



# FROM CRISIS TO STABILITY

---

**HOW TO MAKE THE EUROPEAN STABILITY MECHANISM  
TRANSPARENT AND ACCOUNTABLE**



## ESM welcomes report by Transparency International

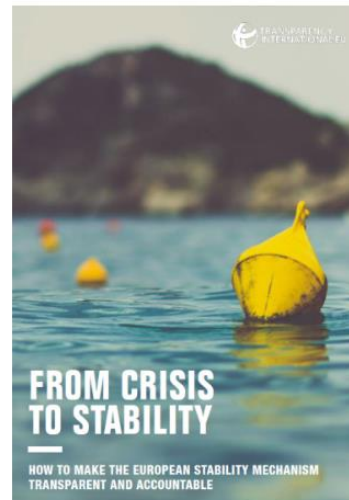
06/03/2017 | [Press releases](#)

ESM

Luxembourg – The European Stability Mechanism welcomes Transparency International’s initiative to assess the transparency and accountability of the institution. The ESM fully engaged with Transparency International’s work on their report over the last months. It is particularly gratifying to see that the ESM is praised for a number of its practices.

“From the very first days of the ESM, I have worked hard to create a culture of transparency and accountability. For a public institution with a central role in the stability of the euro area, this is of the utmost importance. I am pleased to see that Transparency International recognises and supports this work,” said Klaus Regling, Managing Director of the ESM.

“Naturally, as a young institution, there are always areas where we can do better and we continuously aim at getting better when it comes to transparency and accountability. I take note of the report’s recommendations in the field of euro area governance. Many of them cannot be implemented by the ESM as they fall within the competence of the 19 euro area Member States, but the recommendations form a useful contribution to the public debate,” he said.



- ✓ Transparency Intl’ initiative and report welcomed
- ✓ MD Declarations of interest (voluntarily) published
- ✓ Further tweaks to gift register

# BEYOND THE EU TREATIES



## Unlimited possibilities

- ‘Bridging’ the no-bailout clause:
  - Ad hoc GLC
  - Temporary EFSF
  - Permanent ESM
- ‘Eurobonds’ for very low rates
- Very long maturities (until 2060) act like a debt restructuring

### LENDING RATES

How we calculate our cost of funding and lending rates per programme country

ESM	0.9592 %
-----	----------

EFSF	1.3736 %
------	----------

Note: average blended rates, as of 31 Jan. 2017

→ With the necessary political will, everything becomes possible

# EU 'INTEGRITY ACQUIS'



## Embedding the ESM into the EU treaty framework

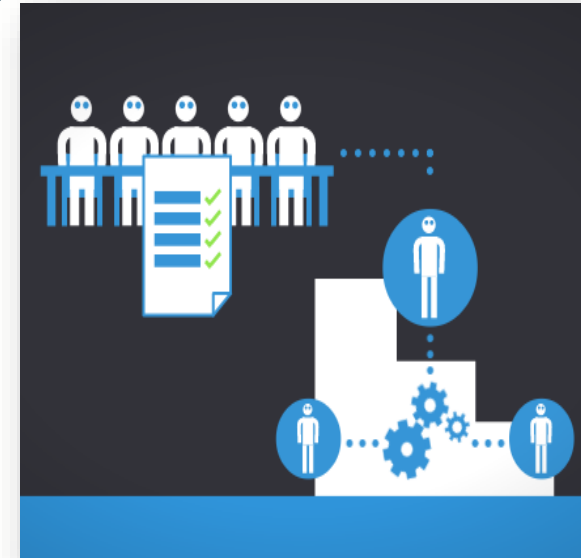
- Will enable the ESM to make (enhanced) use of...

- European Court of Auditors
- EU Data Protection Supervisor
- European Ombudsman
- Court of Justice of the EU, etc.

- Enable accountability to Eurogroup and EP

- EU 'transparency and integrity acquis'

- Access to documents regulation No. 1049/2001
- EU Staff Regulation
- EU Charter of Fundamental Rights, social pillar etc.



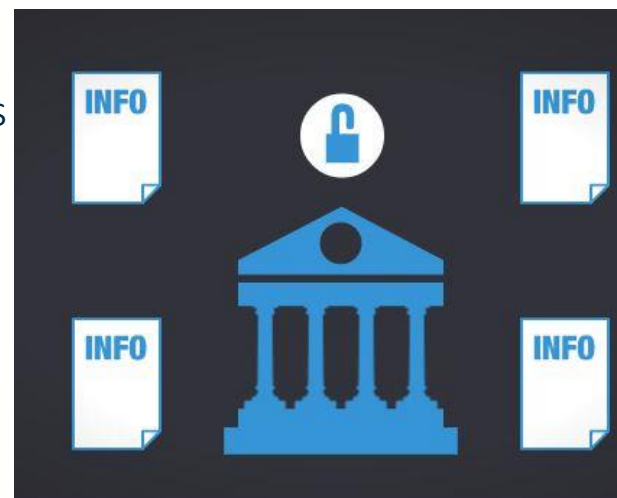
- ✓ The ESM should be brought into the EU treaties asap, and in any event before granting it new tasks (EU Monetary Fund)

