



PERFORMANCE ASSESSMENT OF PUBLIC SUBSIDIES

Joaquín Izquierdo Peris

jizquierdo@sindicom.es

*"International Seminar:
"Regional public sector audit institutions and
performance assessment – an exchange of experiences"*

5 May 2023

Organizers:

Audit Office of Galicia and EURORAI

*possit ingenio maiestatem.
Sūme dicitur p̄cipit debere
p̄spicere q̄ i regumie domus*

1. Efficiency of public expenditure



An example of performance assessment



The audit focused on 20 EU-funded airports in five Member states (Estonia, Greece, Spain, Italy and Poland). These airports received a total EU funding of **666 million euro** during the 2000–06 and 2007–13 programme periods.

The overall conclusion is that the EU-funded investments in airports produced poor value for money and did not always lead to anticipated results: **too many airports** (which were often in close proximity to each other) were funded and in many cases the EU-funded infrastructures were oversized. **Only half of the audited airports succeeded in increasing their passenger numbers** and improvements in customer service were either not measured or not evidenced.

The Court also observes that the EU funding was not cost-effective and that seven of the 20 airports examined **are not profitable** and, as a result, there is the risk that they may need to be closed unless they receive continuous public financial support...

An example of performance results

Fuerteventura: one oversized infrastructure.

At Fuerteventura airport in Spain, a project involving **21 million euro** of EU funding was undertaken to enlarge the terminal. This project almost **tripled the existing floor area**, added 14 boarding gates, eight more luggage belts and four additional contact gates. The scale of the works was predetermined by a passenger forecast of 7,5 million passengers by 2015, whereas in 2013 the airport had 4,3 million passengers. However, even if the forecasted 7,5 million passengers had been achieved, the terminal would still have been **over-dimensioned** as, according to IATA standards, 10 luggage belts would have been sufficient rather than the 15 built.

Moreover, as there was not enough traffic to allow the new terminal to be used to its full capacity, and as there will not be enough traffic before 2030 taking into account the latest forecast, **the airport authority decided to close part of it** (6 of the 24 gates) in order to reduce overall maintenance costs.



Source: Special Report No 21/2014 - EU-funded airport infrastructures: poor value for money (European Court of Auditors)

What does the law say about outcomes?

Public Finance Act 1/2015, of 6 February, on Instrumental Public Sector and Subsidies (the Valencian Community)

Article 32. Appropriations and expenditure programmes.

3. **Expenditure programmes** shall set out their content as regards the following:
- a) The **objectives** expressed in an objective, clear and measurable manner to be achieved over the period.
 - b) The activities to be carried out to meet the objectives.
 - c) The financial, material and human resources made available to those responsible for programmes, specifying the appropriations allocated.
 - d) Details of the grant lines, investment and financial projects to be carried out.
 - e) Where appropriate, the assigned revenue.
 - f) The **performance indicators** associated to each of the selected objectives allowing the **measurement, monitoring and assessment** of the **outcome** as regards effectiveness, efficiency, economy and quality.

What does the law say about outcomes?

General Law on Subsidies Act 38/2003, of 17 November

Article 8. General principles

1. Public administration bodies or any other entities proposing the setting up of grant schemes must first specify in a **strategic grant scheme** the **objectives and effects** intended by their implementation,

The regulatory bases governing each grant shall refer to the strategic grant scheme of which they form part, indicating how they contribute to the achievement of its goals.....

2 (...)

3. The management of the subsidies referred to in this law shall be carried out according to the following principles:

- a) Publicity, transparency, competition, objectivity, equality and non-discrimination
- b) **Effectiveness** in achieving the objectives set by the granting public authority
- c) Efficiency in the allocation and use of public resources

What does the law say about outcomes?

Royal Decree 887/2006 of 21 July establishing detailed arrangements for implementing the General Law on Subsidies 38/2003 of 17 November.

Article 12. Content of the strategic plan.

a) Strategic objectives, describing the effect and impact that the institutional action is expected to have...

b) Subsidy lines in which the action plan is specified. For each subsidy line the following aspects must be specified:

1.º ...

2.º **Objectives and effects intended** by their implementation.

3.º ...

4.º ...

c) **Monitoring and continuous evaluation** scheme applicable to the different subsidy lines to be set up. To this end, **a set of indicators relating to the objectives** of the plan should be drawn up for each subsidy line, which, collected periodically by those responsible for monitoring, will make it possible to ascertain the state of the situation and the progress made fulfilling their respective objectives.

2. Performance assessment of *Resistir Plus* Aid Scheme





Resistir Plus Aid Scheme

In **March 2021**, the **Government of Spain** approved Royal Decree-Law 5/2021 of 12 March on extraordinary measures of **support to business solvency** in response to **COVID-19 pandemic**.

