IMF SOCIAL SPENDING FLOORS

A fig leaf for austerity?

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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 not meaningful and ambitious instruments to underpin social development. Instead, they largely encompass haphazardly grouped policies.

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 governments[6]. This is a contradiction, as 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.

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.

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.

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.

1 INTRODUCTION

The International Monetary Fund (IMF) – the world's premier lender of last resort – expressed early optimism at the onset of the COVID-19 pandemic that mistakes of the past would be avoided. Previous periods of crisis were marked by austerity-driven fiscal responses that decimated already-underfunded social welfare systems and public services in Global South countries.[8] In contrast, the post-pandemic period was supposed to be about 'building forward better'.[9] IMF Managing Director Kristalina Georgieva rightly urged countries to 'spend as much as [they] can' to protect the vulnerable in the face of the pandemic.[10]

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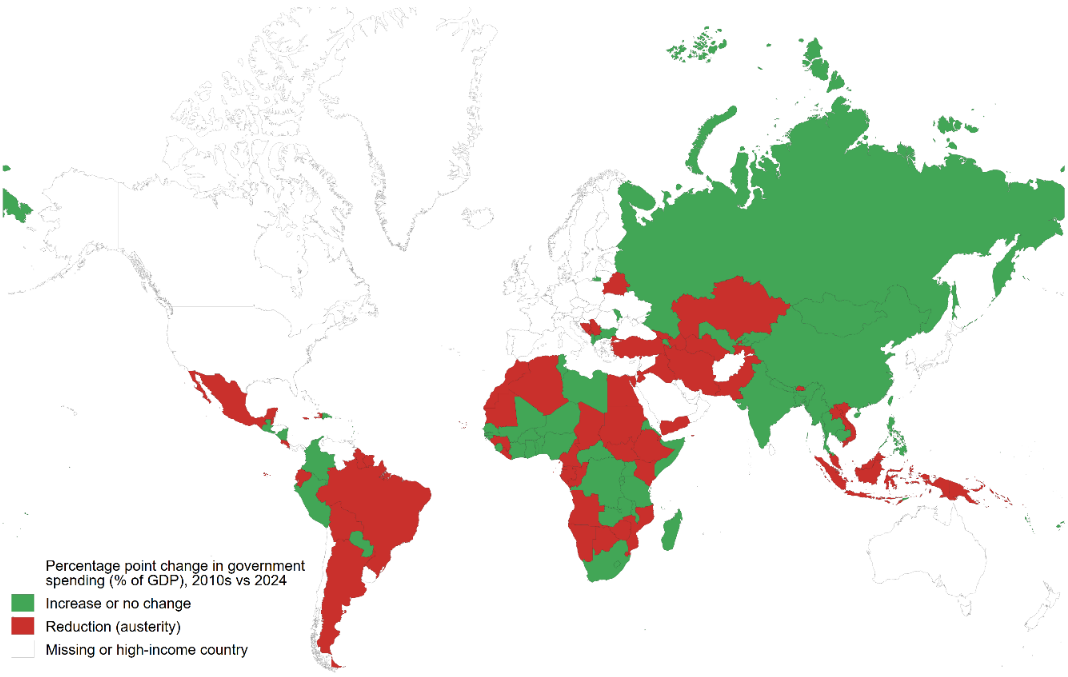
However, early optimism that the pandemic and its multi-faceted consequences would present a radical break with the past on social protection and public services has dissipated. Oxfam's analysis has showed that as of 15 March 2021, 85% of the 107 COVID-19 IMF loans recommended or required countries to undertake austerity during recovery.[11]

Research, including studies conducted by IMF staff, demonstrates that austerity reduces wages and substantially increases income inequality and long-term unemployment.[12] The compounding effect of economic recession, high unemployment and low incomes during and after crises, topped by austerity measures, could have severe consequences.[13] In Greece, for example, in the aftermath of the 2008 financial crisis, youth unemployment rose to 50%, HIV infections soared because of cuts to budgets for prevention, and suicide rates rose.[14] Women, as the main users of public services, are often the shock absorbers in times of economic crisis.[15]

By 2024, 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.[16] This new wave of austerity builds on a legacy of stagnation in public spending: LMICs spent an average 28.6% of GDP in 2019, representing a decline of 0.6 percentage points compared to 2010.[17]

Figure 1: Government spending changes as a share of GDP, 2010s vs 2024



Source: Authors, based on data from 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

This reduction of public spending is likely to exacerbate inequality in LMICs. Civil society organizations have called out the IMF's austerity drive, as it can be detrimental to social protection and public services that reduce inequality.[18] In response, the IMF recently sought to pay more attention to these issues. Its 2019 Strategy for Engagement on Social Spending[19] sets out how IMF staff should approach social policies when designing lending agreements. The Fund's key instruments on this front are 'social spending floors' – quantitative targets that spell out the minimum public expenditure on selected social policies for countries under IMF programmes.

Box 1: Floors vs Spending

Throughout this report we refer to social spending floors following the IMF's understanding – which varies from country to country. However, in nearly all cases, social spending floors capture a subset of overall public social expenditures. Thus, it is possible that a country might be meeting its social spending floors, yet still be below its intended spending on social policies.

To assess whether the IMF's social spending floors have meaningfully supported countries bolster their social spending and public services, we have analysed 17 IMF loan programmes signed with countries in 2020 and 2021 (see Table A1 in the methodology note), particularly Extended Fund Facility (EFF) and Extended Credit Facility (ECF) lending agreements. These programmes last approximately three years. We collected information on social spending floors, broader advice on social issues, and public expenditure data and projections. We conducted in-depth analyses of four country cases that encompass different income levels, debt conditions and geographies: Ecuador, Jordan, Kenya and Uganda.

2 THE EVOLUTION OF THE IMF'S ENGAGEMENT WITH SOCIAL SPENDING

The IMF has a long and fraught relationship with social policies. The Fund's notorious 'structural adjustment programmes' – introduced in the mid-1980s – drew extensive criticism for decimating nascent social welfare systems, deepening inequalities and exacerbating poverty in LMICs.[20] The reputational damage was such that it prompted then Managing Director Jacques de Larosière to acknowledge that *'adjustment that pays attention to the health, nutritional and educational requirements of the most vulnerable groups is going to protect the human condition better than adjustment that ignores them'*.[21]

