

## THE USE OF STATE AIDS GRANTED TO PROMOTE INVENTION ACTIVITIES

Item 32.20.41 in the state budget (Promoting invention, quality and standardization activities) appropriates funds to promote invention activities. The 2005 budget earmarks 4,603,000 euros for this purpose. The Ministry of Trade and Industry has used these funds by granting state aid to the Foundation for Finnish Inventions. The Foundation for Finnish Inventions was established in 1971 and state aid has been granted to it since then. State aid has in practice covered all of the foundation's costs. As a rule the Act on Discretionary Government Transfers (866/2001) prohibits state aids covering all costs.

The present audit strove to answer the following questions:

- Is there a good reason for state aid to cover all costs?
- How has the use of state aid been directed and supervised?
- Has the use of state aid to promote invention activities been in accordance with conditions and targets and otherwise proper?

The audit indicated that the activities of the Foundation for Finnish Inventions as well as spending have shifted towards advisory services and the general promotion of invention activities. Financing inventions has declined sharply, along with the financial aid received by private individuals from the foundation. In 2003 private individuals received 363,000 euros in financial aid while businesses received 1,022,000 euros.

The State Audit Office does not see adequate grounds for supplying state aid that covers all costs to the Foundation for Finnish Inventions. This takes into consideration the fact that the foundation does not have other income besides state aid despite the long-time objective of increasing other income, the Foundation for Finnish Inventions's ac-

tivities mainly focus on businesses, the small amount of money that is collected from inventors who have commercialized investments and the weak effectiveness of activities, which is discussed in connection with the third audit question. Serving as a general promoter and adviser in its field, the regional coverage of services, the general usefulness of activities etc have not been adequate grounds for state aids covering all costs in developing rural industries, for instance. The State Audit Office believes that in evaluating the need for aid to promote invention activities in a general way, the Ministry of Trade and Industry should present special grounds why this activity requires the granting of state aid that covers costs in full and have these grounds included in the budget proposal for the Government and Parliament to evaluate. The activities of the Foundation for Finnish Inventions have not corresponded to the grounds mentioned in state budget proposals.

The foundation's performance targets have been qualitative or growth targets. Only one of them has been quantitative. According to the Ministry of Trade and Industry, quantitative targets cannot be set because the effects of the foundation's activities are only visible many years later. The audit indicated that quantitative targets could and should be set. Since the foundation has been supported for over 30 years, the effects should already be visible. In the opinion of the State Audit Office, sufficiently reliable information concerning the effectiveness of activities should be collected if state aid is granted for activities.

The number of consultations, the number of invention proposals and the number of applications, which describe demand for the foundation's services, have risen considerably. The audit noted that these numbers also reflect supply and are the result of the conspicuous marketing of the foundation's services. Large elimination percentages in different stages of projects mean that inventors and the foundation have had to waste lots of time and money on "useless" applications.

The audit indicated that the Foundation for Finnish Inventions does not take sufficient advantage of its agents' expertise, familiarity with local conditions and actors, and

possibility to act as the foundation's "eyes and ears" at the local level.

Changing the foundation's policy from direct support to indirect support has not been reflected in an improvement in effectiveness figures. The number of inventions that have been commercialized fell practically every year up to 2004. Whereas in 1995 the foundation spent 43,000 euros per commercialized invention, in 2004 it required 95,000 euros.

Figures on commercialization do not give a reliable picture of the effectiveness of the foundation's activities, since they include inventions that had already been commercialized before coming to the foundation and needed to be further developed. Furthermore, commercialization does not mean that inventions produced income. Repayments of aids based on commercialization have been insignificant. Only 72 projects or 3% of the projects financed by the foundation have paid back aids in full during the more than 30 years the foundation has existed.

In the opinion of the State Audit Office, there is reason to consider whether a separate state aid system should be maintained for a small group of private inventors. An evaluation should be made to see if services can be produced more broadly, rapidly and effectively by directing state financing through the National Technology Agency, universities and Employment and Economic Development Centres, for example. The foundation's agent activities are already financed and organized to some extent as part of the activities of universities and Employment and Economic Development Centres.