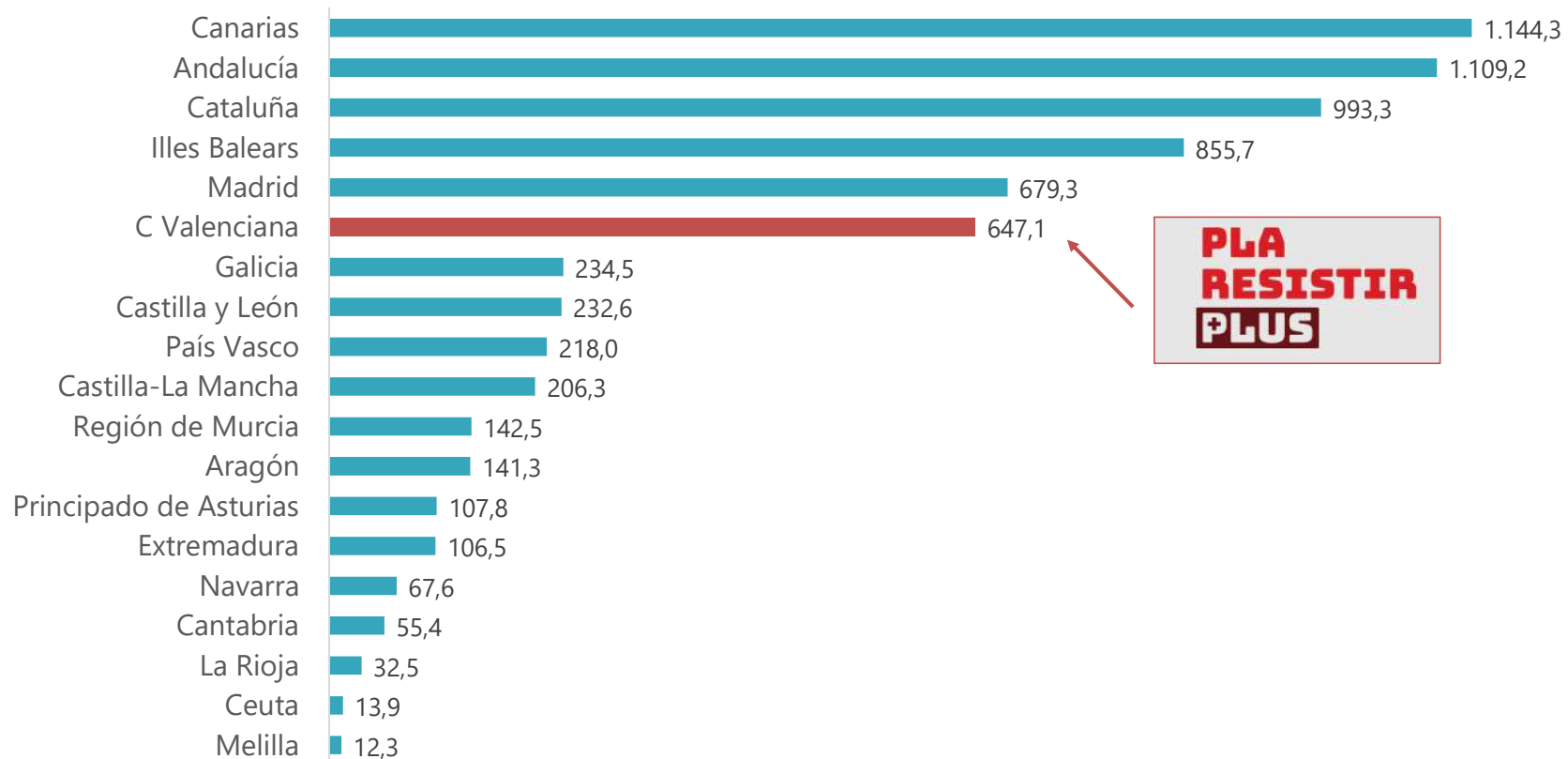
With this Royal Decree, a new Covid line of direct aid was created for self-employed persons and businesses, to **reduce the indebtedness** taken on from March 2020.

From this support line a total allocation of 7 billion euros of direct aid **was channelled to businesses and self-employed persons** whose activity was most negatively affected by the pandemic. This direct aid is of purpose-determined nature and is used **to settle the debt and make payments to suppliers** and other creditors, financial and non-financial, as well as **fixed costs** (for example, relating to energy supply and power switching).

Resistir Plus Aid Scheme

The **autonomous communities** were responsible for making the relevant **calls** for the allocation of direct aid to the recipients located in their areas, and took over the processing and management of applications, as well as their resolution, the payment of the grant, pre-payment and post-payment controls, and all necessary actions to ensure the proper use of these funds.

Amount allocated per autonomous community. Million euros



Resistir Plus Aid Scheme

Programme and line code

- Programme: 615.30 / Line code: S1024000

Objectives and effects

- Direct aid to **support solvency and debt reduction** in the private sector, under the terms established in Royal Decree-Law 5/2021 of 12 March in response to the Covid 19 pandemic... The aid will be of purpose-determined nature, and thereby may not be used for any purpose other than the eligible expenditure determined in this decree.



Target sectors, persons, and entities

- Self-employed persons (entrepreneurs and professionals), companies and non financial institutions with tax residence in the Valencian Autonomous Community or operating in this community.

