



Summary:

State aid to innovation and enterprise

Summary and recommendations

Every year the State pays out about SEK 27 billion in state aid to the business sector. The aid is often conditional, so that companies receiving support also contribute their own funds. Several evaluations have been made without being able to give a clear-cut picture of the effects the aid has on individual companies or Sweden's economic growth.

Innovations and growing small companies are often regarded as keys to Sweden's future growth. One explanation for this is the knock-on effects that mean investment in innovations and research and development (R&D) often also benefit others than the organisation in question. As public benefit in these cases is greater than the return there is reason for state initiatives in this area.

A minor part of total state aid to the business sector is directed at R&D and innovations as well as at small and medium-sized enterprises. The State invests about SEK 5 billion annually in R&D directed at the business sector, of which just under one billion to small and medium-sized enterprises. Most of the state-funded business support focusing on innovation support to small and medium-sized companies is granted by the Swedish Agency for Innovation Systems (Vinnova), the Swedish Energy Agency and the Swedish Agency for Economic and Regional Growth.

In this audit the Swedish NAO has examined the effects of the state aid and how the State, through the three agencies, deals with the processes for paying out, monitoring and gaining an overview of state funding to the business sector. The overall purpose of the audit is to find out whether the State promotes innovations and enterprise in an appropriate way by paying state aid to companies.

Parts of the operations at the Ministry of Enterprise and Innovation, Ministry of the Environment and Energy, Vinnova, Swedish Agency for Economic and Regional Growth and the Swedish Energy Agency were included in the audit. Eight innovation promoting programmes targeting small and medium-sized enterprises in these agencies are included in the audit. The Swedish NAO has also audited the conditions for how *de minimis support*

can be monitored at national level with the help of the Swedish Agency for Growth Policy.

The audit is based on four audit questions:

1. Do the agencies have clear and monitorable objectives for their programmes?
2. How do the agencies' processes work as regards allocation of aid?
3. Does the state aid give any measurable effects?
4. Does the Government have an overview of the aid?

Audit findings

Do the agencies have clear and monitorable objectives for their programmes?

The objectives for the eight programmes audited are of varying quality. Different evaluations point to deficiencies regarding formulation of objectives, and the Swedish NAO identifies four types of problem:

- **Overall objectives that are difficult to measure or monitor**
The agencies' programmes often have objectives that are to create growth in the economy and to increase knowledge and human capital. The link between the programmes' objectives and how they are to be achieved and measured is, however, unclear.
- **Too many objectives at different levels**
In some programmes – mainly in the Swedish Energy Agency – there are formulations of objectives at different levels that resemble anything from indicators to visions. The objectives are often less concrete and not monitorable.
- **Objectives that emerge in the course of the programmes without a clear connection to the reasons for the state aid**
Companies that are granted state aid receive a stamp of quality that makes other, private financiers interested in supporting the project at a later stage. Vinnova has formulated this as one objective for its state aid.
- **Objectives for the growth of the recipient**
In the Swedish Agency for Economic and Regional Growth there are programmes with the objective of increasing growth for the aid recipient. Such objectives are rather the result of the aid. The objective should be to generate growth in an industry or in some other defined area, rather than to benefit one company over others.

The Swedish NAO's opinion

Most of the objectives of the programmes audited can be interpreted in different ways and are thus difficult to monitor. There are advantages, not least ahead of evaluations, in having clearer objectives that are linked to the overall reasons for the programmes. The objectives are not formulated appropriately and make it difficult to monitor the aid and its effects. Unclear objectives also mean that the effect evaluations made are called into question, since different actors interpret the objectives in different ways. Therefore it is important that the objectives formulated are monitorable and reflect what the agency is to achieve with the respective state aid measures, i.e. compensate for knock-on effects or bridge insufficient capital markets.

How do the agencies' processes work as regards allocation of aid?

The three agencies audited have different processes for assessing which projects should receive state aid. There are a number of uncertainties in these processes that the agencies must relate to. The audit shows that the following elements are important:

- **Selection of ideas**
Selecting ideas that are innovative, but not far enough along the development process that they could be financed by private actors.
- **Systematic information seeking**
Systematically seeking information about the companies. Knowledge of the companies applying for aid and their innovations varies both among external assessors and internal decision-makers. Both earlier positive and negative experiences of the aid applicants can influence decision-making.
- **Group dynamics**
Ensuring that the group dynamics between assessors function and that their knowledge is utilised. External assessors play an important role in the decision-making process at Vinnova and the Swedish Energy Agency. There is a risk that an assessor's arguments may carry more weight than other arguments and then the idea that a *group* makes the assessment is lost.
- **Neutral approach**
Maintaining a neutral attitude to a number of external factors in assessing applications. Consultants and companies with expertise in applying for aid are a factor that affects the quality of application documents and that the agencies must take into account.
- **Correct picture of aid applicants**
Gaining as correct a picture as possible of company operators' capacity to implement the projects. By interviewing company operators, agencies can gain a

better idea of companies' potential for implementing projects they are seeking aid for, compared with not conducting interviews.

