TECHNICAL GROUP MEETING

September 5-6, 2014
Cairo, Egypt

SUMMARY REPORT

On September 5-6, 2014, the Government of Egypt hosted the G-24 Technical Group Meeting in Cairo. Over the course of two days, participants discussed issues that are of particular relevance to the Group and reflect key strategic priorities for the year. The primary focus of the meeting was financing for development, both vis-à-vis global deliberations and the ongoing post-2015 development agenda, as well as the unique perspectives, challenges and opportunities of the Group's member regions. There was also a session on inequality, given the significant and growing obstacle it presents to emerging markets and developing countries at this juncture. The presentations prepared and content of the discussions provided strong input into the Group's ongoing work program.

Financing for Development Overview

The global economy is at an uncertain juncture and remains in a period of transition. Growth remains subdued and the outlook ahead is subject to considerable downside risks. Against the backdrop of growing short- and long-term uncertainties and a more difficult global environment for developing countries and advanced economies alike, the prospect of addressing the world's immense development challenges is daunting.

Although marked progress has been made on the Millennium Development Goals (MDGs), major development challenges remain going forward. There is a fundamental need to raise investment in both social and physical infrastructure in order to meet development aspirations, both within and across countries. At the same time, it will be essential to raise the quality and inclusiveness of long-term growth, to ensure that it translates into job creation, poverty reduction and shared prosperity. Against this backdrop, the international community is undertaking extensive discussions on a robust, holistic and ambitious post-2015 development agenda, anchored in the UN. Underpinning this agenda is the debate on financing for development (FFD), which has a central role to play in ensuring that adequate, sustainable resources are available to expand the development agenda and meet the commitments made.

An overview of the UN-led work was provided by Mansur Muhtar, co-chair of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) and Executive Director at the World Bank. Mr. Muhtar discussed the findings of the Committee's recently released report, which focuses on options for a development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives. Although the scope of this challenge is broad, Mr. Muhtar noted that there is cause for optimism given the opportunities that exist. In particular, there are abundant resources to meet development goals, insofar as global savings are robust and wealth is growing, public domestic finance in developing countries has risen, international financial flows have increased rapidly, access to capital markets has grown, and ODA strengthened in the wake of the Monterrey Conference. Nevertheless, there is no simple policy solution for engaging with the range of stakeholders and mobilizing resources in an integrated and effective manner across the public, private, national and international levels. It will be important, therefore, for countries to take a multi-pronged and strategic approach to sustainable development financing, drawing from a toolkit of policy options, regulations, institutions, programs and instruments to facilitate and leverage financing flows. To this end, the ICESDF has identified a number of important considerations.

Amar Bhattacharya, Director of the G-24 Secretariat, and Ehtisham Ahmad, Senior Fellow at the London School of Economics built upon the overview of the key challenges and opportunities and provided more in-depth analysis on certain issues of importance to G-24 members. Mr. Ahmad explored the dimensions of domestic resource mobilization and fiscal policy in developing countries, outlining a number of important challenges, opportunities and considerations. Against the backdrop of a more difficult global environment and widespread domestic resource constraints, he noted that robust public finance is essential to delivering on growth priorities, meeting the development agenda and fulfilling the social contract. Balancing these goals will require EMDCs to take very seriously their responsibilities and make concerted efforts to put their fiscal houses in order at all levels. In particular, it will be important to address the intersection between instruments, incentives, governance and accountability, while recognizing political economy concerns. Mr. Ahmed outlined a number of important considerations to guide EMDCs towards this end.

