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1. A Strategy for IMF Engagement on Social Spending

Documents: SM/19/69 and Correction 1; and Correction 2; and Correction 3; and Supplement 1; and Supplement 2; SM/19/70; and Correction 1

Staff: Coady, FAD; Murgasova, SPR

Length: 1 hour, 42 minutes

Executive Board Attendance

C. Lagarde, Acting Chair

Executive Directors	**Alternate Executive Directors**
	I. Mannathoko (AE)
	H. Razafindramanana (AF)
	J. Di Tata (AG)
	G. Johnston (AP)
A. Tombini (BR)	
Z. Jin (CC)	
	P. Moreno (CE)
	A. McKiernan (CO)
	C. Just (EC)
H. de Villeroché (FF)	
	K. Merk (GR)
S. Gokarn (IN)	
D. Fanizza (IT)	
M. Kaizuka (JA)	
J. Mojarrad (MD)	
	S. Geadah (MI)
	V. Rashkovan (NE)
T. Ostros (NO)	
A. Mozhin (RU)	
	B. Alhomaly (SA), Temporary
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
	P. Pollard (US), Temporary

S. Bhatia, Acting Secretary
K. Hviding, Summing Up Officer
A. Lalor / V. Sola, Board Operations Officers
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: Said Abdul-Kader Bakhache. Asia and Pacific Department: Necmettin Tarhan Feyzioglu. Communications Department: Camilla Elisabeth Lund Andersen, Nicolas Francois Mombrial, Gerard Thomas Rice, Olga Ilinichna Stankova. European Department: Oana Elena Luca. Fiscal Affairs Department: Patrick David Coady, Maura Francese, Michael James Keen, Emmanouil Kitsios, Vitor Louca Rabaca Gaspar, Delphine Juliette Prady.

Independent Evaluation Office: Alisa D. Abrams, Charles V.A. Collyns, Cyrus D.R. Rustomjee. Legal Department: Julianne Ams, Kyung Kwak, Nadezhda Yuryevna Rendak, Gabriela Rosenberg. Middle East and Central Asia Department: Anastasia Guscina, Catriona Mary Purfield. Office of Budget and Planning: Brian Lund Christensen, Piyabha Kongsamut. Office of Risk Management: Qianying Chen. Strategy, Policy, and Review Department: Stefania Fabrizio, Petya Yordanova Koeva Brooks, Kangni O. Kpodar, Fei Liu, Gohar Minasyan, Zuzana Murgasova, Ke Wang, Irene Yackovlev Perez-Vilches. World Bank Group: Samer Al-Samarrai, Margaret Ellen Grosh, Christoph Kurowski. Western Hemisphere Department: Nicole L. Laframboise.

1. A STRATEGY FOR IMF ENGAGEMENT ON SOCIAL SPENDING

Mr. Rashkovan and Mr. Etkes submitted the following statement:

We thank staff for the well-written reports as well as for the useful engagement with our office. We strongly support the Fund's increased engagement with social spending issues as social and political unrest, rising inequality, as well as population growth for some countries and ageing for others pose a challenge to many countries, which could become macro-critical. The Fund's attention to social spending is needed not only in surveillance but particularly in programs. The analysis of social spending in surveillance should focus on long run inclusive growth, which for programs' success could depend on adequate social spending (see elaboration below).

We broadly support the framework that defines the channels of macro-criticality fiscal sustainability, spending adequacy, and spending efficiency. Spending sustainability lies in the core expertise of the Fund and staff should always be able to analyse this channel. We emphasize that analysis of spending sustainability should take into account the revenue side, often provided by income or property, which directly affects net-income distribution. The proposed strategy does provide the Fund with the right framework without judging the level of social spending as a percentage of total government expenditure or GDP. The analysis of spending sustainability could be streamlined with toolkits, taking into account plausible localized multipliers for the impact of social spending and equality on growth.

Indications for spending efficiency, including the quality of spending, in sectors such as health and education could be analysed by staff, but staff may prefer to use analyses of other international institutions and development agencies, which are better informed on these issues. In these circumstances, the Fund may flag suspected spending inefficiencies, using Fund generated toolkits, and refer to the work and recommendations provided by other institutions. We do find some room for enhancing the Fund's expertise in evaluating the efficiency of social spending, when such expertise is not readily available for the relevant region by other partners.

We feel that determining spending adequacy is the most challenging for evaluation by the Fund. The report suggests that "spending adequacy reflects the importance of social spending for achieving inclusive and sustainable growth" (p. 24). It also recognizes that spending adequacy depends on the country context including historical, political, and social factors, which do not always relate to the Fund's current or desired expertise.

Moreover, analysis of these country-specific factors is not likely to be suitable for standard toolkits by a staff that often rotates between country teams. Indeed, evaluation of these factors requires cooperation with IDIs and other partners such as the UN and the OECD, and even local stakeholders.

We have two main concerns regarding this framework:

First, staff should aspire to address these country-specific factors, while preserving as much as possible evenhandedness. For instance, we feel that while some countries with recently approved programs were able to preserve social spending, the program for Ukraine restricted this spending without evenhanded justification.

Second, it is unclear whether preserving social and political stability – the most common reason cited by mission chiefs for macro critically of social spending (p. 22)– is directly related to the framework of determining macro-criticality. Perhaps a wider definition for spending adequacy, which explicitly addresses social and political stability, is desired. Staff comments are welcome.

Last but not least, we believe that social spending during Fund programs is likely to become macro-critical: Social spending is often needed when a significant share of the population is under economic stress. In addition, social spending might not be sustainable due to the typical limited fiscal space in program countries. Moreover, preserving social spending could affect the public support for programs as well as country ownership and thus affect the overall success of the program. We appreciate staff's comments on the desired interaction between staff and the country authorities in assessing the desired levels of social spending in programs.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative set of papers and the helpful bilateral outreach. We agree that the adequacy, efficiency and sustainability of a country's investments in health, education and social protection can be critical to domestic stability and economic growth, and thus merit attention from IMF country teams. The Review of Conditionality has also pointed to related issues with the quality of fiscal adjustment, as investments in human capital can be squeezed out when domestic revenue mobilization plans fall short. We support the proposed strategy on IMF engagement on social spending, particularly its emphasis on leveling up to more consistent use of best practice, and more systematically drawing on the expertise of other agencies to inform IMF policy advice. Social spending, which is often

politically sensitive, is an area where broader efforts to improve communication among the IMF, country authorities, and local stakeholders including civil society organizations are particularly relevant.

IMF Role and Comparative Advantage. While the IMF's comparative advantage is mainly on issues of sustainability, it will be helpful to ground the IMF's advice in a broader framework of adequacy and efficiency, which can be informed by the World Bank, other IOs, think tanks and civil society organizations. We appreciate that the strategy sets out to better leverage internal resources, including through the use of regional analysis of social issues, and to better absorb relevant information from other organizations, with FAD acting as a hub to facilitate connections. This is a more appropriate and practical approach than seeking to build up large internal expertise in non-core areas. We would also underscore that even if social spending is macro-critical in a majority of countries, as the survey of mission chiefs suggests, country teams should have the flexibility, in consultation with the authorities, to take a multi-year approach and prioritize among macro-critical priorities in a given year. Coordination between FAD and the country teams will also be important.

Program Design. A key benefit of the strategy will be more consistent attention to macro-critical social spending issues in country programs. We agree that both GRA and PRGT programs need to be attentive to the adverse effects of adjustment on the vulnerable, an important objective in itself and for the social sustainability of economic reforms. Sequencing of subsidy reform and social safety net development, as well as approaches to targeting within the broader social safety net, are key areas for guidance. We also look forward to the application of more meaningfully-defined social spending floors in PRGT programs, drawing from lessons learned. In this regard, the country case studies provide a range of lessons that can be distilled into practical advice for country teams in the Guidance Note. Disaggregation by country grouping could make the guidance more practical, allowing for a systematic look at comparable economies for common structural measures, constraints and challenges.

Timeframe. The scope of social spending challenges ranges from the immediate to the long-term, and we support the strategy's intent to embed IMF advice in a medium to long term vision. For example, mitigating the impact of necessary fiscal adjustment on poor and vulnerable households requires actions with immediate effect. Efforts to improve education and health outcomes require at least a medium-term focus, with benefits to productivity and growth materializing over the longer term. Responding to

some social spending challenges related to demographics requires a much longer horizon; these include capitalizing on the demographic transition in low-income countries and addressing pressures from aging in advanced and some emerging economies.

Communication. We welcome that the process of developing this strategy has involved IMF engagement with a broad range of actors within the Fund, among country authorities, development partners and civil society groups. We particularly appreciated the background paper on Consultations with Third Parties which documents a rich dialogue that can be built upon going forward by resident representatives, IMF country teams, and ideally by country authorities themselves.

Next Steps. We appreciate that the development of Operational Guidance for staff could take some time to do properly, particularly given staffing constraints, and agree with the proposed timeline of end-2020. That said, in the meanwhile we will be looking for new programs, in particular, to begin reflecting good practice and lessons learned.

Mr. Kaya, Mr. Just and Mr. Mehmedi submitted the following statement:

We thank staff for the well-written and comprehensive proposal on a strategy for IMF Engagement on Social Spending, as well as the 11 case studies, and the background papers. We highly appreciate the Board's early and thorough involvement in the process. We appreciate the broad internal and external outreach and that the consultation process with relevant stakeholders was an integral part of developing the proposed strategy. We broadly support and endorse the main elements of the strategy for IMF engagement on social spending (the strategy) which will guide the Fund's institutional involvement in social spending issues, both in in surveillance products and during financial assistance programs.

The strategy will help guide the Fund's involvement in social spending issues while clarifying the scope, objectives, and boundaries of the Fund's engagement. While staff's analysis indicates that there has been a significant increase in Fund engagement on social spending in recent decades, the level and effectiveness of this engagement has been uneven. Against this backdrop, the strategy should serve as an important mechanism to make our engagement on social spending issues more consistent while providing clarification on when and how to engage, including on how to strengthen engagement in program contexts. It is therefore essential that the Staff Guidance Note (SGN), which ideally should be prepared earlier than at the end of 2020 as suggested

by staff, provides common understanding and guidance on the scope and coverage of social spending issues which fits into the Fund's mandate and core competencies while also avoiding strict normativity by allowing for the flexibility to take into account the political realities and societal preferences in member countries.

We take note of staff's proposed definition of social spending and their approach for assessing "macro-criticality" of social spending, including fiscal sustainability, spending adequacy, and spending efficiency. While we agree with staff's proposed broad definition of social spending which is in line with other development partners and includes social protection, education, and health, we note that the concept goes beyond social protection spending which was the focus of the 2017 Independent Evaluation Office Report on "The IMF and Social Protection." At the same time, we find the definition of "macro-criticality" as too broad and vague as many issues could be defined as "macro-critical". We expect that the forthcoming Comprehensive Surveillance Review will address this issue and give clearer guidance on prioritization when a policy issue is macro critical. In the meantime, we see fiscal sustainability as the first and foremost channel of macro-criticality, as illustrated by the case studies. We underscore that if social spending becomes macro-critical through the other two key channels (spending adequacy and spending efficiency), the Fund most likely will not have the required expertise and should rely on the expertise of International Development Institutions (IDIs).

We appreciate the proposed general principles on "how to engage," including the steps, the breadth and depth of engagement, but would have preferred more focus on when and how extensively to engage taking into consideration the trade-offs, policy options, and traction in countries, as well as internal expertise constraints. We concur that the effective implementation of the strategy will also require a recent household survey to identify vulnerable groups as well as better quality, more granular and timely data, to evaluate policies and spending pressures, formulate policy advice, and monitor spending outcomes. In this regard, we emphasize that more narrowly and more concretely defined spending targets are warranted, especially in the context of program engagement.

We welcome the focus on enhancing and strengthening the support for country teams on social spending. We see an urgent need to enhance access to internal resources, including technical assistance reports, improve knowledge management through knowledge sharing platforms, and make better use of diagnostic tools and databases to support country policy dialogue. Staff's

comments on how these efforts are aligned with the Knowledge Management Strategy (KMS) are welcome.

We appreciate that the strategy seeks to clarify the Fund's position regarding universal social protection and agree that the advice on universal and targeted social benefits should be guided by country preferences and circumstances, including administrative, social, and political aspects as well as financial resources. The advice on the use of targeted and universal transfers should therefore be discussed in the context of the effectiveness of the social safety net, including the distributional impact of transfer policies and the taxes that finance them.

We see significant merit and scope in intensifying and formalizing the collaboration with IDIs, especially the World Bank. The case studies illustrate that while interaction with IDIs and other international institutions has been frequent, cooperation or coordination on specific social spending issues, projects or strategies was unfortunately less common. Given that IDIs are often in the lead on national health, education or social protection strategies, the collaboration and close coordination with IDIs is essential for better traction and outcomes. We underscore that a more explicit coordination mechanism with IDIs, specifically the World Bank, on specific social spending issues, including on education and health, is essential. This is particularly relevant in a program context. At the same time, the interaction with a broader set of external stakeholders and CSOs should be strengthened and made more systematic. Staff's views if the World Bank's endorsement of the rights-based approach to social protection might complicate Bank-Fund collaboration on social spending issues going forward, are welcome.

Clear external communication of the Fund's engagement and role on social spending, defined within the strategic framework, is essential for setting realistic public expectations and reducing reputational risks. We welcome that the strategy will guide the IMF's communications in clearly explaining its approach within a specific country context and setting realistic expectations about what the Fund can and cannot do given its mandate, resources, and expertise. In this vein, setting boundaries of Fund engagement on social spending while strengthening outreach to third parties will be essential in managing external expectations and reducing reputational risks.

Mr. Fanizza, Ms. Collura and Ms. Lopes submitted the following statement:

We thank staff for a rich set of papers. The proposed strategy does not set a new Fund's policy; instead, it provides a framework for engagement on

social spending issues. It provides the foundations for a consistent and comprehensive assessment of members' social spending policies to better tailor our policy advice. The strategy will prove successful if it helps staff to present options to the authorities on how to achieve the social outcomes that reflect their social and political preferences.

We are confident that this strategy will contribute to a more evenhanded approach, particularly in program countries. A welcome novelty is that social spending issues should receive more consideration in General Resources Account (GRA) arrangements – in addition to Poverty Reduction Growth Trust (PRGT) arrangements that already use conditionality on social spending extensively. The review reaches the conclusions that measures that reinforce growth and revenue mobilization can help avoid short-term declines in social spending; yet, the literature indicates that spending-based fiscal adjustments have caused smaller recessions than tax based fiscal adjustments. Thus, the use of social spending floors in conditionality design could add to spending rigidities that tilt the adjustment policy mix toward taxation. We would welcome staff's comments on how to strike the right balance.

In surveillance, anchoring the Fund's engagement to the macro-criticality of social spending issues is consistent with the Fund's approach to structural issues. Including spending adequacy among the dimensions of macro-criticality will determine de facto a change in the Fund's approach. Staff is now expected to assess whether a country's spending levels are adequate and provide advice on the desirable level. In this context, building in-house expertise and enhancing cooperation with IDIs will be essential. In the assessment of spending adequacy, we concur with staff that social spending should be designed in a way not to crowd out effective private sector's and NGOs' involvement, which in some circumstances play a complementary role.

While it is up to the authorities to determine the social model that best suits the needs and preferences of each country, the Fund should help them achieve those outcomes efficiently. In this respect, it is worth recalling that also other fiscal measures (such as taxation) might be used towards social outcomes – in addition to social spending tools. This is especially relevant in program context and when setting quantitative conditionality. At the same time, still other policies – such as promoting market contestability or access to technology – can be helpful to prevent adverse social impact stemming from the ongoing wave of technological change. We believe the forthcoming Guidance should make this clear.

Lastly, we encourage staff to pursue a more outcome-based approach – and try to assess the impact of the advised policies on the intended outcomes. This would be the real metrics of success of Fund's engagement on social spending.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for their work on this important topic and for their outreach. We also commend staff for the wide-ranging consultation with civil society organizations, outside experts, and International Development Institutions (IDIs).

We broadly endorse the proposed strategy for IMF engagement on social spending (the strategy). We consider that the strategy goes a long way in operationalizing the Board-endorsed recommendations of the IEO's evaluation on The IMF and Social Protection. As detailed in the staff paper, social spending has always been a critical element of members' policies to promote inclusive growth and reduce poverty and inequality. On its part, the Fund has increased its work and policy advice, moving from a fiscal-centric approach to more involvement in cases where social spending considerations were seen as macro-critical and beyond purely fiscal concerns. We note, however, that in programs cases, while health and education spending were generally protected, spending declined in many instances and we look forward to the forthcoming review of conditionality to better identify the causes and offer guidance on how to better increase and protect such spending to ensure that Fund's programs garner the necessary political support, at a time when many countries are confronted with limited fiscal space.

We support the proposed definition of "social spending". Including education and health spending, in addition to social protection, in the definition is appropriate to better capture the role of such spending in promoting inclusive growth, as education and health services are important components of countries' social policy. However, a broader definition could also come with its own challenges. While we appreciate the indication by staff that the definition of basic education and health spending will be country specific, care should be made when comparing countries' commitments and achievements as some may spend on education beyond the primary and secondary levels or offer health services in excess of staff definition. In addition, data limitations in some countries may constrain the accuracy of the estimated social spending. To this end, it is important to be vigilant as sometimes the numbers do not reflect the reality on the ground. Therefore, in

some cases, estimating social spending needs should be done after a thorough policy dialogue with the respective authorities.

We also agree with the proposed key channels that define macro-criticality, i.e. fiscal sustainability, spending adequacy, and spending efficiency. However, we agree with Messrs. Kaya, Just, and Mehmedi, that the definition of “macro-criticality” remains too broad and vague as many issues could be defined as “macro-critical”. A case in point is staff suggestion to build in-house expertise whenever “a critical mass of members finds a particular structural issue to be of macro-critical importance”. We do not agree with this conclusion since, as rightly pointed by staff, “the macro-criticality filter could imply a massive expansion of the Fund’s advice on specific structural issues, some of which fall beyond its expertise”. Similarly, while the Fund has accumulated experience in assessing the fiscal sustainability of social spending for achieving inclusive growth, we would appreciate staff’s further elaborations on how the adequacy of social spending and their efficiency will be assessed? In this regard, we note that there is no reference, in the section on Country-Level Engagement with IDIs and other Stakeholders, to the need to engage with IDIs when assessing the adequacy of social spending and their efficiency, and we encourage staff to clarify this point in the Guidance Note.

The strategy will be helpful to guide staff work, which should be evenhanded. We believe that a clear strategic framework will be helpful in guiding staff in its coverage of social spending issues, at a time when many other initiatives are also considered macro-critical. To this end, we look forward to the forthcoming Guidance Note and we would appreciate staff clarification on why they are targeting end-2020, and not an earlier date, for its finalization? At the same time, and as detailed in the background paper on cases studies, social spending considerations are relevant to all the membership and therefore a strategic framework should also help staff in ensuring evenhandedness in the coverage of social spending in surveillance, whenever such considerations are assessed to be macro-critical.

Cooperation with IDIs should be a critical part of the strategy. We welcome staff efforts to clarify the boundaries of Fund’s involvement and to emphasize the importance of leveraging external expertise. We particularly welcome the decision to make FAD as a hub for identifying relevant counterparts and provide guidance to staff on where other development partners could take the lead in capacity building or provide complementary support to staff work.

Communication and outreach are critical for the successful implementation of the strategy. We support close consultation and outreach to key stakeholders to explain Fund's policy advice on social spending, while emphasizing the importance of the country's own strategy, goals, and priorities in this area. We also welcome the framework for targeted communication to better explain Fund policy advice on social spending detailed in Figure 11. In its communication, we encourage staff to set realistic expectations and to emphasize that strengthening social spending is a long-term process that requires full commitment by the authorities and sometimes difficult trade-offs.

Ms. Mannathoko and Mr. Jappah submitted the following statement:

We broadly support the proposed strategic framework. We thank staff for the well written reports and their effort to map out an effective approach to IMF engagement on social spending. We hope that, together with the Staff Guidance Note planned for 2020, this will help ensure uniformity of treatment, such that Fund policy advice and program requirements on social spending can be given in an effective and evenhanded manner. It is important that the proposed framework helps IMF advice and IMF-supported programs to mitigate the adverse effects of adjustment on the vulnerable, while also promoting the development of efficient fiscal governance systems that support effective health and education spending targeting SDG outcomes (alongside other necessary components of social spending). Our comments below focus on the adequacy of the strategy, program design, structuring of transfers, and communication and collaboration.

Adequacy of the proposed strategy

When to engage: We are in broad agreement with the strategy's approach on when to engage, but believe the guidance provided needs more granularity. We are comfortable with the use of the macro-criticality principle to determine when to engage. This will ensure that IMF engages on social spending issues only when there is an obvious or foreseeable problem – as noted in the 2017 IEO evaluation's recommendation 1, which discusses boundaries for IMF involvement. The staff guidance note should also require articulation of how the social spending issue in question will adversely impact domestic or external stability.

We also see the need for greater clarity on how inefficient spending is determined. Given the inherently sub-optimal environment found in low income and developing economies; dominated by informality and low

capacity, efficient, first-best solutions are sometimes not immediately viable. Thus an 'inefficient' approach that is in use can sometimes be the most viable option. It will therefore be important for staff to show that these considerations have been investigated and that more efficient options being proposed are in fact viable or will be viable. Staff comments are welcome. Furthermore, as efficiency occurs when better outcomes are achieved with the same or less resources; it is important to acknowledge that much of the external criticism of IMF interventions relating to social protection cites outcomes that are diminished or eroded following such interventions. It is therefore important for the strategy to address this concern explicitly and clearly.