Funds centre

- Directorate-General for Economic Model, Regional Financing and Financial Policy (Regional Ministry of Finance and Economic Model)

Resistir Plus Aid Scheme

Temporal scope

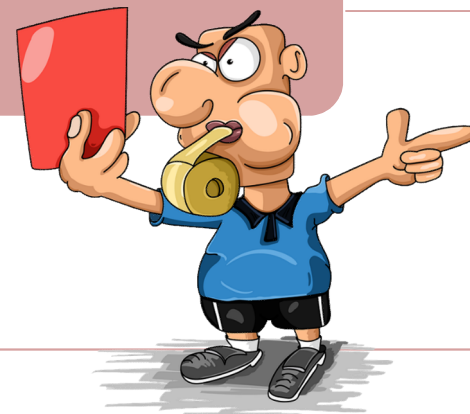
- Financial year 2021

Estimated costs

- 647.1 million euros

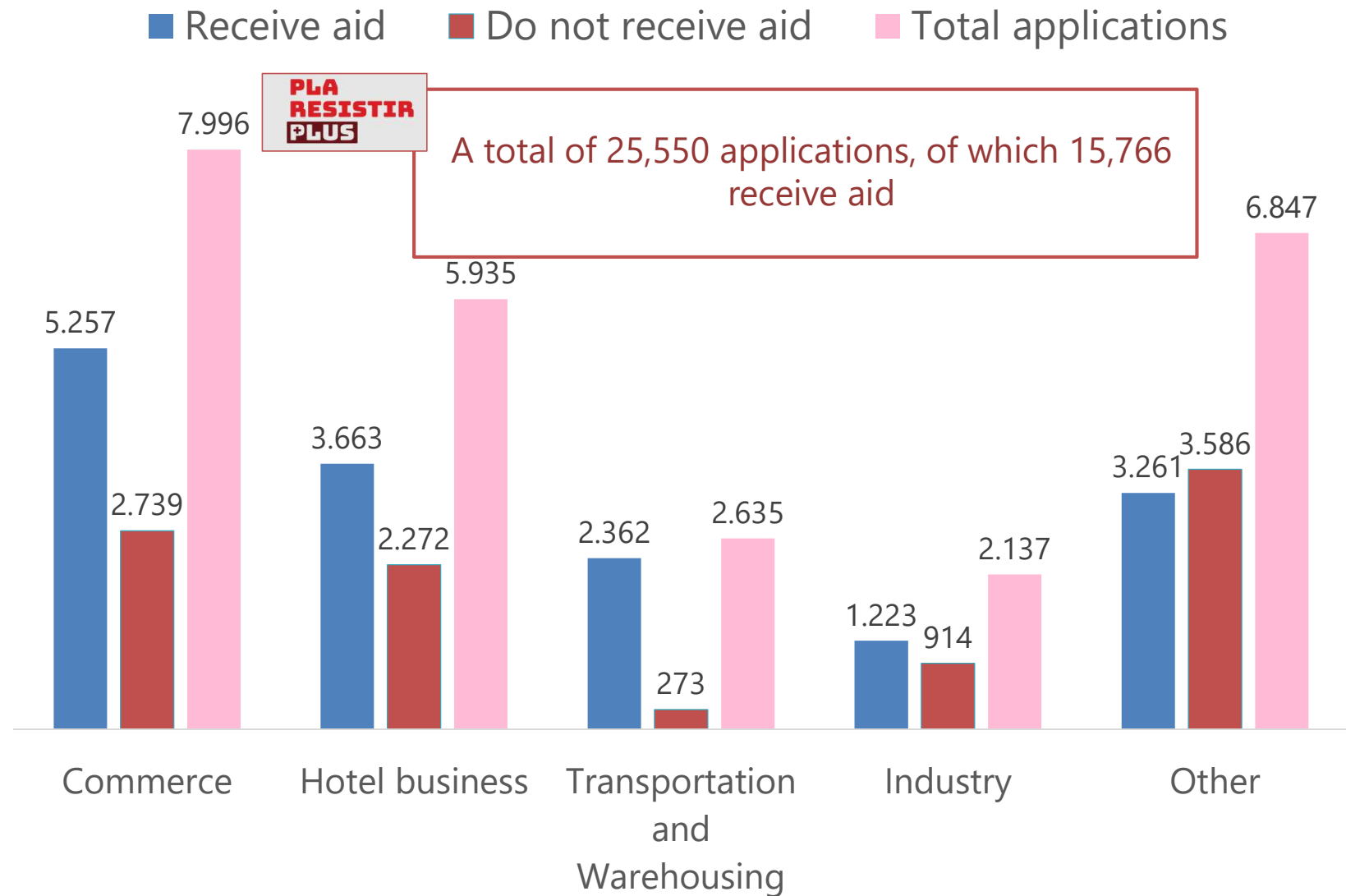
Assessment indicators

- Rate of budgetary implementation
- Number of applicants: (30,000 expected)
- Number of recipients: (27,000 expected)



Resistir Plus Aid Scheme

Number of applications and beneficiaries. By economic activity



Purpose of the performance assessment

It is an **ex-post analysis** that seeks to determine the capacity 'potentially good ideas' have to address social problems.

