The IMF record on social protection: Pro-poor, or poor?

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International Monetary Fund, Independent Evaluation Office *The IMF and Social Protection*. Washington, DC: IMF, 2017. vii + 47 pp. Available at: <https://ieo.imf.org/en/our-work/evaluation-reports/Completed/2017-0724-the-imf-and-social-protection>.

Introduction

Social protection regimes provide individuals with a vitally-important cushion against the vicissitudes of the market, offering sources of income and other support during times of economic vulnerability, unemployment, illness, and old age. Through *The IMF and Social Protection*, the International Monetary Fund’s (Fund, IMF) Independent Evaluation Office (IEO) presents a review of the organisation’s approach in this area. The IEO report covers operational guidance to staff, takes stock of the content of the Fund’s lending and surveillance activities, and provides recommendations for improving the organisation’s future work on social protection. IEO reports help shape institutional priorities for operational change at the Fund, and, by virtue of being sanctioned by the Executive Board and subjected to implementation evaluation, can carry significant weight.[[1]](#footnote-1) As such, the IEO and its outputs are deserving of a higher level of attention than they often receive from outside audiences.

Over recent years, the performance of social protection regimes have received high levels of scrutiny. Across advanced-industrialised countries, attention has been driven by the Global Financial Crisis and its aftermath, as analysts have asked whether existing structures have proved to be adequate and sustainable through this period of great turbulence (Diamond and Lodge 2013, OECD 2016). Across the global South, mechanisms continue to be sought for improving the coverage of support structures in contexts where informal networks typically take a large amount of the strain (e.g. Barrientos and Hulme 2016, Jütting 2000). As an institution designed to support its members during macroeconomic crises – times when citizens’ vulnerability is significantly enhanced – the International Monetary Fund is inextricably linked to the issue of social protection. The adequacy with which the Fund has supported social protection regimes has been much questioned, with criticisms being slated against its role from the 1980s through to the present period (e.g. Bird 1996, Bird 2001, Chossudovsky 1999, Stubbs et al 2017, Stubbs and Kentikelinis 2017). *The IMF and Social Protection* provides a foundation from which the topic can be assessed anew.

Overall, *The IMF and Social Protection* offers a clear and informative review of an important and heavily criticised aspect of the Fund’s work. However, in setting itself relatively narrow terms of reference, big questions remain unanswered by the IEO report. The report focuses on the IMF’s impact on policies specifically designed to support vulnerable groups and households, meaning that reflection is offered neither on the organisation’s impact on the sustainability and effectiveness of programmes with more universal coverage, nor on wider education and healthcare systems. Through this assessment, I begin in the first section below by reviewing the headline findings from the IEO as offered within its narrow terms of reference. I then in the second section explore the Fund’s impact on wider social protection regimes, identifying potentially negative impacts from aspects of its favoured fiscal policies and its preference for targeted forms of social protection. In the third section, I assess the depth of institutional change at the Fund that has accompanied its proclaimed prioritisation of social protection. As the report itself acknowledges, the Fund’s level of institutional expertise on social protection remains low (IEO 2017: 2). In combination, potentially negative impacts from existing IMF policy preferences and this low institutional expertise mean the organisation’s capacity to strengthen its performance in the realm of social protection remains relatively limited. Consequently, over the medium term and beyond, criticism of the Fund’s poor performance on social protection seems likely to persist.

The IMF and social protection: The IEO’s headline findings

The IMF’s Independent Evaluation Office was formed in 2001, the result of almost a decade of internal discussions over whether and how the organisation’s performance should be more systematically policed. The IEO is now firmly embedded in the Fund’s institutional structure, with the Executive Board reviewing its reports and monitoring the extent of staffs’ compliance with any agreed actions.[[2]](#footnote-2) The IEO was prompted to conduct the review of IMF performance on social protection by the more explicit focus on the issue that emerged in the aftermath of the GFC, with *The IMF and Social Protection* covering a 10-year period from 2006.

