OECD Economics Department Working Papers No. 1789

Independent fiscal institutions: A typology of OECD institutions and a roadmap for Latin America

Aida Caldera Sánchez,

Paula Garda,

Alberto González Pandiella,

Alessandro Maravalle,

Diego Rodriguez,

Elena Vidal

https://dx.doi.org/10.1787/cbeaa057-en

OECD

Organisation for Economic Co-operation and Development

ECO/WKP(2024)1

Unclassified **English - Or. English**

ECONOMICS DEPARTMENT

Independent Fiscal Institutions: a typology of OECD institutions and a roadmap for Latin America

ECONOMICS DEPARTMENT WORKING PAPERS No. 1789

By: Aida Caldera Sánchez, Paula Garda, Alberto González Pandiella, Alessandro Maravalle , Diego Rodriguez, Elena Vidal

OECD Working Papers should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

Authorised for publication by Luiz De Mello, Director, Country Studies Branch, Economics Department.

Document available in pdf format only.

All Economics Department Working Papers are available at www.oecd.org/eco/workingpapers

ABSTRACT/RÉSUMÉ

Independent Fiscal Institutions: a typology of OECD institutions and a roadmap for Latin America

The paper reviews the diverse experience of OECD countries in establishing and running independent fiscal institutions, offering insights that could be useful for Latin American countries seeking to set-up and strengthen those institutions in the region. Through cluster analysis, we identify different types of OECD independent fiscal institutions and draw practical lessons from cases studies. We also identify key features that could serve as a road map for Latin American countries in their efforts to establish or enhance independent fiscal institutions

JEL Classification:. E61; E62 ; H1 ; H6

Keywords: Fiscal rule compliance, fiscal forecasts, fiscal Councils, independent fiscal institutions

****

Institutions fiscales indépendantes : une typologie des institutions de l'OCDE et une feuille de route pour l'Amérique latine

Ce document passe en revue les diverses expériences des pays de l'OCDE en matière de création et de gestion d'institutions fiscales indépendantes, offrant des perspectives qui pourraient être utiles aux pays d'Amérique latine cherchant à mettre en place et à renforcer ces institutions dans la région. Grâce à une analyse en grappes, nous identifions les différents types d'institutions fiscales indépendantes de l'OCDE et tirons des leçons pratiques des études de cas. Nous identifions également les caractéristiques clés qui pourraient servir de feuille de route aux pays d'Amérique latine dans leurs efforts pour établir ou renforcer les institutions fiscales indépendantes.

Classification JEL:. E61; E62 ; H1 ; H6

Mots clés : Respect des règles budgétaires, prévisions budgétaires, conseils budgétaires, institutions budgétaires indépendantes

Table of contents

Tables

Figures

Boxes

Independent Fiscal Institutions: a typology of OECD institutions and a roadmap for Latin America

Introduction[1]

1. Solid fiscal frameworks are key to promoting fiscal sustainability by enabling prudent and transparent management of public budgets. Key building blocks of a strong fiscal framework include well-designed fiscal rules, credible enforcement mechanisms, and well-defined escape clauses, together with independent fiscal institutions (IFIs) (Andrián et al., 2022[1]; Gomez-Gonzalez, Valencia and Sánchez, 2022[2]). IFIs have been around from a long time, although they have grown in number in the last decade (von Trapp, Lienert and Wehner, 2016[3]). They have existed for decades in countries such as Belgium (1936), the Netherlands (1945), Denmark (1962), Austria (1970), and the United States (1974). In the aftermath of the global financial crisis, several OECD countries faced higher deficits and debts and policymakers searched for new ways to ensure fiscal discipline and rebuild public trust. Hence, the number of IFIs in OECD countries increased considerably. By the end of 2021 there were forty IFIs across OECD countries.

2. IFIs, by promoting greater fiscal transparency and accountability, can not only enhance fiscal discipline (Hagemann, 2011[4]; IMF, 2013[5]; Beetsma et al., 2018[6]), but also raise the quality of the public debate on fiscal policy and help to build public trust in the management of public finances (von Trapp and Nicol, 2017[7]). IFIs can also help to improve macroeconomic and fiscal forecasts reducing biases and improving fiscal compliance (Larch and Santacroce, 2020[8]).

3. OECD experience suggests that IFIs can improve forecasts, budgetary discipline and have a positive impact on fiscal performance. For a broad set of EU countries, evidence shows that an independent fiscal council is associated with higher forecasting accuracy and less optimism in the fiscal forecasts, as well as better compliance with the fiscal rules (Beetsma et al., 2018[6]) and reduction of fiscal deficits (Capraru, Georgescu and Sprincean, 2020[9]). Only well-design IFIs are associated with better fiscal outcomes (Debrun and Kinda, 2014[10]), including functional independence, visibility in the public debate, a mandate to monitor numerical rules and producing or assessing official macroeconomic forecasts. Highly influential IFIs that produce or evaluate macroeconomic forecasts are linked with improved budgetary outcomes (Beetsma et al., 2023[11]). Some institutional features such as adequate resources, access to timely information, a high degree of independence, and prominent media visibility are

[1] The authors would like to thank Chile's, Spain's and Korea's fiscal councils (CAF, AIReF and NABO) for their extremely valuable contribution to this paper, including through the interviews that helped to build the three case studies, as well as inputs from OECD country desks. The paper has also greatly benefited from comments by Nicol Sherie (from the OECD GOV Department). The authors are also grateful to Lukas Radanowiz and Sebastien Turban (from the OECD Economics Department) and to Oscar Valencia (from the Interamerican Development Bank) for their comments and to Karimatou Diallo for editorial assistance.

also linked to higher compliance with existing fiscal rules (EU IFIs, 2023[12]; Horvath, 2017[13]). IFIs, through monitoring compliance with numerical fiscal rules and assuring the transparency of the budgetary process, lead to a reduction in the likelihood of sovereign defaults (Capraru, Georgescu and Sprincean, 2023[14]). Furthermore, interaction among the EU IFIs, for example through the Network of EU IFIs, allows each one of them to benefit from experiences and best practices in peer institutions (Beestma, 2023[15]).

4. The experience of Latin America countries with IFIs is more recent. In several countries (e.g. Chile and Colombia), they have been set up as advisory councils, attached to the Ministry of Finance, and, in some cases, became independent institutions thereafter. Conversely, in the case of Peru, its IFI was born as a legally independent body. Argentina and Mexico have set up parliamentary budget offices while Brazil's IFI is an institution of the Federal Senate, not a full parliamentary body. Several other countries in the region have started preparations or are planning to set-up an IFI. Additionally, in several countries where IFIs are already in place, they are also seeking ways to strengthen their role.

5. Strengthening IFIs in Latin America is critical at the current juncture. Latin American economies emerged from the COVID-19 crisis with higher government debt as a percentage of GDP and limited fiscal space. Higher global and domestic financing costs are making it more difficult for Latin American countries to roll-over debt and meet external debt obligations hindering much needed investment in infrastructure, and their ability to respond to social needs and to put in place growth-enhancing reforms. By promoting responsible and efficient fiscal policies and bolstering fiscal policy credibility, IFIs can not only enhance fiscal discipline but also boost confidence enabling countries to meet their financing needs in international markets at a lower cost. At the same time, by increasing the quality of the public debate, they can support needed fiscal reforms in the region. Lastly, they can enhance accountability and transparency, helping to rebuild citizens' trust in governments capacity to manage public budgets.

6. This paper reviews relevant practices and experiences from IFIs in OECD countries that could offer some guidance to Latin American countries. The goal is to support established fiscal institutions in Latin American and those countries planning to set up an IFI by learning from OECD countries experiences and international best practice as to, what works, what does not and how things can be improved.

7. The paper is organised as follows. First, a cluster analysis is used to identify different types of IFIs in OECD countries. The analysis identifies four clusters: G1: small fiscal councils, G2: Parliamentary Budget Offices (PBO), G3: medium-sized fiscal councils and G4: official forecasters. Second, to visualize common characteristics and challenges for IFIs in strengthening independence, we use the OECD independence index score (von Trapp and Nicol, 2018[16]). Third, the paper summarises the takeaways and lessons from three case studies of IFIs in Chile, Spain and Korea. It reviews their practical experience and challenges in setting up independent fiscal institutions based on interviews, reviews of available reports and inputs from OECD country desks complemented with experiences in other OECD IFIs. The final section discusses key features for a roadmap towards implementing or strengthening existing IFIs in Latin America.

Identifying different types of OECD IFIs using cluster analysis

8. While OECD countries experiences in setting-up and running IFIs can offer valuable insights for Latin American countries, there is a large heterogeneity among OECD countries in the way IFIs are designed. Establishing a set of stylised facts about alternative IFIs designs can help to identify good examples and best practices. With that aim, this section presents a cluster-based typology of OECD IFIs. Cluster analysis is a well-developed branch of applied statistics that attempts to identify groups in data such that objects within groups are as similar as possible, while the differences between groups are maximized.

9. The information on IFIs is sourced from the 2021 OECD Fiscal council database, which comprises granular information about IFIs in OECD countries across multiples dimensions. The database describes key features of 36 national and 4 subnational IFIs across 30 OECD countries and Brazil (OECD, 2021[17]). The dataset covers key features of fiscal councils, such as mandates, institutional and legal characteristics, the existence of accountability requirements, as well as financial and human resources among other characteristics.

10. To illustrate the breadth of the database and the degree of heterogeneity among OECD countries, we start by performing a descriptive analysis of the available information, focusing on institutional mandate and size (in terms of number of employees), two key dimensions when designing an IFI.

Tasks and size of OECD IFIs: a descriptive analysis

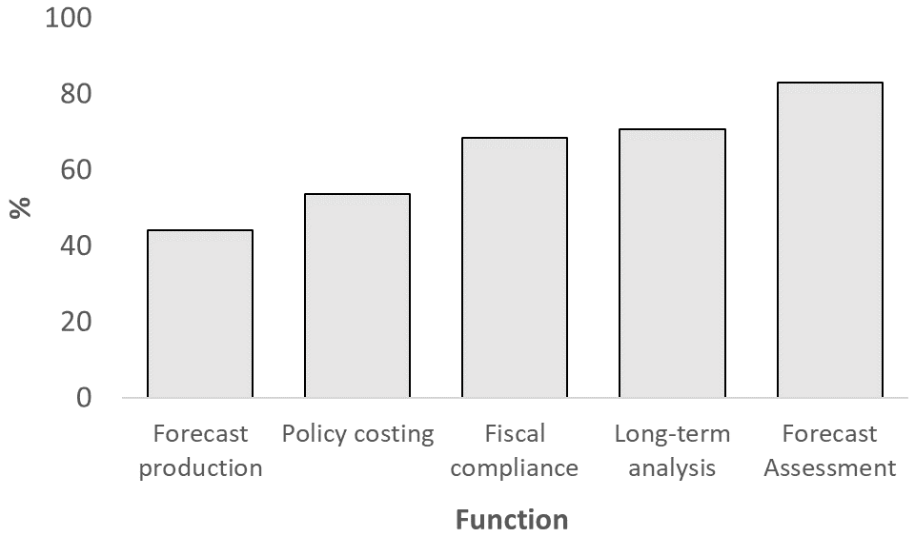
11. IFIs in OECD countries vary significantly regarding their mandate and resources in terms of staff and budget (Figure 1 and Figure 2 and Table 2 and Table 3 in the annex). The most common tasks are assessing macroeconomic and fiscal forecasts and analysing long-term fiscal sustainability. Around 60% of IFIs monitor compliance with fiscal rules. Slightly more than half undertake policy costing and slightly less than half produce macroeconomic forecasts (Figure 1, Panel A).

12. The descriptive analysis also suggests that the number of staff is usually strongly linked to the number of functions. On average, most IFIs perform from two to four functions and have from ten to nearly thirty employees (Figure 2). The type of the function also plays a role in determining the size of the institution. For example, the analysis of long-term fiscal sustainability, which is the core mandate of IFIs, is less demanding in terms of human resources than producing economic and fiscal forecasts and doing policy costing. Thus, IFIs with more demanding mandates, particularly those involved in policy costing, tend to have more staff, as is the case in the United States, Korea and the Netherlands. Other examples of large IFIs performing as many as five tasks are in the United Kingdom, Slovakia, Italy, Brazil and Austria. In contrast, some IFIs have very few staff and relatively small mandates, such as the Estonian IFI, which performs the sole function of assessing macroeconomic and fiscal forecasts. Another example is the Chilean IFI that, with eight staff in 2020, of whom five are part-time board members (they receive one payment per session attended, with a maximum of 6 sessions per month), focuses on two functions: analysis of long-term fiscal sustainability and monitoring compliance with fiscal rules.

