomic framework should protect those who cannot protect themselves.

37. The World Bank, the key international supporter of the safety net approach as a form of social risk management,[82] has now formally endorsed the ILO/WHO/United Nations social protection floor approach, and IMF would normally be expected to follow suit.

Targeting

38. For practical purposes, the main debate between proponents of "safety nets" and "social protection floors" concerns the principle of "targeting", the idea that only the "most vulnerable" should benefit from redistribution in the form of in-kind and cash benefits. IMF "has been a strong proponent of targeting",[83] especially in analyses of income inequality,[84] public expenditure reform[85] and energy subsidy reform.[86] Indeed, it often seems to be treated as an end in itself. Since 2009, only 15 per cent of IMF fiscal consolidation programmes for low-income countries has required the protection of vulnerable groups, and most of the relevant conditionalities "focused on improving the targeting […] of the social safety net".[87]

39. IMF has also strongly opposed universal programmes in some situations. Thus in 2017, after years of pressure from IMF,[88] Mongolia agreed to restrict the scope of the previously universal "Child Money" programme offered to the poorest 60 per cent of its

[80] ILO, Social Protection Floors Recommendation, 2012 (No. 202).
[81] IMF, *The IMF and Social Protection*, p. 11.
[82] World Bank, *World Development Report 1990: Poverty* (1990), p. iii.
[83] IMF, *The IMF and Social Protection*, p. 11.
[84] IMF "Fiscal Policy and Income Inequality", p. 25.
[85] IMF, "Public Expenditure Reform: Making Difficult Choices" (April 2014), p. 32.
[86] IMF, "Energy Subsidy Reform: Lessons and Implications" (January 2013), p. 30.
[87] IMF, "Social Safeguards", p. 16.
[88] Independent Evaluation Office, "The IMF and Social Protection: Seven Low-Income Country Cases" (July 2017), p. 41, according to which "The IMF consistently favored targeted (means-tested) benefits over the universal Child Money entitlement".

children, which has since been raised again to 80 per cent.[89] That structural benchmark in the IMF loan has reportedly been strictly enforced.[90] Similarly, in January 2018, IMF announced that Kyrgyzstan would "amend the law on universal child allowances to reintroduce targeting".[91] That policy change is said to have been adopted following the IMF review of the country's Extended Credit Facility.[92]

40. Nonetheless, recent research on targeting in sub-Saharan Africa presents a compelling challenge to the logic of targeting, assuming the objective is to reduce poverty, rather than to promote neoliberal orthodoxy.[93] The authors of that research explore key factors affecting the design and implementation of anti-poverty policies. The first is information, for which they demonstrate that the proxy means tests — consistently promoted for that purpose by IMF and others — yield highly unsatisfactory results in practice. They conclude that the test "misses many of the poorest households in almost all countries: on average, 80 per cent of poor households are counted as non-poor by the test, and 40 per cent of non-poor households are counted as poor". The second factor is incentive effects, where they argue that targeted policies encourage non-poor people to change their behaviour in order to qualify for benefits intended for the poor. And the third factor is political economy, which, as discussed below, suggests that policies targeted only at the poorest will not receive sufficient political support from the elites and middle classes who dominate political decision-making. The conclusion to be drawn is that anti-poverty programmes with broader coverage, rather than finely targeted ones, are much more likely to reduce poverty.

41. A recent analysis published in the IMF *Fiscal Monitor* goes tentatively in the same direction by acknowledging that targeting requires adequate administrative capacity and that, where such capacity is lacking, there is often "undercoverage of the poor and leakage of benefits to the rich".[94] As a result, the analysis cautiously explores the option of universal basic income schemes as a "second-best" alternative to targeted social protection. Consistent with that approach, a recent IMF Article IV report on Mozambique encouraged the continuation of "efforts to improve coverage and generosity" of the non-contributory social protection system and noted the Government's shift from a targeted, charity focus to a rights-based universal benefit approach.[95] By IMF standards, such an approach seems wholly anomalous.

Social protection practice

42. The idea of social protection as "a certain minimum of justice, or fairness",[96] is in fact relevant to all of the core work of IMF. One Executive Director explained it well when he told the Special Rapporteur that the work of IMF in any of its five main pillars — monetary, fiscal, financial, balance of payments or structural policies — could either promote or disrupt social protection. Nevertheless, IMF "has traditionally approached

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[89] IMF, "Mongolia: First and Second Reviews under the Extended Fund Facility" (December, 2017), p. 10.