In laying out its evaluation framework for *The IMF and Social Protection*, the IEO (2017: 4)notes that the institution does not have a consistently applied definition of ‘social protection’. Over the years, partially overlapping and sometimes under-specified terms including ‘social spending’, ‘social safety nets’, and ‘social safeguards’ have been employed in policy and operational documents. For the purpose of the report, the IEO turns to a relatively narrow definition supplied by the IMF’s *Government Finance Statistics Manual*. This source holds social protection to refer to ‘a variety of policy instruments providing cash or in-kind benefits to vulnerable households’, including social insurance (contributory pension and unemployment cover) and social assistance (non-contributory transfers to low-income groups) schemes. The IEO notes that this focus excludes the Fund’s impact on the performance of wider education and healthcare systems. Given the substantial impact from these systems on the experiences and quality of life of vulnerable groups (Nunes 2014), this definitional choice is highly consequential.

Though often overlooked in academic analyses, work on surveillance – that is, monitoring the macroeconomic and policy performance of its member states – takes up the bulk of IMF staff time. The IEO (2017: 14-20) notes that, in its regular ‘Article IV’ surveillance reports, the incorporation of a focus on social protection varied significantly by country income group. From 2006-15, around 80 percent of advanced economies’ Article IV reports placed an explicit focus on the issue. The figures for emerging economies and low-income countries were around 60 and 50 percent respectively. To advanced economy members, the headline message from the Fund’s Article IV reports (as measured by Executive Summary content) was one of fiscal retrenchment in the face of budget deficits. Advocacy for reductions to pension entitlements typically came alongside calls for enhanced income-based targeting of social protection, with universal subsidies of food and fuel costs attracting particular criticism. To emerging economies, Executive Summary calls for retrenchment tended to feature less prominently, and to be balanced by reference to mechanisms to offset the impact on vulnerable groups. To low-income countries, the headline message from Article IVs tended largely ignore social protection; while half of these members’ Article IVs did mention relevant policy areas, only around 20 percent of their Executive Summaries noted the importance of protecting vulnerable groups, with a similar amount advocating the protection of social spending programmes. Given the importance of Executive Summaries in framing the information that percolates to elite decision-makers (Dethier 2007, Walgrave and Dejaeghere 2017), these patterns are important. From IMF Article IVs, policy elites in advanced economies consistently received a headline message that cuts were needed, while elites in low-income members consistently received a message that social protection is a second-order issue.

The IMF approved over 170 lending programmes from 2006-15. Around 15 percent of the Fund’s advanced economy members featured as borrowers in this period. Emerging and low-income members displayed a stronger propensity to seek Fund assistance, with rates of around 40 and 50 percent (IEO 2017: 20). Amongst these programmes as a whole, the focus on social protection remained low. Overall, only 10 percent of IMF programmes contained conditionality (policy actions formally monitored within a lending programme, and on whose achievement continued loan disbursal may be contingent) relating to the strengthening of social safety nets (IEO 2017: 20). The main mechanism through which Fund programmes engaged with social protection was through the incorporation of looser commitments to ‘social spending floors’. This mechanism was used mainly in low-income country programmes. Social spending floors featured in around 50 percent of low-income programmes from 2006-09 and, following the issuance of new operational guidance to staff, in virtually all such programmes from 2010-15.[[3]](#footnote-3)

In the world of economic policy, definitions of key terms play an integral role in translating abstract ideas into concrete practices (Broome and Quirk 2015, Clegg 2010). This proves to be particularly true in relation to the social spending floors in IMF lending arrangements. In these arrangements, country officials provided the definition of social spending to be incorporated into programme documentation; consequently, the type and volume of expenditure protected by these ring-fences varied substantially. At the extremes, Mauritania’s 2010 loan arrangement contained a social spending floor that applied to almost 40 percent of total government spending, while the floor in Lesotho’s programme of the same year applied to just two percent of total spending (Clegg 2014: 753). In many cases, a lack of information in programme documentation can make it difficult to uncover the precise lines of spending being protected by social spending floors. The opacity surrounding the IMF engagement with social spending floors and social protection more generally has been criticised by Ortiz et al (2011).

