



## **Defining and Enforcing Minimum Standards for Independent Fiscal Institutions**

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**One of the most salient novelties of the recent reforms of the EU fiscal framework has been the decision to promote the establishment of Independent Fiscal Institutions (IFIs).**

**Countries should have fiscal institutions with a high degree of independence in accordance with their legal and political cultures.** National IFIs, together with national fiscal rules, are indeed key to reinforce the national commitment to sound fiscal policies. The crisis has shown that rules defined and monitored at EU level are not enough. National commitment to the system is also relevant. In particular, national IFIs can make a substantial contribution to promote responsible fiscal policies. The main value added of national IFIs relative to EU-level institutions is twofold: excellent knowledge of country specificities; and wide national acceptance.

**As stated in the Network of EU Independent Fiscal Institutions position paper of 5 November 2015,** in order for the EU fiscal framework to function effectively, **it is highly desirable to ensure that the IFIs are strong enough to fulfill their functions.** The IFIs are certainly heterogeneous in tradition, mandates, specific tasks performed, functional organization, size or resources (see Annex). But although national specificities need to be taken into account, in all cases there is a need to ensure that all of them enjoy a strong position at the national level to conduct all their tasks.

**Current EU legislation already establishes a set of desirable features or principles to be met by IFIs.** In particular, **article 2.1a) of the two pack regulation (473/2013)** when defining independent bodies in charge of monitoring compliance with fiscal rules as well as of endorsing or producing macroeconomic independent forecasts clearly states that these bodies should be endowed with functional autonomy vis-à-vis the budgetary authorities of the Member State and must be underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability, including: a statutory regime grounded in national laws, regulations or binding administrative provisions; not taking instructions from the budgetary authorities of the Member State concerned or from any other public or private body; the capacity to communicate publicly in a timely manner; procedures for nominating members on the basis of their experience and competence; adequate resources and appropriate access to information to carry out their mandate. These same desirable features were previously stated in the **Communication from the commission on Common principles** on national fiscal correction mechanisms adopted in 2012. At the OECD level, a Recommendation on the Principles for IFIs was also adopted in February 2014.



**Nonetheless, the mere existence of these EU provisions does not dispel the various risks IFIs may face in the performance of their tasks.** Provisions are often too vague and spelling out details on what independence should imply would be very important for the actual enforcement of regulations. Moreover, in most cases EU IFIs are directly financially linked to the Ministries of Finances or Treasuries to be monitored by the IFIs. In the case of conflict of interest, IFIs could be subject to political pressure by restraining IFIs resources, its operative capacity or even publicly questioning its analytical capacity or independence.

**Therefore the Network proposes detailing these principles or desirable features and, even more importantly, establishing an effective system for their safeguarding.** The specific normative anchor (e.g. Code of Conduct; EFC agreement; ECOFIN conclusions) can be best identified by the Commission and/or legal experts. But in all cases, this new framework should encompass:

- **A clear definition of the minimum standards to be monitored.** In particular, the minimum requirements should ensure the IFIs have an adequate remit and a commensurate level of resources, good and timely access to information, and a reinforced position in more widely applicable binding comply-or-explain procedures (see next section).
- **A monitoring system** that could involve including this issue regularly in the European Semester agenda (country specific recommendations) with ad hoc reporting by the Commission.

## **Minimum Standards for EU IFIs**

### **1. An adequate level of resources and management flexibility**

**IFIs have a clear understanding of the level of resources (human and financial) needed to fulfill their tasks.** There is no one-size fits all solution. Country specificities related to the mandate, number of entities to monitor (centralized vs decentralized countries), report intensity (number of mandatory reports to be produced in a budgetary year), the particular status of each IFI (availability of resources from other institutions) or the nature of the national rule that should be backed up by the IFI's monitoring must be taken into account when assessing the appropriate allocation of resources.

**To ensure sufficient and stable financial resources (at constant prices), the budget of IFIs should not be subject to discretionary cuts.** Legal provisions should guarantee immunity from the discretion of policy makers (Ministries of Finances, Treasuries or Parliaments). To this end, the IFI should be provided a multiyear budgetary appropriation that supersedes the government's electoral cycle. Provisions related to the stability and sufficiency of financial resources should also be reflected in law, in order to be taken into account when the budget



is discussed and approved in Parliament. It can also be useful to sign a memorandum of understanding (MoU) where the Ministry commits itself to provide enough resources while also establishing a clear procedure for the approval of the IFI budget in order to respect the IFIs' proposal as well as its execution. A two-step financing (via the Parliament, the central bank or other independent institutions) is another option.

