



IMF SOCIAL SPENDING FLOORS

A fig leaf for austerity?

The International Monetary Fund has said that it protects spending on education, health and social protection from cuts in its loan programmes through social spending floors. These measures are a welcome step forward, but are they effective?

Analysis of all 17 IMF loan programmes (ECFs and EFFs) for low- and middle-income countries during the first two years of the pandemic shows that these floors are deeply inadequate, inconsistent, opaque and failing. They are little more than a fig leaf for harmful austerity, which is driving inequality, poverty and suffering.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Cover photo: A group of women from the community of Comunidad El Naranjo, municipality of Jocotán, Guatemala, go with their sons and daughters to the health center where Oxfam Intermón, together with its partner ASEDECHI, conducts a monthly nutritional monitoring of the children of the community to assess their level of malnutrition. Credit: Pablo Tosco / Oxfam Intermon

SUMMARY

Austerity kills. It stunts lives and it destroys potential. It cripples economies, setting societies' progress back many years. It drives up inequality and poverty: ordinary people who are most reliant on the government and public sector for support pay the highest price, while those with wealth can use their money to insulate themselves from harm.

The International Monetary Fund (IMF) has huge power over governments in crisis, particularly those in low- and lower middle-income countries through its loan programmes. It is the gatekeeper to the economic world order. Despite its efforts to do better, the IMF is still synonymous with painful austerity, requiring governments to implement major reductions to public spending. The necessity, scale, and pace of these cuts, and who is made to bear them, has fuelled anger and driven waves of public protest in nation after nation.

While austerity is never fair on ordinary citizens, who have no control over economic policy, it is doubly unfair when a country's financial crisis is not of its own making. In the last few years, the economic maelstrom of COVID-19 and the Ukraine war have driven up the cost of living and borrowing and pushed government and household finances to the brink.¹ Yet, for the IMF, even if the cause of a country's bankruptcy is international, the solutions are primarily to be found nationally – in austerity.

As of 15 March 2021, 85% of the 107 COVID-19 IMF loans recommended or required countries to undertake austerity during recovery.² By 2024, the governments of 59 out of 125 low- and middle-income countries (LMICs) are expected to spend less than during the 2010s, exposing a total of 2 billion people to the harmful consequences of budget cuts.³

Unable to pay debts or access credit, finance ministers in many countries face impossible choices in 2023. Their people face unaffordable prices for food, shelter and energy. They live in fear of the costs of getting sick and under the shadow of a permanently broken climate, bringing drought that starves or floods that wash homes and lives away. What the IMF does now, and how it does or does not help these people, will shape the reputation of the institution for many years to come.

In response to sharp criticism and the growing body of evidence of harm caused by austerity, the IMF has been implementing a practice known as 'social spending floors', introduced in a strategy formalized in 2019.⁴ These are often 'soft' lending conditions designed to protect people from the sharpest edges of austerity. These measures represent an encouraging step forward, but have they been effective?

Using detailed analysis of 17 loans, Oxfam has found that while an improvement, social spending floors nevertheless are failing to do what they are intended to do. At the same time, their existence arguably obscures and postpones the fundamental strategic questioning of the necessity of the IMF's blueprint of rapid and harmful austerity.

Social spending floors are failing to do what they are intended to do – and arguably obscure the necessity of questioning the introduction of harmful austerity.

THE PROBLEMS OF IMF SOCIAL SPENDING FLOORS

Our research examined all long-term IMF loan programmes (Extended Credit Facilities and Extended Fund Facilities) agreed with 17 LMICs in 2020 and 2021, i.e., right after the adoption of the social spending strategy and as the COVID-19 pandemic hit.

OPAQUE AND INCONSISTENT

Social spending floors vary hugely between countries. For example, while Uganda's is clearly defined, encompassing all spending on health, education and social development, Chad's equivalent covers public spending by eight specific ministries. While this variation might be related to each country's priorities, little explanation is provided on the rationale behind choosing expansive or restrictive floors.