The Swedish NAO's opinion

Vinnova's process in the *Innovationsprojekt företag (Business Innovation Project)* programme touches on many of the above-mentioned points and there is an awareness of them. There is a certain reservation, however, concerning systematic information seeking (point 2) and control over group dynamics and power structures in the assessment group (point 3). The Swedish NAO has not been able to audit other agencies' processes in as much detail and therefore it is not possible to express an opinion on how well these agencies' processes function. The Swedish Agency for Economic and Regional Growth's process deviates, in that it is delegated to the regional partnerships. And the Swedish Energy Agency does not conduct regular interviews with the aid applicants. In the opinion of the Swedish NAO there is a risk that agencies will miss factors that should form the basis of decisions in cases where they refrain from interviewing the business operators. The audit also shows that it is unclear what the agencies' attitude is to the ambition not to grant aid to projects they assume can be implemented without state aid.

Does the state aid give any measurable effects?

The aid that has been audited has been monitored, evaluated and evaluated in terms of effect by agencies and researchers. The effectiveness evaluations carried out concerned Vinnova's programmes *Vinn Nu (Win Now)* and *Forska & Vax (Research and Grow)*, and they show similar results, though with slightly varying interpretations between them. The evaluations have been criticised for not measuring the right objectives and for measuring effects too soon after the aid was paid out. Nor is there any consensus on how much time should pass before it is possible to measure effects of a programme and where the effects should arise.

The Swedish National Audit Office's opinion

The effect evaluations show relatively consistently that there are no or very limited statistically significant effects of the aid. The Swedish NAO notes that the aim of the aid is to create growth and that this growth has still not been possible to verify in effect evaluations carried out. This does not mean that the aid does not have other positive effects on society. However, it should be in the interest of the Government and agencies to show that aid has an effect. Otherwise the risk is that it will continue to be paid out without anyone knowing what effects, if any, it has.

Does the Government have an overview of the aid?

The Government does not have an overview

Several ministries are responsible for various parts of the state aid system, which requires that there is an overview to enable the work to be effective and coordinated. The Ministry of Enterprise and Innovation has the overall responsibility for the aid audited. However, the Ministry refers to the respective agencies as regards detailed knowledge of each type of aid.

As regards an overall overview of the aid the Ministry of Enterprise and Innovation states that the Swedish Agency for Growth Policy has an overview of the aid and its effects, through the Agency's remit as analysis agency, as well as having access to data in this area. However, the Swedish Agency for Growth Policy does not have easily accessible data that enables summary and overview. The Swedish Agency for Growth Policy would also like to see a developed dialogue with the Ministry to be able to fulfil its remit more appropriately. The lack of overview creates uncertainty about the system as a whole and makes it more difficult to assess whether the aid has the intended effects.

There is no useful data to enable monitoring

The data that the Swedish Agency for Growth Policy collects is not always of the scope and quality required to enable monitoring and analysis of the results of the programmes. The Swedish Agency for Growth Policy's monitoring of *de minimis support* shows for example that reported data is insufficient for monitoring whether Sweden complies with the EU regulatory framework concerning *de minimis*. The Swedish Agency for Growth Policy's compilation of data did not contribute to more detailed monitoring of state aid than each individual agency should have been able to do themselves.

The Swedish National Audit Office's opinion

The Government does not have a sufficiently coherent and clear picture of the aid and its effects. The Ministry of Enterprise and Innovation refers to the Swedish Agency for Growth Policy and the respective agency as regards knowledge of the aid. However, there is no coherent and overall picture of the functioning of the aid system. Data to be used for monitoring and evaluating the aid is insufficient in both scope and quality. The Government Offices are reviewing the organisation and working methods of the Swedish Agency for Growth Policy to give the agency a clearer role. The result of the work is significant for how the Swedish Agency for Growth Policy's organisation will be designed.

The Swedish National Audit Office's overall opinion

The Swedish NAO's opinion is that the Government does not have a sufficiently coherent and clear picture either of the aid or of its effects. The aid is continually evaluated by researchers and investigators, but the criticism presented is not always used for learning

and development. Moreover, there is no usable data to enable appropriate monitoring of the aid, while the objectives of the individual programmes are formulated in a way that makes it difficult to monitor them. Without usable data and objectives that can be monitored, it is difficult to evaluate the results of the aid.

Despite a lack of overview of the aid and its effects it may be so that it is beneficial. But to increase confidence in the system and to be able to steer initiatives towards where they do the most good, the system should be developed. However, it should be pointed out that the fragmented system as well as the uncertain effects of the aid do not mean that agencies or programmes cannot be effective. The decision-making process in the Business Innovation Project, which the Swedish NAO has studied in more detail – through participatory observation and follow-up interviews – is to a great extent effective.

In summary, in the opinion of the Swedish NAO the problems that emerged in this audit reflect problems that can be found in other parts of the state aid system. Consequently the Swedish NAO makes the following recommendations to the Government and agencies:

- The Government should create the conditions for a better overview of state aid to the business sector and its effects.
- The Government should design the remit of the Swedish Agency for Growth Policy more appropriately so that the agency can contribute more systematic knowledge of business support.
- The agencies that grant state aid should formulate clear objectives for their programmes. An example: If the objective for a particular state aid measure is increased societal growth it is of great importance that the objective is clearly defined, delimited and monitorable.
- The agencies that grant state aid should plan evaluations of programmes already when they plan the programmes. This means that objectives, purpose, method, data and choice of variables should be clarified for the evaluator before the programme starts.