

Terms of Reference for the ACTION:

“Fiscal governance and the role of the Independent Fiscal Institutions (IFIs) in the post-pandemic era”

0. SUMMARY

| | | | |
|--|---|----------------------|---------------|
| Policy Dialogue | Economic growth and jobs | | |
| Action Code | SFIN001/22 | | |
| Action Title | Fiscal governance and the role of the IFIs in the post-pandemic era | | |
| Type of Activity | Studies, international seminar, an official mission to the EU | | |
| DELBRA/ SECTION / Person in leadership | -EU (Main): DELBRA - FPI RT Americas, EU Member States -EU (Support): DELBRA – Other EU Policies Section -BR (Main): Independent Fiscal Institution - IFI | | |
| Location | Brazil, and the EU Member States | | |
| Period of assignment | December 2022 – June 2023 | | |
| Category of expert(s) | EU Senior Expert | Brazil Senior Expert | Junior Expert |
| Number of working days (estimated) | 30 | 15 | - |

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0.1. CONTEXT/BACKGROUND of the action assignment

The effectiveness of national fiscal governance frameworks¹ was tested during the COVID-19 pandemic. Although most countries adopted fiscal stimulus measures to address the socioeconomic effects of COVID-19, the compatibility of these measures with the regulatory framework varied among them.

In Brazil, for example, the spending ceiling already contained an exception for the so-called extraordinary credits, used for unpredictable and urgent expenses. The primary result target, on the other hand, was only suspended after the calamity was recognised by the National Congress.² In the European Union (EU), the option was to activate the general escape clause of the Stability and Growth Pact (SGP)³ which allows a temporary deviation from EU fiscal rules – enabling member countries to respond more effectively.

Currently, both EU Member States (MS) and Brazil are discussing maintaining the stimulus in the face of the threat of recession and other global challenges. Reacting to the economic consequences of Russia's invasion of Ukraine, the European Commission has proposed extending the general escape clause of the SGP until 2023 but rising deficits have pushed debt levels even further above the Maastricht Treaty reference value of 60% of GDP in many countries posing additional challenges in the transitioning back to existing rules. However, the current fiscal framework might not sufficiently take into account the need for government investment to drive the green and digital transition. In Brazil, a new fiscal framework that would increase the flexibility of the spending cap is under discussion. Nevertheless, the country faces a context where debt is higher than in 2020, interest rates are rising while the need to adapt budgets to climate and demographic issues persists.

At the same time, many economists have argued for a key role for national Independent Fiscal Institutions (IFIs) within the fiscal governance framework. IFIs are public institutions with a mandate to critically evaluate and, in some cases, provide non-partisan advice on fiscal policy and performance, increasing the quality of policy debate, making governments more accountable for their policy choices and more credible to citizens and financial markets.

There are IFIs in almost every EU MS but vary widely in terms of their mandate and resources. In most EU countries, IFIs have been established after the Global Financial Crisis (GFC) although in

¹ This includes national fiscal rules, independent fiscal institutions (IFIs), medium-term budget frameworks (MTBFs), among others, designed to support policy priorities such as the green transition and demographic issues.

² Law 14.143, of 2021, allowed expenses considered emergency to be outside the spending ceiling.
<https://www2.camara.leg.br/legin/fed/lei/2021/lei-14143-21-abril-2021-791289-norma-pl.html>

³ https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact_en

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Belgium, Denmark and the Netherlands they have existed for over 50 years. In Brazil the IFI was established in 2016 through a Federal Senate Resolution⁴.

For the IFIs established after the GFC, the COVID-19 pandemic was their major first test. They had to step in to provide independent scrutiny of emergency spending programmes and real-time forecasts of the rapidly evolving economy and public finances.

Considering that IFIs will continue to be critical partners during the recovery as governments seek to restore sustainable and resilient public finances, there is a need to strengthen their role, which in turn will help strengthen the fiscal governance structure itself⁵.

Given the central role of fiscal policy in addressing both recent crises and future challenges, the call to reform the fiscal governance framework in Europe and Brazil resonates like never before. Thus, the EU-Brazil dialogue on fiscal governance and the role of IFIs in the post-pandemic will contribute to the search for a better understanding of the socio-economic prospects in Brazil and in the EU and how this will be reflected in the public budget, based on the premise of maintaining the sustainability of public accounts and reconciling flexibility with enforceability.

1. OBJECTIVES AND EXPECTED RESULTS

1.1. Overall Objective/Impact

To increase mutual understanding and dialogue on the prospects and challenges for reforming fiscal governance framework in Brazil and the European Union, with an emphasis on fiscal rules and the role of IFIs.