The aim is to establish whether or not (and to what extent) the cause of the change can be attributed to government intervention: **we do not want to know if a problem is getting better or worse, but whether the programme or the public action has had anything to do with it.**

In the case of grants, the assessment should enable to analyse the **direct incentive effect on the support beneficiary** (in other words, whether the aid has induced the support recipient to adopt a different line of action and the importance of the impact of the aid).

**PLA
RESISTIR
PLUS**

Has *Resistir Plus* Aid Scheme contributed to ameliorate the identified problem?



Weaknesses in the strategic planning of subsidies

Observations contained in the performance audit report of subsidies and aid of the Administration of the Valencian Regional Government. Financial year 2021

Source:

https://www.sindicom.gva.es/public/Attachment/2022/12/Informe_auditoria_cumplimiento_subvenciones_y_ayudas_Administracion_2021_cas_firmado.pdf

1) **Strategic objectives** describe the effect and impact the institutional action is expected to achieve during the period of validity of the plan. However, the objectives and effects sought to be achieved in each of the lines described **require greater specificity** in such a way as to facilitate a subsequent realistic evaluation of the outcomes achieved resulting from the award of the relevant grant.

**PLA
RESISTIR
PLUS**

Direct aid to support **solvency and debt reduction in the private sector**, under the terms established in the Royal Decree-Law 5/2021, ...



Weaknesses in the strategic planning of subsidies

- 2) The indicators systems designed **lack information on the initial situation**, making it difficult to fully assess the appropriateness of the expected outcomes.
- 3) The fact that the evaluation is based primarily on the outcomes obtained through **budgetary indicators** or, where relevant, **administrative activity indicators** (number of applications, number of grants, number of reimbursement files, ...) **without addressing aspects of efficiency**, effectiveness or **impact** of the actions, makes it difficult to obtain information on the extent to which objectives have been achieved in terms of results or in terms of the purpose for which the grants were awarded.

