



Independent fiscal institutions: the work, the wins and the worries



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THE WORK



The work of IFIs: why do we need them?

- Fiscal policy is technical and not easily understood
- Governments can present information in a partisan way
- Short-term nature of political cycles does not incentivise sustainable public finances
- Effects of poor fiscal policy choices can be significant for society and the economy



IFIs help:

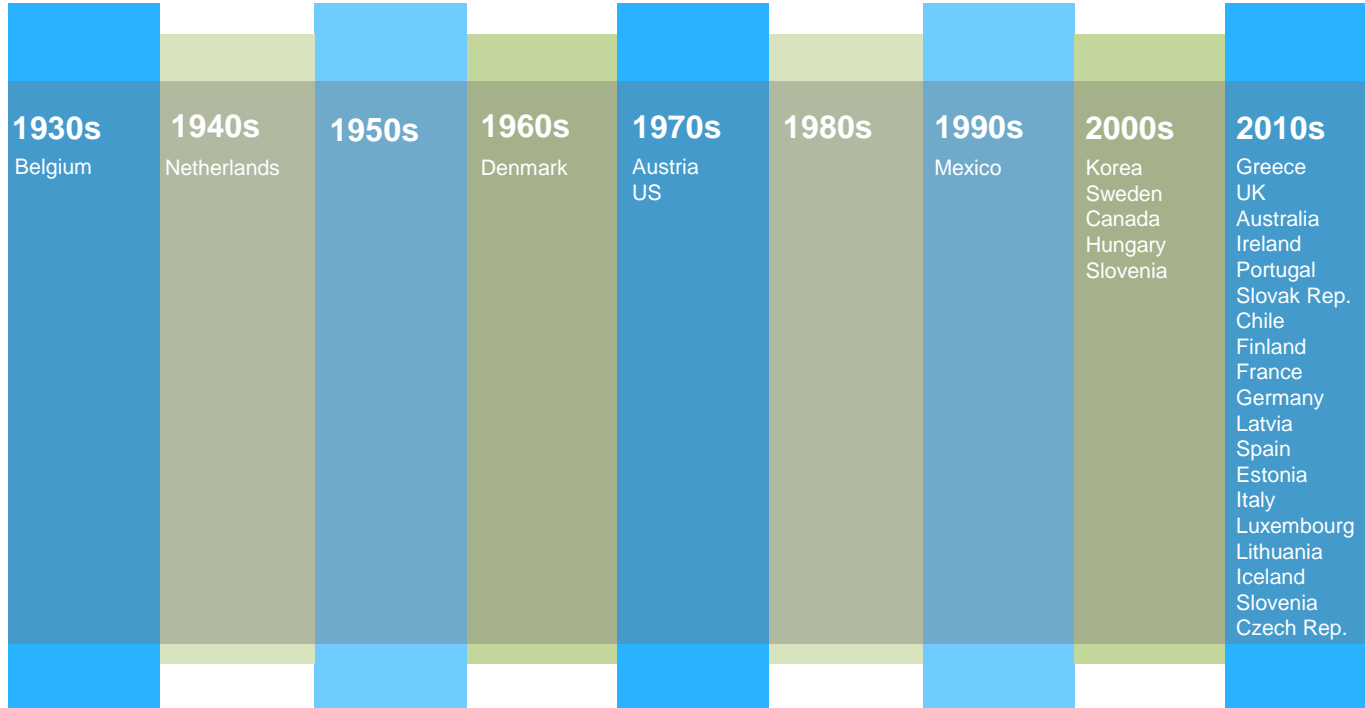


- foster greater transparency, accountability and public debate
- promote sound fiscal policy and sustainable public finances



The work: is their value recognised?

- 30 out of 36 OECD countries now have an IFI





The work: is their value recognised?