[90] See S. Kidd, "Mongolia and Kyrgyzstan lose out in their struggle with the IMF over the targeting of child benefits", Development Pathways, 21 February 2018. Available at www.developmentpathways.co.uk/resources/mongolia-kyrgyzsg-child-benefits/. For a response by the IMF, see www.developmentpathways.co.uk/resources/mongolia-kyrgyzsg-child-benefits/#comment-1358.

[91] See IMF, "IMF Staff Concludes Visit to the Kyrgyz Republic", press release (31 January 2018), available at www.imf.org/en/News/Articles/2018/01/31/pr1834-imf-staff-concludes-visit-to-the-kyrgyz-republic.

[92] Kidd, "Mongolia and Kyrgyzstan lose out".

[93] The research is summarized in C. Brown, M. Ravallion and D. Van de Walle, "Reaching Poor People", in *Finance & Development* (December 2017), pp. 48–51.

[94] IMF, "Tackling Inequality", p. 16.

[95] IMF, "Republic of Mozambique", p. 12.

[96] T. Judt, *Postwar: A History of Europe since 1945* (Penguin Books, 2005), p. 76.

social protection from the standpoint of fiscal policy”,[97] as illustrated by the cases of subsidy reform and social spending floors.

Subsidy reform

43. One third of IMF arrangements approved during the period 2006–2015 contained structural conditionality pertaining to energy price subsidies.[98] Reforming such subsidies makes perfect economic sense: they depress growth, are regressive, discourage investment, crowd-out social spending, diminish competitiveness, incentivize smuggling, negatively impact the balance of payments, encourage overconsumption, and contribute to pollution that exacerbates climate change and negatively impacts individual health.[99] In practice, however, reform efforts must take account of political economy considerations, as shown by recent experience in many countries, including the Islamic Republic of Iran[100] and Tunisia.[101] Acknowledging such tensions, IMF has generally advised that subsidy reform should be accompanied by the reallocation of part of the savings to “well-targeted”, “well-designed” and “pro-poor” social protection programmes.[102]

44. However, experience demonstrates that these seemingly neat and rational prescriptions beg more questions than they answer. First, history shows that social protection systems have gained traction where they were not politically divisive. As one author observes about Western Europe, “although the greatest immediate advantage was felt by the poor, the real long-term beneficiaries were the professional and commercial middle-class”.[103] Similarly, it has been noted that, while “welfare States are sometimes seen as an achievement of the industrial working classes … they mostly came about through broad coalitions representing farmers, middle classes and professionals as well. Furthermore, the most extensive, most durable welfare States are generally those that serve the interests of the broadest and most powerful coalitions.”[104] The rapid elimination of regressive but universal price subsidies to be replaced by limited social protection programmes for the poorest will garner very little political support from the key political players, thus undermining the political (rather than fiscal) sustainability of such reforms. Unsurprisingly, ILO recorded 322 “social protection reforms” worldwide in 2017, only 5 per cent of which had been implemented to address the needs of the poor or extreme poor.[105]

45. Second, while price subsidies are often deeply rooted in a country’s political and institutional structure, the “pro-poor” social protection programmes that replace them (such as cash transfer programmes) are often entirely or largely new, and thus easily subject to rollback, leaving many of the poor, and non-poor, uncovered.[106] While IMF, in its role as emergency lender, may have significant leverage over a Government to undertake subsidy reform in times of crisis, there is a tension between the short-term focus of IMF and the significant time it takes to invest in and build up a proper social protection system, a problem that is unlikely to be solved only by devoting more resources to addressing social protection issues in Article IV surveillance.

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[97] IMF, *The IMF and Social Protection*, p. 11.

[98] Ibid, p. 67.

[99] See Clements et al, *Energy Subsidy Reform: Lessons and Implications* (Washington, D.C., 2013), ch. 3.

[100] See Development Pathways, “Role of IMF-backed elimination of universal social protection in protests”, available at www.developmentpathways.co.uk/resources/role-imf-backed-elimination-universal-social-protection-protests/.

[101] U. Laessing and T. Amara “Tunisia seen softening economic reforms to avoid unrest”, Reuters (4 December 2017).

[102] Clements et al, *Energy Subsidy Reform*, pp. 20–21; IMF, *The IMF and Social Protection*, p. 25; and IMF, “Social Safeguards”, p. 22.

[103] Judt, *Postwar*, p. 76.

[104] David Garland, *The Welfare State: A Very Short Introduction* (2016), p. 41.

