



How the IMF Supports Inclusive Growth in the Middle East and Central Asia

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Growth is at the heart of the IMF's mandate, but in recent years the IMF has been trying to look beyond the numbers and examine how the benefits of growth are distributed and how growth affects people's lives. We have also been trying to reflect this analysis in our work with member countries. Understanding of what we are doing is increasing among our members and our critics. This blog aims to take the discussion further, by answering a few commonly raised questions about what we are trying to do and how far we have come.

Question 1: The IMF has changed its tone on inclusive growth, but has it really changed its practice?

Answer: Inclusive growth is a key part of our reports and analysis and a key focus of our policy advice.

The IMF is among the leaders in analysis of inclusive growth issues. Our papers on [jobs, growth and inequality](#), and [gender](#), clearly highlight the importance of these issues to our work. We conducted a diagnosis of inclusive growth issues for each country—highlighting disparities in employment across groups or regions, preferential treatment of certain sectors or activities, or lack of access to basic services. And we have tailored our policy advice to these challenges in our Article IV surveillance reports, our discussions with governments, and the design of the reform programs we support.

For example, in the case of [Tunisia](#), the government's program supported by the IMF included a focus on a fair and efficient tax system, and improving budget procedures and transparency. In the case of Egypt, the most recent [Article IV consultation](#) focused on the constraints to growth and job creation in Egypt and what could be done to overcome them.

Question 2: Don't the poor bear the brunt of the adjustment in IMF programs?

Answer: The point of IMF programs is to reduce the burden on a country, and especially on the poor.

Budget reform is a part of many IMF programs, but a key purpose of budget reform is to make room for more and better spending on infrastructure, education and health programs. Equity considerations are taken into account by focusing on widening the tax base, mostly through bringing people into the tax net by eliminating loopholes and special privileges. For example, in Pakistan, a country of 180 million people, only 1.2 million individuals and firms file income tax returns, of which about half are corporate fillers. That must change so that more of the burden falls on those who should pay—not those that already pay their taxes.

IMF programs also try to protect the most vulnerable population. The [Pakistan](#) and [Tunisia](#) programs included large increases in targeted cash transfers to the poorest (e.g., the expansion of the Benazir

Income Support Program in Pakistan, or the increase of the existing cash-transfer scheme in Tunisia). These expenditures are monitored under the program to ensure they do not fall short of the agreed goals.

Question 3: What about fuel subsidy cuts: don't they hurt the poor?

Answer: Energy subsidies benefit mostly the wealthy, and savings from subsidy reduction should be used to benefit the poor.

Many have questioned the IMF's focus on energy subsidies as incompatible with inclusive growth. For example, some feel these subsidies should be kept as a safety net for vulnerable populations as they help keep prices low.

The fact is that rich consumers get the bulk of the benefits from subsidies because they consume the bulk of fuel and electricity. In most MENA countries the richest 20 percent receive close to 60 percent of total spending on [energy subsidies](#). We also support protecting the poor from large increases in energy prices through increased spending on safety nets where subsidies are phased out.

In addition, subsidy reduction helps free up resources for other more productive expenditures. For example, Egypt's 2014 subsidy reform will make resources available for planned higher spending on health and education.

Question 4: Does the IMF favor businesses over ordinary people?

Answer: The reason we support a better business climate is to create jobs and improve living standards.

Experience across all regions has proven that a vibrant private sector, including through the development of small and medium enterprises (SMEs) and family-run businesses, creates more long-term jobs than the public sector. And our discussions with a broad range of stakeholders in the region confirm that creating good jobs for the unemployed, especially the youth, requires private investment and good governance. This is the reason for our focus on how to remove complex and burdensome regulations that hold back job creation and deny people the opportunity to compete. Private sector development can also help consumers: by freeing up state-dominated systems; promoting more competition within the private sector; and moving away from protected industries and rent-seeking that favors economic elites toward openness, value creation and SME development.



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