We are all in the same boat and we have to row according to the same rules

Interview with Milan Martin Cvikl, leaving ECA Member

By Rosmarie Carotti

R. C.: This interview should be a kind of legacy of your work in the ECA. You have been six years in the ECA and you have witnessed several changes.

Milan Martin Cvikl: There were many interesting changes and developments. To point to the main one, note that the period in which I came to the ECA in 2010 was a very interesting one because the EU institutions were trying to understand what to do following the financial crisis which affected Europe for two years already. A month after I came, there was a dinner at the ECA with the Commission where Commission President Barroso said that he was very pleased that the Member States had created the European Financial Stability Facility in May 2010 to prevent a further deepening of the crisis.

Six years later, we have carried out some very important audits on how the European institutions and the Member States have reacted to the crisis. In April I presented in Parliament and to the press the ECA audit on the excessive deficit procedure, which is one of the audits in the area of financial and economic governance. It indicates what still needs to be improved. As is well described in the earlier ECA report on the financial assistance to countries in difficulty, before 2008 the economic governance mechanisms at the EU level were not effective enough. That is why the EU faced a much deeper economic and financial crisis than would have been otherwise.

R. C.: The April issue of the Journal focused on the financial and economic governance audit work of the ECA, to which you have substantially contributed. From hindsight, are there things the ECA could have done more timely or in a more flexible way?

Milan Martin Cvikl: Of course, and with the luxury of the hindsight, it would have been good if the ECA had started the development of the financial and economic governance audit earlier. But we reacted to the changing environment. I remember the Annual seminar we had in Ljubljana in 2012 where we discussed the start of the ECA reform and what products we could develop that would not only discuss the past but also take into account the actual situation and its possible effects. Two years later, the ECA produced two Landscape Reviews, one on the gaps in the accountability structure and the other on the financial risks to the EU budget, where we reviewed all of our reports.

I think that the ECA has reacted correctly to the crisis by establishing a financial and economic governance team.

R. C.: Nevertheless, let me say that every time there is a crisis, the solution seems to be to create new funds. These funds are outside the EU budget. Is this not a major weakness and detrimental for audit?

Milan Martin Cvikl: The initial funds to deal with the crisis were the Balance of Payment Assistance and the European Financial Stability Mechanism which were linked to the EU budget. But for that reason, they also were limited in amount.

It was logical that later, in May 2010, the Member States created a separate facility which is today linked with the European Stability Mechanism, in which the ECA has a role to play.

We have to respect the existing treaties. The EU 28 Member States can only act on the basis of the financial resources that are available at EU level. But Member States themselves decided to sign the intergovernmental agreements which are the basis for the European Stability Mechanism. This has created additional funds. The role of the ECA and
other Supreme Audit Institutions is important in it. The ECA is a permanent member, and appoints a nominee, to the external Board of Auditors of the ESM. As in all external boards of auditors, this nominee acts in his own name, but I would claim that the knowledge he/she has acquired in the ECA is useful for the external board of auditors.

One has to keep in mind that these are funds of the Member States. It is important that the Supreme Audit Institutions of the Member States and, in addition to them, the ECA, are members of the external board of auditors.

We can, of course, be critical of the fact that there are too many funds but in the absence of a change of the treaty, that is what we have. But let us not forget that there is now a clear willingness of the Member States to conclude the banking union and I hope also to further deepen the economic and monetary union.

There are now different, new initiatives to improve the economic governance of the EU: the advisory European Fiscal Board, a system of national competitiveness boards. On the one hand there are the sovereign Member States and on the other hand the European institutions. That is, in essence, what we found in the excessive deficit procedure audit. We need more transparency and consistency, as well as the full involvement of the European Parliament, the Council, the Member States and, national parliaments. A debate about the further fiscal policy coordination of the Member States is needed.

**R. C.: The situation does not seem that rosy. Take for example the ECB. What are the potential risks of the ECB's new policies and instruments?**

**Milan Martin Cvikl:** We have to be very clear about the role of the ECB as another EU institution which has a mandate linked to the monetary policy. The audit rights of this mandate are not entrusted to the ECA.

But there is a very important role of the ECB which has been fully recognised as the key element for the Banking Union and that is the ECB as the Single Supervisory Mechanism. There we do have audit rights and we are undertaking audits there.

I am certain that as a part of the financial and economic governance audit, the audit we will conclude in the coming months on the Single Supervisory Mechanism will be beneficial to the future and further development of the role of ECB as the Single Supervisory Mechanism.

As far as the ECB’s monetary policy role is concerned, Protocol 4 of the Treaty enshrines the role of ECB. One thing is, of course, preventing potential inflationary development, another thing is the Single Supervisory Mechanism. There is a need for effective and preventive supervision, now that we have seen in the financial crisis that the Member States’ supervisors were not able to prevent the problems with the banking sector in a particular Member State. The structure we have, the Single Supervisory Mechanism, the Single Resolution Mechanism and the Single Resolution Board are all necessary elements of the appropriate financial supervisory architecture which we did not have in 2008.

