STRENGTHENING SOCIAL SPENDING IN DEVELOPING COUNTRIES

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Structure of Presentation

- Why do we need a strategy?
- When should IMF engage?
- How should IMF engage?
- Engagement in program context
- Mapping ourselves to the SDGs
- Financing the SDGs
- Coordination with development partners
- Main takeaway messages

Why do we need a strategy?

Increasing IMF engagement on social spending issues in context of increasing focus on inclusive growth

- Engagement increased over recent decades in both surveillance and program contexts
- IEO Report on IMF and Social Protection also recognized and welcomed this trend

Strategy needed to guide staff in this engagement

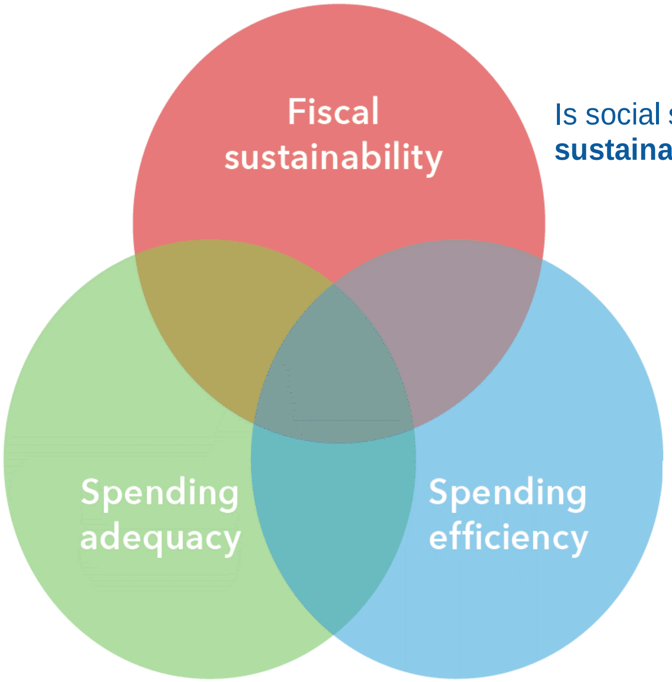
- To ensure consistency and evenhandedness of policy advice
- To establish the appropriate scope and boundaries of this engagement

Strategy approved by the Board on May 2, 2019

- Focused on broader concept of social spending (social protection, education, health)
- Extensive consultation with development partners, academics, CSOs
- Strategy, Background papers, Case studies
- MD Speech at the ILO – Strategy Launch

When should IMF engage?

Channels of macro-criticality



Is social spending **sustainably** financed?

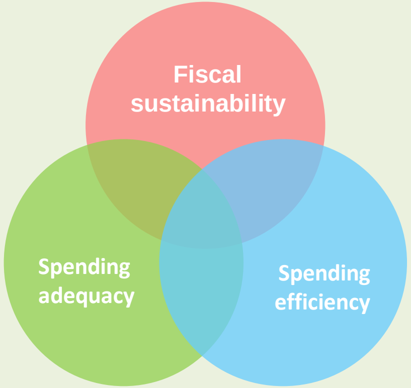
Is social spending **adequate** for inclusive growth and protecting the vulnerable?

Is social spending **efficient** in achieving social outcomes?

- Engagement would be guided by an assessment of the macro-criticality of a specific social spending issue and consideration of that issue in a program context, as well as by the existence of in-house expertise.
- **A social spending issue can be macro-critical if one, or any combination, of these channels is significant a policy concern.**

How should IMF engage with development partners?