Mr. Bhattacharya expanded on the discussion on domestic resource mobilization by emphasizing the importance of domestic policy choices in financing outcomes more broadly. Echoing Mr. Muhtar's earlier discussion, he emphasized the centrality of the enabling environment: that is, the macroeconomic fundamentals, legal regulatory and institutional framework at the domestic level, as well as the institutional and systemic architecture at the international level. He also stressed the critical importance of infrastructure, where the financing needs for EMDCs are immense across all regions and where the challenges of public and private financing intersect. Addressing the large and growing financing deficits will be crucial for growth and development, inclusion, urbanization and climate resilience. However, the existing financing architecture is not sufficiently capable of meeting this challenge, and must be strengthened at all levels. In this regard, development banking was highlighted as a key mechanism for improving the leverage, intermediation and effectiveness of financing. A number of new initiatives, such as the BRICS' New Development Bank and the World Bank's Global Infrastructure Facility, could make an important contribution to this end; yet, there is also potential for unproductive fragmentation and overlap. It will therefore be essential to assess these initiatives and engage proactively to ensure that they can serve the collective interests of the Group and of all EMDCs.

Mr. Montes provided an overview of the broad issues raised in the preceding presentations and focused more specifically on the context in which the financing agenda is taking place. He acknowledged the value of the processes underway in the UN, and noted the cause for optimism expressed by the lead speakers vis-à-vis a strengthened architecture for development financing in the years ahead. However, he also stressed the need to recognize the systemic dimensions and obstacles to mobilizing more and better development financing in the current international environment. Making progress on the crucial financing agenda cannot be done without also addressing the broader institutional challenges in the international system. Mr. Montes outlined a number of key objectives on which attention should be focused, including, inter alia, a rules-based, equitable and comprehensive sovereign debt restructuring process, stronger development banking and financial development in EMDCs, capital account re-regulation, reduced reliance of payment systems on national currencies and discipline on reserve issuing countries. Ensuring that the systemic challenges are taken into account and addressed will be a complex, yet necessary, element of any international efforts to take forward the agenda on sustainable development financing.

The discussion amongst participants picked up on many of the issues outlined by the preceding speakers. Most participants emphasized the need to rethink the role of the state and to strengthen the foundations of public finance tailored to specific country circumstances. It was agreed that, for G024 members, undertaking peer dialogue and lesson sharing on the content and design of fiscal reforms could be highly beneficial, given approaches being taken in some countries and the opportunities for collective learning through exchanging insights and experiences

With regards to other sources of financing, many emphasized that governments should focus on policies to incentivize greater long-term investment in sustainable development, especially from the private sector, which can be an important source of resources to drive domestic growth and job creation. Importantly, it was also recognized that new mechanisms are needed to recycle the large and growing pool of EMDC savings, including through deepened domestic financial markets. It was also noted that ODA will remain an important source of external public financing and technical assistance in many developing countries, especially those that face the most substantial challenges. For this reason, the delivery on aid commitments is important; at the same time, it will be necessary to explore the catalytic potential of ODA funds through innovative financing measures.

There was unanimous agreement that infrastructure is an area in need of urgent attention, given the magnitude of the financing gaps and challenges. Yet, it was also stressed that the challenges extend well beyond finance. There is therefore a need to strengthen policy and institutional arrangements, including for project preparation and public-private partnerships – an area in which there is great scope of peer learning regarding effective approaches and capacity development.

It was acknowledged that political economy considerations will have an impact on the success of any reforms. As such, efforts to advance the FFD agenda will require political leadership and partnership, especially at the South-South level. While progress may be incremental, consistent collaboration and cooperation will build the necessary foundations for a robust financing architecture in the future. Addressing broader systemic issues will also be a crucial component of any such foundations, including through improved tax cooperation, trade rules and debt resolution frameworks and reform of the international monetary system and governance of the international financial institutions. Looking ahead at this juncture, it will be important for the Group to build on this discussion and establish how the perspective of Finance Ministers and Central Bank Governors can contribute to shaping the post-2015 development agenda and the systemic dimensions of sustainable financing.

Regional Perspectives on FFD: Latin America and the Caribbean

Following the broad overview of the financing for development agenda, the first of the four regional sessions focused on the issue from the perspective of Latin America and the Caribbean (LAC). While the LAC region has experienced strong growth performance and marked improvements in human development in the last two decades, large gaps remains and the widening priorities associated with the post-2015 development agenda have implications for the scale and nature of resources that are required. Inés Bustillo, Director of the Washington Office of the UN Economic Commission for Latin America, provided an overview of the financing landscape in the region and the challenges and opportunities associated with meeting the forward-looking FFD agenda.

