



USAID Business Enabling Project in Serbia
Scope of Work for Consultant
A Senior Macroeconomist to Conduct Fiscal Multipliers Analyses

I. BASIC INFORMATION

Background

About the Project

USAID's Business Enabling Project ("BEP"), implemented by Cardno Emerging Markets USA and partners, is a five year initiative launched in January 2011. The purpose of the Project is to help the GoS of Serbia improve the competitiveness of the Serbian economy, its macroeconomic position and its private sector businesses. The Project will provide technical assistance, training, and other support to improve the business enabling environment, macroeconomic stability, and further develop financial markets. The Project is demand driven: all activities are based on the priorities of the private sector and GoS.

BEP Component 2, Macroeconomic Policy and Public Sector Financial Management, will help to advance reforms in financial management and fiscal policymaking that are relevant for business growth and competitiveness. This will include technical assistance to develop better economic forecasts, build capacity in performance-based budgeting, improving public debt management, and strengthen public private dialogue and awareness about key policy issues and developments.

The overall aims of BEP work in these areas will be to:

- 1) Make better use of public funds
- 2) Strengthen fiscal responsibility, planning, and transparency
- 3) Reduce fiscal risks
- 4) Improve the quality and scope of fiscal analysis and policymaking
- 5) Reduce the impact of GoS financing on business and the economy at large
- 6) Strengthen compliance with requirements for EU accession

The Fiscal Council (FC) and the Ministry of Finance and Economy (MoFE) are the main public sector counterparts for BEP work under this component. The GoS General Secretariat is also a counterpart with respect to work on performance-based budgeting and fiscal planning.

About the Counterpart

The FC is a newly created institution (approved by Parliament on 31 March 2011), that is funded by but independent of GoS. It has been created to help monitor and report on the status of GoS finances and compliance with fiscal rules that were established through amendments to the Budget System Law¹ – it functions as a type of "watchdog" and provides

¹ The Budget System Law introduced fiscal responsibility rules, which are expected to ensure that Serbia will conduct sustainable fiscal policy in the coming years and decades. In particular, fiscal responsibility rules prescribe maximum

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advice to the GoS to improve fiscal policies and prioritization of expenditures and evaluate the impact of spending proposals submitted by or to the GoS.

The FC has many important statutory functions and reporting tasks. In addition to these statutory obligations, the FC may at any time, on its own initiative or upon request, advise the GoS on matters relating to fiscal policy and public finance management. The FC has a very important role to play in helping to improve public sector financial management and in promoting compliance with rules and international standards in budget preparation, expenditure management, and overall GoS accountability for prudent use and management of public funds.

USAID BEP has engaged experts to provide technical assistance during 2011 and 2012 with the aim to 1) help build institutional and human capacity that will facilitate the development of a world class Fiscal Council that can facilitate good fiscal planning, accountability and credibility; 2) assist the FC in meeting its econometric analysis and reporting requirements during the budget cycle and assess the fiscal impact of news and regulations that are slated for review; 3) provide technical assistance on various methodological and procedural issues that arise during the establishment of FC's internal operations; 4) to help expand the FC's analytical scope to address medium term objectives, new fiscal adjustment reforms, and overall improvements to public sector financial management including management and effectiveness of state aid programs as well as tax reform.

An important next step in USAID BEP's work is to put FC in a solid position to monitor government's fiscal policy measures from business growth perspective as well as to determine and recommend fiscal measures that are the most advantageous or least disadvantageous to Serbia's business growth. The work proposed by this SoW will provide technical assistance to increase FC's capability to cover quantitative analyses of sustainability of the existing and reformed fiscal policies and thereby increase the certainty of its assessments.

About the Fiscal Multipliers Analysis

The central objectives of the fiscal multiplier analysis are:

1) To help Fiscal Council defend its case for strict adherence to the fiscal consolidation to challenge the arguments heard in the public, from parts of the Government of Serbia, and

amount of sustainable public debt (45% of GDP, excluding restitution bonds), maximum amount of annual budget deficit and maximum amount of sustainable spending on public pensions and public sector employees (10 and 8% of GDP, respectively). The responsibility for conducting solvent fiscal policy rests primarily with Ministry of Finance and Fiscal Responsibility Council, which will be a newly established supervisory body.

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some international organizations that high deficit cuts are "self-defeating" due to their detrimental effects on the economic activity.²

2) To put Serbian independent fiscal institution, Fiscal Council, in a solid position to monitor government's fiscal policy measures from the business growth perspective as well as to determine and recommend fiscal measures that are the most advantageous or least disadvantageous to Serbia's business growth.

3) To enable Fiscal Council to independently conduct quantitative modeling on fiscal multipliers to test dependencies of tax revenues and expenses to the economic activity and consumption.³ The capability to cover quantitative analyses of sustainability of existing and reformed fiscal policies is important because it will increase the certainty of Fiscal Council's assessments of the fiscal and macroeconomic impacts of regulations and laws proposed by the Government of Serbia.

4) To increase public and expert debate, awareness, and support of necessary business growth policies that will lead to their implementation by the Government of Serbia.