How to engage: On the issue of implementation and how to engage, further elaboration is needed, and we look forward to a more substantive articulation in the Staff Guidance Note scheduled for 2020. For instance, while we agree that improving fiscal governance is important to efficiency, and that the quality of governance in general (among many other factors) matters significantly in determining social spending outcomes[1], it is still not clear from the strategy how staff will be guided in determining the implications of different implementation options in a given country as they offer advice. It would be helpful to hear more on how staff will be guided in formulating analysis and advice related to efficiency considerations.

Analysis: Regarding the analysis underpinning policy advice, in our view, country specific analysis with solid analytical underpinnings is essential in program as well as non-program cases. In particular, as noted in footnote 32, there needs to be a greater awareness of the social and welfare impact of program policies, and this will only happen where program advice is backed by robust analytical work. Thus, we are concerned at the implication in paragraph 26 that programs should be treated differently from Article IVs, and ideally focus on implementing already developed policy advice. Could staff clarify this and elaborate whether there are alternative approaches that could be pursued? Could staff also provide an update on any plans to improve assessments of social and welfare impacts of program policies? Furthermore, given the significant heterogeneity among countries in our constituency, with reference to Table 2, we encourage the use of in-depth, country- specific empirical analysis where possible (as opposed to more generalized cross-country analysis), in informing country-specific policy advice. We also

[1] For example, A. Rajkumar and V. Swaroop (2008), Public spending and outcomes: Does governance matter? Journal of Development Economics, Volume 86, Issue 1, April 2008, Pages 96-111, Elsevier Publishers

agree on the use of a broad range of both internal and (credible) external sources, as suggested.

Program design and conditionality

As noted in the 2017 IEO evaluation of IMF and social protection, the implementation record of social protection policy measures is mixed in IMF programs,[2] and there is need for more realism is assessing implementation constraints. It is not clear from the strategy's discussion of program considerations, how this will be addressed. Could staff elaborate on how this strategy will ensure that mission staff will use more realistic and effective approaches to program design and conditionality and ensure that reform outcomes do not leave the poor and vulnerable worse off than before?

With respect to program conditionality, we agree that significant care is required in defining quantitative targets and support measures that would strengthen the process and improve outcomes. In this regard, granular decisions on allocations should be guided by authorities who are best placed to understand the wide range of historical, political, and social factors cited by staff as influencing spending adequacy. At a general level, we believe conditionality should focus on fostering robust systems and institutional arrangements that minimize duplication of social services, but without compromising delivery outcomes.

Targeted versus universal transfers

We agree that advice on transfers should be offered within the context of a country's social and political preferences and circumstances, taking into account overall effectiveness as well as administrative constraints and macroeconomic implications. However, to this, we wish to add that the advice should be informed by prior analysis of the likely outcomes for the poor of alternative options relative to the status quo. Further, a concern expressed by civil society is that, despite acknowledging inadequacies associated with means-testing techniques, some staff reports, nevertheless proceed to use such proxy means-tests (especially in SSA) resulting in large shares of clearly poor households being classified as non-poor and ineligible for support. We wonder whether there are any thoughts to addressing this concern.

Communication, collaboration and resource implications

[2] There has also been significant harsh criticism of IMF programs in this regard, by civil society and international NGOs such as ILO and the Global Coalition for Social Protection Floors.

On communication, the IMF needs to be able to effectively explain its approach on social spending and social protection to external stakeholders, and this strategy is one channel for such communication. Thus, the clear articulation in this strategy document of new approaches and modalities that will address external concerns, is an important consideration – including from the reputational risk perspective. On coordination, we support strengthening collaboration with other international institutions, but note that this should be done with an awareness of prevailing criticisms of approaches used elsewhere; so that the IMF does not perpetuate or promote practices by others that have been shown to be detrimental. We note that such a collaborative approach reduces the cost implications of the strategy and would thus require minimal investment of new Fund resources.

Finally, regarding the updating of Fund's engagement in future, we would support a review of the effectiveness of engagement under the new strategy, prior to such an update.

Mr. Ostros, Ms. Karjanlahti and Ms. Eliassen submitted the following statement:

We thank staff for their thorough report and background notes and appreciate the engagement prior to the formal meeting. We have consistently supported the Fund's increased emphasis on inequality and inclusive growth, and thus welcome the augmented engagement on social spending. The work stream to develop a strategic framework on this issue is timely. We commend staff on the impressive work that lays the foundation and reasoning of the paper, counting extensive consultations and country case studies and broadly support the proposed strategy.

Social spending, i.e. social protection, health, and education spending is a key policy lever for promoting inclusive growth and meeting the challenges of globalization, as well as catalyzing structural change and raising potential growth. The IMF's work in this area constitutes an important deliverable to the 2030 Agenda for Sustainable Development. We also highlight the impact that protecting social spending may have on securing public support for IMF programs and safeguarding against social instability. This is crucial for country ownership and ultimately program success.

We broadly agree that the envisioned strategy provides appropriate general guidance to staff on when and how to engage. We look forward to the forthcoming Staff Guidance Note to better specify the scope and define the priorities for engagement. These issues are constantly evolving, and the IMF therefore needs to remain agile and update its engagement as it accumulates

experience. We note that the Guidance Note is not scheduled to be completed until end-2020. Staff's comments on the way forward and some more details on the outline of the note are welcome.

We continue to believe that macro-criticality should be a key guiding principle and central to the delineation of the Fund's work. Viewing social spending through fiscal sustainability, spending adequacy, and spending efficiency provides a relevant scope to assess the main channels where social spending can be macro-critical. Thus, we support the staff's continued provision of policy advice on sustainable financing of social spending as well as an increased focus on the quality of such spending.

We believe that the IMF should develop a systematic approach for cooperation with other IDIs in the context of social spending. A certain degree of broader in-house expertise is needed to ensure the provision of tailored advice for countries where social protection is judged to be a macro-critical priority. This would also help absorb and operationalize the expertise drawn from other institutions and stakeholders. The Fund should be careful to avoid duplicating the efforts of other International Development Institutions (IDIs). Consideration of a specific social spending issue in a program context should therefore be based both on the issue being deemed macro-critical and the existence of in-house Fund expertise. The Fund should also continuously strengthen and evaluate its collaboration with IDIs and other stakeholders to make efficient use of resources and enhance consistency of advice from multilateral institutions.

The social impact of adjustment and measures to protect the vulnerable should also be considered in GRA programs. The focus on social spending and safeguards is naturally more well-established in PRGT programs. However, also in GRA programs, where assessed as critical for the program's success, conditionality should support social objectives to smooth the burden of adjustment for the most vulnerable. The extent of IMF's engagement and advice on social protection issues should be based on country-specific analysis, since the nature and scope of social protection issues will vary across countries.

We welcome that education and health spending has, on average, been protected in programs. However, the sizeable spending decreases in a large share of program countries are noteworthy, and the findings and conclusions of the study should be taken into consideration in both future program design and policy advice.

The focus and defining boundaries of the Fund's work on social protection should be communicated clearly to allow the public and partner institutions to have reasonable and realistic expectations about the role of the IMF. Here we support improving the clarity of communicating social spending issues, including by embedding them into a broader policy context while clarifying what the Fund can and cannot do. We also welcome the reasoning and consultation related to the use of targeted vs universal transfers and agree that advice should be discussed in a balanced way in the context of the overall effectiveness of the social safety net, administrative constraints, the broader macro-fiscal environment, and countries' social and political preferences.

Mr. Inderbinen and Mr. Heim submitted the following statement:

A strategy for the Fund's engagement on social spending is timely and appropriate. Heightened debt vulnerabilities need to be addressed through strong fiscal measures, which is why it is important to ensure sustainable, adequate and efficient social spending. Social spending is equally relevant in achieving inclusive growth, not least in the face of globalization challenges and technological change. Moreover, an evenhanded treatment of social spending issues across similar countries is warranted.

The strategy is also important to clarify the Fund's responsibility and guide expectations. The mandate of the IMF includes the promotion and maintenance of economic conditions for prosperity in terms of employment and income. There could be instances when advice or conditionality that aim to restore or maintain these conditions make it challenging to ensure adequate social spending, especially in the short term.

The proposed strategy adopts a broad definition of social spending. While the broad definition may provide flexibility, it will be important to manage expectations on what the Fund is able, and not able, to cover. The Fund should remain focused on macro-critical areas. For instance, we agree that, resources permitting, developing new dedicated tools may be useful, but we advise to refrain from covering all SDGs.

When to engage

The three channels of macro-criticality provide a good starting point for the Fund's engagement on social spending, but there is a need for more granularity. The macro-criticality channels that are outlined in the staff paper provide a useful framework to evaluate how macro-criticality is applied in

individual country cases. However, we see need for a more granular framework to guide staff in determining whether a social spending issue is macro-critical or not. In that respect, it will be crucial that the upcoming Staff Guidance Note provide sufficient clarity.

The Fund may not always be in a position to assess whether a social spending issue is a policy concern, and cooperation with other institutions will be crucial. While assessing the fiscal sustainability of a spending issue clearly lies within the Fund's competence, the Fund may not always be in a position to assess appropriately the efficiency and adequacy of such spending. This assessment may also require very granular data and field experience. Thus, it is crucial that the Fund leverage the data and expertise of international development institutions.

The strategy paper does not address the time horizon of the three channels. The strategy proposal mentions that macro-criticality in the three dimensions will be assessed relative to current policies, but the time horizon over which this assessment is performed is not specified. Guidance on the time horizon would seem necessary to clarify the degree of urgency and relevance, and to help define the appropriate degree of Fund engagement relative to other policy priorities. At the same time, country-specific considerations may require flexibility in this assessment. Staff's comments would be welcome.

How to engage

Fund engagement on social spending should be differentiated across activities. We agree that a distinction should be made between specific program-related measures and more general issues relating to social spending in the context of surveillance and capacity development. While in a program context the focus should be on measures that are critical to the program's success, research and advice to the membership should be guided by long-term trends and their implications for the design of social spending.

More attention should be given to how program measures with a high social impact are implemented in practice. While an ex-ante impact analysis may provide important information, documenting the social impact of measures during the implementation phase will be even more important. In particular, it will be crucial to keep track of implementation and of possible divergence from the Fund's advice. Analyzing and documenting the social impact of program measures may also provide useful material to support the Fund's communication on its engagement on social spending issues.

Where feasible, redistributive solutions with well-targeted transfers are preferable. While we agree on the merits of a tailored approach, we note that innovative use of technology allows for an effective targeting of resources also in emerging and developing economies. This is not only key to maximize the impact of available resources, but also to ensure the equity and evenhandedness of social spending measures. Basic social protection should best be achieved with efficient transfer systems, of which the tax system is an integral part. It should also be associated with effective pre-redistribution policies (e.g. an adequate education system) that significantly reduce inequalities ex ante, without creating growth distortions and adverse effects on incentives.

Communication and reviews

Communication is an essential element of the Fund's engagement on social spending. The significant impact that program measures can have on the wider population calls for effective communication on program design elements related to social spending. This can be essential to secure broader program ownership and acceptance. In the context of surveillance, communication can improve traction of the Fund's advice, also considering that the payoffs of social spending reforms may materialize in the longer term.

Given evolving social policy priorities, the strategy could be reviewed at regular time intervals. These reviews should also assess whether the strategy effectively allows to maintain Fund engagement along the lines of macro-criticality.

Mr. Tombini, Mr. Saraiva and Mr. Antunes submitted the following statement:

We thank staff for the comprehensive set of papers, which clearly lay out and justify the proposed strategy for addressing social spending as a macro-critical issue. This proposal builds on previous work on the issue and is in line with the 2017 IEO Report recommendation N. 1, which called for the IMF to "establish a clear strategic framework to guide its involvement in social protection". We agree with the thrust of the strategy and believe it constitutes a timely and valuable addition to the IMF conceptual and analytical toolkit. The sustainability of stabilization programs may require that social spending is safeguarded, and adequate safety nets are in place to mitigate the potential negative impact of fiscal adjustment measures. Because the quality of social expenditure is as important as its volume, within the context of an IMF-supported adjustment, development partners may be invited

to collaborate with the authorities to design the most efficient programs within the resource constraint.

Macro-criticality shall remain the guiding principle for IMF's engagement on social spending issues. The renewed attention to social spending is warranted as long as a clear connection with fiscal and monetary stability can be traced. The definitions of "social spending" and "macro-criticality" provided in the document are, therefore, key to set the foundations for a consistent strategy. We agree with the working definition of macro-criticality as referring to variables that affect "domestic or external stability". Furthermore, the broader definition of social spending, including health and education, provides a better base for engagement than a narrower definition, focusing exclusively on social protection. Finally, the three channels to assess the macro-criticality of social spending – namely, fiscal sustainability, spending adequacy and spending efficiency – are appropriately set in the paper, although the role of the IMF in assessing each one of these channels vary.

Social spending conditionality must be driven by priorities set by national authorities in order to enhance ownership of IMF programs. Taking into account the potential macro-criticality of social spending, the document makes a convincing case for related conditionality to be incorporated into Fund programs. Although we agree in principle with a more systematic adoption of social spending conditionality, a cautious approach is recommended. It is crucial that social spending conditionality is perceived by the authorities as a positive addition, not as an extra burden. As a guiding principle, we believe that social spending conditionality must be designed in line with the authorities' priorities, preferably after consultation with civil society. Authorities are in a better position to identify essential social services that need to be preserved amid potentially challenging fiscal adjustment efforts, thereby strengthening social cohesion. The scope of social conditionality, therefore, must be flexible to allow the inclusion of health and education spending, preserving the authorities' discretion to prioritize within the social budget. The design of social spending measures in a program context could also aim to offset expected negative social effects of fiscal adjustment, shielding, as much as possible, the most vulnerable groups.

Improving the quality and effectiveness of social spending is a legitimate concern, but the Fund may lack the required expertise in this area. We concur with staff that increasing social spending efficiency may be crucial, particularly when the space to enhance resource mobilization is limited. Nevertheless, making reference to the "macro-criticality channels of

social spending" laid out in Figure 6 (page 23), we fear that the Fund is not in the best position to assess the efficiency of social policies. Our understanding is that the Fund is better equipped to assess the fiscal sustainability of social spending and could contribute to evaluate the adequacy of spending vis-à-vis development targets. Therefore, the Fund must adopt a flexible approach, recognizing the leading role of local authorities in defining social spending priorities. The Fund shall be mindful of members' circumstances, and work with the World Bank and other partner institutions to help authorities assess the effectiveness of specific social policies that are deemed essential from a macro-critical standpoint.

There is room to improve the communication of the Fund's engagement on social spending issues. The renewed attention to social spending issues offers an opportunity for the Fund to enhance the social sustainability of programs. The primary responsibility for achieving social spending goals remains in the hands of national authorities, which also deserve the merit for success. Communication efforts must, therefore, highlight the Fund's willingness to accommodate social spending priorities established by authorities within IMF programs, clearly defining differentiated responsibilities for delivering on social spending targets.

Social spending needs are dynamic; therefore, the IMF's strategy must be flexible. The proposed strategy is a step in the right direction. Taking into account the variety of social priorities across the membership, the social spending framework should be employed with due regard to countries' circumstances. Accordingly, in our view the proposed framework must have enough flexibility to allow for updates, considering the results and challenges of IMF programs which include social spending components.

Mr. Mozhin, Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for a comprehensive set of reports on the Fund's engagement on social spending. We broadly welcome the strategy outlined in the report and support further efforts to enhance the Fund's communication and guidance to staff on social spending.

The Fund's work on social spending is deeply integrated with other workstreams, including in the so-called emerging non-core areas of expertise. Social spending is complex, multidimensional, and closely linked to other key state functions. Social spending-related issues remain high on the authorities' and the Fund's agenda due to their role in promoting inclusive growth, addressing rising inequality, ensuring social and political stability, and dealing

with demographic challenges. The countries' approaches to social spending are shaped by the social and political preferences. The Fund's work on social spending has recently changed with more attention to other workstreams, including the policy dialogue on income inequality, distributional issues, and fiscal space. The Fund's members should consider the interactions in these policy areas in the context of supporting growth, maintaining fiscal sustainability, and ensuring social stability.

We agree with staff that the Fund's policy advice related to social spending should be tailored to country-specific circumstances. Hence, it is inherently difficult to provide detailed and specific guidance in this area. In this regard, the Fund has to enhance its work on timely identification of best practices in social spending issues and dissemination of the lessons within the Fund and across the Fund's membership.

We believe that a more streamlined and concise presentation of the key elements of the strategy outlined in the report could benefit the implementation process and support the objective to improve the Fund's communication. The report offers a strategic broad guidance on when and how the Fund should engage in social spending-related issues, with clarification of the scope and boundaries of this engagement. It reflects many important nuances and issues that can be difficult to understand for external observers and interested parties. From the point of view of external interested parties, it would be a choice between digesting staff papers or limiting their awareness to the press-release. In this context, we would suggest preparation of a separate policy statement on social spending, as was done by the Fund in the past, for example, for capacity development strategy. The Board would explicitly endorse such a statement. Staff may want to comment on the costs and benefits of issuing such a policy statement.

We note that the main objective of the proposed strategy is to make the Fund's work on social spending more systematic and effective by leveraging internal and external expertise. At the same time, it is not designed to offer a specific policy analysis or recommendations on social spending. The specific details on how the strategy should be implemented will be developed in the guidance note. Given the importance of this document, we believe that its preparation could be advanced. Some of the Fund's guidance notes are published. We believe there is a strong case for publication of the one on social spending as well. Staff comments would be appreciated. At the same time, could staff elaborate on the proposal to develop cross-country departmental papers as a vehicle for developing and operationalizing the guidance note?

Staff proposed a broad concept of social spending, which includes social protection, healthcare, and education spending. We agree that a broader scope would be helpful in promoting inclusive growth and addressing rising social disconnect in many countries. At the same time, the broad concept of social spending increases the risk of venturing beyond the Fund's expertise, and/or requires close and effective cooperation with IDIs and careful reliance on external sources of information. In this context, we welcome the plans to strengthen the interaction with IDIs and other relevant sources. We should also address the rising risks to the Fund's credibility as a trusted and competent advisor to its members from the use of third-party information. Poor quality analysis may damage the Fund's credibility and affect its reputation in the core areas of expertise. We would appreciate staff's comments on how these risks could be mitigated. We would also appreciate staff's elaborations on possible additional steps to improve cooperation between the Fund and the World Bank on social spending issues.

The outline of the strategy assumes that the Fund's work on social spending will be guided by the concept of macrocriticality. Assessment of macrocriticality will require considerations of the three key channels that include fiscal sustainability, spending adequacy, and spending efficiency. Moreover, the strategy calls for an increasing focus on the quality of social spending for improving social outcomes. While the Fund's role in assessing fiscal sustainability is sufficiently clear, as such an analysis is in the center of our mandate, spending efficiency and adequacy have been much less prominent dimensions for engagement. The latter creates additional reputational risks for the Fund when judgments on spending efficiency or adequacy are drawn on the third-party expertise.

The presentation of spending adequacy and efficiency in the report could have been more focused and better balanced. We would encourage staff to correct Figure 8 and Figure 9 in the report by including advanced economies. The case studies broadly present traditional recommendations on how to increase efficiency of social spending. These include improving the coverage of the poor in social protection, eliminating subsidies, and improving targeting of social assistance programs. Could staff elaborate on the approaches to gauging the quality of social spending? Could staff also comment on how social spending efficiency and adequacy will be addressed in advanced economies where inequality concerns have been rising over the recent decades?

We agree with staff that there is room to enhance quantitative and qualitative conditionality on social spending in the IMF-supported programs

by improving the definition and coverage of the social spending floors, as well as by identifying key structural measures for strengthening social safety nets and tax systems. As suggested by country case studies, program objectives and policy advice related to social spending should be tailored to country-specific circumstances, including countries' social and political preferences. The program success critically depends on the authorities' ownership as well as institutional capacity to implement reforms. Social impact of adjustment and measures to protect the vulnerable should also be better incorporated in the programs.

We agree with staff that the process of absorbing the cutting-edge expertise from external sources, as well as intensifying social spending knowledge exchange within the Fund should be accelerated. This work requires additional efforts in training, tool development, and knowledge management (paragraph 37). We broadly support the FAD's role to act as a hub for strengthening engagement between country teams and IDIs. We also support staff's efforts to better manage the IMF's key internal resources on social spending. At the same time, we would appreciate additional elaborations on the cooperation between the FAD and KMU in reviewing the existing knowledge sharing platforms associated with social spending.

We continue to express our deep concerns about the limited access of the Executive Board to the Fund's knowledge exchange and other resources. The access to the tools highlighted in Box 7 is denied to the Executive Board. The authorities have very limited awareness of the best practices and the Fund's work in this crucial area. We continue to believe that the Fund should intensify the efforts to allow the authorities and other interested parties broader access to accumulated experience and the tools currently used by staff only. We continue to call on management and staff to explore specific and time-bound next steps to improve the Fund's knowledge management.

Given the evolving nature of social spending issues, we support the proposed emphasis on the need to accumulate more experience under the strategy. In this context, it is important to put in place an effective review process, say, to agree on conducting a review of social spending strategy in 3-5 years. Staff may want to comment.

Mr. Gokarn and Ms. Dhillon submitted the following joint statement:

We thank staff for the well-written and compressive set of papers on the strategy to guide IMF engagement on social spending issues. We support the efforts to develop a framework which provides an explicit basis for the

Fund's engagement on social spending and its integration in its core mandate on surveillance, lending and capacity building. We support the broad elements of the strategy outlined in the paper and would like to offer the following remarks.