The consequences of such differences are that these social spending floors are opaque: IMF loan review documents do not publish sector-specific or functional spending-disaggregated data that would enable monitoring progress on social policy objectives and comparison between countries. As such, governments can reallocate spending between social sectors, even decreasing expenditures in some areas, while still succeeding in meeting floors. For example, Jordan's social spending floor which covers non-wage current spending on health, education, cash assistance, and school meal programmes is considered met even though in 2020–21, the government has cut current spending on higher education, kept school meal programmes the same, and increased funding for the national aid fund.⁵ Such nuances are lost in the aggregate floor.

The ambiguity of defining social spending floors – and the absence of a simple and straightforward way to measure their adequacy – makes it very hard to assess the extent to which social spending is being prioritized by IMF teams across the world.

INADEQUATE

Social spending floors are not meaningful and ambitious instruments to underpin social development. Instead, they largely encompass haphazardly grouped policies. They rarely increase over the duration of programmes, and even decreased as a share of current expenditures in Jordan, Chad and Kenya. In cases we could verify, they do not even meet World Health Organization per capita health spending targets for low-income countries.

Social spending floors are often below governments' development spending ambitions, especially around social protection, and public services. For instance, the 2021 spending targets set for Uganda and Niger in their IMF loan programmes were 25.6% and 81.9% short of national social spending plans, respectively. While some floors include public sector wages, the majority exclude them; in fact, the IMF has often mandated the containment or reduction of the wage bill of governments⁶. This is a contradiction, as

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personnel such as teachers and nurses are at the heart of any successful social spending – and teachers are often the biggest group of public sector employees in every country. Cuts to the public sector wage bill therefore directly undermine the quality and reach of the services that they provide.

IMF projections in the loan programmes for the countries in this study show the share of government spending for public sector wage bills are set to undergo a significant drop. Such a consistent targeting of public sector wages undermines the effective delivery of public services.

NOT IMPLEMENTED

Social spending floors take a backseat to austerity conditionalities. Madagascar failed to meet all its social spending targets, while diligently meeting targets to cut spending. This is part of an overall trend: one in three social spending targets (35%) were not implemented, while countries adhered to 85% of targets related to balancing budgets, often through cuts to public spending. Even though this constitutes an improvement compared to the previous decade, it is still far from enough. Even worse, social spending floors seem to defeat the purpose behind their existence. The hope was that they should constitute a bare minimum of spending for countries and support them in expanding their social expenditure. In practice, when they are met, they act more as ceilings than floors. Of all social spending floors met by IMF borrowers, only two spent more than 10% over the spending target agreed with the IMF (likely only due to external financing and COVID-19-related spending).

While social spending floors may act as damage control for painful reforms advanced by the IMF in its loan programmes, they also appear to limit the social spending ambitions of governments. Beyond potentially helping some people survive painful economic adjustments, they likely have little or no impact on reducing inequality. By giving the IMF a clear action to point to that aims to protect social spending, they also obscure a more fundamental debate on the necessity of austerity and spending cuts. Through social spending floors, the Fund encouraged raising inflation-adjusted social spending by \$1.17 billion over the second year of its loan program compared to the first year, in the 13 countries that participated where data is available. By comparison, the IMF's austerity drive has required most of those same governments to rip away over \$5.01 billion worth of state spending over the same period.⁷ As such, social spending floors are arguably a fig leaf for austerity.

Nevertheless, social spending floors have caused the IMF to make some encouraging improvements in giving attention to equitable social policies. Much more needs to be done for its practices to come closer to its rhetoric and for its new social spending strategy to be a catalyst to build resilience and significantly combat poverty and inequality in LMICs.

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RECOMMENDATIONS

The IMF has a responsibility to support and encourage governments to build the necessary fiscal space to recover from the ongoing crises through

progressive policies. Austerity should not be the default policy framework for IMF loan programmes. There are alternative measures that the IMF should be recommending countries adopt to ensure a more people centred recovery.

MAXIMIZE FISCAL SPACE AND MINIMIZE BUDGET CUTS

- The IMF should, wherever possible, allow more flexibility on macroeconomic targets such as inflation and fiscal deficits. This should include the speed at which they have to be reduced and what level should be targeted. The optimal level of foreign exchange reserves should also be discussed. An analysis of the trade-offs of different scenarios involved should be transparently laid out.
- Core macroeconomic decisions should not be made by IMF mission chiefs behind closed doors with finance ministers. They should be part of an inclusive and transparent national dialogue, where different options are presented and discussed, where there is broad agreement on the appropriate economic and fiscal strategy.