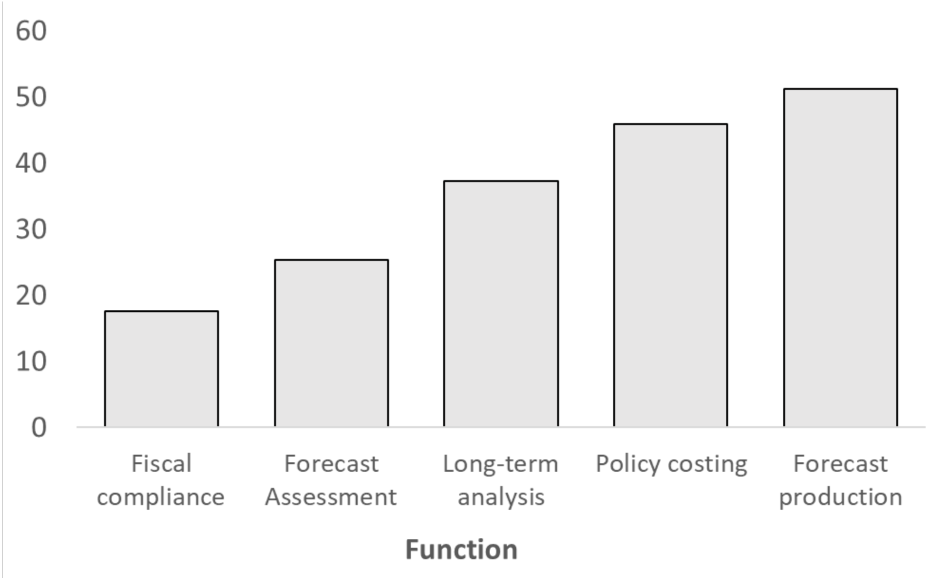
Figure 1. Most OECD IFIs assess forecasts and long-term fiscal sustainability

Distribution of IFIs by functions performed and average number of staff

Panel A. IFIs by type of functions performed, % of all IFIs



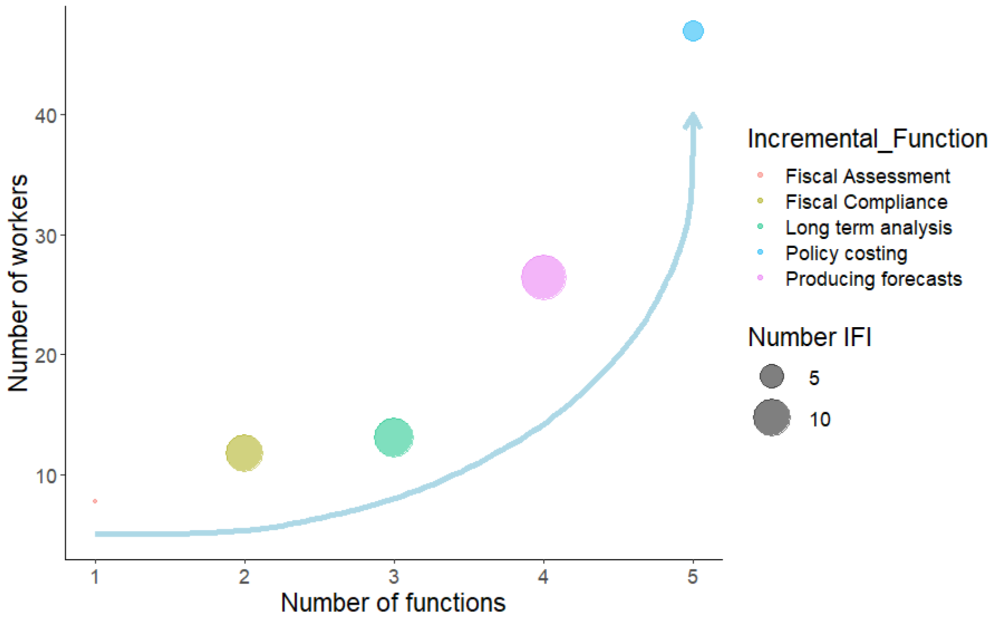
Panel B. Average number of staff, by type of function undertaken by the IFIs.



Note: The function of forecast production includes the production of official or alternative forecasts, either fiscal or macroeconomic. In Panel B, the number of full time equivalent staff associated to a specific function is computed as the average of all IFIs performing that function. For example, IFIs that perform (at least) fiscal compliance assessments have on average a staff of around 18 people.
Source: OECD 2021 Fiscal Council database; authors' calculation.

Figure 2. IFIs performing policy costing and producing forecasts tend to have a higher number of workers

Average size of the staff according to number and types of functions



Note: The size of the circle is proportional to the number of IFIs. The x-axis reports the accumulated number of functions.
Source: OECD 2021 Fiscal Council database; authors' calculation.

The cluster analysis methodology

13. While a purely descriptive analysis can offer useful insights, a cluster analysis makes it possible to fully exploit the richness of the information in the OECD database relating to mandate and function and to classify IFIs into a limited number of types. The 41 IFIs within the OECD dataset are partitioned through the method of "k-mean" clustering into non-overlapping groups of similar IFIs according to their functions, mandate, and size of human resources. K-means clustering can partition N observations into k clusters such that each cluster contains observations that are similar among them. Thus, once the number of clusters K is chosen (see below how to make the choice), it is possible to associate each IFI i, i=1,…N, characterised by the vector of variables or characteristics x_i, to a single cluster C_k, k=1,…K, as to minimise the within cluster variance, that is the dispersion of the characteristics of the IFIs within the cluster. The lower is the dispersion in a cluster, the more similar observations are within that cluster. More specifically, k-means clustering uses an Expectation-Maximisation algorithm to solve the following optimisation problem:

$$\min_{C_1,\dots,C_K} W$$

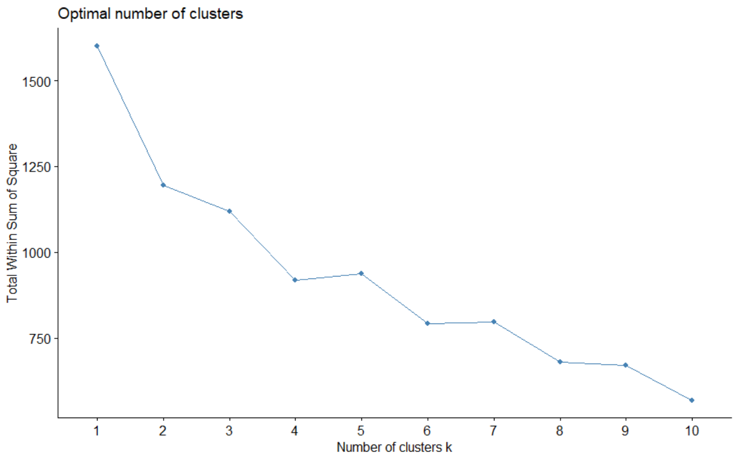
$$W = \sum_{k=1}^{K} W(C_K) = \sum_{k=1}^{K} \frac{1}{|C_k|} \sum_{x_i \in C_k} d(x_i, \bar{x}_k),$$

where W is the sum of within-cluster variances $W(C_k), k = 1, \dots, K$; $C_1, \dots, C_K$ is the set of non-overlapping clusters; $|C_k|$ is the number of IFIs in the k-th cluster; and $d(x_i, \bar{x}_k)$ is a measure of the distance between the vector of characteristic of an IFI, x_i, and $\bar{x}_k$, the vector of average characteristics in the k-th cluster (or centroid). The algorithm is run for different initializations of the centroids to minimize the risk of achieving a local rather than a global optimum. K-means clustering has the advantage that it can be used with large datasets and it returns clusters which can be easily interpreted and even visualised, making it a convenient methodology to establish a typology.

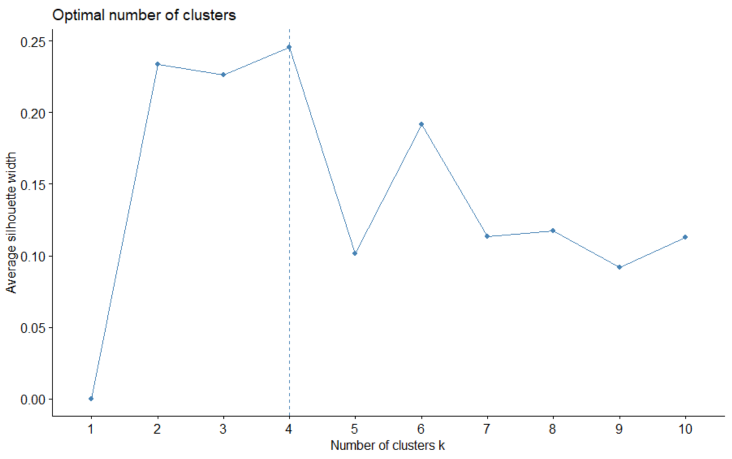
14. To decide the number of clusters two standard statistical methods are used, the scree plot and the average silhouette method. Both of them suggest four as the optimal number of clusters. The scree plot (Figure 3, Panel A) reports the sum of within cluster variance (within-group sum of squares) as the number of clusters k increases and shows that the variance augments when the number of clusters increases from four to five. This highlights four as the optimal number of clusters, as a further reduction in the within variance would require adding at least two more clusters. The average silhouette method confirms it (Figure 3, Panel B). It measures how similar an IFI is to other IFIs of the same cluster and how different it is from IFIs in other clusters. The number of clusters for which the average silhouette value is maximum is also four.

Figure 3. Statistical methods suggest that OECD IFIs can be partitioned into four clusters

Panel A. Scree plot



Panel B. The average silhouette width

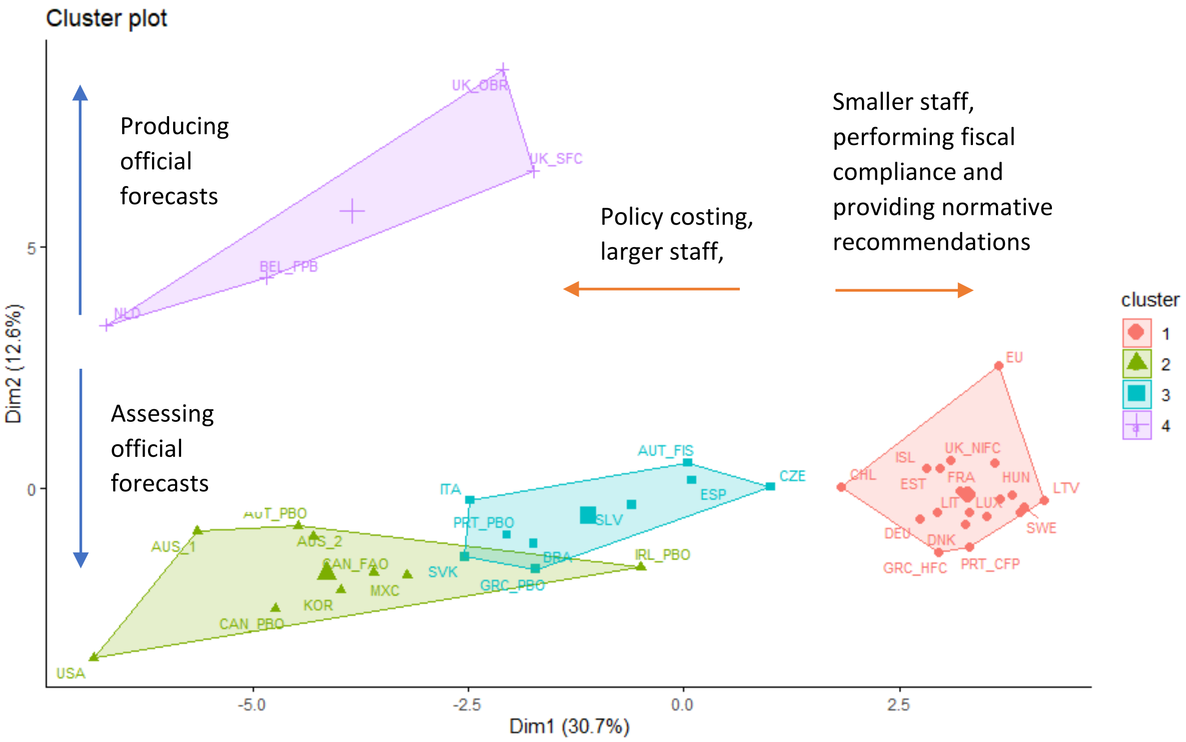


Source: Authors' calculation.

Results from the cluster analysis

15. The cluster analysis indicates that IFIs can be divided into 4 groups according to the scope and characteristics of their mandate and the size of their staff (Figure 4).[2] Table 1 summarises the main characteristics shared by IFIS within a group.

Figure 4. OECD IFIs can be categorized into four groups according to their functions and staff size



Note: The cluster plot reports the projections of original data over the two largest eigenvectors, respectively the x-axis and the y-axis, that explain most of the total variance of the data (see also the Annex).
Source: Authors' calculation.