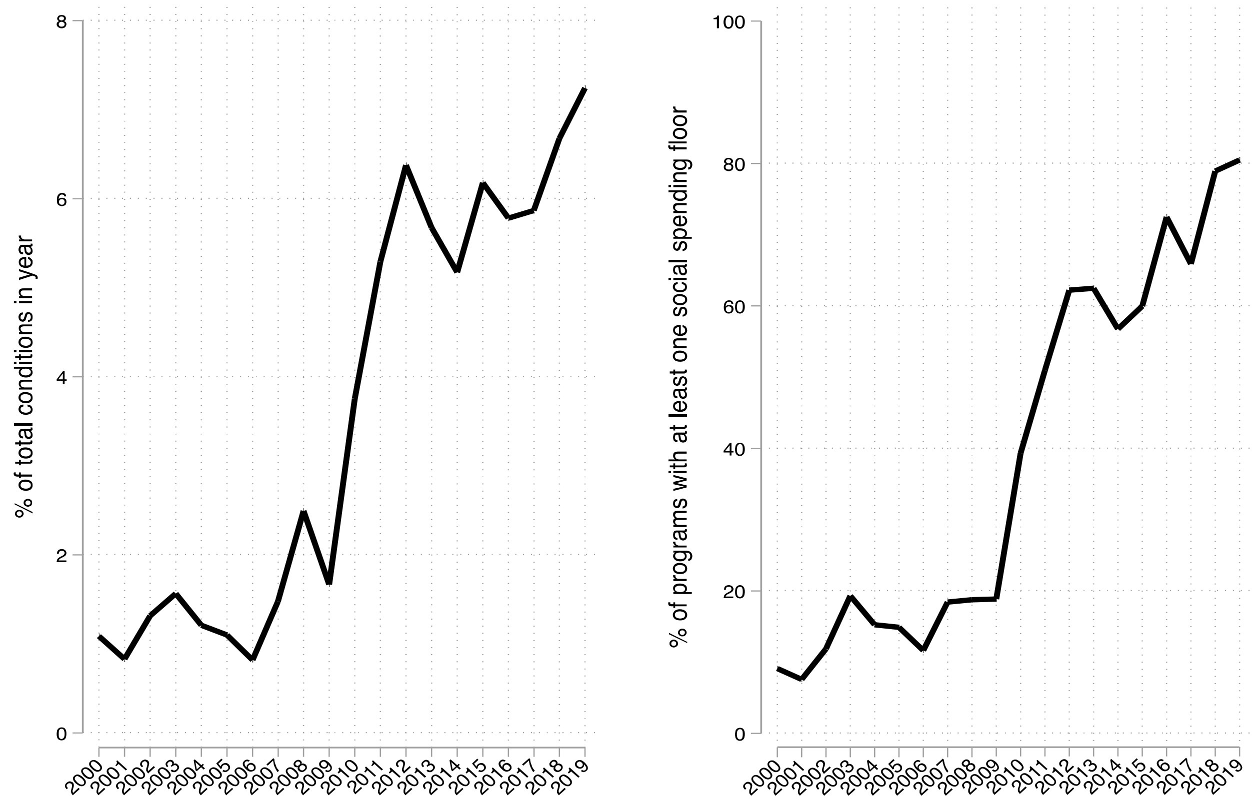
In this context, social spending floors emerged as promising instruments to deliver on the IMF's newfound attention to social policies and attenuate the harmful consequences of austerity. They were first deployed in 1995, when some low-income countries (Bolivia, Ghana and Malawi) and some transition economies (Armenia and Georgia) had to report on their health and education expenditures to the IMF.[22] These monitored targets became part of the IMF's formal conditionality, commonly taking the form of 'soft' conditions (e.g., indicative targets and benchmarks), whose non-implementation was not enough to interrupt programme disbursements.

Social spending floors proved highly successful from the perspective of the IMF, and they were soon rolled out across its operations. As shown in Figure 2, they accounted for only 1–2% of total IMF conditions per year in the 2000s, compared to approximately 6% in the 2010s following the global financial crisis. Social spending floors have spread across IMF lending agreements for countries across income levels. As of 2019, four out of five IMF programmes include at least one social spending floor.

Figure 2: Social spending floors in IMF programs, 2000-2019

Panel (a). Social spending floors as a share of total number of IMF conditions per year

Panel (b). Share of IMF programmes with at least one social spending floor by year



Source: Authors, based on data from A. Kentikelenis and T. Stubbs. (2023). *A thousand cuts: social protection in the age of austerity*. New York: Oxford University Press.

2.1 THE 2019 STRATEGY

Reflecting and consolidating these practices, the IMF's 2019 Strategy for Engagement on Social Spending [23] pointed out that *'on average, education and health spending in programme countries either increased by more than, or at the same rate as, spending in non-programme countries'*, which was seen as evidence of success for the social spending floor approach.

However, the comparison in this quote implies that IMF borrowers are broadly similar to non-borrowing countries, and that it makes sense to compare spending in the year after IMF loan approval with the year before. Both assumptions are questionable.

First, many countries – especially low-income ones – are often under repeat IMF agreements. For example, in West Africa, countries were on average under programmes for more than 15 out of the last 20 years.[24] Low-income countries that do not borrow from the IMF occasionally face major developmental challenges – like the incidence of war – which depress social expenditures.

Second, in the year prior to entering an IMF agreement, countries tend to face major economic crises, which have adverse effects on social spending. Assuming that the IMF helps stabilize economic conditions, an increase in observed social spending may signal a return to the longer-term trend, rather than be an outcome of the Fund's programme. In short, the effectiveness of these floors remains highly contested.

The 2019 strategy calls for further strengthening of quantitative conditionality on social spending through setting, in consultation with governments, social spending objectives. IMF staff are instructed to carefully consider financing sources and the needs of the most vulnerable segments of society. However, a meaningful discussion of the broader policy environment in which social policies are embedded seems absent.

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The public sector wage bill provides a case in point. The IMF has long advised or required countries to contain or cut spending on wages. Yet, workers in public services – most notably, teachers, doctors and nurses – are impacted by these spending limits and are often the first to be dismissed.[25] This depresses the quality of provided public services, as these workers are essential for the delivery of effective interventions.[26] A newly built community health clinic (an expense classified as social spending) is of little use without adequate staff to deliver services.

Despite the encouraging progress made by adopting the 2019 strategy, the Fund did not recognize the role its stringent conditionalities may play in undermining social spending. The IMF often mentions forces constraining governments. This is a myopic way of treating this issue that precludes meaningful engagement with the Fund's own track record. For instance, in 2000–19, only 57% of the 850 social spending floors targets with available implementation data were met. Implementation was worst in low-income countries, which are those spending least on social policies and would benefit from increases the most.

Table 1: Implementation of social spending floors by income group, 2000-19

Country income-group	*Total*	*...of which implementation data available*	*...of which implemented*	*Implemented conditions as a share of conditions (with implementation data)*
Low	528	400	219	55%
Lower middle	449	345	195	57%
Upper middle	147	105	69	66%
Total	1,124	850	483	57%

Source: Authors, drawing on data from A. Kentikelenis and T. Stubbs. (2023). *A thousand cuts*.

The 2019 strategy's explanation of this poor performance refers to the impact of fiscal consolidation policies, the lack of growth-oriented measures and revenue mobilization, and the limited capacity of local authorities. It is silent on the potential that its own austerity conditionalities hinder governments' ability to meet social spending floors. This is sometimes explicitly noted by borrowing countries; for example, in 2014, the Guinean government observed that '*unfortunately, because of the reduction in spending, including on domestic investment, it was not possible to respect the indicative targets for spending in priority sectors.*'[27]

3 SOCIAL SPENDING FLOORS IN RECENT IMF PROGRAMMES

At the onset of the COVID-19 pandemic, the IMF led the global response to the crisis by providing emergency lending to national governments, commonly with no conditions.[28] However, as resources for the emergency facilities became depleted, countries turned to the IMF's traditional lending instruments: EFFs and ECFs. Of the 17 countries receiving such loans in 2020 and 2021, explicit social spending floors were included in 14 (the definitions of the floors are presented in **the methodology note**). Floors were set on a quarterly basis and expressed in nominal monetary values. Health and education measures were included in most definitions, but the precise mix of policies varied considerably, hindering comparisons between countries.