BE TRANSPARENT AND CONSISTENT

- The IMF should present disaggregated spending data by sector and function to reflect how social spending was allocated between the different areas defined in the floor, such as social protection programmes, education, and health spending. Other data on outcomes, such as number of personnel employed, and ratios of workers to pupils/ patients/ coverage of services can be incorporated. This data should enable cross country comparisons. These data should enable cross-country comparisons.
- Fiscal targets and non-social conditionalities should support and bolster social spending, not impede it. This can be achieved by integrating social policy into the vision of IMF programmes.

USE SOCIAL SPENDING GOALS

- The IMF should set social spending levels to at least meet the spending goals and social outcomes set in countries' development strategies. These should be social spending goals supported by macroeconomic frameworks that enable rapid progress towards the Sustainable Development Goals.
- Social spending floors should be increased through progressive revenue-raising measures, especially different forms of wealth taxation, rather than reallocating resources or budget cuts.
- The IMF should support universal, good-quality, free public services, which clearly reduce inequality and poverty, e.g., by increasing spending on health and education to put on the path to reach internationally agreed levels. This should include the removal of all user fees and the use of tax-based financing for health and education. It should include the recruiting of adequate numbers of teachers and health workers and paying them a living wage.

- The IMF should support universal social protection measures that are proven to reduce inequality and poverty. They should not support social protection schemes based on divisive and unworkable poverty targeting but should instead support social protection schemes that are universal or category based, for example grants for all mothers, or pensions for all elderly people.
- Social spending measures in IMF loan programmes should include gender-related components and explicitly support governments to invest in the care infrastructure needed to reduce gender and economic inequalities.

DESIGN SOCIAL FLOORS BETTER

- The IMF should be cognizant of the impact of its loan programmes on inequality by forecasting the distributional impact assessment of all proposed reforms. Reforms that are shown to notably increase inequality should not be recommended.
- Social spending measures in loan programmes should aim to reduce inequality rather than just mitigate harm on the poorest. They should not be used or seen by the IMF as a compensatory measure for other policy actions. If other policy actions are shown to increase inequality, they should not be implemented in the first place.
- Turn social floors into outcome-based binding conditions mutually agreed with country authorities and their citizens and implement clearer and more transparent systems for monitoring changes in the composition and levels of social expenditure.
- The IMF should systematically consider the wages of public servants in social sectors, such as social protection, education, and health as core part of social spending.

NOTES

- ¹ Oxfam. (2022). *First crisis, then catastrophe*. Oxfam. <https://www.oxfam.org/en/research/first-crisis-then-catastrophe>
- ² N. Tamale. (2021). *Adding Fuel to Fire: How IMF demands for austerity will drive up inequality worldwide*. Oxfam. <https://policy-practice.oxfam.org/resources/adding-fuel-to-fire-how-imf-demands-for-austerity-will-drive-up-inequality-worl-621210/>
- ³ T. Stubbs, A. Kentikelenis, D. Gabor, J. Ghosh and M. McKee. (2023). The return of austerity imperils global health. *BMJ Global Health* 8 (2): e011620. <https://gh.bmj.com/content/8/2/e011620>
- ⁴ IMF. (2019). *A Strategy for IMF Engagement on Social Spending*. IMF Policy Paper. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-Background-Papers-46976>
- ⁵ Official budget data retrieved from <https://qbd.gov.jo/en/releases/law-min/>
- ⁶ D. Archer and R. Saalbrink. (2021). *The Public versus austerity: why public sector wage bill constraints must end*. Action Aid. <https://actionaid.org/publications/2021/public-versus-austerity-why-public-sector-wage-bill-constraints-must-end>
- ⁷ For details about the calculations, see the methodology note at: <https://policy-practice.oxfam.org/resources/imf-social-spending-floors-a-fig-leaf-for-austerity-621495/>

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