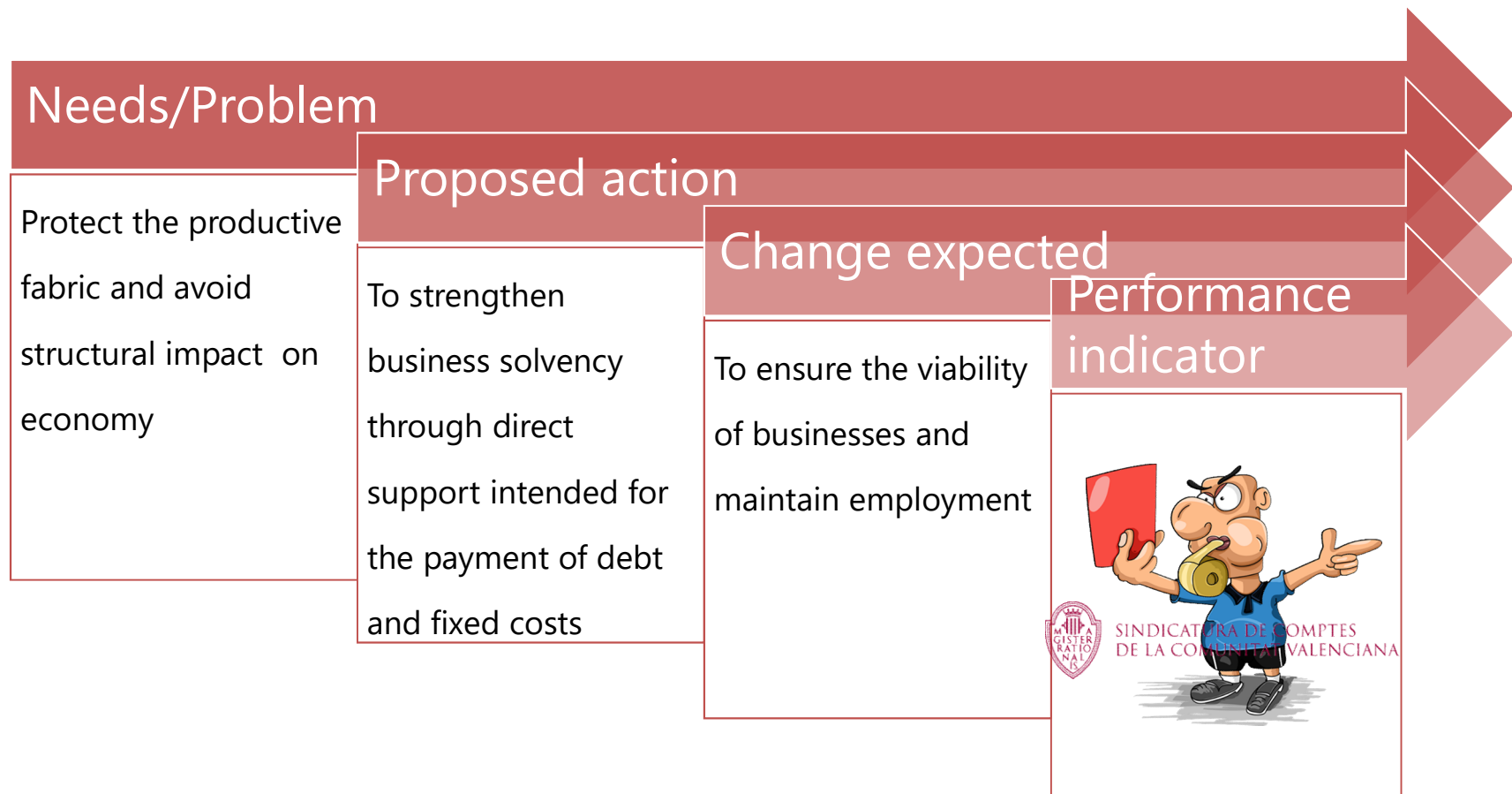
**PLA
RESISTIR
PLUS**

Rate of budgetary implementation
Number of applicants: (30,000 expected)
Number of beneficiaries: (27,000 expected)



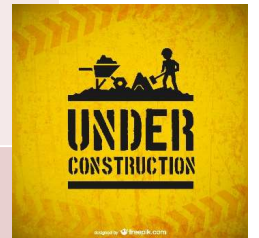
Logical framework for the action

The first stage evaluation of an aid programme is to clearly establish the **underlying logic of intervention**, describing the needs and problems the action plan sets out to address, the beneficiaries and investments, general and specific objectives, the expected impact, and the **most appropriate indicator**.



Assessment matrix

Evaluation question	Sub-questions	Performance indicators	Source of information
Has the aid granted contributed to ensure the viability of businesses and maintain employment?	Has the number of aid beneficiaries increased?	Number of employees	Social Security Fund
	Have beneficiaries improved their solvency position?	Number of applications for an arrangement with creditors	Public Registry for Bankruptcy
	Has the volume of activity of beneficiaries increased?	Amount of turnover	Tax Agency



Performance measurement

To assess the performance of a programme involves being able to **isolate the programme's impact** in relation to other events that affect the problem or situation that the public intervention intends to address (for instance, geopolitical conflicts and their consequences for the economy).

The question the performance assessment should respond to is not what has happened after launching a public intervention (many things may have played a part), but rather **what has happened compared to what would have happened if the intervention had not been carried out**. This is known as **counterfactual effect**.

What complicates the performance assessment is that the situation in the absence of the programme (the contrafactual) is that by definition it **is unobservable** for the group of people that receive the programme: it is not possible to determine for the same subject under analysis the outcomes of "having participated" and "not having participated" in a programme or intervention.

Has the number of beneficiaries increased?



How do we measure the performance of *Resistir Plus* Aid Scheme in terms of level of employment?

The performance is the difference in the variation in outcome (=registered employees) before (=31 December 2021) and after receiving the aid (=31 December 2022) for the beneficiaries and for the comparison group (=non-beneficiaries):