The IMF's own note on 'How to Operationalize IMF Engagement on Social Spending' clarifies that *'the definition of priority spending should be established by the member, in accordance with the country's poverty reduction and growth strategy, and hence can be expected to vary from country to country'*.[29] This approach allows governments flexibility to identify policies that are most important and enables adjustments in light of crises or new challenges.

3.1 INCONSISTENCY IN COVERAGE

The lack of common definitions represents a major limitation of social spending floors. On one end of the spectrum is Jordan, whose social spending floors cover well-defined policy areas: non-wage spending on health, education and social protection. On the other is Chad, with floors that cover spending by eight 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.

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3.1.1 OBSCURING SPENDING PATTERNS

This definitional ambiguity and lack of expenditure breakdown into precise policy areas can obscure overall spending patterns. Consider Cameroon, whose floors include the education and health sectors, the spending of four additional ministries, a social safety net programme, and electricity and fuel subsidies. In the context of high energy costs, the cost of subsidies substantially increased, prompting IMF staff to advise the government to phase them out. However, they were still included in social spending floors, meaning that increases in such spending may be driven by rising subsidy costs, even while spending on public services could be stagnant or decreasing. This potential scenario was even alluded to by IMF staff in a review of Cameroon's programme.[30]

3.1.2 PUBLIC SECTOR WAGES

There is uncertainty over whether public service wages are included in the floors. Half of the 14 social spending floors in this study appear highly likely to exclude the public service wage bill (two explicitly exclude them and another five only identify specific social programmes, so likely do).

The IMF's 2019 strategy states that, in many cases, social spending floors can include *'a broad coverage of wages, and goods and services spending of ministries*.'[31] The inclusion of wages is a welcome change that could allow recognition that public sector wages, particularly in crucial public services, are an integral part of social spending. Nevertheless, for social spending floors to be effective and not harmful for wages and public services, they need to be to account for not only the wages of existing public sector workers, but also for increasing them and for hiring additional public servants needed to properly deliver on quality public services.

The lack of information on the actual composition of social spending floors makes it impossible to know whether the floors are actually adequate according to need and are not suppressing wages and hiring.

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3.1.3 INCLUSION OF COVID-19

Many of the spending floors for 2020–21 encompassed public spending related to COVID-19. This is potentially problematic: pandemic-related spending is by definition temporary and exceptional. In principle, social spending floors should capture longer-term commitments of welfare systems and open up fiscal space to expand those commitments. This is clearly suggested in the IMF's 2019 Strategy. Therefore, including temporary measures could artificially inflate public spending reflected in data without any corresponding lasting impact on domestic welfare systems.

3.2 FLOORS OF DIFFERENT SIZES

3.2.1 RELATIONSHIP TO DEFINITION

Table 2 presents the relationship between the content of individual social spending floors and their size. One might expect more expansive definitions (i.e. those that cover more areas of spending) to be associated with larger spending floors, i.e. those that cover a larger share of current expenditure. The evidence broadly reflects this. For example, countries with less encompassing floors – e.g., the Democratic Republic of Congo and Gabon – had floors accounting for well below 5% of current expenditures. The one major exception was Niger: despite a very broad definition of spending, its floor accounted for only 8.6% of current spending. Note that because of the definitional ambiguities, it is not meaningful to compare between countries in the Table. Instead, the aim is to reveal initial evidence on the scale of ambition for these floors.

Table 2: Social spending floors as share of current spending (initial end-of-year floor)

	Country	As share of current spending
Limited	Congo, Dem. Rep.	0.5%
definition	Gabon	3.9%
	Suriname	6.7%
	Jordan	9.5%
	Sudan	10.3%
	Kenya	15.7%
	Madagascar	10.6%
	Uganda	26%
	The Gambia	33.2%
	Niger	8.6%
	Afghanistan	27.3%
	Moldova	31.9%
Expansive	Cameroon	37.4%
definition	Chad	32.4%

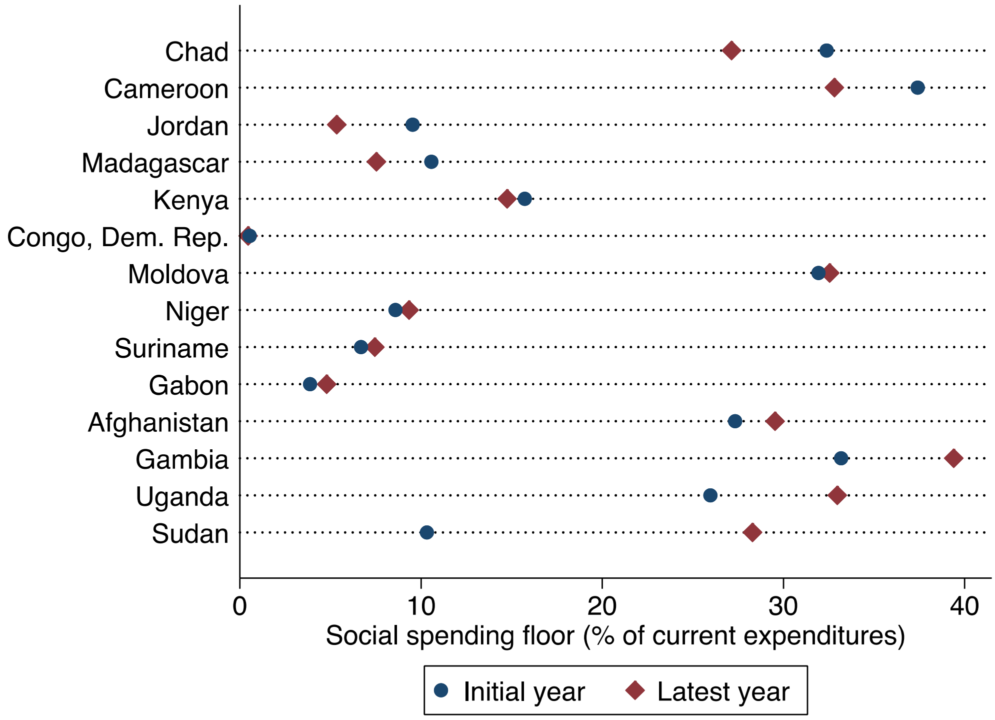
Note: Full definition of each country's floor is presented in the methodology note. Data on current expenditures drawn from IMF loan agreements and are available in the supplementary data file.

Source: Authors, drawing on IMF loan documentation referenced in **the methodology note**.