[105] ILO, Social Protection Measures throughout the World: January to December 2017 (2018).

[106] See reports of the Special Rapporteur on his mission to Saudi Arabia (A/HRC/35/26/Add.3, pp. 7–10) and on his mission to Mauritania (A/HRC/35/26/Add.1, pp. 14–16).

46. Third, proposing to replace one social protection system (subsidies) with more "efficient" systems starts from the assumption that highly complex and politically sensitive systems can be successfully created on a drawing board. However, experience shows that successful rights-respecting systems are the outcome of "contestation, be it from the electorate, from competition between political parties, or from public, civil society pressure".[107]

47. Finally, fiscal savings are one of the key attractions of subsidy reform, for IMF and for Governments. Given the strong preference of IMF for macrostability, which favours minimizing public expenditures, and most Governments' preference to use savings for more politically popular programmes, it is unsurprising that many subsidy reforms lead to significant net reductions in social protection spending.[108]

48. None of this is to suggest that energy subsidy reform is undesirable, but that serious efforts to establish alternative social protection systems require a more concerted and committed approach than has generally been used to date. IMF is well aware of the obstacles to far-reaching reforms,[109] but instead of embracing a politically and socially sustainable social protection policy, it emphasizes communications strategies, sequencing and "depoliticization" as solutions. In other words, rather than tackling the more complex substantive issues, the challenge is seen largely as a question of marketing.

Social spending floors

49. In theory, IMF has given strong recognition to social protection through the inclusion of "indicative targets" for social spending floors, especially in loan agreements for low-income countries. The goal is to maintain or increase public spending on education and health care and sometimes on social safety nets. Since 2009, about 90 per cent of programmes for low-income countries has included such targets. But IMF itself acknowledges severe shortcomings in that approach. Some targets are too broad to be meaningful (covering total spending on health and education, for example) or include spending on infrastructure and other budget lines not directly related to social protection. And memoranda of understanding between Governments and IMF "often lack details on coverage and monitoring, and on reporting arrangements".[110]

50. External critiques have been even stronger. One study showed that social spending floors for sub-Saharan African countries since 2000 had been implemented only around 50 per cent of the time, with even lower success rates in West Africa. And even in contexts in which IMF balanced budget conditions are met, the accompanying social spending floors are generally not.[111] This may be because spending floors are non-binding indicative targets, while key macroeconomic targets in IMF loans are binding. While IMF claims that public spending on education increases in low-income countries that implement IMF-supported programmes, and that there is no statistically significant effect on health spending,[112] those claims have been strongly contested.[113] Critics have argued that the 2017 IMF Policy Paper is methodologically unsound,[114] and that IMF programme participation

[107] Gabriele Koehler, "The Politics of Rights-Based Transformative Social Policy in South and Southeast Asia", in *International Social Security Review* (Vol. 70, Issue 4, 2017). p. 107.

[108] "For example, in Ghana, the eliminated fuel subsidy would have cost over US$1 billion in 2013, whereas the targeted LEAP programme costs only about US$20 million per year (where did the rest of savings go?)." Ortiz, Cummins, and Karunanethy, p. 7. In Mauritania, the elimination of food subsidies was expected to provide a windfall for the general budget, rather than for other social protection activities. See A/HRC/35/26/Add.1, para. 59.

[109] See Clements et al, *Energy Subsidy Reform*, ch. 4.

[110] IMF, "Social Safeguards", pp. 13–14.

[111] Stubbs and Kentikelenis, "Targeted Social Safeguards in the Age of Universal Social Protection: the IMF and Health Systems of Low-Income Countries", in *Critical Public Health* (Vol. 28, Issue 2, 2018), pp. 136–37.

[112] IMF, "Social Safeguards", p. 11.

[113] Stubbs et al, "The IMF and Government Health Expenditure: A Response to Sanjeev Gupta", in *Social Science & Medicine* (vol. 181, 2017), pp. 202–204.

[114] Stubbs and Kentikelenis, "Targeted Social Safeguards", pp. 133–134.

actually "has no statistically significant effect on education spending, but is associated with decreases in health spending".[115] However, whatever the outcome of that debate, there is little evidence to suggest that non-binding social spending targets are likely to be effective in achieving meaningful social protection.