The nature of the support will be technical support on fiscal multiplier empirical studies review, support with data set preparation, and evaluation of externally estimated multiplier results to assess impact in Serbia.

The Consultant will be expected to perform the tasks described below.

Scope of Work

This assignment will be part of the BEP project's Component 2: Macroeconomic Policy and Public Sector Financial Management, and is incorporated in BEP's Objective 1: Improve Government of Serbia Budgeting, Fiscal Policy Analysis, and Financial Management Efficiency – Task 1: Capacity Building Assistance to the Fiscal Council and Improvements to Fiscal Responsibility.

Tasks

- 1. Conduct review of fiscal multiplier empirical studies: methods used to conduct the studies, findings, and recommendations, including:**
 - Review empirical studies conducted on fiscal multipliers with a specific focus on the methods used to conduct the studies, studies' findings, and studies' recommendations.

² STTA should provide empirical insights into what effects stimulus cuts have in Serbia and similar countries during recessions.

³ World Bank, the IMF, and many other countries do this type of analysis because it is the only way of assessing the scope of the fiscal policy, and Serbia is one of rare countries that has never done this.



- Based on the existing research, stylized facts must be presented about the fiscal multiplier levels depending on the size and openness of the economy, the type of fiscal stimuli, the level of public debt, monetary policy and exchange rate policy, the behavior of consumers and investors, multiplier assessment methods, etc.
- 2. Assist with data set preparation and model specification, including:**
- Assist the Fiscal Council in assessment and selection of fiscal and non-fiscal variables to include in the Structural Vector Auto Regression (VAR) model that will be developed in STATA statistical application.
 - Data to be considered in the Structural VAR model will be limited to Emerging European countries and Serbia:
 - *Emerging European countries.* About 13 to 15 years of quarterly data will be used from about 10 countries, but variations in data longevity and number of countries are possible. Expected problems of consistency and comparability will require research;
 - *Serbia.* Data since 2001 will be used for the analyses.
 - Assess how much an exogenous change in one fiscal variable, ceteris paribus, impacts GDP.
- 3. Evaluate estimated multiplier results to assess fiscal policy impact in Serbia**
- Conduct quantitative analysis of fiscal multipliers to test the effects: expenditure vs. revenue, advanced vs. emerging economies, open vs. closed economy, crises vs. booms.
 - Preliminary findings for Serbia should include estimates of fiscal multipliers in Serbia. Assess the impact of economy's openness, the exchange rate policy, and public debt level on the level of fiscal multipliers in order to evaluate implications of the findings and assessed multipliers on fiscal policy and business growth.
 - Fiscal Council hopes to get empirical evidence that will support its case for strict adherence to the fiscal consolidation to challenge the arguments heard in the public, from parts of the Government of Serbia, and some international organizations that high deficit cuts are "self-defeating" due to their detrimental effects on the economic activity.
- 4. Train Macro-Fiscal Department on the Study's Findings, including:**
- Train selected staff from the Macro-Fiscal Department of the MoFE on specific areas of the fiscal multiplier analyses and data series preparation. The focus of the training will be on the application and utilization of the fiscal multipliers and on the interpretation of the preliminary results.

Level of effort

Consultant will have up to **25 (twenty five) days** of engagement for completion of the tasks.



Period of Performance

Period of performance of this SoW is from **March 18, 2013** to **June 30, 2013**. Maximum number of days under this SoW cannot exceed **25 (twenty five) days**.

Deliverables

In addition to the advisory inputs, specific work products to be developed by Consultant include:

- 1) Report on the *Review of the empirical studies on fiscal multipliers*;
- 2) *Data sets* (Emerging European countries and Serbia) in appropriate format (i.e. Excel);
- 3) Report on *Assessment of impact of estimated multiplier results in Serbia*;
- 4) Training to MFD of the MoFE on selected topics of fiscal multipliers analysis and data series construction;
- 5) All other written reports and advisory memoranda prepared by the consultant on the topics of this SoW;
- 6) A final STTA report/memo on the work performed and results achieved (in English).

The reports should be made in an MS Word document, while the training should be made in an MS PowerPoint presentation.

Consultant will furnish drafts of the above stated reports to the USAID BEP not later than 7 (seven) days before expiry of the deadline for submission of the final report. USAID BEP will provide its comments in written not later than 3 (three) days after receiving the draft report and Consultant will submit the final report, taking into considerations comments received, within next 4 (four) days.

To Apply

1. Requirements for eligible candidates:
 - a. PhD in Economics.
 - b. Proven expertise and significant experience in the field of macroeconomic analysis and fiscal policy, previous knowledge on fiscal multiplier analyses, significant scientific work in the area of macroeconomic analysis and fiscal policy, and considerable knowledge in econometric analyses and data construction.
 - c. Contains significant knowledge and necessary data to be able to complete the tasks within the period of performance stated in the SoW.
 - d. Good writing and presentational skills.
2. Applications including CV clearly showing adequate technical background and relevant work experience should be sent by e-mail to: info@bep.rs, by **March 14, 2013**. Only short listed candidates will be contacted.
3. Maximum number of days under this SoW cannot exceed **25 (twenty five) days**.