3.2.2 CHANGES OVER TIME

Figure 3 compares end-of-year social spending floors as a share of current expenditure for the initial IMF programme-year with corresponding data for the latest available IMF programme year. For example, it compares Chad's 2021 social spending floor with that for 2023. These comparisons solely capture the ambition of these floors, as a proxy for the IMF's commitment to supporting social policies, *not* whether these floors were actually implemented. If social spending floors are meaningfully ambitious, we should expect an increase over time. However, the findings reveal a mixed picture that falls short.

Figure 3: The evolution of social spending floors



Source: Authors, based on IMF loan documentation referenced in the methodology note.

First consider Chad, Cameroon, Jordan, and Madagascar: social spending floors as a share of current expenditures decreased by 3-5 percentage points over the course of the IMF loan. These are substantial decreases if we consider the developmental needs of these countries. The phasing out of COVID-19 support could be part of the explanation, but such support was only explicitly included in the floor definitions for Cameroon (2022 vs 2021) and Jordan (2023 vs 2020). This is extremely worrying as it leaves the decrease in social spending for other countries unexplained and likely suggests austerity measures eating into social spending.

Four countries saw only marginal changes in their floors: the difference between the initial and latest year is ±1 percentage point.

Finally, four countries had substantial increases in their social spending floors as a percentage of expenditure, although in some instances this may be an artifact of changing definitions. For example, Gambia's floors incorporated COVID-19 spending as of the second year of the programme, while Sudan's floors were augmented to include the country's new family support programme.

Table 3 examines the floors expressed in nominal values for the two latest years with end-of-year data available. Comparison reveals that in 11 out of the 14 cases there was an increase in spending covered by the social spending floor. This broadly positive image is moderated after adjusting these nominal values for inflation: the floors of three additional countries now appear to be registering year-on-year real declines.

Table 3: Inflation and social spending floor evolution

Country and latest end-year available data	*Social spending floor* Latest year	Latest year, inflation adjusted	Previous year	Difference in nominal values	Difference after inflation adjustment
Afghanistan, 2021	91bn afghanis (n/a)	87bn afghanis (n/a)	78bn afghanis ($1.02bn)	17%	12%
Cameroon, 2022	1,062bn XFA ($1.71bn)	1,013bn XFA ($1.64bn)	1,111bn XFA ($2.00bn)	-4%	-9%
Chad, 2023	258bn XFA ($0.44bn)	258bn XFA ($0.44bn)	255bn XFA ($0.43bn)	1%	1%
Congo, Dem. Rep, 2023	75bn XFA ($0.03bn)	71bn XFA ($0.03bn)	77bn XFA ($0.04bn)	-3%	-8%
Gabon, 2022	75bn XFA ($0.12bn)	62bn XFA ($0.10bn)	58bn XFA ($0.10bn)	29%	7%
The Gambia, 2022	6,500m GMD ($0.12bn)	5,963m GMD ($0.11bn)	6,000m GMD ($0.12bn)	8%	-1%
Jordan, 2023	532m JOD ($0.75bn)	513m JOD ($0.72bn)	896m JOD ($1.26bn)	-41%	-43%
Kenya, 2023	421bn KES ($3.29bn)	391bn KES ($3.01bn)	397bn KES ($3.40bn)	6%	-2%
Madagascar, 2022	527bn MGA ($0.13bn)	483bn MGA ($0.12bn)	513bn MGA ($0.13bn)	3%	-6%
Moldova, 2023	34,558m MDL ($1.61bn)	31,909m MDL ($1.48bn)	30,719mil MDL ($1.55bn)	12%	4%
Niger, 2022	90bn XOF ($0.15bn)	88bn XOF ($0.14bn)	80bn XOF ($0.14bn)	13%	10%
Sudan, 2022	778bn SDG ($1.03bn)	550bn SDG ($0.73bn)	162bn SDG ($0.38bn)	380%	240%
Suriname, 2022	1,483m SRD ($0.06bn)	1,090m SRD ($0.04bn)	1,070m SRD ($0.05bn)	39%	2%
Uganda, 2022	6,303bn UGX ($1.78bn)	6,061bn UGX ($1.71bn)	5,216bn UGX ($1.46bn)	21%	16%

Source: Authors, drawing on IMF loan documentation referenced in the methodology note. For Afghanistan, 2021 data are projections only. Inflation-adjusted social spending floors are calculated by using the annual GDP deflator reported in the IMF loan documentation. US dollar values are based on an exchange rate calculated by dividing gross domestic product (current prices) in national currency by its US dollar value, as reported in the IMF's World Economic Outlook Database, October 2022.[32]

4 SOCIAL ISSUES IN IMF PROGRAMMES

While loan agreements tend to note the general desirability of increased social spending, IMF guidance is usually overly focused on targeted policies to support poor households and other 'vulnerable' groups, rather than aiding countries in nurturing the fiscal foundations for universalist policies.

However, all evidence suggests that universal social policies build stability and peace, protect people in times of crisis and can help reduce inequality.[33] Indicatively, references to universalist social policies were only present for eight of the 17 countries in our sample, and these instances were only fleeting mentions – for example, many IMF loan documents simply noted universal health coverage as a government ambition. Such cursory attention is consistent with recent evidence on the IMF de facto pushing countries away from universalist policies.[34]

4.1 GENDER

Gender disparities are of direct relevance to macroeconomic performance, and in 2022 the IMF adopted its first Strategy Toward Mainstreaming Gender.[35] In principle, this should be tightly linked to social spending: social policies are key instruments for helping to reduce gender disparities. However, the sole reference to gender in the IMF's Strategy on Social Spending is in relation to enhancing women's labour force participation.[36]

Echoing this broad neglect, recent IMF loans have mostly not engaged with gender issues. As shown in Table 4, coverage of gender in most IMF loan documents being studied was 'very limited' – typically, a couple of generic references to women's economic participation. Only two countries, Costa Rica and The Gambia, had extensive gender content (even though the former did not have a social spending floor in its IMF loan). In both cases, treatment of gender issues related to budgeting initiatives to help governments match policies promoting gender equality with funding allocations. Both countries received IMF technical assistance to implement gender-budgeting programmes: on the one hand, this is positive evidence of integration of different aspects of the IMF's work; however, this also reveals disparities in the type of engagement with gender issues that different countries receive.

Recent IMF loans have mostly not engaged with gender issues.