Cooperation with other international organizations

51. The past decade has seen increased international attention to social protection and inter-institutional cooperation. The United Nations System Chief Executives Board for Coordination adopted the Social Protection Floor Initiative in 2009 as a key response to the global crisis, and Member States endorsed it at the United Nations Conference on Sustainable Development, as did the Group of 20 and ILO (in its Recommendation No. 202). Also in 2012, the Social Protection Inter-agency Cooperation Board, co-chaired by the World Bank and ILO, was set up to coordinate work in this area. Furthermore, Goal 1.3 of the Sustainable Development Goals calls on countries 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".

52. However, social protection cooperation between IMF and United Nations agencies, including ILO, has been marginal at best.[116] In practice, IMF and UNICEF have had a complicated relationship since the publication of *Adjustment with a Human Face*. Following the 2008 financial crisis, the two organizations sought closer cooperation by undertaking social protection pilot studies in 11 countries. However, the well-publicized and critical 2011 report caused considerable tension between the two organizations.[117] The pilot studies reported some positive results in, for example, Burkina Faso, the Congo and Mozambique, but since that time, with the exception of Malawi, coordination has faltered.

53. There was little cooperation between IMF and ILO until 2010, when the two executive heads agreed to collaborate on the Social Protection Floor Initiative,[118] and on three pilot cases. Two failed, but in Mozambique, inter-agency cooperation succeeded until the relevant personnel changed in 2013, at which point cooperation ceased.[119] Despite the commitment of the Managing Director of IMF to the Initiative in 2012[120] and 2014,[121] cooperation between ILO and IMF has stalled.

54. In other areas, IMF has also been reluctant to cooperate with other international organizations with regard to social protection. Between 2012 and 2017, IMF representatives rarely attended meetings of the Social Protection Inter-agency Cooperation Board.[122] In 2018, IMF announced that it would attend, but only "when the issues under discussion are particularly relevant to the Fund's work".[123] The lack of cooperation described above might be explained by different conceptions of social protection, by the longstanding determination of IMF to remain independent of the United Nations, or the fact that IMF is only committed to the Sustainable Development Goals in so far as they fall "within the scope of its mandate" and has expressed no particular interest in Goal 1.3.[124]

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[115] Ibid, p. 135.

[116] "On the other hand, almost 75 per cent ... of survey respondents ... reported minimal to no interaction with UN agencies (including the ILO)", IMF, *The IMF and Social Protection*, para. 61.

[117] I. Ortiz, J. Chai and M. Cummins, "Austerity Measures Threaten Children and Poor Households: Recent Evidence in Public Expenditures from 128 Developing Countries", Social and Economic Policy Working Paper (UNICEF, 2011); and Abrams, "The IMF's Role in Social Protection", p. 18.

[118] IEO, "IMF Collaboration with Partner Institutions on Social Protection", Background Document (July 2017), p. 11.

[119] Ibid, p. 13.

[120] C. Lagarde, "Back to Rio — the Road to a Sustainable Economic Future" (IMF, 12 June 2012), available at www.imf.org/en/News/Articles/2015/09/28/04/53/sp061212.

[121] IMF "The Managing Director's Global Policy Agenda", available at www.imf.org/external/np/pp/eng/2014/100314.pdf.

[122] IEO, "IMF Collaboration", p. 30.

[123] IMF, "Implementation Plan".

[124] See www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/46/Sustainable-Development-Goals.

V. Conclusions and recommendations

Centrality of IMF

55. **IMF is the single most influential international actor not only in relation to fiscal policy but also to social protection, even if both it and its critics might prefer that this were not the case. Even for high income economies, its Article IV surveillance reports and its research frame much of the broader debate. IMF deserves credit for recent policy reforms through which it has acknowledged that it is much more than a monetary agency, although concrete change on the ground has been slower to take effect.**

Social protection as genuinely macro-critical

56. **Fiscal sustainability is important, but it can be made compatible with the gradual introduction of broad-based systems of social protection, which in turn ensure the social sustainability of the overall situation. Social protection reduces the economic drain of emergency care, expands employment capabilities, facilitates educational opportunities for the children of the poor and helps to break the cycle of dependency. There are many social protection issues that should be dealt with by other organizations and should remain off the radar of IMF, but unless it more consistently promotes the creation of fiscal space for social protection, there is little that other actors can or will do.**

57. **Given the impact of IMF policies, it is indispensable that the internal review currently under way examines ways in which it could actually evaluate the impact of its interventions on the bottom income quintile.**

Beyond modified neoliberalism

58. **If IMF is to respond effectively in the years ahead to the challenges in a world in which both globalization and liberal democracy are increasingly under attack, it will need a different mindset from the modified neoliberalism that currently sets the parameters of its thinking, even as it talks about gender, inequality and social protection. Those concerns will not be truly integrated within its mission unless they are embraced as matters of principle and not just pragmatically-driven sideshows.**