In its lending operations, the IMF engages with countries in times of macroeconomic crisis. There is a clear tension between institution’s hard-wired focus on moving rapidly toward balanced budgets, and its relatively new attention on social protection and the maintenance of support to vulnerable groups. Unfortunately, through *The IMF and Social Protection*, the IEO (2017: 23) ‘did not undertake an impact assessment of [IMF-supported social protection interventions] on the welfare of vulnerable groups’. Alternative assessments raise questions over the efficacy of IMF practices. The analysis presented by Stubbs and Kentikelinis (2017) and Stubbs et al (2017) suggests that overall levels of government spending on health tended to decline with the presence of an IMF arrangement. Likewise, Robinson and Pfeiffer (2015) note that, in the run-up to the Ebola outbreak of 2015, Liberia and Sierra Leone had had to limit their recruitment of health workers and cap levels of pay to meet the expenditure limits within their IMF loan programmes. In relation to the Greek loans from 2010, Salomon (2015) argues that IMF-backed conditionality violated citizen rights to social security. As the IEO (2017: 13) acknowledges, the Fund’s focus on social protection in its lending arrangements is failing to meet observers’ expectations.

The IMF and the social protection: a broader view

To assess the broader impact of IMF operational practice on members’ social protection frameworks, it is useful to move beyond the focus of the IEO report. In this section, I explore the implications of IMF advocacy for conditional cash transfers as a favoured mode of targeted social protection, the IMF impact on the government revenue flows needed to support social protection policies, and the IMF position on the question of ‘who pays’ for these programmes. In operationalising this focus on ‘social protection regimes’, I move beyond the IEO’s definition noted above to refer more broadly to systems designed to mitigate against sharp reductions in well-being, and to reduce experience of economic vulnerability. As such, I focus here on the fit between IMF interventions and maintenance of sustainable and effective education, healthcare, pensions, and unemployment protection systems.

Conditional cash transfers are a policy tool whose popularity has grown substantially over the past decade-or-so. Through CCTs, governments seek to target payment according to measures of need, releasing payment following the completion of a pre-specified welfare-enhancing action (for example, the vaccination of a child). While CCTs and CCT-like practices are present within social protection regimes in the global North, the tool has become more prominent particularly across the global South. In recent years, as a means of operationalising its commitment to social protection, the IMF has come to advocate the introduction or expansion of CCTs within its middle- and lower-income member states (IEO 2017: 21). Amongst such countries, however, state institutions commonly suffer from restricted bureaucratic capacity. A lack of capacity means that the type of targeting of social protection advocated by the IMF can be extremely challenging to operationalise (Barrientos 2009). We also know that CCTs can become politicised. They are more likely to be implemented in polarised political systems (Brooks 2015), potentially as a means of rewarding one party’s supporters. In the case of Brazil, Zucco (2013) finds evidence of CCTs generating significant electoral payoffs for the incumbent party. Concerns have also been raised that CCTs have the unintended effect of (re-)producing gender-based inequalities, as the duty to ensure compliance and demonstrate compliance with conditions relating to childrens’ education and health typically being borne by women (Bradshaw 2008).

It should be noted that, notwithstanding these challenges and shortcomings, there is evidence that with careful design and implementation CCT-based targeting of social protection can generate higher take-up rates of health and education interventions (Lagarde et al 2007). The question remains whether, given its lack of institutional expertise in this regard, such prescriptions on targeting should be incorporated into IMF programmes and policy advice. Indeed, the IEO (2017: 20) reports criticism from ‘outside experts’ of IMF staffs’ tendency to ‘mechanically recommend… [CCTs] without analysing [their] appropriateness for the particular country or situation’.