**R. C.: The Single Supervisory Mechanism is in place but the Single Resolution Mechanism is not yet effective, some governments still oppose it. How can you sell this to citizens?**

**Milan Martin Cvikl:** I am not trying to sell anything. I am trying to inform people that we now have banking union elements, including a Single Resolution Mechanism and a Single Resolution Board, on which we are starting preparatory activities as an auditor. These elements should enable the problems of some systemic banks to be solved, should these banks get into the same trouble as in 2008.

We are now in a situation that the supervisory elements of the banking union, together with the Single Resolution Mechanism and the Single Resolution Board, should be able to contain a problem of a particular financial institution which is too big to fail for one sovereign state. Now we have, at the Euro Area level, something similar to what you can find in other countries of the size of the EU, for example in Canada and the United States.

We have seen in the work of our audit of Banking Supervision (SR 5/2014) that we are achieving the right elements of the classical banking union structure. It would have been impossible to get agreement on all this in 2008. We now have a
system where, given the fact that European banks are universal banks, operating across borders, there is a single supervisor. Nobody can predict the future but I would claim that today we are in a better situation than we were eight years ago.

R. C.: There are a number of challenges both internal and external which take time to resolve and need to be addressed in the creation of such audit capacity.

Milan Martin Cvikl: There are two aspects of the Single Resolution Mechanism audit. First, the annual financial audit of the single resolution board. This is more or less a standard financial audit of an agency. Second, the performance audit of the single resolution fund. The ECA should issue a report every year assessing whether "sufficient regard was had to economy, efficiency and effectiveness" and "whether the fund aid was efficient and rigorous". As can be seen, the ECA has an important role to play in making the Single Resolution Board accountable to the parliament for their actions.

That is why the ECA is developing its capacity to audit the Single Resolution Mechanism through the recruitment of specialists and the creation of a specific training programme.

R. C.: The ECB has become an EU institution but the ECB evolved without any changes in the Treaty. The first mandate of the ECB was limited to stability.

Milan Martin Cvikl: Protocol 4 is part of the Treaty in the same manner as Protocol 1 to the Treaty which talks about the cooperation between the European and the national parliaments, on which we now formally send out our annual reports to the national parliaments. Recently we also started sending out our special reports in a more formalistic way. The situation is evolving and this is the beauty of the European Union.

The EU is a set of institutions that is developing depending on the actual needs and on the actual deepening of the European Union itself. When sovereign Member States were not able to fulfil their debt obligation, the EU assisted them through cooperation at the EU and at the intergovernmental level. When we realized that the Member States supervisory authorities were not capable of looking into particular entities that operated beyond their borders, we developed that further.

R. C.: How can the ECA improve its image as auditor but also as good advisor for future developments and actions? How can the special reports give a better insight into facts, moments and situations?

Milan Martin Cvikl: The ECA recently implemented its new strategy, nominated a Member for external relations and created the post of spokesperson. People now know that there is a dedicated team dealing with the press.

The ECA also has become more responsive and the reports are produced in a shorter time.

As part of the reform we also changed the work programme exercise. The core element is to identify the key risks and, on the basis of that, to anticipate consequences. The ECA wants its report to be there when the need arises to arrest a particular risk.

The work programme exercise that the ECA started has resulted in that for the last two years. The ECA was able to identify top-down priorities and its reports are linked to the key issues.

The ECA looked at air transport, ports, roads, rail infrastructure, inland-waterways and found situations within the budget where it would have been much better to have a global view. But cohesion policy is the prerogative of the Member States and not necessarily linked to overall European goals.

Then there is the whole spectrum of how the policies are implemented. The European Refugee Fund is such an example, or the implementation of services directive. It is not always necessary to have a lot of EU money involved. The kind of policy concerned is more important.

R. C.: This is a major shift.

Milan Martin Cvikl: This shift is very important. Take our state aid audit where one, of course, would have loved to examine through the audit how, in substance, state aid decisions were made. There is a limit to what an auditor can do, so we looked into the process. But maybe now it is time to undertake another audit in this area and make a comparative
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analysis of the substance of some of those state aid decisions. We should look at the consistency of implementing those decisions.

R. C.: Would that not mean to check the consistency of national policies?

Milan Martin Cvikl: No, it is about hindsight and foresight. It is how you analyse the situation, with the benefit of hindsight, so that you can provide some foresight view. In the area of policy reviews I would not talk about audit, I would speak about reviews of the situation. That is something where we could add additional value. Our work programme exercise now allows us to undertake this.

R. C.: To what extent are suggestions of European Parliament taken into account for the work programme?

Milan Martin Cvikl: Much more than in the past. Last year we had had for the first time a set of proposals from the Conference of Committee Chairs, which includes the chairs of all the committees of the European Parliament.