Although the LAC region has made great strides in recent decades in terms of growth, income distribution, poverty reduction and increased resilience to external shocks, a number of structural factors are preventing many countries from achieving sustained growth and improving long-term prospects. Enormous development challenges persist, including pervasive inequality, rising vulnerability, a static production and export structure that over-relies on natural resources, insufficient and inefficient domestic revenue generation, inadequate levels of investment, scarce quality public goods and weak institutions. Addressing these challenges will require widespread structural change; yet the starting point and areas of need vary widely and are heterogeneous across the region. As such, overcoming structural gaps will require funding from various sources and through different instruments at different times according to each country's unique needs and circumstances. Thus, development finance will have to be channeled in a country-specific way.

Against this backdrop, Mrs. Bustillo noted that the landscape for development financing in LAC has shifted in recent decades: ODA has been on the decline since the 1970s, while remittances have been playing a growing role and FDI has hugely increased – though with marked differentiation across countries and a concentration in major economies. Increasingly, LAC countries have gained access to international capital markets, with bond financing (especially corporate) constituting a growing and important component of private capital flows. The increased access to private capital markets has thus provided many countries with more funding options. However, much of this new financing has been insufficiently targeted towards development priorities, given the low economic profitability of many social or public goods investments.

Going forward, financing sustainable development in the region will require achieving a balance between external financing and larger domestic resource mobilization, in order to avoid excessive dependence on foreign capital and possible current account problems. At the international level, there is scope for private resources to make an important development contribution, but it will be necessary to address the challenges associated with volatility of flows and the low profitability of public goods investments. Domestically, the mobilization of funds will require a set of economic and financial policies to promote the generation of savings for long-term financing and to channel these into productive investment. Integral to this objective will be the implementation of public policies to promote financial inclusion. Cooperation through regional finance institutions also has a role to play, insofar as it can help to fill financing gaps and address issues associated with risk intermediation. There is also scope for increased South-South cooperation.

Rogerio Studart, Alternate Executive Director at the World Bank, served as a discussant on behalf of Brazil. He focused on the challenges associated with the low-productivity, low-competitiveness trap in LAC, which has lingered even though the dynamics of the region have changed. He pointed to the long-term problems associated with the pillars of economic development, including physical and human capital. The low productivity of human capital, in particular, has posed an ongoing challenge, fueled by persistent inequality. Looking ahead, Mr. Studart emphasized that addressing the human capital challenge must be accompanied by increased infrastructure investment in order to guarantee sustainable improvements in productivity and competitiveness in the long term.

Haroldo Montagu, National Director of Macroeconomic Policy at the Ministry of Economic and Public Finances also provided insight from the Argentine perspective. He began by outlining the changing economic context for the Latin American region and the growing number of challenges being faced, including the stagnation of global growth and deceleration amongst the region's trading partners, the deteriorating balance of payments situation in many economies, the growing vulnerabilities associated with a shift back to commodity over-reliance, and the high levels of foreign debt for a number of countries. Against this backdrop, he discussed Argentina's unique position and, in particular, the current debt predicament. The case of NML vs. Argentina in the US courts has presented an enormous challenge for the country. Having bought defaulted debt in 2008 and refusing to accept restructured bonds, NML has taken repeated and aggressive legal action against Argentina in an attempt to seek excessive profits. A decision in favor of NML's holdout behavior has profound implications for the Argentina financially, as well as systemically for all sovereign jurisdictions. Participants affirmed their broad support for Argentina and recognized the importance of a positive outcome for the sake of the entire debt resolution system.