**IFIs should have enough flexibility to manage their resources** (financial and human). They should be free to allocate resources within the pre-defined resource envelope. The leadership of the IFI should have full freedom to hire and dismiss staff (within the rules governing civil service in each country, if such rules apply to the IFI). Wages should be competitive and attractive enough to retain its staff to ensure its stability.

## **2. Good and timely access to information**

**IFIs should have full, real-time and stable access to all relevant information to fulfil their mandates, at no cost and in readable formats.** This includes methodologies and assumptions used in the budget. Ideally, Ministries or statistical offices should provide a standard set of data by default and additional data, if available to them, upon request by the IFI, at no cost to the IFI and without undue delay. For specialized issues, subnational administrations or public companies, IFIs should also be able to require information directly from the relevant provider. IFIs should be able to participate in committees at the national level dealing with accounting and statistical questions related to government fiscal data. Any restrictions on access to information should be clearly defined in law. Whenever necessary, an MoU can be a good practice to further regulate the specificities of access to information by each particular IFI.

## **3. An effective implementation of the “Comply or Explain” principle**

**The “Comply or Explain” principle is a key tool to fulfill IFIs' mandates. It should be duly regulated at the national level.** Legal backing seems the preferable. As for the content, to ensure its full effectiveness the administration concerned should always provide within a predefined deadline a reply avoiding the ambiguity of the positive silence. The reply to an IFI's assessment or recommendations, where applicable, should include clear and enough information about the measures and their planned timeline. Technical meetings can also be helpful for a proper understanding of the replies. The publication of these replies by the administration concerned as well as the status of the implementation of measures enacted following the IFI's assessment or recommendations is seen as good practice.



#### **4. Safeguards to political pressures**

Board members of IFIs should be selected on the basis of merit and technical competence. The process might include public parliamentary hearings. Strict rules for conflict of interest should apply. Terms should be made independent of the electoral cycle. The position of head of the IFI should preferably be a remunerated full-time position.

IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate.

IFIs should develop a mechanism for external evaluation – to be conducted by local or international experts at regular time intervals. According to international standards, conducting the first evaluation within five years of an IFI's existence seems good practice.

Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.

Depending on each country institutional arrangement, it may be desirable to encourage appropriate accountability to the legislature (e.g. by envisaging submission of IFI reports to parliament in time to contribute to relevant legislative debate or responses of IFI to requests from committees and subcommittees).

IFIs should not be mandated to engage in international cooperation or coordination of their activities by national or international law or any other means. Voluntary international cooperation should be encouraged in areas where it can improve the ability of the IFI to fulfil its national mandate.



## Annex

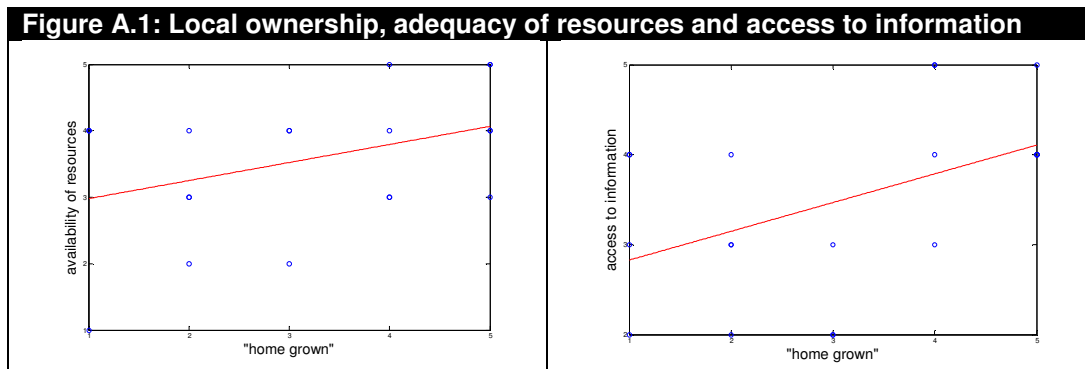
Data collected through surveys of EU IFIs during 2015 indicate considerable **heterogeneity in local ownership, adequacy of resources as well as access to information**. The table below provides a simple statistical summary of the data from a survey in which IFIs were asked to provide a quantitative assessment of important elements of the OECD principles for independent fiscal institutions. A Likert scale of 1 to 5 was used to quantify the EU IFIs' perceptions with 1 and 5 reflecting a highly negative and highly positive state, respectively. The lowest average responses (and the highest variation in responses) were recorded for questions about the extent to which

- the institution is home-grown;
- it engages with the local legislature;
- it has access to information;
- it has adequate resources.

