

CALL FOR PROPOSALS

Fiscal Sustainability in The MENA Region in Light of the Covid-19 Crisis

ERF is pleased to announce a call for proposals on “**Fiscal Sustainability in the MENA Region in LIGHT of the COVID-19 Crisis**”. Interested researchers are invited to submit their proposals by February 26, 2021. Selected authors will present their papers during a workshop in July 2021.

Introduction and Background

Since late 2010, the economies of the Middle East and North Africa (MENA) region have been experiencing mounting socioeconomic grievances resulting in popular uprisings in parts of the region and the eruption of extended conflicts in other parts. Many of the resource-poor MENA countries continue to accumulate public debt relying on fiscal spending to reignite growth and root out popular dissent. Despite decent growth outcomes in some of the more diversified MENA economies, unemployment remains high, and poverty and inequality continue to rise. Meanwhile, the resource-rich MENA economies saw their public finances come under stress due to a secular decline in oil prices since 2014, prompting a serious re-thinking of their future fiscal sustainability. Most recently, the COVID-19 pandemic, coupled with further lows in oil prices, dealt a fierce blow to the already-weakened economies of the region.

In this context, questions of fiscal sustainability come to the forefront. And while the rise in debt is a global phenomenon, it deserves particular attention in the MENA region for three main reasons. First, fiscal discipline is weak and often coupled with problematic governance of debt management. In particular, the low incidence of fiscal transparency in the region does not currently allow an objective assessment of the extent of the problem¹. For several MENA economies, there is little information on the public and private debt stocks, their maturity structure, terms of borrowing and currency denomination. Moreover, in many cases, the accumulation of debt is often not solely driven by the increase in fiscal deficits, suggesting that below-the-line operations (including off-budget transactions) contribute to debt increases. In addition, MENA governments may have significant contingent liabilities which are not transparently documented.

Second, debt sustainability in these economies is particularly vulnerable to external shocks over which they have little control. The oil price is one key variable, however, many of these economies also rely on volatile sources such as grants, tourism revenues and remittances as primary sources of foreign exchange.

¹ Arezki, R., D. Lederman, A. Abou Harb, N. El-Mallakh, R.Y. Fan, A.M. Islam, H.M. Nguyen and M. Zouaidi. 2020. Middle East and North Africa Economic Update, April 2020: How Transparency Can Help the Middle East and North Africa. World Bank.

Third, as many MENA economies peg their currency to other major currencies, primarily the US dollar, the stance of increasingly unconventional monetary policy in advanced economies increases the chances of monetary instability, and may place pressure on these exchange rate parities over the medium term, especially in the absence of strong fiscal consolidation. In either case, it is likely that fiscal policy will be forced to do the heavy lifting, thereby increasing pressure on already strained public finances and further limiting these economies' fiscal space.

Given the above, there is a growing need for in-depth systematic studies about fiscal sustainability and the existing fiscal space in the MENA region to deal with the emerging challenges.

Research Topics

Proposals are invited to address the following topics. Proposals on other topics not listed below, but related to the overall theme of this call, may also be considered.

- 1) What are the linkages between growth, interest rates, debt and demographic trends in the region? Is there an optimal debt threshold for MENA countries beyond which debt can be harmful for growth?
- 2) How can debt be viewed from an intergenerational equity viewpoint? And how can one extrapolate the policymakers' preferences for the tradeoff between the welfare of the present and future generations?
- 3) Why are fiscal rules almost completely lacking in the region? How does their absence affect the nature of fiscal policy, the strength of fiscal multipliers and the efficacy of automatic stabilizers?
- 4) What is the available fiscal space for different MENA economies, and what are the main factors that pose significant threats to the existing fiscal space during the post-COVID-19 recovery?
- 5) Is there evidence of fiscal response to increasing debt in the form of a fiscal reaction function? What are the main variables that determine the fiscal stance at the country level?
- 6) Would fiscal sustainability be affected by global exogenous factors such as sudden changes in global capital flows, extended commodity price cycles or increased volatility in these variables?
- 7) For the resource-rich MENA economies with significant buffers of sovereign wealth, how can this wealth be preserved and managed in a world with negative real interest rates and potentially volatile financial markets?
- 8) How can sovereign wealth be used optimally in resource-rich but capital-poor economies (e.g. Algeria and Iraq) as opposed to capital-rich economies (e.g. the GCC)?
- 9) Are the MENA economies ready to shoulder the fiscal costs of climate change?