Table 4: Gender issues in IMF programmes

Country	Consideration of gender issues	Context of gender discussion in loan agreement
Afghanistan	Very limited	Mention of importance of reducing gender inequalities
Cameroon	Substantial	Discussion of gender budgeting tools considered by the Cameroonian authorities, and of gender inequalities
Chad	Very limited	Social spending floor includes spending of ministry of women
Congo, Dem. Rep.	Very limited	Mention of policies to reduce the gender gap
Costa Rica	Extensive	Development of gender-budgeting approaches within 2023 (incl. definition of gender-related expenditures, and development of rules for gender-sensitive decentralized spending)
Ecuador	Very limited	Mention of gendered inequities and women's problems in accessing social safety nets
Gabon	Very limited	Mention of labour code reform to improve gender equity
The Gambia	Extensive	Development of gender budgeting to support the work of the Ministry of Women's Affairs, Children and Social Welfare
Jordan	Substantial	Introduction of labour market reforms (e.g., enhanced protections in the workplace for women and removal of restrictions for women entering certain professions and industries) to support greater gender equity
Kenya	Very limited	Mention of importance of reducing gender inequalities
Madagascar	Very limited	Mention of importance of reducing gender inequalities
Moldova	Very limited	Mention of importance of reducing gender inequalities
Niger	Very limited	Mention of women's problems in accessing social safety nets
Somalia	Very limited	Mention of reforms to improve women's access to social protection programmes
Sudan	Very limited	Mention of importance of reducing gender inequalities
Suriname	None	n/a
Uganda	Very limited	Social spending floor includes spending that is targeted at women

4.2 PUBLIC SERVICES

Public services like health and education are one of the strongest tools for reducing inequality. They benefit everyone in society, but the poorest most of all. They redistribute revenue by putting 'virtual income' into the pockets of the poorest women and men. Across OECD countries public services already provide the poorest 20% with the equivalent of 76% of their post-tax income.[37]

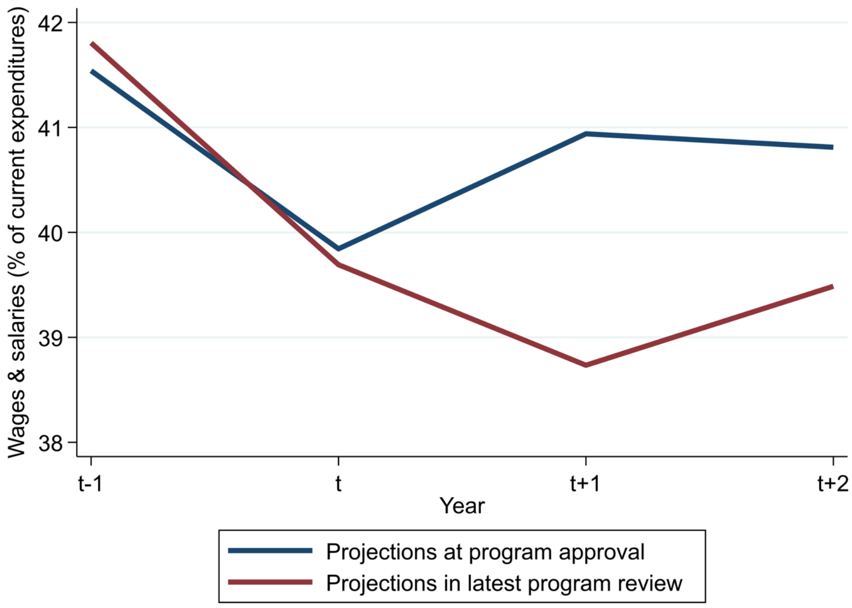
However, the links between social spending and public services were rarely examined at length in loan documentation in the 17 studied programmes, despite the central role of public services in administering policy interventions.

Given the lack of fine-grained comparative data on social services, the evolution of public sector wage spending can serve as a proxy for the availability and quality of public services. This policy area is controversial for the IMF, as it commonly identifies public sector wage bills as key targets for cuts (see Section 3.1.2). This is most explicitly the case when the Fund attaches 'government wage bill ceilings' as part of its conditionality, as was the case in Chad and Moldova in our sample. Even without such conditions, wage bill cuts are a staple of IMF's policy advice to its borrowers.

We examined whether the IMF's projections – and by extension its advice to countries – for the government wage bill were expansionary or contractionary over the course of each programme. We compared IMF estimates and projections for wages and salaries as a share of current expenditures at the time of programme approval with the latest available programme review. If the updated estimates and projections are higher than those at initial programme approval, this might imply greater permissible scope for public spending.

Figure 4 suggests that the IMF appears to generate optimistic estimates and projections about the trajectory of wage spending at the beginning of a loan, and over time revises its projections downwards. The original projections are for a sharp decline in wage and salary spending in the initial programme year *(t)* compared to the preceding year *(t-1)*, followed by a rapid recovery, although still not reaching pre-intervention levels.

Figure 4: IMF projections for the government wage bill over loan duration



Note: Sudan is excluded from these calculations, as it never had a programme review. *t* represents the year the programme was approved (either 2020 or 2021), *t-1* is the year prior to programme approval, *t+1* is the year after programme approval, and *t+2* is the second year after programme approval.
Source: Authors

Our analysis of the IMF's own data (from the most recent programme reviews available) suggests a much steeper collapse in wage bills, lasting two years and taking such spending from approximately 41.5% of current government spending to less than 39%. Such a large drop is likely to correspond to decreased numbers of public sector workers or worsening terms of employment, both of which can undermine attempts to build up effective public services.[38]

5 ARE SOCIAL SPENDING FLOORS BEING IMPLEMENTED?

To evaluate the IMF's social spending floors on their own terms, we collected all available data on their implementation. In total, we identified 124 conditions across the 17 countries covered, but could trace implementation data for only 63. This is not a surprise given that most lending programmes under consideration are ongoing (in the case of Sudan, the programme has clearly derailed,[39] as it has in Afghanistan, where the IMF paused its engagement with the country due to a lack of clarity within the international community regarding recognition of the government).[40]

5.1 ARE CONDITIONS MET?

As shown in Table 5, social spending floor conditions were frequently not implemented, with a total implementation rate of 65% (41 of 63). The Democratic Republic of Congo and Madagascar were especially poor performers, meeting none of their six and five social spending floors for which data were available, respectively. In contrast, Jordan met all 10 of its social spending floors for which data was available, and The Gambia met all but one of its 11.

To evaluate potential contradictions in the implementation of the IMF's conditionality (e.g., overly restrictive fiscal targets may limit funds available for social spending), we also examined whether countries were able to meet budget balance conditions. We found 133 budget-related conditions, for which 66 had implementation data available. In total, 85% (56 of 66) were implemented. This higher rate suggests that some countries might be failing to implement social spending floors because of the fiscal efforts to meet budget targets, which – if not implemented – can hold up disbursements of loan tranches.[41]

For several countries, budget balance conditions were adhered to, while social spending floor conditions were unmet.

For several countries, budget balance conditions were adhered to, while social spending floor conditions were unmet. For example, Madagascar met all five of its budget balance conditions, and the Democratic Republic of Congo met all but one.

Table 5: Implementation rates for social spending floors and budget balance conditions, 2020–23

	Social spending floors			Budget balance conditions (or similar)		
Country	*Total*	*...of which implementation data available*	*...of which implemented*	*Total*	*...of which implementation data available*	*...of which implemented*
*Afghanistan**	5	1	0	5	2	2
Cameroon	9	4	3	9	4	4
Chad	9	3	2	9	3	0
Congo, Dem. Rep.	11	6	0	11	6	5
Costa Rica	0	n/a	n/a	8	5	5
*Ecuador***	6	6	5	6	6	5
Gabon	10	5	4	10	5	4
The Gambia	12	11	10	0	0	0
Jordan	15	10	10	15	10	8
Kenya	7	4	2	7	4	4
Madagascar	8	5	0	8	5	5
Moldova	8	2	1	8	2	2
Niger	7	2	2	7	2	2
Somalia	0	n/a	n/a	13	8	6
Sudan	4	0	n/a	4	0	0
Suriname	5	1	0	5	1	1
Uganda	8	3	2	8	3	3
TOTAL	*124*	*63*	*41*	*133*	*66*	*56*

*Afghanistan's program was cancelled in end-2022; the data presented here cover only 2020 and 2021.