Common concerns



Differences in approach

IMF
Top down/aggregate
Macro-fiscal context

Other IDIs
Bottom Up
Sectoral & individual program design issues

Common challenge

Financing

Typical stumbling blocks

- ✓ Competing priorities and misaligned workplans
- ✓ Identifying the right counterparts

The way forward

- ✓ Early dialogue to align priorities and foster collaboration, both at HQ and in the field
- ✓ Establish stronger network of social spending counterparts across development partners

Engagement in a program context: conditionality

Programs should aim to mitigate the adverse effects of adjustment measures on the vulnerable, and conditionality should support objectives where critical for the program's success

PRGT-supported programs

- Strategy maintains the mandate of PRGT-supported programs to safeguard social and other priority spending, and whenever appropriate, to increase it
- Programs are expected to explicitly incorporate measures, possibly as conditionality

GRA-supported programs

- Strategy clarifies that GRA-supported programs should analyze and, as appropriate, document the social impact of adjustment and measures to protect the vulnerable
- Programs would include conditionality if the social spending issues are critical for achieving program success

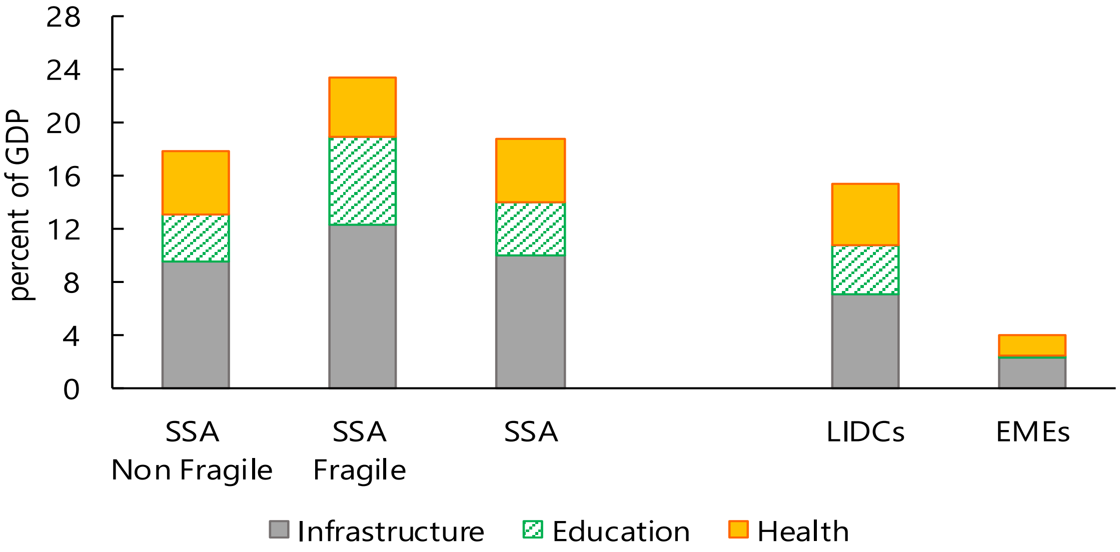
Program conditionality on social spending should be tailored to:

- Mitigate the impact of adjustment on the vulnerable
- Where relevant, strengthen social spending in line with capacity and fiscal space
- Where relevant, improve quality and efficiency of social spending

Mapping ourselves to the SDGs

Additional Spending Needed in 2030 to Achieve High Outcomes in Selected Sectors

(Average, GDP Weighted, Percentage Points of GDP)