Beyond targeting for its own sake

59. **IMF insists that it does not insist on ever-more-precise targeting of social beneficiaries. That claim is difficult to support given the evidence available to the Special Rapporteur. However, given that the scientific literature now highlights the failures of the proxy means tests used in most such targeting, it is essential that IMF rethink its approach and acknowledge that excessively narrowly targeted social protection ensures that there will be, at best, weak political support for any resulting policies.**

Embracing diversity

60. **Institutions are also the sum of their parts and the elite and highly specialized nature of IMF is reinforced by the composition of its staff. If it is to become less inward-looking, less obsessively self-referential and more genuinely engaged, it needs diversity within.**

61. **First, half of around its 2,400 staff members are economists, almost all of whom have been trained in the subfield of macroeconomics.**[125] **Between 1980 and 2000, 74 per cent of all senior staff appointees had been educated in the United States of America or the United Kingdom of Great Britain and Northern Ireland, and 40 per**

[125] See www.imf.org/external/about/staff.htm.

cent had been trained at 10 elite universities in those two countries.[126] **Much criticism since the Great Recession has focused on the increasing belief of economists from these leading universities that their profession is an almost natural science, based exclusively on mathematical models.**[127]

62. **Second, cultural diversity is also limited. As at 2017, among "B-level" staff (from division chiefs to department directors), 5.4 per cent are from sub-Saharan Africa, 4.8 per cent from East Asia and 6 per cent from the Middle East and North Africa.**[128]

63. **Third, only 25.2 per cent of "B-level" economists are women,**[129] **including 3 of the 32 senior officials,**[130] **and 3 of 24 Executive Directors, despite a commitment to enhance gender diversity at IMF.**[131] **While macroeconomics as a whole is a field dominated by men,**[132] **research suggests that this has significant effects on policy preferences,**[133] **with female economists favouring Government-backed redistribution policies more than males.**[134]

64. **IMF might be expected to dismiss all of these considerations and insist that it is merely doing the job prescribed for it by its Articles of Agreement. However, issues of staff composition, hiring, incentives and training make a huge difference through their impact on internal culture and dominant thinking.**

Becoming pro-poor

65. **Extreme poverty is abject, violates basic rights and is a political choice. IMF needs to move beyond seeing it as just another abstract item on a balance sheet. At present, the professional mindset of IMF staff sees its role as essentially technical, scientific and apolitical. The imagery often invoked by IMF staff is telling. In critical situations, they see themselves as emergency-room doctors,**[135] **implying the routine application of prescribed surgical interventions, with no time to consider alternative medical approaches. In surveillance mode, they see themselves as police, also implying that there are rigid rules to be followed. It has been said about IMF economists that "analyses based on numbers, models, and rules seem impartial and fair, they are a defence against accusations of politicized and unprofessional behaviour that can undermine bureaucrats' authority as experts".**[136]

66. **What is missing is an underlying ethical framework. Fiscal consolidation, for example, is not neutral; it can be elite-reinforcing, or it can be pro-poor, or much in-between. The choices that are made reflect values, and the means of fiscal**

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[126] Including at the Massachusetts Institute of Technology or the universities of Chicago, Harvard, Yale, Columbia, Pennsylvania, Princeton, Oxford and Cambridge, and the London School of Economics. See A. Kentikelenis and L. Seabrooke, "The Politics of World Polity: Script-writing in International Organizations", in *American Sociological Review*, vol. 82, iss. 5 (2017), pp. 1065–1092, table 2.

[127] Ha-Joong Chang, *Economics: The User's Guide* (Bloomsbury, 2014); and P. Krugman, "How Did Economists Get it So Wrong?", *The New York Times Magazine* (2 September 2009).

[128] See www.imf.org/external/np/div/2017/index.pdf.

[129] Ibid.

[130] See www.imf.org/external/np/sec/memdir/officers.htm.

[131] See www.imf.org/external/np/sec/memdir/eds.aspx.

[132] J. Wolfers, "Why Women's Voices are Scarce in Economics", *The New York Times* (2 February 2018).

[133] See in general S. Lundberg, "The 2017 Report of the Committee on the Status of Women in the Economics Profession", *American Economic Association*, 6 December 2017; and "Women and economics", *The Economist* (19 December 2017).

