The role of World Bank and IMF in shaping social security policy in the MENA region

In brief

The International Monetary Fund (IMF) and the World Bank are two of the most significant international financial institutions (IFIs) in the MENA region. They have played an important role in influencing social policy, encouraging countries – through the provision of loans and technical assistance – to introduce austerity measures in order to scale back fiscal costs. The most significant means in which the IFIs impact on social security policy is through the provision of loans to governments. Yet, the universal scheme would be much more effective in reaching the poorest children.

When promoting structural adjustment measures – such as subsidy reform – the IMF and World Bank generally advise that part of the savings should be re-allocated to "well-targeted", "pro-poor", "efficient" social security schemes.

However, the package that is promoted aligns with a poor relief model and is neither well-targeted nor pro-poor. This contrasts with an inclusive lifecycle approach to social security, in which levels of investment are high due to broad coverage and high transfer values.

States are duty bearers that are obliged to provide a minimum social security floor, which addresses key risks across the lifecycle, including old age, disability, childhood and unemployment. Schemes should be offered on a universal or near universal basis, for social security is an individual entitlement – that is, a human right.

This document presents a summary of the six key characteristics of these packages, as well as the consequences of such packages.

LOW COVERAGE

IFI schemes have small budgets and low coverage. This means that the majority of the population– i.e. the "missing middle" – are not reached by either a social insurance or tax-financed scheme.

The IFIs' messaging can confuse policymakers and practitioners into thinking that schemes with low coverage see greater impacts than schemes with higher coverage. For example, programmes with high coverage are often referred to as "poorly targeted" and "inefficient" when compared to smaller poverty-targeted schemes, which the IFIs describe as "pro-poor".

The World Bank noted that Morocco's planned universal child benefit is "likely to be progressive", in contrast to a targeted scheme with 40 per cent coverage, which would be "even more progressive."

Poverty targeting and social registries

INACCURATE POVERTY TARGETING

In order to implement a scheme with low coverage, the IFIs try to deliver it to the poorest segments of the population. Identification is normally achieved through a proxy means test (PMT). The IFIs promote the PMT as a "scientific" mechanism which they portray as efficient and accurate. In reality, it is a highly inaccurate process, with selection often being little more than random.

Despite evidence showing that poverty targeting results in high exclusion errors, the IFIs continue to use language that can mislead policy makers into thinking that this is not the case. When assessing the impacts of a poverty-targeted programme, the institutions often undertake simulations that assume that a programme will have "perfect targeting". The results, therefore, exaggerate the effectiveness of a scheme.

EXCLUSIVE SOCIAL REGISTRIES

Linked to the implementation of a PMT is the development of a social registry. A social registry is a database that includes household data, with the aim of selecting households for poverty-targeted programmes.

The World Bank has supported the implementation of social registries in countries such as Yemen, Egypt, Morocco, Tunisia, Iraq, Palestine, and Lebanon, noting that the social registry "allows for better targeting, thus making social transfers more pro-poor." However, as social registries are a tool to implement poverty targeting, they carry the same design flaws as the selection mechanisms underpinning them and cannot be used to accurately identify the poor.

If the IFIs want to help countries to strengthen their delivery systems and develop useful databases, they could do so by supporting countries to develop a single registry, and/or strengthening a civil registry, which could then hold information on the entire population.

Egypt's World Bank-funded Takaful and Karama Programme (TKP) has an exclusion error of 55 per cent for the poorest quintile and 75 per cent for the second quintile.

Household benefits - and conditions

UNFAIR HOUSEHOLD BENEFITS

In general, IFI-supported schemes are delivered to the household rather than to the individual. This contrasts with an inclusive lifecycle based system, in which individuals are rights-holders who are entitled to social security.

Paying benefits to a household does not take into account intra-household distribution of wealth and power dynamics: there is no guarantee that all members of the household would benefit from the scheme.

Further, many people with no incomes are excluded, because their household is assessed as non-poor.

Likewise, many vulnerable individuals do not benefit from income security because their households do not qualify for the programme. Jordan's Takaful scheme demonstrates a further limitation of household benefits: only the head of the household may apply, which could result in the exclusion of women if they wish to apply, but the male head of household does not.

UNNECESSARY CONDITIONS

Many of the favoured programmes of the World Bank and the IMF are ones in which recipients demonstrate a certain behaviour in order to receive their funds. This can be in the form of a conditional cash transfer (CCT) or a workfare programme.

The implementation of conditions is problematic as it requires equal performance despite unequal contexts and circumstances. Recipients are sanctioned if they do not comply, despite their clear need.

Indeed, conditions are arguably not suitable for countries in the MENA region which have limited services or are experiencing conflict. While the World Bank has claimed that there is significant evidence that CCTs have had positive impacts worldwide, global evidence suggests otherwise.

In Morocco, a study found children were more likely to attend school when receiving an unconditional transfer rather than cash conditional on school attendance.

Consequences of the IFIs' approach

UNDERMINING GOVERNMENTS' OWN PARADIGM SHIFTS

When countries aim to introduce more inclusive lifecycle schemes, the IFIs can act to undermine them. Indeed, the IFIs often promote schemes with low budgets with the argument that countries do not have the fiscal space to implement a universal lifecycle scheme.

CONSEQUENCES OF THE IFIS' APPROACH

- Minimal impacts on poverty reduction, wellbeing and economic growth
- An increase in shame, stigma and social tensions
- Undermining countries' abilities to build progressive, modern systems.

THEN WHY DO THEY DO IT?

- Guided by ideological thinking
- Resort to confusing messaging when faced with opposing evidence
- Ultimately IFIs act as a consultancy firm with staff costs
- Inclusive lifecycle schemes reduce the IFIs' influence in a country.

CONCLUSION

The MENA region is at an important juncture. There are some indications of paradigm shifts in the region. Morocco, for example, has announced that it will universalise its child benefit and increase the coverage of its old age pension.

However, without a serious shift in institutional approach, the two IFIs will hinder governments' attempts to develop inclusive, modern social security systems, build the social contract and drive economic growth.

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