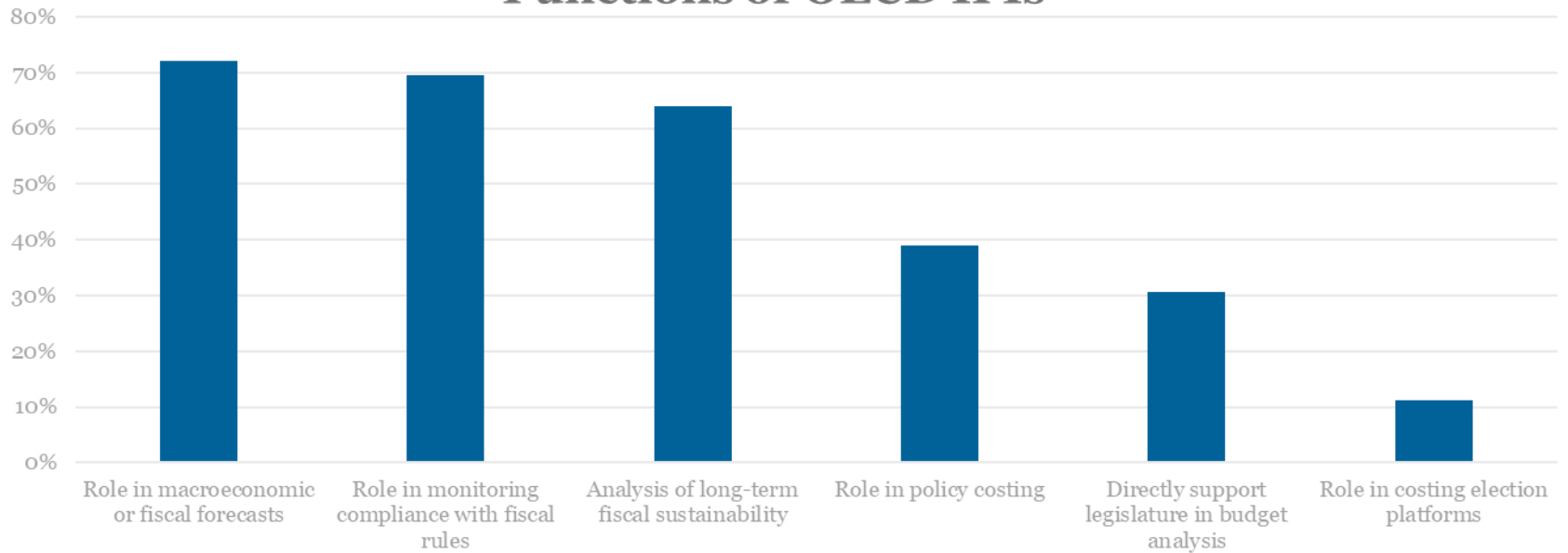
- 1/4 of OECD countries with an IFI now have multiple institutions
 - National and subnational
 - Australia, Canada, UK
 - Fiscal council and PBO
 - Austria, Greece, Ireland, Portugal
 - It's complicated
 - Finland





The work: what do they do?