[134] A. May, M. McGarvey and R. Whaples, "Are Disagreements among Male and Female Economists Marginal at Best?", *Contemporary Economic Policy* (vol. 32, No. 1, January 2014), pp. 111–132; and May, McGarvey and Kucera, "Gender and European Economic Policy", pp. 162–183.

[135] E. Coburn, "Economics as ideology: challenging expert political power", *State of Power*, (January 2016), p. 57.

[136] M. Barnett and M. Finnemore, *Rules for the World: International Organizations in Global Politics* (Cornell University Press, 2004), p. 69.

consolidation should not become ends in themselves. By proclaiming its mission to be pro-poor, the World Bank does not thereby discard economic logic or abandon markets. IMF personnel often use the term "equity", but it has no defined meaning and rarely serves to focus policies on the situation of those living in poverty. They also speak often of "the vulnerable", but this too is an amorphous and open-ended concept that is rarely given fixed policy content.

67. **Proactive steps are essential. IMF staff often complained to the Special Rapporteur that social protection only becomes a "hot" issue in times of fiscal crisis, by which time it has become unaffordable. But IMF itself makes all too little effort to raise the issue in the (relatively) good times. A gradual and proactive approach to embedding social protection is required, both by IMF and Governments. The best starting point would be to engage seriously and systematically with the Social Protection Floor Initiative of the United Nations, ILO and WHO.**

Costs of replacing politics with technocracy

68. **The political economy of promoting social protection, and inequality reduction, cannot be ignored since neither inequality nor social protection is likely to be taken seriously in authoritarian contexts. This raises the issue of democratic governance, which IMF would like to assume is far beyond its remit. And indeed, in the broadest sense, it is. IMF does not exist to promote democracy, but nor does it have a mandate to undermine democratic decision-making. Yet many of its preferred policies promote institutional and budgetary constraints on the workings of democracies. For example, entrenching deficit caps, debt limits and expenditure ceilings all reduce the scope for voters to influence a wide array of fundamental economic and social priorities. At that point, voters are readily tempted by populist political parties with nationalistic, xenophobic and other problematic platforms. Those are issues over which they still have control and which can be used to persuade voters that their preferences still count. A recent IMF paper promoting the virtues of "independent fiscal councils" begins by asserting that "even the best designed democratic systems require institutional constraints on policy discretion to complement democratic controls and prevent undesirable policy outcomes".**[137] **But the reality will often be that democratic controls are replaced by technocratic fiat. IMF needs to acknowledge the potential negative consequences of such approaches and seek to factor some sort of balancing mechanisms into its recommendations. It is not enough to pretend that policymakers retain a free hand and that the democratic system can always repudiate unpopular policies, when in fact the underlying structures are being reshaped precisely to make this extremely difficult.**

Genuine engagement with the outside world

69. **IMF frequently pays lip service to the important roles played by "development partners", "external stakeholders", "the World Bank and other institutions", and "country authorities" but, as one interlocutor put it, most observers think it acts as though it is a law unto itself. One IMF country representative, when questioned about interactions with civil society, explained how she made a great effort to persuade them to advocate for IMF priorities, but that seemed to be the limits of any collaboration. IMF should introduce more systematic consultations with a broad range of civil society groups in the context of in-country Article IV reviews, and it should be genuinely open to learning and adjusting its approach. The worldview that emerges from dealing only with the finance ministries of the world is hardly a balanced or adequate one on its own.**

70. **If IMF is to take social protection seriously, it will need the expertise to do so. It should certainly collaborate in a much more concerted and meaningful way with ILO and UNICEF, among others, but it is unrealistic to assume that it will be able, or**

[137] R. Beetsma et al, "Independent Fiscal Councils: Recent Trends and Performance", IMF Working Paper (March 2018), p. 3.

would really wish to, outsource much of its work on the issue to the World Bank unless it has its own in-house expertise to keep a close eye on such collaborative efforts.

71. **For its part, the human rights community must also start undertaking serious engagement with, and scrutiny of, the work of IMF. Its work has significant human rights impacts and fiscal consolidation policies can make or break rights.**

72. **In a world that is now suffering the consequences of the past lopsided approach of IMF to globalization and its single-minded pursuit of a model of fiscal consolidation that relegated social impact to an afterthought, IMF not only bears responsibility for the past but will also determine whether the future will be different. To date, IMF has been an organization with a large brain, an unhealthy ego and a tiny conscience. If it takes social protection on board seriously, rather than making a tokenistic commitment to minimal safety nets, it can show that it has actually learned from its past mistakes.**