Overall, the strategy does justice to clarifying the purpose and objectives of the engagement within the overarching assessment of the macro-criticality of a specific social spending issue. However, the boundaries to that engagement need to be laid out more sharply. Post the global financial crisis and amidst a rapidly evolving world stage with challenges of demographics, labor markets and technology, developing inclusive models of growth and social spending involve a delicate balance. More specifically, managing competitive needs within the subset of social spending, of say education on one hand and health on another, require sustained financing and prudent budget management, areas where the Funds guidance is vital. Both in its present focus on incorporating social spending floors in programs and in the steps detailed on the engagement (figure 10), we do see a convergence towards of developing tailor-made policy advice on social spending and we fully support this approach. In Paper II, the cross-country empirical analysis of whether the IMF supported programs protected social spending is presented and the staff has indicated that in a significant number of instances spending decreased in program countries. We would like to hear more on the social protection framework that the staff proposes to use in the surveillance and programs including the quantitative conditionalities or comparative frameworks being envisaged. We invite staff comments.

We do realize that delivering policy advice on social spending and ensuring the implementation of quality spending and social outcomes are not the same thing. As noted by staff, countries do face challenges in term of capacities, structures and data. Many countries have administrative structures wherein the trickle down of the policies may be slow. Universal application of social spending advice is difficult and will need to be harmonized with fiscal sustainability as well as the sensitivities of country specific social and political circumstances. We concur with staff that use of targeted and universal transfers should be a collaborative process, discussed from the perspective of overall effectiveness of the social safety net, administrative constraints and the broader macro-fiscal environment. More specifically how is the staff proposing to reconcile the medium-term focus in surveillance with the relatively longer-term rollout that social plans inevitably necessitate?

We strongly support strengthening collaboration with IDIs to leverage greater expertise in social spending issues. We do recognize that the Fund's

own experience in this will need to be reinforced by field experience, bearing in mind the optimization of fund resources and to avoid crowding out of core activities. This would be specifically applicable in the context of TA programs for enhancing spending efficiency, budget formulation, execution, and monitoring. The strategy envisages engagement with other stakeholders such as CSOs, academics, think tanks, labor unions, business, and local experts, which the design and implementation of any successful social spending outcome would involve. As the depth of the engagement under the revised strategy has extensive ramifications and prospects of being in a brighter spotlight, are any changes in guidelines such as 2015 Staff Guidelines on IMF Staff Engagement with CSOs envisaged to ensure that the inputs into the policy advise are well represented, broad and inclusive?

In terms of a long-term strategy, we would highly recommend that the guidance note be shared with the Board prior to issue. We see this as a core ingredient which will feed into Review of Conditionality and the Comprehensive Surveillance Review. As the implementation unfolds, the strategy should be fine-tuned based on the lessons offered and we fully support the staff suggestion to keep the note updated to reflect the evolving nature of social spending issues.

Finally, as Fund takes on a more direct role on social spending, it must be prepared for the judgement that would follow. In this context, an effective and clear communication on IMF engagement would be very critical for the success of the strategy, especially to balance voices of dissent and push backs with the positives of a well-crafted, well- executed social spending framework.

Mr. Agung, Ms. Levonian and Mr. Johnston submitted the following joint statement:

We thank staff for a very good paper and their outreach to our offices. The review team are also to be commended for their extensive consultation and the transparency with which feedback, especially from the CSO community, was incorporated.

Social spending issues have increased in prominence across the IMF's business lines, reflecting their importance in supporting sustainable and inclusive growth. However, the IEO's 2017 evaluation identified inconsistencies and a lack of clarity over the treatment of social protection. It recommended the development of a strategic framework that defines the scope, objectives, and boundaries of Fund engagement.

This paper makes significant progress towards this objective and provides a strong basis for developing further guidance for staff. We support an increased focus on the quality and outcomes of social spending. We also welcome the emphasis on taking a medium-term approach to assessing these outcomes, tailored to a member's situation and social objectives. Staff should avoid an overly-prescriptive approach and Fund engagement should focus on assisting countries to achieve their desired outcomes. We also note the parallels with staff's recommendations in the 2019 Review of Program Design and Conditionality. As is already expected for PRGT programs, we also agree that GRA-supported programs should, where appropriate, analyze and assess the impact of adjustment on social spending measures, including those aimed at protecting the poorest and most vulnerable. Staff should think about how to better align incentives with achieving these objectives.

We welcome the clarification regarding Fund advice on targeted and universal benefits. This better reflects feedback from the Board, CSOs and other stakeholders, and should encourage a more country-tailored approach. We look forward to more detailed clarification of this issue in the guidance note.

The forthcoming guidance note should be clear in helping staff assess macro-criticality, particularly within the spending efficiency and spending adequacy channels. In keeping with the IEO's findings, the guidance note should provide practical assistance to help mission teams determine whether a social spending issue is or is not macro-critical and, if so, where it should be prioritized among the range of macro-critical issues confronting a country. Sectoral guidance is likely to be very useful, as it will be more granular.

In working through issues of macro-criticality, the three channels are likely not as equivalent, or as independent, as they appear in Figure 6. Posing a risk to fiscal sustainability is the most common way for a social spending issue to affect, or have the potential to affect, domestic or external stability. And as the case studies show, spending efficiency and adequacy issues can have a less direct effect on stability, often through an interaction with sustainability, and potentially over a longer time frame. We welcome the paper's proposal that macro-criticality sits alongside an understanding of the member's needs and priorities, and that the depth of policy advice and analysis considers the urgency of the issue, the authorities' policy agenda and capacity, and the IMF's expertise. In particular, we also encourage staff to clarify in the guidance note how to operationalize the assessment of spending adequacy as discussed in paragraph 20, in light of the relevant historical, political and social factors in each country.

The guidance note should be more explicit about the supporting role of capacity development. Particularly for member countries with weaker capacity, including many small states, policy advice on social spending reforms should be accompanied by a well-sequenced and well-coordinated capacity development program.

The Fund should update its guidance as it acquires more experience. We suggest a gradual implementation of the strategy that considers country experiences and lessons learnt, given that many of the issues and practices are fluid and evolving in nature. The Fund's policy advice should be appropriate for a range of institutional arrangements and country-specific priorities.

We agree in general that staff can deliver on the new strategic framework primarily through a better use of existing resources. Drawing on external expertise through stronger collaboration with international development institutions is an essential part of this strategy. The proposal to use FAD as a hub seems promising, but we were surprised that the resource burden is expected to be modest. Can staff comment on whether the ambitions outlined in the paper are matched by a commensurate level of resource (re)allocation?

We agree that communications are important and that collaboration between country teams and COM should begin early and be based upon a communications plan. Can staff clarify whether a communications plan will become standard practice and what steps will be taken to guide the development of such a plan?

Mr. Raghani, Mr. Sidi Bouna, Mr. Carvalho da Silveira and Mr. Lopes Varela submitted the following statement:

We thank staff for a timely report on A Strategy for IMF Engagement on Social Spending and welcome the proposed strategy which will help guide IMF engagement on social spending. The strategy rightly builds on the findings and recommendations of the IEO Report on The IMF and Social Protection. In our view, the strategy outlined in the report could contribute to a more effective IMF engagement on social spending, including by guiding on when and how to engage. We agree that Fund engagement on social spending should continue to be guided by the principle of macro-criticality which as noted, could vary depending on members' income levels.

Further efforts are needed to improve the level of collaboration with key stakeholders. While we fully support the call for strengthening cooperation with other International Development Institutions (IDIs), we

believe this should be extended to line ministries, such as health and education, and other international agencies devoted to social issues. The Fund should further leverage the expertise of these development partners in formulating social protection spending, including on the adequate level of social spending to achieve inclusive growth, by broadening its engagement with those partners and making its involvement more systematic. We note that the implementation of the strategy will not require significant additional Fund resources given that the IMF has already done significant work on social spending-related issues. Could staff elaborate on the impact of this work in enhancing social expenditures in member countries? Closer collaboration with IDIs will, therefore, contribute to a more effective and efficient use of Fund resources.

We also agree that the Fund should take further steps to improve the communication of its policy advice on social spending, wherever social spending is considered macro-critical, including on how social spending is taken into account in the design of a program and the policy advice provided to the member country.

On the breadth and depth of the Fund's engagement, staff note that the depth of the analysis supporting the policy advice on social spending may differ in the contexts of surveillance and Fund-supported programs. In surveillance, it is expected that more in-depth analysis and policy recommendations are made while countries under Fund-supported programs would simply implement policy advice that has already been developed. Therefore, the approach may differ depending on the contexts. However, we note that there have been instances where important policy recommendations have been made by staff and implemented by the authorities in the context of Fund-supported programs, not during surveillance (IEO, The IMF and Social Protection, Seven LIC Cases, Paragraph 15). Some of these recommendations have led to significant changes in social protection coverage. For example, the IEO notes that there have been countries where "the IMF urged the authorities to shift from universal to targeted social transfers." Conditionality has also been used to achieve the objectives of the reforms recommended by the Fund. The Staff Guidance Note should be specific and clear on the distinction between surveillance and program contexts and how the Fund can ensure consistency in its approach. Staff comments are welcome. With respect to GRA-supported programs, although the focus on social spending may differ from PRGT-supported programs, we share the view that staff should continue to analyze and document, where relevant, the social impact of adjustments and measures to protect the most vulnerable, in line with best practices. This will

be particularly helpful in gathering political and public support for the required adjustments.

On policy advice on universal and targeted social assistance benefits, we support the proposal to discuss this issue in the context of the adequacy and efficiency of social safety nets. Notwithstanding, we emphasize that the choice between targeted and universal transfers should depend on country preferences only. We welcome the Background Paper IV on the debate on universal and targeted transfers which further clarifies the Fund's position on this issue and helps address the Fund's perceived bias in favor of targeted transfers. Fund bias has been highlighted by most consulted parties during the preparation of the strategy, as indicated in the background papers. We note, in particular, the limitations in the successful implementation of means-tested transfers in LICs (whereby household receive transfers equivalent to the difference between their mean revenue and the revenue that ensures their basic needs) due to countries' limited capacity and the size of the informal sector. However, despite these limitations, the vast majority of mission chiefs (80 percent) have continued to recommend the introduction or expansion of means-tested social safety nets in the context of Fund-supported programs (main report, footnote 31). Staff comments are appreciated.

On quantitative conditionality, we agree that there is room to improve quantitative conditionality on social spending. We note the proposal to specify quantitative targets for social spending at the sectoral or social program level. While, in principle, a spending floor on a specific sector could contribute to better prioritizing and protecting social spending in a given sector, we stress the importance of extensively discussing the feasibility of "sectoral" floors with the authorities. Floors on pro-poor spending, as they are currently designed, provide flexibility to the authorities to adjust their spending depending on the level of revenues, as well as the availability of financing both domestic and external. Instead, setting floors on certain types of social expenditures could put pressure on budget resources and may further constrain budget allocations to other key sectors, especially in situations where fiscal space unexpectedly narrows and/or external financing becomes scarce. Staff comments are welcome.

We fully share staff's proposal to complement quantitative targets with structural measures to improve the quality and efficiency of social spending and outcomes. However, we stress the importance of parsimony when setting structural conditions as well as ensuring their criticality to the program's success. Ultimately, the key objective for member countries as well as the Fund is to achieve better social outcomes, and this is not necessarily attained

by increasing spending in any given social sectors nor is it reached by raising the number of program conditions.

Ms. Riach and Ms. Myers submitted the following statement:

We thank staff for the excellent set of papers and for the helpful outreach. We have long advocated for the Fund to more systematically consider how it can promote inclusive and sustainable growth models across the membership. Public spending on social protection, health and education plays an important role in this regard and is critical for the delivery of the Sustainable Development Goals. Given the political and social sensitivity to macroeconomic reform policies, it is also an important element of the longer-term viability of core Fund advice. What is more, in a world where many citizens, including in richer economies, feel that they have lost out from the benefits of globalization and trade, the Fund can and should help authorities calibrate and communicate their macroeconomic policies in a more socially sensitive way.

A solid body of analytical work motivates and justifies an IMF Strategy on Social Spending. The IEO report on “The IMF and Social Protection” documented for example that many staff did not feel that they had received clear guidance on how to consider and mainstream social protection issues across surveillance, programs and technical assistance. This led to inconsistent and sometimes suboptimal coverage of social spending issues across the membership. The Review of Conditionality has also pointed to the need to improve the quality of fiscal adjustment, with authorities seeing scope for significant improvements in assessing the social and welfare impact of macroeconomic policies.

The conceptual framework presented by staff in response to these issues and concerns is very clear, comprehensive, pragmatic and backed up by sound evidence and analysis. Fiscal sustainability, adequacy and efficiency are useful guiding principles in determining, organizing and prioritizing macro-critical social spending issues across all areas of Fund engagement. More systematic ex-ante distributional and incidence analysis, drawing and expanding tools developed by the DFID-IMF Macroeconomic Research for Development programme, could also help determine the right mix of policies in both PRGT and GRA countries.

On fiscal sustainability, the Fund has an important role to play in helping its members focus on the progressiveness and efficiency of their tax systems. Sustainable increases in revenues will be critical for the development

and protection of adequate social spending measures, particularly in PRGT countries. Developing these systems takes time, and points towards the need for longer-term engagement horizons in many countries. Longer programs and/or multi-year country engagement strategies integrating programs, capacity development and surveillance could help deliver this more strategic focus.

We strongly welcome the emphasis placed on improving the efficiency and quality of social spending. While recognizing the limits of IMF expertise and the need to rely on other International Development Institutions and partners (IDIs), there are a number of areas where staff can add particular value. These include questions regarding budget allocation decisions (eg: on the rationale for spending on tertiary education rather than primary education in a country with low literacy rates), budget monitoring and execution and sound and transparent public financial management, particularly in the areas of public procurement processes and the management and oversight of SoEs.

We agree with staff that IMF policy advice on universal versus targeted social assistance benefits ahould be discussed in the context of the adequacy and efficiency of social safety nets. IMF advice should be country-specific and evidence-based, drawing on the knowledge and expertise of other IDIs and taking into account societal and political preferences. One issue that has come up in practice and is also picked up in the staff report is the synchronization and alignment of IMF advice with support from IDIs. More effective ways must be found to foster inter-institutional collaboration and avoid implementation hiccups and gaps that can jeopardise public and political support for sound macroeonomic reform policies. The proposal to have FAD act as a hub is helpful but may not go far enough. We thus look forward to the IEO evaluation on “IMF Collaboration with the World Bank on Macro-Structural Issues” which could offer additional insights.

Regarding conditionality on social spending in programs, we agree with staff that there is room to strengthen the Fund’s approach and consider the approach set out in paras 33 and 34 of the paper very sensible. Regarding the definition of social spending floors, we accept that there may not be an appropriate universal definition and that by necessity social spending floors will be defined differently across the membership and have different levels of coverage. Nonetheless, we would expect staff to have in-depth conversations with authorities on their definition and clearly set out the rationale for arriving at a certain way of drawing the line, particularly in cases where social spending floors are very broad or contain unusual budget lines (eg: security spending).

Looking ahead to the 2020 guidance note, there may be value in considering in more depth how staff should approach political economy questions when considering social spending measures. This is particularly important for engagement in fragile states, where social spending plays an integral role in consolidating political institutions. A strict interpretation of the more narrow and short-term economic rationale may miss the bigger economic benefits that lasting peace and stability can bring over the medium- to long term.

We would welcome efforts to quickly and robustly communicate and operationalize the new strategy. The emphasis placed on early and deliberate communication with a wide range of stakeholders including civil society, labour unions and local experts to determine the appropriate course of action is encouraging. In addition to finding macroeconomically sustainable, adequate and efficient ways of protecting the most vulnerable layers of society, it is critical that the IMF also uses effective communication to ensure that it is seen to do so by the public. More broadly, given the detailed and well-documented set of papers, we see no reason why implementation of the new strategy should be delayed to 2020. On the contrary, early country cases could help further finetune and inform the guidance note and thus help future-proof it.

Mr. de Villeroché, Mr. Meyer, Mr. Castets, Mr. Merk, Mr. Buetzer and Mr. Sode submitted the following joint statement:

We thank staff for a comprehensive and very insightful set of reports and strongly support the proposed strategic framework on social spending. While the Fund already made considerable progress in its treatment of social spending over the last years, the outlined strategy on social spending and social protection provides further guidance to staff and can help to make the Fund's engagement more systematic and effective. Waning popular support for global economic integration and rising inequality make an engagement of the Fund increasingly relevant today. Integrating social protection challenges into the Fund's work is an important endeavour to help the Fund fulfil its mandate.

On when and how to engage

Macro-criticality is the appropriate guiding principle for when to engage on social spending issues. We therefore support the proposed multipronged approach to define macro-criticality. While fiscal sustainability remains a key criterion to assess macro-criticality, we fully share the view that

this assessment should also rely on the concept of spending adequacy and spending efficiency. We notably welcome the work done to identify the level of spending warranted to achieve the Sustainable Development Goals and encourage staff to further develop and implement this framework. At the same time, staff rightly notes that macro-criticality is a necessary but not sufficient condition for determining when the Fund's involvement should go beyond acknowledging macroeconomic implications. Granular policy advice on specific structural issues may fall beyond its expertise and close cooperation with other institutions such as the World Bank, WHO, and ILO would be particularly relevant.

The extent to which social spending issues should be covered by staff in its surveillance activities and program design always needs to take into account country-specific characteristics and priorities. With a view to avoid an overburdening of staff by tasking it to address an ever-increasing number of issues, staff should decide on a case-by-case basis on the attention that it devotes to social protection issues, subject to their macro-criticality.

We strongly support the proposals aiming at strengthening collaboration with other international institutions that have greater expertise in social spending issues. To the extent possible, the Fund should systematically harness the expertise of other institutions to avoid duplicating work, make use of synergies in a mutually beneficial way, and effectively use its limited resources. As regards the cooperation with development partners and civil society, we note that International Development Institutions (IDI) themselves called for more intensive and regular inter-agency cooperation. For instance, IDIs encouraged the Fund to take into account the ILO Convention 102 on social security minimum standards and recommendations 202 on social protection floors, which have been agreed upon in tripartite consultations between governments, employer and worker representatives. Against this background, we would be interested in staff's view on the pros and cons of actively making use of this outside expertise by supporting these specific conventions in consultations and programs with its member countries where appropriate – at least in countries that have ratified them.

We welcome the outlined plan to better support country teams and to leverage the existing in-house expertise, including by ensuring that analytical tools and learning opportunities available inside the Fund are developed and mainstreamed. This holds all the more true as the availability of expertise within country teams seems to be a major factor of holding back engagement on social spending issues. At the same time, we see merit in staff's reasoning arguing that where a critical mass of members finds a particular issue to be of

macro-critical importance, there could be a case for building (further) in-house expertise, while respecting the competencies of other relevant institutions with a more specific mandate in these areas.

Social spending in Fund supported programs

We take positive note of the progress realized over the past years concerning the treatment of social spending in Fund-supported programs. In this vein, we agree with staff's proposal that, in the context of program design and also in GRA-supported programs, staff should analyse and document the social impact of planned adjustments as well as reflect on potential measures that could be implemented to protect the vulnerable, in particular in cases where this is deemed critical for program success. While we have to be cognizant of the fiscal costs of protecting the vulnerable, adequate social protection systems are a key pre-condition to reach the 2030 Sustainable Development Goals and are important to build public support and political ownership of a program. It could, thereby reinforce the chances of program success in achieving its statutory goals, foremost solving a member's BoP problems and achieving medium-term external viability, with due regard to safeguarding Fund resources and their temporary use. Hence, we would deem the increase in the share of programs covering conditionality on social spending and the growing use of social spending floors as an important step to mitigate the impact of necessary macroeconomic adjustments on the vulnerable. To ensure consistency on this issue, we think it could be useful that the guidance note lays out clear guidelines for staff to assess when and how conditionality pertaining to social protection is deemed critical for program success, also in light of the expected impact of certain adjustment measures on the vulnerable.

Moreover, we might have the feeling that the conditionality on social spending is sometimes perceived as of less importance than other criteria. Against this background, we agree with staff that there is room to strengthen quantitative conditionality on social spending on a case-by-case basis. In this context, we wonder whether an increased use of PCs as opposed to ITs might be preferable and would have appreciated more detailed guidance for country teams on when to set a quantitative target as a PC or IT, respectively (para. 33). Staff comments would be appreciated. While data availability, timeliness, or accuracy is often weak in PRGT countries, we agree with staff that an effort should be made to improve data collection through TA. It is of the essence to also focus on the quality of social spending, i.e. to what extent it is well-targeted and provided in an efficient and effective manner. Thus, and with view to the drafting of the Staff Guidance Note, the appropriate

definition and coverage of social spending floors will need to be carefully considered.

Conditionality on social spending should be reinforced when a Fund program aims at substituting existing energy subsidies with more efficient and fairer social benefits. In many cases (e.g. Egypt, Haiti, Madagascar), a large share of the requested fiscal adjustment under Fund's programs includes the reduction or removal of certain subsidies while only recommending – without any conditionality attached – the creation or improvement of social benefits to offset the impact on the poorest. Since these reforms need to be carefully sequenced to cushion their impact on the poorest, staff should explore how to link and communicate the phasing out of fossil fuel subsidies with a sufficient strengthening of the social safety nets more closely. In this regard, a clear communication strategy which would illustrate the distributional consequences to the public would certainly improve social acceptance and political ownership of difficult reforms (Figure 3 on page 64 of the staff report provides a powerful illustration of such). In most cases, the proper sequencing of reforms implies a close coordination with MDBs, foremost the World Bank, and raises some challenges since the timetables of the different institutions might not fit. Could staff reflect on this proposal?

More broadly, we should acknowledge that (short-term) fiscal constraints can create tensions between the objective of consolidating public finances and protecting the vulnerable at the same time. In our view, this puts a premium on the Fund's external communication that has to aim at setting realistic expectations about what the Fund can and cannot do, also given its mandate. This could possibly entail assessing and commenting on the potential adjustment costs in the absence of a Fund-supported program.