Functions of OECD IFIs



Source: OECD IFI Database, 2019

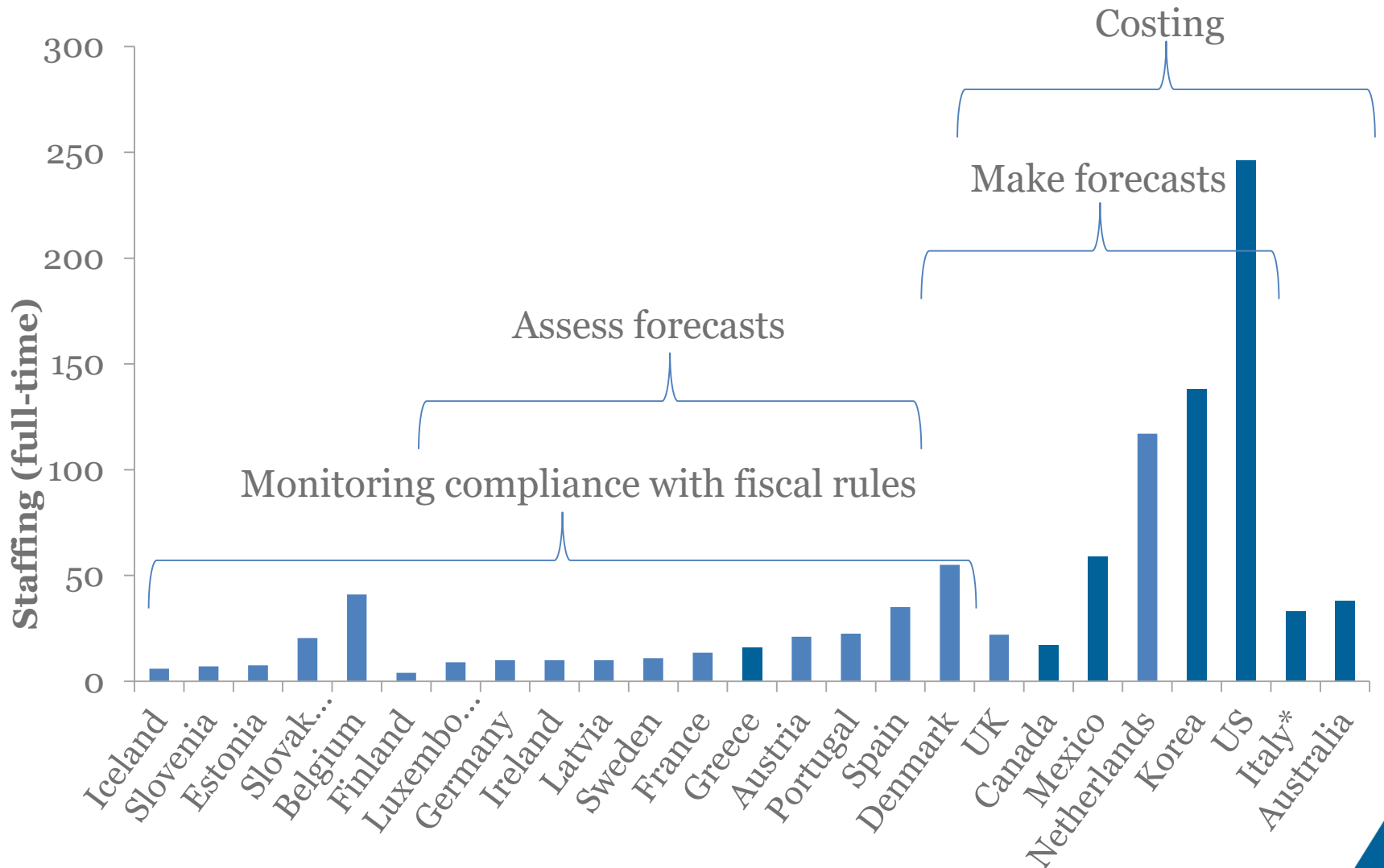


The work: IFIs in resource-rich countries

- Important role in relation to LT fiscal sustainability
- Specific considerations
 - commodity-price forecasting and windfalls
 - commodity revenue rules
 - increased economic volatility
(GDP, interest rates, exchange rate)
- Can merit special functions
- e.g. Chilean Fiscal Council
- Some challenges:
 - messaging during good times
 - can be transparency issues



The work: what do they need to do it?





The work: how have we seen their role evolving?

- As they become trusted and valued institutions, IFIs are being asked to do more
 - UK OBR, fiscal risks
 - Spanish AReF, spending review
 - Canadian PBO, election costings
- Taking on new tasks has been a vehicle to negotiate additional resources
- IFIs are also proactively becoming more involved with LTFS, fiscal risks and policy costings



The work: how do they ensure quality?

- About half of OECD PBOs use peer review to ensure the quality of their work
- The larger PBOs also use external advisory panels





THE WINS



The wins: many IFIs set up in line with OECD Principles for IFIs

Helps ensure good performance and long-term viability

<p>Local ownership </p> <p>Role and structure determined according to local needs</p>	<p>Independence and non-partisanship </p> <p>Independent appointments and non-partisan analysis</p>	<p>Mandate </p> <p>Mandate clearly defined and IFI able to work at own initiative</p>
<p>Resources </p> <p>Resources commensurate with mandate</p>	<p>Relationship with legislature </p> <p>Appropriate accountability to the legislature</p>	<p>Access to information </p> <p>Access to information guaranteed in legislation</p>
<p>Transparency </p> <p>Act as transparently as possible</p>	<p>Communication </p> <p>Effective communication channels, especially with media</p>	<p>External evaluation </p> <p>A mechanism for external evaluation in place</p>



The wins: independence and autonomy



100%

- The percentage of OECD IFI leaders appointed on the basis of merit and technical competence.
- Almost all OECD PBOs able to set their own work programme and do work at their own initiative.



