

Conclusions and recommendations of the National Audit Office

Direct business subsidies granted in response to the Covid-19 epidemic – Allocation and management of the subsidies in the early stages of the epidemic

The audit was targeted at the direct business subsidies granted in the early stages of the Covid-19 epidemic and the funding allocated to these in the state budget for 2020. On 19 March 2020, the European Commission issued a communication to provide flexibility to the EU state aid rules due to the exceptional economic difficulties caused by the Covid-19 situation. In the early stages of the pandemic, several support schemes were developed rapidly to mitigate the difficulties faced by companies on account of the exceptional situation. Merely the support channelled as business development aid granted by Business Finland and the Centres for Economic Development, Transport and the Environment (ELY Centres) amounted to more than EUR 1.3 billion.

The audit examined whether the direct business subsidies related to the Covid-19 crisis have been managed appropriately, particularly from the perspective of their allocation to mitigate the economic impacts of the pandemic. The scope of the audit was limited to all direct subsidies. However, the audit focused in greater detail on the business development aid granted by Business Finland and the ELY Centres as well as the first round of business cost support granted by the State Treasury.

Overall, the business subsidies related to the Covid-19 crisis were comprehensive, and the deficiencies in business development aid were addressed by business cost support

In the early stages of the Covid-19 pandemic, several support schemes were developed rapidly to mitigate the difficulties faced by companies on account of the exceptional situation. Merely the support channelled as business development aid granted by Business Finland and the ELY Centres amounted to more than EUR 1.3 billion. However, the business development funding did not function well as crisis funding in the economic conditions caused by the Covid-19 pandemic. The funding was targeted at future expenditure arising from a specific project instead of the acute liquidity crisis. The funding granted by Business Finland and the ELY Centres could explicitly not be used for companies' working capital needs or operating expenses. The maximum amount of business development aid (EUR 100,000) was determined by the powers of Business Finland Oy.

Business cost support responded to the deficiencies of the business development aid. It was targeted at companies the turnover of which had fallen significantly due to the Covid-19 pandemic and which had had difficulties in adjusting their business and expenditure in the changed situation. Several of the criteria for granting business cost support were as objective as possible.

On 13 May 2020, the Government decided that companies would be granted business cost support that is independent of the sector in which they operate. It was also decided that funding for business development in disruptive circumstances would no longer be open for application once the government proposal on business cost support was submitted. Funding for business development in disruptive circumstances refers to the business development aid granted by Business Finland and the ELY Centres as a response to the Covid-19 crisis. Sole entrepreneurs' subsidy and the fixed-term business cost support, in turn, were partly in force at the same time. From the administrative point of view, the division of labour between different authorities entered into force in a very short period of time. The simultaneity of the different forms of support led to some extent to overlapping subsidies and problems in interpreting how the other subsidies should be taken into account in making support decisions. Municipalities have not strived to fully eliminate the overlap between the sole entrepreneurs' subsidy and the aid granted by Business Finland and the ELY Centres.

There are shadow areas in the overall monitoring of the Covid-19 subsidies. The monitoring carried out by the Ministry of Economic Affairs and Employment focuses mainly on the Covid-19 subsidies granted in the Ministry's own administrative sector, and no overall monitoring of the Covid-19 subsidies has been successfully organized. One of the obstacles to organizing overall monitoring has been the unavailability of the necessary research data to researchers.

All forms of support were not managed appropriately from the perspective of their allocation to mitigate the economic impacts of the Covid-19 pandemic

The drop in turnover caused by the Covid-19 crisis in spring 2020 remained short lived in many sectors, and the economy started to recover rapidly. However, the development of turnover was not reflected in the business development aid granted during the pandemic. Business Finland and the ELY Centres granted a large amount of business development aid even to companies that had not suffered financially from the Covid-19 crisis. As regards the funding for business development in disruptive circumstances, the rejection rate of Business Finland's old customers was clearly lower than average.

Business cost support was targeted more specifically than the other subsidies at companies that had suffered financially from the pandemic. It was targeted at companies the turnover of which had fallen significantly due to the Covid-19 pandemic and which had had difficulties in adjusting their business and expenditure in the changed situation. Business cost support was allocated better than business development aid to mitigating the economic impacts of the

pandemic, and those who applied for it were treated more equally than those who had applied for business development aid.

When the decisions on granting business development aid were prepared, the necessity of the aid was not assessed appropriately. The proportionality of the aid could also be problematic: the amount of the aid could be very low or very high in relation to the size of the company and its business activities.

In the granting of Covid-19 subsidies, speed was emphasized at the expense of judgement. Development aid was granted in a hurry and partly based on very limited information.

In the management of business development aid, the applicants were not treated equally, but the aid guidelines were interpreted on a case-by-case basis, either strictly or loosely. In the aid decisions of Business Finland and the ELY Centres, the amount of aid was inconsistently affected by the volume of business. Moreover, the support criteria were open to interpretation, leading to inconsistent decisions. Furthermore, contacts were not kept in the same manner with all applicants.

Rapid support decisions were not counterbalanced with effective monitoring and audits. Compliance with the support criteria was monitored only at a general level, and the ambiguity of the support criteria undermined credible monitoring of appropriate use of the support.

Recommendations of the National Audit Office

1. The National Audit Office recommends that the experiences gained from the business cost support and the allocation of the different support schemes be considered in potential future crises. In the event of future disruptions, it is important to be prepared to respond to the situation primarily with an applicable support mechanism. The readiness to quickly launch a mechanism similar to the business cost support should be preserved.
2. The National Audit Office recommends that the state aid authorities pay attention to the clarity of the guidelines. The partly unclear guidelines related to the verification of a disruption caused by Covid-19 were reflected in the grant decisions and thereby in the equal treatment of applicants.
3. The National Audit Office recommends that the State Treasury tighten up the verification of the information presented by the applicants. A recommended method is the compliance report prepared by the Grey Economy Information Unit of the Finnish Tax Administration.
4. The National Audit Office recommends that adequate resources be allocated to ex-post auditing in potential future crisis situations. In its own activities, the state aid authority should observe that the importance of ex-post auditing is emphasized if the ex-ante controls on the granting of subsidies in crisis situations are weak. It took a long time to launch the audits of the funding for business development in disruptive situations granted by Business Finland.
5. The National Audit Office recommends that, as a state aid authority, Business Finland ensure effective identification of risks of fraud in its procedures as well as adequate monitoring of the identified risks.