1.2. Specific Objectives/Outcomes

SO1: To exchange knowledge and best practices between European IFIs and the Brazilian IFI with regard to their actions during the pandemic and in the face of future scenarios of uncertainty.

SO2: To exchange knowledge and proposals on new tax rules and instruments to address long-term challenges.

⁴ <https://legis.senado.leg.br/norma/582564/publicacao/17707278>

⁵ <https://www.euifis.eu/publicationsfilter/pp>

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1.3. Expected Results/Outputs

Output 1: The performance of IFIs and the responsiveness of fiscal rules during the COVID-19 pandemic is assessed.

Output 2: The exchange of knowledge and proposals for reforming fiscal governance frameworks is strengthened.

2. SCOPE OF WORK

This initiative aims to implement activities that facilitate mutual understanding on the role of independent fiscal institutions and the adaptability of medium-term fiscal rules and frameworks within increasingly uncertain and challenging contexts.

3.1. Activities and related tasks (specific work to be accomplished)

This action will include the implementation of the following three activities:

A1: Study. The study will address the following topics:

(i) Comparative analysis of up to four European IFIs (from countries to be defined), analysing their mandate and performance during the pandemic, as well as recommending possible actions to strengthen their role in a post-pandemic context.

(iii) Analysis of proposals under discussion in the EU and Brazil for the implementation of medium-term fiscal rules and related frameworks, considering the socio-economic perspectives in both regions.

The study will require the participation of one senior European specialist and one senior Brazilian specialist.

The European senior expert will be responsible for preparing the comparative analysis of IFIs in up to four countries and recommendations for strengthening their mandate. In addition, he/she will analyse the proposals under discussion for the implementation of new tax rules in the EU.

The senior Brazilian expert will be responsible for producing an analysis of the proposals under discussion for the implementation of new tax rules in Brazil.

The results of this study will be presented at an international seminar (A2) and will be a source of input for the preparation of a Brazilian IFI mission to Europe (A3).

A2: Organisation of an **international seminar** with the participation of relevant stakeholders (e.g., government, IFIs, academics) from the EU and Brazil. The seminar will be a chance to discuss the

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opportunities and challenges of reforming fiscal governance frameworks in the two regions and proposals for cooperation in response to the social and economic scenarios identified in the study. The tentative location for hosting the seminar is Brasilia. Both experts are expected to participate in the seminar.

The findings and conclusions of the study(A1) will also be presented.

A3: Organisation of an **official on-site mission to Europe** for up to 3 people from the Brazilian side, with up to 1-week duration. The aim is to meet relevant authorities of the European Commission and IFIs in EU Member States to exchange experiences and best practices in fiscal governance, addressing issues such as the role of European IFIs and the adaptability of medium-term fiscal rules and frameworks within the EU. The exact composition of the mission, as well as the list of institutions and organisations to be visited, will be defined at a later stage on the basis of the results of the study and the inputs stemming from the seminar. The EU Delegation will coordinate with the Brazilian IFI on the design of the programme and the European expert will support the organisation of the mission, which will be subject to final approval by the EU Delegation.

3.2. Target Group

Brazilian Independent Fiscal Institution, EU institutions, DG ECFIN, the EU Member States (IFIs).

4. DELIVERABLES

On completion of the action, the following will be delivered:

- **D1.** A consolidated study covering a) comparative analysis of the performance of up to four IFIs from EU countries (to be defined) during the pandemic, with recommendations for strengthening their role in the post-pandemic context and b) analysis of proposed new fiscal rules for the EU and Brazil taking into account their respective socio-economic scenarios. A preliminary version of the study should be made available and discussed with the Brazilian IFI in coordination with the EU delegation before EU Delegation final approval of the content for dissemination.
- **D2.** The report of the international seminar bringing together the highlights of the event, contributions of target groups involved as well as the main conclusions and further insights.
- **D3.** The mission report (debriefing), listing institutions visited, mission programme, key findings, lessons learned, experiences and best practices exchanged, and perspectives for future cooperation opportunities.

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5. SERVICES REQUIRED

5.1.1. Non-Key Expert: European Senior Expert on the EU Fiscal Governance

Her/his assignment and tasks will be carried out in close cooperation and under the supervision of the EU Delegation to Brazil.

The expert will be responsible for providing an overview of the activities of up to four European IFIs and the fiscal measures adopted in response to the pandemic, also taking in account the challenges arising from the green and digital transitions and geopolitical conflicts (eg. Ukraine). S/he will indicate possible actions to enhance the role of IFIs in a post pandemic era. Furthermore, S/he will analyse the proposals under discussion for the implementation of new fiscal rules and frameworks, consistent with EU socio-economic scenarios.