Going forward, we would thus argue that the Fund is well-advised to pursue a more cautious communication approach than in some more recent country cases. In our view, the case of Argentina serves as one example where the Fund has been very active in communicating that the program will protect the society's vulnerable despite the fact that the necessary correction of the underlying BoP problems is expected to be accompanied by significant adjustment costs and constraints of policy measures. Given that many economic developments – including (extreme) poverty rates – turned out to be worse than expected, it might eventually prove to be a burden on the Fund's reputation and credibility if it is perceived that the Fund promised too much.

Social spending in analytical work and bilateral surveillance

Adapting social protection systems to the challenges created by technology, globalization, and ageing will be a policy priority in the coming years, as was also well illustrated in the last December issue of Finance & Development “Age of Insecurity”. Building on the work already done these last years, we think it is essential that the Fund continues to reflect on these challenges through flagship reports and other analytical contributions that could then feed into bilateral surveillance. When macrocritical and when data are available, the Fund should be able to integrate more dimensions of poverty and inequality in his data framework to form a judgement on social spending.

Mr. Moreno submitted the following statement:

We very much welcome the staff papers. The Fund has progressively increased its analysis and policy recommendations on social spending, a macro-critical issue that depends on country-specific circumstances and warrants IMF’s involvement. We generally support the proposed strategy of engagement on social spending and will focus our comments on several elements that we find particularly important with our view on the Staff Guidance Note (SGN) projected for end 2020.

We strongly support the IMF’s involvement on social spending in its surveillance, lending, and capacity development polices. As summarized in the paper, the Fund has increasingly engaged on social spending in the past decade—which is only a reflection of the macroeconomic framework that has risen on the aftermath of the global financial crisis—where most of the membership is assuming a wide concept of sustainability that includes external, financial, fiscal and social sustainability. As found in the background paper, Ch. I, the Fund should move away from a short-term approach to social spending, where it is perceived as a cost to be contained, and rather move to a long-term approach focused on its economic value. More generally, this exercise will be important to instill in the institutional culture the objective of balancing growth and equity when assessing economic policies. Notwithstanding the higher weight given in the paper to program countries—here we welcome, for instance, that more than 60 percent of the programs since 2012 include quantitative objectives on social spending—we understand that the SGN will be applied to all three major Fund’s policies.

We also support the wide definition of social spending, as summarized in Box 1 and understand it as evolving in nature. We find that the general lecture of the paper is tilted to a concept of social spending focused on inclusion and protecting the most vulnerable. In parallel to this target, we would also highlight the importance of the wider concept as defined in Box 1,

including structural components such as education and health expenditures, which are central to medium-term economic and social sustainability—here, we find concerning the findings of background paper, Ch. II that in GRA programs safeguarding the levels of public education and health spending is done only exceptionally. The evolving nature of social spending should also be imbedded in the SGN to adapt it to new tendencies. In this respect, we welcome the ongoing trends as outlined on page 9—aging, gender and youth inclusion, and technological and climate change—but would stress nonetheless that they apply differently depending on country-specific circumstances.

Macro-criticality is the necessary and sufficient condition for IMF engagement. We share staff's assessment in Box 4 that the Fund cannot be expected to be an expert in all areas and should refrain from providing specific policy advice where it has no expertise. This said, we prefer a language that frames IMF engagement on social spending in a more positive way that identifies macro-criticality as the necessary, and also sufficient, condition when the IMF has the adequate expertise. This implies that, at a minimum, there is a signaling of macro-critical social spending issues and a discussion on their macroeconomic implications as part of an integrated policy advice on the country. Further, when there is useful in-house or third-party expertise, the Fund could also engage on specific policy advice.

On macro-criticality, the main challenge is to grasp spending adequacy. Figure 6 rightly captures the three main dimensions that define macro-criticality: fiscal sustainability, spending efficiency, and spending adequacy. The Fund has a well-developed expertise on the first two, but less so on the third, which will require particular refinement in the SGN. Here, we would highlight ownership and political economy considerations to increase the effectiveness of Fund's advice. The guidance note should place clear emphasis on the need for missions to consider the political, social, and historical factors that are at play in each country. This said, staff should not shy away from questioning a policy when the balance between the three dimensions is not met. A good example in many countries is the sustainability of pensions, which is often trapped between social and fiscal sustainability. The Fund should be a clear voice in signaling inconsistencies and trade-offs where they arise.

The advice should be guided by country-specificity. Notwithstanding good practices, particularly on spending quality, we would highlight that the SGN avoids fixed policy recommendations and includes enough flexibility for missions to adapt their advice to country-specific circumstances. The debate

between direct and universal social protection is a clear example of different country approaches. Another example highlighted in the paper several times is the policy on spending floors on existing social spending schemes. While we welcome them as a powerful instrument to foster inclusion and protect vulnerable groups, we find that it is important to carefully design them with due account to incentives. It is the type of policy that varies across countries and should be linked to predictable financing and oriented towards achieving the social target, rather than the level of spending per se.

There needs to be a right balance between cooperation with third institutions and building in-house expertise. Given the Fund's incipient engagement on social spending, its approach needs to be adequately informed with external expertise from national, regional and third multilateral institutions and IFIs[3]. This is a broader policy issue that not only affects social spending policy—the upcoming IEO report on cooperation with the World Bank on macro-structural issues is particularly timely to feed into the SGN. This said, it is also important that the Fund builds adequate in-house expertise to understand the trade-offs with other policies in its integrated policy advice on surveillance, and, specially, when social spending is integrated in program conditionality. As discussed in footnote 26 and paragraphs 33 and 34 of the main paper, here the guiding principle is not macro-criticality, but criticality for the program success as well as authorities' preferences and parsimony, which require to prioritize expenditures. Also, on in-house expertise, it would be useful to set a knowledge-sharing working platform on social spending like the ones on inequality and gender issues. We would welcome staff's comments on the use, costs and efficiency of these type of platforms.

Revenue mobilization is the other side of the coin. We understand that the paper is focused on social spending but would, nonetheless, stress that this advice can only be understood as going hand in hand with the available resource to finance it. As pointed out in the background paper, Ch. I, the IMF's main value-added in this field may be to help countries create the fiscal space for social spending.

Mr. Kaizuka, Mr. Ozaki and Mr. Komura submitted the following statement:

Social spending issues have been increasingly critical for member countries. Social spending is an important tool to promote inclusive growth by

[3] We are surprised that the staff is using the IDIs acronym rather than the more established IFIs for International Financial Institutions, which also includes the IMF and seems more appropriate in this type of exercise that stresses the need for cooperation with third institutions (which shall also include other multilateral institutions such as the OECD).

protecting vulnerable groups, addressing income inequality, and accumulating human capital stocks. We agree with staff that ongoing trends, including population ageing and technological change which the report mentions, as well as global integration, further urge policy makers to use the tool efficiently and effectively.

Against this backdrop, it is welcoming that the Fund has strengthened its engagement on social spending issues. We recognize extensive Fund engagement on these issues in surveillance, lending, and capacity development. Japan has also benefited from Fund engagement as the case study describes. For example, reflecting our policy priorities, the Japan 2018 Article IV consultation had rich analysis and discussions on social spending issues, including financing options of the costs of population ageing and reform options for health care reforms. Other Fund efforts, such as the G-20 note on the macroeconomic and fiscal implications of ageing and Tokyo Fiscal Forum, are also helpful for us. In line with the lesson from the case study, we are of the view that in Japan's case, continuous or repeated Fund engagement on demographics and social security issues has brought deeper discussions and more granular policy advice on those issues through the accumulation of knowledge and human network, which one-off engagement can never achieve.

We appreciate that staff thoroughly reviews past and ongoing IMF engagement on social spending issues, including through case studies, finding important lessons to further improve its future engagement. Overall, staff's analysis indicates that level and effectiveness of its engagement remain uneven. This illustrates the necessity of developing a guidance on when and how to engage in those issues to make its engagement more systematic.

We broadly support the proposed strategy for the IMF engagement on social spending. The strategy would help to realize more systematic Fund engagement and promote external understanding of the Fund and reduce its reputational risks if fully implemented.

The proposed strategy would be complemented by more analysis on the revenue side, especially for LICs. LICs tend to have lower tax revenues relative to GDP. Therefore, from the medium- and longer-term perspective, enriching social spending should go hand in hand with DRM. However, DRM usually takes long time and often underperforms as the 2018 RoC indicates. In addition, revenue gains, impacts on income distribution, and feasibility and easiness of implementations vary across measures for DRM. Thus, we believe analysis on DRM to clarify those aspects would complement the proposed

strategy by providing input on how to sequence and prioritize social spending reforms to ensure short- and medium-term goals. Related to this point, we also consider that developing a strategy in the medium-term, including MTRS, would be helpful to proceed with revenue and social spending reforms in a well prioritized and sequenced manner. Does staff consider that more analysis on the revenue side would complement the proposed strategy?

In the following, we offer comments on more specific points:

When to Engage

Macro-criticality should be a guiding principle for when to engage in social spending issues. We broadly concur with staff that joint consideration of fiscal sustainability, spending adequacy, and spending efficiency would be helpful to determine whether a social spending issue is macro-critical. To ensure systematic IMF engagement at which the strategy aims, a more granular guidance is required. This is especially important for spending adequacy and efficiency which are broad concepts and difficult to be systematically assessed. While we expect that a new Staff Guidance Note will deliver it, could staff elaborate on a broad direction of more granular guidance on how country teams should assess spending adequacy and efficiency? For example, what data should country teams examine, what basic analysis should they commonly conduct, and which stakeholders should they talk with?

How to Engage

As we support the broad direction specified in the report, we would like to emphasize the following points:

Early and close engagement with country authorities and other stakeholders is essential. There are several reasons. First, social spending issues often become contentious as the mission chief survey indicates that they are most likely to become macro-critical due to social and/or political stability. Second, the favorable compositions or forms of social spending in the medium- and long-term, including universal or target, depends on country preference. Country teams, together with IDIs, need to discuss with country authorities to specify the sequencing of reforms, including capacity development, toward the medium- and long-term goals, along with countries developments.

Leveraging external expertise is warranted. We welcome that the report conducts candid assessments on cooperation and coordination with IDIs

which have more expertise on social spending issues, indicating that such cooperation and coordination were rare. Such candid assessments are always necessary for improvements in the future. As indicated by the report, we look forward to country teams' early engagement with IDIs, with FAD's helps to identify their counterparts.

We support that the Fund will increase their focus on quality of social spending. However, assessing quality of social spending would be challenging. Does high-quality simply mean efficiency? How would quality of social spending be assessed?

Regarding program considerations, we agree on the program objectives articulated in the report, including mitigations of the adverse effects of adjustments. In this vein, analyzing and documenting the social impact of adjustments and mitigation measures would be valuable. Also, we share the view that social spending with the greater impacts on vulnerable groups should be prioritized, while country teams need to consider how essences of universal transfers could incorporate where countries prefer them. On conditionality, as we noted above, the 2018 RoC shows that DRM tends to underperform and capital spending, other important spending for growth, is more likely to reduce in case of revenue shortfalls. This illustrates the importance of well preparing contingency plans to specify an optimal expenditure mix, including social spending, when revenue shortfalls occur.

Communication

Communication should be an essential part of the strategy on social spending issues. Good Fund communication would enhance effectiveness of Fund work, like program success, and promote external understanding of the Fund and reduce its reputational risks. We therefore commend that the strategy intensively focuses on how the Fund should communicate these issues externally. We are of the view that the strategy set out in the report, including developing and implementing a communication plan, is appropriate. We would like to emphasize that, especially in program cases, the Fund should always elaborate on social spending issues in a broad macroeconomic policy context but clarify why those measures or adjustments are warranted, what associated adverse effects could arise, and what measures can mitigate those effects, in recommending measures or adjustments with adverse effects. In addition to Fund communication, program countries' own communication on social spending also plays an important role in program success.

Mr. Lopetegui, Mr. Di Tata and Mr. Morales submitted the following statement:

We thank staff for the thoughtful and informative set of papers on IMF Engagement on Social Spending. Staff has done a commendable job of incorporating the feedback received from the Board in this final version of the paper.

We agree with staff that macro-criticality is an important guiding principle for Fund involvement on social spending. In recent years the Fund has been paying growing attention to distributional issues because of their macro-critical implications. Concomitantly, considering that maintaining support for sustainable macroeconomic policies crucially depends on avoiding excessive stress on vulnerable groups, social protection has been increasingly recognized as an important contributor to macroeconomic, social, and political stability. At the same time, the focus on social protection per se has been replaced by the broader concept of social spending, which includes basic education and health services, owing to their implications for inclusive growth.

We believe that the framework proposed in the report captures the main channels through which social spending may be macro critical (fiscal sustainability, spending adequacy, and spending efficiency). We support the view that a social spending issue would be considered macro critical if one, or any combination, of these channels is a policy concern. Fiscal sustainability has always been at the forefront of the Fund's analysis and is likely to become even more of a concern due to the impact of population ageing on pension and health spending. Spending adequacy is a complex issue, as it is difficult to determine the adequate level of social spending to foster inclusive growth, protect the vulnerable, and address political concerns. Despite these difficulties, the report provides useful estimates of the additional spending that would be required, on average, in LIDCs to close health and education gaps to achieve the SDGs. Finally, spending inefficiencies can result in suboptimal social outcomes or excessive levels of spending in certain areas, lead to higher taxation, or create significant work disincentives. Figure 9 of the report provides a clear illustration of the inefficiencies that could accompany relatively high levels of spending on health and education.

We are in broad agreement with the strategy outlined in the report to guide IMF engagement on social spending issues. Fund engagement should be guided by an assessment of the macro-criticality of a specific social issue and the existence or not of in-house expertise. When in-house expertise is lacking or insufficient, Fund staff should leverage on the expertise of IDIs that often

have greater knowledge in these areas, avoiding a duplication of efforts. We also agree with the key steps proposed for effective Fund engagement on social spending issues. As noted in the report, Fund engagement on these issues has been uneven. There is a need to encourage early engagement with country authorities and close collaboration with international development partners in the context of Article IV consultations to facilitate identification and subsequent implementation of specific measures in programs. FAD is expected to play a central role in making tools more easily accessible to staff, enhancing knowledge sharing, and leveraging external knowledge. We also support the view expressed in the report that policy advice should pay greater attention to the quality and efficiency of social spending, including by reallocating expenditures, streamlining duplicative programs, and enhancing PFM systems, with support from IDIs.

Achieving an appropriate balance between internal and external expertise is a complicated task, especially given budgetary considerations. As the scope for increasing Fund resources to address social spending issues is limited, we believe that the Fund should provide clear expectations as to what it can and cannot do in this area. In general terms, the Fund should continue to work on creating appropriate fiscal space for social spending while ensuring fiscal sustainability and should strengthen collaboration with the IDIs to address social spending issues outside its areas of expertise, including on health and education reforms. Core areas in which the Fund should continue to focus include specific social protection issues, such as price subsidies and the viability of pension schemes, the identification of spending inefficiencies, the calculation of spending gaps in LICs to achieve the SDGs, and the implications for domestic resource mobilization.

We agree with staff that advice on the use of targeted and universal transfers should be mindful of the overall effectiveness of the social safety net, administrative constraints, the macro-fiscal framework, and the country's social and political preferences. Fund staff should make it clear in the discussions with the authorities that it has no pre-conceptions on this issue, but that proper consideration should be given to the trade-offs involved, including the fiscal costs of providing broader coverage. Overall, we think that the Fund should continue to pay due attention to minimizing distortions and targeting social protection benefits to those who need them most, avoiding significant leakages. However, in some cases, the resources required to design and effectively implement means-testing may imply that targeting schemes end up being more expensive than universal ones and/or run the risk of excluding large segments of vulnerable populations. High informality and lack of adequate data could be important constraints in this regard. In some cases,

as noted in the report, relying on categorical targeting by providing transfers to groups that have a greater probability of being poor (children, the elderly) may be an adequate solution. Thus, although efficiency should continue to be a crucial concern for the Fund, there should be scope for flexibility on a case by case basis, paying due attention to the authorities' preferences and the country's circumstances.

We also believe that there is scope to strengthen quantitative conditionality in Fund programs. Specifically, we think that there is room to improve the use of performance criteria (PCs) to address spending adequacy by enhancing data quality and better linking conditionality with program objectives, particularly in countries with limited capacity. In general, country teams use PCs (such as spending floors) or indicative targets (ITs) to establish program conditionality, with many programs relying on ITs. The main reason behind this preference seems to be that data on social spending are not of enough quality or are not available on a timely basis to be able to set meaningful spending floors. In those cases, we believe that structural conditionality could be used to incorporate measures aimed at improving data quality and timeliness, supported by capacity development. From an operational perspective, the definition of social spending to be monitored should be determined on a case by case basis, taking into consideration the social programs with greater impact on the vulnerable, data issues, and the authorities' views. In some LICs where donors are providing financing to cover a large portion of social programs outside the budget, spending floors are unlikely to be the most adequate conditionality instrument for program success. However, staff should continue to discuss with the authorities and donors the financing and sustainability issues involved.

Structural conditionality could also be used to achieve gradual improvements in capacity, strengthen existing social spending schemes (including by enhancing efficiency), introduce new schemes, or increase revenue mobilization. We agree that structural measures should be incorporated as conditionality in programs when they are regarded as critical to the program's success, with due attention to sequencing and based on a realistic timeline. Also, program conditionality should be documented in staff reports, explaining the criticality of a specific measure for the program's objectives.

A good external communications strategy is key to support the Fund's engagement and increase the impact of its policy advice. The Fund should indicate clearly the boundaries of its engagement in this area, emphasizing how it integrates with the overall macro-fiscal context and policy strategy and

being ready to address contentious issues, including with regards to the sequencing of reforms. Harmonization with country authorities on the nature and characteristics of social spending is important for good communications. We agree that, based on current practices, GRA programs should analyze and, as appropriate, document the social impact of adjustment and measures to protect the vulnerable. As noted in the report, this issue is important to build public support and strengthen program ownership.

We look forward to the issuance of the Guidance Note to be completed by end-2020, which would help country teams prioritize when and how to engage on different social spending issues. In the meantime, we understand that guidance will continue to be provided at the sectoral level. In this regard, Annex I discusses the support that the Fund and external experts can provide on different policy issues. We take note that the additional resource burden of implementing the social spending strategy is expected to be modest.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the comprehensive set of papers. In the face of demographic and developmental challenges, social spending is an increasingly important aspect of policymaking for advanced and developing economies alike. We therefore support the Fund's efforts to establish a strategic framework to facilitate a consistent approach for its engagement on social spending. At the same time, we see a need for staff to further deliberate on some key aspects with regard to the evaluation of macro-criticality. Here, we would like to limit ourselves to the following points.

We welcome staff's illustration of macro-criticality of social spending through the three different channels. This approach enables policymakers to consider social spending in a comprehensive manner, including the need to strike a right balance between fiscal sustainability and adequacy of social spending, as well as the need to enhance efficiency for maximized social outcomes. The latter is especially important today given the limited policy space across the membership. However, the approach may be difficult to put into practice, as it would be hard to judge whether social spending is adequate and efficient. Staff's comments are welcome.

We emphasize the importance of a tailored approach given the wide-ranging circumstances of member countries. In this regard, we share staff's view that any advice on universal and targeted social benefits should be country-specific. At the same time, as most of the social spending schemes include both targeted and universal transfers, we encourage staff to also

conduct analysis of the complementary and synergetic effects in addition to the current trade-off analysis.

We welcome the strategic approach that analyzes social spending from a broader and systematic point of view. The new strategy could help the Fund move from seeing social spending mainly as a cost that needs to be contained to focusing more on long-run economic value. In this context, we agree with the proposed direction in increasing the focus on the quality of social spending to improve long-run economic performance. We would also like to emphasize that the impacts of social spending can go beyond fiscal issues. Social safety and protection schemes, for example, could have impact on the overall savings behavior of a country and thus affect its external sector as well as exchange rate. In this regard, we see merit in analyzing social spending issues from a wider macro-economic point of view.

While social protection spending is important for achieving inclusive growth, we see the need to avoid, where possible, any potential unintended consequences. Social protection spending should provide the right incentive for people to participate in economic activity, rather than “drip feeding” cash transfers to keep poverty low.

Finally, one issue relevant for social spending is the relationship between government spending and private-sector investment in areas such as education and health. It appears to us that the report has focused more on government spending. We encourage staff to shed more light on the role of private spending in the areas of education, health, and the pension system. Should government spending be better geared towards areas where private investments are inadequate and market failure occurs? Should public spending be encouraged to leverage more private investments, such as in the form of PPP? Staff’s comments are welcome.

Mr. Geadah and Ms. Merhi submitted the following statement:

We thank staff for a well thought-out and comprehensive strategy for IMF engagement on social spending. Social spending issues are likely to remain high on the global policy agenda and merit Fund engagement when judged to be macro-critical. Social spending is also key to achieving country commitments to the 2030 SDGs. Though the Fund has broadened and deepened its engagement in social spending issues in recent years, its involvement has been uneven and there is scope for further progress and improvements, as recognized by the 2017 IEO report The IMF and Social Protection. Among the issues highlighted in the report was the absence of full

operational guidance to staff on how to assess the macro-criticality of social spending. The Board accordingly called for a strategy to guide Fund engagement and improve the consistency of policy advice. We therefore welcome the proposed strategy for Fund engagement on social spending which will help to enhance the effectiveness in this area. We also look forward to FAD acting as a hub for facilitating and strengthening engagement between country teams and other external expertise and stakeholders. We have some additional specific comments:

We agree that Fund involvement should be guided by macro-criticality. We also note that macro-criticality is defined as domestic (e.g., growth and inflation) and external stability (para 16). Is this the prism through which the effects of economic policies on income distribution are considered? Will the strategy incorporate considerations related to public buy-in and social acceptability?