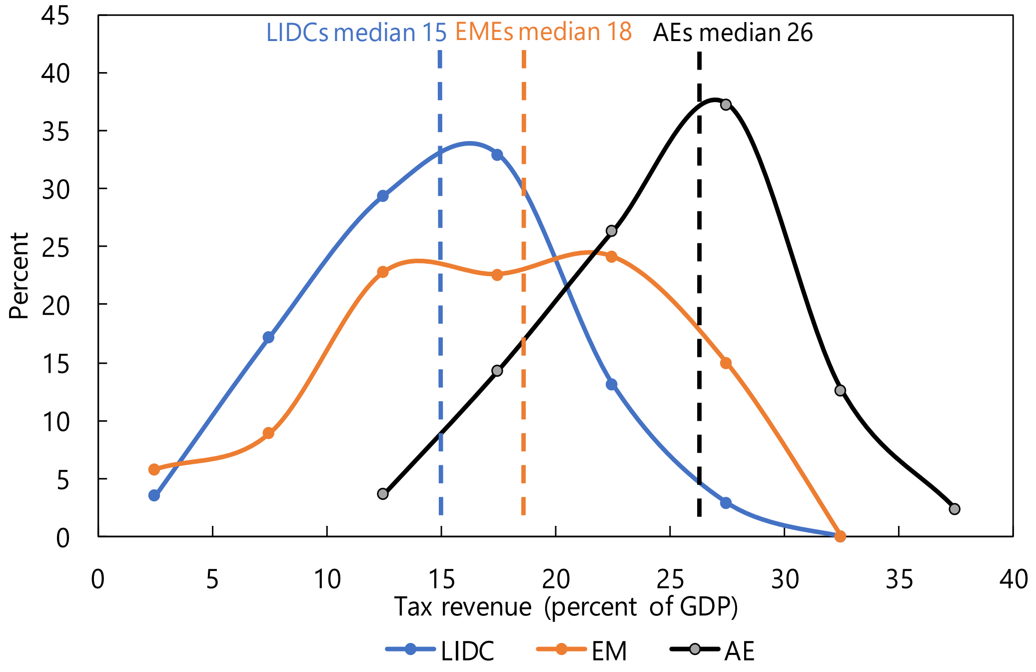
Source: IMF staff calculations and Gaspar and others (2019), Fiscal Policy and Development, SDN /19/03.

Note: The IMF defines fragile states as those having either weak institutional capacity measured by their World Bank Country Policy and Institutional Assessment score (average of 3.2 or lower) and/or an experience of conflict (signaled by the presence of a peace-keeping or peace-building operations in the most recent three-year period).

Mobilizing domestic revenue is central

2016 Distribution of Tax-to-GDP Ratios,

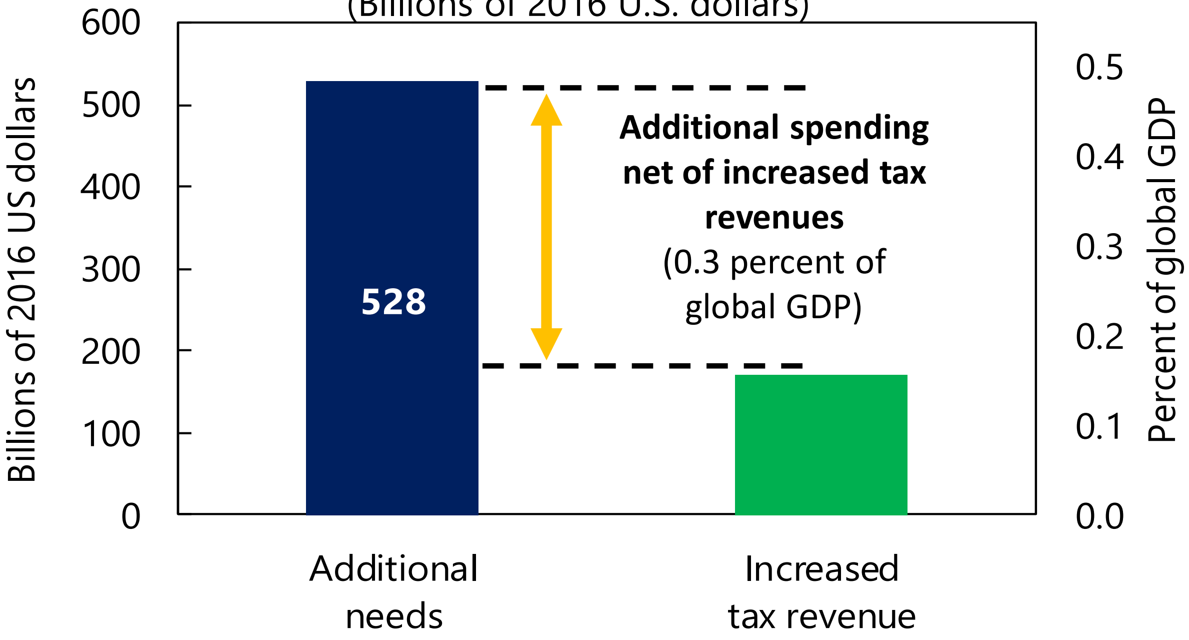
by Income Groups



- Average for LIDCs and EMs is **16.6 percent of GDP**
- In the medium term, countries could raise up to **5 percent of GDP** in tax revenues implementing **revenue strategies**
- Countries' effort on the revenue side should be **mirrored on the spending side with greater efficiency**

