



*Network Statement  
on the Need to Reinforce and Protect EU IFIs*

**The member institutions of the Network of EU IFIs share the view that it is time to ensure that the role of IFIs is further strengthened within the EU and national fiscal frameworks, and the Network proposes EU action to reinforce and protect IFIs.** There have been promising developments in the area of fiscal oversight with IFIs established in almost all EU countries following the recent crisis. This includes some well-established IFIs with a potential to perform their functions well. But there is considerable heterogeneity across IFIs. Moreover, even in the case of currently well-functioning institutions, their independence and functional autonomy cannot be taken for granted. The Network believes action at the EU level together with appropriate review mechanisms could ensure a sustainable foundation for an effective functioning of EU IFIs. Such changes would be beneficial for the functioning of the Stability and Growth Pact and the EMU more generally. This holds regardless of the directions future reforms of the fiscal framework take.

**IFIs are fragile institutions by nature.** IFIs have no decision-making powers. IFIs' recommendations and assessments are typically not binding. IFIs can only influence fiscal policy and inform fiscal decisions by providing sound analysis that with a very high likelihood will not always please the ruling government. Governments, for that reason, may be tempted to create weak institutions in the first place, may devalue the credibility of institutions once they are established, or find other ways of preventing IFIs from deploying all their potential. From the Network's point of view, for IFIs to be effective and long-lasting institutions, they need to be strong institutions with real capacity to influence the fiscal policy debate and not just an institution to merely satisfy the relatively vaguely defined legal requirements set out in EU and international law. An effective protection system is also necessary to ensure that IFIs are and can remain effective and independent in practice.

**Are current EU IFIs strong enough institutions? Do they have appropriate design and capabilities to be effective?** From a legal point of view, the Commission's assessment of the transposition of the Fiscal Compact concluded that, in general, EU IFIs are aligned with existing legislation in terms of mandates and legal requirements. It is also true that this assessment has triggered legal or functional changes that have reinforced the position of some IFIs. But several studies show that **many EU IFIs are still weak institutions.** It is found that many IFIs are still not well equipped to provide clear and consistent signals about fiscal policy. Financial and human resources, better access to information, effective comply and explain principle and closer links with legislature are found to be necessary in several IFIs to enhance their fiscal scrutiny capacity. Even the Commission, in a [2017 paper](#) assessing the operation of IFIs in practice, concludes that there is a significant scope for improvement in terms of arrangements governing IFIs and their operation in practice.

**Nor can it be ignored that we have already witnessed several instances in which,** voluntarily or not, **IFIs were subjected to decisions with a potential to limit their functional autonomy** in different ways - including decisions on budgets, hiring restrictions, location decisions, impediments to information flows or decisions concerning leadership appointments. There are well-known cases outside Europe even in well-established and theoretically solid institutions.

**Although the reform of the EU fiscal framework is not among the short-term priorities of the European Council to complete and deepen the EMU, safeguarding IFIs will benefit the**



**EMU whatever the potential outcome of a future reform.** If relevant during the crisis when most countries were subject to fiscal consolidation needs, IFIs become even more relevant in good times when realistic macroeconomic and revenue forecasts are key to avoid procyclical fiscal policies and take advantage of the upswing to build up fiscal buffers.

Moreover, experiences from countries with longer tradition in this type of institutions show the **first years are critical to shape their future.** Correction of deficiencies in their setup must already take place in the first years of activity if there is evidence of lack of ambition in the setting-up phase. European countries should not waste the opportunity to allow all countries, whatever their fiscal position and economic size, respecting national specificities, to enjoy the benefits strong IFIs bring from as early as possible.

**The Network, therefore, proposes the development and incorporation possibly into EU legislation of adequate standards for the design and operative capacity of IFIs along the lines described in the annex.** If it were not feasible to incorporate these standards into EU legislation in a reasonable period, **softer vehicles, such as a Code of Conduct voluntary signed by Member States, could be envisaged.**

The revision would not be completed if IFIs keep lacking a **specific and recurrent monitoring process at the EU level to verify periodically that Member States are effectively complying with these obligations not only legally but also in practice.** The Commission could be tasked with this regular monitoring role which could be supplemented by an appropriate peer review mechanism.



**Annex -A proposal to institutionally reinforce EU IFIs**

**The current EU legislation falls well short of IFIs needs and international best practice.** First, promoting effective IFIs would benefit from a more ambitious and complete definition of adequate standards for the design and operative capacity of IFIs than existing ones. And second, there is currently no effective system for safeguarding these standards not only “de-iure” but also “de-facto”.