We look forward to the completion of the staff guidance note by 2020. This guidance will help to have a consistent and evenhanded treatment of social protection issues.[4] We reiterate the need for policy advice to be based on in-depth analyses tailored to specific country conditions. Like Mr. de Villeroche and Mr. Meyer, we consider that the guidance note should place clear emphasis on the need for missions to consider the political, social, and historical factors that are at play in each country.

We support relying on in-house analyses even when relevant expertise is available elsewhere. There have been situations where social protection is judged to be critical for program success, and the World Bank was not able to carry out the social impact analysis in a timely manner. We requested this analysis for the program with Egypt.[5] We are therefore pleased to see the importance placed on this analysis in the strategy. We acknowledge that "in-house expertise" may require additional resources, which staff does not expect to be significant at this stage. We also note that the estimates provided in the paper will be updated as experience is gained, and as functional departments gradually increase their support to country teams. FAD had in the past adequate in-house expertise to carry out incidence analysis, which seems

[4] The IEO evaluation pointed out that staff felt that they had not received clear guidance on the type of work they were expected to do related to social protection, which may have led to inconsistent consideration of social protection across the membership.

[5] The Board considered it extremely important to analyze and monitor the social impact of reforms that included a significant devaluation, price increases, and fiscal consolidation. Staff thought that such analysis would be undertaken by the World Bank.

to have diminished due to resource constraints and reprioritization. Could staff comment on plans to rebuild capacity in this area?

We strongly concur that program design and conditionality should be strengthened by focusing on how to mitigate the adverse effects of adjustment on the vulnerable. This is critical to build the public buy-in needed for program success and domestic stability. Social safeguards are emphasized in PRGT and PSI supported programs. GRA programs, on the other hand, have not had the same focus on social spending. We are therefore pleased to see this coverage in GRA programs where critical. We concur with staff that conditionality could be designed in such a way so as to support social spending and improve its adequacy, quality, and efficiency. Often, program conditionality is limited to a social spending target, with little if any attention to the extent to which the most vulnerable groups can be protected and efficiently targeted. In assessing the adequacy of social spending, we recognize that the coverage of targeted groups may be constrained by the data gaps.

We agree that support for country teams will be crucial for a successful implementation of the proposed strategy. This support will need strengthening internal expertise and external support. Collaboration with international development institutions should continue at both the country and institutional levels. Better communication on Fund engagement on social spending issues will help to enhance understanding and avoid misconceptions that could affect the public image of the Fund. We see scope for Fund teams, in program context, to evaluate the efficiency of social spending, including through benchmarking. Providing country teams and authorities with standardized toolkits and data for benchmarking would be useful.

Finally, we consider that technical assistance remains important. Timely TA recommendations can inform the design and implementation of program conditionality, while training can support the design and implementation of nationally-owned strategies to achieve social spending objectives.

Mr. Mojarrad and Mr. Osei Yeboah submitted the following statement:

We thank staff for the set of well written papers and outreach with our office. We recognize the adverse implications of wide social inequality on stability and growth and see merit in streamlining Fund’s engagement on social spending in surveillance and programs. We support the thrust of the proposed strategy, the clarification of the scope and objectives of social

spending, and the 2020 timeframe for developing a staff guidance note (SGN) to help tailor Fund policy advice on this increasingly critical issue.

Staff assessment of the work on social spending, underpinned by policy analysis, stresses the negative correlation between high inequality and sustained growth. With PRGT program designs already incorporating explicit targets on social and other priority spending, the framework proposed, in our view, will help address gaps in even-handedness and the effectiveness of conditionality in program countries. The framework could also be extended to GRA case. Staff rightfully highlight the importance of adequacy, efficiency and sustainability of social spending—in the context of fiscal constraints and country capacity—in program design especially in setting PGRT spending floors. That said, while assessing fiscal sustainability is a Fund core expertise, like other Directors, we would welcome further elaboration on criteria for assessing the adequacy and efficiency of social spending. We further underline the importance of quality data in advising on targeted social spending programs as opposed to universal programs and in designing effective social safety nets.

Spending priorities could vary significantly across countries due to various social and political considerations and the macro-criticality of social spending is at times debatable. In this vein, we welcome the steps in identifying macro-criticality of social spending, which will allow designing of programs that offer adequate social protection to the most vulnerable. We also welcome the clarity on the use of Fund comparative advantage (¶ 25), and believe it is pertinent to rely on relevant international development institutions (IDIs) to provide granular recommendations in cases where in-house expertise is not available. We further agree that, while in principle the framework envisages uniformity of treatment, it is important to ensure that the programs' social spending objectives remain consistent with the countries' macroeconomic conditions and reform timeframes.

We take positive note of the contributions of functional departments and the leading role of the FAD in providing support to country teams. Further strengthening of the FAD to build on its existing toolkits and to hold training seminars for non-specialized staff would be helpful. We note that additional resources for mainstreaming social spending programs are expected to be modest. However, given the important positive impact of social spending on raising traction and ownership, additional needs should be accommodated, especially since the nature of social spending issues is evolving.

We support early collaboration with IDIs in developing country strategies, in close consultation with the authorities, taking into consideration country priorities and institutional capacities.

A robust communication strategy is equally important in ensuring that the Fund policy advice is well understood by the general in order to garner support and social acceptability that are critical to program success. However, we see no role for the CSOs in program discussion and design.

The Chairman made the following statement:

I will dispense with my introductory remarks except to say that this is a large, substantive, and important piece of work which has been prepared by an interdepartmental team, led by the two staff representatives who are sitting at the table. It has had the benefit of a significant amount of consultation and iterative work that was conducted by the team with the Board and also beyond the institution. It reflects well on the great cooperation on an important matter.

The staff representative from the Fiscal Affairs Department (Mr. Coady), in response to questions and comments from Executive Directors, made the following statement: [6]

I thank Directors for their extremely valuable feedback, which we got through the informal Board discussion in January, numerous bilateral discussions, and the insightful comments in the gray statements. This helped us in preparing the strategy. At the outset, we would like to address a few key issues raised in the gray statements.

First, the importance of not crowding out our core activities in the Fund. We have put a strong emphasis in the paper on a clear definition of the scope and boundaries of Fund engagement to ensure this. We also set out clearly when and how staff should engage in social spending issues, and we will provide more granular detail in the Guidance Note. But extensive work exists already in our engagement on social spending issues. This will ensure that advice is evenhanded and consistent. It is really about making it more effective and not just about scaling it up.

The second is the need to avoid duplicating the work of the other development institutions that have extensive expertise in the area of social spending. We have put great emphasis in the strategy on strengthening external collaboration to make sure that we draw on that expertise and make

[6] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

the advice evidence-based and much more tailored to countries' circumstances. The Fiscal Affairs Department (FAD) will act as a hub at the institutional level in strengthening that engagement, but country teams should also engage early in the process to make sure that country priorities and work programs are aligned.

The third issue is the need to strengthen support for country teams. The engagement on social spending is substantial and there are significant resources there, but we have identified a number of areas where this could be strengthened in the short term as well as over the medium term. This will be complemented by advice in the more granular Guidance Note. The finalization of the Guidance Note is planned for the end of 2020, but we expect that there will be numerous intermediate outputs which will be available over the coming months, as we already have started to try to see how we could complement and collaborate with area departments on specific products over the coming months.

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova), in response to questions and comments from Executive Directors, made the following statement:

The fourth issue raised in the gray statements was how to operationalize the macro-criticality of social spending. In this regard, the strategy outlines that 80 percent of mission chiefs already consider social spending issues to be macro-critical, and most of them already provide policy advice on these issues.

The strategy identifies three channels through which social spending can be macro-critical. These are fiscal sustainability, spending adequacy, and spending efficiency. The paper elaborates on these channels through examples and was also informed by case studies. Going forward, the Guidance Note will provide more granular guidance on how to interpret macro-criticality.

The fifth issue was the strengthening of program design and program conditionality on social spending. The strategy calls for more emphasis on mitigating the adverse effects of adjustment on the most vulnerable in Fund programs. In addition to this, conditionality can also be strengthened. This could be done through carefully defining the quantitative targets, prioritizing social spending programs with the greatest impact, improving data quality, appropriately sequencing reforms, as well as helping countries address their administrative constraints and capacity. Finally, conditionality can also be used to create fiscal space in order to sustainably finance social spending.

The sixth issue raised in the gray statements was regarding the importance of external communication. It will be extremely crucial to set realistic expectations and clearly communicate what the Fund can do and what the Fund cannot do. What this means is that, in the country context, the teams have to explain their policy advice on social spending within the broader macroeconomic framework and clearly delineate the boundaries as well as the scope of this engagement. Communication should be seen as a policy tool, and the Communications Department (COM) plays an important supportive role for country teams.

Finally, I would also like to address two questions raised in the gray statements. The first was a suggestion to prepare a separate policy statement on social spending. I would like to point out that the Strategy, Policy, and Review Department (SPR), FAD, and COM are currently finalizing the details of a communications plan for the launch of the strategy that will be headlined by the Managing Director. In addition to the publication of the actual strategy and the accompanying press release, we are also planning a blog and a video. In addition to this, the staff will engage with the third parties with whom we have been consulting. This means the civil society organizations (CSOs), the consultative group, as well as the international development institutions (IDIs), to explain the new strategy. In light of this, we do not see the separate policy statement as necessary at this time.

Another issue that was raised was a proposal to conduct a review of the social spending strategy in the future. The strategy document that we are discussing today provides a broad conceptual framework for engagement, and the implementation of this strategy would be supported by the Guidance Note that will be prepared by next year. We agree that it will be important to review the implementation of the strategy and its impact going forward.

The Chairman recognized the work that had been done by the Independent Evaluation Office (IEO) on social protection and social spending.

Mr. Tombini made the following statement:

Let me support the statement the Chairman just made on the role of the IEO on this issue. As chairman of the Evaluation Committee (EVC), we had the opportunity to discuss this important issue there. I thank the staff for this comprehensive set of papers and also for the outreach with the chairs.

We issued a gray statement, so I will raise just three points for emphasis.

First, we agree with most Directors that the engagement on social spending issues must be guided by the principles of macro-criticality; that is, the Fund has an important role to play, as long as a clear connection between social spending and macroeconomic results and stability can be established, particularly in the context of Fund programs. Moreover, we are convinced that a well-designed social spending conditionality may help to improve ownership and social support for Fund programs.

Second, many Directors have highlighted that assessing the quality of public spending is crucial, and we agree. In our gray statement, we say that the quality of social spending is as important as quantity. Nevertheless, given the resource and expertise constraints, the Fund must focus on areas where its contributions are most needed. In the case of social spending, the Fund is clearly better equipped to assess fiscal sustainability. Whenever necessary, the Fund must work with national authorities and other partners, particularly the World Bank, to evaluate more policy-specific issues, such as spending adequacy and efficiency, as was mentioned in the introductory remarks of the staff.

Third, Mr. Rashkovan, Mr. Inderbinen, and Ms. Mannathoko, among other Directors, mentioned the importance of evenhandedness regarding the Fund's engagement in social spending. Indeed, we believe that this issue is crucial. That is why a broad strategy like the one under consideration today is a timely contribution. In our view, the best way to guarantee evenhandedness is by giving the space for national authorities to define the social spending priorities that must be preserved in the context of Fund programs and surveillance. Because the social priorities may vary across different societies, flexibility is key. Therefore, we agree with the broader definition of social spending, including health and education.

Social spending conditionality must always be perceived by the authorities and society at large as a positive addition to Fund-sponsored programs and not as an extra burden.

Ms. Mannathoko made the following statement:

We appreciate this work that the staff has done to improve the Fund's engagement with member countries on social spending. For us, this is an important issue. It has received a lot of external attention. An effective strategy will help to enable positive outcomes and demonstrate that the Fund is responsive to outside concerns and does work that reduces reputational risk. We are optimistic that, along with the Staff Guidance Note next year, this

strategy will help to achieve more structured and effective, evenhanded advice and program design. That includes carefully considered country-specific circumstances, so we thank the staff.

We also thank the staff for the detailed responses. The staff clearly took a lot of time to look at all our questions. We are happy that many of the questions that have been raised on boundaries and concerns regarding how to engage will be addressed in the Staff Guidance Note. We look forward to a discussion of this in 2020.

We especially appreciate the intention to actively engage with authorities in designing frameworks.

We also welcome the proposed use of multiple analytical sources, including in-country work, to boost the analytical basis for both advice and program design.

As we have issued a gray, I will just limit my intervention to one point regarding the social impacts of programs and the explanation provided, that in-depth analyses may not always be possible as a program is being designed, while the context is different for Article IV consultations. We know the time constraints that a program context brings. We are happy that at staff teams are, nevertheless, encouraged to conduct in-depth analyses, as needed, when they can.

Where a suitable analysis is not available already in the literature or in the in-country consultation and research, we will be looking at whether there is scope for other departments—whether it is FAD, Research (RES), or others—to help fill the gaps that keep recurring that are not already addressed in the literature elsewhere, maybe by carrying out pertinent research on similar groups of countries which will then feed into single country research.

Part of the reason I am bringing this up is because it would demonstrate that the Fund is taking seriously external concerns and building in features which will seek to address those criticisms from NGOs and civil society, relative to the current approach.

Finally, for the policy note and press release that were mentioned, it will be helpful if that could be framed in a way that demonstrates how this new strategy will seek to address the various external concerns.

Mr. de Villeroché made the following statement:

I thank the Chairman and the staff for this very important meeting. We welcome this work. I have issued a long gray statement with my German colleague. I will focus my intervention on three points. But it is important that we issued a common gray statement with Germany on that, so let me praise that.

Regarding conditionality, significant progress has been realized in Poverty Reduction and Growth Trust (PRGT) countries, so we are in agreement with the proposals. More should be done to better define and monitor social spending floors. Since data availability is often limited, further efforts through technical assistance (TA) to improve data collection will be key to deliver on that. Strong cooperation with the World Bank is needed since it has deep knowledge, and can bring its expertise to our programs.

In General Resources Account (GRA) countries, there is more room for progress. It is crucial that the staff, when it designs a program, systematically assesses the impact of a program on social spending and discusses potential spending measures to protect the poorest and the vulnerable. It is important in terms of the sustainability of the adjustment. As we know, we always focus on macroeconomic sustainability, but the social sustainability of an adjustment is key for the success of our programs, too.

Second, we think it is crucial that the Fund continues to reflect on reforming social protection systems. We have many challenges ahead of us: globalization, ageing, technological progress. We need to answer the rising political discontent that we have across the globe. Building on the analytical work done over the recent years, the Fund could do more in terms of bilateral surveillance.

If there is a legitimate case to look at social spending through programs and adjustment, there is the same legitimacy to look at those issues under the surveillance mandate of the Fund. Especially when countries are consolidating and undergoing fiscal consolidation, we need to look at issues like poverty, inequality, social spending. We believe that the Article IV process could place a greater emphasis on these issues, with more systematic inclusion of boxes or paragraphs. We would like to hear from the staff how this framework could be adapted in bilateral surveillance.

I will add a last point on the interactions between climate-related issues and these issues. Our experience is that we have been strong on fuel subsidies. We are advocating fuel taxes. These are social. These measures have deep social consequences. There is a case to work more jointly on our

Paris Agreement agenda, on the one hand, and on how to protect the vulnerable, on the other hand.

Ms. Riach made the following statement:

Uncharacteristically for this chair, we issued a relatively long gray statement. That reflects our strong support for the framework that has been presented and, more generally, our sentiments toward this area of work, which we see as critical to the Fund having a wallet, mind, and heart, as the Managing Director so aptly put it in her recent travels to Africa. I will, therefore, limit myself to three remarks.

First, we see scope for the up-and-coming Guidance Note to provide more granular advice to the staff on how to explicitly consider and factor in political economy questions into their determination of social spending and adjustment measures. This is particularly important for engagement in fragile states, where the right types of reforms can make a huge difference toward consolidating fragile political settlements, and where the wrong types of reforms can inflame dormant conflicts. In this context, we would caution against too strict or too short-term an interpretation of the economic benefits, as in many cases the benefits will accrue further down the line and can be significant.

Second, while I completely take the point that assessing the quality and efficiency of social spending falls outside the Fund's expertise, we cannot simply outsource this important issue to IDIs and cross our fingers. Mission chiefs should engage with IDIs, development partners, and authorities to satisfy themselves that the social spending measures put in place have a good chance of achieving what they are intended to achieve. An example of this was brought to my attention just yesterday by the Department for International Development's (DFID) chief economist, who cited a case of an LIC in Africa, where the Fund had very sensibly advocated for the removal of fuel subsidies. As one would expect, they also advocated a boosting of cash transfers to the poor to cushion the impact, but the proposal was to use the existing cash transfer scheme, which covered only a tiny percentage of the population so, therefore, would do little for the majority of vulnerable households hit by higher prices. This does not mean that the staff should necessarily engage in the design and implementation of complementary or alternative social safety nets, but it does mean that Fund staff need to become a bit more cognizant of the issues and tradeoffs and to work closely with partners.

Third, returning to the wallet and heart image, I would echo the point made by Mr. de Villeroché and Mr. Meyer on managing expectations. We should, nonetheless, not shy away from calibrating our program in the right way and communicating this to the wider public to help build support. I would, therefore, welcome the remarks about the communications strategy.

Mr. Johnston made the following statement:

I thank the staff for the excellent paper and the very substantial background work and consultation that went into it. It is very impressive.

The Chairman mentioned the work of the IEO that kicked off this whole process. It is quite useful to go back and look at this strategy against the IEO's evaluation and the recommendations it made in 2017. It is clear that this strategy addresses each of the IEO's recommendations in a comprehensive way while, at the same time, expanding the focus from social protection to social spending more broadly. We strongly support that.

I do want to make a few comments on the IEO's first recommendation because it hits on the head what a number of Directors have said in their gray statements about macro-criticality and the boundaries of Fund involvement.

The IEO, in its original evaluation, said that while macro-criticality has been the operative criterion for determining Fund engagement, it remains a somewhat nebulous standard. It does not provide a clear working guide for when the Fund should or should not become involved in social protection. It goes on to say that we need to clarify that and clarify the boundaries.

This strategy takes us a long way there, but the forthcoming Guidance Note, as Ms. Murgasova notes, will be important in helping mission teams make decisions on macro-criticality and Fund involvement at a sectoral level. That is the difference between what the IEO talks about as a working guide and what we are talking about here, which is a higher-level strategy.

For example, at the strategic level in this paper, the three channels—the fiscal sustainability, adequacy, and efficiency—are enabling. They illustrate different ways in which a spending issue might be macro-critical. But the next step, which the Guidance Note needs to take up, is about the more granular guidance about whether a particular issue is macro-critical and how to compare that with other macro-critical issues in a country and to what level the Fund should engage.

We also agree with the Directors who identify fiscal sustainability as a key channel and the one the Fund is best placed to advise on.

With that, I thank the staff again for an excellent piece of work.

Mr. Gokarn made the following statement:

We join others in appreciating the work that the staff has done. We thank them for the report and the very useful outreach.

This issue is a concrete manifestation of the new multilateralism. It reflects the Fund's widening and deepening focus on welfare, on inclusiveness, and all of the other things that we are trying to communicate to the global audience in terms of balancing the core mandate with a wider set of concerns. From that perspective, it is a very useful response to criticisms which many of us have personally experienced in our engagement with civil society where, despite all of the work that has gone on, the perception that social spending is always going to be targeted prevails. It is a significant piece of work, and a significant level of follow-up effort will be needed to drive home the message.

I just have a few points to make in addition to our gray statement, and we thank the staff for responding to our questions.

First, on the communications strategy, meeting with civil society has been an important part of expanding our outreach, but I am not sure that we are doing enough to get to the other side of the fence, which is the people who are involved in delivering the services that we are talking about. This is not the usual audience for mission teams. Perhaps in programs, it may have some more weight. But we need to get both sides of the picture, both sides of this equation into a more or less balanced discussion. That will be an important part of how this work will be taken forward.

The second point is on boundaries. Our discussion with the staff indicates that they are very conscious of what the Fund can do and the large institutional context in which its work needs to be appreciated. The macro-criticality concept, as was noted by Mr. Johnston, is a bit fuzzy. The fact that 80 percent of mission chiefs have already engaged in work on this suggests that it is always going to be macro-critical. I do not believe we will be able to make a firm distinction on whether it is or is not in a particular country context. But beyond the impact of specific choices or specific programs on macro outcomes, it is premature for the Fund to be thinking in

terms of issues like targeted or universal transfers or other design elements, which have all of the usual attributes of legacies, institutional capacity, regional variations within countries. All of these factors are complex and best left to people with a much greater connectivity with on-the-ground realities of program design.

But the consequences of specific choices in terms of the impact on macro-outcomes is very important. This highlights tradeoffs, the limits on how much money can be spent on this process without eating into fiscal space. We look forward to this work being concretized through the Guidance Note, and we intend to stay in close contact with developments.

Mr. Kaizuka made the following statement:

I will focus on only one area, which is the macro-criticality issue.

The previous speaker identified the issue of macro-criticality and the three particular channels, which are fiscal sustainability, spending adequacy, and spending efficiency. Fiscal sustainability is easy to understand, to some extent, but adequacy and efficiency are complex concepts. It is difficult to define adequacy and efficiency. The staff's response to our question states that this will be identified a granular way in the Staff Guidance Note. The Staff Guidance Note is a very crucial instrument to guide us, to guide this institution on doing better work on social spending. We are quite interested in how it will be formulated. More importantly, after the formulation of the Staff Guidance Note, we need to monitor and evaluate the real implementation, how that note contributes to enhancing the efficiency of social spending and the quality of social spending. It is premature, but we would like to hear something about the future steps for monitoring and evaluating this formulation of the Staff Guidance Note.

Ms. Mahasandana made the following statement:

We welcome the staff's excellent effort to address the recommendations of the 2017 IEO report and to provide guidance on the Fund's engagement on social spending. We have issued a joint gray statement with Ms. Levonian and Mr. Johnston and have some remarks to offer.

