

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

Legality audit

Published: 28.10.2021



FULL REPORT (FI)



SUMMARY (EN)



What we assessed and why

The audit focused on the direct business subsidies granted in response to the COVID-19 pandemic and the corresponding allocations in the 2020 state budget. The key channels for granting business subsidies during the pandemic were *Business Finland* and the *Centres for Economic Development, Transport and the Environment (ELY Centres)*. As the scope of the audit was restricted to business subsidies, other support instruments were excluded. The audit focused on the development funding granted by *Business Finland* and the *ELY Centres*, and the first round of business cost support provided by the State Treasury. For more information on the support granted, please visit the following websites: [ELY Centres](#) and [Business Finland](#).

In the early stages of the pandemic, several support schemes were rapidly developed to mitigate the difficulties faced by companies. The first type of aid was funding for business development in disruptive circumstances. *Business Finland* opened the application process on 19 March 2020, and took the first decisions one day later. Applications for *ELY Centre* aid were opened on 31 March 2020, and the first decisions to grant support were taken on 7 April 2020. In spring 2020, problems concerning the granting of development aid were discussed publicly.

In its statement on 24 April 2020, the Finnish Parliament called on the Government to amend the statute and the guidelines to allow for a fair allocation of business subsidies in response to the COVID-19 crisis. These subsidies were meant to compensate for the adverse economic impact of the pandemic, provide opportunities for business development and survival, and promote employment.

On 13 May 2020, the Government decided that companies, regardless of the sector in which they operated, would be granted business cost support, but also that funding for business development in disruptive circumstances, granted by *Business Finland* and the *ELY Centres*, would no longer be open for applications once the Government proposal on business cost support was submitted.

On 27 April 2020, we initiated an audit of COVID-19 support schemes, notably to assess the legality and regularity of transactions amounting to approximately €1.46 billion (out of a total of around €4.2 billion in state aid for business in 2020). We aimed to give an opinion based on reasonable assurance as to whether:

- the business subsidies granted in response to the COVID-19 crisis were managed appropriately;
- the various forms of support were managed in such a way as to mitigate the economic impact of the pandemic.



What we found

Business Finland and the *ELY Centres* granted more than €1.3 billion of business development aid. However, this was fairly unsuccessful because the funding targeted future expenditure arising from a specific project, rather than the acute liquidity crisis. Moreover, a large amount was granted to companies that had not suffered financially from the COVID-19 crisis. No proper assessment was made of the actual need for support when the funding decisions were taken.

Business cost support, however, compensated for the drawbacks of business development aid. It was targeted at companies that had suffered financially from the pandemic, whose turnover had fallen substantially 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 more helpful than business development aid in mitigating the economic impacts of the pandemic. Moreover, those who applied for it were treated more fairly than those who had applied for business development aid.

What we concluded

We found that business subsidies were granted under extreme time pressure and partly on the basis of very little information, while expediency took priority over sound judgement. In addition, the relationship between the size of the subsidy and the size of the company was sometimes disproportionate.

We recommended that lessons be drawn from the experience gained from the business cost support scheme and the allocation of the different aid schemes for future crises. At the same time, state aid authorities need to draft better and clearer guidelines, given that confusing guidelines on verifying the disruption caused by COVID-19 had a negative effect on subsidy decisions and the impartial treatment of applicants. In addition, the State Treasury has to be stricter when verifying the information supplied by applicants.

When granting subsidies, state aid authorities should ensure that ex-post auditing is made a priority if ex-ante checks in crisis situations are weak.

We also recommend that *Business Finland*, as a state aid authority, should ensure effective risk identification related to fraud and abuse, and establish adequate monitoring of the risks identified in its procedures.