**For Ecuador, we present implementation data on the condition for household coverage of social assistance measures, which is functionally similar to a social spending floor.

5.2 ARE FLOORS ACTING AS MINIMUMS?

Table 6 reveals that four of the countries studied missed their social spending floors by wide margins. Even for the nine successfully implemented floors, eight were met by a margin of less than 10%. These show that social spending floors – a minimum threshold that public spending on specified social policies needs to meet – are, in practice, acting as *ceilings*.

It should be noted that social spending floors are not the same as overall social spending, so it is possible that the latter my change at different rates. However, given that social spending floors are selected by governments as prioritized social spending areas, it is likely that the rate of change for spending on other social policies will fare worse compared to that of the social spending floors.

... social spending floors – a minimum threshold that public spending on specified social policies needs to meet – are, in practice, acting as ceilings.

Table 6: Margins for meeting social spending floors at end of year

Country	Year of social spending floor	Margin of implementation
Madagascar	2021	-41.7%
Congo, Dem. Rep.	2021	-19%
Suriname	2021	-13.8%
Chad	2021	-6.7%
Uganda	2021	-0.1%
Gabon	2021	0%
Afghanistan	2020	0.6%*
Cameroon	2021	1.4%
Kenya	2021	3.3%
Gambia	2021	7.9%
Kenya	2022	8.8%
Jordan	2021	9%
Jordan	2020	9.8%
Gambia	2020	24.6%
Niger	2021	226.3%

Note: Calendar year is used for all countries except Kenya and Uganda, where fiscal year is used.

*Calculation based on Table 3 in Afghanistan's first program review (78bn Afgnais vs 45bn Afghanis). However, definition of social spending floors changed between initial program approval and the first review, thus prompting staff to point out that non-implementation of the floor was due to classification reasons.

Source: Authors

6 ARE SOCIAL SPENDING FLOORS ADEQUATE?

The earlier discussions of social spending floor effectiveness evaluate the floors on the terms of IMF programme design. This sidesteps a more important question: are social spending floors adequate in the first place? This is a difficult question to empirically resolve, as the inconsistency in their definitions do not enable easy comparisons with established social spending indicators and targets. Nevertheless, the initial data might give an indication, which could be confirmed if more detailed sector-disaggregated data on IMF social spending floors becomes available.

6.1 COMPARING TO GLOBAL SPENDING GOALS

One approach is to compare social spending floors with global spending goals. The WHO estimated in 2017 that low-income countries would need to spend an additional $76 per person annually to meet the health-related Sustainable Development Goals (SDGs).[42] Converting social spending floors in these countries to a USD per capita value reveals that none meet this one health target. Even countries with highly expansive definitions of social spending floors were far below the mark: Cameroon's target reached $74 per capita, followed by Chad and Uganda in the $30–35 range. Of course, these floors include policy areas other than health. If total spending floors encompassing various social areas do not even meet the WHO required health spending target, then it is clear that, based on the available data, these floors are far from being adequate.

If total spending floors encompassing various social areas do not even meet the WHO required health spending target, then it is clear that, based on the available data, these floors are far from being adequate.

Note that these figures are on public spending only—if donor assistance was included, they might be substantially higher. However, our focus on public spending is consistent with the IMF's own emphasis on public spending in its definition of social spending floors.

6.2 COMPARING TO NATIONAL SPENDING GOALS

Another approach is to examine whether social spending floors are adequate to help countries meet their domestically developed spending goals. We collected data on planned public expenditures for social policies from Government Spending Watch (GSW).[43] This dataset draws on public documents prepared by national governments to measure spending intentions for health, education and social protection (including wages), which we aggregated into a broader social spending indicator. We compare the latest available data and to end-of-year social spending floor data for countries in our sample that likely include wages in floors (see Table 7).

Given that IMF social spending floors are very broad and encompass a range of policies in addition to health, education and social protection, we should – at minimum – expect floors to exceed planned social policy spending, ideally by a wide margin. However, in all but one case government social spending intentions are higher than the IMF floor, even though they cover fewer policy areas than those covered by the floor.

For example, in Cameroon, the IMF set an end-of-year social spending floor that was 4.8% lower than government intentions. Notably, the IMF's social spending definition also included administered price subsidies for fuel at the pump, which is a broader definition of social policy spending than that incorporated in national intentions per GSW.

Table 7: Comparison of IMF social spending floors with government social spending intentions (for countries with floors likely including public wages)

Country	Year	Social policy spending intention (national currency, billions)	IMF social spending floor (national currency, billions)	Percent difference between social spending intention and IMF floor
Afghanistan	2020	81bn afghanis	78bn afghanis	-3.6%
Cameroon	2021	1,167bn Central African CFA	1,111bn Central African CFA	-4.8%
Chad	2021	270bn Central African CFA	284bn Central African CFA	+5.2%
Niger	2021	441bn West African CFA	80bn West African CFA	-81.9%
Uganda	2021	7,009bn Ugandan shillings	5,216bn Ugandan shillings	-25.6%

* This data is drawn from the program's first review.

Note: All planned social policy spending data are from GSW (aggregate of health, education and social protection spending areas).[44] This is a separate data source to the one used by IMF staff in designing social spending floors—that is, information on spending plans provided directly by national authorities.

Consider the case of Niger, where the IMF floors were 82% lower than the government's planned expenditures. In Uganda, the social spending floor was 25.6% below planned social spending, linked to changing government priorities and the rising cost of debt.

The one occasion where the social spending floor was higher than social spending intention was in Chad. However, the IMF's definition of social spending included outlays by ministries not directly involved in the provision of social policy, such as the Ministry of Livestock and Animal Husbandry and the Ministry of Production, Irrigation and Agricultural Equipment.

In short, these empirical findings show that the IMF's social spending floors are inadequate, lack ambition and represent, at best, tinkering with already limited social spending. Indeed, in most cases they are not sufficient for countries to meet their domestically developed spending goals.

7 COUNTRY CASE STUDIES

A narrow emphasis on social spending floors is inadequate for understanding the relationship between IMF lending programmes and social policies. Therefore, we have delved deeper into four countries' experiences to draw out these links and gain a wider perspective. We conducted in-depth analyses of Ecuador, Jordan, Kenya and Uganda – drawing on IMF loan documentation, publicly available sources and interviews with local civil society organizations and IMF staff. All interviews were granted on condition of anonymity.