$$\text{PERFORMANCE} = Y_1 - Y_0, \text{ where}$$

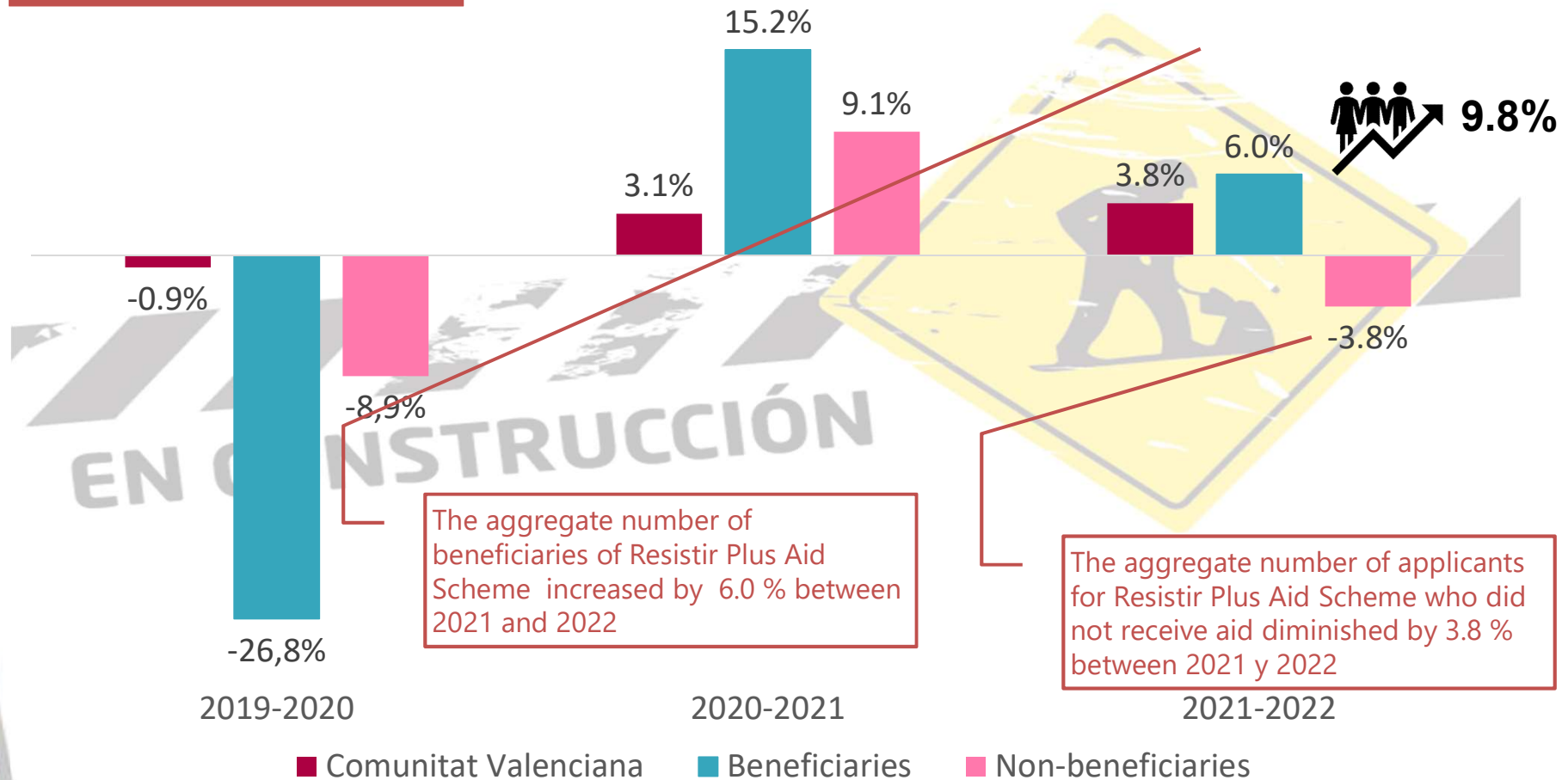
Y_1 = Percentage change in the number of participants in the aid beneficiaries, between 31 December 2021 and 31 December 2022

Y_0 = Percentage change in the number of participants in the comparison group (persons who do not receive aid), between 31 December 2021 and 31 December 2022

Has the number of beneficiaries increased?

