

Abstract

Dno: 391/54/01

The Aid to Business Act -
SMEs' development projects

The subject of this audit is the new Aid to Business Act which came into force at the beginning of 2001, whose effectiveness in practical decision-making has been evaluated through one form of aid covered by the Act, namely development aid.

The audit concerned financing decisions made by the Employment and Economic Development Centres and was limited to development aid decisions made in 2001. The audit also focused on individual development projects which received aid. It included a total of 80 projects under all the Employment and Economic Development Centres. This corresponded to nearly 10% of decisions made in 2001. Visits were also made to companies which received aid.

Key objectives of the legislative reform were to clarify the system of direct aid to business, to improve the effectiveness of aid and to improve monitoring of the use of aid. The audit evaluated how well the objectives set in connection with the legislative reform have been achieved in practice. Another key aspect of the audit was the administrative chain for development aid.

In general the administration of development aid within the framework of the new Act appeared to work well. Combining different forms of aid by making aid for internationalization part of development aid clarified the administration of aid to business. Many details regarding the handling of aid have also been spelled out in the new Act and related guidelines (aid to business manual) to improve the effectiveness of the Act.

The most significant problems in administering aid have to do with evaluating the effectiveness of aid and particularly the reliability of sources of information used for this purpose. Since the Act requires a new type of monitoring with a more active approach, sources of information should be as reliable as possible in follow-up monitoring to evaluate the implementation of the Act and the effectiveness of aid. The Act gives the Employment and Economic Development Centres responsibility for monitoring aid, including follow-ups.

Especially important indicators of effectiveness are new jobs that are created and old jobs that can be considered saved in companies receiving aid. These indicators lacked accuracy and also varied considerably from one Employment and Economic Development Centre to another. The job effects of individual projects were not always evaluated carefully enough by the Employment and Economic Development Centres.

In some projects the information supplied to the monitoring system proved over-optimistic and appeared to be based solely on the aid recipient's own estimates. The guidelines supplied

by the Ministry of Trade and Industry are adequate in this respect, however. Inaccuracy in reporting is due to the fact that sufficiently reliable information is not available concerning the effects of aid on job creation. The Employment and Economic Development Centres should also conduct their own evaluation of each project and try to obtain results which are as realistic as possible, according to guidelines.

The methods used in evaluation also need to be made more precise. In larger companies the employment effects of projects should be evaluated by department or personnel group or according to other criteria. This would also make it possible to monitor effects at the company level in greater detail in follow-ups.

Development projects receiving aid can as a rule be considered to have met the conditions prescribed in the Act. The purpose of the Act and the conditions for receiving aid have been phrased quite loosely, however. All the projects for which aid was requested were in principle eligible for financing under the Aid to Business Act. When aid was denied, the reason was often the lack of funds rather than ineligibility under the Act. Although the Act calls for a line to be drawn between a company's normal operations and a development project, in some cases this was difficult to observe.

The Employment and Economic Development Centres have adopted the practice of granting aid mainly according to the maximum that is permitted. They could make broader use of the discretion they have been given, however. In this case the funds appropriated for development aid would be available for more projects. The number of applications in different areas indicates demand for this. The same observation also applies to other forms of aid to business.

The time required to process aid decisions cannot be considered a major problem, although in some projects the time taken by the Employment and Economic Development Centre has exceeded the limit stipulated in guidelines. In a few cases aid applicants took a long time getting a project in shape so as to meet the conditions for receiving aid. A positive aspect of this was that projects were developed during this process. The general objective should be for the Employment and Economic Development Centres to process applications as quickly as possible, however.

Other guidelines concerning the granting of aid under the Act on Aid to Business and the related Decree were largely in order and fine tuning is constantly performed by the ministry.

The monitoring and control of aid to business could be developed so that demanding and time-consuming monitoring would focus on projects which are larger than average in terms of total costs and the amount of aid, while the monitoring of small projects could take place mainly in connection with payments. The ministry plans to move in this direction and the matter is presently being studied by a working group.

To improve comparability, annual summaries describing employment effects for each Employment and Economic Development Centre and for each form of aid could also be prepared.

The audit indicated that development aid is an important form of aid to business. In directing development aid it is important to focus limited resources on projects that will yield the greatest benefit. The evaluation of effectiveness provides new tools for this work.

HUOM: KANNATTAA TARKASTAA:

Dno: 391/54/91 ????