7.1 ECUADOR

An upper middle-income country with persistent macroeconomic imbalances (and repeated IMF programmes) over the last decade, Ecuador faced a deep recession after the emergence of COVID-19. In light of exhaustive past austerity measures, the country was highly constrained in its ability to use expansionary policies to shelter its population. Its social protection system struggled to deal with the emergency. For example, under pressure to meet austerity targets of its previous IMF loan, the government had dismissed nearly 5% of Ministry of Health employees just before the onset of the pandemic.[45]

Ecuador's GDP contracted by 7.8% in 2020,[46] while debt servicing reached 9.6% of gross national income in the same year, up from 2.5% in 2013.[47] Faced with these economic challenges, the country turned to the IMF in September 2020 for a $6.5bn loan.[48] Over the first two years of the IMF's lending programme, current government expenditure in Ecuador remained at about 27.8% of GDP between 2020 and 2022.[49] During the first loan year, social spending increased from an estimated 1.5% of GDP in 2020 to 1.9% in 2021.[50]

The IMF's loan to Ecuador specified the number of low-income households to be targeted by cash transfer programmes. This represented a major lesson from other lending programmes. According to IMF staff involved in designing this policy, the reason behind this approach was that the government could meet a broad nominal target by simply increasing the benefit amount for households already covered. In contrast, the IMF sought to meaningfully expand coverage without reducing the size of benefits: this meant that initially the programme targeted coverage of the poorest population deciles, and it was later finetuned to ensure that the very poorest households across all regions of the country achieved access to these social programmes. To develop this approach, the IMF relied on a distributional impact assessment – published in the loan's first review – that quantified how different economic policies and social assistance measures would impact each income decile. This approach meant that 80% of households in need are currently covered, compared to 30% before 2020.[51]

However, although this cash transfer programme provided some support to Ecuadorians in need, its benefits were dwarfed by the very high cost of living increases in 2022, which have prompted extensive protests in the country.[52] Indeed, some domestic civil society organizations did not consider the programme a success, '*given the very large recent increases in poverty*'.[53] The proportion of the population living in poverty was 21.5% in 2017, [54] and has jumped to over 25% since 2019.

In its discussions on how to increase social spending, the IMF identified a range of areas for further savings, not least to the country's system of fuel subsidies. Earlier IMF analyses showed that the primary beneficiaries of these subsidies were richer households, and the government committed to pushing ambitious cuts to the programme.[55] These plans were abandoned in the face of higher global energy prices, leading to considerably larger than anticipated spending on subsidies. Pointing to the scale of resources absorbed by fuel subsidies, the latest IMF loan review raises concerns about the fiscal basis of expanded social programmes; however various social actors have called for maintaining these subsidies.[56]

In terms of the broader policy environment within which social policy operates, Ecuador committed to undertake major adjustments to public employment, as the public sector wage bill was expected to contract from 11.5% of GDP in 2020 to 9.6% in 2022 and 2023 (in nominal terms, spending declined in 2021 and 2022, and marginal increases were projected for subsequent years).[57] The IMF recommended that workers in health and education be sheltered from cuts, and teachers' salaries were expected to increase in line with new legislation. Indeed, the IMF-designed strategy foresaw that wage bill savings in other areas could be redirected to meeting social priorities.

Per government budgets, health and education spending in Ecuador registered increases between 2021 and 2022.[58] However, problems with budget execution remained, as spending initially budgeted was not always fully spent, even in sensitive policy areas.

According to IMF staff, civil society organizations were consulted on the development of social spending floors and helped the IMF monitor progress on reforms. However, there was no broad consensus between civil society organizations on the efficacy of engaging with the IMF. While the potential for cash transfer programmes to provide some support to poor households was acknowledged, some organizations pointed out that these floors represented far from comprehensive responses to the major economic problems facing Ecuador. In other words, the expansion of targeted social assistance programmes does not and cannot make up for the lost ground for Ecuador's welfare system.

7.2 JORDAN

An upper middle-income country that has nearly constantly been under IMF agreements over the past decade, Jordan received support through a $1.3billion EFF in the early months of the pandemic. This loan was intended to tackle persistent unemployment and low levels of growth, which averaged around 2% of GDP between 2016 and 2019.[59] In 2020, given the economic and social fallout of the pandemic, GDP contracted by 1.6% and unemployment surged to 25%.[60] The additional financing that was required contributed to the rise to 88% debt-to-GDP ratio in the same year.[61] Reflecting the financing needs of the country, the IMF increased the size of the EFF loan by $183m.

In the initial period of Jordan's programme (2020–22), both current expenditure and the public sector wage bill remained at broadly similar levels, despite the rapidly changing needs of the population given the ongoing pandemic. This is explained by the fact that additional expenditures on health and education were in part financed by cuts in other parts of the budget, including deferrals of pay increases for civil servants and hiring freezes. The reshuffling of budgetary priorities created extensive pressures on social services and contributed to social tensions, which were recognized by the IMF as a major risk to the programme.[62]

Jordan's social spending floors were narrowly defined to include non-wage health and education expenditures, as well as some social protection programmes. These floors were generally met. Nevertheless, even during the first years of the pandemic, total health spending contracted by 3%.[63] A broader look at social spending in 2021 against 2019, before the beginning of the current IMF programme, reveals contraction as a share of total spending: health spending declined from 11.4% to 9.9%, and education declined from 12.3% to around 12%; while social protection spending remained stable at a little more than 19%, and debt service increased from 12.6% to 14.2%.[64] The retreat of public provision of key public services – like health – was accompanied by the expansion of private provision.[65]

The IMF reported that Jordan has an 'efficient' social safety net for vulnerable populations, but this is coupled with very low levels of social protection compared to its peer countries. For instance, 400,000 households applied for the National Aid Fund Unified Cash Transfer programme, even though the current size of the programme only foresaw support for 120,000.[66] The National Aid Fund, the country's major social safety net, provides evidence of the scale of unmet needs: in 2021, it reached 105,000 households, dropping to approximately 99,000 one year later. However, in 2022 nearly a quarter of Jordan's 11.1 million people were living in poverty.[67]

This is indicative of the inadequacy of social spending floors. Instead of using the needs of Jordan's population as the starting point for analysis and then creating floors that are adequate and appropriate to meet these needs, the IMF's approach appears to have been driven by short-term fiscal considerations that neglected the central role of social policies and public services in underpinning a vibrant economy.

7.3 KENYA

Kenya is a lower middle-income country facing high levels of economic inequality and poverty. Despite being one of sub-Saharan Africa's fastest growing economies in 2015–19, Kenya suffered a sharp economic downturn in the immediate aftermath of the pandemic, with a 0.3% year-on-year GDP decline in 2020.[68] In addition, Kenya became at high risk of debt distress. Against this backdrop, the government entered into a 38-month lending programme approved in April 2021, unlocking access to $2.34bn under a combined EFF and ECF.

Kenya's IMF programme mandated rapid fiscal consolidation, anticipating that current expenditures would decline from 19.3% of GDP in the initial programme year to 17.4% by fiscal year 2023/24.[69] This was to be achieved through a range of tax increases and budget cuts.

A key pillar of the additional tax revenue was the elimination of VAT exemptions and a reversal of a pandemic-related decrease in the VAT rate. These were regressive measures that would likely be disproportionally borne by middle- and low-income households. A micro-simulation conducted by IMF staff did not find that VAT is regressive in Kenya or that exemption removal would affect the poor, but this was not published in the staff report. At the same time, some more progressive elements of the pandemic tax relief measures—like the increase in the tax-exempt threshold for personal income taxes and the lowering of turnover taxes on small businesses—were maintained.