This report (D1) will support the discussion between the EU and the Brazilian IFI in the International Seminar to be organised in Brasilia (activity **A2**) and will serve as input for the preparation of the mission to Europe (activity **A3**). She/he should be available to participate in the seminar.

A total number of **30 WD** are foreseen for this assignment.

Qualifications and skills

University degree in economics, finance, accounting, public policies/affairs, public administration or another related field. Masters and/or PhD preferred.

Professional experience

- At least 10 years of relevant experience in technical positions in governments, consultancy, international organizations and/or academia within the area of public financial management. Candidates should be familiar with best international practices in fiscal institutions. Research and policy papers on public finance related topics will also be considered.

Specific professional experience

- Proven previous experience in European fiscal governance and sound understanding of fiscal policies, including treasury, budget execution, public sector accounting and fiscal reporting and audit of public finances.
- Excellent analytical and drafting skills.

Language skills

Excellent written and oral communication skills in English. Knowledge of Portuguese would be an asset.

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5.1.2. Non-Key Expert: Brazilian Senior Expert on fiscal policies

Her/his assignment and tasks will be carried out in close cooperation and under the supervision of the EU Delegation to Brazil.

S/he should contribute to the study by conducting an analysis of the proposals under discussion for the implementation of new rules and instruments of fiscal governance in Brazil vis-à-vis socio-economic scenarios, including global challenges such as climate change and geopolitical conflicts that affect the government budget.

This study (D1) will support the discussion between the EU and the IFI in the International Seminar to be organised in Brasilia (activity **A2**) and will serve as input for the preparation of the mission to Europe (activity A3). She/he should be available to participate in the seminar.

A total number of **15 WD** are foreseen for this assignment.

Qualifications and skills

University degree in economics, finance, accounting, public policies/affairs, public administration or another related field. Masters and/or PhD preferred.

Professional experience

- At least 10 years of relevant experience in technical positions in federal or local governments in Brazil, consultancy, international organizations and/or academia within the area of public financial management. Research and policy papers on public finance related topics will also be considered.

Specific professional experience

- Proven previous experience in Brazilian fiscal management and sound understanding of fiscal policies, including treasury, budget execution, public sector accounting and fiscal reporting and audit of public finances.
- Excellent analytical and drafting skills.

Language skills

- Excellent written and oral communication skills in Portuguese. Fluency in English would be an advantage.

5.2. Other services required

To support the execution of the activities and all related tasks described above, the EU-BR Dialogues Support Facility must ensure the provision of services requested according to section 7 of this ToR to achieve the successful implementation of the action. The budget for services will be

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provided according to the estimation underlined within the same section. Any additional service outside this ToR will require prior approval of the EU Delegation.

6. LOGISTICS AND TIMING

6.1. Location (Brazil & the EU)

The normal place of posting for the Non-Key Experts will be their place of residence. The International Seminar is expected to take place in situ in Brasilia with the participation of both Non-Key experts and other nominated experts.

The technical mission will be held in the selected European Union countries targeted for the action, considering the findings of the study.

6.2. Calendar (tentative)

| Activit(ies) | D/2 2 | J/2 3 | F/2 3 | M/2 3 | A/2 3 | M/2 3 |
|--|----------|----------|----------|----------|----------|----------|
| Kick-off of the ACTION | | | | | | |
| A1: Elaboration of the studies by both experts (EU and BR) | | | | | | |
| A2: Organization and promotion of the BR-EU International Seminar | | | | | | |
| A3: Organization of the official mission of Brazilian representatives to Europe | | | | | | |

| Activities | Month/Year | Location |
|--|---------------------|---|
| A1: Preparation of Studies by the experts | Dec 2002 - Feb/2023 | Remoted/based, namely the EU and Brazil |
| A2: International Seminar | March/April 2023 | Brasilia (Brazil) |

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|---|----------|-----------------------|
| A3: Technical mission of Brazilian IFI representatives to Europe | May 2023 | Selected EU countries |
|---|----------|-----------------------|

*A more detailed schedule with sub-activities will be set before the action begins.

7. BUDGET

7.1. Budget of NKE

| # | Name Position Assignment | Unit (day, persons, etc) | NKE Category | Number of WD |
|---|------------------------------------|--------------------------|-------------------------|--------------|
| 1 | EU specialist in Fiscal Governance | 1 | European Senior Expert | 30 |
| 2 | BR specialist in Fiscal Governance | 1 | Brazilian Senior Expert | 15 |

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