Methods

In tackling such questions, it is important to note that data availability varies significantly across the MENA region, particularly for fiscal variables. Therefore, research proposals should clearly discuss data availability in relation to the

proposed methodology. Submitted proposals may be for single-country studies or projects covering a groups of countries. The adoption of novel research methodologies is encouraged based on recent advances in research on fiscal policy; see Ramey (2019) for a discussion.²

Guidelines for Submission

Authors should submit a proposal of a maximum length of five double-spaced pages (excluding appendices, tables, figures, and references). It should be structured to contain three sections in the following format. ERF reserves the right to exclude proposals that are not consistent with these guidelines.

IMPORATANT NOTE: the proposal should NOT include the authors' names, as it will undergo a **blind review process**.

1. ***Statement of the research problem:*** A clear and concise description of the nature and importance of the proposed research; its scope and boundaries; its general context; and objectives with explicit reference to feasibility and policy relevance.
2. ***Value Added:*** A selective and analytical review of the relevant literature, intending to both demonstrating knowledge of past theoretical and empirical work, as well as identifying the knowledge gap that the proposed research is intended to address.
3. ***Conceptual Framework and Research Methodology:*** A clear statement of the conceptual framework should be provided elaborating on the set of specific, identifiable and concrete questions for which the proposed research is intended to provide answers. This is to be followed by an elaboration of the research methods to be employed and why they are best suited to answer the research questions. The section should also indicate the nature of the information required and the data collection techniques, whether primary or secondary or a combination of the two. Finally, it should explain how the information will be analyzed and interpreted using quantitative and/or qualitative methods.
4. ***Budget:*** The budget should be submitted in US dollars, itemized and inclusive of all research and dissemination expenses. Research costs should be defined by deliverables. Other budget items may include travel, if necessary, research assistance, data collection, office supplies and photocopying. The purchase of equipment is not allowed under ERF grant rules. Please note that the maximum budget per paper that ERF can fund is \$6,000.
5. ***References:*** A list should be attached to the proposal specifying the suggested references to be used in writing the proposed paper.

Eligibility

The following eligibility criteria will be applied:

- Researchers should have expertise in the topic being researched.

² Ramey, V.A. 2019. Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research? *Journal of Economic Perspectives* 33(2), 89–114.

- At least one of the main researchers should be from the ERF region, whether residing inside or outside the region.
- Researchers from disciplines other than economics may apply.

Selection criteria

A refereeing committee will evaluate all proposals by the following criteria:

- The value added from the project in terms of contributing to existing knowledge,
- The methodological soundness, be it econometric or in-depth case studies,
- The policy relevance of the findings.

Important dates

- Submission of proposals deadline: February 26, 2021
- Announcement of winning proposals: March 15, 2021
- Submission of draft papers: June 30, 2021
- Workshop for discussing draft papers: July 2021 (TBD)
- Submission of final papers: September 30, 2021

To submit your proposal, please fill in the following form:

<https://erf.org.eg/fiscal-sustainability-in-the-mena-region-in-light-of-the-covid-19-crisis-submission-form/>

Your submission should include:

- Author(s)' CV(s)
- Two published papers, and
- Proposal as per the above mentioned guidelines.

For further inquiries, please contact Ms. Ramage Nada, Senior Programs Officer, email: rnada@erf.org.eg.