Beyond the requirement for careful and contextually-sensitive design and implementation of CCTs, questions have been raised in relation an important unintended consequence of targeting within social protection regimes. The IMF’s commitment to the principle of ‘better targeting’ of resources within social protection regimes is given significant attention in *The IMF and Social Protection* (IEO 2017: 11-13, 1). This advocacy of targeting fits squarely in line with what has been termed ‘the standard economic view’ of welfare expenditure (Gelbach and Prichett 1997); maximum welfare gains are seen to be achieved by targeting scare resources toward those with the greatest need. The problem with this position is that it underplays the politics of targeting. Citizens are more likely to support (and, importantly, to be willing to pay through taxation for) services from which they benefit from or can imagine that in the future they will benefit from (Busemeyer et al 2009, Rehm et al 2012). To paraphrase Gelbach and Pritchett (1997: 1), the use of targeting can in fact mean that ‘more for the poor is less for the poor’. By restricting social protection access to what is perceived as ‘an other’ (that is, in-poverty groups with whom more affluent and more heavily tax-contributing groups do not identify), over the medium term support for social protection regimes may actually be eroded. A secondary dimension to the politics of targeting has been identified by Titmus (1968), and elaborated on by Mkandawire (2005); namely, that targeting services to the poor often results in poor services, as low-income groups lack the power to demand improved provision. Pro-poor targeting in the manner favoured by the IMF, then, can have the unintended consequence of constricting long-term financing and limiting quality of service delivery.

Having access to a sufficiently large and predictable flow of finance constitutes a necessary foundation stone for a government’s construction of an effective social protection regime. Beyond this potential unintended impact on citizens’ tax and spend preferences, the IMF has a well-established history of intentional engagement on this front through its focus on fiscal policy interventions. In particular, IMF advice has consistently advocated measures to ‘broaden’ members’ tax bases (that is, to increase the value of the underlying financial flows or assets upon which taxation is levied) (Broome 2015: 156, IEO 2013: 8). A favoured mechanism through which the Fund has sought to achieve this goal is through the introduction or expansion of value-added taxation (VAT, charges levied on domestic consumption). Broadened tax bases can help support the sustainability of social protection regimes, owing to the potential they offer for reduced volatility of revenue flows.

Historically, IMF lending programmes have allowed for increased taxation-derived revenue flows in around 50 percent of cases (IEO 2003: 18). Recent analysis from Crivelli and Gupta (2016) suggests in particular that VAT-focused conditionality has been effective at increasing revenue flows. On this score, IMF influence on the extensiveness and sustainability of social protection regimes can be seen to be positive. An evaluation of this fiscal impact, however, needs to consider two countervailing factors. First, as pointed toward in the section above, that IMF loans are typically accompanied by reductions in overall levels of government expenditure (Nooruddin and Simmons 2006: 1003). Even in programmes where tax takes rise, these flows are used largely to shore-up budget deficits rather than to support increased expenditure.[[4]](#footnote-4) Second, VAT has been widely criticised as a regressive form of taxation, through which lower-income groups pay a larger proportion of their income.[[5]](#footnote-5) As such, while IMF tax system interventions have the potential to underpin improved social protection regimes, the prioritisation of fiscal conservativism and the use of VAT as a favoured mechanism serves to undercut this potential.

In 2015, the United Nations General Assembly adopted the Sustainable Development Goals (SDGs), a series of 17 global aims to be achieved by 2030. As acknowledged by the IEO (2017: 2), the IMF’s advocacy for targeted interventions is in tension with the SDG prioritisation of universal systems of social protection. A tension can also be seen between the IMF and the SDG approaches to the financing of social protection systems. There is a deep divide across the international community regarding who should pay for social protection systems in the global South. Perhaps unsurprisingly, governments of the global North have consistently pushed for more domestic financing, while those of the global South have pushed for greater contributions from advanced-industrialised states (e.g. Clegg 2015). The IMF has failed to substantially incorporate the SDG call for greater international financing into its approach to social protection. While the IMF self-image is of a technocratic and apolitical institution, this failure should be seen as deeply political, reinforcing rather than challenging a prevailing balance of power.

The IMF and social protection: a hypocrisy trap?