Small IFIs focused on assessing fiscal compliance (G1)

16. IFIs in G1 perform a more limited number of functions than in other groups and tend to focus on assessing fiscal sustainability. They do not do policy costing analysis nor fulfil requests on economic issues, and very few of them produce forecasts. All IFIs in this group assess fiscal compliance and provide normative policy recommendations, the latter mostly related to the compliance with fiscal rules. Most of them publish ex-post assessments of official forecasts and perform long term analysis. They have relatively few staff (less than 10 members) and small boards (around 7 members on average) exerting collective leadership.

[2] The classification obtained remains largely unchanged when cluster analysis is applied to an alternative dataset that differs from the baseline for not including the 8 IFIs that are Parliamentary Budget Offices (PBOs). This is a positive result given that cluster analysis is usually highly sensitive to changes in the dataset. With this alternative dataset the optimal number of groups falls from four to three. The composition of two groups remain almost identical to that of group 4 and group1 of the baseline classification. The third group, instead, gathers largely all IFIs that in the baseline classification belong to group 2 and group 3.

Large IFIs fulfilling requests on economic issues and officially doing policy costing (G2)

17. IFIs in G2 perform a larger number of functions, including having an official role in policy costing analysis, fulfilling requests on economic issues[3] and performing long term analysis. However, they do not assess fiscal compliance. In part, this is because more than half of them are from countries that do not have a fiscal rule (Australia, Canada, and United States). They do not produce official forecasts, though most of them assess them and several of them publish alternative forecasts. IFIs in this group have a large number of staff (>50). They tend to have individual leadership (i.e. their boards have only one member on average).

Table 1. A heat map of IFIs' functions and size across clusters

Functions		Group			
		G1	G2	G3	G4
Assessing fiscal compliance		All	None	All	Some
Producing forecasts	Official	None	None	None	All
	Alternative to official	Few	Several	Several	Few
Policy costing		None	All (official role)	All (not official role)	All (official role)
Long-term analysis		Most	Most	Most	Most
Fiscal assessment	Normative policy recommendations	All	None	Most	None
	Fulfil requests on economic issues	Few	All	Most	Several
	Formally endorse forecasts	Some	None	Some	None
	Assessment reasonableness of official forecasts	Several	Most	All	Few
	Publish ex-post assessment of official forecasts	Several	Few	Most	Few
Human resources					
	Secretariat staff	<10	>50	>10 & <20	>50
	Council members	7.5	1	4.5	2

Note: A cell in the table reports "All" and is colored in dark green when more than 90% of the IFIs in the corresponding group perform that function; it reports "Most" and is colored in green when between 65% and 90% of the IFIs in the corresponding group perform that function; it reports "Several" and is colored in light green when between 45% and 65% of the IFIs in the corresponding group perform that function; it reports "some" and is colored in yellow when between 25% and 45% of the IFIs in the corresponding group perform that function; it reports "few" and is colored in light orange when between 10% and 25% of the IFIs in the corresponding group perform that function; and it reports "None" and is colored in dark orange when less than 10% of the IFIs in the corresponding group perform that function.

Source: OECD and authors' calculation.

[3] For example the Australian Commonwealth Parliamentary Budget Office (PBO) responds to requests made by Senators and Members for analysis of matters relating to the budget. In Canada, parliamentarians and Committees may request the Parliamentary Budget Office to undertake analysis on specific matters related to financial costs, the nation's finances, or the national economy.

Medium-size IFIs assessing fiscal compliance and doing policy costing (G3)

18. IFIs in G3 tend to have similar functions as in G2 but have a mid-size staff. They are characterised by performing fiscal compliance, independent policy costing analysis as part of broader fiscal or macroeconomic analysis (not as an official role) and by providing normative policy recommendations. Most of them, also, fulfil requests on economic issues. They do not produce official forecasts, though several of them publish alternative forecasts to the official ones, and most of them assess the reasonableness, and publish ex-post assessment, of official forecasts. They have a smaller number of staff than IFIs in G2 and G4 (between 10 and 20 members) and they tend to have collective leadership with boards of around 5 members.

Large IFIs producing official forecasts and policy costing (G4)

19. These IFIs are key players in the formulation of national fiscal policy with a wide variety of functions. They all produce official forecasts (all produce official macroeconomic forecasts and two also produce official fiscal forecasts). Additionally, they have an official role in policy costing, fulfil requests on economic issues and perform long-term analysis. Being tasked with numerous and complex functions, the staff of IFIs in G4 is relatively large with respect to IFIs in other groups (on average more than 50 members). At the same time, their leadership tends to be concentrated within small-sized boards (on average 3 members).

20. The typology resulting from the cluster analysis can be complemented with the OECD's IFI's independence index (von Trapp and Nicol, 2018[16]) to assess if there are differences among groups in terms of independence. This Index, based on the OECD Recommendations on Principles for IFIs, captures relevant aspects of independence through a comprehensive set of questions grouped around 4 pillars: 1) leadership independence; 2) legal and financial independence; 3) operational independence; and 4) access to information and transparency. Each pillar is related to various OECD principles and has an equal weight within the 2020 index update[4].

21. On average IFIs in G4 (the Belgian Federal Planning Bureau, Netherlands' CPB Bureau for Economic Policy Analysis, the United Kingdom Office for Budget Responsibility, and the Scottish Fiscal Commission) score the highest in the overall independence index and in all four pillars (Figure 5). However, interestingly, there is high heterogeneity within each group and in each subcategory. At least one member per group displays high levels of independence in specific pillars, such as financial independence (for example, in G1 the Irish Fiscal Advisory Council, in G2 the Australian Parliamentary Budget Office, and in G3 the Slovenia Fiscal Council) and operational independence[5] (for example, in G1 the Lithuanian Budget Monitoring Department[6], in G2 the Canadian Parliamentary Budget Office, and in G3 Spanish Independent Authority of Fiscal Responsibility), even in cases when the IFIs are small. This suggests that independence is determined by factors that go beyond the functions or size of an IFI.

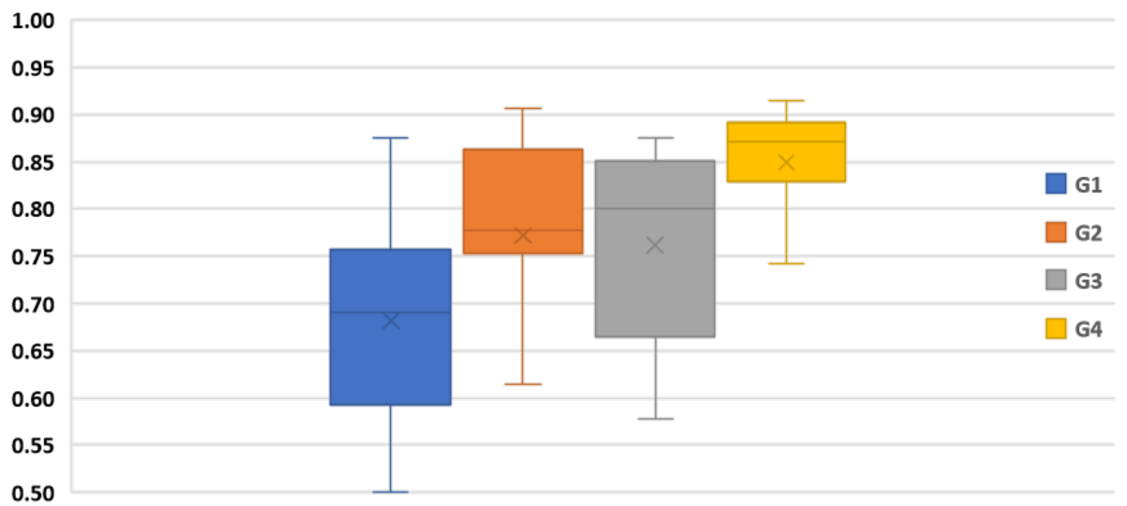
[4] Data available in the OECD Independent Fiscal Institutions Database have changed since 2016. The independence index has been updated considering the new available data. For details on the update see the Annex.

[5] Some of the questions related to operational independence were also used in the cluster analysis. To ensure that the taxonomy is based on information unrelated to independence a robustness exercise has been performed by excluding these variables from the cluster analysis. Results proved robust to the exclusion of these variables as the composition of groups was not affected.

[6] This is related to the fact that it sits within a highly independent institution (the Lithuanian Audit Office) but does not necessarily mean it has independence as an IFI.

Figure 5. IFIs in group 4 score the highest in the independence index

Independence Index

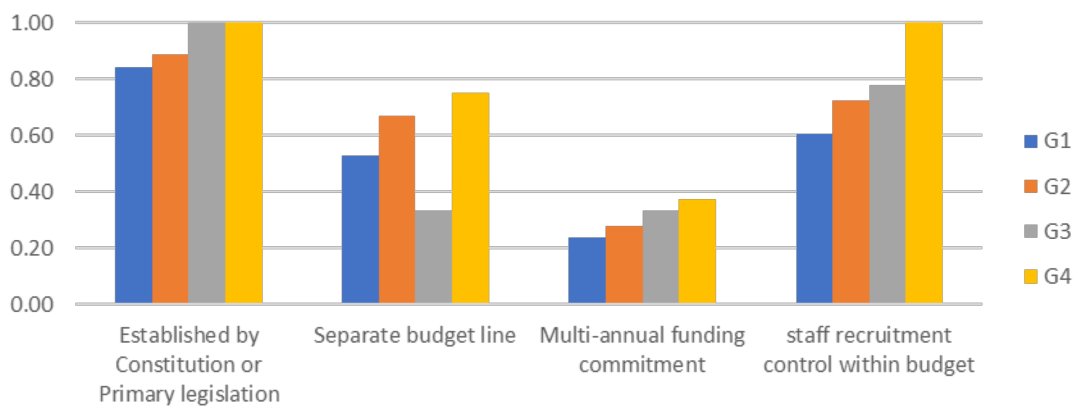


Note: Each boxplot reports the distribution of the independence index, or of its sub-categories, by reporting each interquartile with a bar, but the unweighted average that is reported with an X. A higher value means higher independence.
Source: OECD, authors' calculation based on IFI's independence index (von Trapp and Nicol, 2018[16]) .

22. Financial independence is the sub-category in which differences between the G4 group and the other groups are largest. Low scores in this index are usually associated with the lack of multi-annual funding (only 14% of the IFIs have multi-annual funding guaranteed by law), the lack of full independence in the use of budget for staff recruitment (only 41% all IFIs have it), and the lack of a guaranteed separated budget line (only 54% of all IFIs have it) (Figure 6). Committing multi-annual funding for IFI(s), for example, or adopting a separate budget line are among the best practices displayed by OECD IFIs with higher financial independence, as they help to insulate the institution from political pressure (von Trapp and Nicol, 2017[7]).

Figure 6. Multi-annual funding commitment and separate budget lines foster financial independence of IFIs

Pillar of Legal and Financial independence

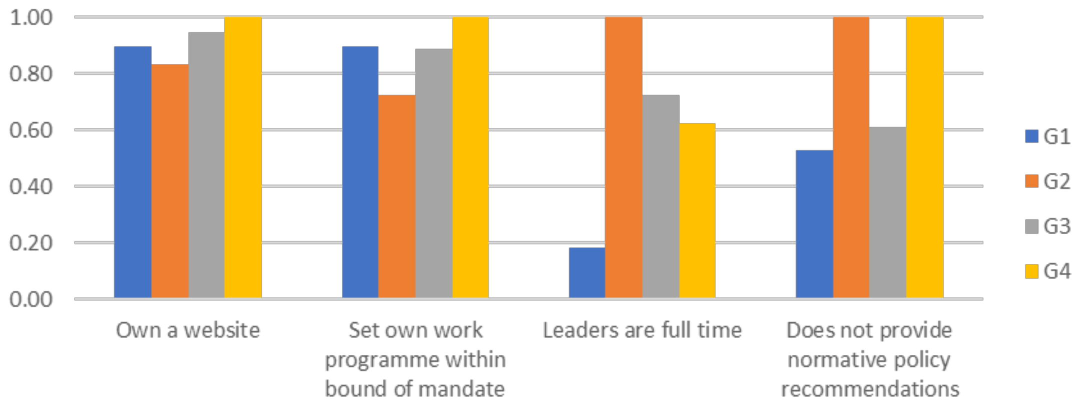


Note: Each bar reports the unweighted average of the independence index pillar. A higher value means higher independence.
Source: OECD, authors own calculations.

23. In terms of operational independence, a key aspect is whether IFIs leaders have full-time positions. There is also hetereogenity among OECD IFIs in this dimension (Figure 7), with small IFIs having full-time leaders less frequently than in other countries. Full-time involvement of at least some of the IFIs' leaders could help to make the IFI more visible and engage on dissemination activities and administrative tasks, while increasing its organizational autonomy.

Figure 7. Having full-time leadership fosters IFIs operational independence

Pillar of operational Independence



Note: Each bar reports the unweighted average of the independence index pillar by question.
Source: OECD, authors own calculations.

24. Access to information and transparency is key to ensure that IFIs can perform their mandates. There are no significant differences across OECD IFIs in this dimension, which suggests that it is possible to establish mechanisms to ensure access to information regardless of the size of the IFI, its mandate or its legal status.

