



Extract from the report to the  
Public Accounts Committee on  
the effect of the industrial promotion  
effort made in the innovation and  
entrepreneurial area

June  
2008

revision  
revision

revision

## Introduction and Results

1. This report is about the activities pursued by the Ministry of Economic and Business Affairs and the Ministry of Food, Agriculture and Fisheries to obtain knowledge of the effect of the industrial development initiatives launched in the innovation and entrepreneurial area. Rigsrevisionen began the examination on its own initiative in August 2007.

2. According to the Ministry of Economy and Business Affairs' "Redegørelse om erhvervsstøtte 2007" (report on industrial development 2007), the industrial development area includes around 160 industrial support programmes broken down on 9 ministries. The expenditure for industrial development is in the report estimated at DKK 21.5 billion in 2007, of which DKK 9 billion went to direct aid programmes, i.e. programmes included in the finance budget. The balance of DKK 12.5 billion is tax expenditure. The level of funds allocated to the programmes calls for regular evaluations of objective achievement and effect.

3. An evaluation of the programmes requires knowledge of their effect. This knowledge may be applied to adjust future programmes and contribute to ensure that the public effort made within industrial development becomes more effective. And a management system should be established to facilitate regular evaluations of the effect of the programmes.

4. The objective of the examination is to assess whether the Ministry of Economic and Business Affairs and the Ministry of Food, Agriculture and Fisheries have targeted their efforts to obtain knowledge of the effect of the industrial development programmes in the innovation and entrepreneurial area.

The objective of the examination is divided into two sub-objectives:

- Have the ministries conducted examinations of effect in relation to their industrial promotion programmes in the innovation and entrepreneurial area.
- Have the ministries established a management system, facilitating evaluation of whether the industrial development programmes "Vækstkaution" and "Innovationsloven" have the desired effect?

Rigsrevisionen has in cooperation with Statistics Denmark conducted an effect examination of "Vækstkaution" to supplement the effect examination of the same programme conducted by the Ministry of Economic and Business Affairs, and to qualify Rigsrevisionen's recommendations to the ministries regarding effect examinations.

Rigsrevisionen has also worked out recommendations on how the Ministry of Economic and Business Affairs and the Ministry of Food, Agriculture and Fisheries may strengthen their efforts within effect examinations.

## RESULTS OF THE EXAMINATION

In recent years, the focus on obtaining more knowledge on the results and effect of the public effort has increased. Rigsrevisionen has therefore examined how the Ministry of Economy and Business Affairs and the Ministry of Food, Agriculture and Fisheries have strived to obtain knowledge of the effect of the ministries' industrial development programmes in the innovation and entrepreneurial area.

The Ministry of Economy and Business Affairs and the Ministry of Food, Agriculture and Fisheries have taken a number of appropriate initiatives to evaluate the effect of their industrial development programmes, but in future, the ministries should be more targeted in their efforts to obtain knowledge of the effect of the ministries' industrial development programmes in the innovation and entrepreneurial area.

Based on the results of the examination, Rigsrevisionen has worked out recommendations on how the Ministry of Economy and Business Affairs and the Ministry of Food, Agriculture and Fisheries may strengthen their efforts within effect examinations, including systematic selection of programmes for examination, setting up clear effect targets and obtaining data in support of the evaluation of the achievement of said targets on a regular basis.

This overall assessment is based on:

**The Ministry of Economy and Business Affairs and the Ministry of Food, Agriculture and Fisheries have worked with effect examinations of their industrial development programmes within the area of innovation and entrepreneurship. However, the ministries may systematize their work in the effect examination area even further and for instance define clear criteria of selection of programmes for effect examination, and improve the quality of the data providing the basis of these examinations.**

### *The Ministry of Economy and Business Affairs*

- The Ministry of Economy and Business Affairs has developed guidelines which in the future will contribute to ensure a common framework for the implementation of effect examinations. However, the guidelines should be expanded to include also methodology recommendations and how the choice of methodology affects the application of the conclusions of the effect examinations. It should also be ensured that the introduction of new programmes or adjustment of current programmes includes an evaluation of whether and how the programmes can be subjected to effect examination.
- The Ministry of Economy and Business Affairs has conducted a number of effect examinations in the area of innovation and entrepreneurship based on various methodologies. Rigsrevisionen approves of the ministry's use of various methodologies, but points to the fact that the usefulness of examination results is determined by the methodology chosen.