CASE STUDY: US CBO

The importance of IFI leadership in instilling a culture of independence and non-partisanship

- **Background:** CBO established in 1974 to support the new congressional budget process.
- **Key challenge:** Many were doubtful that a nonpartisan, analytical agency could survive amid intensely partisan political atmosphere of Congress.
- **Success factors:** Strong leadership from beginning and dedication to non-partisan analysis (decision early on that CBO should not make recommendations).





The wins: benefits IFIs have been found to bring

- Better fiscal and economic data
 - Scotland: publication of an annual statement of data needs helped push the government to provide new and improved economic data
- More accurate forecasts
 - Canada: pessimism bias in government fiscal forecasts reduced
- Improved fiscal management
 - Spain: regional governments gained earlier awareness of slippage in relation to fiscal targets, bringing improved compliance with fiscal rules
- Increased awareness of fiscal risks
 - UK: presentation of information on fiscal risks that was not previously available



The wins: benefits IFIs have been found to bring

- A more orderly budget process
 - United Kingdom: in general, budget date now announced earlier, all policy costings are validated and budget document printed 48hrs before budget day
- Enhanced fiscal transparency
 - Portugal: new data published, improved analysis of existing data, and enriched discussions of the data
- Better-informed parliamentary debate
 - Lithuania: report on long-term fiscal sustainability made an important contribution to parliamentary debate on pensions
- Enriched public debate
 - Slovakia: policy costings work had significant influence on public debate around pensions reform



The wins: benefits IFIs have been found to bring

- Increased fiscal responsibility
 - Italy: non-endorsement of macro forecasts one of reasons EC asked Italian Government to revise budget
- More apolitical information
 - Australia:





THE WORRIES



The worries: what poses risks to IFIs?

- Informed by OECD Reviews

- Principle 9.1 of the OECD Principles for IFIs states: “IFIs should develop a mechanism for external evaluation”
- Methodology for OECD reviews anchored in the OECD Principles for IFIs and evaluation framework developed by the PBO Network
- OECD Reviews undertaken so far include: Spain, Portugal, Victoria (Australia), Lithuania, Scotland (UK), Slovak Republic, UK.





The worries: access to information

- Access to information remains a major challenge
 - Escalations in Portugal, Slovakia
 - Legal interventions in Spain, Canada





The worries: resources

- Adequacy and security of resourcing a key issue
 - Ministry of Finance often has key role in approving funding
 - Less than half of OECD PBOs have their own budget line
 - Even fewer have multi-annual funding commitments





Understanding the watchdog tightrope

CASE STUDY: Hungarian Fiscal Policy Council

- **Background:** Fiscal Policy Council established in 2009 as part of wider fiscal reform package.
- **Key challenge:** The Council was operating in a polarised political landscape. After it released a report criticising the government’s budgetary policy, its mandate was reduced and its resources were cut.
- **Lessons:** Important to protect resources from political interference so that watchdogs can “bark” without fear of risks to institution.





Prioritisation to cope with limited resources

CASE STUDY: Canadian PBO

- **Background:** Established in 2008 to improve the accuracy of government economic and fiscal forecasts.
- **Key challenge:** Being given a broad mandate but having relatively little resource to deliver it.
- **Success factors:** The PBO prioritises requests based on materiality and contribution potential.





The worries: can be difficult to achieve impact

- IFIs rely on others for impact:
 - Independent institutions, academics and think tanks
 - Parliaments
 - Media
 - Civil society





KEY MESSAGES



Key messages

- IFIs now a major feature of fiscal frameworks across OECD countries
- Impacts can be substantial, particularly in relation to improved fiscal management and transparency gains
- However, access to information and adequate and secure resourcing remain major concerns
- Good design choices from the start help protect these institutions and underpin their good performance



THANK YOU