The open discussion focused on many of the important issues raised by the speakers regarding the financing prospects and challenges in the region. There was resounding agreement regarding the need to address the structural issues that are obscuring progress towards sustainable, productivity-led growth and human welfare goals. In particular, inclusive growth and equality will have a crucial role to play in terms of both escaping the middle-income trap and ensuring better human development outcomes across generations. Participants noted that LAC countries should actively pursue policies of social and economic inclusion, while focusing on diversifying export and production structures that are too externally dependent. Other participants stressed that while fiscal policies have an important role to play in formalizing the economy and reducing inequality, it is important for countries to first put their house in order by addressing debt and deficits in order to create the space for social policies and infrastructure financing. Improved domestic revenue generation will be important towards this end. On the whole, there was broad consensus that the region will need to focus on creating the enabling environment for attracting private and external investment and improving intermediation capacities, so that these funds can be channeled to productive objectives and development goals.

Regional Perspectives on FFD: Asia

The Asian region has been an engine for global growth in the last decade, fueled by robust economic performance and high levels of savings and investment. However, with growth having slowed in India and China, and with the financing requirements remaining substantial, especially in infrastructure, there are important challenges ahead. The lead presentation in the session on Asia was provided by Aynul Hasan, Officer in Charge of the Macroeconomic and Policy Development Division of UN ESCAP.

Mr. Hasan began by noting the enormous levels of resources that will be required in order to tackle social development challenges and address vast infrastructure gaps in the Asian region. In addition, the urgent objectives of modernizing the energy sector and improving climate resilience demand large increases in funding. In total, as much as $2.5 trillion annually may be required to meet the totality of these financing needs across the region. While no small task, Mr. Hasan outlined the significant resource potential across Asia, which can be tapped through a number of channels. For governments, strengthening domestic resource mobilization is an important mechanism for improving development financing, and there is scope in many countries to address revenue collection weaknesses, enhance tax-to-GDP ratios, rationalize and reorient public expenditures, and rationalize subsidies, particularly in the energy sector.

Perhaps the largest potential source of financing lies in the region's domestic institutional investors, particularly in the asset management and pension fund industries. The Asia-Pacific region has the highest level of assets, foreign exchange reserves and national savings in the world, with totals dwarfing the required investment levels. The primary challenge, therefore, lies in the mobilization and intermediation of these resources. To this end, the development of the region's capital markets has substantial potential for raising the required resources for financing its sustainable development, though many countries will need to first vastly improve their institutional and regulatory capacity. An improved enabling environmental for leveraging private investment will also be important. This includes better facilitation of PPP projects through a strong PPP project pipeline, institutional frameworks, PPP cost and risk sharing mechanisms, harmonized PPP legislation and inclusive policies. Sharing best practices around the region through information exchange and cross-country learning should also be utilized. Mr. Hasan concluded by emphasizing the need to foster strong and stable financial systems as well as partnerships, both within the region and across the developing world.

The session's discussants included Sumitra Chowdhury, Deputy Director of the Multilateral Relations Division in the Ministry of Finance's Department of Economic Affairs, who provided the perspective of India, and Roberto Tan, Executive Director at the World Bank, who commented on behalf of the Philippines. Mr. Tan began by noting that has undertaken substantial measures in the last two decades to address fiscal challenges and establish and stable domestic platform for long-term investment. This process began in the 1990s, when the government started opening numerous sectors for private participation and financing, including banking, telecommunications, oil, power and water. In addition to passing a VAT and sin tax, launching a PPP program, and focusing on deepening domestic debt markets, the government has managed to increase the role of domestic resources in the economy, lowering the reliance and foreign funding and also the vulnerabilities to domestic shocks. Mr. Tan noted that the Philippines is now well positioned to increase public infrastructure spending to 5 percent of GDP, following a prolonged period of low public investment. Despite the increased resources available, he acknowledged that it will also be necessary to address challenges of institutional capacity, project design and preparation and optimal risk-return sharing. Looking ahead, the government will continue a process of internal and external reforms to enhance the resource envelope and increase integration, including of financial services, across the ASEAN region.