Question	Mean response	Standard deviation
To what extent do local institutional conditions determine the role and the structure of your IFI? Answer 1 if IFI role and structure is/was imposed from outside; Answer 5 if the IFI emerged from a local initiative.	3.10	1.52
To what extent is the leadership of your IFI chosen on the basis of merit and technical competence?	4.65	0.75
To what extent does your IFI have the autonomy to determine its work programme within the bounds of its mandate?	4.65	0.49
To what extent does your IFI have the resources necessary to fulfill its mandate?	3.55	1.05
To what extent is your IFI engaged with the local legislature?	3.40	1.14
To what extent does your IFI have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals?	3.50	1.00
To what extent does your IFI make documents, methodologies and data (where applicable) freely available?	4.15	0.81
How would you assess the effectiveness of the communication of your IFI?	3.95	0.83



Interestingly, there is tentative evidence that these attributes may not be unrelated. In particular, a **positive relationship seems to exist between local ownership and the extent to which an IFI is endowed with sufficient financial and human resources**, although the sample size is small (see Figure A.1 below).<sup>1</sup>



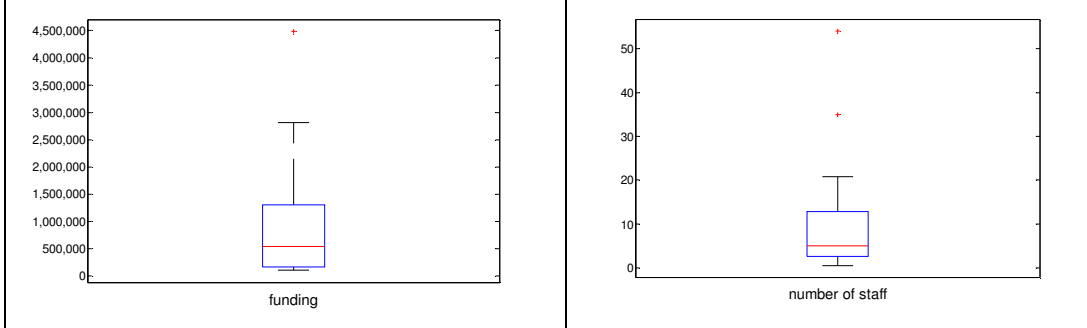
Data from a separate survey conducted by DG ECFIN also indicate a **significant dispersion in resources** available to IFIs. Figure A.2 – which gives an indication of this – is constructed based on a sample of 19 EU IFIs whose operations concentrate on a set of tasks outlined in EU legislation.<sup>2</sup> Narrowing down the sample further to seven institutions that perform at least 10 of the full set of tasks (see footnote below) does not alter the picture significantly. The average funding across such institutions is around 1,5 million EUR (median 800,000 EUR) with a standard deviation of 1,4 million, whilst the average number of employees in such institutions is 15 (median 6) with a standard deviation of 16.

<sup>1</sup> The slope coefficient of the trend line in the right-hand-side figure is nevertheless statistically significant at 95 percent confidence level.

<sup>2</sup> The sample excludes the Dutch CPB. The full list of the set of tasks performed by IFIs as categorised in the survey is the following: Production of macro-economic forecasts used for fiscal planning; Production of budgetary forecasts; Endorsement/assessment of macroeconomic forecasts used for fiscal planning; Endorsement/assessment of budgetary forecasts; Ex post fiscal rule assessment; Ex ante fiscal rule assessment; Involvement in the correction mechanism of your country's main fiscal rule (for instance the Fiscal Compact rule if in force); Assessment of draft annual budgets; Assessment of Stability and Convergence Programmes (or of national medium-term fiscal plans); Normative statements/recommendations regarding fiscal policy; Continuous monitoring of fiscal policy/budgetary execution; Monitoring of the budgets of sub-national government (incl. assessment of fiscal rules applicable to them); Long-term sustainability assessments; Quantification of short-term and long-term budgetary effects of envisaged policy measures and reforms; Promotion of fiscal transparency; Research in public finance.; Research in other macroeconomic issues.



**Figure A.2: Similar tasks, different resources (EUR, number of staff)**



Note: On each box, the central mark is the median, the edges of the box are the 25th and 75th percentiles, the whiskers extend to the most extreme datapoints the algorithm considers to be not outliers, and the outliers are plotted individually. Note that these are outliers in a statistical sense only. Being an outlier here should not be interpreted as an IFI has an excessively generous allocation of resources.