Budget cuts targeted both development expenditure and other government outlays considered non-essential by the IMF. The government also committed to limit growth in the public sector wage bill. Indicatively, spending on wages and salaries was expected to drop from 4.3% of GDP in 2020/21 to 3.7% by 2022/23.[70] Such cuts occurred amid intense pressure on the health system in the aftermath of the pandemic (although the IMF program had an adjustor on the primary balance to allow the country to spend more for COVID interventions), and on public education due to comprehensive reforms.[71]

Against these fiscal parameters, the main mode of the IMF's engagement with social issues in Kenya were the programme's social spending floors, amounting to approximately 15% of current government expenditure and remaining broadly stable over the duration of the loan agreement.[72] They included a range of cash transfer programmes, health policies and education spending. Overall, Kenya met most of these floors, and all IMF agreements encouraged the country to expand its social policies. However, evidence from the country's 2022/23 budget law (presented in Table 8) reveals substantial declines in the financing of different ministries: after adjusting for inflation, all social ministries were set to experience major cuts.

Table 8: Social policies in Kenya's budget (Kenyan shillings, bn)

	2021/22	2022/23	2022/23, Inflation adjusted	Change between 2021/22 and 2022/23	
	Net approved expenditure (excl. aid)	*Net estimates (excl. aid)*	*Net estimates (excl. aid)*	*Without inflation adjustment*	*With inflation adjustment*
Ministry of Health	48,213	48,838	45,452	1%	-6%
State Dept. for Early Learning and Basic Education	91,826	93,869	87,361	2%	-5%
State Dept. for Social Protection, Senior Citizens Affairs and Special Programmes	33,824	31,746	29,545	-6%	-13%
State Dept. for Gender	1,005	1,065	991	6%	-1%

Source: Kenya's Budget, Fiscal year 2022/23.[73]

The example of funding for higher education provides a case in point. The IMF lending agreement requires restructuring of state-owned enterprises, which in the loan documentation include the higher education sector. Universities specifically risk harmful cuts, even though the number of students is expected to increase in the coming years. To plug this fiscal gap, the government has considered various measures, such as increasing tuition fees or only providing financial support to students from underprivileged backgrounds.[74] Thus, in its attempt to meet IMF-mandated fiscal consolidation measures, the Kenyan government is instituting cuts to public higher education.

IMF staff emphasized that while there was an observed drop in social spending, this was less marked than the declines in public expenditure – thus serving as evidence of IMF attempts to shelter this category of expenditures.[75] Nonetheless, the sizeable declines in social spending suggest that the social spending floor was likely too narrowly defined to be truly effective at sheltering expenditures.

7.4 UGANDA

Uganda is a low-income country, with 40% of the population –18.7 million people – living below the international poverty line of $2.15 in 2019.76 Prior to the pandemic, the country had achieved its highest growth rates since 2011, but growth slowed down in 2020. Against a backdrop of rapid population growth and increasing poverty, global economic upheavals – as well as rising COVID-19 infections – led the country to agree a $1bn ECF loan in June 2021, its first such request in nearly two decades (excluding non-conditionality rapid credit received in May 2020).

Uganda's IMF loan documents devoted extensive attention to social policy issues. For example, the increase in poverty in the aftermath of COVID-19 was discussed, as was the importance of improving the quality of the educational system.77 These observations formed the backdrop for suggestions to expand social spending and improve the absorption capacity of spending by implementing authorities, as often funds have remained unspent. According to the IMF, the broad ambition of the programme was to increase the share of social spending among total government expenditures, which would result in reduced poverty and inequality in the long term.[78]

In support of these objectives, the IMF included conditions related to social policy. First, social spending floors were included over the duration of the loan, covering all public spending in health, education and social development. Encouragingly, these floors were mostly implemented. Second, the IMF included a condition to expand the government's support for vulnerable households. This captured a wide array of social assistance measures – including public works programmes and grants for senior citizens – all financed through domestic resources, primarily through revenues from phased-out tax exemptions. While these conditions were formally met, the IMF expressed doubts in 2022 about the scope for any further bolstering of social spending owing to Uganda's debt outlook.[79] This is against the backdrop of Uganda's frontloaded fiscal adjustment efforts that it committed to in the IMF program, i.e., to impose austerity measures, and cut the fiscal deficit by half in just over a year to return to the pre-pandemic levels.[80]

Finally, two important IMF-mandated reforms – taking the form of 'structural benchmarks' of the loan – pertained to the creation of a unified national registry of social assistance programmes and a directory of beneficial ownership. The underlying logic of the former is that, if social spending is to target vulnerable groups, there needs to be an ability to identify who these groups are and how to reach them. The beneficial ownership registry would in theory allow transparency in public contracts, especially in the aftermath of evidence of mismanagement of pandemic-related social assistance funds.[81] However, such measures could also divert policy attention away from building broad-based universal social protection policies, instead of targeting only the poorest members of society.

Beyond the specifics of these conditions, social policies – and public services more generally – in Uganda needed to operate within very limited fiscal space. In this context, there were major cuts in government discretionary spending,82 limiting the chances of expanding publicly financed social programmes or hiring additional healthcare workers and teachers – a priority explicitly accepted by the IMF. Indeed, according to domestic civil society organizations, working conditions in the public sector have already deteriorated due to concerns about promised salary increases that had been postponed.

Some civil society organizations in Uganda considered that social spending floors offered a boost to advocacy campaigns, as they acted as a reference point for engaging with the government and mobilizing against a series of proposed cuts. IMF staff held consultations with domestic civil society on the policy content of IMF loans.

However, civil society representatives also reported that the floors do not go far enough by themselves. Disaggregated data and evidence that social spending reaches the communities that need it most is needed.

8 CONCLUSION AND RECOMMENDATIONS

Over the past decade, the IMF has devoted considerable attention to issues around social spending in developing countries, not least because the organization's own research has shown how redistributive policies help improve economic outcomes and reduce inequalities.[83] The key moment in the evolution of the IMF's thinking was the publication of its 2019 Strategy on Social Spending. This codified many existing practices and raised the profile of social spending within the organization.

However, social spending floors suffer from many flaws that limit their effectiveness. This study has found these floors to be inadequate, inconsistent, opaque and failing to meet their intended objectives. Instead of acting as a redistributive mechanism that reduces inequality and bolster social protection and public service quality, they are being used as a mitigation measure, and often act as a fig leaf to cover austerity conditionalities required in IMF loan programmes.

8.1 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. Oxfam recommends that the IMF takes bold actions to reduce the inequality crisis, which was already worsening prior to the outbreak of COVID-19 and the current cost of living crisis.[84] Austerity should not be the default policy framework for IMF loan programmes.

In addition to building on encouraging experiences in some countries, there are key measures the Fund needs to undertake for social spending floors to act as a real catalyst to reduce inequality and genuinely support countries achieve their development goals, notably in terms of universal social protection and public services.

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.

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