When studying the persistent disjuncture between what an international organisation says in its public pronouncements and does in its operational practice, Weaver (2008) identifies the danger of institutionalised hypocrisy traps. Weaver shows that, when it comes to taking on board a new task, an institution can much more easily learn to talk the talk than walk the walk. This insight coheres with a broad body of scholarship on international organisations that has shown that, much of the time, operational change can be difficult to instigate, and difficult to sustain. In the paragraphs below, I explore whether we should view the IMF’s turn toward social protection as a manifestation of institutional hypocrisy, or whether foundations are in place for a sustained and increasingly effective engagement with the issue.

Amongst many of its observers, the IMF has a reputation for a dogmatic adherence to a narrow set of policy prescriptions. Critics suggest that the Fund largely adheres to a ‘Washington consensus’-type view of causes of and solutions to macroeconomic crisis. Following the contours of this framework, an ‘IMF-friendly’ government will privatise state owned enterprises and hold back from direct intervention in the productive economy, pursue balanced budgets, liberalise trade restrictions, and open-up to foreign investment and financial flows. Recent analysis of IMF performance during and after the Global Financial Crisis have generated a number of insights that, by highlighting the conditions under which operational change has occurred at the Fund, move beyond this view of the IMF as a largely static organisation.

Amongst these revisionist accounts, Broome’s (2015) work has charted the medium-term evolution of IMF policy advice, finding that the IMF is getting ‘back to basics’ in the post-GFC period. Through the 1980s and 1990s, the Fund’s advice to its members routinely covered its core fiscal policy focus on moving to balanced budgets through expenditure restraint and a broadened tax base, but also expanded out to a broader focus on privatisation, the removal of trade restrictions, downsizing of civil service, and financial-sector liberalisation. For Broome, recently advice has since the Global Financial Crisis been tethered more tightly to its fiscal core. Adding detail to Broome’s study, Gallagher (2015) has analysed the drivers of the Fund’s shifting approach specifically to financial sector liberalisation, highlighting the inter-play between staff expertise and a proactive coalition of emerging market members in shifting the institution’s position. On the staff side, the emergence of ideas on ‘a new welfare economics of capital controls’ served to re-frame controls on the movement of capital across borders as ‘market correcting’ rather than ‘market distorting’. On the member state side, advocacy for a shift away from liberal prescriptions came in particular Brazil, Russia, India, China, and South Africa. Focusing on shifts that have occurred within the Fund’s fiscal policy core, Ban (2015) examines the foundations of ‘Keynesian overtures’ within the institution. Overall, Ban suggests that senior management used hiring and promotion as a tool to advance the view of deficit spending as an expansionary policy action. As was the case with the changed approach to capital controls, a combination of shifting staff expertise and supportive political dynamics supported the emergence of a degree of institutional change.

These revisionist accounts suggest that a balance between expanding staff expertise and support from actors with significant political capital can support operational change. To what extent, then, are these features present at the Fund in the realm of social protection? There is a long history of discussion within the IMF on the role of social protection as a tool for operationalising ‘pro-poor growth’. The succession of IMF Managing Directors since the mid-1980s have pushed for a greater focus on the distributional impact of IMF-backed programmes and advice (Vetterlein 2010), with the current incumbent offering repeated commitments to this goal (e.g. Lagarde 2016). This sporadic attention has on occasion been supported by US congress and the US Executive Director at the IMF, with their threats to withhold additional funding unless the institution more effectively demonstrates its impact on poverty reduction (Clegg 2014). Support can be seen to exist for enhanced engagement with social protection from actors with high political capital in and around the Fund. To what extent has staff expertise in this area expanded?