Setting-up and running of IFIs in OECD countries: a case-study approach

25. This section reviews the experience and challenges faced in setting up independent fiscal institutions in Chile, Spain and Korea based on interviews with IFIs, reviews of available reports and inputs from OECD Economics Department country desks. Three case studies are considered, outlining the experience of a small, a medium-size and a large IFI and covering the first three typologies resulting from the cluster analysis. The reason for choosing these typologies is that their characteristics are most relevant for the region at the current juncture where most IFIs are in the initial stages of development. Institutions in the fourth cluster are bigger in size and mandate, and are therefore a long-term option for IFIs in Latin America. The information obtained from the case studies is complemented with a review of some other OECD IFIs experiences, outlining the typical obstacles faced in fulfilling their mandates and the solutions or best practices they adopted.

Case Study 1: Chile

Background

26. Chile's fiscal council, created in 2013, initially took the form of an advisory council within the Ministry of Finance. In February 2019 Chile established the Autonomous Fiscal Council (Consejo Fiscal Autónomo, CFA), an independent institution with the mandate of contributing to the responsible management of the central government's fiscal policy. The 2019 law broadened the council's mandate,

gave it its own resources and ensured its legal independence with the aim of strengthening the fiscal framework, in line with the OECD Principles for IFIs (Box 1). The CFA has been able to establish itself as a respected institution, providing independent advice on possible deviations from structural balance targets, proposing mitigation measures, granting opinions on the package of measures during the pandemic and making proposals to strengthen the fiscal framework, among others. It is also responsible for the evaluation of the medium and long-term sustainability of public finances, for which the council has greatly progressed since its inception in 2019. During 2020, the OECD gave recommendations to the CFA to strengthen the analysis of long-term sustainability of public finances (OECD, 2020[18]).

27. In the four years since its inception the CFA's technical team and budget has grown. While at its inception the technical staff had only one head of studies, in 2023 it achieved six full-time analysts, a Head of Studies, three Analysts, an Executive Secretary and one person in charge of communications, with an annual budget of around USD 800 thousands.

Box 1. The structure and functions of Chile's Autonomous Fiscal Council

The CFA board is composed of five part-time members, who are experts of recognised professional and academic standing in fiscal and budgetary matters. The five board members are nominated by Chile's President and approved by the Senate. Their mandate does not coincide with the government term. The President is appointed by the President of the Republic from among the members of the CFA, with a term of three years in office or the shortest remaining time and may be re-appointed once. The members execute their functions on a part-time basis, so that the council member functions are compatible with academic or professional jobs. Board members are payed per session attended, with a maximum of 6 per month even if they attend more sessions. Board members last five years in their positions, and they can be re-elected only for a new consecutive period and have staggered terms (they are renewed one per year). The vice president is elected by the members of the CFA and will replace the President if the latter is absent or temporarily unable to perform his functions. To support its setting up, since its foundation, the CFA and its staff depend administratively from the Ministry of Finance. Under this agreement, the Ministry of Finance commits to support the CFA exclusively with administrative tasks (human resources, purchases, etc.).

The CFA main functions and powers are: i) evaluate and monitor the calculation of the cyclical adjustment of effective revenues made by the budget office of the Ministry of Finance, ii) the power to participate as an observer in the procedures established to obtain the opinion of independent experts on the factors that determine the level of trend of the central government's income and expenditure, iii) make observations and propose to the Ministry of Finance methodological and procedural changes for the calculation of the structural balance, iv) the power to express its opinion on possible deviations from the fulfilment of the goals of the structural balance and propose mitigation measures, v) evaluate the medium and long-term sustainability of public finances and disseminate the results of its evaluations, vi) the power to advise the Ministry of Finance on fiscal matters expressly entrusted by it and related to its purpose, among others.

The path to independence

28. The CFA Chile's advisory council successfully built a reputation over the years by identifying areas for further progress in fiscal institutions and in specific aspects of the operation of the fiscal rule, in place since 2001. It provided opinions on fiscal compliance and recommendations of improvements for the fiscal rule. However, it lagged international best practice across several dimensions, including not performing long-term fiscal sustainability analysis or ex-post analysis of official projections, public reporting, failing to have a mediatic impact or to interact with the Parliament on fiscal topics. Moreover, it did not have legal

nor operational independence. It had no staff and its board members were not remunerated, thus making its functioning highly dependent on the board members' time, resources and dedication. It also depended on the Ministry of Finance to access data and perform the calculations required for assessing compliance with the fiscal rule. All these factors set hard constraints on its ability to obtain a full picture of the country's fiscal situation. Furthermore, starting with an advisory board without technical support implied a risk of getting stuck in the mid-way to have an independent institution, when the goal should be to have an independent institution being capable of contributing to the responsible management of fiscal policy.

29. The path that led to the establishment of an IFI in 2019 was possible, among other factors, due to strong consensus among politicians, Congress and academia about the importance of a new IFI. All these institutions agreed that Chile needed a fiscal council that had a stronger significant supervisory and advisory role, enjoyed political independence, and had access to adequate resources for providing the Ministry of Finance, Congress and the general public with an independent view of the conduct of fiscal policy. Powerful arguments for convincing the Ministry of Finance, the Congress and the public at large to have such an independent and impartial institution were that the Ministry of Finance is usually concentrated on short-term issues and has relatively less time to study factors and policies affecting medium and long-term sustainability.

Strengthening the young Chilean IFI

30. Since the inception of the CFA in 2019, the fiscal situation has changed drastically as first social unrest and then the pandemic, gave rise to a much more active role of fiscal policy, with a strong expansion of public spending. Public debt reached 36% of GDP in 2022, compared to 9% in 2010. During this time the CFA encountered several challenges which implied a need for the institution to grow rapidly and become more effective in its work, an experience from which several lessons can be drawn:

- Full-time leaders and staff developments: There are many administrative tasks and communication responsibilities that require time from board members, signalling the benefits of having at least one full-time board member (in line with OECD IFI principle 2.4). The fiscal council has grown since its inception, mainly in technical staff in the studies department and communications. Although there is still a need to grow, a more relevant issue the CFA is currently facing is the need to get approval by all board members of all the output of the technical staff, such as regular reports, recommendations or research papers. This approval process creates bottlenecks and implies a high workload for board members. One solution would be that some of these tasks are delegated to the President of the board, and some are delegated completely to the Head of studies.
- Technical analysis of the fiscal council: Since the CFA inception, fiscal issues in Chile have evolved rapidly after social protests at the end of 2019 and the pandemic. The CFA has fulfilled its mandate through different reports, but additionally, and to the best of its ability, the Council has sought to address emerging fiscal issues. Thus, since its creation, it has published a total of 29 specific reports (e.g. the inclusion of a prudent level of debt, escape clauses and correction mechanisms; the extraordinary measures to face the pandemic and their subsequent timely withdrawal; fiscal issues in the Constitution; the financing of the universal guaranteed pension; and public revenues from lithium exploitation). But there are other issues of fiscal relevance that have exceeded the Council's capacity and therefore could not be analysed (CFA, 2023[19]). This would require a larger technical team but at the same time a more dedicated board to be able to assess additional issues.
- Operational independence: The CFA ranks well in legal and leadership autonomy, according to the OECD IFIs database. However, there is room to improve operational independence. Its current structure, consisting of part-time board members, a relatively small budget and a small technical staff, limits its management capacity and it still relies on the support of professionals from the Ministry of Finance for a number of management tasks (CFA, 2023[19]).

- Communication is a very important task that should be planned from the inception of any IFI (in line with OECD IFI principle 8). Even if analysis and reports are of high quality and independent, the IFI needs to have the appropriate tools to communicate them in an easy and understandable way to non-experts in the public and the parliament. This in turn can boost the CFA's ability to influence the public debate and help promote sound fiscal policies.
- Attending parliamentary hearings has been essential to influence policymaking and build the IFI reputation (in line with OECD IFI principle 5). The Chilean council needs to go to congress twice a year by law, but it has gone much more frequently. Going to Congress has been essential to show the value of an IFI to Congress and to the public, and to build the credibility of the institution. However, this also brings challenges. On some occasions Congress has asked the CFA to provide analysis over issues in the ongoing legislature agenda, including policy costing and financial reporting. However, the CFA is not sufficiently staffed, nor does it have access to necessary information to deliver these functions.

Case Study 2: Spain

31. The Spanish fiscal council (*Autoridad Independiente de Responsabilidad Fiscal*, AIReF) was legally established in November 2013 in the context of the global economic and financial crisis, when Spain was running high fiscal deficits that led to a fast increase in public debt and a relatively high sovereign risk premium. Against this background, the 2011 Directive on requirements for budgetary frameworks of the EU Member States (so-called Six Pack), which defines the EU fiscal policy framework aimed at restoring fiscal sustainability across members of the euro area, compelled Spain to create an independent fiscal body, tasked with monitoring compliance with fiscal rules (von Trapp et al., 2017[20]). Spain then opted for creating an IFI with a broad mandate and a medium-large size in terms of staff. According to AIREF, establishing an IFI with a legal broad mandate allows the IFI to fulfil its functions smoothly and gradually over time, as it accumulates experience and resources. AIReF's broad mandate includes functions such as monitoring of the budgetary cycle and compliance with fiscal rules, analysis of economic forecasts, independent policy costing as part of broader fiscal analysis and conducting spending reviews. AIReF's mandate also allows to monitor subnational government finances, as Spain's fiscal system is highly decentralised. AIReF devotes almost half of its staff resources to the delivery of its subnational mandate.

32. AIReF is headed by a President on a full-time position, has a medium size with more than 50 staff and its Management Committee is composed of three full-time directors, who are nominated by the Council of Ministers on the proposal of AIReF's President. AIReF pointed out that leadership guidelines for appointment help guarantee leadership independence. These guidelines include a term length for the President and technical requirements for the position, which is a full-time position, among others.

33. Given its size and its functions, AIReF belongs to the third cluster group (G3 –medium-sized fiscal councils). It has a solid legislative framework that guarantees its independence, good governance, and transparency. *De jure* independence is provided by an organic law that cannot be easily amended but legislation cannot always guarantee *de facto* independence. Experience suggests that IFIs should earn their reputation as a *de facto* independent entity vis-à-vis the public early on, as the burden of perceived lack of independence would be difficult to reverse later on. Indeed, AIReF's commitment to transparency through the extensive publication of reports, methodological notes and working papers, and its thoroughness to assess compliance with fiscal rules was fundamental to earn reputation as an independent entity.

34. The road to *de facto* independence has been subject to challenges though. Particularly, AIReF found many obstacles to access information needed to deliver its mandate in an effective manner and to hire workers**.** . AIReF's requests for information to public administrations were denied on several occasions or not delivered in the timeframe required, which caused delays in the publication of its reports, resulting in AIReF not meeting the delivery deadlines established in Law (von Trapp et al., 2017[20]). For this reason,

AIReF had to file a legal claim against the central government in 2016. In response to this, the government changed some of the regulations limiting AIReF's access to information, for example, by removing the exception clause on AIReF's access to information that required AIReF to channel all requests first through an intermediate entity and allowed for refusal of information considered as auxiliary or supporting information. Despite these improvements, further efforts to ensure timely access to information would be beneficial, as the current regulation does not provide a sufficient degree of detail, both concerning processes and timelines. Hence, AIReF is seeking to sign a Memorandum of Understanding (MOU) with the Ministry of Finance and the Ministry of Economy on access to information, as recommended by the OECD (AIReF, 2022[21]).

35. The second challenge AIReF faced relates to its funding. The AIReF funding system is unique among OECD IFIs (von Trapp et al., 2017[20]) , as most of its budget comes from fees paid by public entities. This system guarantees its independence. However, its independence to hire staff is limited since the approval of additional positions depends on the Ministry of Finance. Thus, in terms of resources, AIReF is not completely independent from the central government, which can limit *de facto* independence in its operational work. Despite these limitations, AIReF has found ways to ensure it is sufficiently resourced to deliver its functions using external consultants and secondees from national institutions.

Case Study 3: Korea

36. The Korean IFI (the National Assembly Budget Office, NABO) was legally established in 2003[7] to support the National Assembly, as part of a broader democratic reform agenda. The Korean National Assembly has one chamber headed by the Speaker of the National Assembly and its main functions are to oversee the Executive and endorse laws. Modelled after the United States' Congressional Budget Office (CBO), NABO aims to analyse and assess national public finances and policies. This initiative gained cross-party consensus, although NABO faced many challenges that went hand in hand with democratic development.

37. NABO begun its tenure by performing a limited set of functions such as analysing and monitoring government's fiscal proposals. After an establishing phase, NABO's mandate become broader and there was a corresponding increase in its staff. NABO, which is headed by a Chief, has 138 employees and its mandate includes functions such as the analysis and evaluation of major government programs, the assessment and production of long term macroeconomic and fiscal forecast and the costing of bills affecting the budget. Moreover, it carries out studies and analysis in response to requests by standing committees or members of the National Assembly.