Dr. Chowdhury outlined the specific challenges facing India, particularly vis-à-vis inclusive growth and sustainable development. The financing requirements in the country are enormous, given the size of existing development and infrastructure gaps, as well as the obstacles posed by demographic and geographic factors. Dr. Chowdhury focused her intervention on the major role of the public sector in supporting long-term growth and development goals. India specifically, and EMDCs more broadly, have been making considerable progress in recent years in improving domestic resource mobilization. India's tax-to-GDP ratio has risen to 16-17% currently, which has made a significant different to the sustainability of the domestic resource envelope in the country. Nevertheless, considerable obstacles remain, including subsidies, base erosion and profit shifting, and insufficiently deep and liquid capital markets. Although India has sought to develop a PPP model in recent years to improve financing prospects, there have been a number of limitations that need to be addressed. Dr. Chowdhury acknowledged the important contribution of private resources to FFD in India in the years ahead, but pointed out that a large volume of private sector funding has been backed up by government support. This reflects a common challenge across EMDCs; risk profiles and information asymmetries discourage private investment, yet indirect subsidization of private financing by the public sector creates improper incentives and impacts short-term budgets, long-term fiscal sustainability and intergenerational equity. Balancing these factors through risk intermediation, information sharing and institutional and regulatory enhancement will be necessary not only for India, but for the Asian region and the wider developing world.

Regional Perspectives on FFD: The Middle East

The political, economic and social challenges facing the Middle East are enormous. Following several years of conflict and instability, the importance of mobilizing resources to address gaps, increase resilience and facilitate growth and human development has never been greater. Yet the region is also incredibly heterogeneous, and no simple solution exists for facilitating long-term financing. A high-level panel was therefore convened to discuss the wide-ranging obstacles to FFD, as well as the opportunities, for Arab countries in this uncertain period.

Abdallah Al Dardari, Director of the Economic Development and Globalization Division at ESCWA began the discussion by noting that the Middle Eastern as a whole has, according to external development indicators such as the MDGs, made substantial progress. However, the enormous disparities across the region obfuscate the profound structural obstacles in many countries. Stable, robust long-term financing is inhibited by social contract difficulties that impede taxation and social spending, a lack of economic diversification and structural transformation that limits competitiveness and growth and undermines the middle class, a loss of large volumes of remittances, and a lack of depth in capital markets. At the same time, the region has abundant resources and has accumulated excess liquidity; yet, this is not being channeled to productive purposes or public goods objectives. Mr. Al Dardari laid emphasis on the central role that governance must play in overcoming these difficulties and putting the Arab region on a sustainable development path. He also argued that countries must make concerted efforts towards regional integration as a key objective.

Nasser Saidi, Director and Founder of Nasser Saidi and Associates and former Minister of Finance for Lebanon pointed out that financing for development in the Arab region is not just about improving growth and human welfare; after years of devastating conflict and capital stock destruction, it is also about rebuilding. Infrastructure requirements across the region are enormous, at around 7% of GDP or close to $110 billion annually. Of the approximately $40 billion of current annual spending, the majority of this is in Gulf States, which reflects the broader economic and resource disparities across the region. Financing challenges are broadly related to three issues: poor governance, socio-demographic problems, and economic difficulties associated with a lack of diversification and natural resource overreliance. Against this backdrop, Dr. Saidi outlined seven constructive policy priorities that countries in the region should consider in order to generate and channel sufficient resources that can be directed towards sustainable growth and development. Specifically, the region should: focus on private sector investment and job creation; facilitate infrastructure spending by state-owned and multinational enterprises; develop capital markets; channel wealth assets to productive, local use, enhance regional integration, reform energy subsidies to remove distortions; and, develop an Arab Bank for Reconstruction and Development. Dr. Saidi went on to articulate the potential contribution of the proposed for an Arab Bank and underscored that it would have an essential role to play in supporting more and better financing in the region for years to come.