We agree with having macro-criticality as a guiding principle for the Fund's engagement in social spending. We seek clarification on how to operationalize the macro-criticality channel in a practical and effective

manner. We anticipate the Staff Guidance Note will address the following issue.

In determining macro-criticality, clear guidance is required on the appropriate prioritization of the range of macro-critical issues confronting a country. Like Mr. Kaizuka and other Directors mentioned in their gray statements, we view that the assessment of the efficiency and adequacy channels may be more difficult, as they may be beyond the Fund's expertise. Furthermore, in low-income developing countries (LIDCs), where informality and low capacity may be more prominent, the efficient option may not be available.

We would like to reiterate the need for more flexibility and more of an outcome-based approach, where the assessment of macro-criticality and the provision of the policy advice takes into account the different historical, political, and social factors in each country.

An overly prescriptive approach should be avoided to recognize each country's own policy objectives and different approaches to achieving the intended outcome. The Fund's engagement should focus on empowering countries to achieve their desired outcome, irrespective of the form or the structure that countries may prefer to undertake, given their idiosyncrasies. This may be more applicable to the consideration of the adequacy of social spending, which should be based on a specific country context.

We also would like to highlight the importance of TA in building the capacity to accomplish the desired social outcome. The Fund can provide TA in its core areas of competence and should recognize the other IDIs would take the leading role in their areas of expertise. The timing of the TA is also crucial, as the benefits of the social programs can be optimized if implemented effectively. In addition, we welcome the anticipated strengthened collaboration with IDIs and the internal reorganization to better use the Fund's existing resources. However, more clarity needs to be provided on how this would be done to ensure they are effective and responsive to ongoing developments. We agree with other Directors that collaboration should be formalized to ensure the availability, when needed.

Lastly, we join other Directors and also echo Mr. Gokarn in emphasizing the importance of effective communication of the social spending issue among the Fund, country authorities, and other relevant stakeholders. Great care is needed to nuance the Fund's advice, as necessary, given how politically and socially sensitive the topic can be. The authorities'

full commitment is key, which also entails a difficult tradeoff. This would also lend support to enhancing the traction of the Fund's advice.

Mr. Raghani made the following statement:

I would like to associate myself with other Directors in complimenting the staff for their well-elaborated report and for their valuable outreach to our office.

We firmly believe that the proposed strategy represents an important step toward making the Fund's engagement on social spending with member countries, as well as IDIs and other stakeholders, more effective. In our gray statement, we have highlighted a number of key issues that deserve attention when preparing the Staff Guidance Note prior to the implementation of the strategy. I would like to stress the following two points.

On strengthening quantitative conditionality, we have cautioned against setting constrictive floors at the structural level and call for an extensive discussion with authorities on this issue. Other Directors have expressed similar views, including Mr. Tombini, who noted that the authorities' discretion to prioritize within the social budget should be preserved. Ms. Riach has called for an in-depth conversation with authorities on their definition of social spending floors.

On the Fund's policy advice on universal and targeted social assistance benefits, we have insisted that the choice between targeted and universal transfers should depend on country preferences only. Like Mr. Fanizza, we consider that the social model that best suits the needs and preferences of each country is up to the authorities and that the role of the Fund is to help achieve the outcome of a member's social model.

That being said, I would like to make the following additional few comments after carefully reading Directors' gray statements and listening to some oral interventions.

First, on the definition of social spending, we agree that this definition should be country-specific, as suggested by the staff report. However, like Mr. Mouminah, we agree that, given the differences in the extent and the coverage of the various social sectors, it could be challenging to make cross-country comparisons between member countries in their achievements and commitment to social spending.

In addition, certain types of social spending can affect multiple sectors, and are therefore difficult to categorize within any specific social sectors, as we indicated in our recent joint gray statement with Messrs. Mahlinza and Mojarrad on the 2018 Review of Program Design and Conditionality.

On the macro-criticality of social spending, we support the approach outlined in the report, namely, that social spending is likely to be considered macro-critical if it is unsustainable, inadequate, and inefficient. However, we agree with Mr. Inderbinen, that there is a need for more granularity in the Staff Guidance Note on this issue to assist staff in determining whether a social spending issue is macro-critical or not.

Third, on the adequacy of social spending, we would like to associate ourselves with the Directors who have emphasized the challenges related to the assessment and the determination of the adequate level of social spending in any country, including Mr. Rashkovan and Mr. Mozhin. Close collaboration with other IDIs will be critical in this area.

Finally, on the upcoming Staff Guidance Note, we support Mr. Gokarn's calls for sharing the Guidance Note with the Board prior to its issuance, as well as Mr. Mozhin's request for its publication.

Mr. Inderbinen made the following statement:

We thank the staff for the comprehensive reports. We also appreciate the outreach prior to today's Board meeting.

A strategy for the Fund's engagement on social spending is certainly timely, not least in the face of globalization challenges and technological change; but we also see it as timely due to the heightened vulnerabilities to fiscal and debt sustainability among the membership. These vulnerabilities need to be addressed by strengthened fiscal policy, of which sustainability of social expenditure is an integral part.

We agree with the broad outlines of the strategy, which follows up on the 2017 IEO evaluation that found that the Fund did not have institutional clarity on social expenditure and that direction to staff was, consequently, not always clear. This document and the further work by the staff will be instrumental in rectifying this.

This being said, the definition of social spending that we are adopting is a broad one, for good reason, but the breadth does come with its own

challenges, as Mr. Mouminah, Mr. Alkhareif, and Mr. Rouai noted it in their gray statement. The concept of macro-criticality will be central to staying focused and implementing the strategy as intended. I would like to make two remarks on this.

First, on macro-criticality channels, as the staff have developed the three channels, they provide a good starting point for guiding the Fund's engagement. But we would tend to agree with Mr. Agung, Ms. Levonian, and Mr. Johnston that there is a certain interdependence between the three channels, with fiscal sustainability having a more obvious and direct link to domestic and external sustainability and, thus, to the concept of macro-criticality. Interdependence does have implications for the operative usefulness of the whole concept.

Second, as underlined this morning by Mr. Johnston, Mr. Kaizuka, and Mr. Raghani, the need to stay focused has put a premium on a clear Staff Guidance Note. As many chairs have also pointed out in their gray statements, granular guidance will be required to ensure a consistent application of the strategy. The Staff Guidance Note should strive to provide as much clarity and common understanding as is possible. We took good note of the work underway on the Guidance Note.

Mr. Rashkovan made the following statement:

We thank the staff for a well-written report, as well as for the useful and timely engagement with our office. We also join other Directors in appreciating the IEO's work on this issue.

We strongly support the Fund's increased engagement with the social spending issue and broadly support the proposed framework, including broadening the definition and scope to include health and education.

We issued a gray statement. Let me focus on two topics regarding the framework.

First, on the tradeoff between the need to address the country-specific factors and preserving evenhandedness as much as possible, like Mr. Mouminah and Mr. Tombini, we hope that the strategy will be helpful to guide the staff's work, which should be evenhanded in the coverage of social spending, surveillance, and other work streams.

Second, like Mr. Kaizuka, we recognize the importance of social spending for supporting political stability and expect that this will be reflected in the Summing Up. We know that the proposed strategy recognizes that spending adequacy reflects the importance of social spending for ensuring economic and social stability. In addition, social and political stability are the most common reasons quoted by mission chiefs for macro-criticality for social spending. In the forthcoming Guidance Note, we would urge the staff to think about how to assess the expected impact of social spending on social and political stability, particularly in program countries.

Mr. Merk made the following statement:

We thank staff for the excellent, substantive, and comprehensive set of papers.

As we have outlined in our joint gray statement with Mr. de Villeroché, Mr. Castets, Mr. Buetzer, and Mr. Sode, we fully support the proposed strategic framework on social spending. We are convinced that this is an important endeavor to help the Fund fulfill its mandate.

We agree that macro-criticality is the appropriate guiding principle for when to engage on social spending issues and welcome the proposed multi-pronged approach along the dimensions of fiscal sustainability, spending adequacy, and spending efficiency.

It is of the essence that social spending is well targeted and provided in an efficient and effective manner. In this context, as Mr. Kaizuka and other Directors underlined, the Staff Guidance Note deserves great attention.

While we have to be cognizant of the potential tensions between a necessary fiscal adjustment and the protection of the vulnerable, social protection measures can be important to build public support and political ownership of a program, thereby reinforcing the chance of a program's success. Thus, we agreed with the staff that there is room to strengthen quantitative conditionality on social spending on a case-by-case basis. In its work on social spending, the Fund should harness the expertise of other institutions, and we welcome the staff's introductory remarks in that regard.

Lastly, as also stressed by many other Directors such as Mr. Mouminah, Mr. Ostros, Mr. Inderbinen, and Mr. Lopetegui, we would like to underscore the importance of pursuing a cautious communications

approach which, being mindful of the Fund's credibility, has to aim at setting realistic expectations.

Ms. McKiernan made the following statement:

We thank Mr. Coady and his staff for the excellent work in developing this paper. It is a very big and important area, and we appreciate the increased prominence and analytics that have gone into this.

There is a clear and logical framework for when and how the Fund should engage on social spending issues. We appreciate that now the staff has put more meat on the bones of that framework and have incorporated feedback from Board stakeholders and have supported it with analyses and case studies.

Overall, taken together, this is a good basis for developing the Guidance Note, which we look forward to seeing. I am only going to highlight three areas where work needs to be done.

First, and as flagged by Mr. Johnston and Mr. Inderbinen, the definition of macro-criticality will need to be tightened further and supported by case studies and additional granularity in areas like spending efficiency and adequacy. When it comes to assessing efficiency, it is worth considering the efficiency of spending, relative to the authorities' own priorities and goals and their desired outcomes, as well as using the more objective analysis.

Second, while the role of the Fund in providing independent advice is essential, the Guidance Note should also emphasize the degree of pragmatism. As Ms. Riach said, there is merit in providing guidance to staff on how to deal with political economy constraints. The staff should find the right balance between an efficient policy and a viable one.

Third, we continue to emphasize the importance of the communications and outreach strategy. We are pleased to see that the staff plans to work closely with COM on developing a higher standard for communicating with external audiences. The counterpart to this is better knowledge exchange within the Fund. We welcome that FAD's work in this area, through the existing knowledge exchange system, is mentioned, and we encourage more knowledge exchange efforts internally.

Mr. Ostros made the following statement:

We thank the staff for an excellent paper. This is an important piece of work, and my constituency is very engaged in this work. I would like to commend, the Managing Director for championing this work stream.

We have been engaged in social protection issues for a long time, but this gives more of a fundamental basis for how we will deal with it going forward. The IEO report was also very important in this aspect.

The strategy gives a clear framework to define the boundaries and help to assess the macro-criticality for engagement. We strongly support the approach that social spending can become macro-critical through fiscal sustainability, spending adequacy, and spending efficiency.

Going forward, we need more detail on the actual boundaries, especially in the area of spending efficiency, where in many cases, the expertise lies outside the Fund. Thus, we encourage the Guidance Note to aim for a clear, transparent, and more granular guidance for Fund engagement.

The importance of working together in a systematic manner with other institutions cannot be overestimated. We have taken important steps forward in cooperating with the World Bank in recent years. This must be deepened even further in this field. We look forward to the IEO's work on collaboration with the World Bank. That can give us also a push forward to develop this deeper cooperation.

When we increasingly engage in social spending issues, the Fund will increasingly be held accountable for the outcomes. We would like to strongly emphasize the importance of managing expectations, defining the role of the Fund through communication in cooperation with country authorities, not least in program countries. That was also stressed by the staff in their first intervention this morning.

Finally, my constituency also has been engaged in country case discussions on how the Fund provides policy advice on targeted versus universal social spending. We appreciate that we take steps forward now in nuancing our recommendations in this field. This is a complex and multi-dimensional field, and there is no one-size-fits-all prescription.

The experience in my constituency, bearing in mind fiscal sustainability, is that universal benefits can have significant positive macroeconomic effects—for instance, on labor supply, decreasing some of the marginal costs or income traps associated with more targeted benefits.

Universal benefits may also increase trust in the state and people's willingness to pay taxes. I appreciate that we now have a more nuanced view on what type of advice we give in that field.

Mr. Geadah made the following statement:

I thank staff for the papers, which I thought were really good, like Mr. Johnston and Mr. Ostros.

This is a very important issue for the Fund. We tend to focus on growth and less so on income inequality and social protection. These are important issues, not to avoid political and social backlash against the adjustment. In addition, one of the objectives of growth should be improving the prospects for the people who are less well off.

We support the proposed strategy and look forward to its application in an evenhanded manner, while taking country-specific circumstances into account.

For us, the most important point in this strategy is that the staff will assess the social impact of the adjustment programs and reflect on measures that could be implemented to protect the vulnerable. It will be important to assess the adequacy of the existing social safety nets and not rely on floors on social spending. Like other Directors, we also call for the Guidance Note to be shared with the Board prior to its issuance.

Like Mr. Mozhin and perhaps Ms. McKiernan, I would like to raise the issue of restricted access to Fund's knowledge exchange and other resources.

Finally—and this is a comment to the Secretary's Department (SEC)—I am sure this week's schedule was unavoidable, but I hope we can avoid this bunching, unless it is absolutely necessary in the future.

Mr. Just made the following statement:

We thank the Chairman for the introductory remarks, which we fully share. We would like to join her praise for the staff.

The process, starting with the IEO discussion, the informal Board meetings, as well as the frequent outreach, with sometimes intense, controversial, but fruitful discussions until today's Board meeting, was

exemplarily well managed and has resulted in today's proposed strategy, which we broadly support and endorse. We would like to make three remarks.

First, we fully agree with the overall objective of making our engagement on social policy more effective and that policies, in general, should be sustainable, efficient, and adequate. Like many other Directors, we see the fiscal sustainability dimension of social policy as a core competence of the Fund. However, by adding the adequacy and efficiency dimensions, an already difficult and politically very sensitive topic becomes even more complex; and echoing other Directors, we wonder whether the macro-criticality lens is sufficiently sharp to guide our involvement in social policy.

Putting additional lenses and filters on top of the macro-critical one may also increase fuzziness. We agree with Mr. Inderbinen and Ms. McKiernan that this puts a significant premium on a sharp, well-focused, granular, and balanced Staff Guidance Note so that the boundaries of our engagement become sufficiently clear and we meet our own objective of effectiveness. It also puts a significant premium on our general communications strategy, as well as on the staff's interaction with authorities and stakeholders. We thank Ms. Murgasova for giving us reassurances on these aspects.

Further thinking is also required on how to square an engagement that needs to be country-driven to have an impact with efficiency, adequacy, and quality considerations. The data require normativity in benchmarks, while the former mixes often short-term political priorities with social choices that have often deep historic and cultural roots. Possible tensions will need to be carefully managed. For example, in many European countries, the welfare state is, to a certain extent, a practical expression of citizenship. While ageing, automation, and digitalization borrow from discussions on the sustainability of our welfare models, as well as of the intertemporal/intergenerational distribution of choices, an efficiency analysis, especially if it were to be based on a more libertarian idea of minimal states, would not necessarily be fruitful for the role of the Fund as a trusted adviser.

Lastly, social spending is a welcomed focus now, but it should continue to be complemented by addressing some of the root causes of inequality in our inclusion work. For example, the taxation of disposable incomes is often a root cause of inequality, while inclusion can be more forcefully addressed with economic reforms that make markets function

better, address the market power of corporations with smart regulation, and ensure that rents are actually taxed.

Mr. Di Tata made the following statement:

We thank staff for this thoughtful set of papers. Staff has done an excellent job by incorporating in this final version the feedback received from the Board.

We agree with staff that macro-criticality is an important guiding principle for the Fund's involvement in social spending and believe that the framework proposed in the report captures the main channels through which social spending may be macro-critical.

Fiscal sustainability has always been at the forefront of the Fund's analysis and is likely to become even more of a concern due to the impact of population aging on pension and health spending. Spending adequacy is a complex issue, as it is difficult to determine the adequate level of social spending to foster inclusive growth, protect the vulnerable, and address political concerns, which vary across countries. Spending inefficiencies can result in suboptimal social outcomes or excessive levels of spending in certain areas, lead to higher taxation, or create significant work disincentives.

We agree that Fund engagement on social spending issues should be guided by an assessment of the macro-criticality of the specific social issues at hand and the existence or not of in-house expertise. When in-house expertise is lacking or insufficient, Fund staff should leverage the expertise of IDIs, avoiding a duplication of efforts.

We believe that core areas in which the Fund should continue to focus include specific social protection issues, such as price subsidies and the viability of pension schemes, the identification of spending inefficiencies, the calculation of spending gaps in LICs to achieve their Sustainable Development Goals (SDGs), and the implication for domestic resource mobilization.

Fund staff should make it clear that it has no preconceptions regarding the use of targeted versus universal transfers, but that proper consideration should be given to the tradeoffs involved. Overall, the Fund should continue to pay due attention to minimizing distortions and targeting social protection benefits to those who need them the most, avoiding significant leakages. However, staff should be flexible, as in some cases the resources required to

effectively implement means-testing may imply that targeting schemes end up being more expensive than universal ones and run the risk of excluding large segments of vulnerable populations.

We also believe that there is scope to strengthen quantitative conditionality in Fund programs. In general, country teams use performance criteria, such as spending floors or indicative targets, to establish program conditionality, with many programs relying on indicative targets. The main reason behind this preference seems to be that data on social spending are not of enough quality to set meaningful spending floors. In those cases, we believe that the structural conditionality supported by capacity development could be used to incorporate measures aimed at improving data quality and timeliness.

A good external communications strategy is key to support the Fund's engagement and increase the impact of its policy advice. The Fund should indicate clearly the boundaries of its engagement in this area, emphasizing how it integrates with the overall macro-fiscal context and policy strategy.

We look forward to the issuance of the Guidance Note, which should help country teams prioritize when and how to engage on different social spending issues.

Ms. Pollard made the following statement:

I thank the staff for this excellent work. Mr. Inderbinen made incredibly important points on the timeliness of this work, and I would add that in an era of low productivity, looking at how best to use social spending to increase human capital is important. I agree with Mr. Kaizuka and Mr. Rashkovan on the importance of social spending for political stability and also for program success.

I want to highlight a point that Mr. Rashkovan made in his gray statement, that social spending may not be sustainable because of limited fiscal space in program countries. In this respect, the findings of the Review of Conditionality, which we will discuss tomorrow, on the quality of fiscal spending are relevant. It will be important for the staff to work closely with the authorities on determining how to allocate expenditures and mobilize revenues to protect necessary social spending. I want to raise the importance of drawing on the expertise of other organizations to understand adequacy and efficiency issues. I also want to echo the points Mr. Di Tata made on the importance of data collection and providing TA to improve data collection.

Ms. Riach and Mr. de Villeroché made some interesting points on the importance of looking at reducing subsidies and social spending and not just increasing social spending but also making sure that it is getting to the targeted groups. Work with the World Bank and with other multilateral development banks can be incredibly critical to the success of a program.

Ms. Mannathoko's point on the in-depth analysis is also important. I also take the staff's point that these programs often do not have the space to look at this issue. Addressing these issues within the context of routine surveillance becomes important so that one can address them before countries end up in programs.

Finally, I also want to welcome Ms. Murgasova's points on communication.

Mr. Mojarrad made the following statement:

We thank the staff for the set of well-written papers and their extensive outreach. We have already issued a gray statement and strongly support the proposed strategy on social spending, applied in an evenhanded manner in surveillance and program contexts. I will limit myself to a few points of emphasis.

We agree that macro-criticality should be the guiding principle for Fund engagement on social protection. Fund staff has gained considerable experience over the years in designing social safety nets, but where in-house expertise is lacking, other development partners should be consulted in setting social spending priorities as a part of a broader systematic interorganizational coordination, given differences of views on definition, coverage, and approach to social issues.

Fiscal sustainability is often the macro-stabilizing factor, and social spending is often framed within fiscal constraints. As such, social spending should be assessed within a broader budgetary framework, encompassing revenue mobilization and expenditure prioritization and efficiency across spending cycles.

Social spending and income support programs should be well targeted and progressive. To that end, the quality of data is critical to identify the vulnerable groups and avoid one-size-fits-all approaches and benchmarking.

Policy advice should always take account of countries' administrative shortcomings, as well as the authorities' best judgment on social and political constraints. A government's ownership of social spending programs is always essential for the success of the social spending program.

Finally, we agree with the proposed communications strategy and would stress the importance of clarifying the boundaries of Fund engagement, consistent with its mandate and expertise.

While we encourage nurturing a national dialogue on social spending with CSOs, local experts, academia, unions, and faith-based groups, there are limits to their involvement in policy design.

Mr. Fanizza made the following statement:

I thank the staff for their excellent work and particularly for the intense dialogue the staff was willing to have with our chair and for their patience.

I agree with almost everything Ms. Riach said in her intervention. The communications approach may be different for our chair. When we issue a short gray statement, it means we like the paper proposed. When we issue a long paper, not so much. Le us make it clear.

The reason why I liked her intervention, as well as Ms. Mannathoko's intervention, is their emphasis on the impacts, that what we need to work on is developing ways in which we can place more emphasis on the real impacts of social spending—so more emphasis on the outcome, less on the input. We need to do it leveraging the expertise of development partners and multilateral development banks, which is important and feasible. It can be complicated, but any spending program which is supported by development partners by now has already been built in statistical information that would allow doing randomized controlled experiments, which does not mean that we have to do it, but there are people whose job is to do it. We need to leverage it. We cannot get a trend of a PRGT program and say there was a lot of social spending, but we do not know the impact it had. That is the way in which we would like the work to go.

The last point is on the communications strategy. It is key. It is important. We fully support that. But in order to be successful, it requires leveraging the issue of impact. Otherwise, we will come across as insincere and it will seem like a PR exercise.