38. NABO's annual budget is part of the overall budget of the National Assembly, which is allocated independently in the national budget, proposed by the government, and approved by the Congress, in line with OECD IFI principle 4.1. The internal process is to prepare a draft budget for NABO and submit it to the Secretary General of the National Assembly, Then, the government submits the budget proposal to the National Assembly, and the budget is subsequently referred to the House Steering Committee for approval before it is included in the Assembly's budget. Its financial independence has not been questioned during recent years, although some conflicts arose at the time of its creation.

39. As with many other IFIs, NABO has also faced obstacles in achieving de facto independence both as concerns its leadership and in accessing information. First, the Chief has no fixed term limit and is designated and can be dismissed by the Speaker of the National Assembly. This poses a challenge for de facto independence, as the leadership may be exposed to political influence from the Speaker. The solution has been to set up a committee to approve the Chief's appointment, giving a role for both the ruling political party and the opposition party in the appointment process. In addition, new legislation is under discussion to give more power to the National Assembly during the appointment process and establish a fixed term

[7] Pursuant to Article 22-2 of the National Assembly Act.

length for the Chief (in line with OECD IFI principle 2.2). Making explicit the qualifications required to be Chief could also help enhance NABO's independence and institutional reputation (in line with OECD IFI principle 2.3).

40. NABO also had difficulties accessing information. It developed an electronic system to collect data from public agencies. NABO can request information through the system and set a deadline to receive it. However, timely and updated information and comprehensive answers to requests are not always delivered. NABO's ability to access required information could be strengthened through including a specific clause in its enabling legislation (in line with OECD principle 6.6).

41. Finally, NABO maintains good relations with the National Assembly (in line with OECD IFI principles 5.1 and 5.2). Members of the National Assembly can submit requests to NABO and NABO also prepares reports for committees and members of the National Assembly.

42. NABO has improved its media presence over time, but communicating with the public remains challenging, as reports are highly technical. NABO has launched some initiatives to improve how it communicates its work to the public, such as posting summaries and easy to understand charts on social networks (in line with OECD IFI principle 8.1).

Lessons from other OECD IFIs

43. A key takeaway from reviewing the experience of the three study cases (Chile, Spain and Korea), also shared by other OECDs IFIs, is that building up and insulating independence is a critical priority. The OECD Recommendations on Principles for Independent Fiscal Institutions provides useful guidance to achieve independence (Box 2) and indicate that clearly defining an IFIs mandate in higher-level legislation (Principle 3.1) is a paramount priority. The non-partisan reputation of an IFI can moreover be enhanced by including foreign experts in the Board. A good example is the Portuguese CFP – see EFB (2022).

44. Political interference in the leadership appointment is another barrier that IFIs can find on their path towards independence. This situation can constrain the ability of the IFI to fulfil its mandate in two ways. On the one hand, if the appointed leader is politically affiliated with government, then the IFI could fail to provide an independent view of the budget and fiscal policies when needed. On the other hand, the government could delay the appointment of a leader affecting the operational process that, in turn, can affect an IFI's ability to deliver its mandate. Based on OECD IFI experiences (Slovak Republic, Portugal) making the appointment conditional on a qualified majority in Parliament, instead of delegating the decision to the Council of Ministers can help to circumvent this challenge. The parliament's budget committee can also play a role in leadership appointments (see OECD IFI Principle 5.1).

45. Many IFIs may have the legal tools to deliver their mandate but experience practical challenges, e.g., in relation to access to information. Acquiring information is key for an IFI to perform its duties in a timely and effective way (in line with OECD IFI Principle 6.1). However, most IFIs face challenges in acquiring timely information (see for example OECD, 2020). To overcome these issues, establishing a Memorandum of Understanding (MOU) between the IFI and relevant institutions (e.g. Ministry of Finance) can facilitate IFI's access to information, as exemplified by the examples of Luxembourg and the Netherlands (OECD, 2020[22]). The case of Spain demonstrates the usefulness of such MoUs, even in the presence of strong legal provisions.

46. The lack of financial and operational independence is another, often reported, barrier to fulfil mandates of IFIs. For example, the Lithuanian IFI reported that its operational independence is undermined by having to comply with central government rules relating to recruitments, thus limiting IFI's ability to recruit and retain skilled staff (OECD, 2019[23]). In the case of Latvia's IFI (Cameron et al., 2021[24]), the lack of financial independence derives from the fact that its funding is set by the government in the annual budget law. The Irish model provides an interesting example of mechanisms to ensure an IFI's financial and operational independence (Nicol et al., 2021[25]). The Irish Fiscal Advisory Council's budget is set in

legislation under the Fiscal Responsibility Act 2012 and is paid directly out of the state's central fund. The Act also provides operational independence as it enables the Council to "appoint such and so many persons to be members of staff of the Fiscal Council, and on such terms, as may be determined by the Fiscal Council" and that staff "shall be paid out of the moneys at the disposal of the Fiscal Council."

47. In the case of EU IFIs, the experience indicates that younger, smaller and less established institutions could initially focus on a specific and well-defined mandate. Once they have built a strong reputation, they can expand their scope of work (Beestma, 2023). This approach has been successfully employed by the Dutch CPB (EFB, 2017). To enhance the non-partisan reputation of an IFI, especially in small countries where it may be challenging to have a diverse pool of experts, including foreign experts on the Board is beneficial, as seen in the case of the Portuguese CFP (EFB, 2022). For small IFIs like the German Independent Advisory Board to the Stability Council and the Czech Committee on Budgetary Forecasts and the Czech Fiscal Council, establishing robust institutional partnerships with other bodies, such as Central Banks and other think tanks, has been effective to ensure effectiveness (EFB, 2020).

48. The experience of OECDs IFIs also shows that active communications are an important tool to strengthen an IFIs reputation and gain de facto independence (in line with OECD IFI principle 8). Ensuring good communications from the start ensures that the IFI can effectively transmit its messages to key stakeholders. Communication efforts are particularly crucial in moments of high economic and fiscal uncertainty. For example, many IFIs in OECD countries were established as part of national budget reforms in response to the global financial crisis in 2008 (e.g. Ireland, Portugal, and Spain). At the same time, establishing an IFI during an economic crisis may cause political resistance that makes it more difficult for the IFI to build credibility. Communication efforts can help to overcome those challenges and help to build reputation gradually, as exemplified by the Portuguese IFI, which put in place a multi-channel communication strategy which helped foster national ownership (OECD, 2019[26]).

49. The EU IFIs experience also shows that establishing minimum standards at the EU level for national institutions help to strengthen IFIs in their role at the EU level and domestically (EU IFIs, 2022[27]). Such minimum standards include: (i) a mandate to address government and parliament, and a mandate to publicly disclose reports and recommendations; (ii) a sufficient level of resources and management flexibility; (iii) good and timely access to information; (iv) effective implementation of the comply or explain principle; and (v) sufficient safeguards against political pressures.

Box 2. OECD principles for Independent Fiscal Institutions

Local ownership

1.1. To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum.

1.2. Local needs and the local institutional environment should determine options for the role and structure of the IFI.

Independence and non-partisanship

2.1. Non-partisanship[8] and independence are pre-requisites for a successful IFI.

[8] Non-partisanship should not be confused with bi-partisanship. Whereas bi-partisanship suggests a balance between political parties, non-partisanship necessitates an absence of political influence.

2.2. The leadership[9] of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation.

2.3. Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause.

2.4. The position of head of the IFI should be a remunerated and preferably full-time position[10].

2.5. The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.

2.6. Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation.

Mandate

3.1. The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.

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

3.3. Clear links to the budget process should be established within the mandate.

Resources

4.1. The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner.

Relationship with the legislature

5.1. 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.

5.2. The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.

Access to information

6.1. There is often asymmetry of information between the government and the IFI – no matter how well an IFI is resourced.

6.2. Any restrictions on access to government information should also be clearly defined in legislation.

Transparency

7.1. Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible.

[9] The title may differ – director, president, or chair – depending on its design. The institution may be under individual or collective (council) leadership.

[10] There are exceptional cases in which a part-time position may be considered sufficient, for example if the IFI has a strictly defined and limited work programme or if another institution provides complementary functions which impact on the workload of the IFI. In Sweden, the Fiscal Policy Council can use the macro-fiscal forecasts prepared by another well-established independent agency, the National Institute of Economic Research.

7.2. IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all.

7.3. The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis.

7.4. IFIs should release their reports and analysis, on matters relating to their core on-going mandate on economic and fiscal issues, in their own name.

1. Communications

8.1. IIFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders.

2. External evaluation

9.1. IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts.

Source: (OECD, 2014[28])

Key features in a road map towards an independent fiscal institution

50. The cluster-based typology of OECD IFIs, together with practical experiences gathered in OECD countries, can provide useful insights and guidance for Latin American countries seeking to set-up IFIs or reinforce existing ones.

51. A key lesson from OECD IFIs experience is that financial and statutory independence is a crucial priority, to ensure institutional resilience in the face of policy uncertainty. The creation of an IFI should be defined in national legislation, clearly establishing their tasks and degree of functional autonomy, as recommended in OECD IFI Principle 1.2. OECD experience shows that most IFIs are functionally independent (e.g., Spain), but in some cases IFIs are attached to another public institution, such as the parliament (e.g. Korea). In some other countries, the IFI was initially created as an advisory body to the Ministry of Finance and afterwards evolved into a fully-fledged institution (e.g. Chile). Such an approach can initially facilitate the creation of an IFI, as the resource requirements may be lower, but it can make it more difficult for the institution and its work to be viewed as independent from government. This, in turn, can inhibit public and political trust in the IFI and hinder the generation of the necessary consensus about the usefulness of an IFI. Reducing this risk requires an independent institution from the beginning, even if small and with small functions and staff and resources.

52. Other measures to boost the perceived independence of an IFI is to establish in the legislation that the leadership should be experts in the field and that their term does not coincide with the government term) with clearly defined criteria and process for dismissal, as recommended in OECD Principles 2.2 and2.3. The key is the soundness of appointment process, rather thanwho appoints the head of the institution. OECD experience shows that it is important to include budget safeguards in the legislation to secure IFIs funding in a separate budget line and multi-annual funding commitments. The legislation should allow IFI leadership to have control over the hiring process of its own staff and conduct its own research agenda within its mandate with the scope to produce reports and analysis at its own initiative (see OECD Principle 4.1).

53. A key strategic decision when establishing an IFI is the breadth of the mandate and the number of staff. The cluster-based typology suggests that small OECD IFIs have less than 10 employees (excluding board members), while medium-size IFIs have between 10 and 20 employees and larger IFIs have at least 50 employees. A closer look at the mandates of OECD IFIs indicates that most IFIs undertake fiscal

sustainability analysis, monitoring of fiscal rules, including possible methodological changes, and assessment of government economic and/or fiscal forecasts, as core functions. Fewer OECD IFIs provide policy costing and produce macroeconomic forecasts, which tend to be more demanding in terms of human resources. The functions chosen for any new IFI should be based on local needs, as recommended in OECD Principle 1.2. Small and young IFIs could initially concentrate on a specific, well-defined mandate, as this will enable them to build a solid reputation. After establishing themselves, they can expand their scope to cover a broader range of tasks.

54. The experience of OECD IFIs also clearly shows that high-quality and independent technical capacities are vital, as they enhance IFIs ability to provide accurate fiscal assessments and promote transparency and accountability in government finances. Technical capacities of IFIs can be enhanced through targeted investments in staff training, the recruitment of specialized experts, and with efforts to keep staff updated with the latest analytical tools and methodologies. To ensure effectiveness small IFIs can also rely on high-level institutional cooperation with other bodies, such as Central Banks, international organisations or academic and research institutions. The important thing is that this affiliation is done with non-political institutions, broadly recognized for high-quality analysis. Fostering collaboration with other IFIs could also be beneficial. The network of EU IFIs attests the value of having a shared platform to exchange views, expertise and pool resources in areas of common concern.

55. Another strategic decision is how to design the IFI's leadership arrangements. Smaller boards can liberate some resources that could be used to strengthen the technical team, while larger boards can facilitate the council being perceived as non-partisan. In any case, having at least one full-time counsellor fosters IFIs operational independence, which could indicate the benefits of having leaner boards with full-time members, relative to having larger boards with part-time counsellors. Including foreign experts on the Board might enhance the IFI's reputation.

56. Leadership arrangements relate to the type of institution being established, specifically the choice between a Parliamentary Budget Officer (PBO) or a fiscal council. PBOs typically consist of a single leader without a board, like NABO, although there are exceptions such as Italy. The United States Congressional Budget Office (CBO) is often cited as a model for parliamentary budget offices worldwide, including Korea. In cases where there is a clear separation of powers and the legislature possesses significant budgetary authority to challenge the president's fiscal power, there is a valid argument for the legislature to have specialized budgetary capacity. However, PBOs can also be suitable for weaker legislatures seeking to reassert their budgetary authority. The motivation to establish a PBO may be weaker in countries where the government holds a strong majority and party discipline within the legislature, as the PBO might be seen as more beneficial to the opposition. PBOs typically have a direct connection to parliamentary oversight of the budget and support the main budget committee's work and tend to have more sophisticated functions such as making official forecasts and policy costing. However, their susceptibility to political pressures can vary depending on their design (Von Trapp, 2017[29]).