- The Ministry of Economy and Business Affairs should establish criteria of selection of industrial development programmes for effect examinations. The criteria should state clearly the basis for the selection of the relevant industrial development programme; indicate when it will be possible to examine the effect of the programme, the financial level of the programme, etc.
- The examination of the effect of the industrial development programme “Vækstkaution” shows a positive development in employment and turnover rate among the recipient companies compared to the reference groups. However, the data providing the basis for the examinations do not facilitate exclusion of other significant factors which may affect the employment and turnover rates of the recipient companies and reference groups, i.e. ownership, line of business or competences of management. The positive development is therefore not necessarily related to the Vækstkaution commitment.

#### *The Ministry of Food, Agriculture and Fisheries*

- The Ministry of Food, Agriculture and Fisheries is currently developing guidelines on effect examinations in the innovation and entrepreneur area. However, the guidelines should be expanded to include also methodology recommendations and how the choice of methodology affects the application of the conclusions of the effect examinations. It should also be ensured that the introduction of new programmes or adjustment of current programmes includes an evaluation of whether and how the programmes can be subjected to effect examination.
- The Ministry of Food, Agriculture and Fisheries has performed a number of effect examinations in the area of innovation and entrepreneurship based on various methodologies. Rigsrevisionen approves of the ministry’s use of various methodologies, but points to the fact that the usefulness of examination results is determined by the methodology chosen.
- The Ministry of Food, Agriculture and Fisheries has selected programmes for effect examination on the basis of financial significance. The ministry should include additional criteria in the selection process and consider the consumption of resources related to conducting effect examinations compared to the size and duration, etc. of the subsidy or grant.
- The Innovation Act has been subjected to two effect examinations. One concludes that the Innovation Act has a positive effect on the innovative capabilities of the subsidised companies. But the choice of methodology has reduced the usefulness of the results of the examinations. The other examination concerns single proprietor projects established under the Innovation Act. Single proprietor projects account for 20% of the activities pursued under the Innovation Act. On the basis of the results of the analysis, the examination concludes that it cannot be ascertained that the subsidised companies are in a more positive development than the companies in the reference group.

**The Ministry of Economy and Business Affairs has established a management system for Vækstkaution and set up objectives of the programme. The Ministry of Food, Agriculture and Fisheries has a partial management system for the Innovation Act, but should set up objectives of the programme. Furthermore, both ministries should strengthen the basis of management by setting up effect targets for the programmes. These would contribute to qualify the current valuation of whether the programmes have the desired effect.**

*The Ministry of Economy and Business Affairs*

- Vækstkaution is managed by Vækstfonden (government backed investment fund) on the basis of three objectives within volume of guarantees, financial equilibrium, and deadweight losses. However, the objective set for deadweight losses requires specification, including what is considered a satisfactory level of deadweight losses. Effect targets may also be set for the programme within development in turnover and rate of employment in the subsidised companies.
- Procedures governing how the ministry should follow up on the objectives of the programme with regard to volume of guarantees have been laid down. It is not clear how the ministry follows up on the two other objectives. As the three objectives are equal in importance, Vækstfonden should provide an overall report to the Ministry of Economy and Business Affairs on all three objectives.

*The Ministry of Food, Agriculture and Fisheries*

- The Ministry of Food, Agriculture and Fisheries has established a partial system for the management of the Innovation Act and has set objectives for the programme. However, the ministry has not set any targets for the programme. The Ministry of Food, Agriculture and Fisheries should set targets for the programme, including effect targets.
- The Ministry of Food, Agriculture and Fisheries follow up on the application and distribution of the appropriation for the Innovation Act on a regular basis. However, these follow-up activities do not reflect in full whether the programme meets its objective, because no effect targets have been set for the programme.

**Rigsrevisionen's recommendations to the ministries on effect examinations**

Rigsrevisionen recommends that the Ministry of Economy and Business Affairs and the Ministry of Food, Agriculture and Fisheries:

- Set up criteria to determine which programmes the respective ministry should subject to effect examinations. Possible criteria: Financial level, timing of the examination of the effect of the programmes and resources required to conduct effect examinations compared to the subsidy provided or the size and duration of the grant.
- Set up effect targets, stating which parameters to measure and the criteria for rating the effect satisfactory.
- Obtain data on the effect of the programmes on a current basis to ensure that the ministries have access to the data required before an effect examination is conducted.

- Evaluate the need and possibilities of establishing a reference group when effect examinations are conducted. A reference group will make it possible to compare the development of the target group with the development of a comparable group which is not affected by the activities of the programme, and thereby evaluate whether the programme has the desired effect.
- Evaluate the usefulness of the results of the effect examinations, including which reservations to make.