The final speaker on the panel was Dr. Nihal El-Megharbel, Economic Advisor at the Ministry of Planning of Egypt, who provided insight into the particular challenges facing Egypt in its financing efforts. Following several years of social and political unrest and transition, Egypt is faced with a declining growth rate, a large fiscal deficit and public debt level, a high rate of unemployment and inflation, a trade balance deficit, low FDI flows, and high rates of poverty. Although the countries financing needs are large, investment levels have been declining as a percentage of GDP, particularly from the public sector. At the same time, the allocation of those funds that are available is problematic and inefficient, especially at the sub-national level. Dr. El-Megharbel proceeded to outline the stimulus package produced by the government to address many of these challenges. Large proportions of the stimulus were allocated for construction and public services, in order to boost infrastructure development and increase competitiveness, job creation and the efficiency of spending. Looking ahead, Egypt is continuing to enact reform measures to address short-term economic and social challenges while also supporting long-term sustainable development.

During the ensuing open discussion amongst participants, there was widespread agreement regarding the critical importance of infrastructure for the region at this juncture, not only for growth but for employment and stability. There were numerous calls for a greater role for financing intermediaries that can mitigate risk and match investment horizons with available resources. While some participants questioned the proposed Arab Bank for Reconstruction and Development, and the difficulties related to mobilizing funds from the region's wealthy countries, others were supportive of the idea, noting that access to concessional finance is insufficient for many Arab countries, and that Gulf Countries have an incentive to support financing as well as regional integration in order to promote stability, which is in their own interest. Overall, the importance of greater collective action was a point of strong consensus.

Regional Perspectives on FFD: Africa

The final regional session focused on Africa, which has been a financing for development focal point for over a decade since the Monterrey Conference. The relative development needs in the region are the largest in the world; at the same time, the financing architecture is the most unsophisticated. Addressing these challenges will require strengthening the pillars of long-term financing to fund Africa's economic transformation and preserve long-term growth and development prospects.

Amadou Sy, Senior Fellow at The Brookings Institution's Africa Growth Initiative, provided the session's lead presentation, and offered a perspective on both past trends and prospective FFD challenges for the region. Although Sub-Saharan African has experienced remarkable growth and development in recent years, propelled by robust savings performance and strong policies, this growth has not resulted in sufficient job creation or inequality reduction, and there has been uneven progress towards achieving the Millennium Development Goals. Mr. Sy examined the financing trends in the twelve years since the Monterrey Conference and noted a number of challenges. While ODA has continued to play a significant role, it has remained relatively stagnant and has fallen short of commitments made at Gleneagles. Meanwhile, aid from new partners has become increasingly important. Private capital flows have increased exponentially in recent years; yet, this hasn't led to the expected increases in financing. Most FDI flows are concentrated in resource-rich countries, and there hasn't been an associated knowledge and skills transfer. Mr. Sy proceeded to examine the perspective of the different financing stakeholders vis-à-vis investment goals and modalities, including countries, foreign investors, bilateral and multilateral donors. He concluded that attracting more and better financing will not alone be enough to address the existing gaps and attain forward-looking aspirations. Mr. Sy provided a number of constructive suggestions for the path ahead, including redefining the role of aid and improving the efficiency of its use, strengthening South-South partnerships, reducing illicit financial flows, engaging the Diaspora, utilizing mobile phone technology and strengthening regional integration.

Cleo Rose-Innes, Chief Director of the International and Regional Economic Policy Division of the South African Treasury served as a discussant for the session. She began by discussing growth performance in Africa in recent years and the role this has played in supporting development. However, she noted that there remains a paucity of deep understanding regarding what is actually driving growth. She stressed the importance of undertaking evaluation, particularly from an 'internal perspective' that looks from the inside out, in order to ensure such growth will be sustainable, inclusive and supportive into the longer term. Ms. Rose-Innes went on to discuss a number of challenges that African countries face in facilitating and connecting the various sources and providers of financing for development. Addressing the challenges in public and private finance at the domestic and international level will be essential for addressing bottlenecks in the continent and mobilizing significant and much-needed resource flows. Ms. Rose-Innes concluded by emphasizing the importance of regional relationships and integration for achieving shared goals in a sustainable fashion.