Provisional data

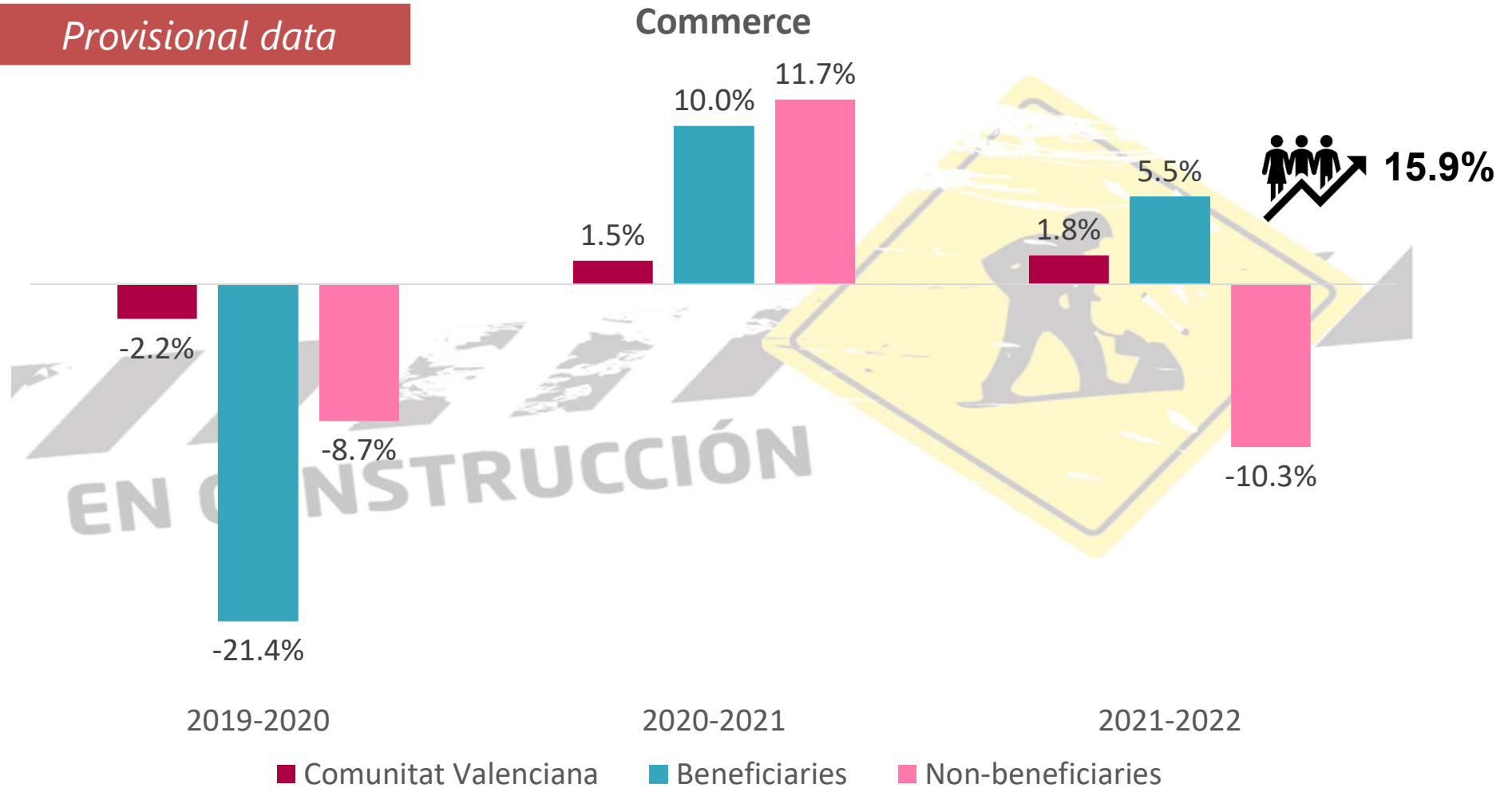
All economic activities



$$\text{PERFORMANCE}_{\text{ALL ECONOMIC ACTIVITIES}} = Y_1 - Y_0 = (6.0\%) - (-3.8\%) = 9.8\%$$

Has the number of beneficiaries increased?

Provisional data

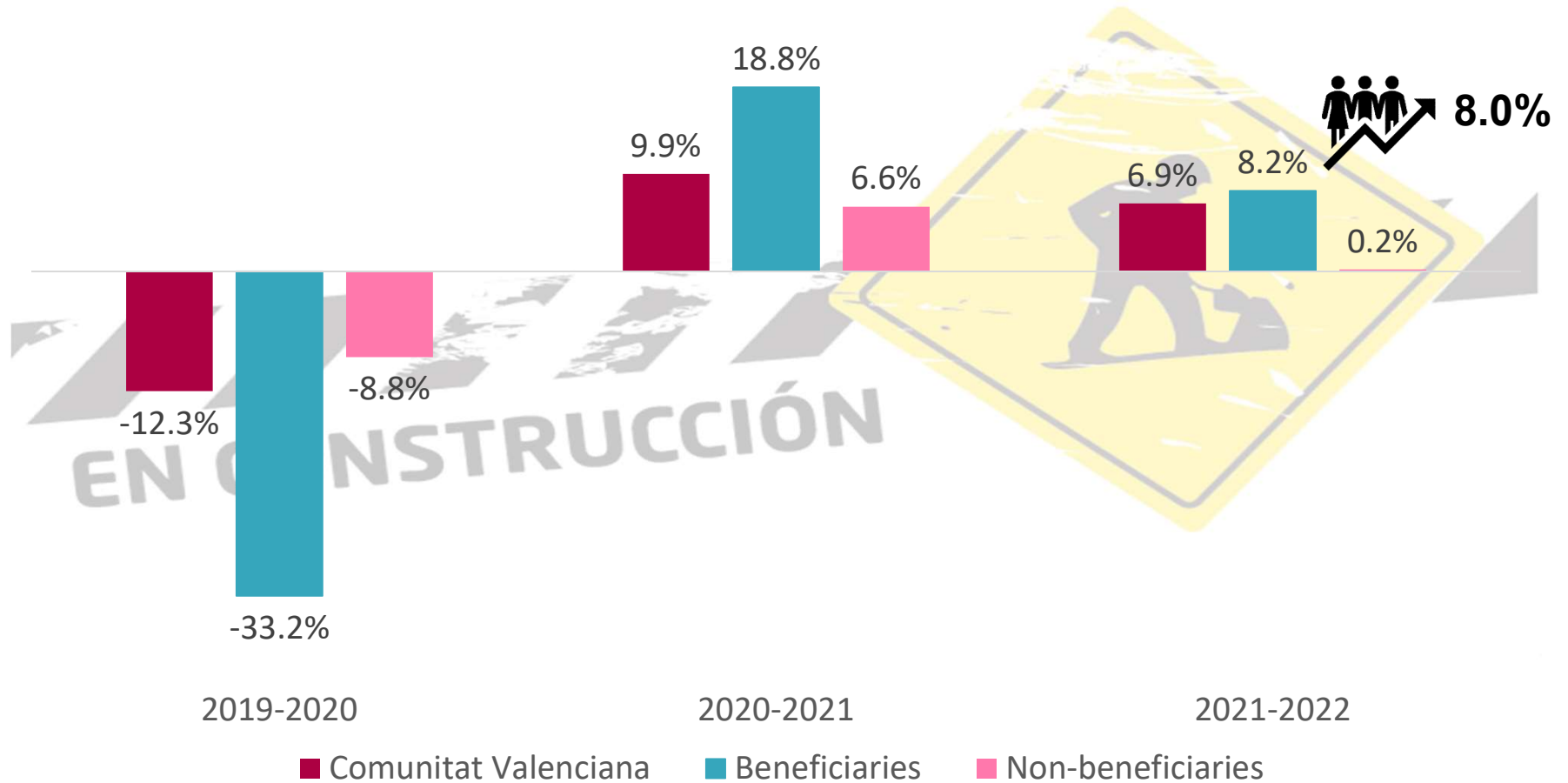


$$\text{PERFORMANCE}_{\text{COMMERCE}} = Y_1 - Y_0 = (5.5\%) - (-10.3\%) = 15.9\%$$

Has the number of beneficiaries increased?