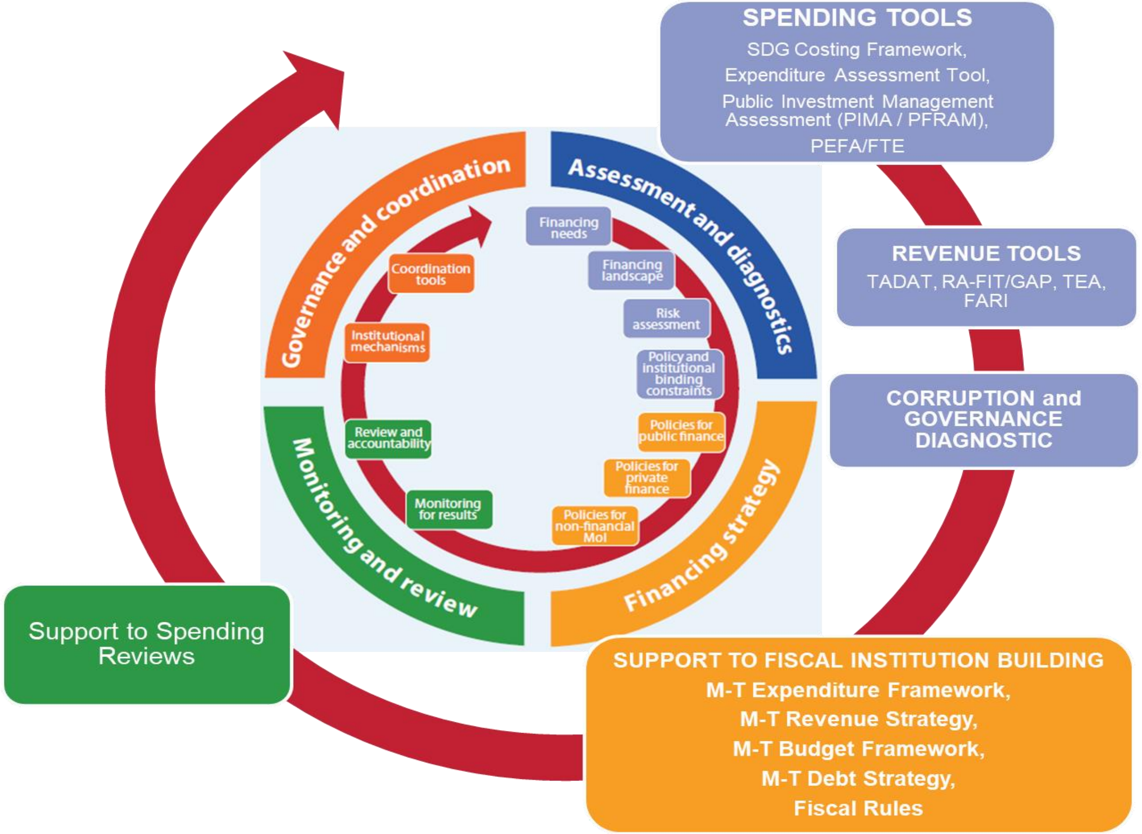
Financing challenge is greater for LIDCs

LIDCs: Additional Spending and Increased Tax Revenues in 2030
(Billions of 2016 U.S. dollars)



Source: IMF staff calculations.

Mapping ourselves to INFF: Fiscal Building Blocks



Key takeaway messages

- Strategy provides guidance to IMF staff on when and how to engage (scope and boundaries)
- Scale of challenge (SDGs) is very large in many countries, but especially in LIDCs
- Meeting this challenge
  - Strong emphasis on enhancing tax capacity and spending efficiency
  - Whole of government and society approach
  - Effective partnerships with IDIs