**Regarding adequate standards, current EU legislation faces several shortcomings:**

- A clear definition of IFIs with common EU principles for guiding their design only applies to euro area countries. It is article 2 of regulation 473 that explicitly defines IFIs and establishes six principles.
- Further provisions for non-euro area countries stem from the 2011 Directive and from the Commission common principles on the correction mechanism of the Fiscal Compact for signatories of the Fiscal Compact
- The definition and principles for IFIs in Directive 2011 and regulation 473 are not fully identical and are less demanding in the case of the Directive. It is understandable given different moments of adoption and more attention paid to euro area countries but this divergence is questionable from today’s perspective.
- Even for euro area countries, desirable features identified in Regulation are too vague or too general to promote strong IFIs. Moreover, the Comply or Explain principle – a key tool for the effectiveness of IFIs - was not finally included in regulation 473 despite being one of the main novelties of the Commission principles for the correction mechanism of the Fiscal Compact.

**Considering the first years of IFIs’ activity**, the Network identifies the following requirements that could be considered.

**1. Functional autonomy**

- *IFIs need to have adequate and stable own resources (human and financial) to carry out their mandate in an effective manner. An external check of IFIs can help define the level of resources commensurate to each mandate.* In general, EU IFIs resources are lower than non-European peers. Obviously, there is no one-size fits all solution on the level of adequate resources. 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) or the status of each IFI (availability of resources from other institutions) must be considered when assessing the appropriate allocation of resources. Even though IFIs are well placed to identify their needs, the view from external experts with a broad knowledge of IFIs world is an option to consider. International organizations with expertise on IFIs, members of other IFIs and national experts can be good candidates to participate in the teams providing this external view.
- *To ensure sufficient and stable financial resources, the budget of IFIs should not be subject to the discretionary decisions of the Ministries of Finances, Treasuries or other bodies so that their budgets must be treated at least as the budgets of other bodies with the highest standards/status of independence as it is the case of Central Banks.*
- *IFIs must be given 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, including internationally, and*



*dismiss staff. Wages should be competitive at least with those at the Ministry of Finance and attractive enough to retain its staff to ensure its stability.*

- *Government's decisions that can affect functional autonomy must always be subject to prior consultation/approval by the IFI*

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

- *IFIs should have full and stable access to all relevant information to assess macro forecasts and fiscal trends (including methodologies and assumptions used in the budget) at no cost with reasonable time lags and readable formats.*
- *Ministries and statistical offices should provide all data available to them at no cost, auxiliary information included.*
- *IFIs should be able to require information directly from the relevant provider.*
- *IFIs should be given advanced sight to data on a confidential basis, eventually through the adoption of a Memorandum of Understanding between the IFIs and the other institutions involved.*
- *IFIs should have the same information access as MPs, ECAs, NCBs in those matters related with their activity.*
- *IFIs should be able to participate in committees dealing with accounting and statistical issues related to government fiscal data and budgetary procedures.*
- *Any restrictions on access to information should be clearly defined and motivated.*
- *In general, MoUs can be a good practice to regulate the specificities of the access of information needed by each IFI.*

## **3. Safeguards to political pressures**

- *Board members of IFIs should be selected on the basis of merit and technical competence preferably via public hearings.*
- *Strict rules for conflict of interest should apply. Leadership should be preferably non-partisan.*
- *Terms should be made independent of the electoral cycle.*
- *The position of head of the IFI should be remunerated competitively and preferably a full-time position.*
- *IFIs should be able to freely communicate via their own website as well as media.*
- *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. Governments should not create obstacles to such evaluations.*



- *Appearances of the IFI leadership before the Parliament are not only necessary for accountability reasons but also to help gaining political support and protection.*

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

- *All public administrations under the scope of the IFI should be subject to the “Comply or Explain” principle regarding the assessment and/or recommendations on the core tasks of IFIs.*
- *This principle should be duly regulated at national level and the regulatory instrument should provide adequate procedural detail on the nature and the timing of the steps in the interaction between an IFI and the administrations over which it exercises oversight. Legal backing seems the preferable option although MoUs with the administrations concerned can also be a good alternative.*
- *Replies by the administration concerned as well as the status and degree of compliance of IFIs’ should be made public immediately. Public administrations shall publish their answers at the same time of submission to the national IFI.*

**5. A specific and recurrent monitoring process at the EU level to verify periodically that Member States are effectively complying with these minimum requirements.**