Earlier top-down pushes for enhanced engagement with social protection typically, to borrow Vetterlein’s (2010) phrase, ‘lacked ownership’. A temporary working group within the Fund’s Fiscal Affairs Department (FAD) may form and reports emerge, but suggested changes to institutional practice largely failed to gain traction. The IMF prioritisation of social spending targets as a means of operationalising social protection differs in this regard. The 2009 *Guidelines on Social Expenditure* resulted from a convergence of pressure from the US and other powerful member states, with FAD management support. The *Guidelines* ruled that staff must ensure that ‘social spending’ (defined at borrowing country governments’ discretion) must be stable or rising through the lifespan of a low-income member’s loan. Backed up by the IMF’s internal monitoring processes, since 2009 this edict has been almost universally incorporated into relevant programmes (Clegg 2014). The weaknesses associated with this rapid shift to social spending targets have been noted above, and it seems that the Fund lacks the institutional expertise with which to improve upon this problematic performance. An earlier IEO (2014: 14) review noted that the Fund had failed to systematically incorporate distributional and social impact analysis into its programme design, and in *The Fund and Social Protection* notes the organisation’s ‘limited resources and expertise’ on the issue (IEO 2017: 2, 34). When recommending that the IMF needs to ‘find more realistic and effective approaches… to ensure that adverse impacts of programme measures on the most vulnerable are mitigated’, the IEO (2017: 35) foregrounds the role of development partners and domestic authorities in supplying necessary expertise.

In short, it appears that the position advanced by Grabel (2011: 812) continues to hold true. For Grabel, after the Global Financial Crisis there had been policy continuity but rhetorical discontinuity in the Fund’s approach to poor and vulnerable groups. The IMF has learned to talk the talk of social protection, but its attempts to walk the walk are confined to a relatively thin and problematic operationalisation through the incorporation of social spending targets into some lending operations. Given the lack of institutional expertise on which to generate sustained improvement in the field of social protection, at this moment it seems that the IMF has fallen into a hypocrisy trap in relation to social protection. The Fund’s commitment to targeted rather than universal forms of social protection, and to fiscal conservativism with a preference for VAT, constitute potentially significant barriers to the realisation of such sustained improvement.

Conclusion

I have organised my reflections on *The IMF and Social Protection* according to three overarching lines of analysis. I first reviewed the headline messages from the IEO’s report, noting in particular the contestable definition used to organise the evaluation, and the relatively low profile of social protection within IMF surveillance and lending. I then secondly provided a broader exploration of the impact of the Fund on members’ social protection regimes, exploring the difficulties of executing effectively the type of targeted social spending advocated by the institution, and examining tensions associated with the organisation’s impact on taxation and the resource flows needed to sustain effective social protection regimes. Thirdly, I reviewed the institutional foundations of the IMF’s turn toward social protection, and concluded in this regard that the Fund lacked the expertise needed to avoid a hypocrisy trap in its engagement on this front.

With Articles of Agreement that task it with promoting exchange rate stability, overseeing the balanced growth of international trade, and creating rules and mechanisms to reduce the duration of balance of payments crises, the International Monetary Fund is an institution with an extremely challenging and broad-based mandate. Through *The Fund and Social Protection*, the IEO presents a vision of an institution with a strong commitment to the principle of providing effective protection to vulnerable groups through periods of economic dislocation, but one that lacks sufficient tools with which to translate this principle into practice. The IEO notes the strength of external criticism received by the Fund for perceived failures in its operationalisation of social protection. Given that the foundations seem not to be in place for sustained operational improvement in this regard, it is likely that criticism of poor IMF performance will continue into the medium-term, and beyond.

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1. For a review of the effectiveness with which IEO recommendations are implemented, see Schwartz and Rist (2017: 81-4). [↑](#footnote-ref-1)
2. For a review of the history and performance of the IEO, see Weaver (2010). [↑](#footnote-ref-2)
3. A review of the external and internal dynamics associated with this operational shift is provided below. In addition, see Clegg (2014). [↑](#footnote-ref-3)
4. The IMF has attracted significant criticism for pursuing lending programmes in which surpluses in the ‘primary’ balance between current government income and expenditure are used to pay down the ‘secondary’ balance of outstanding debt stock and interest payments, a prioritisation that protects investors over taxpayers. See, for example, Calomiris (1997) and Leaver (2000). [↑](#footnote-ref-4)
5. For a useful review of equity-based evaluations of VAT, see Bird and Gendron (2009: 73-6). These empirical studies of VAT in developing and emerging commonly find the mode to be regressive, but identify mechanisms for ameliorating and addressing this tendency. [↑](#footnote-ref-5)