With that, I made my intervention short, which means I support the paper also.

Mr. Moreno (CE) made the following statement:

I would like to focus on a few issues that we would like to see in the Staff Guidance Note.

First, we strongly support the focus of the Fund on social spending. Mr. Gokarn mentioned that it is essential to the new multilateralism. We believe it is important that the Guidance Note reflects explicitly or implicitly that the Fund needs to be very much engaged in these two rationale outcomes. The traditional focus on growth and confidence in trickle-down no longer works. We need to have inclusive growth, and the staff needs to balance growth and equity when they are assessing economic policies.

Second, we also support the wide definition, as presented by the paper, and also the trends and the evolving nature of social spending, so it will need to be updated in time.

Third, Ms. Riach stressed the importance of having, at a minimum, in-house expertise. If we do not have it, it is naturally difficult for an institution to take as given the advice by third institutions. We need to develop some in-house expertise.

In essence, I agree with the staff that it is a necessary but not sufficient condition. But in terms of image, it is necessary and it is sufficient. Another question is to ask, to what extent should we be involved? If it is macro-critical, it should be dealt with and, at a minimum, at least signal that there is a macro-critical social spending issue in the country. Another thing is to get involved in specific policy recommendations.

By the way, on cooperation with other institutions, I believe the definition of IDIs is a bit narrow. I would like to see a broader perspective in the Guidance Note. It is not only expertise from development institutions, it is also expertise from national, regional, and other multilateral institutions, such as the OECD, when one is trying to get the external expertise.

On macro-criticality, we have to stress that the most difficult issue is to operationalize adequacy. We have to clearly take into account ownership and political economy concerns and country specificity concerns. We have raised some issues in our gray statement on pensions and spending floors,

which are subject to the tradeoff of fiscal and social sustainability. It is important to have some flexibility on the mission and on the mission chief to be able to judge what are the most relevant aspects of the adequacy for a specific country.

Finally, in the paper, there is a strong focus on lending. The guidance note, as we understand it, is for surveillance guidance, and capacity building was not sufficiently considered in this paper.

I also share the proposal to share the Guidance Note with the Board ahead of time.

Mr. Jin made the following statement:

We thank the staff for the comprehensive set of papers. We broadly support the Fund's efforts to establish a strategic framework to facilitate a consistent approach to its engagement on social spending. We welcome the staff's illustration of the macro-criticality of social spending through the three different channels.

We agree that these channels are interrelated, but it is often not easy to satisfy all of these three dimensions at the same time. Among the three channels, efficiency is the constraint or requirement. Regarding the remaining two channels, shall we pursue the adequacy of social spending on the premise of fiscal sustainability? Or shall we pursue fiscal sustainability on the premise of the adequacy of social spending? Which constraint is harder than the other in practice?

If fiscal sustainability cannot be met to satisfy the minimum sufficiency requirement, can the Fund mobilize additional resources to satisfy the sustainability conditions? Whether the Fund has discretion to adjust the definition of, or the understanding of, adequacy or sustainability as necessary, some flexibility must be allowed in this framework.

Mr. Alhomaly made the following statement:

We thank the staff for their work on this important topic and for their outreach. In our gray statement, we broadly endorsed the proposed strategy for Fund engagement in social spending. Today I would like to make a few specific points.

First, social spending has always been a critical element of members' policies to promote inclusive growth and to reduce poverty and inequality. We note, however, that in program cases, while health and education spending were generally protected, spending declined in many instances. Therefore, we look forward to the Review of Conditionality to better identify the causes and to offer guidance on how to better increase and protect such spending.

Second, we agree with the proposed key channels that define macro-criticality; i.e. fiscal sustainability, spending adequacy, and spending efficiency. However, as pointed out by Mr. Kaya, Mr. Just, and Mr. Mehmedi in their gray statement, the definition of macro-criticality remains too broad and vague, as many issues could be defined as macro-critical. A case in point is the staff's suggestion to build in-house expertise whenever a critical mass of members find particular structural issues to be of macro-critical importance. We do not agree with that conclusion since, as rightly pointed out by the staff, "the macro-criticality filter could imply a massive expansion of the Fund's advice on specific structural issues, some of which fall beyond its expertise." However, we agree with the staff that adequacy and efficiency are complex concepts. Therefore, we look forward to the planned Staff Guidance Note, which will elaborate on this issue at the sectoral level.

We also find the staff's emphasis on country-specific circumstances to be appropriate. Let me pick up on a point made by Ms. Riach, which we fully agree with, that even when we leverage the expertise of other institutions, we have to understand the authorities' goal and objectives and align the methodology used with those objectives.

The third point we would like to make is that we believe the strategy will be helpful to guide the staff's work, which should be evenhanded. Cooperation with IDIs also should be a critical part of this strategy. Similarly, we consider that communication and outreach are critical for its successful implementation.

One general point I would like to make is that data limitations in some countries constrain the accuracy of the estimated social spending. To this end, it is important to be vigilant, as sometimes numbers do not reflect the reality on the ground. Therefore, estimating social spending needs should be done in very close dialogue with the respective authorities.

Mr. Mozhin made the following statement:

We have issued our gray statement, and in this written statement, we attempted to make it clear how supportive we are of this whole work stream, so I will not repeat this.

Indeed, what can be more macro-critical than social peace and political stability? I am not surprised that, among those who mentioned this point were Mr. de Villeroché and Mr. Rashkovan, because the enormity of the consequences of the French Revolution of 1789, as well as the Russian Revolution of 1917, which also affected Ukraine, were such that it remains a big part of the national memory, even now.

The history of social conflict is as long as history, itself. Perhaps we should ask Mr. Fanizza to tell us the history of civil war in the Roman Republic, which lasted for about 100 years, all the way until Julius Caesar attempted to put an end to it and got murdered himself.

I have two main points. First, we should not underestimate obstacles in this work. The diversity in social systems is so great that practically every country is different. Social policy, together with tax policy, is bread-and-butter in the political process in every country, and no country will enjoy outside interference in these matters. It is difficult to speak about best practices in social policy matters. I do not know any examples of countries which could be seen as standard-setters in either health care or education. We should not underestimate obstacles.

My second point is that we will probably not be able to make any substantive progress in this area without developing at least some internal expertise in these matters. This will require attention and some spending on this because, without it, I do not see how we can be well equipped to advise our member country authorities on social policy matters.

The staff representative from the Fiscal Affairs Department (Mr. Coady), in response to further questions and comments from Executive Directors, made the following additional statement:

I thank Directors for supporting this strategy and agreeing that this is an effective approach to strengthening our already intensive engagement on social spending issues. We recognize the importance of the Guidance Note and of it being more granular. In this respect, we will be quickly moving toward a sectoral approach, looking in much more detail at the individual components of social spending, which is required for that granularity.

I will touch on a few issues. One is the issue of quality. While we do believe that the Fund has an important catalytic role in keeping the issue of quality and even adequacy at the forefront of discussions, we do recognize that, as we get into these areas—in particular, in the areas of education and health care, where service delivery is important and our expertise is not strong—that engagement with our development partners is key in this area. We will be working hard in that direction. The engagement with the development partners would help strengthen our links to the line ministries in the countries.

As regards in-depth analysis, similarly, it is important to engage with our development partners to be able to leverage the very large resources they have for such in-depth analyses and complement their work in areas where we think there are gaps that are more relevant to us.

Evidence-based policy is at the heart of any policy advice we give, but we have many other agencies that can help us in that.

On social spending and surveillance, it is important to engage in surveillance, even in looking forward to the possibilities of having programs. There are possibilities of doing work there that one cannot do in the urgent environment of a program.

The important role of cross-country work should be flagged. Going forward, we will be looking to further strengthen the cross-country work, which helps engagement at an early level with the authorities on a range of issues.

In the area of monitoring and evaluation, we agree that we have to be driven by a desire to find out whether this strategy is having an effect. In this regard, I do not think we have to wait until the Guidance Note comes out. What is really important is how we engage over the next six to eight months with area departments in making this more operational. In this respect, we have a very strong review process in place, both in SPR and FAD. It has worked well in the inequality framework. It will work equally well, hopefully, in the context of this. Already we see improvements in that area.

Finally, there was a question about the flexibility of the framework and adequacy was mentioned in particular, but efficiency is also important. When we move into the areas of adequacy and efficiency, in particular, it should be driven by engagement with the authorities in terms of what are their preferences, their social objectives, and their preferences for the types of

instruments they need. But the Fund has an important role in integrating that discussion into overall financing and macro-fiscal frameworks. The recent work we have done on the SDGs is a good example of where the boundaries may come for us in some of these areas, where we had a catalytic role in identifying the importance of focusing on financing and anchoring any discussion of the SDGs to create financing and to create some urgency there.

On the issue of political economy, we agree that the movement from policies to advice needs to take into account political economy. We believe that the packaging of reforms—not just looking at increasing prices or taxes, but packaging tax and spending reforms so people see the benefits of those reforms—must have an appropriate recognition of the need to sequence reforms, and also communication that these are very important parts of an overall political economy approach to policy.

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova), in response to further questions and comments from Executive Directors, made the following additional statement:

I would like to address the issue of macro-criticality. We hear and note the call from Directors for more granular guidance to staff on how to interpret macro-criticality, particularly in the areas of efficiency and adequacy. On these issues, the collaboration with other development partners will be key to support the staff.

I would also like to note that the Fund already has a number of tools to assess efficiency and adequacy. In this regard, internal communication and supporting teams by making them more aware of these tools and how to utilize them better, and making them more accessible would be important.

Furthermore, in developing the more granular guidance to the staff, SPR's and FAD's in-reach to area departments and to country teams will be crucial to understand, specifically, what were the macro-critical issues across countries.

Now, with respect to the granularity of the definition, I would also agree that the definition of macro-criticality will need to maintain a degree of flexibility in order to accommodate the varying country circumstances, which a number of Directors have emphasized.

In line with the Integrated Surveillance Decision and the surveillance Guidance Note, macro-criticality is left to the judgment of the country teams

after consultation with the authorities and other relevant parties. It would be important to maintain that judgment for country teams in the specific country's circumstances.

Finally, I would also like to note that the definition of macro-criticality would need to be flexible enough to encompass the evolving nature of social spending needs. A number of Directors have mentioned technological progress, population aging. As the Fund gains expertise with these issues and as those issues evolve over time, it will be important that we acknowledge that some issues that are currently non-macro-critical may become macro-critical in the future and vice versa. Therefore, the definition should be flexible enough to cover this progress.

The Chairman made the following statement:

I want to come back to the point Mr. Coady made about packaging because I find it quite striking. Ms. Riach mentioned this recommendation to remove subsidies and to allocate the funding to this cash transfer program, which clearly seemed to be too specific, too small, and too narrowly targeted. How would the staff reconcile the packaging and the actual proper measurement of where it should go to and how can we be more efficient in terms of social spending?

The staff representative from the Fiscal Affairs Department (Mr. Coady), in response to further questions and comments from Executive Directors, made the following additional statement:

How countries go about protecting vulnerable groups during adjustment would reflect a number of things, such as their preference for the type of instruments they have, and countries have different preferences. There are many different types of social protection programs. It is really the combination of those programs that matter, not only one individual program. But it also should reflect their capacity to implement these programs. Without a doubt, many people have raised the issue that doing means-tested programs in developing economies with large informal sectors is very challenging. Then the question becomes, can they use the existing set of programs in the short term? But also, can we sequence the reform strategies? This is often how we talk about it in the context of energy subsidies reforms. Can we sequence the reform strategy so that it does not have a large poverty impact at the beginning? For example, focusing on gasoline or whatever the country context, using the programs that we have, but having a clear strategy for developing the program over the medium term. If that involves the need to

move toward child benefits or different age groups, social pensions, things that many people support which are somewhat easier to implement over a shorter time frame than a means-tested program or possibly even a public works program, if it is not there. These are the calls that countries have to make. But what is important is to tie both of those together.

We do not increase fuel prices for the fun of it. We increase them to finance very important social spending and other spending. Very often, we maybe are guilty of focusing on increasing fuel prices for fiscal sustainability, which is really key. But if we want to build up political economy, we have to start with the discussion with the argument that there are many gaps in the social spending and physical infrastructure, and we need to have policies, taxes, and energy subsidy reform to do that. It is not just social protection here, it is also infrastructure and other areas.

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova) noted that many Directors had requested that the Staff Guidance Note be shared with the Board before its issuance. She remarked that under the current policy, Guidance Notes were circulated to the Board for information only.

The Chairman made the following statement:

That is a good clarification. However, given the way the staff has produced this impressive work, there is a lot of consultation that the staff has conducted and that I am sure the staff will be conducting as well. Because my understanding of the Guidance Note is that it will be a preliminary process in the next six months on an exploratory basis with area departments in order to test the best and the brightest methods to reflect in the Guidance Note, and that will be also be part of the dialogue that the staff will have with the Board in that respect. Is that correct?

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova) confirmed the Chairman's understanding.

Mr. Etkes made the following statement:

I would like to address the comment by the staff about political economy issues, considerations. I have the impression that many Directors addressed this issue, including vivid examples from history. It may be related to something deeper than packaging and sequencing and so on. Perhaps there is a need to think hard about, identify who are the actors, the political actors in a specific country, and to think about the consequences for these actors. They

are not always the most vulnerable guys. As a result, think about the political economy in a realpolitik way, rather than just communicate and sequence and so on.

These issues often have an impact on our programs. One of the programs we will discuss next week had social backlash after conditionality. The backlash was not from the most vulnerable segments of the population. There should be a bit more to this than thinking about sequencing and communicating and so on.

Mr. Raghani asked if there had been a discussion with authorities about the issue of floors and sectoral spending.

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova), in response to further questions and comments from Executive Directors, made the following additional statement:

Indeed, the conditionality guidelines mandate that conditionality be set for issues that are deemed critical to the success of the program. This will naturally vary country by country and program by program. Therefore, it is important for the staff to make a decision in each individual case, if there is a social spending floor on a program, how to appropriately calibrate it to the objectives of that particular program that is in line with the adjustment objectives of that particular country. Therefore, in the strategy, we do not change existing Fund policies. In this regard, we simply want to ensure that the staff understands that they need to use their judgment. We allow the existing flexibility and the current policies to allow spending to be defined as appropriate for each individual program.

Ms. Mannathoko asked whether the references to strengthening conditionality were referring to the quality rather than the quantity of conditionality.

The staff representative from the Strategy, Policy, and Review Department (Ms. Murgasova), in response to further questions and comments from Executive Directors, made the following additional statement:

Indeed, the strategy envisages that conditionality can be strengthened in order to support social spending issues in the program design.

First of all, we would start with better documenting the conditionality when it exists, more carefully defining it, as well as in line with the Review of

Conditionality, we are suggesting that there can be more focus on the quality of spending, not just on the quantity of spending.

The following summing up was issued:

Executive Directors welcomed the proposed strategy to guide Fund engagement on social spending issues. They noted that the Fund has made considerable progress in its treatment of social spending over recent years and that the proposed framework is expected to strengthen the Fund's engagement on social spending issues by making it more systematic and effective in surveillance and Fund-supported programs. Directors welcomed that the strategy reflected consultations with a broad set of stakeholders, including civil society, academics, and international development institutions (IDIs).

Directors observed that social spending issues have become increasingly important for the Fund's membership, reflecting a growing emphasis on inclusive growth, especially in the aftermath of the global financial crisis. They noted that social spending plays an essential role in protecting vulnerable groups, supporting social and political stability, addressing inequalities of both income and opportunity, smoothing consumption over the life cycle, and stabilizing demand in the face of economic shocks. Directors saw social spending as critical to achieving the commitments under the 2030 Sustainable Development Goals (SDGs) and to tackling policy challenges from demographic, technological, and structural changes.

Directors appreciated that the proposed strategy will be guided by an assessment of the macro-criticality of specific social spending issues. They agreed that social spending can become macro-critical through three key channels: fiscal sustainability, spending adequacy, and spending efficiency. In this context, Directors underlined the need for a sufficiently granular framework to assess macro-criticality. Directors emphasized that staff should continue to provide policy advice on sustainable financing of social spending with an increased focus on the quality of such spending for improving social outcomes. Directors also highlighted the importance of underpinning both surveillance and program policy advice on social spending with in-depth analytical work as appropriate and supported by capacity development where necessary. Directors noted the importance of technical assistance to help ensure adequate data availability and quality, and to help create fiscal space— both through domestic revenue mobilization and improved spending efficiency— to finance increases in social spending where needed. A number

of Directors noted that the distributive effects of taxation and other revenue sources should be considered together with the effects of social spending.

Directors welcomed the clarification of the Fund's advice on the use of universal and targeted social benefits, which should be discussed in the context of the overall effectiveness of the social safety net. They noted that the use of universal and targeted transfers should depend on country preferences and circumstances while being consistent with fiscal and administrative constraints.

Directors concurred that the design of Fund-supported programs and conditionality could be strengthened—both in PRGT and GRA-supported programs—through greater focus on measures to offset the adverse effects of adjustment on poor and vulnerable households, and to enhance the political and social sustainability of programs, thereby contributing to program success. They also noted that specific conditionality on social spending may be necessary to ensure its adequacy and underscored the importance of evenhandedness. In this context, Directors also called for appropriately sequencing reforms to cushion the impact on the vulnerable while noting that the nature and extent of conditionality should be informed by a country's macro-fiscal context, political economy considerations, and social objectives.

Directors called for improved collaboration with IDIs, notably with the World Bank. They noted that while staff may need to develop some in-house expertise, the Fund would also need to rely on other development partners to address social spending issues outside of its areas of expertise. Directors called on the Fiscal Affairs Department to act as a hub to help ensure that country teams can effectively draw on IDI and other relevant external resources. They agreed that staff need to engage early with relevant IDIs to align institutional priorities.

Directors noted that communication is an essential element of the strategy on social spending issues. They stressed that good communications would enhance effectiveness of Fund policies by promoting understanding and setting realistic expectations of the institution's role. In this context, they noted that communications should discuss social spending issues in the broader macroeconomic setting, explain policy trade-offs and financing constraints, while emphasizing country ownership.

While Directors noted that staff is expected to strengthen its focus on social spending in line with the agreed strategy, they acknowledged that more granular guidance is necessary to effectively implement the strategy. They

looked forward to the forthcoming Staff Guidance Note to be issued by end-2020, which should explain in greater detail how to consistently apply the key concepts, including macro-criticality, in country- and sector-specific settings. Directors noted that consultations with relevant stakeholders would take place in the preparation of the Staff Guidance Note.

APPROVAL: April 23, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

The Strategy

1. ***Could staff elaborate on the impact of the Fund's already significant work on social spending issues in enhancing social expenditures in member countries?***

- Many countries face spending pressures arising from different components of social spending. In advanced economies, staff engagement can typically help highlight the magnitude of age-related pension and health spending pressures and the need for ongoing reforms to increase spending efficiency. In emerging market and developing countries, staff engagement can often highlight the spending needs of achieving social objectives such as increasing access to education, health and social protection, and the need to consider financing constraints and to strengthen tax capacity and improve spending efficiency.

2. ***Does staff consider that more analysis on the revenue side would complement the proposed strategy?***

- If there is a need to create fiscal space to protect and strengthen social spending, revenue mobilization efforts are key. FAD already devotes a large share of its resources to support tax policy and revenue administration through both analytical work and technical assistance. Both analysis and TA will continue to be crucial inputs for policy advice to member countries and are expected to help complement the implementation of the strategy. Ongoing work in the context of the Medium-Term Revenue Strategy and Costing of SDGs provide coherent frameworks for better integrating tax and spending policies and planning. The 2018 review of Conditionality recommends the use of more granular fiscal conditionality, including on revenue performance.

Macro-criticality and its operationalization

3. ***We also note that macro-criticality is defined as domestic (e.g., growth and inflation) and external stability (para 16). Is this the prism through which the effects of economic policies on income distribution are considered? Will the strategy incorporate considerations related to public buy-in and social acceptability?***

- The Fund's engagement on structural issues in surveillance is guided by the concept of macro-criticality and existence of in-house expertise (see the 2014 Triannual Surveillance Review and the 2015 Guidance Note for Surveillance under Article IV Consultations, as well as Box 4 in the Board paper). Consistent with these policies, the paper reiterates that macro-criticality is an important guiding principle for country teams when engaging on social spending issues.

- The Fund's work on inequality is guided by the macro-criticality principle and falls within our mandate to preserve domestic and external stability (see the 2018 Policy Paper "How to Operationalize Inequality Issues in Country Work"). Similarly, considerations of public buy-in and social acceptability are consistent with the Strategy's recognition that engagement should reflect country specific preferences and constraints.

- In terms of external communications, to increase the traction of Fund advice with both the authorities and the public, the strategy encourages early engagement between country teams and COM based on a communications plan that spells out policy recommendations and that explains the analysis and context behind those recommendations.

4. ***Perhaps a wider definition for spending adequacy, which explicitly addresses social and political stability, is desired. Staff comments are welcome.***

- In line with existing policies, the Fund's engagement with member countries is guided by the principle of macro-criticality. In the case of social spending, the concept of macro-criticality can be grouped into three interrelated channels, including spending adequacy.

- In discussing spending adequacy, the paper recognizes that "spending adequacy reflects the importance of social spending for…ensuring economic and *social* stability."

5. ***While the Fund has accumulated experience in assessing the fiscal sustainability of social spending for achieving inclusive growth, we would appreciate staff's further elaborations on how the adequacy of social spending and their efficiency will be assessed?***

While assessing fiscal sustainability is a Fund core expertise, like other Directors, we would welcome further elaboration on criteria for assessing the adequacy and efficiency of social spending.

Could staff also comment on how social spending efficiency and adequacy will be addressed in advanced economies where inequality concerns have been rising over the recent decades?