Although the open discussion in this session was short, participants agreed on a number of key issues. First and foremost, the importance of partnerships was recognized, particularly within the region and amongst 'the South'. It was also noted that mobilizing long-term financing in the region will require addressing barriers with existing sources of funds, as well as developing new approaches. It was pointed out, for example, that private equity has been booming in Africa, but that such investments are not long-term in nature. Connecting financing opportunities with suitable sources of funds over appropriate time horizons will be important, and addressing risk will have a central role to play in this respect. Looking ahead, it is clear that Africa will need both continued aid to support its large unmet social and human development goals and additional sources of financing to support its large investment needs, including in infrastructure. Multilateral finance has an important role to play, but it will be necessary to ensure that policies, lending frameworks and governance are conducive to this.

Growth and Inequality

There has been a growing focus in international discussions on the links between rising inequality and the sustainability of growth across developing countries. Given the implications of this issue for G-24 members, as well as EMDCs more broadly, a session was on inequality was convened during the TGM to consider the state of current research, as well as specific insights from country experience.

Jonothan Ostry, Deputy Director of the IMF Research Department, provided a substantive presentation during the session, based on the Fund's recent analysis of redistribution, inequality, and growth. Mr. Ostry began by referencing existing research on the relationship between these phenomena, noting a tentative consensus in the growth literature that inequality tends to reduce the pace and durability of growth. He went on to outline the Fund's analytical work, which had the aim of examining and measuring the impact of inequality on growth and evaluating the role that redistribution has to play. A recently-compiled cross-country dataset was used to analyze growth rates over five-year horizons and also assess the impact of redistribution. The results demonstrated a strong negative relationship between the level of net inequality and both the pace of medium-term growth and the duration of growth spells. It was also found that redistribution is not inherently detrimental to growth, with a benign impact broadly observed in circumstances where fiscal policies were not extreme in redistributive efforts. While Mr. Ostry cautioned that these results shouldn't be over-interpreted, he noted that the research could provide important guidance to national policymakers as well as international institutions going forward. He concluded by emphasizing the importance, above all else, of enhancing the quality of fiscal institutions, especially in developing countries, in order to ensure that the most appropriate policies – whatever they may be – can be implemented.

Dr. Hania Sholkamy, Associate Professor at the Social Research Center of American University in Cairo served as the other main speaker of the session. Dr. Sholkamy provided insight into domestic challenges in addressing inequality in the Egyptian context. She described the profound inequalities that affect segments of the Egyptian population and the difficulty associated with mitigating the impact thereof. In the past, efforts to provide social protection have struggled with inefficiencies and problems of effectiveness, especially in targeting those who need the most help. Dr. Sholkamy outlined the new approach being utilized by the Egyptian government, which focuses on targeting social expenditure in a more tailored fashion, through provision of services and cash support for poor households. She provided specific examples of programs underway, and emphasized the overarching goal of addressing structural inequalities and undertaking effective redistribution.

During the discussion, broad support was expressed for the analytical work presented, and a number of questions arose regarding the nature and scope of the fiscal interventions that would be most effective at reducing inequality and supporting growth. Mr. Ostry clarified that the Fund's analysis had sought to evaluate the relationship between growth, inequality and redistribution, but did not consider specific policy prescriptions; future research will consider this in greater detail. Nevertheless, participants agreed that this issue had significant implications for developing countries, particularly vis-à-vis capacity development at the institutional level. With regards to the more micro issues of social protection and the examples provided, participants noted the challenges associated with ensuring social benefits don't distort incentives to participate in labor markets. There was acknowledgement of the need to ensure social protection benefits society more broadly, including through insurance and access to savings. Dr. Sholkamy concluded by emphasizing that a sustainable growth strategy for the middle class must underpin all social protection efforts, and pointed to untargeted energy subsidies as a barrier to this.