Overall, many things have changed. The ECA has a Member responsible for institutional relations and the ECA presents its reports to different committees. The debate with the EP is a two-way street. But one should know that EP often also asks other providers to make reviews and I think that the ECA should create a small internal think-tank, as a kind of small institute within the ECA.

R. C.: What are the relations with the Council?

Milan Martin Cvikl: I presented the European Banking Authority (EBA) report to the Council. It is important for the Council to get the right information, because the most of the debate takes place in the Council formations where there are experts from the Member States. But one has to understand that each of those representatives has a very clear agenda from his or her own Member State. If you have the right messages however, they would be listening to the ECA. It is therefore important that an ECA Member goes there. They may be technocrats but they are whispering into the ears of the ministers. That development needs to be encouraged.

But, there is another group of institutions where we need to further develop relations: the other Supreme Audit Institutions of the EU Member States. The Contact Committee has been developing but the ECA could go deeper for many reasons. When the Contact Committee meets, this should be the same as when the Governing Council of the ECB meets. That is important especially taking into account the future development of the European parliamentarian system, because European parliamentarians coordinate more and more their work with national parliaments. I think that the national parliaments, and of course the EP with the help of the ECA and national Supreme Audit Institutions, could join in the debate on the responsibilities of the executive arm of the EU and the executive arm of the Member States. This triangle of accountability, multiplied by 28 is what one would like to see down the line. I think that many decisions which are now made by the EU have very important repercussions in Member States and can only be audited by the Member States’ Supreme Audit Institutions. Take as example the correction of data for Eurostat by the national statistical institute, especially when the issue is the collection of data at the source.

R. C.: What can the EU do to improve the transmission of data and make them more reliable?

Milan Martin Cvikl.: Everyone should recognise the importance of having an independent, professional body to provide statistics at the national and EU level, and all stakeholders should actively support the development of better quality statistical data by focusing attention on the importance of accurate, complete and exhaustive statistical data.

Eurostat should, as the ECA has recommended in at least two of its special reports (GNI and excessive deficit procedure) develop its “control” role by, for instance, improving its direct verification of Member State statistics.

R. C.: What other issues remain important for the EU?

Milan Martin Cvikl: The migration and integration of third country nationals remain highly important
policy issues for the EU. The ECA also considers it to be a priority for its audit work and will therefore continue to follow this issue. As can be seen in the annual work programme 2016 there are a number of planned reports in the area of asylum, migration and security, e.g. the EU’s response to the refugee crisis.

There also is room for improvement in all 28 EU Member States on many aspects of competitiveness. I am not surprised that Vice President and Commissioner Dombrovskis has proposed the establishment of a system of national competitiveness boards and a European fiscal Council.

R. C.: Basically you are saying that you wish a greater involvement of the Member States. At the same time this would mean a federalist move.

Milan Martin Cvikl: No, I would not say that. I am not in the game of a “federal Europe” or “United States of Europe”. We are all in the same boat and we have to row according to the same rules. We simply need more coordination to increase all 28 Member States’ competitiveness.

R. C.: What is the role of the banks in it, the EIB, the EFSI?

Milan Martin Cvikl: When we came out of the financial crisis, there was a need to stimulate growth. The banks are still not really lending and President Juncker’s initiative with the EFSI has given an additional prominent role to the EIB because there are many long-term financing needs, especially of medium-size enterprises and of public sector. The small enterprises are to certain extent covered by some of the instruments we already have but the medium-size enterprises or public sector at large in many Member States are not able to get, in today’s situation, long-term loans from the banking sector. EFSI is an additional element to finance projects that would otherwise not be bankable. Many projects would become bankable if they had this “soft element”. We have seen this in the ECA report on Blending Instruments. But I claim that also for EFSI there would be additional audit role for the ECA.

R. C.: We are talking about a long-term vision. Citizens however often have a hard time to follow the European developments. How can the ECA improve communication?

Milan Martin Cvikl: When you have a good audit, then it is easy to transform it into understandable language. The ECA’s special report on Financial Assistance to Countries in Difficulties is a good example. To people in Ireland, in Portugal, Hungary, Lithuania and Romania it is important to see the findings of this report.

Secondly, the timing of the audit is extremely important. In April when the excessive deficit procedure report was debated in the Council, eight ministers have written to the President of the Eurogroup, and there was a debate in the Dutch Parliament. So, it was good timing for our report.

Thirdly, we need to sell our story, our messages. We know that with the reform of the ECA we are also changing the role of the Members and they will become more and more involved in selling of the reports to the public at large, to the national parliaments, the European Parliament and journalists.

To conclude the ECA as an institution has a bright future. And clearly one of the main reasons is that ECA consists of very good staff that is able to adapt to the new challenges. But another part of the ECA is the College of Members that have proven that even with a limited mandate we are much more than “passing birds”.