57. Experience by OECD IFIs clearly signals that access to information is a recurrent problem both in new and in well-establish IFIs. This calls for specifying in the legislation clearly and in detail the access to information, including from all the relevant public finance governing institutions. This can be further reinforced by establishing memorandum of understanding with specific institutions, where timelines requirements can be specified, as recommended in OECD Principles 6.1 and 6.2.

58. Another valuable insight from OECD IFIs' experience is that communication efforts are essential to achieve operational independence and gain reputation with full transparency of IFI's work and operations, as recommended in OECD Principle 8.1. Because IFIs have no or only few formal levers, public visibility becomes key to ensure effectiveness (Beetsma, 2023). Seeking media impact by proactively communicating its studies and opinions helps an IFI to build reputation and gain credibility. Establishing a direct dialogue with the press (without the intermediation of government officials) can enrich the debate about fiscal affairs and foster public perception about an IFI independence.

59. OECD experience also shows the benefits of IFIs having accountability to the government and parliament (see OECD Principles 5.1 and 5.2). This calls for specifying formally in law that the IFI will participate in parliamentary hearings, specifying clearly at which moment this should happen. Cultivating strong ties with Parliament and ensuring frequent invitation to hearings maybe effective. Beyond this, proactively reaching out to different parliament groups to ensure that their studies and contributions are known and well understood seems also valuable. All this calls for ensuring that communication efforts are well planned and resourced when setting up an IFI.

Annex

Table 2. Mandate and functions of OECD and Brazil IFIs

Country	Institution name	Functions				
		Monitoring compliance with fiscal rules	Analysis of long-term fiscal sustainability	Assesses only macroeconomic or fiscal forecasts	Prepares macroeconomic or fiscal forecasts	Policy costing
Australia	Commonwealth Parliamentary Budget Office (PBO)		Y			Y
	Victorian Parliamentary Budget Office (PBO)					Y
Austria	Fiscal Advisory Council (FISK)	Y	Y	Y	Y	Y
	Parliamentary Budget Office (PBO)		Y	Y		Y
Belgium	Federal Planning Bureau of Belgium (FPB)		Y		Y	Y
	High Council of Finance (HCF)	Y		Y		
Brazil	Independent Fiscal Institution (IFI)	Y	Y	Y	Y	Y
Canada	Parliamentary Budget Office (PBO)		Y	Y	Y	Y
	Financial Accountability Office of Ontario (FAO-ON)		Y	Y	Y	Y
Chile	Autonomous Fiscal Council	Y	Y			
Czech Republic	Czech Fiscal Council (CFC)	Y	Y	Y		Y
Denmark	Danish Economic Council	Y	Y	Y	Y	
Estonia	Fiscal Council of Estonia			Y		
Finland	Independent Monitoring and Evaluation of Fiscal Policy Function, National Audit Office	Y	Y	Y		
	Finnish Economic Policy Council (EPC)	Y	Y	Y		
France	High Council of Public Finance (HCFP)	Y		Y		
Germany	Independent Advisory Board to the Stability Council	Y		Y		
Greece	Parliamentary Budget Office	Y		Y	Y	Y
	Hellenic Fiscal Council	Y	Y	Y	Y	
Hungary	Fiscal Council	Y		Y		
Iceland	Icelandic Fiscal Council	Y		Y		
Ireland	Irish Fiscal Advisory Council (IFAC)	Y	Y	Y	Y	
	Oireachtas Parliamentary Budget Office (PBO)			Y		Y
Italy	Parliamentary Budget Office (PBO)	Y	Y	Y	Y	Y
Korea	National Assembly Budget Office (NABO)		Y		Y	Y
Latvia	Fiscal Discipline Council	Y	Y	Y		
Lithuania	Budget Policy Monitoring Department – National Audit Office of Lithuania (BPMD)	Y	Y	Y	Y	

Luxembourg	National Council of Public Finances (CNFP)	Y	Y	Y		
Mexico	Center for Public Finance Studies (CEFP)			Y		Y
Netherlands	Netherlands Bureau for Economic Policy Analysis (CPB)		Y		Y	Y
Portugal	Portuguese Public Finance Council (CFP)	Y	Y	Y	Y	
	Parliamentary Budget Office (PBO)			Y		Y
Slovak Republic	Council for Budget Responsibility (CBR)	Y	Y	Y	Y	Y
Slovenia	Slovenian Fiscal Council	Y	Y	Y		Y
Spain	Independent Authority of Fiscal Responsibility (AIReF)	Y	Y	Y		Y
Sweden	Swedish Fiscal Policy Council (FPC)	Y	Y	Y		
UK	Office for Budget Responsibility (OBR)	Y	Y	Y	Y	Y
	Scottish Fiscal Commission (SFC)	Y		Y	Y	Y
US	Congressional Budget Office (CBO)		Y	Y	Y	Y
Share of IFIs with the respective function (% of total of institutions)		67.5%	70%	85%	42.5%	55%

Source: OECD

Table 3. Resources of OECD and Brazil IFIs

Country	Institution name	Year that institution began operating	Budget Year	Budget thousand USD	Staffing				
					Staff (full-time)	Chairs	Council/ Board	Board- Full/part time or both	Total
Australia	Commonwealth Parliamentary Budget Office (PBO)	2018	2019	5,202	39	1		F	40
	Victorian Parliamentary Budget Office (PBO)	2012	2020	2,079	13	1		F	14
Austria	Fiscal Advisory Council (FISK)	1970	n/a	Not disclosed	6		14	P	21
	Parliamentary Budget Office (PBO)	2012	2020	882	7	1		F	8
Belgium	Federal Planning Bureau of Belgium (FPB)	1959	2020	5,096	43	1	2	F	46
	High Council of Finance (HCF)	1936	2020	Not disclosed	3	1	11	P	15
Brazil	Independent Fiscal Institution (IFI)	2016	2020	877	6	1	2	F	9
Canada	Parliamentary Budget Office (PBO)	2008	2021	5,122	41	1		F	42
	Financial Accountability Office of Ontario (FAO-ON)	2015	2020	2,810	19	1		F	20
Chile	Autonomous Fiscal Council	2019	2020	391	3		5	P	8
Czech Republic	Czech Fiscal Council (CFC)	2018	2020	946.7	12	1	2	F	15
Denmark	Danish Economic Councils*	1962	2020	3,718	28	4	40	P	72
Estonia	Fiscal Council of Estonia	2014	2020	80.458	3	1	5	P	9
Finland	Independent Monitoring and Evaluation of Fiscal Policy Function - National Audit Office of Finland	2013	2020	652.68	4	1		F	5
	Finnish Economic Policy Council (EPC)	2014	2020	303.8	2	1	4	P	7
France	High Council of Public Finance (HCFP)	2013	2021	1,081	5		10	P	15
Germany	Independent Advisory Board to the Stability Council	2013	2020	147	1	1	8	P	10
Greece	Parliamentary Budget Office	2011	2020	490	7	1	4	B	12
	Hellenic Fiscal Council	2015	2020	1,078	15	1	4	B	20
Hungary	Fiscal Council	2011	2021	455.7	3	1	2	B	6
Iceland	Icelandic Fiscal Council	2016	2021	280.1	0	1	5	P	6
Ireland	Irish Fiscal Advisory Council (IFAC)	2011	2021	817.36	6	1	4	P	11
	Oireachtas Parliamentary Budget Office (PBO)	2017	2020	862	10	1		F	11
Italy	Parliamentary Budget Office (PBO)	2014	2020	5,880	25	1	2	F	28
Korea	National Assembly Budget Office (NABO)	2003	2021	15,094	138			F	138
Latvia	Fiscal Discipline Council	2014	2020	196	3	1	5	P	9
Lithuania	Budget Policy Monitoring Department, National Audit Office	2015	2020	240.1	7	1		F	8
Luxembourg	National Council of Public Finances (CNFP)	2014	2020	98	2	1	6	P	9
Mexico	Center for Public Finance Studies (CEFP)	1998	2020	2,560	60			F	60
Netherlands	Netherlands Bureau for Economic Policy Analysis (CPB)	1945	2020	16,758	122	1	2	F	125
Portugal	Portuguese Public Finance Council (CFP)	2012	2020	2,646	18	1	4	B	23
	Parliamentary Budget Office (PBO)	2006	2020		6	1			7
Slovak Republic	Council for Budget Responsibility (CBR)	2012	2020	1,372	15	1	2	B	18
Slovenia	Slovenian Fiscal Council	2017	2020	490	4	1	2	B	7
Spain	Independent Authority of Fiscal Responsibility (AIReF)	2014	2020	8,682	54	1	3	F	58
Sweden	Swedish Fiscal Policy Council (FPC)	2007	2020	911	5	1	5	P	11
UK	Office for Budget Responsibility (OBR)	2010	2020	3,713	34	1	2	B	37
	Scottish Fiscal Commission (SFC)	2014	2021	2,293	21	1	3	P	25
US	Congressional Budget Office (CBO)	1975	2021	57,292	264	1		F	265

Source:OECD

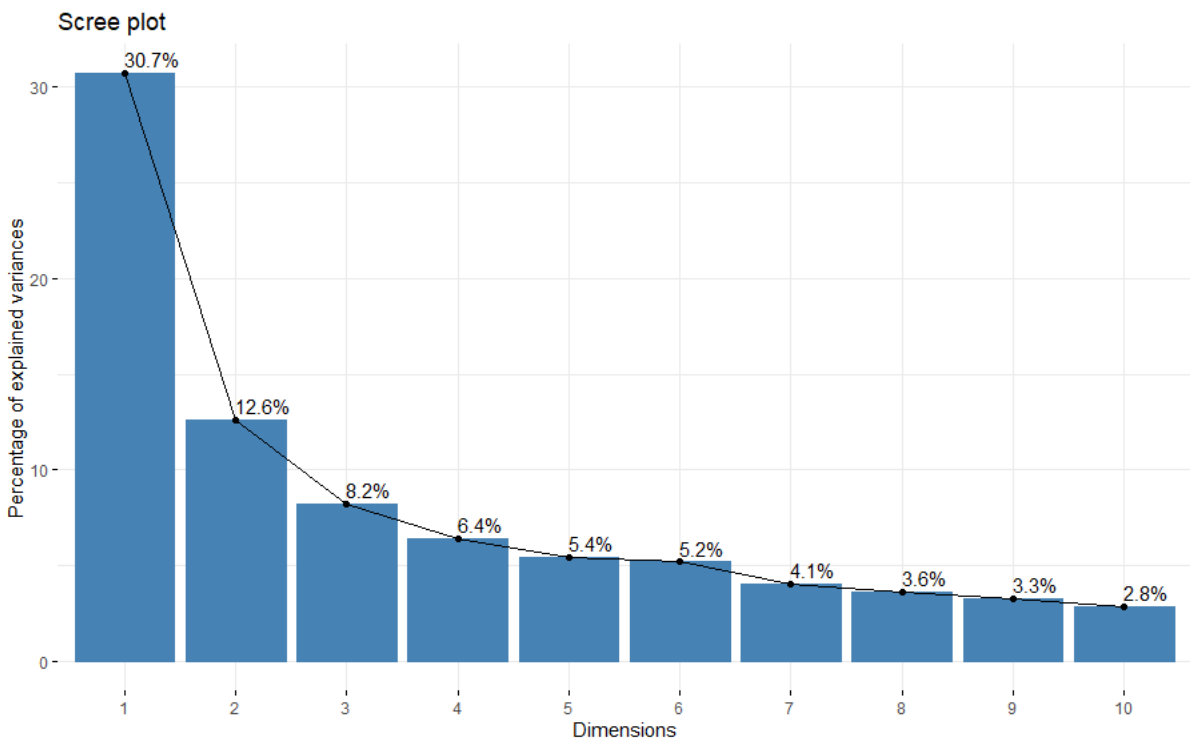
Table 4. Countries within the 4 groups identified in the cluster analysis