# INDEPENDENCE



## A shareholder-controlled body

- Consensus-based approach ensures Member States cannot steer ESM policy on their own
- An emergency procedure is in place to avoid institutional blockage – except by DE, FR, IT
- No Independent Evaluation Office, but an outside evaluator (Ms Gertrude Tumpel-Gugerell)
- Unhelpful institutional overlap between Eurogroup and ESM Board of Governors



✓ Evaluators' independence should be safeguarded institutionally

# TRANSPARENCY



## Opening up to a skeptical public

- No meeting minutes of governance bodies
- No access to documents procedure
  - Indirect disclosure via Council of the EU
  - Economic models and assumptions not public
  - Social impact assessments (COM since 2015)
- 2016 Transparency Initiative initiated by Eurogroup recognises legitimacy as an issue; ESM BoG to publish:
  - Annotated agendas
  - General ‘summing-up’ letters
  - Programme-related documents to be published “more systematically” on ESM website



- ➔ Degree of institutionalisation: No formal description of the initiative
- ✓ Initiative should be formalised and expanded to include at least BoD



# ACCOUNTABILITY



...is very difficult to organise

- Strong but decentralised accountability to national governments
- Uneven accountability to national parliaments
- No accountability to the Commission (agent)
- No accountability to the European Parliament (EP)



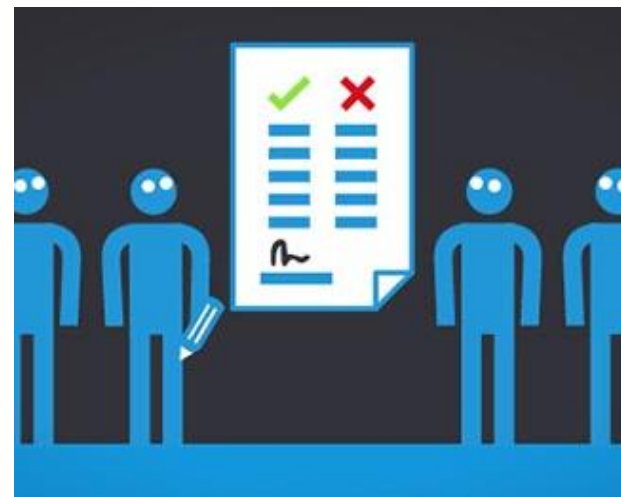
→ Decentralised accountability for decisions taken at European level cannot work – but direct accountability to parliaments required for national budget contributions

✓ Ideas: further develop emergency procedure / pre-approve national budget allocation

# INTEGRITY



- Strong integrity standards, in line with international best practice for financial institutions
- Strong internal governance of integrity issues
- Adequate whistleblower policy, although its visibility for external observers is weak



✓ Declarations of interests remain an issue: BoD, BoG



# ACCOUNTING VS ACCOUNTABILITY



Best practices for financial institutions diligently followed

→ But is the ESM just a pot of money?

- Political responsibility matters
- Unclear division of responsibilities between:
  - Commission (pen-holder)
  - ESM (legally responsible, cf. *Pringle*)
  - Eurogroup / Member States (ultimately in control)

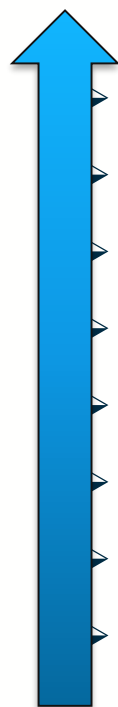


→ Top-notch financial controls, insufficient political control

# WHO IS ANSWERABLE?



A lengthy accountability chain



- ▶ National adjustment programme implementation
- ▶ Troika and ESM surveillance
- ▶ ESM staff, ESM management
- ▶ Board of Directors/Governors/Eurogroup
- ▶ Finance Minister
- ▶ Prime Minister
- ▶ Members of Parliament
- ▶ Citizens

The CJEU made it clear that the duties of the Commission and the ECB, *“important as they are, do not entail any power to make decisions of their own”*.

- ✓ ESM and Eurogroup transparency can help locate responsibility for decisions made

# INTERGOVERNMENTAL ESM



## So who is in control?

- Consensus-based approach
  - De-facto veto for each Member
  - Emergency procedure: 85% of shareholders
    - Germany, France, Italy can block ESM disbursements even if the ECB and Commission jointly deem action to be “essential” for the survival of the euro
  - German Constitutional Court cemented Germany’s veto, Bundestag vote required
- 
- ✓ Untangle institutional overlap, ensure ESM decisions are taken in the ESM
  - ✓ Publish meeting minutes or ensure meaningful accountability at European level



# EXAMPLE: BAILOUT CONDITIONS



## Eternal wrangling on programme reviews

- Internal devaluation is unpopular
  - National difficulties in implementing programmes
- Pro-cyclical austerity unwise, in part based on over-optimistic assumptions
  - IMF: “mea culpa”, critical reflection on multipliers
  - ESM programme: 3.5% primary surplus for 5+ years

→ Low credibility

- ✓ Be transparent on debt sustainability models and assumptions
- ✓ Establish an independent, internal evaluation office





---

## Q & A

---

### ESM transparency and democratic accountability

**Carl Dolan**, Director

[cdolan@transparency.org](mailto:cdolan@transparency.org)

**Leo Hoffmann-Axthelm**, Research & Advocacy Coordinator

[leo.hoffmann-axthelm@transparency.org](mailto:leo.hoffmann-axthelm@transparency.org)

+ 32 2893 2463