Provisional data

Hotel business

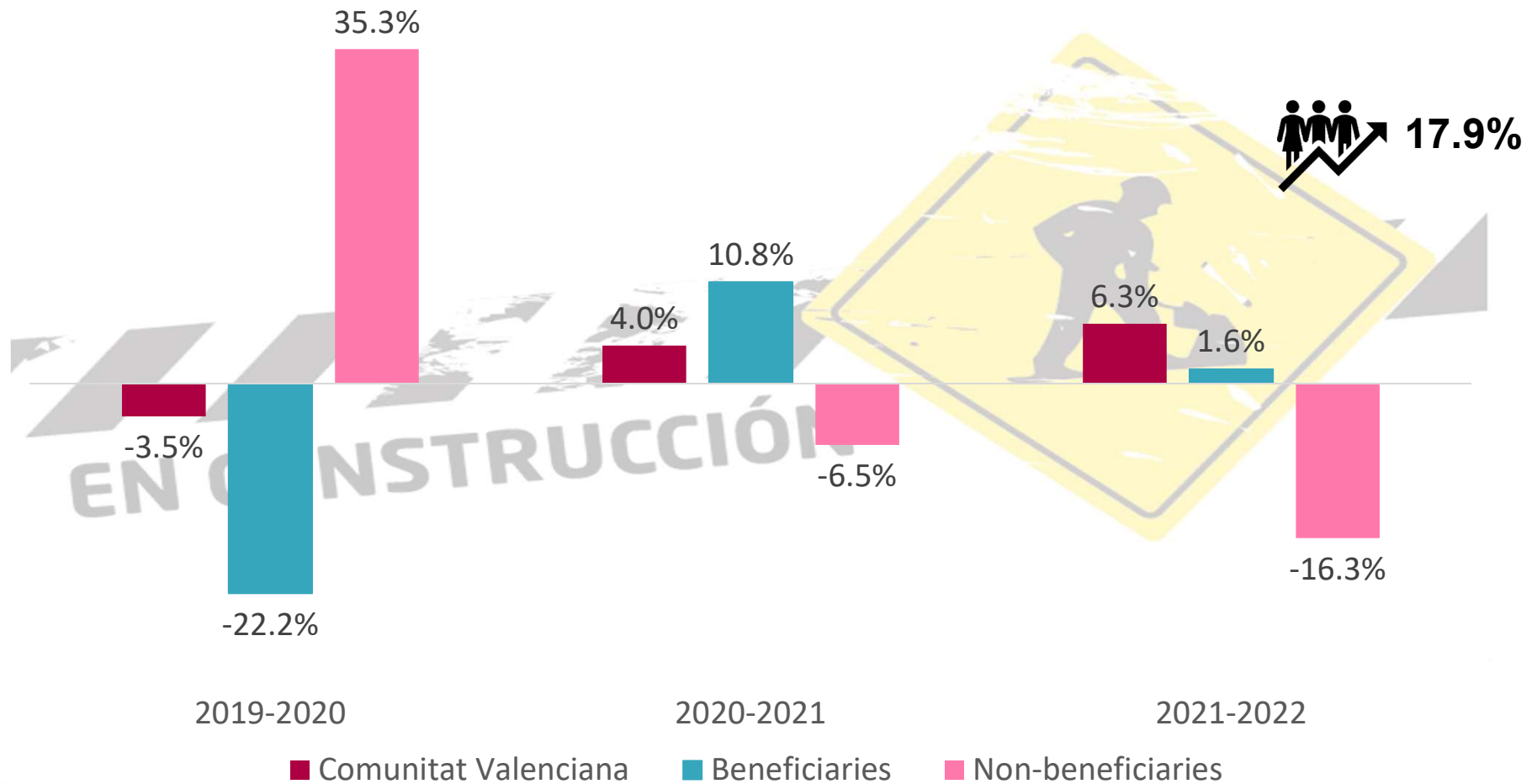


$$\text{PERFORMANCE}_{\text{HOTEL BUSINESS}} = Y_1 - Y_0 = (8.2\%) - (0.2\%) = 8.0\%$$

Has the number of beneficiaries increased?

Provisional data

Transportation and Warehousing



$$\text{PERFORMANCE}_{\text{TRANSPORT}} = Y_1 - Y_0 = (1.6\%) - (-16.3\%) = 17.9\%$$

As a summary...





Questions?

That are not too difficult...



*Thank you for your attention
and patience!*