Country	Acronym	Name IFIs	IFI	Group (cluster analysis)
Australia	AUS_1	Commonwealth Parliamentary Budget Office (PBO)	BEL_HCF	1
	AUS_2	Victorian Parliamentary Budget Office (PBO)	CHL	1
Austria	AUT_FIS	Fiscal Advisory Council (FISK)	DNK	1
	AUT_PBO	Parliamentary Budget Office (PBO)	EST	1
Belgium	BEL_FPB	Federal Planning Bureau of Belgium (FPB)	EU	1
	BEL_HCF	High Council of Finance (HCF)	FIN_EPC	1
Brazil	BRA	Independent Fiscal Institution (IFI)	FIN_NAOF	1
Canada	CAN_FAO	Parliamentary Budget Office (PBO)	FRA	1
	CAN_PBO	Financial Accountability Office of Ontario (FAO-ON)	DEU	1
Chile	CHL	Autonomous Fiscal Council	GRC_HFC	1
Czech Republic	CZE	Czech Fiscal Council (CFC)	HUN	1
Denmark	DNK	Danish Economic Councils*	ISL	1
European Union	EU	European Fiscal Board	IRL_COU	1
Estonia	EST	Fiscal Council of Estonia	LTV	1
Finland	FIN_E	Independent Monitoring and Evaluation of Fiscal Policy Function - National Audit Office of Finland	LIT	1
	FIN_N	Finnish Economic Policy Council (EPC)	LUX	1
France	FRA	High Council of Public Finance (HCFP)	PRT_CFP	1
Germany	DEU	Independent Advisory Board to the Stability Council	SWE	1
Greece	GRC_H	Parliamentary Budget Office	UK_NIFC	1
	GRC_P	Hellenic Fiscal Council	AUS_1	2
Hungary	HUN	Fiscal Council	AUS_2	2
Iceland	ISL	Icelandic Fiscal Council	AUT_PBO	2
Ireland	IRL_C	Irish Fiscal Advisory Council (IFAC)	CAN_FAO	2
	IRL_P	Oireachtas Parliamentary Budget Office (PBO)	CAN_PBO	2
Italy	ITA	Parliamentary Budget Office (PBO)	IRL_PBO	2
Korea	KOR	National Assembly Budget Office (NABO)	KOR	2
Latvia	LVA	Fiscal Discipline Council	MXC	2
Lithuania	LIT	Budget Policy Monitoring Department, National Audit Office	USA	2
Luxembourg	LUX	National Council of Public Finances (CNFP)	AUT_FIS	3
Mexico	MEX	Center for Public Finance Studies (CEFP)	BRA	3
Netherlands	NLD	Netherlands Bureau for Economic Policy Analysis (CPB)	CZE	3
Portugal	PRT_C	Portuguese Public Finance Council (CFP)	GRC_PBO	3
	PRT_P	Parliamentary Budget Office (PBO)	ITA	3
Slovak Republic	SVK	Council for Budget Responsibility (CBR)	PRT_PBO	3
Slovenia	SVN	Slovenian Fiscal Council	SVK	3
Spain	ESP	Independent Authority of Fiscal Responsibility (AIReF)	SLV	3
Sweden	SWE	Swedish Fiscal Policy Council (FPC)	ESP	3
UK	UK_O	Office for Budget Responsibility (OBR)	BEL_FPB	4
	UK_S	Scottish Fiscal Commission (SFC)	NLD	4
	UK_N	Northern Ireland Fiscal Council	UK_OBR	4
US	USA	Congressional Budget Office (CBO)	UK_SFC	4

Source: OECD

Figure 8. The first two eigenvectors explain around 43% of the total variance

Scree plot reporting results from principal component analysis

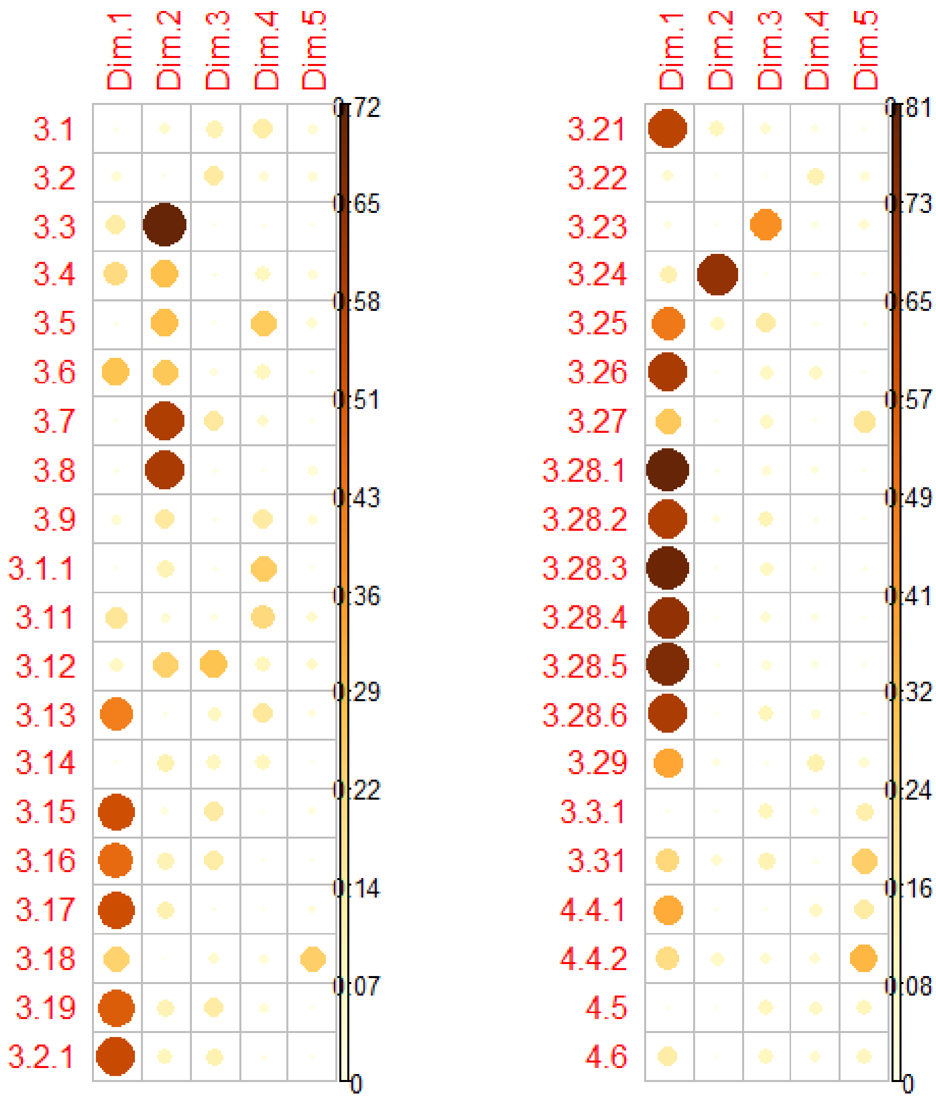


Note: The x-axis reports the eigenvectors, or dimensions, according to the share of explained variance of the variance-covariance matrix of the data.
Source: Authors' calculation.

60. To perform the cluster analysis questions from section 3 (from question 3.1 to 3.31) and section 4 from the OECD IFI dataset, covering the mandate and functions of IFIs and the size of the staff and the board of the IFIs are considered. Questions that do not have a numerical format are converted into a numeric format. In general, questions concerning whether an IFI performs or not a function are converted into a numeric format by assigning a value of 1 if the IFI performs it, and zero otherwise. The dataset is subsequently standardised and, once defined the number of clusters, an Expectation-Maximisation algorithm assigns each IFI to a cluster as to minimize the within cluster distance.

61. A visual representation of the cluster analysis is performed by considering the projections of the vector of characteristics of the IFIs on the two eigenvectors that explain the largest share of the variance of the variance-covariance matrix of the data. These two eigenvectors are a linear combination of the characteristics and represent the new x- and y-axis of the plot. To interpret them, the correlation between each eigenvector and the IFIs characteristic is considered (Figure 9). For each eigenvector, only variables highly correlated (at least 0.5) and contributing cumulatively to at least around 70% are considered.

Figure 9. Correlations between variables and principal components



Note: The size of the correlation between IFIs characteristics (row) and eigenvectors (column) is proportional to the size of the circle and the colour, with darker red indicating higher values as indicated by the scale set on the extreme right of each correlation plot.
Source:

62. The x-axis, or first eigenvector, captures the size of the analytical staff (question 4.4.1), and functions such as performing policy costing (questions 3.24-3.28), or assessing fiscal compliance (question 3.15) and fulfilling request on economic issues (questions 3.16 and 3.17). Thus, on the extreme left of the x-axis are located IFIs with an official role in costing policies, while those performing not official costing policies are located more towards the center; on the centre-right and extreme right, instead, are located IFIs that do not perform policy costing functions but provide normative policy recommendations and have an official role in fiscal compliance. The x-axis also captures the size of analytical staff, with IFIS with a large staff located on the left.

63. The y-axis, or second eigenvector, separates IFIs depending on whether they produce official forecasts (macro and fiscal, questions 3.3 and 3.8) or performs specific monitoring functions (assessment

of the reasonableness of forecasts, question 3.5, formally endorsement of forecasts, question 3.4, or ex post evaluations of official forecasts, question 3.6). Thus, IFIs that produce official forecasts (fiscal or macroeconomic) are located at the top of the y-axis, while IFIs performing specific monitoring functions are located at the bottom.

Independence Index Update

64. The original index was updated considering new data available in the 2020 survey of OECD independence fiscal institution database. The proposed index maintains the principles selected by (von Trapp and Nicol, 2018[16]) as well as the computing methodology. Each question is the unweighted average within the pillar and all pillars weight the same in the final index.

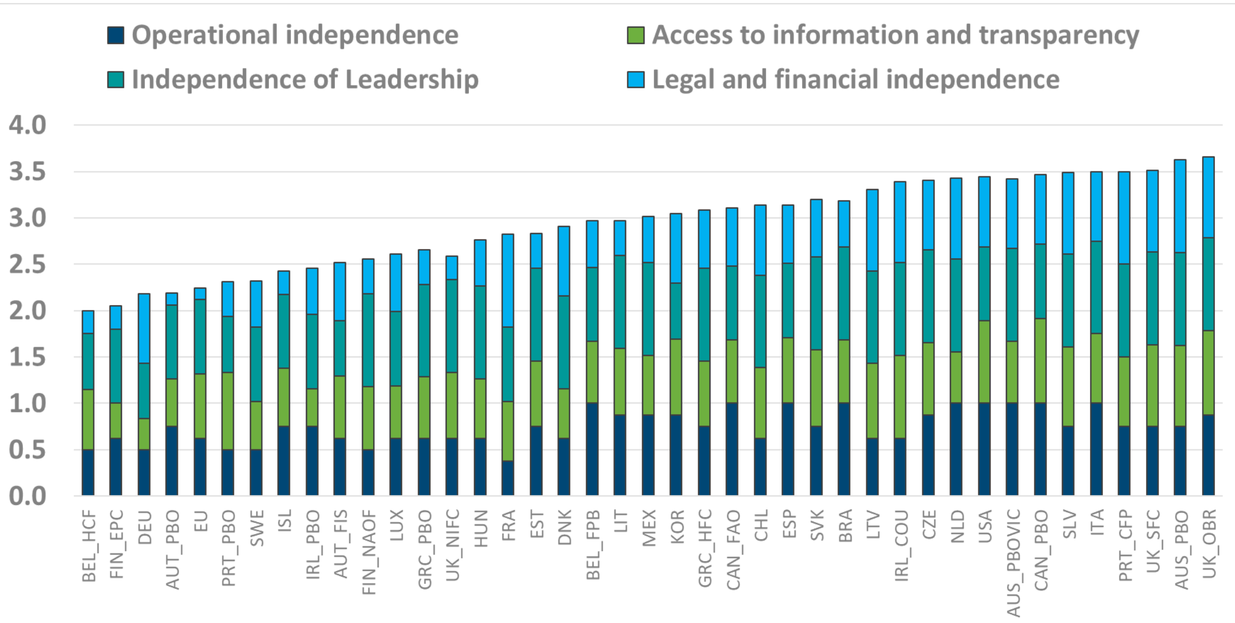
65. The Pillar of leadership independence considers the questions related to leadership appointment based on merit and technical competence, clearly defined term length, if different branch of government intervenes in the nomination and appointment of leadership, and if leaders a remunerated.

66. The pillar of legal and financial independence considers the questions related to the way the IFIs was established, preferably at the higher law setting available in that country; if the IFI count as a separate budget identity, if the IFI count with a multi-annual funding commitment, and if IFI have full control over staff recruitment within budget limits.

67. The pillar of operational independence considers the question related to if the IFI gives a normative policy recommendation, can set its own work program within the bound of mandate, leaders are full time service in the organization, and if the IFI own a website.