Could staff elaborate on the approaches to gauging the quality of social spending?

- Adequacy and efficiency are complex concepts and the Board paper underlines that the three main macro-criticality dimensions are interrelated channels. Any assessment will have to be done on a sectoral basis. Therefore, the planned Staff Guidance Note will elaborate on these issues on a sectoral level.

- Efficiency assessments need to consider whether outcomes achieved (e.g., in terms of health or education or poverty outcomes) are in line with resources deployed and commensurate with implementation and capacity constraints.

- An assessment of adequacy requires an understanding of whether there are any large gaps in the social spending system (e.g., for the provision of basic health services). In this context, cross-country evidence can shed a light on comparative strengths and weaknesses of countries' social spending systems. Nonetheless, staff will need to remain cognizant of specific country contexts and historical/political/social factors.

- These broad considerations are relevant for countries at all stages of development, including advanced economies where distributional issues have become more prominent and where inefficiencies may persist.

6. ***Does high-quality simply mean efficiency? How would quality of social spending be assessed?***

- Assessing the quality of social spending requires looking at dimensions other than the level of resources used. It reflects the combined macro-critical channels discussed in the paper. High-quality spending would be adequate and efficient in achieving the desired social outcomes, and efficiently and sustainably financed.

7. ***The approach may be difficult to put into practice, as it would be hard to judge whether social spending is adequate and efficient. Staff's comments are welcome.***

- An assessment of adequacy requires an understanding of whether there are any large gaps in the social spending system (e.g., for the provision of basic health services). In this context, cross-country evidence can shed a light on comparative strengths and weaknesses of countries' social spending systems. Nonetheless, staff will need to remain cognizant of specific country contexts and historical/political/social factors.

- Assessing the quality of social spending requires looking at dimensions other than the level of resources used. It reflects the combined macro-critical channels discussed in the paper. High-quality spending would be adequate and efficient in achieving the desired social outcomes, and efficiently and sustainably financed.

8. ***Given the inherently sub-optimal environment found in low-income and developing economies; dominated by informality and low capacity, efficient, first-best solutions are sometimes not immediately viable. Thus an 'inefficient' approach that is in use can sometimes be the most viable option. It will therefore be important for staff to show that these considerations have been investigated and that more efficient options being proposed are in fact viable or will be viable. Staff comments are welcome.***

- The Strategy emphasizes that policy recommendations on social spending should be guided by country-specific circumstances, including countries' institutional and administrative capacity. Assessments of spending efficiency can help identify possible improvements even when the "first-best" approach is out of reach due to capacity constraints, legal impediments, or other factors. Comparisons with peer countries can help identify feasible policy reforms to enhance spending efficiency, especially regarding countries innovative uses of modern digital technologies on both the tax and spending sides (as discussed, for example, the IMF Fiscal Monitor).

- For further discussion on the assessment of efficiency and adequacy, please see the response to question 5.

9. ***Should government spending be better geared towards areas where private investments are inadequate and market failure occurs? Should public spending be encouraged to leverage more private investments, such as in the form of PPP? Staff's comments are welcome.***

- The Strategy recognizes the role the private sector could play (e.g., please see page 24, paragraph 20 of the Board paper). Where synergies between public and private spending can enhance the impact of government policies, they can be exploited. How these policies choices are decided will reflect to a large extent country-specific factors and preferences and may vary across sectors.

- Private sector involvement and the use of PPPs (for example for financing infrastructure) would need to be mindful of any risks implicitly incurred by the government. These should be considered when making policy choices and transparently reflected in budget documents.

Program context

10. ***We appreciate staff's comments on the desired interaction between staff and the country authorities in assessing the desired levels of social spending in programs.***

- The Strategy aims to provide a more systematic approach to staff engagement and to promote best practice in providing policy advice on social spending. To this end, the Strategy proposes that staff systematically follow key steps when engaging on social spending, including by engaging in policy discussions with the authorities and the civil society to understand the member's needs and priorities regarding social spending.

- The Strategy also encourages early engagement to promote collaboration with other institutions and increase traction of policy advice. In this context, the IMF plays a valuable role in sharing best social spending practice in other countries for ensuring sustainable, adequate, and efficient spending.

11. ***We are concerned at the implication in paragraph 26 that programs should be treated differently from Article IVs, and ideally focus on implementing already developed policy advice. Could staff clarify this and elaborate whether there are alternative approaches that could be pursued? Could staff also provide an update on any plans to improve assessments of social and welfare impacts of program policies?***

Could staff elaborate on how this strategy will ensure that mission staff will use more realistic and effective approaches to program design and conditionality and ensure that reform outcomes do not leave the poor and vulnerable worse off than before?

- The Strategy does not propose any new policies or changes to existing policies. In line with existing policies, it recognizes that Article IV consultations, which take place with all members, typically provide an opportunity to conduct in-depth analysis and formulate policy recommendations. Such in-depth analysis may not always be possible when a program is designed. The Strategy also recognizes that the authorities' interest in a specific issue or the need to formulate conditionality when critical for program success might prompt deeper engagement during the program period. Indeed, country teams are encouraged to conduct in-depth analysis and develop policy recommendations during the program period as needed.

- The Strategy aims to strengthen program design and conditionality by increasing the focus on social spending to ensure that IMF-supported programs take steps to mitigate the adverse effects of adjustment on the vulnerable. PRGT-supported

programs already aim reduce poverty and protect the vulnerable, including through conditionality. The Strategy recognizes that existing best practice in GRA-supported programs is for staff to consider, as appropriate, the social impact of economic adjustment and measures to protect the vulnerable.

12. ***Guidance on the time horizon would seem necessary to clarify the degree of urgency and relevance, and to help define the appropriate degree of Fund engagement relative to other policy priorities. At the same time, country-specific considerations may require flexibility in this assessment. Staff's comments would be welcome***.

- As in the case of other macro-critical structural policies, the time horizon for the policy discussion would need to take account of country-specific considerations, including the authorities' policy priorities and preferences. In some cases, such as in countries facing demographic challenges, policy action may be required in the short term to mitigate the significant adverse effects in the long term. However, where countries face large and more pressing short-term macroeconomic imbalances (e.g., banking crises), staff may defer policy discussion on longer-term pressures until a later time.

13. ***The use of social spending floors in conditionality design could add to spending rigidities that tilt the adjustment policy mix toward taxation. We would welcome staff's comments on how to strike the right balance.***

- The magnitude, pace and composition of adjustment will need to reflect country-specific macro-fiscal considerations as well as sectoral priorities. As the Strategy points out, policy advice on social spending issues needs to be sustainably financed.

- When deemed critical for achieving program's objectives, conditionality on social spending items will need to be included. The use of quantitative and structural conditionalities should be consistent with fiscal space available, reflect country-specific macroeconomic and fiscal circumstances, and reinforce overall policy objectives (e.g., adopting policies that help stabilize demand and protect vulnerable groups).

14. ***Setting floors on certain types of social expenditures could put pressure on budget resources and may further constrain budget allocations to other key sectors, especially in situations where fiscal space unexpectedly narrows and/or external financing becomes scarce. Staff comments are welcome.***

- The use of social spending floors in IMF-supported programs should reflect country-specific circumstances. The floors can be specified at the sectoral or social program level and their coverage can vary across countries depending on program objectives and data availability. Staff should discuss the design of spending floors with the authorities to ensure they are consistent with social objectives and the availability of financing over the medium term.

15. ***We wonder whether an increased use of PCs as opposed to ITs might be preferable and would have appreciated more detailed guidance for country teams on when to set a quantitative target as a PC or IT, respectively (para. 33). Staff comments would be appreciated.***

- According to the IMF Guidelines on Conditionality (2002), indicative targets (ITs) may be established for the part of an arrangement for which they cannot be established as quantitative performance criteria (PCs) because of substantial uncertainty about economic trends. The Guidance Note on IMF Engagement on Social Safeguards in Low-Income Countries (2018) further explains that social spending targets can be established as a PC when necessary. However, PCs should not be used if there are concerns about the quality of data.

- The selection of PCs versus ITs should take into consideration country-specific circumstances and be guided by the principles in designing and setting conditionality. PCs are normally established when the underlying variables can be clearly specified, objectively monitored, and are critical for achieving program goals.

- Strengthening adherence to Government Finance Statistics reporting of social spending to improve data quality and timeliness is essential to establish credible quantitative conditionality that is critical to achieve program objectives.

Surveillance

16. ***How is the staff proposing to reconcile the medium-term focus in surveillance with the relatively longer-term rollout that social plans inevitably necessitate?***

- The Strategy (page 29, paragraph 27) recognizes that addressing social spending issues requires a medium-term focus. In many cases the effects of social spending policies only materialize over longer-term horizon, similarly to activities that strengthen capacity to finance and deliver spending programs. In a surveillance context, country teams are encouraged to conduct-in depth analysis and formulate policy advice that could be more difficult to tackle and implement in crisis or program contexts. Teams are also encouraged to engage early with development

partners with responsibility for designing and implementing social spending programs to align work program and policy advice.

17. ***We would like to hear more on the social protection framework that the staff proposes to use in the surveillance and programs including the quantitative conditionalities or comparative frameworks being envisaged. We invite staff comments***.

- The Strategy emphasizes the need for social spending issues and policy advice to be considered within the broader macro-fiscal contexts, both in surveillance and program cases. Policy recommendations also need to reflect financing constraints and the appropriate sequencing of policy measures. More granular sectoral guidance will be provided in the context of the forthcoming Staff Guidance Note.

Targeted and Universal Transfers

18. ***The vast majority of mission chiefs (80 percent) have continued to recommend the introduction or expansion of means-tested social safety nets in the context of Fund-supported programs (main report, footnote 31). Staff comments are appreciated.***

As most of the social spending schemes include both targeted and universal transfers, we encourage staff to also conduct analysis of the complementary and synergetic effects in addition to the current trade-off analysis.

A concern expressed by civil society is that, despite acknowledging inadequacies associated with means-testing techniques, some staff reports, nevertheless proceed to use such proxy means-tests (especially in SSA) resulting in large shares of clearly poor households being classified as non-poor and ineligible for support. We wonder whether there are any thoughts to addressing this concern.

- The Strategy clarifies that the use of targeted and universal transfers for strengthening social safety nets should reflect country circumstances. In particular, the approach to strengthening social safety nets needs to be consistent with the underlying fiscal realities over the short and medium term as well as the administrative capacity of the government.

- The guiding principle for policy advice should be the need to ensure adequate coverage of vulnerable groups in a fiscally sustainable manner. This can be achieved through a combination of programs using a range of approaches, including targeting.

- The design of safety net measures should also be informed by an analysis of available data on the effectiveness of programs in providing adequate coverage and protection. Under the proposed strategy staff are expected to integrate their policy advice on strengthening or protecting the social safety net into the broader macroeconomic framework rather than focusing narrowly on individual programs and targeting methods.

Resources

19. ***Can staff comment on whether the ambitions outlined in the paper are matched by a commensurate level of resource (re)allocation?***

- Since IMF engagement on social spending issues is already extensive, the Strategy notes that the additional resource requirements are estimated to be modest. No additional resources for this initiative were provided to departments in the FY20 budget, so in the first instance departments will need to reallocate resources internally as needed and focus on strengthening existing resources (as opposed to developing new resources), to deliver on the Strategy. The resources needed for stronger collaboration with international development institutions is expected to be spread across country teams and FAD. As experience in gained in implementation, cost estimates will be updated.

20. ***FAD had in the past adequate in-house expertise to carry out incidence analysis, which seems to have diminished due to resource constraints and reprioritization. Could staff comment on plans to rebuild capacity in this area?***

- The capacity for undertaking incidence analysis has been strengthened over recent years. However, it is also true that the demand for this type of analysis has increased. Going forward, it will be important to continue to strengthen our capacity in this area, including by better leveraging the resources from development partners, such as the World Bank. It is notable that a significant amount of the distributional analysis undertaken in support of increased engagement on inequality issues leveraged the capacity of external experts.

Knowledge Management

21. ***On in-house expertise, it would be useful to set a knowledge-sharing working platform on social spending like the ones on inequality and gender issues. We would welcome staff's comments on the use, costs and efficiency of these type of platforms.***

Staff's comments on how these efforts are aligned with the Knowledge Management Strategy (KMS) are welcome.

We would appreciate additional elaborations on the cooperation between the FAD and KMU in reviewing the existing knowledge sharing platforms associated with social spending.

- The Strategy recognizes the importance of strengthening the resources available to support country teams in their engagement on social spending issues, and the important role played by an effective Knowledge Management System (KMS) in this regard.

- FAD have been working on developing such a system using the existing Knowledge Exchange System (KES), although progress has been gradual reflecting resource constraints. Going forward, staff plan to develop internal KE websites for specific components of social spending (pensions, social safety nets, education and health), which will be integrated into a broader social spending platform. Key resource materials to enhance engagement on social spending issues will be made available through these platforms (policy papers and diagnostic tools), including links to important internal (e.g., inequality and gender websites) and external resources.

- This will be supported by outreach to area departments and the development of seminars (including in collaboration with the World Bank) on different social spending topics. Since the KES is not accessible externally, staff will also explore the potential for developing external websites and will also ensure that the approach to strengthening KM is consistent with the KMS.

Collaboration with International Development Institutions

22. ***In most cases, the proper sequencing of reforms implies a close coordination with MDBs, foremost the World Bank, and raises some challenges since the timetables of the different institutions might not fit. Could staff reflect on this proposal?***

We would also appreciate staff's elaborations on possible additional steps to improve cooperation between the Fund and the World Bank on social spending issues.

- To address the challenges of closer coordination with IDIs, including the World Bank, the Strategy proposes to strengthen engagement on several fronts. At the country level, early dialogue with IDIs –particularly as country strategies and work programs are being developed—would help align institutional priorities and lead to more effective coordination. At the institutional level, collaboration through IMF

participation in SPIAC-B and the WHO-WB-led Technical Working Group on Health Financing complement existing coordination on policy-based lending. The Strategy also underscores the role that high-level dialogue and participation in international fora could play in further strengthening coordination.

23. ***We should also address the rising risks to the Fund's credibility as a trusted and competent advisor to its members from the use of third-party information. Poor quality analysis may damage the Fund's credibility and affect its reputation in the core areas of expertise. We would appreciate staff's comments on how these risks could be mitigated.***

- For use of third-party information, staff will follow the same principles that were outlined in the board-endorsed policy on Third Party indicators. This will include transparency about sources of the information used, checking multiple sources and discussing with relevant country authorities.

24. ***Staff's views if the World Bank's endorsement of the rights-based approach to social protection might complicate Bank-Fund collaboration on social spending issues going forward, are welcome?***

- Staff have already started to explore avenues for strengthening collaboration with international development institutions with greater expertise on social spending issues. In the context of social protection, where collaboration at the country level with the World Bank is already strong, staff are participating in the Social Protection Inter-Agency Collaboration Board (SPIAC-B), which provide a cost-effective way of further strengthening collaboration with the World Bank but especially with other development partners. Staff are also developing a joint work program on health financing issues with the World Bank and will explore similar or alternative ways for strengthening collaboration on education.

- The Bank supports the objective of ensuring universal access to basic education and health services and to social protection as appropriate. The IMF approach to supporting countries' social spending policies, consistent with its objective for promoting inclusive growth, is consistent with this approach. This has been confirmed when they participated in the LSE workshop as well as in their contribution to the December Finance and Development as well as in other fora (such as the SPIAC-B). It is also consistent with our experience in the context continuous engagement in specific country contexts.

25. ***As the depth of the engagement under the revised strategy has extensive ramifications and prospects of being in a brighter spotlight, are any changes in guidelines such as 2015 Staff Guidelines on IMF Staff Engagement with CSOs***

envisaged to ensure that the inputs into the policy advise are well represented, broad and inclusive?

- As is the case with other staff guidelines, the 2015 Staff Guidelines on IMF Staff Engagement with CSOs are periodically reviewed. The current 2015 Guidelines built on the first guidance note for IMF staff's outreach to CSOs prepared in 2003. The current Guidelines are fairly recent and in staff's view sufficiently comprehensive to ensure that, with the support COM is providing to country teams, the inputs into policy advice is well represented, broad and inclusive. Staff will continue to be guided by experience with CSO engagement at the country, regional, and policy level—including in its engagement on social spending—and will update the Guidelines if the need arises.

26. ***IDIs encouraged the Fund to take into account the ILO Convention 102 on social security minimum standards and recommendations 202 on social protection floors, which have been agreed upon in tripartite consultations between governments, employer and worker representatives. Against this background, we would be interested in staff's view on the pros and cons of actively making use of this outside expertise by supporting these specific conventions in consultations and programs with its member countries where appropriate – at least in countries that have ratified them.***

- The Fund is not bound by international agreements or conventions to which it is not a party, including those related to social protection, and is not legally required to observe them in its operations. At the same time, to the extent that it is consistent with the economic objectives established for the Fund's activities under the Articles of Agreement, the Fund may help members implement their own obligations related to social protection.

- The Strategy explicitly states that appropriate social spending polices differ across countries reflecting different social objectives as well as social, political, administrative and fiscal constraints. Countries often express their objectives and preferences as signatories to various conventions such as ILO Conventions 102/202 and the Sustainable Development Goals. The IMF supports countries in achieving these and other objectives in the context of its efforts to promote inclusive growth and macroeconomic and financial stability. The Strategy emphasizes the importance of early engagement by country teams with the authorities and development partners to ensure policy objectives and advice are adequately aligned.

Staff Guidance Note

27. ***We note that the Guidance Note is not scheduled to be completed until end-2020. Staff's comments on the way forward and some more details on the outline of the note are welcome.***

We look forward to the forthcoming Guidance Note and we would appreciate staff clarification on why they are targeting end-2020, and not an earlier date, for its finalization?

The Staff Guidance Note should be specific and clear on the distinction between surveillance and program contexts and how the Fund can ensure consistency in its approach. Staff comments are welcome.

- The timing of the Staff Guidance Note reflects the need to continue to consult extensively, both internally and externally, as staff move to providing more granular advice on when and how to engage on specific components of social spending. Such consultation was key to building consensus and support for the Strategy and is a time-consuming process.

- Developing guidance for sector-specific policy issues where development partners have greater expertise will likely be at least equally time consuming. Staff plans to soon disseminate to country teams the extensive resources that already exist to support engagement on social spending. While the formal Guidance Note is planned for end-2020, we expect that multiple intermediary outputs will become available much earlier, and the experience gained in developing, disseminating and supporting this effort will in turn help make the final note more effective and robust. [See also answers under the heading of Knowledge Management Strategy].

- The Staff Guidance Note will focus on providing more granular advice on when and how to engage on specific components of social spending (pensions, social safety nets, education and health), in both surveillance and program contexts. This will include more sector-specific advice, including the appropriate use of conditionality to protect social spending and strengthen social safety nets.

28. ***Could staff elaborate on a broad direction of more granular guidance on how country teams should assess spending adequacy and efficiency? For example, what data should country teams examine, what basic analysis should they commonly conduct, and which stakeholders should they talk with?***

It would be helpful to hear more on how staff will be guided in formulating analysis and advice related to efficiency considerations.

- The Guidance Note will provide more granular guidance to country teams on when and how to engage with authorities on issues of adequacy and efficiency in the context of specific components of social spending. Existing resources and analysis already support this engagement. For instance, a benchmarking tool prepared by FAD is already being used extensively by country teams, which facilitates a comparison of sectoral social spending levels with peers and a high-level analysis of the efficiency of this spending in generating better social outcomes. By flagging potential high-levels of inefficiency in different components of social spending, country teams can help to raise the profile of this issue and the need to examine it further and to develop policy responses where needed.

- A deeper sectoral analysis of social spending efficiency and appropriate policy responses warrant leveraging the expertise of development partners (e.g., through getting the World Bank to carry out a detailed Public Spending Review if one does not exist). This will be especially important in the areas of education and health services where the IMF has little expertise.

- On adequacy, the recent work on costing the SDGs provides an example of the catalytic role the IMF can play in raising awareness of the financing challenges, as well as mapping its work on domestic resource mobilization to this development agenda.

29. ***We believe there is a strong case for publication of the Guidance Note on social spending as well. Staff comments would be appreciated. At the same time, could staff elaborate on the proposal to develop cross-country departmental papers as a vehicle for developing and operationalizing the guidance note?***

- Staff plan to follow standard practice in disseminating the Guidance Note, which includes its publication.

- Various other outlets are available to disseminate IMF policy advice on different components of social spending and staff plans to also explore these avenues. For instance, cross-country studies (such as Departmental/Occasional Papers, Staff Discussion Notes, or Working Papers) are a valuable avenue for disseminating IMF policy advice both internally and externally – as illustrated by recent publication including the 2018 SDN “Inequality and Poverty Across Generations in the European Union” and the 2018 Departmental Paper “Growing Pains: Is Latin America Prepared for Population Ageing”. FAD will continue to support area departments in these activities.

Communication

30. ***In this context, we would suggest preparation of a separate policy statement on social spending, as was done by the Fund in the past, for example, for capacity development strategy. The Board would explicitly endorse such a statement. Staff may want to comment on the costs and benefits of issuing such a policy statement.***

- Staff will respond to this question in the oral statement.

31. ***Can staff clarify whether a communications plan will become standard practice and what steps will be taken to guide the development of such a plan?***

- The Communications Department already works closely with country teams to develop broad communications plans that typically include social spending-related communications and outreach. This includes working early on during the surveillance cycle and early stages of program design to develop a communications plan. The Strategy proposes to follow best practice to ensure that social spending is accorded increased priority in our outreach and communications efforts when it is deemed macro-critical.

Strategy Review

32. ***It is important to put in place an effective review process, say, to agree on conducting a review of social spending strategy in 3-5 years. Staff may want to comment.***

- Staff will respond to this question in the oral statement.