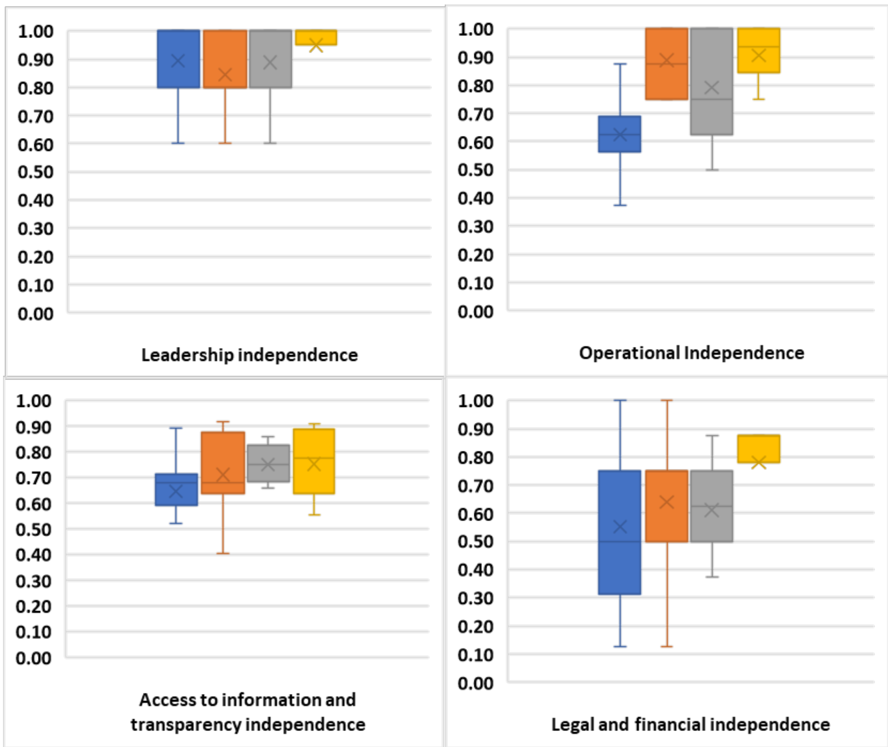
68. The pillar of access to information and transparency independence considers the question related to the proportion of the operational document published, report being public available, the underlying methodology supporting reports being published and if the IFI has legal tools to secured it access to information to produce their reports and technical documents.

Figure 10. Independence index by country



Note: The independence index would be computed as the unweighted average of all pillars.
Source: OECD, authors' calculation based on IFI's independence index (von Trapp and Nicol, 2018[16]).

Figure 11. Independence Index Pillar updated



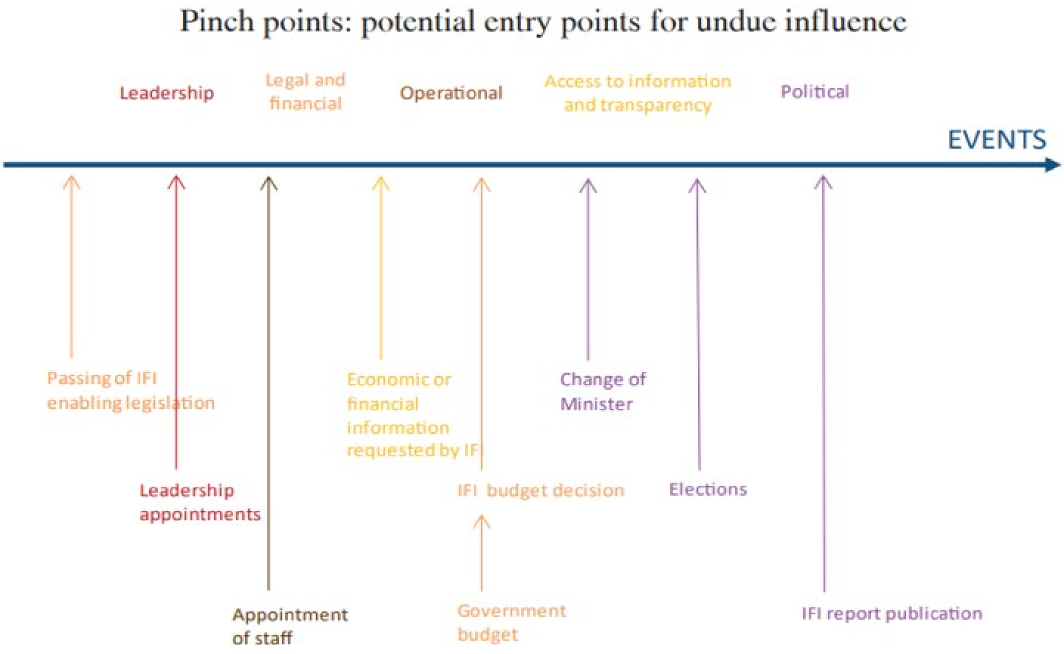
Note: Each boxplot reports the distribution of the independence index, or of its sub-categories, by reporting each interquartile with a bar, but the unweighted average that is reported with an X. A higher value means higher independence.
Source: OECD, authors' calculation based on IFI's independence index (von Trapp and Nicol, 2018[16]) .

An assessment of independence at pinch point events for the 4 IFI types

69. An IFI's independence may come under stress at given 'pinch points' where there is potential for greater undue influence to be exerted over a fiscal institution (von Trapp and Nicol, 2018[16]) (see Figure 10). For example, when there have been conflicts between the government (or the legislature which may have a strong government majority in place) and the IFI, there are cases of politicians attempting to curtail the independence of an IFI by restricting access to information, cutting or threatening the IFI's budget (e.g. Canada, Sweden) and exerting control over its work programme.

70. As IFIs advances further into 'pinch points' events the average independence level of all groups tends to decrease (see figure 2). This situation could be explained by the fact that pinch points further down the line require an active strategy from the IFI to effectively deal with the situation. For example, the early "pinch point" refers to legislation in which an IFI is created, which requires little effort by the IFI itself. Further down the line, IFIs require a communication strategy and actively pursuit a wider coverage of their technical reports to reach the public and other relevant stakeholders, such as the parliament. This also implies that earlier "pinch points" are more related to de jure independence, while later are more related to de jure independence.

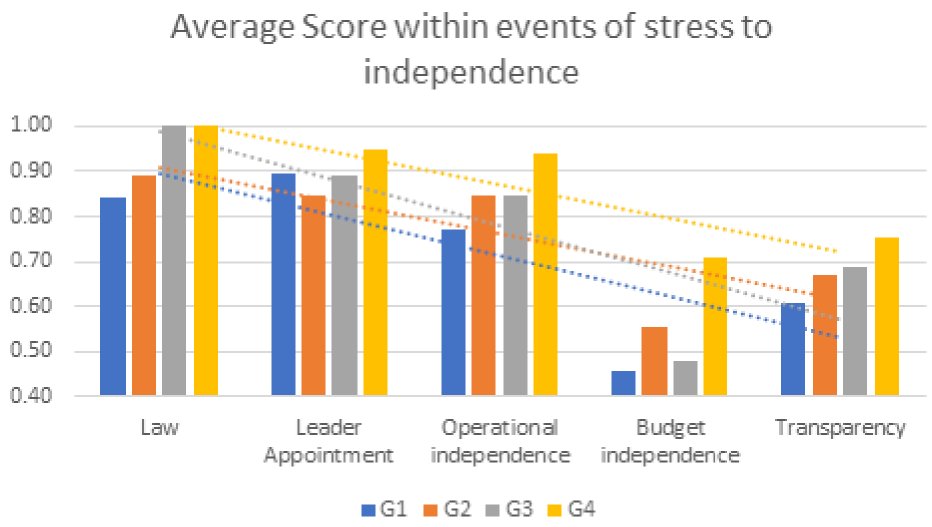
Figure 12. Stress sources for IFI's independence



Source: (von Trapp and Nicol, 2018[16])

Figure 13. IFIs tend to perform with higher independence at earlier "pinch point" events

Independent index question, by events within the life cycle of an IFI



Note: Each bar reports the unweighted average of the independence index pillar by question related to the "pinch points" event. Blurred line represents the linear tendency score by each event.
Source: OECD, authors own calculations.

References

AIReF (2022), *Recomendaciones vivas tercer trimestre 2022*. [21]

Andrián, L. et al. (2022), *Quality of Fiscal Rules and Their Impact over Debt Sustainability*. [1]

Beetsma, R. et al. (2023), "Is the road to hell paved with good intentions? An empirical analysis of budgetary follow-up in the EU", *Journal of International Money and Finance*, Vol. 135, p. 102854, https://doi.org/10.1016/j.jimonfin.2023.102854. [11]

Beetsma, R. et al. (2018), *Independent Fiscal Councils: Recent Trends and Performance*. [6]

Cameron, S. et al. (2021), "OECD Review of Latvia's Fiscal Discipline Council", *OECD Journal on Budgeting*, Vol. 21/3, https://doi.org/10.1787/72e1c9b6-en. [24]

Capraru, B., G. Georgescu and N. Sprincean (2023), *Fiscal Rules, Independent Fiscal Institutions, and Sovereign Risk*, Romania Fiscal Council. [14]

Capraru, B., G. Georgescu and N. Sprincean (2020), *An evaluation of IFIs impact on EU countries budget deficits*, Romania Fiscal Council. [9]

CFA (2023), *Informe del Consejo Fiscal Autónomo sobre el ejercicio de sus funciones y atribuciones*, Consejo Fiscal Autónomo de Chile. [19]

Debrun, X. and T. Kinda (2014), "Strengthening Post-Crisis Fiscal Credibility—Fiscal Councils on the Rise. A New Dataset", *IMF Fiscal Affairs Department* WP/14/58, https://www.imf.org/external/pubs/ft/wp/2014/wp1458.pdf. [10]

EU IFIs (2023), *Do institutional aspects shape the effectiveness of independent fiscal institutions? The case of countries' compliance with EU fiscal rules*, The Network of Independent Fiscal Institutions. [12]

EU IFIs (2022), *Minimum Standards and Strengthening the Mandates of national IFIs*, The Network of Independent Fiscal Institutions. [27]

Gomez-Gonzalez, J., O. Valencia and G. Sánchez (2022), "How fiscal rules can reduce sovereign debt default risk", *Emerging Markets Review*, Vol. 50, p. 100839, https://doi.org/10.1016/j.ememar.2021.100839. [2]

Hagemann, R. (2011), "How Can Fiscal Councils Strengthen Fiscal Performance?", *OECD Journal: Economic Studies*, https://doi.org/10.1787/eco_studies-2011-5kg2d3gx4d5c. [4]

Horvath, M. (2017), "European fiscal Compact in Action: can Independent Fiscal Institutions Deliver Effective Oversight?", *CBR Discussion Paper No. 1*. [13]

IMF (2013), *The Functions and Impact of Fiscal Councils*. [5]

Larch, M. and S. Santacroce (2020), *Numerical compliance with EU fiscal rules: The compliance database of the Secretariat of the European Fiscal Board*. [8]

Nicol, S. et al. (2021), "OECD Review of the Irish Fiscal Advisory Council", *OECD Journal on Budgeting*, Vol. 21/3, https://doi.org/10.1787/bad25e52-en. [25]

OECD (2021), *OECD Independent Fiscal Institutions Database*. [17]

OECD (2020), *Assessing Chile's analytical framework for long-term fiscal sustainability*, OECD. [18]

OECD (2020), "OECD Review of the Slovak Council for Budget responsibility (CBR)", *OECD Indipendent Fiscal Isntitutions Review*, https://web-archive.oecd.org/2020-02-25/545282-independent-fiscal-institutions-review-slovak-council-budget-responsibility-report-2020.pdf. [22]

OECD (2019), "Lithuania's Independent Fiscal Institution Budget Policy Monitoring Department (BPMD) in the National Audit Office of Lithuania", *OECD Independent Fiscal Institutions Review*, https://web-archive.oecd.org/2019-11-25/531491-lithuania-independent-fiscal-institutions-review-2019-en.pdf. [23]

OECD (2019), *OECD Review of the Portuguese Public Finance Council (CFP)*, https://web-archive.oecd.org/2019-02-01/505929-review-of-portuguese-public-finance-council-2019.pdf. [26]

OECD (2014), *Recommendation of the Council on Principles for Independent Fiscal Institutions*. [28]

Unit, E. (ed.) (2023), *Strengths and weaknesses of independent advisory fiscal institutions in the EU economic governance framework*. [15]

Von Trapp, L. (2017), *Evolutions in Legislative Budgeting and Independent Fiscal Institutions*. [29]

von Trapp, L., I. Lienert and J. Wehner (2016), "Principles for independent fiscal institutions and case studies", *OECD Journal on Budgeting*, https://doi.org/10.1787/budget-15-5jm2795tv625. [3]

Von Trapp, L. and S. Nicol (2017), *Designing effective independent fiscal institutions*. [30]

von Trapp, L. and S. Nicol (2018), *Measuring IFI Independence: A first pass using the OECD IFI Database*, OECD Publishing, https://www.oecd.org/gov/budgeting/measuring-ifi-independence-a-first-pass-using-the-oecd-ifi-database-2018.pdf. [16]

von Trapp, L. and S. Nicol (2017), *Designing effective independent fiscal institutions*, OECD Publishing, https://www.oecd.org/gov/budgeting/designing-effective-independent-fiscal-institutions.pdf. [7]

von Trapp, L. et al. (2017), *OECD Review of the Independent Authority for Fiscal Responsibility (AIReF)*. [20]